



COMPANY INFORMATION

BOARD OF DIRECTORS	:	A. RAZAK HAJI SATTAR (Chairman) HAMID HAJI LATIF AMBREEN A. RAZAK JUNAID HAJI LATIF MUSTAFA A. RAZAK MURTAZA A. RAZAK MUHAMMAD ASIF A. GHAFAR (Chief Executive)
CHIEF FINANCIAL OFFICER (CFO)	:	MUHAMMAD HANIF
COMPANY SECRETARY	:	RAUF DAWOOD
AUDIT COMMITTEE	:	A. RAZAK HAJI SATTAR - Chairman HAMID HAJI LATIF - Member JUNAID HAJI LATIF - Member
REGISTERED OFFICE	:	H-23/4-A LANDHI, KARACHI.
MILLS	:	H-23/4-A LANDHI, KARACHI.
SHARES DEPARTMENT	:	177-A, S.M.C.H.S., KARACHI.
BANKERS	:	HABIB BANK LIMITED BANK AL HABIB LIMITED ASKARI COMMERCIAL BANK LIMITED CITIBANK N.A. UNION BANK LIMITED HABIB BANK AG ZURICH BANK ALFALAH LIMITED
AUDITORS	:	KHALID MAJID RAHMAN SARFARAZ RAHIM IQBAL RAFIQ Chartered Accountants 180-A, S.M.C.H.S. KARACHI.
LEGAL ADVISOR	:	M. ADAM PATEL & CO.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given to the Members that the 32nd Annual General Meeting of the shareholder of **NAKSHBANDI INDUSTRIES LIMITED** will be held at the Registered office of the Company at H-23/4A, Landhi Industrial Area, Karachi, on Saturday January 29, 2005 at 2:00 p.m. to transact the following business :

1. To receive, consider and adopt the Directors' Report, Audited Accounts of the Company and Auditors Report thereon for the year ended September 30, 2004.
2. To approve the payment of dividend @ 5% as recommended by the Board.
3. To appoint Auditors for the Year 2004-2005 and fix their remuneration.
4. To transact any other business with the permission of the Chair.

By Order of the Board
RAUF DAWOOD
Company Secretary

Karachi : December 24, 2004

NOTES :

1. The Share Transfer Books of the Company will remain closed from January 27, 2005 to February 4, 2005 (both days inclusive).
2. A Member eligible to attend and vote at this meeting may appoint another member as his /her proxy. Proxies in order to be effective must be received by the Company at the Registered Office of the Company duly stamped and signed not later than 48 hours before the meeting.
3. Shareholders who have deposited their shares into Central Depository Company of Pakistan Limited must bring their Original Card (NIC) or Original Passport at the time of attending the meeting. If proxies are granted by such shareholders the same must be accompanied with attested copies of the NIC or the Passport of the beneficial owners. Representative of corporate members should bring the usual documents required for such purpose.
4. A Proxy must be a member of the Company.
5. Shareholders are requested to immediately notify the change of address if any.

**DIRECTORS' REPORT**

Your directors are presenting the 32nd Annual Report together with the audited financial statements of the Company for the year ended September 30, 2004.

OPERATING RESULTS

Operating results are as follows:

	Rupees
Profit before taxation (after charging depreciation of Rs. 118,633,616)	26,223,290
Provision for taxation (after adjustment of deferred taxation)	(15,534,386)
Profit after taxation	10,688,904
Unappropriated profit brought forward	354,270
Profit available of appropriation	11,043,174
Appropriations: Transfer to General Reserve	(10,000,000)
Unappropriated profit carried forward	1,043,174

By the Grace of Almighty Allah, we have been able to make a big turnaround in sales since September 2003. The financial charges have been substantially reduced and the capacity utilization targets have been achieved due to volume business; and, as such, we have been able to earn pre-tax profit of Rs. 26 million.

DIVIDEND

Your directors have recommended cash dividend @ 5%, i.e., Re. 0.50 per share. However, the directors and sponsors have waived dividend on their shareholding. Thus, the dividend is being paid to benefit the minority shareholders.

ECONOMIC OUTLOOK

The country's economy continued to strengthen and by the Blessings of Allah; the country has a very good quality bumper cotton crop this year. However, the international scenario remained depressed due to rise in oil prices and the after-effects of Iraq war. As such, due to unfavourable global economic conditions, the textile industry also remained under pressure. The production capacities are being enhanced worldwide irrespective of the market size in order to cater the future needs of the WTO regime commencing January 2005. Although Pakistan has been placed at an advantage in the post quota liberalization, it is the dire need of the hour to diversify the exports in non-traditional sectors. Even within textile sector, we need to further diversify the product base.



FUTURE PROSPECTS

The Company is investing further to consolidate and enhance the capacity in certain areas of its operations including weaving, bleaching, dyeing, finishing and confection. The investment is required to diversify our customer base after removal of the quota from January 2005, that will provide us the opportunity for further growth in sales volume even though the competition will sharply increase globally putting pressure on prices of the finished products.

CORPORATE GOVERNANCE

The Statement of Compliance with the Best Practices of Code of Corporate Governance is annexed.

The directors have taken all necessary measures in order to comply with the Code of Corporate Governance in accordance with the listing rules of the stock exchange and state that:

1. The financial statements of the Company for the year ended September 30, 2004 present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
2. The Company has maintained proper books of accounts.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements and the accounting estimates are based on prudent judgement.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements, and the departure, if any, has been adequately disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored. The process of review will continue and any weaknesses in controls will be removed.
6. There are no significant doubts about the Company's ability to continue as a going concern.
7. There is no material departure from the best practices of corporate governance as defined in the listing regulations of the stock exchange.
8. There are no outstanding dues on account of taxes, levies and charges except of a normal and routine nature.

Key operating data for the last six years is annexed.

The Audit Committee comprises of

1. Mr. A. Razak Haji Sattar (Chairman).
2. Mr. Hamid Haji Latif.
3. Mr. Junaid Haji Latif.

The Audit Committee held four meetings during the year, each prior to the meeting of the Board of Directors.



BOARD OF DIRECTORS

The last elections of the Board of Directors were held on March 27, 2002. As such, the next elections are due in March 2005.

During the year, four meetings of Board of Directors were held. Attendance by the directors is as follows:

DIRECTORS	ATTENDANCE
Mr. A. Razak Haji Sattar (Chairman)	4
Mr. Hamid Haji Latif	3
Ms. Ambreen A. Razak	4
Mr. Junaid Haji Latif	4
Mr. Mustafa A. Razak	4
Mr. Murtaza A. Razak	3
Mr. Muhammad Asif A. Ghaffar (Chief Executive)	4

CHANGE OF ACCOUNTING YEAR

In compliance with the requirements of SRO684(I)/2004 dated August 10, 2004 of the Central Board of Revenue, Government of Pakistan and Circular No. 29 dated November 05, 2004 of the Securities and Exchange Commission of Pakistan regarding the change of accounting year of textile industry from October-September to July-June, the Company's Accounting Year will now onwards end on June 30 instead of September 30.

