MOHAMMAD FAROOQ TEXTILE MILLS LTD
Annual Report 1997

CONTENTS

BOARD OF DIRECTORS

CHAIRPERSON	Mrs. Mariam A. K. Sumar
CHIEF EXECUTIVE	Mr. Mohammad Farooq Sumar
DIRECTORS	Mr. Mohammad Mukhtar Sumar
	Mr. Razi-Ur-Rahman Khan (NIT Nominee)
	Ms. Sabiha Sumar
	Mr. Munir Ahmed Ansari
	Mr. Shahid Nazir Ahmed
	Mr. Mahmood Chhapra
	Mr. Yacoobali G. Zamindar
COMPANY SECRETARY	Mr. Yacoobali G. Zamindar
LEGAL ADVISERS	S.H. Pirzada & Co.
AUDITORS	M. Yousuf Adil & Co. Chartered Accountants
BANKERS	Habib Bank Limited Muslim Commercial Bank Limited
REGISTERED OFFICE	First Floor, Finlay House I.I. Chundrigar Road, Karachi-74000
MILLS	Plot Nos. 6 & 7, Sector 21 Korangi Industrial Area Karachi
CABLE	FAROOQTEX
E-mail	mftml@paknet 3.ptc.pk
TELEFAX	2416518

TELEPHONE 2412941/5 Lines

NOTICE OF THE MEMBERS'
THIRTY-SECOND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty-second Annual General Meeting of Mohammad Farooq Textile Mills Limited will be held at the Company's Mills Premises, Plot Nos. 6 & 7, Sector 21, Korangi Industrial Area, Karachi on Monday, 30th March 1998 at 12.00 Noon to transact the following business.

1. To receive, consider and adopt the Balance Sheet and Profit & Loss Account for the year ended 30th September, 1997 together with the Directors' and Auditors' Reports thereon.

2. To appoint Auditors and fix their remuneration.

BY THE ORDER OF THE BOARD

Karachi: 28th February 1998

Yacoobali G. Zamindar
Director/Secretary

NOTES:

1. The Shares Transfer Books of the Company will remain closed from 24th March, 1998 to 30th March, 1998 (both dates inclusive).

2. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf. Proxies, in order to be valid, must be deposited at the Registered Office of the Company not less than 48 hours before the time of meeting.

3. Shareholders are requested to promptly notify the Company of any change in their addresses to ensure delivery of mail.

DIRECTORS' REPORT TO THE SHAREHOLDERS

1. Your Directors are presenting their report and the Statement of Account for the year ended 30th September, 1997 as under:

	(Rupees'000)
Loss for the year amounted to	56,138
To which we must add provision for minimum tax for the year	4,242
	60,380
To this must be added minimum tax payable for prior years and	24,799
loss brought forward	133,293
Leaving accumulated loss carried forward to next year	218,472

2. The accompanying Chief Executive's Report deals with the year's activities and the Directors of the Company

endorse the contents of that Report.

3. The pattern of shareholding is attached.

4. Your present Auditors M/s. M. Yousuf Adil & Co., Chartered Accountants, retire and offer themselves for reappointment.

For and onbehalf of
the Board of Directors

Karachi: 28th February, 1998

MOHAMMAD FAROOQ SUMAR
Chief Executive

CHIEF EXECUTIVE'S REVIEW

IN THE NAME OF ALLAH
THE BENEFICENT
THE MERCIFUL

Al-Hamdolillah, I am pleased to welcome you to the 32nd Annual General Meeting of the Company to consider the results for the year ending 30th September, 1997.

The Directors' report with the audited accounts for the period under review are already placed before you.

In keeping with our policy to provide maximum information to the shareholders, I will review all the major events of the financial year.

OUR PERFORMANCE THIS YEAR

The textile industry as a whole has had a mixed year, starting off optimistically as markets improved internationally and the political changes in the country were viewed favourably. However, the market recovery was not sustained as the lack of a convincing economic policy at home could not provide the impetus needed for a revival in the economy at large and in textiles in particular. Moreover the international economic scene was disturbed by a continuously rising dollar.

By the grace of God your Company has been able to substantially pull back from the position it found itself in during the financial year 1995-96, when a very large loss of Rs. 145.45 million was reported. Our loss for the year under review has come down to Rs. 56.13 million. During the first half of the year the Company reported a loss of Rs. 38.29 million therefore it can be seen that in the second half losses were reduced by as much as half thereby establishing a trend of continuous improvements. I am hopeful that this trend will continue and Inshaallah soon profitability will be restored. As reported in the 1997 half-yearly results your management decided to close down the older Spinning Unit consisting of 12,500 spindles on account of high operating costs and low levels of efficiency, while the second unit of 12,500 spindles was partially operated in the first quarter of the year and was made fully operational from January 1997. This policy has meant that our own needs of yarn are largely met, while no significant yarn sales are made which otherwise would be sold at a loss; as a result of this strategy yarn production was cut by 56%. The same strategy was pursued in the older Weaving Section and production was restricted to meet in-house requirements as grey exports were proving to be uneconomical. Since in-house requirements showed a major increase the drop in weaving production was only 4%.

After a steep fall in the sale of printed and dyed goods during the previous year, there has been a significant recovery during the year under review when sales have gone up by 43%. This also shows that capacity utilization in the processing section was higher. It is these factors which have significantly reduced our losses and Inshallah their continuance will also lead us back into profitability.

