

# **AHMAD HASSAN TEXTILE MILLS LIMITED**

## **Annual Report 1997**

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### **BOARD OF DIRECTORS**

Mian Mohammad Javed Anwar, Chairman  
Mian Mohammad Parvez, Chief Executive  
Mrs. Noor Jahan Begum  
Mrs. Salma Javed  
Mrs. Waheeda Parvez  
Mr. Mohammad Haris  
Mrs. Haleema Haris  
Mr. Mohammad Aurangzeb  
Mr. Imran Azim (Rep. N.I.T)

### **SECRETARY**

Mr. Shamsur Rahman

### **AUDITORS**

Hameed Chaudhri & Co;  
Chartered Accountants

### **BANKERS**

Habib Bank Limited  
Bank Al-Habib Limited

### **REGISTERED OFFICE**

37-Tipu Sultan Road, Multan Cantt.

### **HEAD OFFICE**

**46 - Hassan Parwana Colony, Multan.**

### **MILLS**

Chowk Sarwar Shaheed, Distt. Muzaffargarh.

### **NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the 8th Annual General Meeting of the Company will be held at its Head Office, 46 - Hassan Parwana Colony, Multan, on Monday, March 30, 1998 at 9.00 A.M. to transact the following business:

1. To confirm the minutes of the 7th Annual General Meeting held on 30th March, 1997.
2. To receive, consider and adopt the Audited Accounts together with Directors' and Auditors' Report for the year ended 30th September, 1997.
3. To approve a cash dividend at 7.5% i.e. Re. 0.75 per share of Rs. 10/- each for the year ended 30.09.1997, as recommended by the Board of Directors.
4. To appoint Auditors for the financial year 1997 - 98, and fix their remuneration.
5. To transact any other business with the permission of the Chair.

#### **NOTES:**

(i) The Share Transfer Books of the Company will remain closed from 20th March, 1998 to 30th March, 1998 (both days inclusive). Transfers received in order, at the Head Office of the Company upto 19th March, 1998, will be considered to be in time for the payment of dividend.

(ii) A Member entitled to attend and vote at the meeting may appoint another member of the Company as a proxy to attend and vote instead of him/her. Proxy forms duly completed should reach the Registered Office of the Company at least 48 hours before the time of the meeting.

(iii) Members are requested to notify immediately any change in their address.

#### **Directors' Report**

Dear Shareholders

Your Directors are pleased to present before you the 8th Annual Report on the affairs of your company and its Financial Results for the year ended 30.09.1997. Although the problems being faced by the Textile Spinning Industry for the last many years remained unresolved yet by the Grace of Almighty Allah your company, after meeting all costs, earned a net profit of Rs. 25,109,125.

During the period under report, the cotton crop remained satisfactory, ranging its prices between Rs. 2200 to Rs. 2300 per maund.

Availability of cotton on better rates and stable rates of cotton yarn both in the international and local market contributed towards profit.

#### **FINANCIAL RESULTS:**

The Directors of your company feel pleasure to report that despite high cost of electricity, mark-up, fuel etc., the company after meeting all operational, administrative, financial and depreciation expenses made a net profit of Rs. 25,109,125 against a profit of Rs. 14,273,488 last year.

### **ACCOUNTS:**

The net profit of Rs. 25,109,125 earned by the company has been arrived at as under:-

Operating Profit including other Income	53,032,644
Financial charges	26,369,997
Worker's (Profit) Participation Fund	1,321,550
Net Profit / (Loss) for the year.	25,109,125
Unappropriated Profit - Brought Forward	27,689,780
Proposed Final Dividend at the rate of Re. 0.75 per share (7.5 percent)	6,300,000
Unappropriated Profit - Carried to Balance Sheet.	46,498,905

### **OPERATIONAL RESULTS:**

During the year under report, the Mills operated for 1092 shifts. Overall actual production when converted into 20/1 count came to 4085893 kgs.

The Plant is being run at optimum level and 101% efficiency of the installed capacity was achieved. This achievement was mainly because of un-tiring efforts of Management and the Staff.

### **EXPORTS**

During the period under report, your company exported cotton yarn worth Rs. 184,704,235.

### **OTHER IMPORTANT EVENTS:**

1. The Tax Department had-raised tax demands aggregating Rs. 5.394 (M) under Section 80-D of the Income Tax Ordinance, 1979 for the Income Years ended 30 September 1992 to 30 September 1995 (Assessment Years 1993 - 94 to 1996 - 97). The Company paid Rs. 5.248 (M) under protest against these demands. In accordance with the Supreme Court of Pakistan's judgement dated 04 June 1995, the Company is not liable to pay Minimum Tax under Section 80-D. Resultantly the Tax Department shall refund the amount so deposited.

