Mohammad Farooq Textile Mills Limited
Annual Report 1999

C 0 N T E N T S

BOARD OF DIRECTORS

CHAIRPERSON	Mrs. Mariam A. K. Sumar
CHIEF EXECUTIVE	Mr. Mohammad Farooq Sumar
DIRECTORS	Mr. Mohammad Mukhtar Sumar Mr. Shamim Ahmed (Representing NIT) Ms. Sabiha Sumar Mr. Munir Ahmed Ansari Mr. Yacoobali G. Zamindar
COMPANY SECRETARY	Mr. Yacoobali G. Zamindar
LEGAL ADVISERS	Mohsin Tayebali & Co.
AUDITORS	M. Yousuf Adil Saleem & Co. Chartered Accountants
BANKERS	Habib Bank Limited Muslim Commercial Bank Limited
REGISTERED OFFICE	First Floor, Finlay House, I.I. Chundrigar Road, Karachi-74000
HEAD OFFICE AND MILL	Plot Nos. 6 & 7, Sector 21, Korangi Industrial Area, Karachi
CABLE	FAROOQTEX
E-mail	mftml@paknet3.ptc.pk
TELEFAX	(92-21) 5011607 (92-21) 2416518
TELEPHONE	5011571/5 Lines 2412941/5 Lines

NOTICE OF THE MEMBERS' THIRTY-FOURTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirtyfourth Annual General Meeting of Mohammad Farooq Textile Mills Limited will be held at Company's Mills premises, Plot Nos. 6 & 7, Sector 21, Korangi Industrial Area, Karachi on Wednesday, 29th March 2000 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, 1999 together with the Directors' and Auditors' Reports thereon.

2. To appoint Auditors and fix their remuneration.

BY THE ORDER OF THE BOARD

Yacoobali G. Zamindar
Director/Secretary

Karachi: 25th February, 2000

NOTES:

1. The Shares Transfer Books of the Company will remain closed from 23rd March, 2000 to 29th March, 2000 (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.

4. CDC shareholders desiring to attend the meeting are requested to bring their original National Identity Card, Account and Participant's ID number, for identification purpose, and in case of proxy, to enclose an attested copy of his/her National Identity Card.

DIRECTORS' REPORT TO THE SHAREHOLDERS

1. Your Directors are presenting their Report and the Statement of Account for the year ended 30th September, 1999 as under:

	(Rupees in '000)
Loss for the year amounted to	16,406
To which we must add provision for minimum tax for the year	4, 240
	20,646
To this must be added	
Loss brought forward	244, 046
Leaving accumulated loss carried forward to next year	264, 692

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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. The pattern of shareholding is attached.

3. At the last Annual General Meeting held on 31st March 1999 Mrs. Mariam A. K. Sumar, Mr. Mohammad Farooq Sumar, Mr. Mohammad Mukhtar Sumar, Mr. Tariq Kirmani, Ms. Sabiha Sumar, Mr. Munir Ahmed Ansari and Mr. Yacoobali G. Zamindar were elected Directors of the Company for a period of 3 years. Since then Mr. Shamim Ahmed has replaced Mr. Tariq Kirmani as a Director of the Company. We welcome Mr. Shamim Ahmed on the Board.

4. Our scripts are now eligible for deposit into the Central Depository System with effect from 2nd December 1999. As a result it is now possible for Members to join the system and benefit from the facility of electronic transfer of shares without any physical movement of certificates or necessity for execution of transfer deeds.

5. Your Company received ISO-9002 Quality Management Certificate in December !999 which will enhance the Company's competitive position in the Local and International Market.

6. All computer hardware and software in use are Y2K compliant.

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

For and on behalf of
the Board of Directors

Karachi: 25th February, 2000

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 34th Annual General Meeting of the Company to consider the results for the year ending 30th September 1999.

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

For the benefit of the shareholders, I shall now review major events of the financial year which impacted the Company's performance.

OUR PERFORMANCE THIS YEAR

Throughout the year under review the country's economy remained seriously derailed as a result of gross mismanagement and ill conceived policies due to which consumer confidence was shattered and domestic markets crashed. The

Nawaz Government through its callous and thoughtless approach had led the country and its economy into the intensive care unit.

The textile industry besides this also had to face another year of cotton crop failure, as a result of which our cotton prices remained higher than world market rates thereby eroding industry's competitiveness.

I was very hopeful that our run of losses would be over this year, especially since the half year results showed almost a break even position. Due to a massive fall in domestic sales this was not to be, and the year has ended with a loss of Rs.16.4 million as compared to Rs.21.37 million in the previous year.

Improvements in productivity were achieved in Spinning and Weaving of 8.3% and 4.4% respectively in spite of increased rate of power failures - 14.13 days were lost due to power failures as compared to 9.9 days in the previous year.

As a result of a steep fall of over 30% in the sale of branded products in the domestic market the overall processing capacity utilization fell by 7% for the year. A factor which played an important part in affecting the financial results.

I am happy to report that restructuring arrangements have been agreed with your Bankers as a result of which a BMR programme is being implemented in Spinning and Weaving departments. This programme will lead to increase in productivity and improvement in quality of our products.

You will be glad to know that your Company has by the Grace of God been certified under ISO 9002. This is a certification for the entire production, purchase and marketing operations of the Company. I am confident that it will prove to be beneficial in quality assurance and improved production.