In the current year too, our sales of printed and dyed goods are increasing both in quantity and value terms along with continuous efforts at reducing costs by all possible means. A 10% cut in personnel has already been carried out during the current year by rationalizing work loads and procedures. Therefore I am confident that Inshaallah we will soon be able to put our troubles behind us. As a matter of fact the results of October'97 to January '98 give me hope that Inshaallah the worst of our troubles are over.

Due to the closures in Spinning and some in Weaving, surplus yarn and grey cloth were not available for sale. As a result of which the net sales of the Company fell by 3.6% and amounted to Rs. 845 million as compared to Rs. 877 million in the previous year. This is indeed a small fall as yarn and grey cloth sales during the year under review fell by around Rs. 230 million (80.6%), while the overall sales revenue fell only by Rs. 32 million.

The operating profit for the year under review is Rs.

27.39 million and after accounting for non-operating income and financial and other charges the loss for the years is Rs. 56.14 million. After accounting for minimum tax for current and prior years of Rs. 29.04 million the loss after taxation amounts to Rs. 85.18 million. After accounting for loss brought forward of Rs. 133.29 million the accumulated loss amounts to Rs. 218.47 million.

EXPORTS

Your Company's exports on the whole increased by 15.35% to reach Rs. 404 million. It is interesting to have a deeper look at what really happened, yarn which accounted for 20% of the exports in the previous year fell to 5%, while dyed, printed and made-up exports increased by 92% over the previous year, this shows that we have been successful in recapturing our market share which is what I indicated to you in my last annual review.

Our competitive ability was constantly challenged during the year under review due to high inflation in the country and constant currency adjustments or devaluation, resorted to by countries who compete with us internationally. Our exchange rate policy of inaction for months and then a sudden devaluation of a few percent is not in the interest of exports. In order to flourish, trade requires to flow smoothly and continuously, such fits and starts only hamper exports as they break the momentum and scare away buyers. We need to come to a policy of continuous adjustments in currency rates on a daily basis based on a practical and realistic set of guidelines and parameters. If not our exports will continue to suffer. I am not advocating a continuous devaluation, but only a continuous adjustment both upwards and downwards based on the economic parameters and guidelines set out for this purpose.

Another major challenge to our exports of bed linen was the charge of Dumping by the European Union on Pakistani Exports. Although we were completely exonerated of the anti-dumping charge, but it had a negative impact on our business as a lot of buyers became apprehensive and they either stopped or reduced buying from Pakistan for the period July to December'97 fearing the imposition of anti-dumping duties. This disruption has not only caused us but also the country a sizable loss of business.

You will be happy to note that the current year movements in exports are also very promising. I am confident that Inshaallah our export growth during the present year will be good. This will lead to fuller utilization of processing capacity and consequently improve the financial results of the Company.

As we come nearer to the implementation of the Uruguay Round decisions regarding dismantling of protectionist barriers and the lifting of quotas on the exports of Third World countries to the West, there is increasing evidence of the creation of other serious impediments and hurdles on our exports. Never before were anti-dumping charges so frequently levelled nor so relentlessly pursued as they are today. Those who are largely responsible for the severe damage to the world's environment are today using environment as an excuse to impede and deter trade. Unsubstantiated charges of child labour are thrown around without understanding social and economic realities merely to slow down trade. Trade alone can lead to the level of economic prosperity in third world countries which in turn puts a child in school rather than at work or on the streets.

We have received some assistance from the government on the issue of anti-dumping in the recent past, but there is no concerted work, no specialist cell and no creation of experts to deal with these issues and there is no effort on the part of our government to get together with other affected countries in order to deal with these very serious threats to Third World trade. The present attitude of neglect is already costing us, its continuance can only spell disaster.

Your own Company was directly involved in anti-dumping investigation on bed linen exports to the European Union. I am happy to report that by the grace of God we are one of only three companies on whom there is no finding of dumping, and therefore we are exempt from anti-dumping duty. This provides us with a definite edge over our competitors and will help us greatly in enhancing our market share.

I am glad that the government has finally agreed with the Industry to accept "Zero Duty and Zero Rebate" regime which the Industry was demanding primarily to do away with the inequities in the system and to close the door on corruption. Unfortunately government has once again in its wisdom acted partially and left the whole polyester and polyester blend area in the rotten old rebate system, it is exactly in the polyester rebate that the government is losing out the most as the collection on account of polyester meant for exports is insignificant as compared to rebate paid. The logic behind this government policy does not make sense. It is necessary that the government reviews its earlier decision and frees a very large sector of the textile industry from the rebate regime.

You might recall that in my annual review of a few years ago, I had criticized the formation of Textile Quota Management Directorate and highlighted its corrupt practices. I am glad that government has done away with this Directorate and handed this task over to Export Promotion Bureau again. The EPB has tried recently to bring about some major changes in the administration of quotas by involving the textile associations. Certainly a very good idea, but I am sorry to say that the manner in which it has been implemented has robbed the scheme of its spirit and intent. The very people, with some exceptions of course, who have collaborated with corrupt officers and are beneficiaries of corrupt practices and who have as a result of which amassed quota and monopolies on certain quotas are sitting as adjudicators and authorities in the newly made regime.

How is it possible that these father and son Association wallas (most of these associations having been made for the sole purpose of quota gathering) will provide transparent policy or ensure its transparent implementation ? Let me make it very clear that I am not making these comments because my name is not amongst its members, as I was offered membership but refused on these very grounds. The EPB should ensure that the council and the committees consist of clean and reputable people who can be relied upon to provide correct policies regardless of personal interests, and principled decisions without fear or favour. If this is not done the present arrangement will soon be maligned and the same saga of scandals will continue.