2. The Mills was installed comprising 26 Ring Frames (12480 spindles) with Back Process Facility and other requirements like Building Space, Electrification, Air Conditioning etc., complete for 30 Ring Spinning Frames (about 14500 spindles).

Your Company has decided to complete the Machinery by installing four more Ring Spinning Frames comprising 516 spindles each, raising the number to 14544. It has

planned to import 4 sets of Ring Spinning Frames and Drafting System from China. Auto Cone Winder from Japan and two Crosrol MK5 Single High Production Cards from U.K.

With the installation of additional machinery the production on 20/1 count basis will increase by 15% while running cost will be very nominal comprising of only additional labour and electricity. The revenue generated from additional production will add to the whole project.

#### **DIVIDEND:**

In spite of expansion programme of about Rs. 20 Million for the Mills being undertaken by your Company and payment of installments, your Directors are pleased to recommend Final Dividend at the rate of Re. 0.75 per share (7.5 percent).

#### **AUDITORS:**

Your Company's Auditors M/s Hameed Chaudhri and Company, Chartered Accountants, Lahore, retire and being eligible offer themselves for re-appointment for the next year.

#### **COMMENTS ON AUDITORS QUALIFICATION:**

##### 1. NOTE 22.3

In the opinion of your Directors, the levy of Corporate Asset Tax is not justified. Your Company therefore, challenged its validity through Writ Petition filed before the Honourable Lahore High Court Multan Bench, Multan. The Honourable Lahore High Court stayed the recovery of the disputed amount subject to furnishing of Bank / Insurance Guarantee. Necessary guarantees have been furnished and on the expiry of the statutory period of six months, also have made the payment of disputed amount under protest. Since there are bright chances of winning the case, provision for this Tax has not been made in the accounts and the amount paid under protest is being reflected under advance tax.

#### **PATTERN OF SHAREHOLDING**

Pattern of holding of the shares by the shareholders of the Company as on 30.09.1997, as required under Section 236 (2) (d) of the Companies Ordinance, 1984, is enclosed.

#### **ACKNOWLEDGMENT**

We would like to appreciate the efforts made by our workers and staff for their deep devotion to work.

We also wish to express our thanks to the Financial Institutions, particularly Habib Bank Limited and Bank Al Habib Limited for their continued support and co-operation.

#### **Pattern of holding of the Shares by the Shareholders as at 30 September, 1997**

Category	Shareholdings		Number of	Total
	From	To	Share Holders	Shares held
1	1	100	162	16200
2	101	500	3145	1505600
3	501	1000	48	47400
4	1001	5000	96	267700
5	5001	10000	21	157600
6	10001	15000	3	43300
7	15001	20000	5	88400
8	20001	25000	4	94700
9	25001	30000	6	178100
10	30001	35000	1	33400
11	35001	40000	0	0
12	40001	45000	1	44000
13	45001	50000	4	195400
14	50001	55000	0	0
15	55001	60000	2	118800
16	60001	65000	1	64000
17	65001	70000	1	70000
18	70001	75000	2	148000
19	75001	80000	1	80000
20	80001	130000	2	179700
21	130001	135000	0	0
22	135001	225000	3	531000
23	225001	230000	0	0
24	230001	235000	0	0
25	235001	240000	1	239500
26	240001	245000	0	0
27	245001	250000	0	0
28	250001	255000	0	0
29	255001	300000	4	1098200
30	300001	305000	1	300500
31	305001	360000	1	305500
32	360001	365000	0	0
33	365001	380000	0	0
34	380001	385000	0	0
35	385001	450000	0	0
36	450001	455000	0	0
37	455001	500000	0	0
38	500001	505000	0	0
39	505001	905000	2	1126000
40	905001	1500000	1	1467000
41	1500001	5000000	0	0
			-----	-----
			3518	8400000
			=====	=====

Categories of Shareholders	No. of Share holders	Shares held	Percentage
Individuals	3,507	6,498,300	77.37
Joint Stock Companies	3	43,900	0.52
Financial Institutions	8	1,857,800	22.11
	-----	-----	-----
	3,518	8,400,000	100.00
	=====	=====	=====

### **AUDITORS' REPORT TO THE MEMBERS OF AHMAD HASSAN TEXTILE MILLS LIMITED**

We have audited the annexed Balance Sheet of AHMAD HASSAN TEXTILE MILLS LIMITED as at 30 September, 1997 and the related Profit and Loss Account and Cash Flow Statement, 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 and after due verification thereof, 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 purposes 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 and the Cash Flow Statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and, except for the fact that provision for Corporate Assets Tax amounting Rs.1.440 million has not been made in these accounts (Note 22.3) and the fact that Exchange Risk Coverage Fee has been capitalised contrary to the provisions of National and International Accounting Standards (note 10.1) and the contents of note 21 and the extent to which these may effect the annexed accounts, respectively give a true and fair view of the state of the Company's affairs as at 30 September, 1997 and of the

profit and cash flows for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

LAHORE; HAMEED CHAUDHRI & CO.,  
Dated :- 11.02.1998 Chartered Accountants.