The Company's turnover for the year was Rs. 848 million as compared to Rs. 837 million in the previous year which is a slight gain of 1.2 %. I am grateful to God that we were able to achieve this turnover in spite of the major set-back in the domestic market by increasing our export sales by over 35%. Today exports form around 65% of our turnover.

The operating profit for the year under review is Rs. 77.5 million and after accounting for non-operating income and financial and other charges the loss for the year is Rs. 16.4 million. After accounting for minimum tax for current year of Rs. 4.2 million the loss after taxation amounts to Rs. 20.64 million. After accounting for loss brought forward of Rs. 244.04 million the accumulated loss amounts to Rs. 264.69 million.

EXPORTS

Your Company's exports posted an impressive increase of over 35% to reach Rs. 527 million as compared to Rs. 390 million in the previous year. Al-Hamdolillah, this is a big achievement which shows that our marketing strategies for the sale of made-up goods are correct as they have resulted in continuous growth of this sector for the last three years. This trend continues in the current year as well and Inshallah a healthy growth in exports is expected.

It is disappointing to see that although the new regime's economic management team is a competent one but decisions coming out which directly affect exports are sometimes shockingly outrageous. I am referring now to the new rextile export quota policy adopted for the year 2000. I am informed that a bureaucrat along with vested interests who control most of the sham associations - responsible for the scandals and corruptions of yesteryears - formulated this abominable document and rammed it through without much or any opposition. And now it is being said by some that this policy although it is wrong but it cannot be changed. Why? Is it sacrosanct? Let me explain what has been done. In spite of falling exports and falling unit prices of goods sold, the Government has announced:

1) that the previous year's policy of allocating quota on the basis of quantitative performance regardless of how low the prices obtained will be continued;

2) the previous year's policy whose only silver lining was that it provided additional quota to those companies who obtained the highest prices in their product categories has been done away with and;

3) a convoluted methodology has been adopted which amounts to giving a few crumbs to

those who obtained higher prices starting from the year 2001 and nothing during 2000!

Never even under the worst of regimes have I seen such a skewed quota policy. Everybody talks about the need to increase export earnings. In countries where there are quotas limiting the quantity that you can export to them how do you achieve increased earnings if you discourage those very companies whose earnings are higher than others?

The short term and the long term strategies must be in line if they are to provide the right signals to industry and trade. On the one hand with a quota policy so lacking in vision and on the other to talk of formulating vision 2005 for the textile industry. The contradiction robs this serious exercise of the credibility it deserves.

Every successive Government, including the present one, refrains from making adjustments to the exchange rate of the Rupee against the Dollar. Since August 1998 there has been no change in the parity while during this period the Dollar has climbed steadily against all the major currencies. Against the European currencies, who happen to be major trading partners of ours, and form a significant part of our exports the increase has been around 20%. The result is that we have become incompetitive in the European market. Our competitors in textile made-ups and finished fabrics such as Turkey and Portugal, due to a flexible exchange rate policy, are making life difficult for us as they also enjoy import duty exemptions within the European Union. I am aware of some of the constraints that our policy makers face in this regard due to the debt burden that we carry. We must however recognize that exports are our lifeline and we cannot afford to damage them. I am not calling for a full adjustment but only for some flexibility on a regular basis so that our exchange rate is somewhat realistic.

Over the years I have been commenting on our exports and the need for major changes in export policy. Going through some of these old reviews I have to painfully say that the situation has not changed much as our exports still languish and our policies remain more or less the same. Therefore, I think it may be useful if I place before you some excerpts from my review of the financial year ended September 1994:

"We need to seriously analyse the reasons for Pakistan's continued failure to increase its world market share from the presently paltry level of less than 2% of world trade of textiles. This is largely due to its failure to make a breakthrough in dyed, printed and made-up textile products whose world trade increases by leaps and bounds annually, and is the real area of growth enjoyed by our competitors, while we keep being left behind.

I keep thinking as to why in every recession and in every crisis it is Pakistan which loses market penetration and market share, while our competitors have the better of us. During the recession of 1974-75 Pakistan's industry shrunk and its spinning and weaving sectors were destroyed by the recession, while in the same year South Korea, Taiwan and Hongkong increased their share of the world market in rextiles. Then again in the 1992-93 recession one noticed that India was able to increase its textile exports by 24% while ours decreased. The conclusion that I have come to is that the fault is "not in our stars" but is a result of our own weaknesses, our own intransigence, our own policies and our own complacency. The fault really lies in both governmental 'policies and entrepreneurial attitudes within the industry.
Let us take Government policies first. Is it not true, that time and again export duty has been slapped on exports ostensibly to mop up profits or provide subsidies to an incompetent ancillary sector? And when a crisis comes, time and again government has failed to take corrective measures to support the industry and plough back the money that they mopped up. Is it not true, that for instance in the 1993-94 cotton debacle, government refused to accept right until January, that the cotton crop had failed, and therefore did not allow the textile industry to import cotton at a time when cotton was available at reasonable prices? Is it not true that the Government contributes and encourages exports at the cheapest rates and of the worst quality, by reversing the progressive policy of distributing export quotas on the basis of more to those exporters who get better prices than to those who sell at the lowest prices? Is it not true that political considerations have been paramount in the government policy of encouraging powerloom loom sector exports where antiquated machinery is used to produce sub-standard cloth? It is only possible to sell such poor quality cloth at throw

away prices, thereby good cotton and cotton yarn are wasted to make poor quality basic fabrics which then, are peddled by the quota barons without any consideration of design, style and market needs, to the lowest bidder.