Consequent upon the change of the accounting year, the next accounting year will end on June 30, 2005 and will comprise of nine months from October 2004 to June 2005.

AUDITORS

The present auditors, M/s Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, retire at the forthcoming Annual General Meeting of the Company and offer themselves for reappointment.

PATTERN OF SHAREHOLDING

The pattern of shareholding as on September 30, 2004 is annexed to this report.

ACKNOWLEDGEMENT

The directors place on record their appreciation for executives, staff members and workers for their committed efforts for the growth of the Company.

For and on behalf of the Board

A. RAZAK HAJI SATTAR
Chairman



MISSION STATEMENT

Our mission is to manage and operate the Company in a manner that allows continued growth and profitability without high risk for investors, customers or employees. We do this by offering quality products to our customers, by constantly striving to improve our products to meet or exceed our customers' needs, allowing us to prosper as a business, and to provide stable, secure income and employment for our employees and a reasonable return for our stake holders, the owners of our business.

VISION STATEMENT

The future of our Industry will be characterized by tough competition. In future, we will be constrained of capacity utilization, tough and sluggish market and rising cost but we will strive hard to be able to make profit and thus create value for our stake holders and to continue as a successful company.



YEAR WISE STATISTICAL SUMMARY

Year Ended September 30,	2004	2003	2002	2001	2000	1999
TOWEL PRODUCTION SUMMARY						
Towel (Kgs, 000)	4,979.00	2,894.00	1,695.00	1,487.00	1,477.00	1,416.00
CLOTH PRODUCTION SUMMARY						
Cloth (Sq.mtr, 000)	—	—	1,381.00	3,834.00	6,530.00	6,259.00
ASSETS EMPLOYED						
	(Rs. in million)					
Fixed Assets	1,091.77	1,037.16	1,052.54	687.38	544.37	514.68
Investments, Long term Advances and Deposits	0.38	0.45	0.27	0.27	0.27	0.27
Current Assets	1,287.79	1,091.53	798.80	659.93	532.86	468.13
Total Assets Employed	2,379.94	2,129.14	1,851.61	1,347.58	1,077.50	983.08
FINANCED BY						
Shareholders' Equity	478.70	377.49	429.41	429.71	262.59	246.28
Long Term Liabilities	580.01	500.50	510.00	167.38	145.55	116.33
Obligation under Finance Lease	2.52	13.09	25.39	30.41	0.00	0.00
Deferred Liabilities	33.11	32.88	36.74	36.86	34.96	29.72
Current Liabilities	1,285.60	1,205.18	850.07	683.21	634.42	590.75
Total Funds Invested	2,379.94	2,129.14	1,851.61	1,347.57	1,077.52	983.08
TURNOVER & PROFIT						
Turnover (Net)	1,991.87	1,147.10	1,094.98	1,185.62	1,067.19	968.61
Gross Profit	242.51	145.87	196.45	200.91	172.33	141.45
Operating Profit	79.21	40.68	102.41	107.25	96.70	79.03
Profit (Loss) Before Taxation	26.22	(49.77)	19.22	36.54	35.73	11.20
Profit (Loss) After Taxation	10.69	(51.67)	8.77	26.44	27.63	6.45
Dividend	0.25	0.25	9.08	13.62	11.35	6.35
Transfer to Reserves	10.00	(51.00)	0.00	12.00	16.00	0.00
Profit C/F	0.79	0.35	1.28	1.58	0.76	0.47
Financial Charges	52.03	90.46	83.31	68.71	58.75	67.19
Earning per share	0.44	(2.85)	0.48	1.46	3.04	0.71
Breakup value of shares						
	(Amount in Rupees)					
No. of Shares	24,207,040	18,155,280	18,155,280	18,155,280	9,077,640	9,077,640
Capital + Rev.Reserves	478,949,594	377,484,290	429,408,133	429,711,631	262,568,416	246,284,574
Breakup Value	19.79	20.79	23.65	23.67	28.92	27.13



STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of Karachi Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

The company has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes at least 3 independent non-executive directors representing minority shareholders.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and Board has taken decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. The Board arranged one orientation course for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



NAKSHBANDI INDUSTRIES LIMITED

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises 3 members, of whom 2 are nonexecutive directors.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide others services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board of Directors
MUHAMMAD ASIF A.GHAFFAR
Chief Executive

Karachi: Dated : December 24, 2004



**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE
WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of NAKSHBANDI INDUSTRIES LIMITED to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of the audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the Internal control system to enable us to express an opinion as to whether the Boards statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended September 30, 2004.

Karachi: Dated : December 24, 2004

KHALID MAJID RAHMAN SARFARAZ
RAHIM IQBAL RAFIQ
Chartered Accountants



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of **Nakshbandi Industries Limited** as at **September 30, 2004** and the related Profit & Loss Account, Cash Flow Statement, and Statement of Changes in Equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that: -

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion
 - (i) the Balance Sheet and Profit and Loss Account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investment made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit & Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at **September 30, 2004** and of the Profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, (XVII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KHALID MAJID RAHMAN SARFARAZ
RAHIM IQBAL RAFIQ
Chartered Accountants



BALANCE SHEET AS AT

	NOTE	2 0 0 4 Rupees	2 0 0 3 Rupees
CAPITAL AND RESERVES			
Authorised Capital		300,000,000	300,000,000
30,000,000 Ordinary Shares of Rs. 10/- each			
Issued, Subscribed and Paid - up Capital	3	242,070,400	181,552,800
Reserves	4	235,836,020	195,577,220
Unappropriated Profit		1,043,174	354,270
		478,949,594	377,484,290
LONG TERM LOANS - SECURED	5	580,010,000	500,500,000
OBLIGATIONS UNDER FINANCE LEASE	6	2,516,588	13,090,350
DEFERRED LIABILITIES	7	33,111,171	32,878,079
CURRENT LIABILITIES			
Short Term Borrowing	8	844,293,539	887,005,508
Current Portion of Long Term Liabilities	9	149,587,438	114,093,380
Creditors, Accrued and Other Liabilities	10	275,318,840	191,932,792
Taxation		16,150,000	11,900,000
Dividend Payable		—	250,858
		1,285,349,817	1,205,182,538
CONTINGENCIES AND COMMITMENTS	11	—	—
		2,379,937,170	2,129,135,257

The annexed notes form an integral part of these financial statements.