### BALANCE SHEET AS AT 30th SEPTEMBER, 1997

	Note	1997 Rupees	1996 Rupees
<b>CAPITAL AND RESERVES</b>			
Authorised capital 10,000,000 ordinary shares of Rs. 10 each		100,000,000	100,000,000
Issued subscribed and paid up capital 8,400,000 ordinary shares of Rs. 10 each - issued for cash		84,000,000	84,000,000
Unappropriated profit		46,498,905	27,689,780
		130,498,905	111,689,780
<b>LONG TERM FINANCES</b>	3	45,233,937	70,749,036
<b>CUSTOM'S DUTI ES PAYABLE</b>	4	1,803,870	2,405,160
<b>DEFERRED LIABILITIES</b>			
Provision for gratuity		719,247	676,632
<b>CURRENT LIABILITIES</b>			
Current portion of long term liabilities	5	30,248,290	165,021,290
Short term finances	6	24,051	14,024,461
Creditors, accruals and other liabilities ..	7	17,930,134	25,428,454
Dividends	8	7,363,210	6,300,000
		55,565,685	62,255,205
<b>CONTINGENCIES AND COMMITMENTS</b>	9		
		233,821,824	247,775,813

The annexed notes form an integral part of these accounts.

TANGIBLE OPERATING

FIXED ASSETS	10	162,986,641	178,290,485
LONG TERM SECURITY DEPOSITS		177,890	182,320
CURRENT ASSETS			
Stores, Spares and tools	11	5,748,264	5,172,087
Stock in trade	12	36,974,016	11,918,648
Trade debtors	13	14,978,501	29,065,069
Advances, deposits, prepayments and other receivables	14	8,926,876	12,226,535
Cash and bank balances	15	4,029,636	10,920,669
		-----	-----
		70,657,293	69,303,008
		-----	-----
		233,821,824	247,775,813
		=====	=====

**Profit and Loss Account  
for the year ended 30 September, 1997**

	Note	1997 Rupees	1996 Rupees
SALES - Net	16	454,999,407	440,570,428
COST OF SALES	17	389,070,984	379,455,322
		-----	-----
GROSS PROFIT		65,928,423	61,115,106
ADMINISTRATIVE AND SELLING EXPENSES	18	12,895,779	16,684,554
		-----	-----
OPERATING PROFIT		53,032,644	44,430,552
OTHER CHARGES			
Financial-	19	26,369,997	22,883,561
Miscellaneous	20	231,972	457,413
Additional surcharge on Electricity - Prior years' Workers' (Profit) Participation Fund			0 6,064,854
		1,321,550	751,236
		-----	-----
		27,923,519	30,157,064
		-----	-----
PROFIT FOR THE YEAR		25,109,125	14,273,488
UNAPPROPRIATED PROFIT - Brought forward		27,689,780	19,716,292
		-----	-----



PROFIT AVAILABLE FOR APPROPRIATION	52,798,905	33,989,780
APPROPRIATION:		
Proposed Dividend @ 7.5% (1996: @ 7.5%)	6,300,000	6,300,000
UNAPPROPRIATED PROFIT	-----	-----
- Carried to Balance Sheet	46,498,905	27,689,780
	=====	=====

The annexed notes form an integral pad of these accounts.

### CASH FLOW STATEMENT for the year ended 30 September, 1997

	1996 Rupees	1997 Rupees
NET CASH IN FLOW FROM OPERATING ACTIVITIES (note 'A')	55,062,787	45,948,506
CASH FLOW FROM INVESTING ACTIVITIES		
Tangible fixed assets acquired	(1,084,780)	(2,797,815)
Long term deposits	4,430	(5,450)
Sale proceeds of fixed assets	9,500	1,562,000
	-----	-----
NET CASH OUT FLOW FROM INVESTING ACTIVITIES	(1,070,850)	(1,241,265)
CASH FLOW FROM FINANCING ACTIVITIES		
Long term finances repaid	(15,901,000)	0
Custom duties paid	(601,290)	0
Shod term finances - Net	(14,000,410)	(14,627,412)
Dividend paid	(5,236,790)	
Financial charges paid	(25,143,480)	(19,203,670)
	-----	-----
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(60,882,970)	(33,831,082)
	-----	-----
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(6,891,033)	10,876,159
CASH AND CASH EQUIVALENTS		
- At the beginning of the year	10,920,669	44,510
CASH AND CASH EQUIVALENTS	-----	-----
- At the end of the year	4,029,636	10,920,669
	=====	=====

The annexed note 'A' forms an integral part of this statement.