.... By and large the kind of people who have entered the textile industry over the last ten to fifteen years, the level of unreliability both in contractual obligations and consistency of quality, the erosion of business ethics and morals have reduced a good part of business and industry, to a fly by night operation. Living on crutches so gleefully obtained from government and government functionaries who have no idea or expertise of policy making or the vision required to build real industrial strength, the industry has neither invested in scientific management nor in Research and Development required to analyse what the markets need, what quality standards mean, what styling and design is about and that price is not the only consideration for success in world markets. Therefore, most of the time our industrialists are out of tune with world requirements and have to dump an unwanted or a substandard product on the world market, at any price. Therefore when a recession comes, and there are many in the world of textiles, our customers easily abandon us, since they can buy better quality at an acceptable price and don't want headaches. Therefore Pakistan loses the business and Pakistan's miseries are compounded. This is why we lose market share and our loss is what translates into our competitors' gain. We do not believe in improving ourselves. We want to sell the same basic bread and butter variety of fabrics and we want to print on the cheapest powerloom fabrics year after year and decade after decade without opening our eyes to the fact that the world around us is progressing by leaps and bounds and going to the higher segments of the market while we are still content on the bottom rung of the ladder. Our behaviour both in the government and the industry is aptly described by the following couplet:

(With limited vision, limited enquiry, limited hope, why wouldn't the ocean appear as just a few drops of dew)

Our feudal attitude nurtured by our bureaucratic structure has been all pervasive and has become the equivalent of an opiate which has permeated the thinking of our policy makers and businessmen. This opiate is destroying the very economic fabric of this country and nobody seems to realize that with the destruction, God forbid, of the economy, comes the disintegration of the socio-political structure which ultimately creates anarchy and chaos.

Trading in the world market is a serious business requiring careful policy making, long term planning, consistency of policy, serious management, excellent research and development, consistency of product, and keeping abreast of market requirements as well as opportunities.
Pakistan will remain in the backwaters of world trade until such time as it does not mend its ways. The unfortunate thing in life is that nothing remains stagnant. If you don't move up, you move down, and we are certainly sliding down at a precarious rate. It is unfortunate that the slide of our textile exports goes unnoticed and unremedied. Vested interests advise on policy making, coveting their personal gains, to policy makers who possess less than adequate knowledge and we continue to hobble along, feeling overjoyed at our false achievements.

In order to find a long term solution to Pakistan's poor image in terms of quality, the powerloom sector needs to be reorganized completely. In 1985-86 1 had initiated a government policy change which took cognizance of the fact that the powerloom sector needs to be organized into larger units with new machines and scrapping of the antiquated equipment it presently possesses coupled with massive training. A soft loan scheme had been set up by the government but the usual dithering of bureaucrats led to its being stillborn. In order to solve the problems of the powerloom sector we need to urgently upgrade its equipment and thereby its quality and introduce R&D so that sophisticated types of fabrics can be manufactured. In the absence of such measures our image of a producer of poor quality basic fabrics will not only continue to dog us, but also keep affecting those who try to produce better quality as it is the overall country image which pulls the better companies down."

Time has run out for us and exporting our way through trouble seems to be our only hope. However this requires major path breaking initiatives and policies. No amount of tinkering and window dressing can solve the problem. A good attempt has been made for instance in the

Export Promotion Bureau (EPB) by choosing an able professional to head it, but again we have not gone all the way. You need to disconnect the EPB from the Commerce Ministry. It should report directly to the Chief Executive who should treat exports as priority number one just as the Korean President did during the 60's and the 70's and converted South Korea from an annual export level of $180 million in 1961 to a juggernaut exporting billions by the end of the 70's. Moreover more professionals from the private sector should be introduced at various levels in the EPB to create dynamism and vitality into the export drive. This is the time to come up with such changes. By doing so you risk nothing as you have nothing to lose and if it works there is everything to gain.

Textile industry has been fortunate that after five consecutive failures the country has at last had a bumper cotton crop in the current year and prices of cotton finally came down to international levels. It must be said that the present government took the right decision to reverse the previous government's support price levels and reduce them to a realistic level of Rs. 1500 per maund. As a result the industry was able to purchase cotton at reasonable prices. The biggest beneficiary of this has been the spinning sector who have gained not only by lower input prices but also higher selling prices. As a result the downstream sectors have not benefited much from the lower cotton prices but then market forces must be allowed to prevail and no government intervention should be forthcoming.

LOCAL SALES

I have already informed you of the steep fall of 32% in domestic sales which fell to Rs. 286 million from the previous year's Rs. 421 million.

In my previous year's report I had made a reference to the impact of our nuclear explosion and the then government's ill conceived policies of freezing foreign currency accounts and introducing foreign exchange controls. This had created a wave of panic and a complete loss of confidence in the government which culminated in a total change of perceptions as well as drying up of a major source of income which had kept the domestic economy moving. The result was a severe recession, a sharp loss of retail sales and build up of inventories. This is still a continuing situation as consumer spending is yet to show any appreciable change. I do not expect any changes until a major improvement in the economy takes place which certainly does not look like being around the corner. Therefore, we must concentrate on exports in order to achieve growth.