NAKSHBANDI INDUSTRIES LIMITED

30TH SEPTEMBER, 2004

	NOTE	2 0 0 4 Rupees	2 0 0 3 Rupees
FIXED CAPITAL EXPENDITURE			
Operating Fixed Assets - Tangible	12	1,082,296,372	1,032,098,576
Capital Work-In-Progress.	13	9,471,210	5,060,127
		1,091,767,582	1,037,158,703
LONG TERM DEPOSITS		379,105	454,105
CURRENT ASSETS			
Stores and Spares	14	186,471,162	130,429,097
Stock-In-Trade	15	508,846,861	587,034,004
Trade Debts	16	304,791,362	94,753,752
Advances, Deposits, Prepayments & Other Receivables	17	280,657,057	268,185,414
Cash and Bank Balances	18	7,024,041	11,120,182
		1,287,790,483	1,091,522,449
		<u>2,379,937,170</u>	<u>2,129,135,257</u>

MUHAMMAD ASIF A. GHAFAR
Chief Executive

MURTAZA A. RAZAK
Director



**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	NOTE	2 0 0 4 Rupees	2 0 0 3 Rupees
Sales	19	1,991,866,089	1,147,104,684
Cost of sales	20	(1,749,351,129)	(1,001,234,595)
Gross profit		242,514,960	145,870,089
Operating expenses			
Administrative expenses	21	(41,900,253)	(37,432,658)
Selling expenses	22	(121,406,339)	(67,701,106)
		(163,306,592)	(105,133,764)
Operating profit		79,208,368	40,736,325
Other income / (loss)	23	422,750	(51,825)
Financial charges	24	(52,027,655)	(90,457,485)
Workers' profit participation fund		(1,380,173)	—
		(52,985,078)	(90,509,310)
Profit / (loss) before taxation		26,223,290	(49,772,985)
Provision for taxation	25		
- Current year's		(16,150,000)	(11,000,000)
- Prior year's		—	(900,000)
- Adjustment deferred taxation		615,614	10,000,000
		(15,534,386)	(1,900,000)
Profit / (loss) after taxation		10,688,904	(51,672,985)
Earning Per Share	26	0.45	(2.85)

The annexed notes form an integral part of these financial statements.



**CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	2004 Rupees	2003 Rupees
CASH FROM OPERATING ACTIVITIES		
Net Profit/(Loss) before taxation	26,223,290	(49,772,985)
Adjustment For :		
Depreciation	118,633,616	117,228,282
Deferred liabilities	3,583,095	6,137,619
Financial Charges	52,027,655	90,457,485
(Gain)/Loss on sales of fixed assets	(422,750)	51,825
	173,821,616	213,875,211
Cash flow from operating activities before working capital changes	200,044,906	164,102,226
(Increase)/Decrease in Current Assets		
Stores and spares	(56,042,065)	(39,807,444)
Stock-in-trade	78,187,143	(230,618,024)
Trade debtors	(210,037,610)	75,464,722
Advances, deposits and prepayments	718,445	(90,880,672)
Increase/(Decrease) in Current Liabilities		
Creditors, accrued and other liabilities	82,008,118	(44,597,268)
	(105,165,969)	(330,438,686)
Cash generated from /(used in) operating activities	94,878,937	(166,336,460)
Gratuity paid	(2,734,388)	(2,529,836)
Financial Charges Paid	(82,549,887)	(72,993,424)
Dividend Paid	(250,697)	(9,079,105)
Income Tax Paid	(13,190,087)	(10,450,000)
	(78,725,059)	(95,052,365)
Net cash from / (used in) operating activities	16,153,878	(261,388,825)
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Capital Expenditure	(177,180,566)	(103,618,799)
Sale Proceeds of Fixed Assets	3,874,497	1,719,319
Long Term Deposits	75,000	—
Net cash used in Investing Activities	(173,231,069)	(101,899,480)

**2004**
Rupees**2003**
Rupees**CASH FLOW FROM FINANCING ACTIVITIES**

Right Issue of shares at Premium	90,776,400	—
Long Term Loans Disbursements	219,010,000	233,000,000
Obligation Under Finance Lease	—	1,859,000
Repayment of Long Term Loans	(100,000,000)	(181,466,057)
Repayment of Finance Lease	(14,093,380)	(12,133,535)
Net Cash from financing Activities	195,693,020	41,259,408
Net Increase/(Decrease) in Cash and Cash Equivalent	38,615,829	(322,028,897)
Cash and cash equivalent at the beginning	(875,885,327)	(553,856,430)
Cash and cash equivalent at the end	<u>(837,269,498)</u>	<u>(875,885,327)</u>
CASH AND CASH EQUIVALENTS		
Cash and bank balance	7,024,041	11,120,182
Short Term Finance	(844,293,539)	(887,005,509)
	<u>(837,269,498)</u>	<u>(875,885,327)</u>

The annexed notes form an integral part of these financial statements.

MUHAMMAD ASIF A. GHAFFAR
Chief Executive

MURTAZA A. RAZAK
Director

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Share Capital Rupees	Reserves Rupees	Unappropriated Profit Rupees	Total Rupees
Balance as at October 1, 2002	181,552,800	246,577,220	1,278,113	429,408,133
(Loss) for the year	—	—	(51,672,985)	(51,672,985)
Transfer from general reserve	—	(51,000,000)	51,000,000	—
Dividend declared	—	—	(250,858)	(250,858)
Balance as at September 30, 2003	181,552,800	195,577,220	354,270	377,484,290
Issue of right shares	60,517,600	—	—	60,517,600
Premium on right issue	—	30,258,800	—	30,258,800
Profit for the year	—	—	10,688,904	10,688,904
Transfer to general reserve	—	10,000,000	(10,000,000)	—
Balance as at September 30, 2004	242,070,400	235,836,020	1,043,174	478,949,594

The annexed notes form an integral part of these financial statements.

MUHAMMAD ASIF A. GHAFAR
Chief Executive

MURTAZA A. RAZAK
Director



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

1. STATUS AND NATURE OF BUSINESS

The Company was incorporated in Pakistan as a public limited company on October 26, 1972 and its shares are quoted at Karachi Stock Exchange. The registered office and factory of the Company is situated at H-23/4-A, Landhi, Karachi. It is principally engaged in production and export of towels and fabrics.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared on the basis of historical cost convention and for financial assets and financial liabilities, if any, in accordance with the recognition and measurement criteria as laid down in IAS-39 (Financial Instruments : Recognition and Measurement).

2.2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.3 STAFF RETIREMENT BENEFITS

The Company operates an unfunded gratuity scheme. Provision for gratuity is made annually for employees eligible for such benefits. Provision of Rs.3,583,094 (2003: Rs.6,137,619) in respect of gratuity has been made in these financial statements during the year.

Subsequent to the balance sheet date, the company has decided to phase out gratuity benefit and start provident fund scheme for all of its employees.

The amount of gratuity payable as on balance sheet date has since been frozen in the first phase for officers and executives cadre who have been shifted to the provident fund scheme with effect from October 1, 2004. The remaining staff be shifted to the scheme in the second phase.

2.4 TAXATION

Provision for current taxation is calculated in accordance with the provision of the Income Tax Ordinance, 2001. Deferred tax is accounted for using the balance sheet liability method in respect of temporary timing differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax is calculated at tax rates that are expected to apply to the period when the asset is realised or the liability settled.

