

## **ALLAWASAYA TEXTILE & FINISHING MILLS LIMITED**

**ANNUAL REPORT 1997**

### **CONTENTS**

BOARD OF DIRECTORS  
NOTICE OF ANNUAL GENERAL MEETING  
DIRECTORS' REPORT  
PATTERN OF SHAREHOLDING  
PERFORMANCE OF PAST FIVE YEARS AT A GLANCE  
COMPOSITION OF TOTAL REVENUE & EXPENSES  
FINANCIAL RATIOS  
PROFIT AND LOSS ACCOUNT COMPARISON  
AS PERCENTAGE OF SALES  
AUDITORS' REPORT TO THE MEMBERS  
BALANCE SHEET AS AT 30 SEPTEMBER, 1997  
PROFIT AND LOSS ACCOUNT  
CASH FLOW STATEMENT  
NOTES TO THE ACCOUNTS

### **BOARD OF DIRECTORS**

Mian Mohammad Jamil,  
- Chairman

Mian Maqbool Ahmad Sheikh  
- Chief Executive

Mrs. Nusrat Jamil

Mian Sarfraz Ahmad Sheikh  
Mian Tanvir Ahmad Sheikh  
Mian Tauqir Ahmad Sheikh

Mian Farooq Ahmad Sheikh

Miss. Zahra Fatima Jamil Mughal

### **SECRETARY**

Muhammad Habeeb

### **AUDITORS**

Hameed Chaudhri & Co;  
Chartered Accountants  
H.M. House, 7-Bank Square,  
Lahore.

### **BANKERS**

M/s Habib Bank Limited  
M/s Bank Al-Habib Limited  
M/s Industrial Development Bank of Pakistan

### **REGISTERED OFFICE & MILLS**

Mumtazabad Industrial Area,  
Vehari Road, Multan.

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

Notice is hereby given that the 40th Annual General Meeting of the Company will be held on

Wednesday the 25th day of March, 1998 at 9.00 A.M. at the Registered Office of the Company, Vehari Road, Multan to transact the following business:

1. To confirm the Minutes of the 39th Annual General Meeting held on 31st day of March, 1997.
2. To receive, consider and approve the Directors' Report, Auditors' Report and audited accounts of the Company for the year ended 30~ September, 1997.
3. To appoint Auditors for the year 1997-98 and to fix their remuneration.
4. To transact any other business with the permission of the Chair.

**NOTES:**

1. The Share Transfer Books of the Company will remain closed from 18.03.1998 to 25.03.1998 (both dates inclusive).
2. A Member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend, speak and vote instead of him / her. A proxy must be a member. Proxies in order to be valid must be received at the Company's Registered Office not less than 48 hours before the time of meeting.
3. The Share holders are requested to communicate to the Company immediately, any change in their addresses.

**DIRECTORS' REPORT**

In the name of Allah the Beneficent the Merciful

Dear Shareholders

Your Directors are pleased to present before you their 40th Annual Report on the affairs of your Company and its Financial results for the year ending 30.09. 1997.

**FINANCIAL RESULTS**

The 1st half of the Financial Year of your Company was quite good. The prices of yarn in the International as well as Local Market remained stable. The prices of cotton also did not increase in the hope of having a good cotton crop to meet the target of 9.00 Million Bales. However subsequent to 31.03.1997 the prices of yarn started dwindling while the prices of cotton rose as the total size of crop had fallen short of the target. These factors caused decline in gross margin of your Company resulting into its lesser net profit before tax during the year under report.

The Supreme Court of Pakistan decided all the Appeals filed in respect of minimum tax under section 80oD against the Appellants including your Company. Therefore the provision for tax under section 80oD for the prior year as well as the year under report was made in the accounts which converted the pre-tax profit of the Company into after tax loss for the year.

**ACCOUNTS:**

The position of the Accounts of the Company for the year under report is summarized as under:

	<b>Rupees</b>
Sales (Net)	585,536,032
Cost of Sales	531,986,406
Gross Profit	53,549,626

Administrative and Selling Expenses	(20,017,492)
Operating Profit	33,532,134
Other Income	702,524
Financial and other miscellaneous charges	(30,249,853)
Additional Surcharge on electricity (prior year)	(10,508,030)
Worker's (Profit) Participation Fund	(214,000)
Worker's Welfare Fund	(193,650)
Profit for the year (Before Tax)	3,577,155
Provision for Taxation	(6,552,183)
Profit for the year (After Tax)	(2,975,028)
Unappropriated Profit (Brought Forward)	25,904,770
Unappropriated Profit (Carried to Balance Sheet)	22,929,742

Various financial charts giving the Company's performance for the last five years in comparative form are also appended as Annexures I, II, III and IV to this report.

#### OPERATIONS:

The operational performance of your Mills remained satisfactory during the year. It was operated for 1,086 shifts (1996: 1,031 Shifts). The overall actual production when converted to Z0's count came to 8,083,818 kgs. The Plant was run at optimum level and 101.74% efficiency of the installed capacity was achieved. The best possible efforts have been put in by all concerned to achieve the optimum operational output of the Mills.

The export performance of your Company was satisfactory. The total exports were 2,425,740 Kgs. of cotton yarn valuing Rs. 254.983 million compared to 2,668,293 Kgs. Valuing Rs.251.880 Million last year which is almost 9.09 percent less in quantity and 1.26 percent higher in value.

#### DIVIDEND

Due to net loss after Tax for the year, your Directors have decided to pass over the dividend for this year.

