20th ANNUAL REPORT 2010

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N. P. Spinning Mills Limited

CONTENTS

VISION

To strive at producing high quality yarn, explore new era to achieve the highest level of commercial success with social & environmental responsibilities.

MISSION

To bring in the best, become more focused on the market, reduce cost of organization, take prompt decisions and make N.P. Spinning Mills Ltd. an Organization with a promising future.

COMPANY INFORMATION

BOARD OF DIRECTORS

Chairman	:	Mr. Inamur Rehman
Directors	:	Mrs. Summayya Rehman Mrs. Asma Khalid Mr. Fakhar Mohiuddin Faruqi Mr. Nazir Ahmed Mr. Ziauddin Zubairi
Chief Executive	:	Mr. Khalid Inam

AUDIT COMMITTEE

Chairman	:	Mr. Inamur Rehman
Members	:	Mr. Fakhar Mohiuddin Faruqi Mr. Ziauddin Zubairi

COMPANY SECRETARY
Mr. Muhammad Siddique
FCIS

CHIEF FINANCIAL OFFICER
Mr. Shamim Akhtar

AUDITORS
M/s. M. Yousuf Adil Saleem & Co.,
Chartered Accountants

BANKERS
Habib Bank Limited
MCB Bank Ltd.
Habib Metropolitan Bank Limited
Soneri Bank Limited

SHARE REGISTRAR
M/s. Noble Computer Services (Pvt) Ltd.
House of Habib Building, 3-JCHS,
Main Shahrah-e-Faisal, Karachi.
Phone # 021-34325482-87

REGISTERED OFFICE
703-Uni Tower,
I. I. Chundrigar Road, Karachi.
Phone # 021-32427202-205

FACTORY
1.5 K.M., Lalyani Road,
Jalalpura, Raiwind, District Lahore.

NOTICE OF MEETING

Notice is hereby given that the 20th Annual General Meeting of the Shareholders of **N. P. Spinning Mills Limited** will be held Insha Allah on Saturday October 30, 2010 at 9:30 a.m. at 7th Floor, Uni Tower, I.I. Chundrigar Road, Karachi, to transact the following business:-

1. To confirm the minutes of Extraordinary General Meeting held on December 31, 2009.
2. To receive, consider and adopt the Audited Accounts for the year ended June 30, 2010 together with Directors and Auditors reports thereon.
3. To approve 20% cash dividend (i.e. Rs. 2.00 per share) as recommended by the Directors.
4. To appoint auditors for the year ending June 30, 2011 and fix their remuneration. The retiring auditors M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.
5. To transact any other business with the permission of the Chair.

By Order of the Board

(Muhammad Siddique)
Company Secretary

Karachi : October 07, 2010

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 25, 2010 to October 31, 2010 (both days inclusive).
2. A member entitled to attend and vote at this meeting is entitled to appoint another member as a proxy to attend and vote on his / her behalf. Proxies must be deposited at the registered office of the Company not less than 48 hours before the time of meeting.
3. The shareholders through CDC are requested to bring original CNIC, Account Number and Participant ID to facilitate identification and in case of proxy, must enclose an attested copy of CNIC. Representatives of Corporate Members should bring the usual documents, required for such purpose.
4. Shareholders are requested to notify the change of address, if any.

DIRECTORS' REPORT

The Directors have the pleasure in presenting before you the 20th Annual Report together with the audited accounts of the Company for the year ended June 30, 2010.

FINANCIAL RESULTS

By the grace of Almighty Allah, the performance of the Company for the year under review is encouraging. The Company earned a pretax profit of Rs.122.968 (M) for the year under review as compared to Rs.10.124 (M) for the last year. Production for the year was 15.554 M.Kgs. at 20/s count compared to 13.351 M.Kgs. for last year. Sales registered an increase of about 41% over last year.

FUTURE OUTLOOK

For last many years, Pakistan has been missing its cotton production targets. The recent floods have caused huge devastation and the cotton target fixed for the year 2010-11 at 14 million bales may reduce by about 3 million bales. The gap between local consumption and supply has pushed the cotton prices to Rs. 7,000/- per maund. Besides, cotton prices in international market will also remain high, making cotton procurement costlier. During the period under review, the yarn market recovered from recessionary trends to a greater extent. Energy shortages and hike in tariffs are a cause for concern. Every effort will be made to maintain the results.

EARNINGS PER SHARE

The earnings per share for the period under review is Rs.5.61.

DIVIDEND

The Directors of the Company have recommended a final cash dividend @ 20% i.e. Rs. 2.00 per share for the year ended June 30, 2010.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

a) The financial statements, present fairly the state of affairs of the Company, the result of its operations, cash flows and changes in equity.

b) Proper books of account have been maintained.

c) Accounting policies as stated in the attached notes have been consistently applied and accounting estimates are based on reasonable and prudent judgment.

d) International Accounting Standards, as applicable in Pakistan have been followed and non-applicability, if any, has been adequately disclosed.

e) The internal control system of the Company is sound in design and has been effectively implemented. Weakness in controls, if any, will be addressed effectively.

f) There are no significant doubts upon the Company's ability to continue as a going concern.

g) There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of stock exchanges.

h) Key operating and financial data for last six years is annexed.

i) During the year under review, five meetings of the Board of Directors were held and the attendance of directors was as under:-

NAME OF DIRECTORS	NUMBER OF MEETINGS ATTENDED
Mr. Inamur Rehman	5
Mrs. Summayya Rehman	5
Mr. Khalid Inam	5
Mrs. Asma Khalid	5
Mr. Fakhar Mohiuddin Faruqi	5
Mr. Nazir Ahmed	5
Mr. Ziauddin Zubairi	5

j) The pattern of shareholdings as at June 30, 2010 is annexed to this report.

k) During the year under review, trades in the shares of the Company by the Directors, CEO and their spouses were as follows:-

Name	Balance on 01-07-2009	Purchase	Sale	Balance on 30-06-2010
Mrs. Summayya Rehman	1182,380	20,799	- -	1203,179
Mrs. Asma Khalid	307,770	62,397		370,167

AUDITORS

The present auditors M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, retire and being eligible offer themselves for reappointment for the financial year ending June 30, 2011.

ACKNOWLEDGEMENT

The Directors wish to acknowledge and appreciate the support of Shareholders, Bankers, Suppliers and the dedication and hard work of the Staff & Workers.