2.5 PROVISIONS

Provision are recognized when the company has a present legal or constructive obligation



as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

2.6 FIXED ASSETS

OWNED

Operating assets, except freehold land are stated at cost less accumulated depreciation and impairment loss, if any. Freehold land is stated at cost. Depreciation is charged to income applying the reducing balance method at the rates specified in note 12. Full year's depreciation is charged on addition during the year whereas no depreciation is charged on assets disposed off during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

Gains and loss on disposal of assets are taken to profit and loss account.

LEASED

Assets subject to finance lease are stated at lower of present value of minimum lease payments under the lease agreement and the fair value of the leased assets. The related obligation under the lease are accounted for as liabilities. Depreciation charge is based on reducing balance method at the rates used for similar class of owned assets.

The finance charge is calculated at the rate implicit in the lease.

2.7 CAPITAL WORK IN PROGRESS

All cost/expenditure connected with specific assets are carried under this head. The cost under this head is transferred on completion of the respective assets.

2.8 IMPAIRMENT OF ASSETS

The carrying amount of the Company's assets except for inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indication exists, the assets recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognized as expense in profit and loss account.

2.9 STORES AND SPARES

These are valued at moving average cost. Items in bond and transit are valued at cost comprising of invoice value plus other charges paid thereon.

2.10 STOCK-IN-TRADE

Raw materials are valued at average cost and finished goods are valued at lower of average cost and net realizable value.

Work -in-process is valued at average cost of raw-materials including a proportionate of manufacturing overheads.

Waste products are valued at market rates.



2.11 TRADE DEBTS

Debts considered irrecoverable are written off and provision is made for debts considered doubtful.

2.12 TRADE AND OTHER PAYABLES

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the company.

2.13 CASH & CASH EQUIVALENT

Cash and cash equivalent comprises cash and bank balances. Short term running finances that are payable on demand and form an integral part of the Company's cash management are included as a component of cash equivalents for a purpose of the statement of cash flows.

2.14 FINANCIAL ASSETS

Financial Assets are trade debts, advance, deposits, other receivables and cash and bank balances which have been state as per requirements of IAS-39 (Financial Instruments :Recognition and Measurement). Financial assets are initially recognized at cost representing fair value of the consideration given for it and subsequent to initial recognition financial assets are carried at fair value except for the financial assets whose fair value can not be reliably measured.

2.15 FINANCIAL LIABILITIES

Financial Liabilities are classified according to the substance of the contractual agreements entered into. Significant financial liabilities are long term loans, short term finances, creditors, accrued and other liabilities.

All financial liabilities are initially recognized at cost, representing fair value of the consideration received at initial recognition. After initial recognition financial liabilities held for trading are carried at fair value and all other financial liabilities are measured at amortized cost, except for liabilities against assets subject to finance lease which are valued as per requirements of IAS-17 (leases).

2.16 FOREIGN CURRENCY TRANSLATION

Assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange prevailing at the year end except where exchange risk cover has been obtained for repayment of liabilities in which case rate contracted for, is used. Exchange difference in respect of foreign currency loans obtained for acquisition of fixed assets are incorporated in the cost of the relevant assets. All other exchange differences are taken to profit and loss account.



2.17 BORROWING COST

Borrowing cost which connected with construction of specific assets is capitalized therein and remaining cost is charged to the revenue in the year in which this incurred.

2.18 RELATED PARTY TRANSACTIONS

The Company accounts for all related party transactions at arm's length prices determined by using the Comparable Uncontrolled Price Method.

2.19 REVENUE RECOGNITION

Sales are recorded on dispatch of goods to buyers.

		2 0 0 4 Rupees	2 0 0 3 Rupees
3. ISSUED,SUBSCRIBED AND PAID-UP-CAPITAL			
17,296,260	Ordinary shares of Rs.10/- each fully paid-up in cash (2003: 17296260)	172,962,600	172,962,600
6,051,760	Ordinary shares of Rs.10/-each issued as fully paid right shares at premium of Rs. 5 per share	60,517,600	—
859,020	Ordinary shares of Rs.10/-each issued as bonus shares	8,590,200	8,590,200
24,207,040		242,070,400	181,552,800
4. RESERVES			
General Reserve			
Opening Balance		59,000,000	110,000,000
Add: Transfer from unappropriated profit		10,000,000	—
Less: Transfer to Profit & Loss Account		—	(51,000,000)
		69,000,000	59,000,000
Capital Reserve			
Share Premium		136,577,220	136,577,220
Add: Premium on Right Issue during the year		30,258,800	—
		166,836,020	136,577,220
		235,836,020	195,577,220



5. LONG TERM LOANS - Secured

PARTICULARS	Bank Al-Habib Limited				Union Bank Ltd.
	Loan No. 2	Loan No. 3	Loan No. 4	Loan No. 5	Loan No. 1
	Rupees	Rupees	Rupees	Rupees	Rupees
Opening balance as on October 01, 2003	90,000,000	75,000,000	—	—	150,000,000
Obtained during the year	—	—	100,000,000	27,010,000	—
Outstanding balance	90,000,000	75,000,000	100,000,000	27,010,000	150,000,000
Repaid during the year	20,000,000	15,000,000	—	—	15,000,000
	70,000,000	60,000,000	100,000,000	27,010,000	135,000,000
Current Portion					
Current Maturity	20,000,000	15,000,000	10,000,000	—	30,000,000
Closing balance as on September 30, 2004	50,000,000	45,000,000	90,000,000	27,010,000	105,000,000

Significant terms and conditions:

Date of disbursement	17-Feb-01 17-Feb-01 12-Mar-01 20-Aug-01 19-Oct-01	09-Aug-02	19-Dec-03	18-Sep-04	31-Dec-02
Amount of disbursements	3,076,315 74,334 49,154,000 3,800,000 43,895,351	75,000,000	100,000,000	27,010,000	150,000,000
Installments	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half yearly
No. of instalment	10	10	10	10	10
Instalment amount (Rupees)	10,000,000	7,500,000	10,000,000	2,701,000	15,000,000
Repayment date	19-Mar-03	09-Mar-04	19-Jun-05	20-Mar-06	01-Jul-04

Rate of mark up per 1000 per day

6 Month TBill + 2%	12 Month NIBOR + 1.50%	6 Month TBill + 1.50%
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Securities

Pari-Passu charge and equitable mortgage of the fixed assets of the Company.