The last few months have witnessed unprecedented turmoil in the Far East, which presents both a serious challenge as well as an opportunity for our exports of textiles. The serious challenges are posed foremost for the Spinning and Weaving sectors, who find that suddenly a lucrative and permanent set of customers have almost disappeared overnight as the affected Far

Eastern countries are in no real position to import yarn and grey cloth due to foreign exchange shortages and closures. Secondly the value added sector fears the competitive edge gained by these countries as a result of massive devaluation. No doubt, these are serious challenges but if the industry takes a lead in putting up to the government a well thought out paper recommending policy changes, the challenge can be met at least partially, which would help to soften the blow considerably. The opportunities lie in filling the vacuum that has been created as many of our competitors in these countries are finding it difficult to operate, while some have even closed down and the uncertainty thus created in the minds of the buyers should be made to work in our favour. All this will depend on the government and the industry's leadership being able to chalk out a set of suitable policies to meet these challenges and grab these opportunities.

LOCAL SALES

Domestic sales have fallen by 17% during the year under review as compared to the previous year and were of the order of Rs. 415 million. The major reason for this fall was the large drop in yarn sale due to the closure of Spinning capacity explained earlier. Yarn sales accounted for 22% of domestic turnover in the previous year, while it was only around 1% during the year under review. There is an actual increase in other product segments. Our 'Faroqua' brand sales have gone up by 45% over the previous year and by the Grace of God we are hopeful that with the present market strategies we shall continue to gain market share.

The government of the day needs to be lauded for its efforts in bringing down the cost of finance, which has made a positive impact on the cost of production for domestic as well as export business.

There are lot of problems being faced by the industry in the payments of refunds of General Sales Tax (GST) and it seems that GST refunds are going the same way as duty drawback rebates. The government must ensure immediate payment of refunds as it is impossible for the industry to carry on normal business with huge outstanding amounts which are affecting their ability to operate. While on the subject of GST, I am constrained to say that the dilly dallying witnessed for the last one year regarding the imposition of GST at the retail level does not make the government look good, the matter should be decided one way or the other and closed. This drama has gone on for too long. It is both embarrassing and a waste of energies which otherwise can be utilized in more productive ways.

COST STRUCTURE

(Figures in thousand)

	1992-93 Amount	%	1993-94 Amount	%	1994-95 Amount	%	1995-96 Amount	%	1996-97 Amount	%
Raw Materials	283,680	41.92	305,845	40.04	562,228	53.02	449,051	47.78	445,457	49.66
Raw Cotton & Fibre	142,422	21.04	152,218	19.93	311,391	29.36	283,006	30.11	128,875	14.37
(Quantity in Kgs)		(4,173)		(4,174)		(4,806)		(4,821)		(1,707)
Other Raw Material	141,258	20.88	153,627	20.11	250,837	23.66	166,045	17.67	316,582	35.29
Conversion Cost	365,906	54.06	432,361	56.61	460,597	43.44	456,992	48.63	425,584	47.45
Wages & Salaries	109,835	16.23	122,684	16.06	125,550	11.84	119,373	12.7	109,103	12.17
Store Consumption	49,738	7.354	51,776	6.78	55,518	5.24	55,946	5.95	48,794	5.44
Depreciation	39,145	5.78	50,748	6.65	47,052	4.44	42,798	4.56	49,994	5.57
Fuel & Power	51,948	7.68	65,394	8.56	82,975	7.83	80,282	8.54	90,409	10.08
Other Manufacturing Expenses	20,744	3.07	19,013	*2.49*	16,666	1.57	16,274	1.73	17.69	1.97
Financial Expenses	66,337	9.8	91,626	12	104,977	9.90	117,156	12.47	84,943	9.47
Administration Expenses	22,700	3.35	22,695	2.97	26,223	2.47	24,844	2.65	23,990	2.68
Other Charges	5,459	0.80	8,425	1.10	1,616	0.15	319	0.03	661	0.07
Selling/Distribution Expenses	27,209	4.02	25,580	3.35	37,566	3.54	33,747	3.59	25,963	2.89
(a) Freight	13,461	1.99	14,954	1.96	10,555	1.00	10,370	1.10	8,283	0.92
(b) Others	13,748	2.03	10,626	1.39	27,011	2.54	23,377	2.49	17,680	1.97
Total Rs.	676,795	100.00	763,786	100.00	1,060,391	100.00	939,790	100.00	897,004	100.00

COST STRUCTURE

It is not easy to compare this year's costs with those of last year due to the closure of one Spinning unit, which has led to distortion for comparison purposes. However, I shall attempt to point out the areas of concern as well as those of achievements.

The increase in other raw material cost from Rs. 166 million in the previous year to Rs. 316.6 million during 1996-1997 is attributable to three factors namely; the increase in dyes and chemicals consumption due to increased processing, secondly, purchase of grey cloth again for increase in processing sales and some purchase of yarn due to closures. The increase in fuel and power from Rs. 80.2 million to Rs. 90.4 million in spite of capacity closure shows the ever increasing cost of energy.

Most of the other costs have fallen due to a combination of a drive to cut costs as far as possible and close inefficient capacity. This has become an ongoing feature in your Company which is meeting with success and the efforts made during the current year will be even more apparent as the drive to cut costs gains momentum in all spheres of our operations.

In the end I would like to thank the workers, staff and officers of your Company for their cooperation with the management and their dedicated hard work in helping to improve the Company's results. I am confident that with their support and efforts we can Inshaallah turn the Company around in the near future.