On behalf of the Board

(INAMUR REHMAN)
Chairman

Karachi October 07, 2010

Statement of Compliance with Code of Corporate Governance
For the year ended June 30, 2010

This statement is being presented by the Board of Directors (the Board) of N. P. Spinning Mills Limited (the Company) to comply with the Code of Corporate Governance (the Code) contained in listing regulation No. 35 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and Lahore 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 practices 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 the minority interest on its Board of Directors. At present the Board includes 5 non-executive directors and 2 executive directors and non 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 and none of them is a member of any stock exchange in Pakistan.
4. There has been no casual vacancy in the Board during the year under review.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and key employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company which have been approved by the Board. 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 the Board has taken decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of Chief Executive and other Executive Directors, have been taken by the Board.
8. Related party transactions were placed before the audit committee and approved by the Board of Directors, however, no transactions require justifications for non arm's length basis.
9. The meetings of Board were presided over by Chairman 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 meetings were appropriately recorded and circulated.
10. The directors of the Company have given declaration that they are aware of their duties, powers and responsibilities under the Companies Ordinance, 1984 and the listing regulations of Stock Exchanges. The directors are also encouraged to attend the workshops and seminars on the subject of Corporate Governance.
11. The appointment of CFO, Company Secretary, Internal Auditor and the terms and conditions of their employment have been approved by the Board. There was no new appointment of theses officers during the year.
12. The Directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Company were duly endorsed by Chief Executive and Chief Financial Officer before approval of the Board.
14. The directors and Chief Executive Officer do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholdings.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee. It comprise of three members, of whom two are non-executive directors.
17. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The BOD has set up an effective internal audit function.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the 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.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guide lines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board

(KHALID INAM)
Chief Executive

Karachi : October 07, 2010

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 **N.P. SPINNING MILLS LIMITED** to comply with the Listing Regulation No. 35 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and Lahore 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's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our 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 Board's statement on the 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 June 30, 2010.

Karachi : October 07, 2010

M. Yousuf Adil Saleem & Co.
Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **N.P. SPINNING MILLS LIMITED** (the Company) as at June 30, 2010 and the related profit and 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 except for the changes as stated in note 2.2 to the annexed financial statements with which we concur;

   ii. the expenditure incurred during the year was for the purpose of the Company's business; and

   iii. the business conducted, investments 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 and 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 the 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 June 30, 2010 and of the profit, its cash flows and changes in equity for the year then ended; and

d. in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Karachi : October 07, 2010

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Engagement Partner
Mushtaq Ali Hirani

BALANCE SHEET

	Note	2010 Rupees	2009 Rupees
SHARE CAPITAL AND RESERVES			
Authorised			
32,000,000 (2009 : 32,000,000) ordinary shares of Rs. 10/- each		320,000,000	320,000,000
Issued, subscribed and paid up	5	147,000,000	147,000,000
Unappropriated profit		226,577,255	144,175,178
		373,577,255	291,175,178
NON-CURRENT LIABILITIES			
Deferred liabilities	6	34,369,599	32,519,415
CURRENT LIABILITIES			
Trade and other payables	7	215,375,018	157,072,053
Mark-up accrued on short term bank borrowings		166,238	3,083,488
Short term loan from directors Unsecured - interest free		67,900,898	20,190,803
Short-term borrowings	8	54,957,665	121,586,470
Provision for taxation		9,968,917	—
		348,368,736	301,932,814
CONTINGENCIES AND COMMITMENTS	9		
		756,315,590	**625,627,407**

The annexed notes from 1 to 33 form an integral part of these financial statements.

AS AT JUNE 30, 2010

	Note	2010 Rupees	2009 Rupees
NON-CURRENT ASSETS			
Property, plant and equipment	10	227,753,429	228,040,723
Long-term deposits		1,495,222	1,495,222
CURRENT ASSETS			
Stores, spares and loose tools	11	26,543,641	22,382,257
Stock-in-trade	12	441,493,724	290,197,482
Trade debts	13	26,435,597	32,627,567
Advances	14	12,359,917	13,949,211
Other receivables			3,500,000
Sales tax refundable		12,788,152	6,184,884
Cash and bank balances	15	7,445,908	27,250,061
		527,066,939	396,091,462
		756,315,590	**625,627,407**

KHALID INAM
Chief Executive

INAMUR REHMAN
Chairman/Director

PROFIT AND LOSS ACCOUNT

For the Year Ended June 30, 2010

	Note	2010 Rupees	2009 Rupees
Sales	16	1,630,785,207	1,156,970,404
Cost of goods sold	17	(1,452,038,665)	(1,089,124,542)
Gross profit		178,746,542	67,845,862
Other operating income	18	28,146,292	2,280,619
		206,892,834	70,126,481
Distribution cost	19	16,494,099	383,943
Administrative expenses	20	43,417,004	32,407,145
Other operating expenses	21	15,820,996	6,527,294
Finance cost	22	8,193,189	20,683,863
		(83,925,288)	(60,002,245)
Profit before taxation		122,967,546	10,124,236
Provision for taxation	23	(40,565,469)	(4,178,856)
Profit after taxation		82,402,077	5,945,380
Other comprehensive income			
Other comprehensive income		—	
Total comprehensive income for the year		82,402,077	5,945,380
Earnings per share - basic and diluted	24	5.61	0.40

The annexed notes from 1 to 33 form an integral part of these financial statements.

KHALID INAM
Chief Executive

INAMUR REHMAN
Chairman/Director

CASH FLOW STATEMENT

For the Year Ended June 30, 2010

	2010 Rupees	2009 Rupees
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	122,967,546	10,124,236
Adjustments for:		
Depreciation	22,487,387	24,558,489
Loss/(gain) on disposal of property, plant and equipment	71,967	(78,950)
Provision for staff retirement gratuity	3,639,591	2,441,447
Provision for infrastructure fee	7,709,021	2,398,215
Provision against doubtful debts	—	176,289
Provision against doubtful advances	980,691	
Provision against slow moving and obsolete stores and spares	1,421,506	—
Liabilities written back	(1,903,145)	—
Profit on saving accounts	(2,158,288)	(1,243,631)
Finance cost	8,193,189	20,683,863
Operating cash flows before working capital changes	163,409,465	59,059,958
Changes in working capital		
(Increase) / decrease in current assets		
Stores, spares and loose tools	(5,582,890)	(2,931,328)
Stock-in-trade	(151,296,242)	62,762,641
Trade debts	6,191,970	(19,622,899)
Advances	(2,650,869)	(1,891,518)
Trade deposits and short-term prepayments		—
Other receivables	3,500,000	(3,500,000)
Sales tax refundable	(6,603,268)	2,112,931
Increase / (decrease) in current liabilities		
Trade and other payables	52,497,089	50,470,539
	(103,944,210)	87,400,366
Cash generated from operations	59,465,255	146,460,324
Finance cost paid	(11,110,439)	(21,622,621)
Gratuity paid	(1,795,720)	(5,561,973)
Taxes paid	(27,330,767)	(5,713,388)
Net cash flows from operating activities	19,228,329	113,562,342
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(54,299,820)	(17,972,843)
Proceeds from disposal of property, plant and equipment	32,027,760	260,000
Interest on bank deposits	2,158,288	1,355,018
Long term deposits	—	(50,000)
Net cash used in investing activities	(20,113,772)	(16,407,825)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short term loan from directors	(7,100,000)	(30,000,000)
Short term loan obtained from directors	54,810,095	-
Short-term bank borrowings-net	(55,642,023)	55,642,023
Dividends paid	—	(14,616,439)
Net cash (used) in / from financing activities	(7,931,928)	11,025,584
Net (decrease)/increase in cash and cash equivalents (A+B+C)	(8,817,371)	108,180,101
Cash and cash equivalents at the beginning of the year	(38,694,386)	(146,874,487)
Cash and cash equivalents at the end of the year	(47,511,757)	(38,694,386)
Cash and cash equivalents		
Cash and bank balances	7,445,908	27,250,061
Running finance	(54,957,665)	(65,944,447)
	(47,511,757)	(38,694,386)

The annexed notes from 1 to 33 form an integral part of these financial statements.