NAKSHBANDI INDUSTRIES LIMITED

Bank Alfalah Limited							Habib Bank Ltd	Askan Com. Bank Ltd.	Total	
Loan No. 1	Loan No. 2	Loan No. 3	Loan No. 4	Loan No. 5	Loan No. 6	Loan No. 7	Loan No. 3	Loan No. 1	2004	2003
Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
50,000,000	20,500,000	12,500,000	—	—	—	—	112,500,000	90,000,000	600,500,000	431,275,000
—	—	—	15,000,000	14,000,000	27,000,000	36,000,000	—	—	219,010,000	233,000,000
50,000,000	20,500,000	12,500,000	15,000,000	14,000,000	27,000,000	36,000,000	112,500,000	90,000,000	819,510,000	664,275,000
5,000,000	—	—	—	—	—	—	25,000,000	20,000,000	100,000,000	63,775,000
45,000,000	20,500,000	12,500,000	15,000,000	14,000,000	27,000,000	36,000,000	87,500,000	70,000,000	719,510,000	600,500,000
10,000,000	4,100,000	2,500,000	1,500,000	1,400,000	—	—	25,000,000	20,000,000	139,500,000	100,000,000
36,000,000	16,400,000	10,000,000	13,500,000	12,800,000	27,000,000	36,000,000	62,500,000	50,000,000	580,010,000	500,500,000

28-Feb-03	21-Jan-03	16-Aug-03	07-Oct-03	02-Jan-04	12-May-04	22-Sep-04	11-Feb-02 14-Mar-02 05-Jul-02 12-Jul-02 06-Aug-02	22-Jan-02 27-Feb-02 18-Apr-02
50,000,000	20,500,000	12,500,000	15,000,000	14,000,000	27,000,000	36,000,000	4,500,000 105,213,000 4,522,668 8,700,000 1,964,332	33,785,000 14,391,600 51,823,400
Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly	Half-yearly
10	10	10	10	10	10	10	10	10
5,000,000	2,050,000	1,250,000	1,500,000	1,400,000	2,700,000	3,600,000	12,500,000	10,000,000
29-Aug-04	22-Jul-04	14-Feb-05	07-Apr-05	03-Jul-05	11-Nov-05	24-Mar-06	06-Mar-04	18-Oct-03

6 Month TBR + 2%	6 Month KBCRI + 1.75%	6 Month TBR + 2%
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	2004 Rupees	2003 Rupees
6. OBLIGATIONS UNDER FINANCE LEASE		
Opening Balance	27,183,730	37,458,265
Obtained during the year	—	1,859,000
Repaid during the year	(14,093,380)	(12,133,535)
Adjustment	(486,324)	—
	<u>12,604,026</u>	<u>27,183,730</u>
Transfer to current portion	(10,087,438)	(14,093,380)
Closing Balance	<u>2,516,588</u>	<u>13,090,350</u>

The future minimum lease payments and the periods in which they become due are:

6.1 Future minimum lease payment under finance lease and the present value of the minimum lease payment are as follows :

	2004		2003	
	Minimum Lease Payments Rupees	Present Value Rupees	Minimum Lease Payments Rupees	Present Value Rupees
Within one year	10,087,438	10,087,438	14,093,380	12,133,535
After one year but not more than five years	3,295,321	2,516,588	16,689,026	15,050,195
Total minimum lease payments	<u>13,382,759</u>	<u>12,604,026</u>	<u>30,782,406</u>	<u>27,183,730</u>
Less : Amount representing financial charges	(778,733)	—	(3,598,676)	—
Present value of minimum lease payment	<u>12,604,026</u>	<u>12,604,026</u>	<u>27,183,730</u>	<u>27,183,730</u>
Less : Current portion	(10,087,438)	(10,087,438)	(14,093,380)	(14,093,380)
	<u>2,516,588</u>	<u>2,516,588</u>	<u>13,090,350</u>	<u>13,090,350</u>

These represent finance lease entered into with leasing companies for plant and machinery and vehicles. Rates of financial charges ranging from 9% to 16.50% (2003 : 9% to 16.50%) per annum are used discounting factors. The lease terms varies from 3 years to 5 years.

The Company intends to exercise the option to purchase the leased assets upon completion of the leased periods.

These are secured against demand promissory notes.



6.2 Significant terms and conditions - Finance Lease

Description	Lease Key	Implicit Rate of Interest %age	Lease Rentals (Rupees)	No of installments	Frequency of installment	Date of first installment
Plant & Machinery						
Monforts Sterner	-	16.25	3,207,727	17	Quarterly	June 15, 2001
Vehicles						
Honda City ADE-768,769	-	16.50	148,755	13	Quarterly	April 10, 2001
Honda City ADG-422	-	16.50	74,380	13	Quarterly	June 10, 2001
Honda City ADK-449	-	16.50	74,380	13	Quarterly	Aug. 10, 2001
Suzuki Mehran ADO-947	-	16.50	34,640	13	Quarterly	April 10, 2001
Hundai Shehzore KH-9136	-	16.50	49,680	16	Quarterly	Dec. 25, 2001
Toyota Corolla ADS-363	-	16.50	71,610	16	Quarterly	Dec. 25, 2001
Honda City ADO-963	-	16.50	61,995	16	Quarterly	Dec. 25, 2001
Suzuki Mehran ADR-552	-	16.50	25,220	16	Quarterly	Jan. 20, 2002
Toyota Corolla ADT-363	-	16.50	68,235	16	Quarterly	Feb. 15, 2002
Suzuki Cultus 2 ADY-183,184	-	16.25	93,170	16	Quarterly	May 15, 2002
3 Suzuki Cultus AEO-071, 172,173	-	14.00	137,725	16	Quarterly	Sep. 25, 2002
5 Suzuki Mehran VX AED-072, AED-073, 074, 075, 309	-	14.00	123,665	16	Quarterly	Sep. 15, 2002
1 Suzuki Mehran VX AEE-773	-	14.00	24,735	16	Quarterly	Jan. 11, 2002
1 Suzuki Baleno AEK-320	-	-	59,225	16	Quarterly	Jan. 25, 2003
2 Suzuki Cultus AES-936,937	-	-	85,425	16	Quarterly	May 25, 2003

6.3 No restriction has been imposed on the company under the lease arrangement.

	2 0 0 4 Rupees	2 0 0 3 Rupees
7. DEFERRED LIABILITIES		
Gratuity	33,111,171	32,262,465
Deferred taxation	—	615,614
	<u>33,111,171</u>	<u>32,878,079</u>
8. SHORT TERM BORROWING - SECURED		
Export Refinance		
- Bank Al-Habib Limited	250,000,000	200,000,000
- Habib Bank Limited	144,000,000	100,000,000
- Bank Alfalah Limited	60,000,000	60,000,000
- Askari Commercial Bank Limited	75,000,000	75,000,000
- Union Bank Limited	115,000,000	—
	644,000,000	435,000,000
Running / Short Term Finances		
- Bank Al-Habib Limited	59,859,300	53,785,511
- Habib Bank Limited	19,509,322	13,851,592
- Citibank	—	100,000,000
- Bank Alfalah Limited	19,297,970	19,368,405
- Union Bank Limited	112,222	—
- Habib Bank A.G Zurich	1,514,725	—
- Habib Bank A.G Zurich Money Market Loan	50,000,000	100,000,000
- Union Bank Limited Money Market Loan	—	115,000,000
- Askari Commercial Bank Money Market Loan	50,000,000	50,000,000
	<u>200,293,539</u>	<u>452,005,508</u>
	844,293,539	887,005,508



NAKSHBANDI INDUSTRIES LIMITED

This represents short term running finance facility aggregately of Rs. 944 Million (2003: Rs. 900 million) which is secured by pari passu charge by way of hypothecation of stock of stores and spares, cotton yarn, finished goods and export bills under collection and trade debts of the company. The rate of mark-up for running finance ranges between 5% to 7% (2003: 6% to 14%) per annum, and between 2% to 4% (2003: 2% to 8%) per annum for export refinance.