MOHAMMAD FAROOQ SUMAR

28th February, 1998 Chief Executive

STATEMENT SHOWING PRODUCTION OF YARN (IN KGS.) DURING THE PERIOD FROM OCTOBER, 1996 TO SEPTEMBER, 1997

Month		No. of Frame/ Shift	Total	Efficiency %
October,	1996	0	0	0.0
November,	1996	330	5,934	86.1
December,	1996	1,198	32,747	86. l
January,	1997	2,314	101,378	77.5
February,	1997	2,028	85,349	85.1
March,	1997	2,418	113,822	88.5
April,	1997	2,184	134,899	86.6
May,	1997	2,327	160,180	85.8
June,	1997	2,340	167,400	85.0
July,	1997	2,353	155,472	82.8
August,	1997	2,418	146,496	86.7
September,	1997	2,338	125,300	87.7
Total		22,248	1,228,977	85.1

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STATEMENT SHOWING PRODUCTION OF FABRICS DURING THE PERIOD FROM OCTOBER, 1996 TO SEPTEMBER, 1997

TOTAL

Month		L. Metre	Sq. Metre	Efficiency %
October,	1996	785,703	1,323,047	87.87
November,	1996	636,592	1,067,259	80.35
December,	1996	721,853	1,089,766	84.73
January,	1997	810,668	1,231,408	86.23
February,	1997	594,921	937,678	83.03
March,	1997	747,671	1,215,779	81.68
April,	1997	709,135	1,196,838	87.26
May,	1997	696,143	1,243,549	86.20
June,	1997	717,207	1,288,096	88.35
July,	1997	658,211	1,248,267	83.70
August,	1997	701,292	1,291,570	87.08
September,	1997	739,607	1,319,564	85.95
Total		8,519,003	14,452,821	85.24

FINANCIAL RATIOS AT 30TH SEPTEMBER

		1993	1994	1995	1996	1997
Cost of sales as %age of sales	%	82.63	81.40	84.65	96.66	90.85
Gross Profit as %age of sales	%	17.37	18.60	15.35	3.34	9.15
Operating Profit/(1oss) as %age of sales	%	9.88	12.00	8.17	(3.34)	3.24
Net pre tax Profit/(1oss) as %age of sales	%	0.29	(1.16)	(3.68)	(16.58)	(6.64)
Net pre tax Profit/(1oss) as %age of Capital employed	%	0.38	(1.77)	(6.61)	(23.08)	(10.16)
Current Ratio		51:49	50:50	52:48	49:51	48:52
Stock as %age of sales	%	33	33	44	34	34
Debtors as %age of sales	%	9.53	10.55	7.40	11.39	11.15
Gearing Ratio (Debt Equity Ratio)		54:46	52:48	51:49	44:56	51:49
Total Debt Assets Ratio		40:60	38:62	40:60	32:68	35:65
Break up value of shares	Rs.	17.45	15.30	12.91	18.74	14.23

PROFIT & LOSS ACCOUNT COMPARISON AS PERCENTAGE OF SALES

		1992-93	1993-94	1994 -95	1995 -96	1996-97
Net sales (Rupees in thousand)		666,451	731,299	888,599	876,992	845,010
(in terms of percentage)		100.00	100.00	100.00	100.00	100.00
Cost of sales	%	82.63	81.40	84.65	96.66	90.85
GROSS PROFIT	%	17.37	18.60	15.35	3.34	9.15
Administration Expenses	%	3.41	3.10	2.95	2.84	2.84
Selling Expenses	%	4.08	3.50	4.23	3.84	3.07

		7.49	6.60	7.18	6.68	5.91
OPERATING PROFIT/(LOSS)	%	9.88	12.00	8.17	(3.34)	3.24
Other Income	%	1.18	0.52	O. 14	0.15	0.25
		11.06	12.52	8.31	(3.19)	3.49
Financial Charges		9.95	12.53	11.81	13.35	10.05
Other Charges		0.82	1.15	0.18	0.04	0.08
		10.77	13.68	11.99	13.39	10.13
NET PRE TAX PROFIT/(LOSS)	%	0.29	(1.16)	(3.68)	(16.58)	(6.64)
TAXATION	%	0.00	0.00	0.00	0.00	(3.44)
PROFIT/(LOSS) AFTER TAX		0.29	(1.16)	(3.68)	(16.58)	(10.08)

PATTERN OF SHAREHOLDING
as at 30th September, 1997

No. of Shareholders	Shareholding			Total Shares Held
831	1	to	100	23622
635	101	to	500	126402
266	501	to	1000	133471
306	1001	to	5000	684476
58	5001	to	10000	406338
13	10001	to	15000	162150
6	15001	to	20000	108634
5	20001	to	25000	112783
4	25001	to	30000	109019
-	30001	to	35000	-
1	35001	to	40000	36405
-	40001	to	45000	-
2	45001	to	50000	95827
-	50001	to	55000	-
2	55001	to	60000	113988
-	60001	to	65000	-
1	65001	to	70000	66656
1	70001	to	75000	74323
1	75001	to	80000	76230
-	80001	to	85000	-
2	85001	to	90000	172175
1	90001	to	95000	94780
-	95001	to	100000	-
1	100001	to	105000	103408
1	105001	to	110000	107720
3	110001	to	115000	338938
1	115001	to	120000	117729