KHALID INAM
Chief Executive

INAMUR REHMAN
Chairman/Director

STATEMENT OF CHANGES IN EQUITY

For the Year Ended June 30, 2010

	Share Capital	Unappropriated Profit	Total
	....	Rupees	....
Balance at July 01, 2008	147,000,000	152,929,798	299,929,798
Final dividend based on the available profits as at June 30, 2008 @ Re.1 per ordinary share declared subsequent to the year ended June 30, 2008	—	(14,700,000)	(14,700,000)
Profit for the year	—	5,945,380	5,945,380
Other comprehensive income for the year	—	—	—
Balance at July 01, 2009	147,000,000	144,175,178	291,175,178
Profit for the year	—	82,402,077	82,402,077
Other comprehensive income for the year	—	—	—
Balance at June 30, 2010	147,000,000	226,577,255	373,577,255

The annexed notes from 1 to 33 form an integral part of these financial statements.

KHALID INAM
Chief Executive

INAMUR REHMAN
Chairman/Director

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

1. STATUS AND NATURE OF BUSINESS

1.1 N.P. Spinning Mills Limited (the Company) was incorporated in Pakistan on February 17, 1991 as public company limited by shares under the Companies Ordinance, 1984 and is quoted on Karachi and Lahore Stock Exchanges in Pakistan. The principal business of the Company is manufacturing and sale of yarn. The Mills is located in Raiwand, District Lahore in the province of Punjab. The registered and head office of the Company is located at 703 - Uni Tower, I.I. Chundrigar Road, Karachi in the province of Sindh.

1.2 The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (the IASB) as are notified under the Companies Ordinance, 1984 (the Ordinance), provisions of and directives issued under the Ordinance. In case requirements differ, the provisions of or directives issued under the Ordinance shall prevail.

2.2 Adoption of new International Financial Reporting Standards

In the current year, the company has adopted all new Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and as notified by the Securities and Exchange Commission of Pakistan that are relevant to its operations and effective for company's accounting period beginning on July 01, 2009. The adoption of these new Standards and Interpretations has resulted in changes to the Company's accounting policies in the following areas:

IAS 1 (revised) - Presentation of Financial Statements — January 01, 2009

The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Further, under revised standard, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. The Company has opted to present the components of profit or loss as part of a single statement of comprehensive income (as opted by the company) as permitted under revised IAS 1.

As surplus on revaluation of assets does not form part of the equity under the local laws and is presented below the equity in the balance sheet, accordingly changes in equity arising from surplus on revaluation of assets have not been considered part of comprehensive income and accordingly these are not included in the statement of comprehensive income presented in these financial statements.

Accordingly, the adoption of the above standard does not have any significant impact on the presentation of the Company's financial statements and does not require the restatement or reclassification of comparative information. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 8 - Operating Segments — January 01, 2009

IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company considers itself as a single operating segment company and the Company's performance is evaluated on an overall basis. The adoption of this standard has no impact on the Company's financial statement.

Improving Disclosures about Financial Instruments
(Amendments to IFRS 7 Financial Instruments: Disclosures) — January 01, 2009

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The Company does not hold any financial Instruments that requires the application of the above disclosures.

2.3 New accounting standards and IFRS interpretations that are not yet effective

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them:

IFRS 9 - Financial Instruments	January 01, 2013
Amendments to IFRS 2 - Share based Payment	January 01, 2010
Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	January 01, 2010
Amendments to IAS 7 - Statement of Cash Flows	January 01, 2010
Amendments to IAS 17 - Leases	January 01, 2010
Amendments to IAS 24 - Related Party Disclosures	January 01, 2010

2.4 Amendments to existing standards and interpretations that are effective and not relevant for the company's operations

The following new and revised Standards and Interpretations has been published and is mandatory for the company's accounting year beginning on July 01, 2009 but is not relevant for the Company's operations.

Amendments to IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance	January 01, 2009
Amendments to IAS 40 - Investment Property	January 01, 2009
Amendments to IAS 23 - Borrowing Costs	January 01, 2009
IFRS 2 - Share-based Payment : Vesting Conditions and Cancellations	January 01, 2009
IFRS 3 - Business Combinations (Revised) and IAS 27 - Consolidated and Separate Financial Statements (Amended) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39	July 01, 2009
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	July 01, 2009
IAS 32- Financial Instruments : Presentation and IAS 1 Puttable Financial Instruments and Obligations arising on Liquidation	January 01, 2009
IAS 38 - Intangible Assets	January 01, 2009
IAS 39 - Financial Instruments : Recognition and Measurement - Eligible Hedged Items	July 01, 2009
IFRIC 9 - Remeasurement of Embedded derivatives and IAS 39 Financial Instruments : Recognition and Measurement	July 01, 2009
IFRIC 15 - Agreements for the Construction of Real Estate	January 01, 2009
IFRIC 17 - Distribution of Non-cash Assets to Owners	January 01, 2009
IFRIC 18 - Transfers of Assets from Customers	July 01, 2009

3. Basis of preparation

These financial statements have been prepared under the historical cost convention modified by:

— recognition of certain employee retirement benefits at present value; and

— certain financial instruments at their fair value.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Staff retirement benefits - defined benefit plan

The Company operates an unfunded gratuity scheme covering all its permanent employees who have completed a minimum qualifying period of service. Provisions are made annually on the basis of actuarial recommendation to cover the obligation under the scheme. The most recent valuation was carried out as at June 30, 2010 using "Project Unit Credit Method".

Cumulative net unrecognized actuarial gains and losses at the end of previous year which exceeds 10% of the greater of the present value of the Company's obligation is amortised over the average expected remaining working lives of the employees.

Details of the scheme is given in note 6.1 of these financial statements.

4.2 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 the future for goods and services received whether billed to the Company or not.

4.3 Dividend distribution

Dividend distribution to the Company's share holders is recognised as liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

4.4 Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets , until such time the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit and loss account in the period in which they are incurred.

4.5 Taxation

Current

The charge for current taxation is based on taxable income at current rates of taxation after taking into account applicable tax credits, rebates and exemptions available. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

Deferred

Deferred tax is provided using the balance sheet liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

4.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is charged to income applying the reducing balance method at the rates specified in note 10. Depreciation is charged on addition from the month the asset is available-for-use and on disposals upto the month preceding the month of disposal.

Assets' residual values, if significant, and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

When parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items of the property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss account during the financial year in which they are incurred.

Gains and losses on disposal of assets, if any, are recognised in profit and loss account.

4.7 Stores, spares and loose tools

These are valued at moving average cost less allowance for obsolete and slow moving items (if any). Items in transit are valued at invoice values plus other charges incurred thereon upto balance sheet date.