COST STRUCTURE

Through consistent efforts at controlling costs your management has once again succeeded in keeping them down and consequently conversion costs fell by 1.09 percent. A close look at the accompanying chart shows significant reduction in wages and salaries 4.12%, other manufacturing expenses 32% and stores consumption 2%. While fuel and power 2.86%, financial expenses 3.36% and administration expenses 9% have shown increases. Fuel and power remains out of our control while efforts are being made to reduce administrative expenses and recent lowering of interest rates will help bring the financial costs down.

The increase in raw cotton cost as compared to the previous year is on account of higher productivity in spinning while other raw material costs which include imported items also have gone up by 3% only. Your management's cost cutting exercise has been reasonably successful, however more efforts are required and are being made to reduce waste and cut expenditures wherever possible.

In the end I would like to thank the workers, staff and officers of the Company for their hardwork and diligence during the year. At the same time I will urge them to put in their best during the current year so that the Company may Inshallah post a profit for the year.

	MOHAMMAD FAROOQ SUMAR
25th February, 2000	Chief Executive

COST STRUCTURE

(Figures in thousand)

	1994-95		1995 -96		1996-97		1997-98		1998-99	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Raw Materials	562,228	53.02	449,051	47.78	461,196	51.42	402,155	46.84	413,523	47.51
Raw Cotton & Fibre	311,391	29.36	283,006	30.11	128,875	14.37	175,308	20.42	179,232	20.59
(Quantity in Kgs)		(4,806)		(4,821)		(1,707)		(2,550)		(2,661)
Other Raw Material	250,837	23.66	166,045	17.67	332,321	37.05	226,847	26.42	234,291	26.92

Conversion Cost	460,597	43.44	456,992	48.63	409,845	45.69	429,730	50.05	425,056	48.83
Wages & Salaries	125,550	11.84	119,373	12.70	109,103	12.17	108,253	12.61	103,795	11.92
Store Consumption	55,518	5.24	55,946	5.95	33,055	3.68	44,711	5.21	43,793	5.03
Depre6iation	47,052	4.44	42,798	4.56	49,994	5.57	45,025	5.24	44,426	5.10
Fuel & Power	82,975	7.83	80,282	8.54	90,409	10.08	95,710	11.15	98,450	11.31
Other Manufacturing Expe	16,666	1.57	16,274	1.73	17,690	1.97	21,628	2.52	14,708	1.69
Financial Expenses	104,997	9.90	117,156	12.47	84,943	9.47	91,791	10.69	94,875	10.90
Administration Expenses	26,223	2.47	24,844	2.65	23,990	2.68	22,474	2.62	24,509	2.82
Other Charges	1,616	0.15	319	0.03	661	0.07	138	0.01	500	0.06
Selling/Distribution Expens	37,566	3.54	33,747	3.59	25,963	2.89	26,658	3.11	31,827	3.66
(a) Freight	10,555	1.00	10,370	1.10	8,283	0.92	6,781	0.79	7,910	0.91
(b) Others	27,011	2.54	23,377	2.49	17,680	1.97	19,877	2.32	23,917	2.75
Total Rs.	1,060,391	100.00	939,790	100.00	897,004	100.00	858,543	100.00	870,406	100.00

FINANCIAL RATIOS AT 30TH SEPTEMBER

		1995	1996	1997	1998	1999
Cost of sales as %age of sa	%	84.65	96.66	90.85	86.03	84.21
Gross Profit as %age of sal	%	15.35	3.34	9.15	13.97	15.79
Operating Profit/(1oss) as	%	8.17	(3.34)	3.24	8.11	9.15
Net pre tax (loss) as %age	%	(3.68)	(16.58)	(6.64)	(2.55)	(1.93)
Net pre tax (loss) as %age of Capital employed	%	(6.61)	(23.08)	(10.16)	(3.84)	(2.96)
Current Ratio		52:48	49:51	48:52	48:52	50:50
Stock as %age of sales	%	44	34	34	33	34
Debtors as %age of sales	%	7.40	11.39	11.15	12.77	10.58
Gearing Ratio (Debt Equity Ratio)		51:49	44:56	51:49	56:44	60:40
Total Debt Assets Ratio		40:60	32:68	35:65	39:61	40:60
Break up value of shares	Rs.	12.91	18.74	14.23	12.88	11.79

PROFIT & LOSS ACCOUNT COMPARISON AS PERCENTAGE OF SALES

		1994-95	**1995-96**	**1996-97**	**1997-98**	**1998-99**
Net sales (Rupees in thousand)		888,599	876,992	845,010	837,785	848,082
(in terms of percentage)		100.00	100.00	100.00	100.00	100.00
Cost of sales	%	84.65	96.66	90.85	86.03	84.21
GROSS PROFIT	%	15.35	3.34	9.15	13.97	15.79
Administration Expenses	%	2.95	2.84	2.84	2.68	2.89
Selling Expenses	%	4.23	3.84	3.07	3.18	3.75
		7.18	6.68	5.91	5.86	6.64