Mian Moha Mian Moha Mohammad Haris  
 Chairman Chief Execu Director

**NOTE 'A'**

	1997	1996
	Rupees	Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit for the year	25,109,125	14,273,488
Adjustments for:		
Depreciation	18,471,095	20,197,361
Provision for gratuity- Net	42,795	108,253
Deferred cost amortised	0	380,512
Financial charges	26,369,997	22,883,561
Loss on disposal of fixed assets	24,264	9,652
	-----	-----
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
- Before working capital changes	70,017,276	57,852,827
(Increase)/Decrease in current assets		
Stores, spares & tools	(576,177)	(658,481)
Stock-in-trade	(25,055,368)	10,447,326
Trade debtors	14,086,568	(25,135,244)
Advances, deposits, prepayments and other receivables (excluding taxes paid)	3,341,690	1,250,693
(Decrease) / Increase in creditors, accruals and other liabilities {excluding accrued financial charges }	(6,709,171)	4,266,502
	(14,912,458)	(9,829,204)
	-----	-----
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
- <b>After working capital changes</b>	55,104,818	48,023,623
Taxes paid	(42,031)	(2,075,117)
	-----	-----
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<u>55,062,787</u>	<u>45,948,506</u>

**Notes to the Accounts**

**For the year ended 30 September, 1997**

**1. THE COMPANY AND ITS OPERATIONS**

The Company was incorporated in Pakistan on 3rd December, 1989, as a public company. Its

shares are quoted on Stock Exchanges in Pakistan. It is principally engaged in manufacture and sale of yarn.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention modified by exchange rate adjustments as referred to in notes 2.3 and 2.5.

### **2.2 Staff retirement benefits**

The Company operates an un-funded gratuity scheme for all its eligible employees. Provision is made annually to cover obligation under the scheme.

### **2.3. Foreign currency translations**

Assets and liabilities in foreign currencies are translated into Pak Rupees at rates of exchange ruling on the balance sheet date except where rates are booked which are translated at the contracted rates.

Exchange fluctuations and exchange risk coverage fee on principal loans are capitalised as part of the cost of plant and machinery acquired out of the proceeds of such loans. All other exchange fluctuations are included in income currently.

### **2.4 Taxation**

Provision for taxation is made at current rates of taxation on taxable income for the year, if any.

### **2.5 Tangible fixed assets and depreciation**

Operating fixed assets are stated at cost less accumulated depreciation except freehold land and capital work-in-progress which are stated at cost. Cost of certain plant and machinery consists of historical cost, exchange fluctuations and exchange risk coverage fee on foreign currency loans.

Depreciation is charged to income applying Reducing Balance Method to write-off the cost and capitalised exchange fluctuations/exchange risk coverage fee over estimated remaining useful life of assets. Rates of depreciation are stated in Note 10. No depreciation is provided on assets in the year of disposal whereas full year's depreciation is charged in the year of purchase.

Gains / losses on disposal of fixed assets are included in income currently.

Minor repairs and maintenance are charged to income, as and when incurred. Major renewals and replacements are capitalised and assets so replaced, if any, other than those kept as 'stand-by, are retired.

### **2.6 Deferred costs**

Expenses, the benefit of which is expected to spread over several years, are deferred and amortised over their useful life not exceeding five years.

## 2.7 Stores, spares and tools

These are valued at moving average cost except items-in-transit which are valued at cost accumulated to the balance sheet date.

## 2.8 Stock in trade

Basis of valuation are as follows:

Particulars	Mode of valuation
Raw materials	
At warehouse	At lower of annual average cost and net realisable value.
Work in process	At manufacturing cost.
Finished goods	- At lower of cost and net realisable value.
Waste	- At net realisable value.

Cost in relation to work-in-process and finished goods represents the annual average cost which consists of prime cost and appropriate manufacturing overheads. Cost of cotton consumed is accounted for by applying the annual average cost of both imported and local purchases.

Net realisable value signifies the selling price in the ordinary course of business less cost of completion and cost necessary to be incurred to effect such sale.

## 2.9 Revenue recognition

Direct local sales are recorded when goods are delivered to customers and invoices raised. Local sales through agents are booked on intimation from the agents.

Export sales are booked on shipment basis.

Rebate on packing material is accounted for on Receipt Basis.

## 3. LONG TERM FINANCES - Secured

	Note	1997 Rupees	1996 Rupees
Fixed Assets Finance (F.A.F.)	3.1	51,659,857	40,207,876
Supplier's Credit	3.2	23,221,080	46,442,160
		-----	-----
		74,880,937	86,650,036
Less: Current portion of F.A.F. shown under current liabilities		29,647,000	15,901,000

-----	-----
45,233,937	70,749,036

### 3.1 Fixed Assets Finance

a) This F.A.F. has been created in accordance with the re-scheduling agreement executed with Habib Bank Limited (HBL). As per terms of the said agreement, HBL is paying amounts of principal, interest and exchange risk fee payable in respect of Supplier's Credits on due dates. The sanctioned amount of the facility as determined by HBL is Rs. 92.057 million.

b) This F.A.F. carries mark-up @ 14% per annum and liquidated damages upto 20% of the outstanding amount in case of default. It is repayable in six half-yearly installments commencing 12 June, 1997.

c) This F.A.F. is secured by first equitable mortgage on fixed assets of the Company and personal guarantees of all the working directors of the Company.