4.8 Stock in trade

These are valued at lower of cost and net realisable value applying the following basis:

Raw material	Weighted average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Waste	Net realisable value

Average manufacturing cost in relation to work in process and finished goods signifies cost including a portion of related direct overheads.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

4.9 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

4.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks and running finance.

4.11 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

— Revenue from sales of goods are recognised on dispatch of goods to customers.

— Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the applicable effective interest rate.

4.12 Impairment

Financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Non-financial assets

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets and inventories may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognized as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

4.13 Provisions

Provisions are recognised when the Company has a present, legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.14 Foreign currencies

Transactions in currencies other than Pak Rupees are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in net profit or loss for the period.

4.15 Financial Instruments

Recognition and de-recognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and de-recognised when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. Any gains or losses on derecognition of the financial assets and financial liabilities are taken to profit and loss account directly.

Off-setting

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the company has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.16 Critical judgments and estimates in applying the accounting policies

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The area where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of policies are as follows;

— Provision for staff gratuity (notes 4.1 and 6)

— Useful lives and residual values of property, plant and equipment (notes 4.6 and 10)

— Provision for doubtful debt (notes 4.10 and 13)

— Provision for taxation (notes 4.5 and 23)

Estimates and judgments, if any, are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2009	2010		2010	2009
No. of shares			Rupees	Rupees
		Ordinary shares of Rs.10/- each fully paid:		
10,500,000	10,500,000	– in Cash	105,000,000	105,000,000
4,200,000	4,200,000	– Issed as bonus shares	42,000,000	42,000,000
14,700,000	14,700,000		147,000,000	147,000,000

5.1 There is no movement during the reporting year.

5.2 The Company has one class of ordinary shares which carry no rights to fixed income. The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meeting of the Company. All shares rank equally with regard to the Company's residual assets..

5.3 The Company has no reserved shares for issuance under options and sales contracts.

5.4 N.P. Waterproof Industries (Private) Limited, an associated undertaking, held 57,400 (2009: 57,400) ordinary shares.

6. DEFERRED LIABILITIES

	Note	2010 Rupees	2009 Rupees
Deferred taxation	6.1	28,674,166	28,667,853
Staff retirement gratuity	6.2	5,695,433	3,851,562
		34,369,599	32,519,415

6.1 Deferred taxation

	2010	2009
This comprises of the following:		
Deferred tax liability on taxable temporary differences arising due to accelerated depreciation allowance	42,018,217	37,901,771
Deferred tax asset on deductible temporary differences arising in respect of:		
Provision for staff gratuity	(1,993,402)	(1,348,047)
Provision against doubtful debts	(1,230,012)	(1,230,012)
Provision against doubtful advances	(343,242)	—
Provision against slow moving and obsolete stores & spares	(497,527)	—
Provision for infrastructure fee	(9,279,868)	(6,655,859)
	(13,344,051)	(9,233,918)
	28,674,166	28,667,853

6.2 Staff retirement gratuity

The latest actuarial valuation was carried out by Nauman Associates at June 30, 2010 using "Projected Unit Credit Method". The basis of recognition together with details as per actuarial valuation is as under:

		2010	2009
(a)	**Movement in liability:**		
	Opening balance	3,851,562	6,972,088
	Charge for the year	3,639,591	2,441,447
	Payments made during the year	(1,795,720)	(5,561,973)
	Closing balance	5,695,433	3,851,562
(b)	**Reconciliation:**		
	Present value of defined benefit obligation	4,671,506	1,716,598
	Actuarial gains to be recognized in later periods	1,023,927	2,134,964
		5,695,433	3,851,562

	2010 Rupees	2009 Rupees
(c) Charge for the year:		
Current service cost	3,924,425	2,448,154
Interest cost	205,992	527,488
Actuarial gains recognized during the year	(490,826)	(534,195)
	3,639,591	2,441,447

	2010 Rupees	2009 Rupees
(d) Changes in the present value of the defined benefit obligation:		
Opening defined benefit obligation	1,716,598	4,395,733
Current service cost	3,924,425	2,448,154
Interest cost	205,992	527,488
Benefits paid	(1,795,720)	(5,561,973)
Actuarial (loss)/gains recognized during the year	620,211	(92,804)
Closing defined benefit obligation	4,671,506	1,716,598

(e) The principal assumption used in the valuation of gratuity are as follows:	2010	2009
Discount rate	12%	12%
Expected rate of increase in salary	11%	11%

(f) Amounts for the current and previous four years and experience adjustments are as follows:

	2010	2009	2008	2007	2006
	....	....	Rupees	....	....
Present value of the defined benefit obligation	4,671,506	1,716,598	4,395,733	4,627,949	7,471,327

7. TRADE AND OTHER PAYABLES

	Note	2010 Rupees	2009 Rupees
Creditors		53,879,736	29,137,868
Advance from customers		2,667,272	4,192,970
Foreign bills payable		79,318,043	72,471,968
Accrued liabilities		38,222,779	26,302,187
Due to directors		67,617	181,740
Unclaimed dividend		2,825,891	2,854,103
Workers' Profit Participation Fund	7.1	6,624,293	573,977
Workers' Welfare Fund		5,605,708	2,783,656
Infrastructure fee	7.2	26,163,679	18,454,658
Others		—	118,926
		215,375,018	157,072,053

	Note	2010 Rupees	2009 Rupees
7.1 Workers' Profit Participation Fund			
As at July 01		573,977	3,757,354
Allocation for the year		6,624,293	573,979
Interest on funds utilized in Company's business		69,898	551,764
		7,268,168	4,883,097
Payments made during the year		(643,875)	(4,309,120)
As at June 30		6,624,293	573,977

7.2 It represents infrastructure fee / cess payable to Excise and Taxation Officer (ETO) in respect of sea dues claimed on imported goods under Sindh Finance Ordinance, 2001. In 2009, the Sindh High Court has passed an order allowing the appeals partly in respect of infrastructure fee / cess payable on goods imported before December 28, 2006 in favor the company. However the Company has not reversed the provision in respect of the infrastructure fee amounting to Rs. 12.08 million pertaining to period before December 28, 2006, considering the possible future legal action by the ETO against the order.

8. SHORT-TERM BORROWINGS

	Note	2010 Rupees	2009 Rupees
From banking company:			
Running finances - secured	8.1	54,957,665	65,944,447
Finance against trust receipts		—	55,642,023
		54,957,665	121,586,470

8.1 These are subject to mark-up 6 months KIBOR plus 1.5%. These are secured against pledge of cotton stock and trust receipts.

8.2 The Company has aggregate short-term borrowing facilities amounting to Rs. 472 million (2009: Rs. 472 million) from commercial bank.