OPERATING PROFIT/(LOS	%	8.17	'(3.34)	3.24	8.11	9.15
Other Income	%	0.14	' 0.15	'0.25	' 0.32	' 0.17
Other Charges	%	(0.18)	(0.04)	(0.08)	(0.02)	(0.06)
		(0.04)	0.11	0.17	0.30	0.11
		8.13	(3.23)	3.41	8.41	9.26
Financial Charges	%	(11.81)	(13.35)	(10.05)	(10.96)	(11.19)
NET PRE TAX (LOSS)	%	(3.68)	(16.58)	(6.64)	(2.55)	(1.93)
TAXATION	%	0.00	0.00	(3.44)	(0.50)	(0.50)
(LOSS) AFTER TAX	%	(3.68)	(16.58)	(10.08)	(3.05)	(2.43)

PATTERN OF SHAREHOLDING

as at September 30, 1999

No. of Shareholders	Shareholding		Total Shares Held
888	1 to	100	26010
639	101 to	500	167599
241	501 to	1000	171779
308	1001 to	5000	674415
58	5001 to	10000	398138
14	10001 to	15000	174650
6	15001 to	20000	108634
4	2001 to	25000	91783
4	25001 to	30000	109019
--	30001 to	35000	--
1	35001 to	40000	36405
--	40001 to	45000	--
3	45001 to	50000	145827
--	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
--	105001 to	110000	--
3	110001 to	115000	338938
1	115001 to	120000	117229
--	120001 to	125000	--
2	125001 to	130000	253695
1	130001 to	135000	135000
--	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		995000 --	
1	995001 to		1000000	996646
--	1000001 to		1020000 --	
1	1020001 to		1025000	1020089
--	1025001 to		3975000 --	
1	3975001 to		3980000	3976567
--	3980001 to		6705000 --	
1	6705001 to		6710000	6705369
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2191				18889245
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Categories of Shareholders	**Number**	**Shares Held**	**Percentage**
Individuals	2160	5235456	27.72
Investment Companies	5	1269705	6.72
Insurance Companies	3	1294929	6.86
Joint Stock Companies	7	6724686	35.60
Banks & Financial Institutions	5	4097708	21.69
Modarabas	4	52061	0.28
Foreign Investors (Non-Resident)	3	602	0.00
Trusts	2	205919	1.09
Others:			
Corporate Law Authority	1	1	0.00
Administrator Abandoned Properties	1	8178	0.04
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	2191	18889245	100.00
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of MOHAMMAD FAROOQ TEXTILE MILLS LIMITED as at September 30, 1999 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 the information as 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 September 30, 1999 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.

M. YOUSUF ADIL SALEEM & CO.
Karachi: 25th February, 2000 Chartered Accountants

BALANCE SHEET AS AT SEPTEMBER 30, 1999

	Note	**1999**	**1998**
		(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		(264,692)	(244,046)
		----------------------	----------------------
		(33,051)	12,405)
SURPLUS ON REVALUATION OF FIXED ASSETS	5	255,710	255,710
LONG TERM LOANS	6	327,230	305,759
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	2,778	5,952
DEFERRED LIABILITY			
Staff gratuity		1,683	1,642
CURRENT LIABILITIES			
Finances under markup arrangements	8	333,687	332,413
Current portion of long term liabilities	9	33,551	58,635
Creditors, accrued and other liabilities	10	126,237	151,373
		----------------------	----------------------
		493,475	542,421
CONTINGENCIES AND COMMITMENTS	11		
		----------------------	----------------------

		1,047,825	1,099,079
		============	============
FIXED CAPITAL EXPENDITURE			
Operating assets	12	552,402	557,770
Capital work in progress			
Plant and machinery		--	34,617
		----------------------	----------------------
		552,402	592,387
LONG TERM SECURITY DEPOSITS		1,311	1,431
CURRENT ASSETS			
Stores, spares and accessories	13	76,871	75,736
Stock in trade	14	284,693	279,674
Trade debts	15	89,768	106,958
Advances, deposits, prepayments and other receivables	16	41,046	41,646
Cash and bank balances	17	1,734	1,247
		----------------------	----------------------
		494,112	505,261
		----------------------	----------------------
		1,047,825	1,099,079
		============	============

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

MOHAMMAD FAROOQ SUMAR — Chief Executive
MUNIR AHMED ANSARI — Director

PROFIT AND LOSS ACCOUNT
For the year ended September 30, 1999

	Note	1999	1998
		(Rupees in '000)	
SALES	18	848,082	837,785
COST OF GOODS SOLD	19	714,211	720,786
		----------------------	----------------------
GROSS PROFIT		133,871	116,999
Administration expenses	20	24,509	22,474
Selling expenses	21	31,827	26,658
		----------------------	----------------------
		56,336	49,132
		----------------------	----------------------
OPERATING PROFIT		77,535	67,867
Other income	22	1,434	2,691

Other charges	23	(500)	(138)
		934	2,553
		78,469	70,420
Financial charges	24	(94,875)	(91,791)
LOSS BEFORE TAXATION		(16,406)	(21,371)
PROVISION FOR TAXATION			
Current year	25	(4,240)	(4,203)
LOSS AFTER TAXATION		(20,646)	(25,574)
Accumulated loss brought forward		(244,046)	(218,472)
ACCUMULATED LOSS CARRIED FORWARD		(264,692)	(244,046)

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

MOHAMMAD FAROOQ SUMAR	**MUNIR AHMED ANSARI**
Chief Executive	Director

STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT)
for the year ended September 30, 1999