#### AUDITORS

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

#### 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.

#### RELATIONS WITH LABOUR AND STAFF

Your Directors are pleased to report that relations with labour and staff of the Company remained cordial throughout the year.

#### ACKNOWLEDGMENT

Your Directors acknowledge the best cooperation as usual enjoyed by your Company from M/s HABIB BANK LIMITED, M/s BANK AL-HABIB LIMITED, M/s INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN and M/S METROPOLITAN BANK LIMITED and wish to record their sincere appreciation for the same and hope they will continue their support to the Company in future also.

#### PATTERN OF HOLDING OF THE SHARES BY THE SHAREHOLDERS AS AT 30th SEPTEMBER, 1997

Number of Shareholders	Shareholders From	To	Total Shares held
------------------------	-------------------	----	-------------------

113	1	100	6,608
35	101	500	10,149
7	501	1,000	5,550
24	1,001	5,000	64,393
17	5,001	10,000	153,241
8	10,001	15,000	104,496
6	15,001	20,000	99,271
2	20,001	25,000	45,048
3	25,001	30,000	87,307
2	30,001	35,000	64,630
1	35,001	40,000	37,209
1	40,001	45,000	43,228
-	45,001	50,000	0
-	50,001	75,000	0
1	75,001	80,000	78,870
-----			-----
220			800,000
=====			=====

**Categories of Shareholders**

	Number	Shares held	Percentage
Individuals	213	798,750	99.84
Financial Institutions	4	774	0.10
Others			
Corporate Law Authority	1	1	0.00
Deputy Administrator			
Abandoned Properties	1	425	0.05
Limited Company	1	50	0.01
-----			-----
	220	800,000	100.00
=====			=====

**(ANNEXURE 1)**

**PERFORMANCE OF PAST FIVE YEARS AT A GLANCE**

**(RUPEE IN 000)**

	1997	1996	1995	1994	1993
Income					
Net Sales and Misc. Income	586,238	568,837	536,840	408,395	295,838
=====					
Profit Before Tax	3,577	10,898	(20,759)	2,662	677
Prior Period Items	0	(10,508)	0	0	0
-----					
	3,577	390	(20,759)	2,662	677
-----					
Taxation	6,552	0	2,562	4,019	(1,397)
Cash Dividend	0	0	0	0	1,000
Transferred (From)/to Reserves	0	1,552	0	0	0
-----					
	6,552	1,552	2,562	4,019	(397)
-----					
Carried to Unappropriated Profit	(2,975)	1,942	(23,321)	(1,357)	1,074

	=====	=====	=====	=====	=====
<b>FINANCIAL INFORMATION</b>					
<b>TOTAL ASSETS</b>					
Fixed Assets (Net)	84,924	90,247	96,242	87,939	93,560
Investments	-	-	-	-	-
Other Assets	369	369	67	67	67
Current Assets	87,109	62,494	60,227	56,065	42,347
	-----	-----	-----	-----	-----
	172,402	153,110	156,536	144,071	135,974
	-----	-----	-----	-----	-----
<b>TOTAL LIABILITIES</b>					
long Term Liabilities	5,939	14,544	24,750	17,201	26,500
Current Liabilities	131,779	100,907	94,517	66,280	47,527
	-----	-----	-----	-----	-----
	137,718	115,451	119,267	83,481	74,027
	-----	-----	-----	-----	-----
<b>SHARES HOLDERS EQUITY</b>					
	34,684	37,659	37,269	60,590	61,947
	=====	=====	=====	=====	=====
<b>EQUITY PRESENTED BY:-</b>					
Share Capital	8,000	8,000	8,000	8,000	8,000
Tax Holiday Reserves	2,669	2,669	2,669	2,669	2,669
Revenue Reserves	1,085	1,085	2,638	2,638	2,638
Unappropriated Profit	22,930	25,905	23,962	47,283	48,640
	-----	-----	-----	-----	-----
	34,684	37,659	37,269	60,590	61,947
	=====	=====	=====	=====	=====

**(ANNEXURE II)****COMPOSITION OF TOTAL  
REVENUE & EXPENSES****(RUPEE IN 000)**

	1997		1996		1995		1994		1993	
	Rupees	%	Rupees	%	Rupees	%	Rupees	%	Rupees	%
<b>TOTAL REVENUE</b>										
<b>SALES - (NET)</b>										
Yam	581,543	99.20	563,891	99.13	532,222	99.14	406,054	99.43	292,812	98.98
Waste	3,993	0.68	4,795	0.84	3,667	0.68	1,793	0.44	2,353	0.79
<b>MISC. INCOME</b>	102	0.12	150	0.03	950	0.18	528	0.13	673	0.23
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	586,238	100	568,836	100	536,839	100	408,375	100	295,838	100
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
<b>TOTAL EXPENSES</b>										
Raw Material	425,630	72.60	407,018	71.55	436,314	8.127	308,187	75.46	205,273	69.39
Conversion Cost	100,356	18.15	112,473	19.77	84,006	15.65	70,688	17.3	66,520	22.49
Operating expenses	20,542	3.50	17,438	3.07	17,726	3.30	12,048	2.95	11,285	3.81
Financial Expenses	29,725	5.07	20,973	3.69	19,409	3.62	14,616	3.58	12,040	4.07
W.P.P.F.	214	0.04	36	0.01	-	-	147	0.03	43	0.01
Workers Welfare Fund	194	0.03	-	-	143	0.03	66	0.02	0	0.00
Prior Period Items	-	-	10,508	0.85	-	-	-	-	-	-
Net Profit Before Tax	3,577	0.61	390	0.07	(20,759)	(3.87)	2,662	0.66	677	0.23
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	586,238	100	568,836	100	536,839	100	408,394	100	295,838	100