8.3 Effective rate of markup is ranging from 13.60% to 15.27% (2009 : 13.37% to 18.02%) per annum.

9. CONTINGENCIES AND COMMITMENTS

	2010 Rupees	2009 Rupees
Contingencies		
Guarantees issued by bank on behalf of the Company	38,095,679	30,386,658
Commitments		
Letters of credit for raw material	215,117,515	40,313,429
Letters of credit for stores and spares	3,355,520	4,678,490
Letters of credit for property, plant and equipment	—	2,579,556

10. PROPERTY, PLANT AND EQUIPMENT

Particulars	Cost: As at July 01, 2009	Cost: Additions / (Deletions)	Cost: As at June 30, 2010	Accumulated Depreciation: As at July 01, 2009	Accumulated Depreciation: Charge (Adjustments) for the year	Accumulated Depreciation: As at June 30, 2010	Carrying value at June 30, 2010	Annual Dep Rate %
	Rupees							
Leasehold land	8,492,609	—	8,492,609	—	—	—	8,492,609	
Building on leasehold land	67,082,037	2,959,247	64,340,195	51,856,767	1,346,119	50,382,204	13,957,991	10
		(5,701,089)			(2,820,682)			
Office premises	3,732,000	—	3,732,000	2,245,985	148,602	2,394,587	1,337,414	10
Plant and machinery	549,185,947	27,398,458	533,084,894	359,767,437	17,117,612	362,315,446	170,769,448	10
		(43,499,511)			(14,569,603)			
Electric installations	16,177,179		16,177,179	12,868,221	330,896	13,199,117	2,978,062	10
Factory equipments	4,412,077	16,957,995	21,370,072	1,536,720	1,983,336	3,520,056	17,850,016	10
Furniture and fixtures	1,723,253	—	1,723,253	1,260,498	46,276	1,306,774	416,480	10
Office equipments	2,266,607	252,720	2,519,327	1,209,935	115,998	1,325,933	1,193,394	10
Computers	436,826		436,826	288,728	48,872	337,600	99,226	33
Vehicles	10,557,164	6,731,400	16,147,064	4,990,685	1,349,677	5,488,274	10,658,790	20
		(1,141,500)			(852,088)			
2010	664,065,699	54,299,820	668,023,419	436,024,976	22,487,387	440,269,990	227,753,429	
		(50,342,100)			(18,242,373)			

For comparative period

Particulars	Cost: As at July 01, 2008	Cost: Additions / (Deletions)	Cost: As at June 30, 2009	Accumulated Depreciation: As at July 01, 2008	Accumulated Depreciation: Charge (Adjustments) for the year	Accumulated Depreciation: As at June 30, 2009	Carrying value at June 30, 2009	Annual Dep Rate %
	Rupees							
Leasehold land	8,492,609		8,492,609				8,492,609	
Building on leasehold land	67,082,037	—	67,082,037	50,165,070	1,691,697	51,856,767	15,225,270	10
Office premises	3,732,000	—	3,732,000	2,080,871	165,114	2,245,985	1,486,015	10
Plant and machinery	534,367,688	14,818,259	549,185,947	339,267,894	20,499,543	359,767,437	189,418,510	10
Electric installations	16,177,179		16,177,179	12,500,560	367,661	12,868,221	3,308,958	10
Factory equipments	1,740,669	2,671,408	4,412,077	1,340,914	195,806	1,536,720	2,875,357	10
Furniture and fixtures	1,723,253	—	1,723,253	1,209,081	51,417	1,260,498	462,755	10
Office equipments	1,783,431	483,176	2,266,607	1,117,481	92,454	1,209,935	1,056,672	10
Computers	436,826		436,826	215,784	72,944	288,728	148,098	33
Vehicles	11,371,664	—	10,557,164	4,202,282	1,421,853	4,990,685	5,566,479	20
		(814,500)			(633,450)			
2009	646,907,356	17,972,843	664,065,699	412,099,937	24,558,489	436,024,976	228,040,723	
		(814,500)			(633,450)			

	Note	2010 Rupees	2009 Rupees
10.1 Depreciation for the year has been allocated as under:			
Cost of goods manufactured	17.1	20,824,239	22,806,124
Administrative expenses	20	1,663,149	1,752,365
		22,487,387	24,558,489

10.2 Disposal of property, plant and equipment

The following asset were disposed of during the year.

Particulars	Cost	Accumulated Depreciation	Carrying value	Sale Proceeds	Mode of Disposal	Name and Address of Buyer
	Rupees					
Building on leasehold land	5,701,089	(2,820,682)	2,880,407	2,880,407	Insurance claim	New Jubilee Insurance Company Limited 2nd Floor, Jubilee Insurance House, I.I. Chundrigar Road, Karachi
Plant and machinery	30,129,335	(4,659,092)	25,470,243	25,252,353	Insurance claim	New Jubilee Insurance Company Limited 2nd Floor, Jubilee Insurance House, I.I. Chundrigar Road, Karachi.
Plant and machinery	13,370,176	(9,910,511)	3,459,665	3,500,000	Negotiation	Smart Power Systems (Private) Limited C-8 C, South Avenue, Near Nauras Chowrangi, SITE, Karachi
Vehicle	38,500	(19,117)	19,383	20,000	Negotiation	Muhammad Asim Hussain Khan House No. A-178, North Nazimabad, Block-S,Karachi.
Vehicle	599,000	(497,562)	101,438	150,000	Negotiation	Waseem Mirza House No. A-32, Gulshan e Iqbal, Block 10-A, Karachi.
Vehicle	504,000	(335,409)	168,591	225,000	Negotiation	Muhammad Azhar House No. A-461,Block D, North Nazimabad, Karachi.
2010	50,342,100	(18,242,373)	32,099,727	32,027,760		
2009	814,500	(633,450)	181,050	260,000		

	Note	2010 Rupees	2009 Rupees
11. STORES, SPARES AND LOOSE TOOLS			
Stores-in hand		9,295,698	7,439,929
Spares		17,641,907	14,119,922
Loose tools		1,027,542	822,406
		27,965,147	22,382,257
Less: Provision for slow-moving and obsolete items		(1,421,506)	—
		26,543,641	22,382,257
12. STOCK-IN-TRADE			
Raw material		347,174,858	208,168,465
Work-in-process		14,797,473	10,826,348
Finished goods		78,948,949	71,089,788
Waste		572,444	112,881
		441,493,724	290,197,482
13. TRADE DEBTS			
Local - unsecured			
Considered good		26,435,597	32,627,567
Considered doubtful		3,514,321	3,514,321
		29,949,918	36,141,888
Provision for doubtful debts	13.1	(3,514,321)	(3,514,321)
		26,435,597	32,627,567

	Note	2010 Rupees	2009 Rupees
13.1 Movement of provision			
Balance at July 1		3,514,321	3,338,032
Provision during the year		—	176,289
Balance at June 30		3,514,321	3,514,321

14. ADVANCES

	Note	2010 Rupees	2009 Rupees
Considered good			
To suppliers		10,005,103	9,064,242
– Letters of credit fee & charges		175,857	1,239,454
– To employees		2,178,957	386,043
– Income tax		—	3,259,472
Considered doubtful			
– To suppliers		980,691	—
		13,340,608	13,949,211
Less: provision for doubtful advances		(980,691)	
		12,359,917	13,949,211