	1999	1998
	(Rupees in '000)	
A. Cash from operating activities		
Profit before tax and financial charges	78,469	70,420
Adjustments for:		
Depreciation	45,037	45,660
Profit on sale of fixed assets	(322)	(1,466)
Provision for gratuity	213	338
	44,928	44,532
Operating profit	123,397	114,952
Financial charges	(94,875)	(91,791)
Taxes paid	(5,888)	14,538
Gratuity paid	(172)	(3,198)
	(100,935)	(80,451)
Operating profit before working capital changes	22,462	34,501

(Increase) / decrease in current assets

Stores, spares and accessories	(1,135)	(4,312)
Stock in trade	(5,019)	8,227
Trade debts	17,190	(12,732)
Advances, deposits, prepayments and other receivables	2,248	1,494
	13,284	(7,323)
Increase / (decrease) in current liabilities		
Finances under markup arrangements	1,274	9,167
Creditors, accrued and other liabilities	(25,136)	(47,704)
	(23,862)	(38,537)
Net cash flow / (outflow) from operating activities	11,884	(11,359)
B. Cash from investing activities		
Fixed capital expenditure	(5,312)	(40,468)
Sale proceed of fixed assets	582	2,496
Long term security deposits	120	(80)
Net cash outflow from investing activities	(4,610)	(38,052)
C. Cash from financing activities		
Long term loans - net	(260)	56,403
Leased liabilities - net	(6,527)	(7,157)
Net cash flow / (outflow) from financing activities	(6,787)	49,246
Net Increase / (decrease) in cash and bank balances	487	(165)
Cash and bank balances at beginning of the year	1,247	1,412
Cash and bank balances at end of the year	1,734	1,247

MOHAMMAD FAROOQ SUMAR
Chief Executive

MUNIR AHMED ANSARI
Director

NOTES TO THE ACCOUNTS
for the year ended September 30, 1999

1. STATUS AND ACTIVITIES

The Company was incorporated in ! 966 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 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 the 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 capital work-in-progress which is 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 during the year.

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 the rates specified in the related note to write off the assets 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

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

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

1998	1999		1998	1999
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
8,889,245	18,889,245		188,892	188,892

	1999	1998
4. CAPITAL RESERVE	(Rupees in '000)	
Share premium account	42,749	42,749
5. SURPLUS ON REVALUATION OF FIXED ASSETS		
Share premium account	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		
Demand Finance 1	220,527	220,787
Demand Finance 2	135,779	135,779
	356,306	356,566
Less: Payable within one year shown under current liabilities	29,076	50,807
	327,230	305,759

These demand finances and interest thereon 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.

The restructuring of demand finance 1 has been agreed with the Principal Bank of the Company which will facilitate upgrading of Spinning and Weaving Units out of the funds from deferment of payment of markup for a period of 18 months from October 1999. This Demand Finance would be payable in 20 quarterly instalments with effect from 30th June 2001 at a markup of paisas 35.62 / 1,000 / day. A similar proposal is under finalisation with other Bank for Demand Finance 2.

7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	1999	1998
	(Rupees in '000)	
Balance as on October 01,	13,780	20,937
Assets acquired during the year	3,277	--
	17,057	20,937
Less: Payments during the year	9,804	7,157
	7,253	13,780
Less: Payable within one year shown under current liabilities	4,475	7,828
	2,778	5,952

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, 1999 are as follows:

Year ending September 30,	(Rupees in '000)
2000	5,284
2001	1,440
2002	1,162
2003	772
	8,658
Financial charges allocated to future periods	1,405
	7,253

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

The terms of repayment ranges between 36 months to 48 months in quarterly instalments. Financing rates of approximately 20 to 24 percent per annum have been used as discounting factor.

8. FINANCES UNDER MARKUP ARRANGEMENTS

	1999	1998
	(Rupees in '000)	
Secured		
From banking companies		
Running finances'	89,467	105,232
Export refinances	226,161	20,733
Term finances	18,059	19,850
	333,687	332,413

The export refinances have been obtained under State Bank Export Refinance Scheme on which markup is payable at 8 % per annum.

The markup on the running and term finances is payable on a quarterly basis at rates ranging from 40 to 45 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 and spares.

The overall limit of Rs. 448.3 million (1998: Rs. 410 million) available under export refinance, running and term finance facilities.

	1999	1998
	(Rupees in '000)	
9. CURRENT PORTION OF LONG TERM LIABILITIES		
Long term loans	29,076	50,807
Lease financing	4,475	7,828
	33,551	58,635
10. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	72,024	108,951
Foreign and local bills payable under L/Cs	9,605	11,268
Accrued expenses	13,580	12,515
Markup, interest, excise duty on secured borrowings	29,007	16,052
Unclaimed dividends	241	241
Other	1,780	2,346
	126,237	151,373
11. CONTINGENCIES AND COMMITMENTS		
Contingent liabilities		
Claims not acknowledged as debt by the Company	1,558	845
Commitments		
Lease rentals on assets held under operating lease payable over the next three years	7,646	1,071
Letters of credit opened by bank for raw materials and spares	9,959	30,865

12. OPERATING ASSETS

(Rupees in '000)