	2 0 0 4 Rupees	2 0 0 3 Rupees
9. CURRENT PORTION OF LONG TERM LIABILITIES		
Current maturity of long term loans	139,500,000	100,000,000
Current maturity of lease liabilities	10,087,438	14,093,380
	<u>149,587,438</u>	<u>114,093,380</u>
10. CREDITORS, ACCRUED & OTHER LIABILITIES		
Creditors	231,944,742	149,094,038
Accrued Expenses	33,258,445	23,587,645
Accrued mark-up on finances	6,941,830	17,464,062
Unclaimed Dividend	177,211	177,881
Workers Profit Participation Fund (10.1)	1,506,010	125,837
Right Shares Subscription (10.2)	105,473	110,725
Others	1,385,129	1,372,604
	<u>275,318,840</u>	<u>191,932,792</u>
10.1 Worker's Profit Participation Fund		
Opening Balance	125,837	1,271,612
Add: Interest for year	—	125,837
5% contribution on current year's profit	1,380,173	—
	<u>1,380,173</u>	<u>125,837</u>
	1,506,010	1,397,449
Less: Payment during the year	—	(1,271,612)
	<u>1,506,010</u>	<u>125,837</u>
10.2		
This represent the balance refundable to applicants for right shares called but over subsequently cancelled. The Security and Exchange Commission of Pakistan (formerly Corporate Law Authority), Islamabad granted permission in 1995 for cancellation of right issue vide their letter No. CLA/CI/457/90 dated April, 1995.		
Right shares subscription money	110,725	110,725
Less : Refund during the year	(5,252)	—
	<u>105,473</u>	<u>110,725</u>
11. CONTINGENCIES AND COMMITMENTS		
Contingency		
(i) Guarantee issued by the commercial bank to SSGC on behalf of the company is amounting to Rs.22.263 million (2003:Rs.20.90 million).		
Commitments		
(i) Aggregate commitment for capital expenditure Rs.150 million (2003: Rs. 100 million)		
(ii) Commitment for export against orders/letters of credit Rs.400 million (2003: Rs.350 million)		


12. OPERATING ASSETS

Particulars	Cost			Rate %	Depreciation			Written down value as at September, 2004
	As on October 01, 2003	Additions/ (Deletion)	As on September 2004		As on October 01, 2003	For the Year	As on September 30, 2004	
Leasehold land	250,000	39,508,100	39,758,100	—	—	—	—	39,758,100
Leasehold land Office	1,500,000	—	1,500,000	—	—	—	—	1,500,000
Building on leasehold land	247,494,252	16,867,532	264,361,884	10%	90,056,813	17,430,507	107,487,320	156,874,564
Office Bldg. on leasehold land	5,782,139	—	5,782,139	10%	3,669,097	211,304	3,880,401	1,901,738
Plant & machinery	1,207,568,581	93,211,806 (7,543,996)	1,293,236,391	10%	411,782,749 (6,146,079)	88,759,972	494,396,643	798,839,749
Electric fitting	13,952,096	9,250,146	23,202,242	10%	2,976,374	2,022,587	4,998,961	18,203,281
Office equipments	7,013,788	348,379	7,362,167	15%	4,182,417	476,963	4,659,380	2,702,788
Computers	11,036,784	1,101,289	12,138,073	15%	5,423,407	1,007,200	6,430,607	5,707,466
Furniture & Fixtures	11,243,506	4,015,681	15,259,187	10%	3,842,478	1,141,671	4,984,149	10,275,038
Vehicles	19,214,140	8,466,450 (3,851,000)	23,829,590	20%	11,569,391 (1,828,606)	2,817,761	12,558,546	11,271,044
	1,525,055,286	172,769,483 (11,394,996)	1,686,429,773		533,502,726 (7,974,685)	113,967,965	639,396,006	1,047,033,768
Assets subject to finance Lease								
Plant & machinery	40,000,000	—	40,000,000	10%	7,600,000	3,240,000	10,840,000	29,160,000
Vehicles	12,902,000	— (809,000)	12,093,000	20%	4,755,984 (291,240)	1,525,651	5,990,395	6,102,605
	52,902,000	(809,000)	52,093,000		12,355,984	4,765,651	16,830,395	35,262,605
Total Rupees:2004	1,577,957,286	172,769,483 (12,203,996)	1,738,522,773		545,858,710 (8,265,925)	118,633,616	656,226,401	1,082,296,373
Total Rupees:2003	1,046,661,784	536,099,891 (4,804,389)	1,577,957,286		431,663,673 (3,033,245)	117,228,282	545,858,710	1,032,098,576

**2 0 0 4
Rupees**
**2 0 0 3
Rupees**

Depreciation charge for the year has been allocated as under:-

 -Cost of goods manufactured
 -Administrative expenses

116,007,783
2,625,833
114,915,695
2,312,587
118,663,616
117,228,282



12.1 Details of Disposal of Operating Fixed Assets during the year are as follows :

Particulars	Original Cost	Accumulated Depreciation/ Adjustment	W.D.V.	Selling Price	Gain/(Loss) on Sales	Mode of Disposal	Name of Purchaser
Plant & Machinery							
Zell Sizing Machine	7,543,995	6,146,079	1,397,917	1,600,000	202,083	Negotiation	M/s. NAV Tex, Karachi
Motor Vehicles							
Honda Civic AAF-189	1,050,000	711,256	338,744	205,000	(133,744)	Negotiation	Rizwan Traders Shop # 13, Akhund Masjid, New Neham Road, Kharadar, Karachi
Honda Civic Exi AFE-363	1,100,000	-	1,100,000	1,100,000	-	Theft	Claim of theft settled by insurance company. Adamee House, I.I. Chundigar Road, Karachi.
Toyota Corolla ADT-363	809,000	777,564	31,436	367,497	336,061	Theft	Claim of theft settled by insurance company. Adamee House, I.I. Chundigar Road, Karachi.
Honda Motor Cycle KAZ-945B	27,000	25,517	1,483	27,000	25,517	Theft	Claim of theft settled by insurance company. Adamee House, I.I. Chundigar Road, Karachi
Suzuki Margala V-6202	470,000	310,847	159,153	175,000	15,847	Negotiation	Sayed Tariq Ali s/o Sayed Nisar Ali House No A-260, Block T, N. Nazimabad, Karachi.
Suzuki Mehran AAN-116	265,000	209,426	55,574	60,000	4,426	Negotiation	Mr. Muhammad Ahmed S/o. Abdul Ghafoor House # 167, Sec. T, Korangi # 2, Karachi
Suzuki Mehran ACU-267	319,000	188,338	130,662	115,000	(15,662)	Negotiation	Mr. Khadim Hussain S/o. Wali Mohd. House # D-03-07, Manzoor Colony, Karachi.
Suzuki Baleno ABW-584	620,000	383,222	236,778	225,000	(11,778)	Negotiation	Mr. Ahmer Haliz Shaikh s/o Abdul Haliz Shaikh House No.C-6, Block B, Gulshan-e-Iqbal, Karachi.
Rupees- September 2004	12,203,996	8,752,249	3,451,747	3,874,497	422,750		
Rupees- September 2003	4,804,389	3,033,245	1,771,144	1,719,319	(51,825)		