## (ANNEXURE III)

## FINANCIAL RATIOS

		1997	1996	1995	1994	1993
Cost of Sales as % of Sales	%	90.85	91.35	97.09	92.89	92.08
Gross Profit as % of Sales	%	9.15	8.65	2.91	7.1	7.92
Operating Profit as % of Sales	%	5.73	5.61	(0.37)	4.20	4.16
Net Profit Before Tax as % of Sales	%	0.61	0.07	(3.87)	0.65	0.07
Net Profit as % of Sales	%	(0.51)	0.07	(4.35)	(0.33)	0.70
Stock as % of Sales	%	8.93	5.53	7.39	7.42	7.66
Debtors as % of Sales	%	3.52	1.62	1.68	2.18	2.00
Current Ratio	:	66:34	62:38	61:39:00	54:46	53:47
Debt Equity Ratio	:	25:75	41:59	53:47	30:70	37:63
Total Debt Asset Ratio	:	44:56	43:57	37:63	37:63	35:65
Earning Per Share	Rs.	(3.72)	0.48	(29.15)	(1.70)	2.59
Break Up Value of Share	Rs.	43.35	47.07	46.59	75.74	77.43

## (ANNEXURE IV)

PROFIT AND LOSS ACCOUNT COMPARISON  
AS PERCENTAGE OF SALES

		1997	1996	1995	1994	1993
Net Sales		585,536	568,686	535,889	407,847	295,165
		=====	=====	=====	=====	=====
In Terms of Percentage	%	100	100	100	100	100
Cost of Sales	%	90.85	91.35	97.09	92.89	92.08
		=====	=====	=====	=====	=====
Gross Profit	%	9.15	8.65	2.91	7.11	7.92
		-----	-----	-----	-----	-----
Administrative & Selling Expenses	%	3.42	3.04	3.27	2.91	3.76
Financial Expenses	%	5.08	3.68	3.62	3.58	4.08
Misc. Expenses	%	0.09	0.03	0.03	0.04	0.07
W.P.P.F.	%	0.04	0.01	-	0.04	0.01
Workers' Welfare Fund	%	0.03	-	0.03	0.02	0.00
		-----	-----	-----	-----	-----
		8.66	6.76	6.95	6.59	7.92
		-----	-----	-----	-----	-----
Operating profit	%	0.49	1.89	(4.04)	0.52	0.00
Other Income	%	0.12	0.03	0.18	0.13	0.23
Prior Period items	%	0.00	(1.85)	0.00	0.00	(0.08)
		-----	-----	-----	-----	-----
Net Profit Before Tax	%	0.61	0.07	(3.86)	0.65	0.23
Taxation	%	1.12	0	0.49	0.98	(0.47)
		-----	-----	-----	-----	-----
Net Profit After Tax	%	(0.51)	0.07	(4.35)	(0.33)	0.70
		=====	=====	=====	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of ALLAWASAYA TEXTILE & FINISHING MILLS LIMITED as at 30 September, 1997 and the related profit and loss account and the 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 purpose of the Company' 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 respectively give a true and fair view of the state of the Company's affairs as at 30 September, 1997 and of the loss and the cash flows for the year then ended; and

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

**Hameed Chaudhari & Co.**

Lahore: 28.02.1998

Chartered Accountants

**BALANCE SHEET AS AT 30th September, 1997**

	Note	1997 Rupees	1996 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital			
1,000,000 ordinary shares			
of Rs. 10 each		10,000,000	10,000,000
Issued subscribed and		=====	=====
paid up capital	3	8,000,000	8,000,000
Reserves	4	3,754,246	3,754,246
Unappropriated profit		22,929,742	25,904,770
		-----	-----
		34,683,988	37,659,016
<b>REDEEMABLE CAPITAL</b>			
Finances under mark-up			
arrangements	5	53,312	1,138,812
<b>LONG TERM LOANS AND DEFERRED</b>			
<b>LIABILITIES</b>			
Long term loans	6	0	8,000,000

customs debentures	7	0	2,626,393
Provision for gratuity		5,886,092	2,779,038
		-----	-----
		5,886,092	13,405,431
<b>CURRENT LIABILITIES</b>			
Current portion of long term liabilities	8	11,711,893	14,593,649
Loans from directors and their relatives	9	350,000	1,720,000
Short term finances	10	83,605,184	51,252,831
Creditors, accruals and other liabilities	11	26,761,363	28,971,906
Provision for taxation	12	8,256,489	3,468,129
Workers' Welfare Fund		633,098	439,448
Unclaimed dividend		69,174	69,174
Unpaid dividend		392,031	392,031
		-----	-----
		131,779,232	100,907,168
<b>CONTINGENCIES AND COMMITMENTS</b>			
	13	-----	-----
		72,402,624	153,110,427
		=====	=====

The annexed notes form an integral part of these accounts.