Particulars	Cost/value at October 01, 1998	Additions/ (Deletions)	Cost / value at September 30, 1999	Accumulated depreciation at October 01, 1998	Depreciation for the year	Adjustments/ (Sales)	Accumulated depreciation at September 30, 1999	Written down value at September 30, 1999	Rate %
Own									
Leasehold land	140,882	--	140,882	--	--	--	--	140,882	--
Buildings on leasehold land	144,756	--	144,756	26,080	11,090	--	37,170	107,586	5 & 10
Plant and machinery	639,679	49,838 (910)	688,607	381,766	30,164	6,052 (848)	417,134	271,473	10

Power and other installatio	4,996	--	4,996	3,238	176	--	3,414	1,582	10
Furniture and fixtures	3,885	78	3,963	2,398	156	--	2,554	1,409	10
Tools and equipment	18,205	2,388	20,593	10,731	896	908	12,535	8,058	10
Vehicles	4,980	--	4,386	3,191	318	--	3,113	1,273	20
		(594)				(396)			
	957,383	52,304	1,008,183	427,404	42,800	6,960	475,920	532,263	
		(1,504)				(1,244)			
Leased									
Plant and machinery	39,129	--	25,416	14,354	1,711	--	10,013	15,403	10
		(13,713)				(6,052)			
Equipment	7,002	3,277	8,340	3,986	526	--	3,604	4,736	10
		(1,939)				(908)			
	46,131	3,277	33,756	18,340	2,237	--	13,617	20,139	
		(15,652)				(6,960)			
	1,003,514	55,581	1,041,939	445,744	45,037	--	489,537	552,402	
		(17,156)				(1,244)			
Rupees 1998	1,002,656	5,851	1,003,514	404,047	45,660	--	445,744	557,770	
		(4,993)				(3,963)			

12.1 Had there been no revaluation, the related figures of land and buildings as at September 30, 1999 would have been as follows:

(Rupees in '000)

	Cost	**Accumulated depreciation**	**Written down value**
Land	343	--	343
Buildings	54,471	33,530	20,941
	54,814	33,530	21,284

12.2 The depreciation charged for the year has been allocated as follows:

	1999	**1998**
	(Rupees in '000)	
Cost of sales	44,426	45,025
Administration expenses	597	619
Selling expenses	14	16
	45,037	45,660

12.3 Sale of fixed assets

(Rupees in '000)

Description	**Cost**	**Accumulated**	**Written**	**Sales**	**Purchaser**

		depreciation	**down value**	**proceed**	
Vehicles (By negotiation)	7	4	3	90	Mr. Khalid Mahmood Khan House No. 400, Area C-1, Landhi No. 2, Karachi.
	17	9	8	150	Miss Nadia Naeem 2-D, 10/1, Nazimabad, Karachi.
	570	383	187	277	Syed Samar Shah Beach Blessing Apartment, Flat A- 603, Clifton Block 2, Karachi
Machinery (By negotiation)	910	848	62	65	Malik Abdul Hameed 41, Babar Market, Satiyana Road, Faisalabad.
	1,504	1,244	260	582	
Rupees 1998	4,993	3,963	1,030	2,496	

13. STORES, SPARES AND ACCESSORIES

	1999	**1998**
	(Rupees in '000)	
Stores	381	341
Spares and accessories	75,810	68,228
Spares in transit	680	7,167
	76,871	75,736

14. STOCK IN TRADE

Raw materials	36,579	37,223
Raw materials in transit	6,406	5,227
Work in process	14,052	13,477
Finished goods	227,656	223,747
	284,693	279,674

15. TRADE DEBTS

Considered good

Secured	40,879	38,814
Unsecured	48,889	68,144
	89,768	106,958

Due from associated undertakings Rs. 39.435 million (1998: Rs. 29.946 million).

The maximum amount due from the associated undertakings at the end of any month during the year was Rs. 44.854 million (1998:Rs.45.830 million).

16. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Considered good			
Advances			
Advances to employees		705	514
Advances to suppliers		4,005	22,849
		4,710	23,363
Trade deposits		6,718	9,834
Prepayments		910	1,098
Other receivables			
Duty drawback		11,719	3,395
Income tax recoverable	(16.1)	4,255	2,607
Sales tax recoverable		10,760	269
Other		1,974	1,080
		28,708	7,351
		41,046	41,646

16.1 Income tax recoverable		
Taxes paid	16,940	11,052
Less: Provision for taxation	(12,685)	(8,445)
	4,255	2,607

17. CASH AND BANK BALANCES

Cash in hand	4	6
Cash at banks		
In deposit account	--	9
In current accounts	1,730	1,232
	1,734	1,247

18. SALES- Net

Yarn and fabrics		
Export	527,150	389,621
Local	240,491	369,561
Duty drawback	28,403	18,937
Cotton and waste	5,694	5,435
Cloth processing	45,823	51,979
Insurance claim	3,076	4,620
	850,637	840,153
Less: Export duty and surcharge	1,604	1,126
Commission and brokerage	951	1,242

		2,555	2,368
		---------------------	---------------------
		848,082	837,785
		============	============