### 3.2 Supplier's Credit

a) This represents balance cost of plant and machinery supplied by M/s Toyota Tsusho (Hong Kong) Co. Limited. The principal and interest are payable in foreign currency. The repayment schedule, however, has been translated into Pak Rupees applying weighted average exchange rate i.e. 1 Japanese ¥ = Re. 0.172008 prevailing on the shipment dates as it is covered under the State Bank of Pakistan's Exchange Risk Cover Scheme.

b) This Credit is secured by an irrevocable letter of credit established by Habib Bank Limited and Bills of Exchange. The letter of credit, in turn, is secured by an equitable mortgage of present and future fixed assets of the Company and personal guarantees of some of the Company's directors.

c) This credit is repayable in 12 half yearly equal installment commencing 12 December, 1992 by adjustment in F.A.F. account as detailed in note 3.1 (a). Interest and exchange risk fee are payable at the annual rates of 6% and 6.3% alongwith installments of principal.

d) The year-end outstanding foreign currency balance of Japanese ¥ 135.0 million (1996 : 270.0 million) has been converted to Pak Rupees by applying booked exchange rate i.e. 1 Japanese ¥ -- Re. 0.172008.

## 4. CUSTOM DUTIES PAYABLE - Secured

	1997	1996
Note	Rupees	Rupees

Balance as at 30 September	2,405,160	3,006,450
Less: Current portion grouped under current liabilities	601,290	601,290
	-----	-----
	1,803,870	2,405,160
	=====	=====

These represent 30% of customs duties levied by the Customs Authorities on import of Ring Spinning Frames during the Financial Year 1990-91. These are repayable in five equal yearly installments commencing from 04 November, 1996. These are secured by a bank guarantee issued by Bank Al-Habib Limited and carry surcharge @ 14% per annum.

## 5. CURRENT PORTION OF LONG TERM LIABILITIES

	Note	1997 Rupees	1996 Rupees
Long term finances	3	29,647,000	15,901,000
Customs duties	4	601,290	601,290
		-----	-----
		30,248,290	16,502,290
		=====	=====

## 6. SHORT TERM FINANCES

Secured	6.1	0	14,024,461
Un-secured			
Temporary bank overdraft	6.2	24,051	0
		-----	-----
		24,051	14,024,461
		=====	=====

6.1 Short term finance facilities available from commercial banks under mark-up arrangement aggregated Rs. 181.450 million (1996: Rs. 126.450 million). Facilities available for opening letters of credit and guarantee were for Rs. 33.0 million (1996: Rs. 13.842 million). These were secured against pledge / hypothecation of stocks and stores, first charge on fixed assets, lien on documents of title of goods, lien on deposit account of a director and personal guarantees of all the working directors. These facilities expired on various dates by 15 October, 1997 and their renewal was in process. These carried mark-up ranging from Re. 0.36 to Re. 0.54 per thousand rupees calculated on daily product basis.

6.2 This arose due to issuance of cheques for amounts in excess of balance at a bank account.

## 7. CREDITORS, ACCRUALS AND OTHER LIABILITIES

	Note	1997 Rupees	1996 Rupees
Creditors		1,715,360	1,048,877
Advance payments		131,431	973,316
Accrued charges		5,658,910	11,324,408
Mark-up on secured			
Long term finances		1,792,689	1,361,945
Short term finances		5,412,107	6,394,143
Surcharge on customs duties		137,081	175,376
Excise duty on bank borrowings		21,800	221,362
Sales tax payable		1,730,030	3,167,897
Tax deducted at source		9,176	4,894
Workers' (Profit) Participation Fund	7.10	1,321,550	751,236
Others		0	5,000
		-----	-----
		17,930,134	25,428,454
		=====	=====

#### 7.1 Workers' (Profit) Participation Fund

Opening balance		751,236	0
Interest on amount utilised by the Company		50,425	0
		-----	-----
		801,661	0
Less: Payments made during the year		801,661	0
		-----	-----
		0	0
Contribution for the year		1,321,550	751,236
		-----	-----
		1,321,550	751,236
		=====	=====

## 8. DIVIDENDS

Payable		654,873	0
Unclaimed		408,337	0
Proposed		6,300,000	6,300,000
		-----	-----
		7,363,210	6,300,000
		=====	=====

## 9. CONTINGENCIES AND COMMITMENTS

9.1 Refer contents of note 22.3.

9.2 Counter guarantees given by the Company to its Bankers outstanding as at 30 September, 1997 (excluding those stated in note 4) aggregated Rs. 10.573 million (1996: Rs. 9.573 million).