**TANGIBLE FIXED ASSETS**

Operating fixed assets	14	84,923,960	90,247,005
		-----	-----
		84,923,960	90,247,005
<b>SECURITY DEPOSITS</b>		369,162	369,162
<b>CURRENT ASSETS</b>		-----	-----
Stores and Spares	15	3,557,773	3,281,083
Stock in trade	16	52,273,146	31,426,569
Trade debtors	17	20,602,566	9,226,545
Advances, deposits, prepayments . and other receivables	18	7,962,406	13,209,511
Cash and bank balances	19	2,713,611	5,350,552
		-----	-----
		87,109,502	62,494,260
		-----	-----
		172,402,624	153,110,427
		=====	=====

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 30 SEPTEMBER, 1997**

	Note	1997 Rupees	1996 Rupees
SALES-Net		585,536,032	568,686,742
COST OF SALES		531,986,406	519,491,518
		-----	-----
GROSS PROFIT		53,549,626	49,195,224
ADMINISTRATIVE AND SELLING EXPENSES	22	20,017,492	17,265,925
		-----	-----



OPERATING PROFIT		33,532,134	31,929,299
OTHER INCOME	23	702,524	150,035
		-----	-----
		34,234,658	32,079,334
<b>OTHER CHARGES</b>		-----	-----
Financial	24	29,725,423	20,972,810
Miscellaneous	25	524,430	172,600
Additional Surcharge on Electricity - Prior years		0	10,508,030
Workers' (Profit) Participation Fund		214,000	35,740
Workers' Welfare Fund		193,650	0
		-----	-----
		30,657,503	31,689,180
		-----	-----
PROFIT FOR THE YEAR-- Before tax		3,577,155	390,154
PROVISION FOR TAXATION	12	6,552,183	0
		-----	-----
(LOSS) / PROFIT FOR THE YEAR-- After tax		(2,975,028)	390,154
TRANSFER FROM IDBP LOANS			
AMORTISATION RESERVE		0	1,552,832
		-----	-----
		(2,975,028)	1,942,986
 UNAPPROPRIATED PROFIT			
-- Brought forward		25,904,770	23,961,784
 UNAPPROPRIATED PROFIT		-----	-----
- Carried to balance sheet		22,929,742	25,904,770
		=====	=====

The annexed notes form an integral part of these accounts.

#### CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER, 1997

	1997	1996
	Rupees	Rupees
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES (Note "A")	(15,057,830)	16,502,854
 CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure {excluding exchange fluctuation loss Rs. 357,911 (1996: RS. 943,567)}	(4,529,904)	(3,422,871)
 Proceeds from disposals of fixed assets	920,000	16,140
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	(3,609,904)	(3,406,731)
 CASH FLOW FROM FINANCING ACTIVITIES		
Payment of:		
-- Finances under mark-up arrangements	(1,085,500)	(1,376,679)
-- Long term loans	(13,866,060)	(15,403,387)
-- Loans from Directors and their relatives	(1,370,000)	(1,150,000)
Short term finances -- Net	32,352,353	9,825,932

NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES	16,030,793	(8,104,134)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(2,636,941)	4,991,989
CASH AND CASH EQUIVALENTS -- At the beginning of the year	5,350,552	358,563
CASH AND CASH EQUIVALENTS -- At the end of the year	2,713,611	5,350,552

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

**NOTE "A"**

	1997 Rupees	1996 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit for the year		
-- Before taxation	3,577,155	390,154
Adjustments for:		
Depreciation	9,990,834	10,338,163
Provision for gratuity -- Net	3,107,054	(34,678)
Workers' Welfare fund	193,650	0
Gain on disposals of fixed assets	(699,974)	(6,851)
Financial charges	29,725,423	20,972,810
CASH INFLOW FROM OPERATING ACTIVITIES -- Before working capital changes	45,894,142	31,659,598
(Increase) / Decrease in current assets		
Stores and spares	(276,690)	345,540
Stock - in - trade	(20,846,577)	8,154,062
Trade debtors	(11,376,021)	(240,724)
Advances, deposits, prepayments and other receivables (excluding taxes paid)	8,304,180	(5,143,636)
(Decrease) / Increase in creditors, accruals and other liabilities (excluding accrued financial charges)	(6,728,169)	6,187,419
CASH INFLOW FROM OPERATING ACTIVITIES-Before taxation	14,970,865	40,962,259
Taxes paid	(4,820,898)	(678,916)
CASH INFLOW FROM OPERATING ACTIVITIES -- After taxation	10,149,967	40,283,343
Financial Charges paid	(25,207,797)	(23,780,489)
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES	(15,057,830)	16,502,854

## **Notes to the Accounts**

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

### **1. THE COMPANY AND ITS OPERATIONS**

The Company was incorporated in Pakistan in 1958 as a Private Company. It was converted into a Public Company in 1965. Its shares are quoted on Stock Exchanges in Pakistan. It is principally engaged in manufacture and sale of yarn.

Finishing plant of the Company was closed in 1978 due to its obsolete machinery.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention modified by adjustments of exchange rate fluctuations on foreign currency loans as referred to in notes 2.2 and 2.5.

#### **2.2 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 exchange rates are booked which are translated at the contracted rates.

Exchange gains / losses on principal loans are capitalised as part of cost of plant and machinery acquired out of the proceeds of such loans. Other exchange gains / losses are taken to profit and loss account.

#### **2.3 Staff retirement benefits**

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

#### **2.4 Taxation**

Provision for current taxation is made at current rates of taxation after taking into account available tax credits and brought forward losses.

The Company does not account for deferred taxation arising on major timing differences due to reasons stated in note 12.4.

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

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 and exchange rate fluctuations on foreign currency loans utilised for acquisition thereof.

Depreciation on operating fixed assets is charged by applying Reducing Balance Method to write-off the cost and capitalised exchange differences over the estimated remaining useful life of assets. Rates of depreciation are stated in note 14.

No depreciation is provided on assets in the year of disposal whereas full year's depreciation is charged in the year of purchase.