15. CASH AND BANK BALANCES

	Note	2010 Rupees	2009 Rupees
Cash in hand		1,000,000	1,100,000
Cash at bank			
in current accounts			
– local currency		3,022,248	1,198,189
– foreign currency		13,324	120,996
in saving accounts			
– local currency	15.1	3,410,336	24,830,876
		7,445,908	27,250,061

15.1 Effective mark-up rate ranges from 9 % to 12% (2009: 8% to 12%) per annum.

16. SALES - Net

	Note	2010 Rupees	2009 Rupees
Local – Yarn		1,628,875,428	1,155,701,691
Waste		1,909,779	1,268,713
		1,630,785,207	1,156,970,404

17. COST OF GOODS SOLD

	Note	2010 Rupees	2009 Rupees
Cost of goods manufactured	17.1	1,460,357,389	1,083,414,029
Finished goods (including waste stock)			
Opening stock		71,202,669	76,913,182
Closing stock		(79,521,393)	(71,202,669)
		(8,318,724)	5,710,513
		1,452,038,665	1,089,124,542

	Note	2010 Rupees	2009 Rupees
17.1 Cost of goods manufactured			
Raw material consumed	17.1.1	1,008,475,534	713,957,350
Packing material consumed		21,137,829	18,511,387
Stores and spares consumed	17.1.2	92,630,362	63,536,113
Salaries, wages and benefits	17.1.3	128,573,698	92,613,819
Fuel and power		154,047,766	130,003,941
Insurance		4,760,935	3,351,153
Repairs and maintenance		16,024,851	17,805,606
Depreciation	10.1	20,824,238	22,806,124
Provision for slow-moving and obsolete items		1,421,506	—
Other manufacturing overheads		16,431,795	15,030,484
		1,464,328,514	1,077,615,977
Work-in-process			
Opening stock		10,826,348	16,624,400
Closing stock		(14,797,473)	(10,826,348)
		(3,971,125)	5,798,052
		1,460,357,389	1,083,414,029
17.1.1 Raw material consumed			
Opening stock		208,168,465	259,422,541
Purchases - net		1,147,481,927	662,703,274
		1,355,650,392	922,125,815
Closing stock		(347,174,858)	(208,168,465)
		1,008,475,534	713,957,350

17.1.2 Stores and spares consumed, are net of insurance claim with respect to fire at factory.

17.1.3 Salaries, wages and benefits include Rs. 3,357,869 (2009 : Rs. 2,252,465/-) in respect of staff retirement benefits.

	Note	2010 Rupees	2009 Rupees
18. OTHER OPERATING INCOME			
Income from financial assets			
Profit on saving accounts		2,158,288	1,243,631
Income from assets other than financial assets			
Scrap sale		291,740	708,795
Trading profit	18.1	23,793,119	249,243
Gain on disposal of property, plant and equipment		—	78,950
Liabilities written back		1,903,145	—
		28,146,292	2,280,619
18.1 Trading profit			
Sales		92,932,999	3,243,316
Cost of sales		(69,139,880)	(2,994,073)
		23,793,119	249,243
19. DISTRIBUTION COST			
Freight		15,261,780	180,000
Commission		17,700	—
Others		1,214,619	203,943
		16,494,099	383,943

		Note	2010 Rupees	2009 Rupees
20.	**ADMINISTRATIVE EXPENSES**			
	Directors' remuneration		6,515,726	6,892,948
	Salaries and benefits	20.1	10,198,661	8,597,672
	Travelling and conveyance		6,047,119	3,881,970
	Printing and stationery		2,992,012	318,847
	Postage and telephone		754,330	683,985
	Legal and professional		402,378	524,384
	Advertisement		150,678	79,124
	Repairs and maintenance		959,258	571,562
	Vehicles running		1,637,299	1,231,988
	Fees, subscription and periodicals		418,536	351,133
	Auditors' remuneration	20.2	1,180,000	687,484
	Donations	20.3	6,871,000	4,000,000
	Depreciation	10.1	1,663,149	1,752,365
	Provision for doubtful debts		—	176,289
	Provision for doubtful advances		980,691	
	Bad debts written off		—	313,384
	Others		2,646,167	2,344,010
			43,417,004	32,407,145

20.1 Salaries and benefits include Rs. 281,722 (2009: Rs. 190,119/-) in respect of staff gratuity.

		2010 Rupees	2009 Rupees
20.2	**Auditors' remuneration**		
	Annual audit fee	500,000	375,000
	Half yearly review fee	115,000	84,500
	Code of Corporate Governance review fee	30,000	26,000
	Out of pocket expenses	50,000	31,984
	Tax and other services	485,000	170,000
		1,180,000	687,484

20.3 None of the directors and their spouses have any interest in the donees fund.

		2010 Rupees	2009 Rupees
21.	**OTHER OPERATING EXPENSES**		
	Workers' Profit Participation Fund	6,624,293	573,979
	Workers' Welfare Fund	2,822,052	229,592
	Exchange loss	6,302,684	5,723,723
	Loss on disposal of property, plant and equipment	71,967	—
		15,820,996	6,527,294
22.	**FINANCE COST**		
	Mark-up / interest on:		
	Short-term borrowings	7,197,719	19,068,154
	Workers' Profit Participation Fund	69,898	551,768
	Bank charges and commission	925,572	1,063,941
		8,193,189	20,683,863

23. PROVISION FOR TAXATION

	2010 Rupees	2009 Rupees
Current		
– for the year	39,911,103	2,427,336
for prior years	648,053	959,808
Deferred	6,313	791,712
	40,565,469	4,178,856

23.1 Relationship between tax expense and accounting profit

	2010	2009
Accounting profit before tax	122,967,546	10,124,236
Tax at the applicable rate of 35%	43,038,641	3,543,483
Income tax for prior years	648,053	959,808
Effect of tax under final tax regime	918,912	32,433
Effect of (reversal) / charge of deferred tax liability	6,313	791,712
Other	(4,046,524)	(1,148,580)
	40,565,395	4,178,856

24. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the company which is based on :-

		2010	2009
Profit for the year	Rupees	82,402,077	5,945,380
Weighted average number of ordinary shares in issue during the year		14,700,000	14,700,000
Earnings per share - basic and diluted	Rupees	5.61	0.40

Basic earnings per share have been computed by dividing earnings as stated above with weighted average number of ordinary shares.

25. REMUNERATION OF CHIEF EXECUTIVE OFFICER AND DIRECTOR

	2010		2009	
	Chief Executive Officer	Directors	Chief Executive Officer	Directors
	......Rupees......			
Managerial remuneration	2,842,759	1,430,122	2,842,759	1,430,122
House rent	1,279,241	632,915	1,279,241	632,915
Bonus	236,897	128,766	236,897	128,766
Leave encashment	236,897	105,351	236,897	105,351
	4,595,794	2,297,154	4,595,794	2,297,154
No. of persons	1	2	1	2

Chief Executive Officer and the Directors are provided with free use of Company maintained cars and reimbursement of telephone bills in accordance with the terms of their employment.

26. OPERATING SEGMENTS

For management purposes the business is organised as a single reportable operating segment and the Company's performance is evaluated on an overall basis based on single segment.