		1999	**1998**
		(Rupees in '000)	
19. COST OF GOODS SOLD			
Raw materials consumed			
Opening stock		37,223	43,603
Purchases		310,049	315,341
Closing stock		(36,579)	(37,223)
		---------------------	---------------------
		310,693	321,721
Yarn and cloth purchases and service charges		102,830	80,434
Manufacturing expenses			
Salaries, wages and benefits	(19.1)	103,795	108,253
Stores, spares and accessories		43,793	44,711
Fuel and power		98,450	95,710
Rent, rates and taxes		786	1,028
Rental of leased assets		503	298
Insurance		4,530	6,364
Repairs and maintenance		4,610	5,198
Communication and stationery		1,464	2,114
Depreciation		44,426	45,025
Other		2,815	6,626
		---------------------	---------------------
		305,172	315,327
Work in process			
Opening stock		13,477	16,343
Closing stock		(14,052)	(13,477)
		---------------------	---------------------
		(575)	2,866
		---------------------	---------------------
Cost of goods manufactured		718,120	720,348
Finished goods			
Opening stock		2,237,471	224,185
Closing stock		(227,656)	(223,747)
		---------------------	---------------------
		(3,909)	438
		---------------------	---------------------
		714,211	720,786
		============	============

19.1 Salaries, wages and benefits includes Rs. 1.905 million (1998: Rs. 2.129 million) in respect of staff retirement benefits.

20. ADMINISTRATION EXPENSES

Salaries and benefits	(20.1)	14,385	14,012
Utilities		352	608
Rent, rates and taxes		458	396

Rental of leased assets	990	261
Repairs and maintenance	462	477
Vehicles running	1,579	1,011
Travelling	122	92
Conveyance and entertainment	405	724
Communication and stationery	2,920	2,468
Legal and professional	1,736	1,050
Advertisement	101	58
Subscription and periodicals	205	204
Depreciation	597	619
Other	197	494
	24,509	22,474

20.1 Salaries and benefits includes Rs. 0.302 million (1998: Rs. 0.347 million) in respect of staff retirement benefits.

21. SELLING EXPENSES

Freight	7,910	6,781
Forwarding	3,210	2,468
Bank collection charges	2,523	2,361
Transport and insurance	1,294	1,786
Advertising and sales promotion	13,983	10,529
Display center including depreciation	977	1,195
Other	1,930	1,538
	31,827	26,658

22. OTHER INCOME

Profit on sale of fixed assets	322	1,466
Sales of scrap	427	361
Other	685	864
	1,434	2,691

23. OTHER CHARGES

Audit fee	125	100
Promotion of education	243	14
Donations (23.1)	132	24
	500	138

23.1 No Director and his spouse had any interest in the donees fund.

24. FINANCIAL CHARGES

Markup/interest on long term loans	47,914	40,030
Markup/interest on short term borrowings	43,326	48,282
Finance charges on leased assets	1,853	1,708
Bank guarantee commission and other charges	1,782	1,771
	94,875	91,791

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25. TAXATION

Current
Current provision represents minimum tax based on turnover under the Income Tax Ordinance, 1979.

Deferred
Due to accumulated tax losses available to be carried forward there is no deferred tax liability.

26. REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for the year for remuneration, including benefits, to the Chief Executive, full time working Directors and Executives of the Company were as follows:

(Rupees in '000)

	Chief Executive		**Directors**		**Executives**	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**
Managerial remuneration	1,392	1,104	2,585	3,731	14,464	12,991
Retirement benefits	--	--	80	138	910	809
House rent and utilities	747	563	991	1,372	6,741	5,755
Telephone	73	83	15	70	--	--
	2,212	1,750	3,671	5,311	22,115	19,555
Number of persons	1	1	2	3	61	52

- In addition above Directors and Senior Executives are provided with free use of Company maintained cars.

- The above does not include the aggregate amount of remuneration and allowances paid to an outgoing Director during the year Rs. 0.406 million (1998: Rs. 0.451 million). In addition a sum of Rs. 500/= (1998: Nil) has been paid by way of fee to a non executive Director.

27. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

	1999	**1998**
	(Rupees in '000)	
Sales	81,437	78,770
Services rendered	172	179

28. PRODUCTION CAPACITY

	1999	**1998**
Total number of spindles installed	24,968	24,968

Total number of spindles worked	13,286	13,901
Plant capacity of yarn after conversion into 20/s count (Kgs)	4,618,000	4,618,000
Actual production of yarn after conversion into 20/s count (Kgs)	2,643,629	2,381,390
Production of yarn average count 25.30 (1998: 24.72) (Kgs)	2,090,171	1,926,961
Number of shifts worked per day	Three	Three
Plant capacity of fabrics (Sq Mts)	17,992,000	14,150,000
Actual production of fabrics (Sq Mts)	16,708,346	15,997,602

Production was affected by frequent electric shut down and intermittent load shedding as well as part closure of Mill No. 1 in the Spinning Department on account of high operating cost and low efficiency. 31 Sulzer Looms were commissioned during the year.

29. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Concentration of credit risk
Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. To manage exposure to credit risk, the Company applies credit limit to its customers.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is however exposed to interest rate risk in case of bank borrowings.

Fair values of financial instruments
The carrying value of all the financial instruments reported in the financial statements approximate their fair value.

30. GENERAL

30.1 Movements in Owner's equity during the year are adequately disclosed in the financial statements.

30.2 In 1999, the number of shares remained constant at 18,889,245 (1998:18,889,245) : earning per share was Rs. (1.09) [1998 · Rs. (1.35)]

30.3 Figures of the previous year have been rearranged and regrouped wherever necessary for the purpose of comparison.

MOHAMMAD FAROOQ SUMAR	**MUNIR AHMED ANSARI**
Chief Executive	Director