-	120001	to	125000	-
2	125001	to	130000	253695
1	130001	to	135000	133932
-	135001	to	195000	-
1	195001	to	200000	200000
-	200001	to	220000	-
1	220001	to	225000	223960
-	225001	to	375000	-
1	375001	to	380000	375452
-	380001	to	815000	-
1	815001	to	820000	819105
-	820001	to	920000	-
1	920001	to	925000	921376
-	925001	to	1025000	-
1	1025001	to	1030000	1021289
-	1030001	to	1095000	-
1	1095001	to	1100000	1098146
-	1100001	to	3805000	-
1	3850001	to	3900000	3871847
-	3900001	to	6705000	-
1	6705001	to	6710000	6705369
2153				18889245

Categories of Shareholders	Number	Shares Hel	Percentage
Individuals	2122	5263912	27.87
Investment Companies	5	1243625	6.58
Insurance Companies	3	1396429	7.39
Joint Stock Companies	7	6724685	35.60
Banks & Financial Institutions	5	3992988	21.14
Modarabas	4	52093	0.28
Foreign Investors (Non-Resident)	3	1415	0.01
Trusts	2	205919	1.09
Others:			
Corporate Law Authority	1	1	0.00
Administrator Abandoned Properties	1	8178	0.04
	2153	18889245	100.00

AUDITORS' REPORT TO THE MEMBERS OF MOHAMMAD FAROOQ TEXTILE MILLS LTD.

We have audited the annexed balance sheet of MOHAMMAD FAROOQ TEXTILE MILLS LIMITED as at September 30, 1997 and the related profit and loss account and statement of changes in financial position (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'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 statement of changes in financial position (cash flow statement), together with the notes forming part thereof, give a true and fair view of the state of the Company's affairs as at September 30, 1997 and of the loss and the changes in the financial position for the year then ended; and

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

Karachi: 28th February, 1998

M. YOUSUF ADIL & CO.
Chartered Accountants

BALANCE SHEET AS AT SEPTEMBER 30, 1997

	Note	1997	1996
		(Rupees in '000)	
SHARE CAPITAL			
Authorised			
25,000,000 Ordinary Shares of Rs. 10/= each		250,000	250,000
		========	========
Issued, subscribed and paid up	3	188,892	188,892
Capital reserve	4	42,749	42,749
Accumulated loss		(218,472)	133,293
		---------	---------
		13,169	98,348
SURPLUS ON REVALUATION OF FIXED ASSETS	5	255,710	255,710
LONG TERM LOANS	6	271,656	258,275
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	7,483	13,087
DEFERRED LIABILITY			
Staff gratuity		4,502	4,525

CURRENT LIABILITIES

Finances under markup arrangements	8	323,246	354,571
Current portion of long term liabilities	9	41,961	28,083
Creditors, accrued and other liabilities	10	199,077	161,440
		---------	---------
		564,284	544,440
CONTINGENCIES AND COMMITMENTS	11		
		---------	---------
		1,116,804	1,174,039
		==========	==========

The annexed notes from 1 to 30 form an integral part of these accounts.

OPERATING ASSETS	12	598,609	646,625
LONG TERM SECURITY DEPOSITS		1,351	1,475
CURRENT ASSETS			
Stores and spares	13	73,646	60,227
Stock in trade	14	285,679	295,947
Trade debts	15	94,226	99.925
Loans and advances	16	11,316	5,343
Trade deposits, prepayments and other receivables	17	50,565	58,694
Cash and bank balances	l8	1,412	5,803
		---------	---------
		516,844	525,939
		---------	---------
		1,116,804	1,174,039
		==========	==========

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 1997

	Note	1997	1996
		(Rupees in '000)	
SALES	19	845,010	876,992
COST OF GOODS SOLD	20	767,664	847,684
		---------	---------
GROSS PROFIT		77,346	29,308
Administration expenses	21	23,990	24,844
Selling expenses	22	25,963	33,747
		---------	---------
		49,953	58,591
OPERATING PROFIT / (LOSS)		27,393	29,283

;

Other income	23	2,073	1,306
Other charges	24	(661)	(319)
		---------	---------
		1,412	987
		---------	---------
		28,805	(28,296)
Financial charges	25	(84,943)	(117,156)
		---------	---------
LOSS BEFORE TAXATION		(56,138)	(145,452)
PROVISION FOR TAXATION			
Current		4,242	--
Prior years		24,799	--
		---------	---------
	26	(29,041)	--
		---------	---------
LOSS AFTER TAXATION		(85,179)	(145,452)
Accumulated loss brought forward		(133,293)	(37,841)
		---------	---------
		(218,472)	(183,293)
Transferred from general reserve		--	50,000
		---------	---------
ACCUMULATED LOSS CARRIED FORWARD		(218,472)	(133,293)
		==========	==========

The annexed notes from 1 to 30 form
an integral part of these accounts

STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT)
for the year ended September 30, 1997

	1997	1996
	(Rupees in '000)	
A. Cash from operating activities		
Profit / (Loss) before taxation	28,805	(28,296)
Adjustment for:		
Depreciation	50,144	43,144
Profit on sale of fixed assets	(661)	(576)
Provision of gratuity	811	568
	---------	---------
	50,294	43,136
	---------	---------
Operating profit before working capital changes	79,099	14,840
(Increase) / decrease in current assets		
Stores and spares	(13,419)	16,801
Stock in trade	10,268	96,482
Trade debts	5,699	(34,302)
Loans and advances	(5,973)	1,337
Trade deposits, prepayments and		