9.3 Commitments against irrevocable letters of credit outstanding as at 30 September, 1997 were for Rs. 0.217 million (1996: Rs. 0.053 million).

9.4 No commitments for capital expenditure were outstanding as at 30 September, 1997 and 30 September, 1996.

## 10. TANGIBLE OPERATING FIXED ASSETS

PARTICULARS	COST			
	As at 30 September, 1996	Additions during the year	Disposals during the year	As at 30 September, 1997
Land - Freehold		2,304,543	0	0 2,304,543
Buildings on freehold land				
- Factory		28,704,172	0	0 28,704,172
- Residential		6,402,500	38,175	0 6,440,675
		-----	-----	-----
		35,106,672	38,175	0 35,144,847
Plant and machinery		227,876,535	2,323,505	0 230,200,040
Generator		8,816,245	0	0 8,816,245
Electric fittings and installations		8,776,195	3,720	0 8,779,915
Factory equipment		212,940	0	0 212,940
Office equipment		283,058	0	0 283,058
Telephone installations		324,843	19,700	40,185 304,358
Furniture and fixtures		684,941	6,800	0 691,741
Arms and ammunition		4,300	0	0 4,300
Weighing scales		258,982	0	0 258,982
Tubewell		186,817	0	0 186,817
Fire extinguishing equipment		93,197	0	0 93,197
Vehicles		4,134,570	809,115	0 4,943,685
		-----	-----	-----
Rupees		289,063,838	3,201,015	40,185 292,224,668
		=====	=====	=====
1996 Rupees		284,827,406	6,386,999	2,150,567 289,063,838

10.1 Additions to plant and machinery include Exchange Risk Coverage Fee for the year amounting Rs. 2,116,235 (1996: Rs. 3,589,184). International Accounting Standards and a Technical Release issued by the Institute of Chartered Accountants of Pakistan do not permit capitalisation of the Fee. The Company, however, has not accepted this recommended treatment effective from the accounting year ended 30 September, 1995. Had exchange Risk Coverage Fee capitalised been properly taken to Profit and Loss Account, unappropriated profit and profit for the year would have been lower by Rs. 8,487,535 and Rs. 1,173,175 (1996 : Rs. 7,314,360 and Rs. 2,776,478) respectively.

10.2 Depreciation for the year has been allocated as under:

1997	1996
------	------



	Note	Rupees	Rupees
Cost of sales		17,676,718	19,417,507
Administrative expenses		794,377	779,854
		-----	-----
		18,471,095	20,197,361
		=====	=====

Rate %	DEPRECIATION			BOOK VALUE	
	To 30 September, 1996	For the year	On Disposals	To 30 September, 1997	AS AT 30 SEPTEMBER, 1997
	0	0	0	0	2,304,543
10	11,036,164	1,766,801	0	12,802,965	15,901,207
10	2,179,243	426,143	0	2,605,386	3,835,289
	-----	-----	-----	-----	-----
	13,215,407	2,192,944	0	15,408,351	19,736,496
10	88,980,692	14,121,935	0	103,102,627	127,097,413
10	1,644,746	717,150	0	2,361,896	6,454,349
15	4,882,150	584,665	0	5,466,815	3,313,100
10	78,943	13,400	0	92,343	120,597
10	63,154	21,990	0	85,144	197,914
10	119,036	19,174	6,421	131,789	172,569
10	243,453	44,829	0	288,282	403,459
10	1,761	254	0	2,015	2,285
10	102,187	15,680	0	117,867	141,115
10	69,117	11,770	0	80,887	105,930
10	37,893	5,530	0	43,423	49,774
20	1,334,814	721,774	0	2,056,588	2,887,097
	-----	-----	-----	-----	-----
	110,773,353	18,471,095	6,421	129,238,027	162,986,641
	=====	=====	=====	=====	=====
	91,154,907	20,197,361	578,915	110,773,353	178,290,485

### 10.3 Disposal of Operating Fixed Assets

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds	Loss	Sold through negotiation to:
RUPEES						
Telephone Installations:						
Mobile Phone	40,185	6,421	33,764	9,500	24,264	Mr. Muhammad Khalid Saif 43-A, Gulgasht Colony,

**11. STORES, SPARES AND TOOLS**

	Note	1997 Rupees	1996 Rupees
Stores -		2,296,685	1,659,680
Spares {Including in Transit Rs. 53,426 (1996: Nil )}		3,436,818	3,506,542
Loose tools		14,761	5,865
		-----	-----
		5,748,264	5,172,087
		=====	=====