Gain / loss on disposal of fixed assets is taken to profit and loss account.

Normal maintenance and repairs are charged to profit and loss account as and when

incurred. Major renewals and improvements are capitalised and assets replaced, if any, other than those kept as stand by, are retired.

## 2.6 Stores and spares

These are valued at moving average cost.

Retired machinery is stated at written down value.

## 2.7 Stock - in - trade

Basis of valuation are as follows:

Particulars	Mode of valuation
Raw materials	- At lower of cost and net realisable value.
Work o in o process	- At estimated manufacturing cost.
Finished goods	- At lower of cost and net realisable value.
Waste and salvage stock	- At net realisable value.

- Cost in relation to finished goods represents the annual average manufacturing cost which consists of prime cost and appropriate production overheads. Cost in relation to raw materials represents' annual average cost.

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

## 2.8 Revenue recognition

- Direct sales are accounted for when goods are delivered to customers and invoices raised. Sales through agents are booked on intimation from the agents.

- Export sales are booked on shipment basis.

- Export rebate is accounted for on receipt basis.

## 3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

	1997 Rupees	1996 Rupees
499,900 ordinary shares of Rs.10 each issued for cash	4,999,000	4,999,000
300,100 ordinary shares of Rs.10 each issued as bonus shares	3,001,000	3,001,000
	-----	-----
	8,000,000	8,000,000
	=====	=====

During the subsistence of finances under mark-up arrangements detailed in note 5, the Industrial Development Bank of Pakistan (IDBP) has right to subscribe for and receive preferential allotment of shares at par value up to 20% of the sanctioned amount of finances/loan in case of increase in capital by the Company other than through bonus shares. Such option as at 30 September, 1997 worked out Rs. 1.737 million (1996: Rs. 1.737 million).

## 4. RESERVES

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

	Rupees	Rupees
Capital		
Tax holiday reserves	2,668,746	2,668,746
	-----	-----
Revenue		
IDBP loan Amortisation reserve		
opening balance	1,085,500	2,638,332
Transfer to appropriation account	0	1,552,832
	-----	-----
	1,085,500	1,085,500
	-----	-----
	3,754,246	3,754,246
	=====	=====

**5. FINANCES UNDER MARK-UP ARRANGEMENTS -- Secured**

Industrial Development Bank  
of Pakistan (IDBP)

Finance No.		
0069-J-6	872,250	1,744,500
0069-K-3	266,562	479,812
	-----	-----
	1,138,812	2,224,312
Less: Current portion grouped		
under current liabilities	1,085,500	1,085,500
	-----	-----
	53,312	1,138,812
	=====	=====

5.1 The Company had executed four separate buy-back agreements with IDBP for financing the purchase of plant and machinery, out of which two finances have been fully repaid. The purchase price of the two outstanding finances aggregated Rs. 8.684 million whereas sale price aggregated Rs. 13.720 million.

5.2 Summary of terms is as follows:

Finance No.	Nos.	Installments		Mark up rate applied (per annum)
		Commencing From	Amount Rupees	
0069-J-6	16 Bi-annual	31 March, 1991	589,794	6%
0069-K-3	32 Quarterly	31 March, 1991	109,540	16%

The Company is, however, charging the difference of purchase and sale price in the instalments due as mark-up for the year. In case of default in payment, Company will be liable to pay fine @ Re. 0.60 per thousand rupees per day.

5.3 These finances are secured by a first equitable mortgage charge on fixed assets,

hypothecation of fixed assets, a floating charge on fixed properties and demand promissory notes.

**6. LONG TERM LOANS- Secured**

	Note	1997 Rupees	1996 Rupees
Local currency			
Habib Bank Limited (HBL)			
- Demand Finance	6.1	8,000,000	16,000,000
Foreign currency			
Supplier's credit- I	6.2	0	3,851,250
Supplier's credit -- II	6.3	0	1,656,899
		-----	-----
		8,000,000	21,508,149
Less: Current portion grouped under current liabilities			
HBL- Demand Finance		8,000,000	8,000,000
Supplier's credit- I		0	3,851,250
Supplier's credit- II		0	1,656,899
		-----	-----
		8,000,000	13,508,149
		-----	-----
		0	8,000,000
		=====	=====

6.1 HBL -- Demand Finance

a) It is repayable in five equal half yearly installments commencing 30 June, 1996.

b) It carries markup @ Rs 0.48 per thousand rupees per day calculated on daily product basis. In case of default in payment, the bank will charge liquidated damages upto 20% of the outstanding amount.

c) It is secured against second charge on fixed assets and personal guarantees of all the working directors of the Company.

6.2 Supplier's credit - I & II

These have been fully repaid during the year.

**7. CUSTOMS DEBENTURES-SECURE**

	Note	1997 Rupees	1996 Rupees
Balance as at 30 September		2,626,393	2,626,393
Less: Current portion grouped under current liabilities			
		2,626,393	0
		-----	-----
		0	2,626,393
		=====	=====

7.1 These were issued in favour of the Central Excise and Land Customs Department against deferred balance of Customs Duties and Sales Tax payable on imported Plant and Machinery. These are redeemable in two lumpsum installments i.e. on ! 6 October,

1997 and 12 January, 1998 respectively.