other receivables	(l2,598)	(8,530)
	---------	---------
	(16,023)	71,788
Increase / (decrease) in current liabilities		
Finance under mark-up arrangements	(31,325)	39,860
Creditors, accrued and other liabilities	37,637	(16,730)
	---------	---------
	6,312	23,130
	---------	---------
	69,388	109,758
Financial charges	(84,943)	(117,156)
Taxes paid	(8,314)	(8,651)
Gratuity paid	(834)	(945)
	---------	---------
	(94,091)	(126,752)
	---------	---------
Net cash flow / (outflow) from operating activities	(24,703)	(16,994)
B. Cash from investing activities		
Fixed capital expenditure	(2,230)	(1,556)
Sale proceed of fixed assets	763	766
Long term security deposits	124	(1,084)
	---------	---------
Net cash flow / (outflow) from investing activities	(1,343)	(1,874)
C. Cash from financing activities		
Long term loans - net	29,302	35,312
Repayment of leased liabilities	(3,718)	(13,803)
Repayment of redeemable capital	(3,929)	(3,399)
	---------	---------
Net cash flow / (outflow) from financing activities	21,655	18,110
	---------	---------
Net decrease in cash and cash equivalents	(4,391)	(758)
Cash and cash equivalent at beginning of the year	5,803	6,561
	---------	---------
Cash and cash equivalent at end of the year	1,412	5,803
	==========	==========

NOTES TO THE ACCOUNTS

for the year ended September 30, 1997

1. STATUS AND ACTIVITIES

The Company was incorporated in 1966 as Public Limited Company in Pakistan and is listed on the Karachi and Lahore Stock Exchanges of Pakistan. The principal activity of the Company is the manufacture, processing and sales of textile products.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting conventions

These accounts have been prepared under historical cost convention', except that certain fixed assets have been included at revaluation. These accounts are in compliance with the mandatory national and international accounting pronouncements, wherever applicable.

2.2 Retirement benefits

The Company operates an unfunded gratuity scheme covering unionised employees. Provision is made annually to cover the liability under the scheme. The employees not covered by the gratuity scheme enjoy the benefits of contributory provident fund.

2.3 Taxation

Provision for current taxation is based on taxable income at current tax rates after taking into account tax rebates and tax credits available, if any. The Company accounts for deferred taxation on material timing differences using the liability method. However, deferred tax is not provided, if it can be established with reasonable probability that these differences will not reverse in the foreseeable future.

2.4 Fixed assets and depreciation

Own
Operating assets are stated at cost or valuation less accumulated depreciation except leasehold land and capital work-in-process which are stated at cost.

Depreciation is charged on reducing balance method at the normal tax rates whereby the cost of an asset is written off over its estimated useful life.

Full year's depreciation is charged on additions during the year except in case of significant additions where the charge for depreciation is made with reference to the date of commercial use of such assets. No depreciation is charged on assets deleted or retired.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and replacements are deferred and written off equally over a period of three years, including the year in which they are incurred.

Gains and losses on disposal of assets, if any, are included in current income.

Leased
The Company accounts for assets acquired under finance lease by recording the assets and related liability at fair value. Financial charges are allocated to accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged at rates specified in the related note to write off the asset over its estimated useful life. Lease rentals payable on assets held under operating lease are charged to profit and loss account.

2.5 Stores, spares and stock in trade

Stores, spares and work-in-process are valued at weighted average cost. Finished goods and raw materials are valued at lower of weighted average cost and net realisable value and goods in transit are valued at cost.

2.6 Foreign currencies

Assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange prevailing at the balance sheet date except for liabilities covered under forward exchange contracts which are translated at the contractual rates. Exchange gains and losses are included in income currently.

2.7 Revenue recognition

Sales of goods and services are recognized on despatch of goods and rendering of services to customers.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

1997	1996		1997	1996
No. of shares			(Rupees in '000)	
11,222,685	11,222,685	Ordinary shares of Rs.10/= each fully paid in cash	112,226	112,226
7,666,560	7,666,560	Ordinary shares of Rs. 10/= each issued as fully paid bonus shares	76,666	76,666
----------	----------		----------	----------
18,889,245	18,889,245		188,892	188,892
==========	==========		==========	==========

	1997	1996
4. CAPITAL RESERVE	(Rupees in '000)	
Share premium account	42,749	42,749
	==========	==========
5. SURPLUS ON REVALUATION OF FIXED ASSETS		
	255,710	255,710
	==========	==========

Revaluation of land and buildings has been carried out as on September 30, 1996 by M/s Iqbal A. Nanjee & Co. Surveyors and Valuation Consultants on the basis of depreciated replacement values.

6. LONG TERM LOANS

From banking companies		
Secured		
Loan No. 1 (6.1)		
Principal	19,164	52,492
Demand finance	140,140	85,659
Loan No. 2 (6.2)	124,547	113,210
Loan No. 3 (6.3)	16,312	15,000
Loan No. 4	--	4,500
	----------	----------
	300,163	270,861
Less: Payable within one year shown under current liabilities	28,507	12,586

	----------	----------
	271,656	258,275
	==========	==========

The loans and interest thereon together with demand finance are secured by legal mortgage and charge on movable and immovable properties of the Company both present and future ranking pari passu with each other.

6.1 Loan No.1

Principal sum of this loan has been secured in 1988 for meeting the foreign currency cost of balancing, modernisation and replacement of plant & machinery. Interest is payable thereon at the rate of 14% per annum. The balance amount of loan has been restructured. A demand finance facility of Rs. 140.140 million was sanctioned carrying mark-up at the rate of 13% per annum which has been availed for adjustment / payments of interest amount and six monthly instalments due upto July 15, 1997. The original loan and accumulated demand finance is payable in 16 half yearly instalments commencing from January 15, 1998.