27. TRANSACTIONS WITH RELATED PARTIES

The related party comprises of associated undertakings, key management personnel and post employment benefit scheme. Amounts due to related parties is shown under note 7 and short term loan from director is shown on the face of balance sheet. The Company in the normal course of business carries out transactions with various related parties. Remuneration of key management personnel is disclosed in note 25 and amount due in respect of staff gratuity disclosed in note 6. Other significant transactions with related parties are as follows:

Relationship with the party	Nature of transactions	2010 Rupees	2009 Rupees
Associated Undertakings	Share of expenses paid	908,395	468,666
	Dividend paid	—	57,400
Directors	Loan obtained	54,810,095	—
	Loan repaid	7,100,000	30,000,000

28. PLANT CAPACITY AND ACTUAL PRODUCTION

Installed production capacity 20/s count - yarn in kgs	16,516,921	16,516,921
Actual production during the year at 20/s count-yarn in kgs	15,553,796	13,350,509

It is difficult to describe precisely the production capacity and compare it with actual production in textile industry since it fluctuates widely depending upon various factors such as count of yarn spun, spindles speeds, twist per inch, raw material used, etc.

29. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise short-term borrowing and trade and other payables. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has trade debts, other receivables, cash and bank balances that arrive directly from its operations.

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, interest rate risk and fair value interest rate risk), credit risk and liquidity risk. Risk management is carried out by the Board of directors (the Board).

29.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Out of the total financial assets of Rs. 46,669,657/- (2009: Rs. 64,872,850), the financial assets which are subject to credit risk amounted to Rs.45,669,657/- (2009: Rs. 63,772,850).

The Company is exposed to credit risk from its operating activities (primarily for trade debts and other receivables) and from its financing activities, including amount held with banks and financial institutions, foreign exchange transactions and other financial instruments. The credit risk on liquid funds (cash and bank balances) is limited because the counter parties are banks with a reasonably high credit rating. The names and credit rating of major banks where the Company maintains its bank balances are as follows:

Name of bank	Rating agency	Credit rating Long-term	Short-term
Habib Metropolitan Bank Limited	PACRA	AA	A1+
Soneri Bank Limited	PACRA	AA-	A1+
MCB Bank Limited	PACRA	AA+	A1+

29.1.1 Credit risk related to receivables

Company's main credit exposure is with trade receivables. The Company monitors and limits the Company's exposure of credit risk by limiting transactions with specific counter parties and continually assessing their credit worthiness. The Company has adopted a policy to supply goods mostly on advance payments to mitigate risk of financial loss from defaults. Further, the Company limited its sales to local parties only and there are no exports during the year mitigating the risk of loss from foreign buyers.

Trade debts consist of a large number of customers and are generally for 45 - 60 days term. Ongoing credit evaluation is performed on the financial condition of accounts receivable where appropriate. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities.

Trade receivables include Rs. 26,432,420 (2009: Rs.32,608,250) which are neither past due nor impaired.

Trade receivables include Rs. 3,177 (2009; Rs. 19,317) which are past due but not impaired. The Company has not provided receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Trade receivables include Rs. 3,514,321 (2009: Rs. 3,514,321) which are past due and considered impaired. The provision against the receivables amounts to Rs. 3,514,321 (2009: Rs. 3,514,321). The aging of the receivables is as follows:

	2010 Rupees	2009 Rupees
Over 1 year	3,514,321	3,514,321

29.1.2 Credit risk related to cash and bank balances

Cash is held with reputable banks with quality credit ratings assigned by approved credit rating agencies as mentioned above.

29.2 Liquidity Risk Management

Liquidity risk reflects the Company's inability in raising funds to meet commitments. Management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short term borrowings and loan from directors. The Company does not have any long term loan and therefore, not subject to any liquidity risk with respect to long term financing. The Company has a short term bank borrowing which it utilizes for its working capital requirement. Included in note 8.1 is a listing of additional undrawn facilities that the Company has at its disposal in case of shortage of funds.

29.2.1 Liquidity and Interest Risk Table

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted Average effective rate of interest	Within one year	1 - 3 years	More than 3 years	Total
2010		......Rupees......			
Trade and other payables	—	212,707,746	—	—	212,707,746
Mark-up accrued on short term bank borrowings	—	166,238	—		166,238
Short term loan from directors Unsecured - interest free	—	67,900,898	—	—	67,900,898
Short-term borrowings	12.92%	54,957,665	—	—	54,957,665
		122,858,563	—	—	122,858,563

	Weighted Average effective rate of interest	Within one year	1 - 3 years	More than 3 years	Total
2009		......Rupees......			
Trade and other payables	—	152,879,083	—		152,879,083
Mark-up accrued on short term bank borrowings	—	3,083,488	—	—	3,083,488
Short term loan from directors Unsecured - interest free	—	20,190,803	—	—	20,190,803
Short-term borrowings	15.43%	121,191,018	—	—	121,191,018
		297,344,392	—	—	297,344,392

29.3 Market risk management

Market Risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns. The exposure to these risks and their management is as follows:

29.3.1 Interest rate risk management

Interest / mark-up rate risk arises from the possibility that changes in interest / mark-up rates will effect the value of financial instruments. The Company has significant amount of interest based financial assets and financial liabilities which are largely based on variable interest / mark-up rates, therefore the Company has to manage the related finance cost which exposes it to the risk of 6 months KIBOR.

29.3.2 Interest rate sensitivity

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year would have been lower / higher by Rs. 236,584 (2009 : Rs. 1,241,282). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

29.3.3 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings and balances held in foreign currency. However, the Company is not materially exposed to foreign currency risk on assets and liabilities. As at June 30, 2010, the total foreign currency risk exposure was Rs.79.189 million (2009: Rs. 128.17 million) in respect of creditors Rs.79.318 million (2009: 72.525 million), short term borrowing Rs. Nil (2009: 55.642 million) and bank balances Rs. 0.128 million (2009: 0.121 million).

29.3.4 Foreign currency sensitivity analysis

At June 30, 2010, if the Rupee had weakened / strengthened by 10% against the US Dollar with all other variables held constant, profit for the year would have been higher / lower by Rs. 7.932 million (2009 : Rs.12.795 million), mainly as a result of foreign exchange gains / losses on translation of foreign currency trade credits and bank balances. Profit / (loss) is slightly less sensitive to movement in Rupee / foreign currency exchange rates in 2010 than 2009 because of the decreased amount of foreign currency borrowings.

29.3.5 Price risk

Price risk represents the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market prices (other than those arising interest rate risk or currency risk), whether these changes are caused by factors specific to the individual financial instruments or its increase, or factors affecting all similar financial instruments traded in the market.

The Company is not exposed to any price risk.