7.2 These are secured against guarantees issued by IDBP and carry surcharge @ I 1% per annum.

#### 8. CURRENT PORTION OF LONG TERM LIABILITIES

Finances under mark-up arrangements	5	1,085,500	1,085,500
Long term loans	6	8,000,000	13,508,149
Customs debentures	7	2,626,393	0
		-----	-----
		11,711,893	14,593,649
		=====	=====

#### 9. LOAN FROM DIRECTORS AND THEIR RELATIVE. S -- Unsecured

	Note	1997 Rupees	1996 Rupees
Directors		0	400,000
Relatives of directors	9.1	350,000	1,320,000
		-----	-----
		350,000	1,720,000
		=====	=====

9.1 These are interest free and repayment terms are yet to be finalised. However, these are being treated as short term.

#### 10. SHORT TERM FINANCES -- Secured

Finance facilities (excluding bill discounting facilities - note 13.3) obtained from the commercial banks aggregated Rs. 190.5 million (1996: Rs. 190.5 million). Out of these facilities, facilities available for opening letters of credit and issue of letters of guarantee aggregated Rs. 20.0 million (1996: Rs. 20.0 million) and Rs. 10.0 million (1996: Rs. 10.0 million) respectively. These are secured against pledge / hypothecation of stocks, second charge on fixed assets, lien on documents of title to the goods and personal guarantees of the directors. These carry mark-up ranging from Re. 0.36 to Re. 0.56 per thousand rupees calculated on daily products.

These facilities are expiring on various dates by 31 December, 1997.

#### 11. CREDITORS, ACCRUALS AND OTHER LIABILITIES

Due to Associated Undertakings	18.1 (d)	630,000	630,000
Creditors		3,260,289	4,464,266
Advance payments		211,659	710,429
Accrued liabilities			
including directors' meeting			
fee Rs. 22,000 (1996: Rs. 21,000)		9,135,131	2,098,942
Additional Surcharge on electricity - Secured		0	12,664,532
Interest on secured Long term Ioan's		353,280	768,458
Surcharge on secured customs			
debentures		103,537	103,077
Excise duty on secured bank			
borrowings		5,275	127,217
Mark up on secured short term			
finances		11,829,755	6,775,469
Tax deducted at source		88,513	0
Sales tax - Secured - Net of			
refundable of RS. 258,216 (1996: Rs. 554,157)	11.1	889,716	593,776
Workers' (Profit) Participation			

Fund	11.2	254,208	35,740
		-----	-----
		26,761,363	28,971,906
		=====	=====

	<b>1997</b>	<b>1996</b>
	<b>Rupees</b>	<b>Rupees</b>

11.1 These are secured against bank guarantees.

11.2 Workers' (Profit) Participation Fund

Opening balance	35,740	0
Interest for the year	4,468	0
	-----	-----
Amount utilised by the Company	40,208	0
Contribution for the year	214,000	35,740
	-----	-----
	254,208	35,740
	=====	=====

**12. PROVISION FOR TAXATION**

Opening balance	3,468,129	3,468,129
Add: Provision made during the year	-----	-----
Current	3,446,000	0
Prior years	3,106,183	0
	-----	-----
	6,552,183	0
	-----	-----
	10,020,312	3,468,129
Less: Payments / adjustments	1,763,823	0
	-----	-----
	8,256,489	3,468,129
	=====	=====

12.1 Income tax assessments of the Company have been finalised up to the Accounting Year ended 30 September, 1995 (Assessment Year 1996-97).

The Company has filed appeals with Commissioner of Income Tax (Appeals) against certain add-backs made by the Assessing Officer for the Assessment Years' ! 995-96 and ! 996-97. Provision for the demands raised by the Tax Department, however, has been made in these accounts.

12.2 The Company, in view of the Supreme Court of Pakistan's judgment dated 04 June, 1997 is liable of pay tax under section 80-D of the Income Tax Ordinance, 1979. Consequently, provision for taxation under section 80-D pertaining to prior years has been made in these accounts.

12.3 Provisions for Corporate Assets Tax levied under Finance Act, 1991 amounting Rs. 0.625 million (including Rs.0.125 million on account of additional tax) has not been made in these accounts. However, the Company has deposited the full amount with the Government Treasury and booked this amount under advances as "Corporate Assets Tax Paid Under Protest" (note 18).

12.4 Deferred tax liability on timing differences as at 30 September, 1997 worked out Rs. 13.419 million (1996: Rs. 16.220 million ) approximately. The decrease during the year was Rs. 2.801 million ( 1996: Increase Rs. 0.759 million). Provision



for deferred tax has not been made in these accounts as in the opinion of the management, no deferred tax liability is likely to crystallize in the foreseeable future due to balancing and modernisation plans of the Company.

### 13. CONTINGENCIES AND COMMITMENTS

13.1 Counter guarantees given by the Company to its bankers excluding those stated in notes 7.2 and 11.1 ) outstanding as at 30 September, 1997 were for Rs. 0.100 million (1996: Rs. 0.100 million).

13.2 The Company is also continentally liable for Rs. 38,075 in respect of a suit filed by a neighbour in the Court of Civil Judge, Multan claiming compensation against damages to his crops.

13.3 Foreign bills discounted by the Company with its Bankers outstanding as at 30 September, 1997 were for Rs. 10.371 million.