	2 0 0 4 Rupees	2 0 0 3 Rupees
13. CAPITAL WORK-IN-PROGRESS		
Opening Balance	5,060,127	437,541,219
Additions during the year:		
Machines under installation	96,189,271	3,436,445
Building under construction	19,862,053	1,623,682
	116,051,324	5,060,127
Transferred to Fixed Assets	(111,640,241)	(437,541,219)
Closing Balance	9,471,210	5,060,127
14. STORES AND SPARES		
Store	82,721,258	38,494,556
Chemical	36,861,250	30,614,787
Spare parts	66,504,278	61,319,754
Goods in bond	384,376	—
	186,471,162	130,429,097
15. STOCK-IN-TRADE		
Raw Material	45,281,707	27,722,059
Work-in-Process	27,373,068	26,941,604
Finished Goods	436,192,086	532,370,341
	508,846,861	587,034,004
16. TRADE DEBTS - Considered Good		
Local - Unsecured	33,907,685	34,001,846
Bills under collection - Secured (16.1)	270,883,677	60,751,906
	304,791,362	94,753,752
16.1 These are secured by Irrevocable Letter of Credit and Export Documents. It includes gain on foreign currency translation amounting to Rs. 14,217/- (2003: Rs. 303,780/-) on the balance sheet date and accordingly also has been credited to sales.		
17. ADVANCES, DEPOSITS, PREPAYMENTS		
Advance to :		
Suppliers	94,078,088	86,618,308
Staff & Worker	65,000	65,001
Others	63,880,400	66,619,775
Loan to employees - interest free	7,232,251	5,796,915
Deposits against export quota	12,332,912	24,290,812
Prepayments	19,898,839	18,174,122
Sales tax refundable	62,816,287	51,894,737
Export rebate	7,742,895	3,265,041
Income tax deducted at source	12,494,444	11,344,962
Letter of guarantee margin	115,941	115,741
	280,657,057	268,185,414



NAKSHBANDI INDUSTRIES LIMITED

17.1 Loans and advances are unsecured but are considered to be good. No loans / advances were made to Directors or Chief Executive of the Company during the year.

	2 0 0 4 Rupees	2 0 0 3 Rupees
18. CASH & BANK BALANCES		
- in hand	995,122	5,671,369
- with banks in current account	6,028,919	5,448,813
	<u>7,024,041</u>	<u>11,120,182</u>
19. SALES		
Local	207,540,495	195,126,213
Export	1,837,897,698	1,007,095,635
	2,045,438,193	1,202,221,848
Less: Sales tax	44,120,452	53,207,618
Brokerage	1,318,011	1,053,852
Commission	8,133,641	855,694
	(53,572,104)	(55,117,164)
	<u>1,991,866,089</u>	<u>1,147,104,684</u>
20. COST OF SALES		
Opening stock of finished goods	532,370,341	300,470,940
Add: Cost of goods manufactured (20.1)	1,653,172,874	1,233,133,996
	2,185,543,215	1,533,604,936
Less: Closing stock of finished goods	(436,192,086)	(532,370,341)
	<u>1,749,351,129</u>	<u>1,001,234,595</u>
20.1 Cost of Goods Manufactured		
Raw materials consumed (20.1.1)	1,034,019,847	663,244,707
Stores consumed	172,001,010	155,509,569
Salaries, wages and benefits	137,856,657	137,411,443
Fuel, power and water	114,071,379	95,121,039
Manufacturing charges	50,033,150	32,749,727
Insurance	7,847,169	4,463,206
Repair and Maintenance	16,149,045	21,242,647
Building repairs	213,153	625,408
Other manufacturing expenses	5,405,145	6,004,867
Depreciation	116,007,783	114,915,695
Work-in-process opening	26,941,604	28,787,292
Work-in-process closing	(27,373,068)	(26,941,604)
	<u>1,653,172,874</u>	<u>1,233,133,996</u>



NAKSHBANDI INDUSTRIES LIMITED

	2004 Rupees	2003 Rupees
20.1.1 Raw Material Consumed		
Opening stock	27,722,059	27,157,748
Purchases during the year	1,051,579,495	663,809,018
	<u>1,079,301,554</u>	<u>690,966,766</u>
Less : Closing stock	(45,281,707)	(27,722,059)
	<u>1,034,019,847</u>	<u>663,244,707</u>
21. GENERAL & ADMINISTRATIVE EXPENSES		
Salaries & Benefits	12,173,098	10,719,317
Rent, Rates & Taxes	1,538,464	777,718
Vehicle Running Expenses	5,738,276	6,800,623
Conveyance & Traveling	3,376,645	1,884,709
Printing & Stationery	4,182,888	4,033,080
Postage, Telegram & Telephone	5,122,774	5,066,123
Miscellaneous	6,715,375	5,478,501
Depreciation	2,625,833	2,312,587
Auditors' remuneration (21.1)	175,000	161,000
Donations (21.2)	251,900	199,000
	<u>41,900,253</u>	<u>37,432,658</u>
21.1 Auditors' remuneration		
Audit fee	125,000	125,000
Fee for half yearly review	50,000	36,000
	<u>175,000</u>	<u>161,000</u>
21.2 None of the directors or their spouse had any interest in these charity and donations.		
22. SELLING EXPENSES		
Freight and Insurance	32,414,871	28,874,508
Forwarding Charges	16,963,997	11,258,163
Sales promotion	24,088,358	19,919,856
Quota Premium	42,062,639	4,785,912
Export Development Surcharge	4,790,393	1,690,223
Advertisement	1,086,081	1,172,444
	<u>121,406,339</u>	<u>67,701,106</u>
23. OTHER INCOME/(LOSS)		
Gain/(Loss) on disposal/insurance claim of fixed assets	422,750	(51,825)