29.4 Determination of fair values

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction other than in a forced or liquidation sale. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

29.5 Financial instruments by category

The accounting policies for financial instruments have been applied for line items below:

	2010 Rupees	2009 Rupees
Assets as per balance sheet		
Loans and receivables		
Long-term deposits	1,495,222	1,495,222
Trade debts	26,435,597	32,627,567
Other receivables	—	3,500,000
Sales tax refundable	12,788,152	6,184,884
Cash and bank balances	7,445,908	27,250,061
Liabilities as per balance sheet		
Financial liabilities measured at amortised cost		
Trade and other payables	212,707,746	152,897,083
Mark-up accrued on short term bank borrowings	166,238	3,083,488
Short-term borrowings from director	67,900,898	20,190,803
Short-term borrowings	54,957,665	121,586,470

30. CAPITAL DISCLOSURE

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at June 30, 2010 and 2009 were as follows:

	2010 Rupees	2009 Rupees
Total borrowings (note 8)	122,858,563	141,777,273
Less: cash and bank balances (note 15)	(7,445,908)	(27,250,061)
Net debt	115,412,655	114,527,212
Total equity	373,577,255	291,175,178
Total capital	488,989,910	405,702,390
Gearing ratio	24%	28%

31. SUBSEQUENT EVENTS

The Board of Directors at their meeting held on October 07, 2010 have proposed a dividend of Rs. 2.00 per share (2009: Rs. Nil per share) for the year ended June 30, 2010, amounting to Rs. 29,400,000/- (2009: Rs. Nil), subject to the approval of members at the annual general meeting to be held on October 30, 2010.

32. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of the Company and authorised for issue on October 07, 2010.

33. GENERAL

Figures have been rounded off to the nearest Rupee.

KHALID INAM
Chief Executive

INAMUR REHMAN
Chairman/Director

Key Operating and Financial Results
From 2005 to 2010

(Rupees in Million)

	2010	2009	2008	2007	2006	2005
OPERATING DATA						
Sales	1,630.785	1,156.970	1,141.696	967.270	894.540	631.677
Cost of Goods Sold	1,452.039	1,089.125	1,023.993	846.205	757.908	447.887
Gross Profit	178.746	67.845	117.703	121.065	136.631	183.790
Profit Before Taxation	122.968	10.124	69.489	115.455	81.447	144.119
Profit After Taxation	84.402	5.945	49.047	77.530	59.786	111.221
FINANCIAL DATA						
Paid-up capital	147.000	147.000	147.000	147.000	147.000	147.000
Fixed Assets	227.753	228.040	234.807	241.305	252.797	268.434
Current Assets	527.067	396.091	410.332	281.406	385.602	435.558
Current Liabilities	348.369	301.933	260.941	130.442	356.253	471.739
KEY RATIOS						
Gross Margin	10.96%	5.86%	10.31%	12.52%	15.27%	29.09%
Net Profit	5.05%	0.51%	4.30%	8.01%	6.7%	17.61%
Current Ratio	1.51	1.31	1.57	2.16	1.08	0.92
Earning Per Share (Rupees)	5.61	0.40	3.34	5.27	4.07	7.57
Cash Dividend	40%	—	10%	18%	33%	115%
Bonus Shares		-	—	—	—	—

PATTERN OF SHAREHOLDING

As at June 30, 2010

No. of Shareholders	Shareholding From	To	Total Shares Held	Percentage
193	001	100	16,648	0.11
296	101	500	69,647	0.47
329	501	1,000	235,441	1.60
62	1,001	5,000	137,428	0.94
16	5,001	10,000	106,550	0.73
6	10,001	15,000	80,940	0.55
1	15,001	20,000	15,400	0.11
2	20,001	25,000	43,799	0.30
1	30,001	35,000	34,300	0.23
1	55,001	60,000	57,400	0.39
1	60,001	65,000	62,397	0.42
1	305,001	310,000	307,770	2.09
1	1,180,001	1,185,000	1,182,380	8.04
1	2,280,001	2,285,000	2,280,820	15.52
1	10,065,001	10,070,000	10,069,080	68.50
912			**14,700,000**	**100.00**

CATEGORIES OF SHAREHOLDERS

S.#	Categories of Shareholder(s)	Number	Shares Held	Percentage
1.	Joint Stock Companies	6	3,300	0.02
2.	Directors, CEO, their Spouses and Minor Children	8	13,924,646	94.73
3	Executives		—	—
4.	NIT / ICP	2	4,000	0.03
5.	Associated Companies	1	57,400	0.39
6.	Individuals	895	710,654	4.83
		912	**14,700,000**	**100.00**

DETAILS OF CATEGORIES OF SHAREHOLDERS

		Number	Shares Held
1.	**Joint Stock Companies**		
1.1	The Karachi Stock Exchange (Guarantee) Limited	1	500
1.2	Progressive Invt. Management (Pvt.) Ltd.	1	500
1.3	Highlink Capital (Private) Limited	1	500
1.4	Y.S. Securities & Services (Private) Limited	1	500
1.5	Noman Abid & Co. Limited	1	500
1.6	Darson Securities (Private) Limited	1	800
		6	**3,300**
2.	**Directors, CEO, their Spouses and Minor Children**		
2.1	Mr. Inamur Rehman	1	2,280,820
2.2	Mrs. Summayya Rehman	2	1,203,179
2.3	Mr. Khalid Inam	1	10,069,080
2.4	Mrs. Asma Khalid	2	370,167
2.5	Mr. Fakhar Mohiuddin Faruqi	1	700
2.6	Mr. Nazir Ahmed	1	700
2.7	Mr. Ziauddin Zubairi	-	—
		6	**13,924,646**
3.	**Executives**		—
4.	**NIT / ICP**		
4.1	Investment Corporation of Pakistan	1	1,000
4.2	IDBP (ICP Unit)	1	3,000
		2	**4,000**
5.	**Associated Companies**		
5.1	N.P.Waterproof Industries (Pvt.) Ltd.	1	57,400
6.	**Individuals**	895	710,654
		912	**14,700,000**

Shareholders holding 10% or more shares

	Shares Held	%
◆ Mr. Inamur Rehman *(Chairman / Director)*	2,280,820	15.52
◆ Mr. Khalid Inam *(Chief Executive)*	10,069,080	68.50

Please quote your Folio No. /
CDC Account / Participant I.D. Number

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PROXY FORM

I/We ....

of .... (FULL ADDRESS)

being a member/members of **N.P. Spinning Mills Limited** hereby appoint ....

....(NAME)

of..(FULL ADDRESS)

another member of the Company or failing him/her

.... (NAME)

of .... (FULL ADDRESS)

another member of the Company as my/our proxy to attend and vote for me/us and on my/our behalf, at the 20th Annual General Meeting of the Company to be held at 7th Floor, Uni Tower, I. I. Chundrigar Road, Karachi, on Saturday, the 30th October, 2010 at 09:30 a.m. and at any adjournment thereof.

Signed this .... day of 2010

Signature on
Five Rupees
Revenue Stamp

(Signature should agree with
specimen signature registered
with the Company)

IMPORTANT:

1. A member entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint a proxy to attend and vote instead of him/her. No person shall act as a proxy who is not a member of the Company except that a corporation may appoint a person who is not a member.

2. This Proxy Form, duly completed, must be deposited at the Company's Registered Office, 703, Uni Tower, I. I. Chundrigar Road, Karachi not less than 48 hours before the time for holding the meeting.