13.4 Refer contents of notes 12.3.

13.5 No commitments for capital expenditure were outstanding as at 30 September, 1997 (1996: NIL)

### 14. OPERATING FIXED ASSETS

PARTICULARS	As at 30 September, 1996	Additions during the year	Disposals during the year	As at 30 September, 1997
Land - Freehold	787,834	0	0	787,834
Buildings on freehold land	8,059,703	1,009,793	0	9,069,496
Plant and machinery	173,191,943	380,654	0	173,572,597
Tubewell	106,006	0	0	106,006
Electric installations	857,686	406,620	0	1,264,306
Workshop equipment	160,909	0	0	160,909
Tools and equipment	151,401	0	0	151,401
Laboratory equipment	5,026,896	0	0	5,026,896
Weighing scales	483,830	77,758	0	561,588
Arms and ammunition	8,457	0	0	8,457
Office equipment	839,184	27,000	0	866,184
Furniture and fixture	680,868	81,900	0	762,768
Vehicles	7,082,595	2,904,090	1,327,819	8,658,866
	-----	-----	-----	-----
Rupees	197,437,312	4,887,815	1,327,819	200,997,308
	=====	=====	=====	=====
1996 Rupees	184,629,001	13,241,126	432,815	197,437,312

14.1 Depreciation for the year has been allocated as follows:

	1997 Rupees	1996 Rupees
Cost of sales	8,825,902	9,576,779
Administrative expenses	1,164,932	761,384

-----  
 9,990,834 10,338,163  
 =====

14.2 Additions to plant and machinery include exchange fluctuation loss of Rs. 357,911 (1996: Rs.943,567) capitalised during the year.

Rate %	D E P R E C I A T I O N			N E T B O O K V A L U E	
	To 30 September, 1996	For the year	On Disposals	To 30 September, 1997	AS AT 30 SEPTEMBER, 1997
	0	0	0	0	787,834
10	5,436,130	363,336	0	5,799,466	3,270,030
10	92,566,679	8,100,592	0	100,667,271	72,905,326
10	95,758	1,025	0	96,783	9,223
15	742,979	78,199	0	821,178	443,128
10	133,223	2,769	0	135,992	24,917
10	106,838	4,456	0	111,294	40,107
10	2,506,243	252,065	0	2,758,308	2,268,588
10	326,985	23,460	0	350,445	211,143
10	5,374	308	0	5,682	2,775
15	509,107	53,562	0	562,669	303,515
10	336,516	42,625	0	379,141	383,627
20	4,424,475	1,068,437	1,107,793	4,385,119	4,273,747
	-----	-----	-----	-----	-----
	107,190,307	9,990,834	1,107,793	116,073,348	84,923,960
	=====	=====	=====	=====	=====
	97,261,782	10,338,163	409,638	107,190,307	90,247,005

14.3 Disposal of fixed assets

PARTICULARS	Cost	Accumulated depreciation
Vehicles		
Mitsubishi Pajero	756,812	598,097
Honda Accord	571,007	509,696
	-----	-----
Rupees	1,327,819	1,107,793
	=====	=====

Book value	Sale proceeds	Gain	Mode of Disposal	Particulars of Purchaser
158,715	570,000	411,285	Negotiation	Mr. Adnan Ahmad Khan, 31 D- 1, Gulberg, Lahore.
61,311	350,000	288,689	Negotiation	Mr. Abdul Ghani, 23 Y/104, Madina Town, Faisalabad.
-----	-----	-----		
220,026	920,000	699,974		

=====

**15. STORES AND SPARES**

	Note	1997 Rupees	1996 Rupees
Stores		1,679,611	1,458,670
Spares		1,864,274	1,808,525
Retired Machinery		13,888	13,888
		-----	-----
		3,557,773	3,281,083
		=====	=====

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

**16. STOCK IN TRADE**

Raw material		7,739,543	4,586,490
Work - in - process		5,138,627	4,750,052
Finished good		-----	-----
Yarn		38,829,842	11,874,385
Waste		510,134	160,642
		-----	-----
		39,339,976	22,035,027
Salvage stock		55,000	55,000
		-----	-----
		52,273,146	31,426,569
		=====	=====

**17. TRADE DEBTOR'S -- Considered good**

Secured			
-- Export bills		10,326,066	0
Unsecured		10,276,500	9,226,545
		-----	-----
		20,602,566	9,226,545
		=====	=====

**18. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES****Unsecured - Considered good**

	Note	1997 Rupees	1996 Rupees
Due from directors		4,390	4,390
Advances to employees		146,566	157,229
Margin Deposits		229,553	224,553
Excise duty deposits		518	518
Advance payments		1,035,122	9,421,000
Income tax refundable		43,795	43,795
Advance payment of tax		5,502,023	2,444,948
Prepayments		275,901	176,810
Octroi refundable		99,935	111,665
Corporate asset tax			
-- Paid under protest	12.3	624,603	624,603
		-----	-----

7,962,406 13,209,511  
 =====

#### 18.1 Directors, Executives and Associated Undertakings

a) Maximum aggregate debit balance of Directors at any month end during the year was Rs. 4,390 (1996: Rs. 4,390).

b) No balance was due from the Associated Undertakings at any month end during the year (1996: Rs. NIL).

c) During the year, the Company has purchased goods valuing Nil (1996 : Rs.5,089,148) from its Associated Undertakings.

d) Interest has not been charged / paid on the balances of Associated Undertakings as these have arisen due to trade dealings.

#### 19. CASH AND BANK BALANCES

	Note	1997 Rupees	1996 Rupees
In hand		167,521	292,575
At banks on current accounts	19.1	2,546,090	5,057,977
		-----	-----
		2,713,611	5,350,552
		=====	=====

19.1 These include foreign currency balance equivalent to U.S. \$13,272 ( 1996: U.S. \$ 61,493) which has been converted into Pak Rupees at the official exchange rate prevailing on the balance sheet date i.e. 1 U.S. \$ -- Rs. 40.4795 (1996: Rs. 37.1919).