6.2 Loan No.2

The principal amount of loan together with part of accumulated mark-up thereon up to December 31, 1998 is rescheduled for payment in 108 monthly instalments commencing from January 01, 1999. The markup is payable on this loan at 45 paisas per thousand per day.

6.3 Loan No.3

This demand finance is repayable in 60 monthly instalments commencing from January 1999 and is subject to mark-up at the rate of 36 paisas per thousand per day.

	1997	1996
	(Rupees in '000)	
7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Balance as on October 01,	24,655	34,927
Assets acquired during the year	--	3,531
	----------	----------
	24,655	38,458
Less: Payments during the year	3,718	13,803
	----------	----------
	20,937	24,655
Less: Payable within one year shown under current liabilities	13,454	11,568
	----------	----------
	7,483	13,087
	==========	==========

The above represent finance obtained under various arrangements from Modaraba and leasing companies to finance fixed capital expenditure.

The future minimum lease payments to which the Company is committed as at September 30, 1997 are as follows:

Year ending September 30	(Rupees in '000)
1998	17,639
1999	4,369
2000	653
	22,661
Financial charges allocated to future period	(1,724)
	20,937

The cost of operating and maintaining the leased assets is borne by the Company.

The terms of repayment ranges between 36 months to 60 months in quarterly installments. Financing rates of approximately 20 to 24 percent per annum have been used as discounting factor.

	1997	1996
	(Rupees in '000)	

8. FINANCES UNDER MARKUP ARRANGEMENTS

Secured

From banking companies		
Running finance	164,006	209,124
Export refinance	145,940	132,147
Term finance	13,300	13,300
	323,246	354,571

The export refinance has been obtained under State Bank Export Refinance Scheme on which mark-up is payable at 11% per annum.

The mark-up on the running and term finance is payable on a quarterly basis at rates ranging from 45 to 50 paisas per thousand per day.

The above facilities are secured by charge/hypothecation and/or pledge of stock-in-trade, book debts, export documents, lien on bills of exchange, stores, spares and a second charge of Rs. 50 million on the fixed assets of the Company.

The overall limit of Rs.350 million (1996-Rs.355.3 million) available under export refinance, running and term finance facilities.

9. CURRENT PORTION OF LONG TERM LIABILITIES

Redeemable capital	--	3,929
Long term loans	28,507	12,586
Lease financing	13,454	11,568

	----------	----------
	41,961	28,083

10. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	125,215	93,990
Foreign and local bills payable under L/Cs	29,746	16,418
Accrued expenses	14,339	13,900
Markup, interest, excise duty on secured borrowings	27,285	30,734
Unclaimed dividends	287	287
Others	2,205	6,111
	----------	----------
	199,077	161,440
	===========	===========

	1997	1996
	(Rupees in '000)	
11. CONTINGENCIES AND COMMITMENTS		
Contingent liabilities		
Claims not acknowledged as debt by the company	845	32,367
Commitments		
Lease rentals on assets held under operating lease payable over the next three years	504	1,825
Letters of credit opened by banks on behalf of the Company	40,165	11,167

12. OPERATING ASSETS

Particulars	Cost at October 01, 1996	Additions/ (Deletion)	Cost at September 30, 1997	Accumulated Depreciation at September 30, 1997	Written down value at September 30, 1997	Depreciation For the Year	Rate %
Own							
Leasehold land	140,882	--	140,882	--	140,882	--	--
Buildings on leasehold land	144,756	--	144,756	13,804	130,952	13,593	5 & 10
Plant and machinery	636,918	3,190	640,108	356,829	283,279	31,475	10
Power and other installation	4,996	--	4,996	3,042	1,954	217	10
Furniture and fixture	3,807	15	3,822	2,232	1,590	176	10
Tools and equipment	16,026	1,216 (24)	17,218	9,901	7,317	813	10
Vehicles and bicycles	4,037	809 (103)	4,743	2,988	1,755	439	20
	----------	----------	----------	----------	----------	----------	----------
	951,422	5,230 (127)	956,525	388,796	567,729	46,713	
	----------	----------	----------	----------	----------	----------	----------
Under lease							
Plant and machinery	42,129	(3,000)	39,129	11,601	27,528	3,059	10
Equipment	7,002	--	7,002	3,650	3,352	372	10

	49,131	(3,000)	46,131	15,251	30,880	3,431
Rupees	1,000,553	5,230	1,002,656	404,047	598,609	50,144
		(3,127)				
Rupees 1996	766,914	21,520	1,000,553	353,928	646,625	43,144
		(16,935)				
Revaluation		255,710				
Adjustment		(26,656)				

12.1 Information regarding revaluation of certain fixed assets is set out in note 5 to the accounts.

Had there been no revaluation, the related figures of land and buildings as at September 30, 1997 would have been as follows:

	Cost	Accumulated depreciation	Written down value
Land	343	--	343
Buildings	54,471	29,178	25,293
	54,814	29,178	25,636

12.2 Plant and machinery of the value Rs.3 million has been transferred from leased assets to own assets on expiry of lease period.

	1997	1996
	(Rupees in '000)	
12.3 Depreciation charged for the year has been allocated as follows:		
Cost of sales	49,994	42,798
Administration expenses	132	331
Selling expenses	18	15
	50,144	43,144

12.4 Sale of fixed assets by negotiation

Description	Cost	Accumulated depreciation	Written down value	Sales proceed	Purchaser
Vehicle	55	11	44	275	Sarwat Saeed M.S. Villa, E-76/1, Block 7 Gulshan-e-Iqbal, Karachi.