11.1 The Company does not hold any stores and spares for specific capitalisation.

**12. STOCK IN TRADE**

	Note	1997 Rupees	1996 Rupees
Raw materials		10,099,787	6,422,063
Work in process		3,002,396	2,869,903
Finished goods			
Yarn		22,727,640	1,775,651
Waste		1,144,193	851,031
		-----	-----
		23,871,833	2,626,682
		-----	-----
		36,974,016	11,918,648
		=====	=====

**13. TRADE DEBTORS - Considered good**

	Note	1997	1996
Secured	13.1	3,192,034	19,583,493
Unsecured		11,786,467	9,481,576
		-----	-----
		14,978,501	29,065,069
		=====	=====

13.1 These are secured against export bills.

**14. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

Advances to employees - Considered good	161,945	148,470
Advance payments - Considered good	158,020	4,126,308
Deposits	551,369	533,869
Prepayments	256,117	245,824

Letter of credit		2,323	1,110
Minimum Tax - Refundable	22.2	5,248,979	5,248,843
Corporate Assets Tax paid under protest - Refundable	22.3	1,440,000	1,440,000
income tax deducted at source		417,131	375,100
Octroi refundable		100,528	99,518
Zakat refundable		576,386	0
Others		14,078	7,493
		-----	-----
		8,926,876	12,226,535
		=====	=====

## 15. CASH AND BANK BALANCES

	1997	1996
	Rupees	Rupees
In hand	12,430	3,193
At banks on current accounts	4,017,206	10,917,476
	-----	-----
	4,029,636	10,920,669
	=====	=====

## 16. SALES - Net

Local:		
Yarn	290,521,998	215,535,645
Waste	13,923,447	15,116,369
	-----	-----
	304,445,445	230,652,014
Export:		
Yarn	184,704,235	226,210,261
	-----	-----
	489,149,680	456,862,275
Less:		
Excise duty	0	2,529,047
Sales tax	28,877,409	7,656,375.
Export development surcharge	277,548	436,377
Commission	4,995,316	5,670,048
	-----	-----
	34,150,273	16,291,847
	-----	-----
	454,999,407	440,570,428
	=====	=====

## 17. COST OF SALES

Note	1997	1996
	Rupees	Rupees

Raw materials consumed	17.10	33,441,304	295,983,369
Salaries, wages and benefits		11,144,440	10,659,659
Stores consumed		5,445,928	4,399,558
Packing material consumed		6,216,208	6,308,136
Power and fuel		34,497,336	29,831,854
Repair and maintenance		953,183	253,100
Insurance		1,073,511	878,897
Depreciation		17,676,718	19,417,507
		-----	-----
		410,448,628	367,732,080
Adjustment of work in process			
Opening		2,869,903	3,058,343
Closing		(3,002,396)	(2,869,903)
		-----	-----
		(132,493)	188,440
		-----	-----
Cost of goods manufactured		410,316,135	367,920,520
Adjustment of finished goods			
Opening stock		2,626,682	14,161,484
Closing stock		(23,871,833)	(2,626,682)
		-----	-----
		(21,245,151)	11,534,802
		-----	-----
		389,070,984	379,455,322
		=====	=====

17.1 Raw materials consumed

Opening stock		6,422,063	5,146,147
Purchases		336,571,530	296,737,288
Local taxes		191,453	176,835
		-----	-----
		343,185,046	302,060,270
		-----	-----
Less:			
Closing stock		10,099,787	6,422,063
		-----	-----
		333,085,259	295,638,207
Add: Cotton cess		356,045	345,162
		-----	-----
		333,441,304	295,983,369
		=====	=====

**18. ADMINISTRATIVE AND SELLING EXPENSES**

	1997	1996
	Rupees	Rupees
Administrative:		
Directors' meeting fee	500	1,000
Salaries and benefits	1,821,291	1,657,441

Vehicles running and maintenance	188,832	252,817
Utilities	435,505	309,386
Travelling and conveyance - Including directors' Rs. 205,120 (1996: Rs. 246,182)	211,554	258,079
Printing and stationery	141,586	158,705
Insurance	145,023	157,016
Communication	917,292	845,959
Rent, rates and taxes	156,000	120,000
Repair and maintenance	13,369	19,810
Entertainment	74,090	67,736
Subscription	165,611	217,985
Advertisement	43,734	16,400
Depreciation	794,377	779,854
Others	41,586	17,072
	-----	-----
	5,150,350	4,879,260
Selling:		
Communication	33,364	44,686
Local taxes	124,606	226,641
Export expenses	1,349,102	1,640,199
Freight, forwarding and others	6,238,357	9,893,768
	-----	-----
	7,745,429	11,805,294
	-----	-----
	12,895,779	16,684,554