#### 20. SALES -- Net

Yarn			
Local		366,538,223	331,723,798
Export		254,983,667	251,880,626
		-----	-----
		621,521,890	583,604,424
Waste		4,417,690	5,434,027
		-----	-----
		625,939,580	589,038,451
Less:			
Sales tax		35,699,763	6,909,814
Excise duty		0	6,772,480
Export development surcharge		470,895	467,239
Commission		4,144,019	6,102,468
Discount		88,871	99,708
		-----	-----
		40,403,548	20,351,709
		-----	-----
		585,536,032	568,686,742
		=====	=====

#### 21. COST OF SALES

1997 1996

	Note	Rupees	Rupees
Raw material consumed	12.1	425,630,517	407,018,260
Salaries, wages and benefits		32,911,415	27,347,374
Stores consumed		9,915,476	7,925,861
Packing materials		9,462,659	9,952,113
Fuel and power		61,317,506	51,233,991
Repair and maintenance		678,852	629,177
Insurance		937,603	706,498
Depreciation		8,825,902	9,576,779
		-----	-----
		549,679,930	514,390,053
Adjustment of work in process		-----	-----
Opening		4,750,052	5,019,571
Closing		(5,138,627)	(4,750,052)
		-----	-----
		(388,575)	269,519
		-----	-----
Cost of goods manufactured		549,291,355	514,659,572
Adjustment of finished goods		-----	-----
Opening stock		22,035,027	26,866,973
Closing stock		(39,339,976)	(22,035,027)
		-----	-----
		(17,304,949)	4,831,946
		-----	-----
		531,986,406	519,491,518
		=====	=====
21.1 Raw materials consumed			
Opening stock		4,586,490	7,639,087
Purchases		426,747,585	402,107,971
Local taxes		1,636,246	1,460,414
		-----	-----
		432,970,321	411,207,472
Less:		-----	-----
Closing stock		7,739,543	4,586,490
		-----	-----
		425,230,778	406,620,982
		-----	-----
Cotton cess		399,739	397,278
		-----	-----
		425,630,517	407,018,260
		=====	=====

**22. ADMINISTRATIVE AND SELLING EXPENSES**

	1997 Rupees	1996 Rupees
Administrative:		
Directors' meeting fee	3,000	2,500
Salaries and benefits	3,631,828	2,769,898
Vehicles running and maintenance	1,072,196	864,845
Travelling and conveyance - Including directors' Rs. 97,162 (1996: Rs. 41,816)	104,717	41,816
Printing and stationery	239,888	199,309
Communication	1,595,595	1,268,938
Rent, rates and taxes	159,910	112,748

Electricity and gas	714,455	678,767
Repair and maintenance	190,398	152,520
Subscription	319,471	60,621
Advertisement	38,536	17,576
Entertainment	69,942	101,105
Depreciation	1,164,932	761,384
Others	32,866	23,128
	-----	-----
	9,337,734	7,055,155
Selling:	-----	-----
Local taxes	270,705	378,536
Export expenses	10,381,187	9,456,443
Freight, forwarding and others	27,866	375,791
	-----	-----
	10,679,758	10,210,770
	-----	-----
	20,017,492	17,265,925
	=====	=====

**23. OTHER INCOME**

	1997 Rupees	1996 Rupees
Sale of salvage	2,550	73,420
Gain on disposal of fixed assets	699,974	6,851
Payable balances- Written back	0	69,764
	-----	-----
	702,524	150,035
	=====	=====

**24. FINANCIAL CHARGES**

Interest / mark-up on:		
Finances under mark-up arrangements	532,249	583,575
Long term loans	2,667,116	3,827,002
Workers' (Profit) Participation Fund	4,468	0
Short term finances	24,352,479	14,354,627
Surcharge on customs debentures	289,362	288,902
Excise duty on bank borrowings	1,206,838	1,041,896
Bank charges and guarantee commission	649,050	656,547
Commission on letters of credit	23,861	220,261
	-----	-----
	29,725,423	20,972,810
	=====	=====

**25. MISCELLANEOUS CHARGES**

Auditors' remuneration		
Audit fee	45,000	45,000
Legal and professional (other than Auditors')	74,880	122,600
Donations (without directors' and their spouses' interest)	312,420	5,000
Additional sales tax on wastes -- Prior years'	92,130	0
	-----	-----
	524,430	172,600
	=====	=====

**26. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES**

The details of payments / provisions made during the year are as follows:

Particulars	Chief Executive		Working Directors		Executive	
	1996	1996	1996	1996	1996	1996
Managerial remuneration	165,600	165,600	298,800	298,800	92,670	0
House rent	74,400	74,400	133,200	133,200	41,701	0
Utilities	0	0	115,586	93,211	21,210	0
	-----	-----	-----	-----	-----	-----
Rupees	240,000	240,000	547,586	525,211	155,581	0
	=====	=====	=====	=====	=====	=====
No. of persons	1	1	2	2	1	0

26.1 In addition to above, meeting fee of Rs. 3,000 ( 1996:Rs. 2,500) has been provided for / paid to three (1996: Five) non-working directors.

26.2 Chief Executive and working directors are also provided with free use of Company cars and telephone at their residences.

## 27. PRODUCTION CAPACITY

	1997	1996
No. of spindles installed and worked	28,192	28,192
No. of shifts worked	1,086	1,031
Capacity of yam at 20's count on the basis of utilisation	- Kgs. 7,945,900	7,543,000
Production of yarn at 20's count	- Kgs. 8,083,818	8,177,761

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.

## 28. 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.