Vehicle	10	4	6	215	Col (Rtd) Mohammad Feroz Flat No.22-D Askari Apartment School Road Cantt, Karachi.
Vehicle	18	4	14	167	Jameel lqbal A/1 JB Area Moalimabad Block 3 P.E.C.H.S., Karachi.
Vehicle	20	4	16	81	Mohammed Usman Khan 1/1280 Shah Faisal Colony No.l, Karachi
Equipment	24	2	22	25	Insurance claim EFU General Insurance Limited 3rd Floor, Karachi House, 1.I. Chundrigar Road, Karachi.
Rupees	127	25	102	763	
1996 Rupees	502	312	190	766	

	1997	1996
	(Rupees in '000)	
13. STORES AND SPARES		
Stores	2,934	2,169
Spares	66,353	57,459
Spares in transit	4,359	599
	73,646	60,227
14. STOCK IN TRADE		
Raw material	41,381	37,207
Raw material in transit	3,770	11,995
Work in process	16,343	14,716
Finished goods	224,185	232,029
	285,679	295,947
15. TRADE DEBTS		
Considered good		
Secured	46,057	26,768
Unsecured	48,169	73,157
	94,226	99,925

Due from associated undertakings Rs.31.381 million (1996 - Rs.29.651 million)

The maximum amount due from the associate undertakings at the end of any month during the year was Rs.41.134 million (1996-Rs.31.354 million).

16. LOANS AND ADVANCES

Considered good

Loans due from		
Executives	388	334
Other employees	215	267
	----------	----------
	6O3	601
Advance to suppliers	10,713	4,742
	----------	----------
	11,316	5,343
	==========	==========

	1997	1996
	(Rupees in '000)	

17. TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Considered good		
Trade deposits	11,123	7,972
Prepayments	5,377	743
Duty drawback	8,170	5,433
Income tax recoverable	21,348	42,075
Sales tax recoverable	3,467	-
Others	1,080	2,471
	----------	----------
	50,565	58,694
	==========	==========

18. CASH AND BANK BALANCES

Cash in hand	5	7
Cash at banks		
In deposit account	9	185
In current accounts	1,398	5,611
	----------	----------
	1,412	5,803
	==========	==========

19. SALES - Not

Yarn and fabrics		
Local	321,360	400,606
Export	404,295	350,488
Duty drawback	22,413	25,005
Cotton and waste	5,858	15,543
Cloth processing	92,736	99,565
Insurance claim		913
	----------	----------
	847,575	891,207
Less: Excise duty and fixed sales tax	--	11,882

Export duty and surcharge	943	116
	943	11,998
	846,632	879,209
Less: Commission paid to selling agents		
On export	521	834
On local sales	1,101	1,383
	1,622	2,217
	845,010	876,992

20. COST OF GOODS SOLD

	1997	1996
	(Rupees in '000)	
Raw materials consumed		
Opening stock	37,207	52,990
Purchases	292,621	406,236
Closing stock	(41,381)	(37,207)
	288,447	422,019
Yarn and cloth purchases and service charges	157,010	27,032
Manufacturing expenses		
Salaries, wages and benefits	109,103	119,373
Stores and spares	48,794	55,946
Fuel and power	90,409	80,282
Rent, rates and taxes	452	1,191
Rental of leased assets	754	785
Insurance	7,390	5,219
Repairs and maintenance	2,814	3,933
Communication and stationery	2,020	2,083
Depreciation	49,994	42,798
Other expenses	4,260	3,063
	315,990	314,673
Work in process		
Opening sto]	14,716	21,649
Closing stock	(16,343)	(14,716)
	(1,627)	6,933
Cost of goods manufactured	759,820	770,657
Finished goods		
Opening stock	232,029	309,056
Closing stock	(224,185)	(232,029)
	7,844	77,027

	767,664	847,684

21. ADMINISTRATION EXPENSES

Salaries and benefits	14,201	15,245
Utilities	1,207	882
Rent, rates and taxes	350	466
Rental of leased assets	425	949
Repairs and maintenance	248	324
Vehicles running	1,8l1	1,394
Travelling	86	338
Conveyance and entertainment	794	745
Communication and stationery	3,081	2,910
Legal and professional	727	489
Advertisement	36	70
Subscription and periodicals	403	409
Depreciation	132	331
Other expenses	489	292
	23,990	24,844

22. SELLING EXPENSES

	1997	1996
	(Rupees in '000)	
Freight	8,283	10,370
Forwarding	1,816	1,609
Bank collection charges	1,200	1,629
Transport and insurance	1,609	1,075
Advertising and sales promotion	10,033	13,746
Export quota premium	458	1,992
Display center including depreciation	931	1,160
Others	1,633	2,166
	25,963	33,747

23. OTHER INCOME

Profit on sale of fixed assets	661	576
Sales of scrap	486	389
Others	926	341
	2,073	1,306

24. OTHER CHARGES

Audit fee	100	100
Promotion of education	138	194

Donations (24.1)	423	25
	----------	----------
	661	319
	==========	==========

24.1 No director and his spouse had any interest in the donees fund.

25. FINANCIAL CHARGES

Markup/interest on redeemable capital	153	761
Markup/interest on long term loans	37,733	37,283
Markup/interest on short term borrowings	38,185	66,377
Finance charges on leased assets	3,962	4,738
Interest on Workers' profit participation fund	--	96
Bank guarantee commission, excise duty and charges	4,910	7,901
	----------	----------
	84,943	117,156
	==========	==========