NAKSHBANDI INDUSTRIES LIMITED

	2004 Rupees	2003 Rupees
24. FINANCIAL CHARGES		
Mark-up on :		
- Long term loans	26,294,958	54,060,695
- Obligation under finance lease	1,336,984	3,439,354
- Short term borrowing	21,262,066	30,114,745
Guarantee commission	381,374	—
Interest on WPPF	—	125,837
Bank commission & charges	2,752,253	2,716,854
	<u>52,027,655</u>	<u>90,457,485</u>
25. PROVISION FOR TAXATION		
Current	16,150,000	11,000,000
Prior year	—	900,000
	<u>16,150,000</u>	<u>11,900,000</u>
25.1	The company has been complying with the requirements of International Accounting Standard 12(IAS-12), although temporary timing differences between accounting profits and taxable income have ceased to arise since the introduction of presumptive tax scheme in 1992. Technically provision for deferred taxation was not required during this period, hence reversed the balance provision of Rs.0.616 million during the year (refer note 7).	
25.2	The Income Tax Assessments of the Company have been finalized upto and including Tax year 2003.	
26. EARNINGS PER SHARE (BASIC)		
Net profit (loss) after tax	<u>10,688,904</u>	<u>(51,672,985)</u>
Number of ordinary shares (Weighted Average)	<u>23,843,273</u>	<u>18,155,280</u>
Earnings per share	<u>0.45</u>	<u>(2.85)</u>

Market value prior to exercise of right was below the value of right shares issue, hence there is no need to incorporate bonus adjustment factor

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Particulars	2004				2003			
	Chief Executive	Director	Executive	Total	Chief Executive	Director	Executive	Total
Meeting Fee	—	6,500	—	6,500	—	5,000	—	5,000
Managerial remuneration	546,000	780,000	3,279,380	4,605,380	546,000	780,000	4,573,660	5,899,660
House Rent allowance	239,400	342,000	1,437,862	2,019,262	239,400	342,000	2,005,374	2,586,774
Utilities allowance	54,600	78,000	327,938	460,538	54,600	78,000	457,366	589,966
	1	6	5	12	1	6	8	15

The Chief Executive and Directors have been provided with the company's maintained cars. Due to the recent changes in the definition of Executives all those employees who were the Executives in the previous year have become non executives.



28. CAPACITY AND PRODUCTION

Towel	Looms		Production ('000Kgs)		% of Capacity Attained	No. of Shifts Worked
	Installed	Worked	Capacity	Actual		
2004	87	87	4875	4979	102.13%	Three
2003	87	87	4875	2894	59.36%	Three

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of all financial assets and financial liabilities are estimated to approximate their respective carrying amount.

30. INTEREST/MARK-UP RATE RISK MANAGEMENT

Interest/Mark-up risk arises from the possibility that changes in interest/mark-up rate will effect the value of financial instruments. In respect of interest bearing financial liabilities, the following table indicate their effective interest/mark-up rates at the balance sheet date. The Company manages its interest and mark-up risk by entering into agreement in respect of finance required on fixed rate basis.

	2004			
	Interest Bearing		Non-Interest Bearing	Total
	Upto one year	One year on ward		
Financial Assets				
Long Term Deposits	—	—	379,105	379,105
Trade Debtors	—	—	304,791,362	304,791,362
Advances, Deposits, Prepayments & other Receivables	—	—	280,657,057	280,657,057
Cash and Bank Balances	—	—	7,024,041	7,024,041
	—	—	592,851,565	592,851,565
Financial Liabilities				
Long Term Loan	139,500,000	580,010,000	—	719,510,000
Obligation under finance lease	10,087,438	2,516,588	—	12,604,026
Short Term Finances	844,293,539	—	—	844,293,539
Creditors, Accrued & Other Liabilities	—	—	272,558,493	272,558,493
	993,880,977	582,526,588	272,558,493	1,848,966,059

(a) Effective rates of mark-up for financial liabilities are as follows :

	Rate of Interest
Long Term Loans	Refer Note 5
Obligations under Finance Lease	Refer Note 6
Short Term Finances	Refer Note 8



NAKSHBANDI INDUSTRIES LIMITED

	2003			
	Interest Bearing		Non-Interest Bearing	Total
	Upto one year	One year on ward		
Financial Assets				
Long Term Deposites	—	—	454,105	454,105
Trade Debtors	—	—	94,753,752	94,753,752
Advances, Deposits, Prepayments & other Receivables	—	—	268,185,414	268,185,414
Cash and Bank Balances	—	—	11,120,182	11,120,182
	—	—	374,513,453	374,513,453
Financial Liabilities				
Long Term Loan	100,000,000	500,500,000	—	600,500,000
Obligation under finance lease	14,093,380	13,090,350	—	27,183,730
Short Term Finances	887,005,508	—	—	887,005,508
Creditors, Accrued & Other Liabilities	—	—	191,932,792	191,932,792
	1,001,098,888	513,590,350	191,932,792	1,706,622,030

31. CREDIT RISK

Credit risk represent the accounting laws that could be recognize at the reporting that if counter parties failed complete to perform as contracted. To reduce exposure to credit risk, export sales are made to buyer against irrevocable letter of credit and export documents while local sales are made against payments. As substantial portion of trade debtors stands realized, the company is not materially exposed to credit risk.

32. FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transaction in / based on other then Pak Rupees. The company incurs foreign currency risk on export sales and imports. The Company's foreign currency risk arising on exports is managed by making forward sales or discounting of export bills if required. To hedge against its foreign currency risk arising on imports, it enters into forward foreign exchange contracts, when considered appropriate.

33. LIQUIDITY RISK MANAGEMENT

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company's management closely monitors the company's liquidity and cash flow position.

34. AGGREGATE TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, directors and key management personnel. Transactions with associated undertakings and related parties, other than remuneration and



benefits to key management personnel under the term of their employment as disclosed in note 27 are as follows :

	2 0 0 4 Rupees	2 0 0 3 Rupees
Sales of goods	54,818,677	—
Manufacturing and other charges	12,350,189	—
Quota purchase	15,825,145	—

35. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on December 24, 2004 by the Board of Directors of the Company.

36. NUMBER OF EMPLOYEES

Total number of employees including contractor's employees as at September 30, 2004 were 912 (2003: 857)

37. GENERAL

DIVIDEND

Subsequent to balance sheet date and on the date the financial statements were authorized for issue, the Board of Directors recommended cash dividend for minority shareholders @5% i.e. Re. 0.50 per share (2003:@5% i.e. Re. 0.50 per share) for the year ended 30 September, 2004

	2 0 0 4 Rupees	2 0 0 3 Rupees
Proposed dividend (@5%/Re. 0.50 per share (2003 : @ 5%/Re. 0.50 per share))	<u>250,858</u>	<u>250,858</u>

FIGURES

- have been rounded off to the nearest rupee.

MUHAMMAD ASIF A. GHAFFAR
Chief Executive

MURTAZA A. RAZAK
Director