## 19. FINANCIAL CHARGES

	1997	1996
	Rupees	Rupees
Mark up on:		
Long term finances	9,082,321	6,178,927
Short term finances	14,520,334	13,662,205
Interest on Workers' (Profit) Participation Fund	50,425	0
Surcharge on Customs duties	340,518	385,828
Commission on:		
Letters of credit	663,195	1,196,772
Bank guarantees	224,725	164,684
Excise duty on bank borrowings	1,142,708	884,823
Bank charges	345,771	410,322
	-----	-----
	26,369,997	22,883,561

## 20. MISCELLANEOUS CHARGES

Auditors' remuneration		
Audit fee	35,000	35,000
Out of pocket expenses	0	7,000
	-----	-----
	35,000	42,000
Legal and professional charges (other than Auditors')	36,091	25,249
Donations (without directors' interest)	136,617	0
Loss on disposal of fixed assets	24,264	9,652
Deferred costs amortised	0	380,512
	-----	-----
	231,972	457,413
	=====	=====

## 21. GRATUITY

Provision for gratuity in these accounts has been made on the basis of Basic Salaries of employees in contravention to the requirements of the West Pakistan Industrial & Commercial Employment (Standing Orders) Ordinance, 1968 which requires gratuity to be paid on the basis of Gross Salaries. Quantum of short provision as at 30 September, 1997 has not been worked-out.

## 22. TAXATION

22.1 Income of the Company is exempt from tax under clause 118(c) of Second Schedule to the Income Tax Ordinance, 1979 for a period of eight years commencing from the date of commercial production i.e. Accounting Year ended 30 September, 1992.

22.2 Income tax assessments of the Company have been completed upto the Income Year ended 30 September, 1995 (Assessment Year 1996-97). The Tax Department raised tax demands aggregating Rs. 5.394 million under section 80-D of the Income Tax Ordinance, 1979 for the Income Years ended 30 September, 1992 to 30 September, 1995 (Assessment Years 1993-94 to 1996-97). The Company made payments aggregating Rs. 5.248 million under protest against these demands.

However, the Company, in view Of the Supreme Court of Pakistan's Judgment dated 04 June, 1997 is not liable to pay Minimum Tax under section 80-D of the Income Tax Ordinance, 1979. Consequently, Minimum Tax paid under protest has been accounted for in these accounts as refundable from the Tax Department (note 14).

22.3 Provision for Corporate Assets Tax levied vide Finance Act, 1991 amounting Rs. 1.440 million including Rs. 0.440 million for additional tax has not been made in these accounts. The Company has challenged the validity of these levies through a Writ Petition filed with Lahore High Court (Multan Bench). The Company, however, deposited this amount under protest and grouped it under Advances as refundable (note 14).

22.4 There were no timing differences as at 30 September, 1997 (1996: Nil).

### 23. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

23.1 The Company during the year, the Company purchased goods aggregating Rs. 259,531,893 (1996: Rs.202,630,405) from its Associated Undertakings.

23.2 Maximum aggregate amount due from Associated Undertakings at any month end during the year was Rs. 72,711,407 (1996: Rs. 84,829,655).

23.3 No interest was charged on Associated Undertakings' balances during the year as these balances arose due to normal trade dealings.

### 24. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVE

PARTICULARS	Chief Executive		Working Director		Executive	
	1997	1996	1997	1996	1997	1996
Managerial remuneration	0	0	176,400	176,400	166,667	120,000
House rent	0	0	75,600	75,600	75,000	54,000
Conveyance	0	0	0	0	18,000	18,000
Medical	0	0	0	0	5,333	0
Utilities	215,547	37,976	184,492	155,621	0	0
Bonus/Exgratia	0	0	0	0	13,889	15,000
Club Subscription	0	0	5,650	825	0	0
	-----	-----	-----	-----	-----	-----
Rupees	215,547	37,976	442,142	408,446	278,889	207,000
No. of persons	1	1	2	2	1	1

24.1 Meeting Fee of Rs. 500 (1996: Rs. 1,000) was paid to one (1996: one) non-working director. The Chief Executive and the Working Directors are also provided with Company maintained cars. The Chief Executive and some of the Directors are also provided with telephones at their residences. The Executive is provided with free accommodation in Mills colony.

### 25. CAPACITY AND PRODUCTION

	1997	1996
	Rupees	Rupees
No. of spindles installed and worked	12,480	12,480
No. of shifts worked	1,092	1,086
Installed capacity after conversion into 20's count (1095 shifts)	- Kgs.	4,032,977
Actual production of yarn after conversion into 20's count		4,032,977

1092 shifts (1996:1086 shifts) - Kgs. 4,085,893 4,155,559

It is difficult to describe precisely the production capacity in spinning units since it fluctuates widely depending on various factors such as count of yarn spun, spindle speed, twist and raw materials used, etc. It would also vary according to the pattern of production adopted in a particular year.

## **26. FIGURES**

- in the accounts are rounded off to the nearest rupee;
- of the previous year are re arranged wherever necessary for the purpose of comparison