

Dewan Salman Fibre Limited

(Annual Report 1996-97)

(A JOINT VENTURE OF: Mitsubishi Corp. Japan, Dewan Mushtaq Group, Pakistan, Sam Yang Corp.

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COMPANY INFORMATION

BOARD OF DIRECTORS

AKIRA YAMAMURA	<i>Chairman</i>
DEWAN ZLAUR REHMAN FAROOQI	<i>President / Chief Executive</i>
DEWAN ASIM MUSHFIQ FAROOQUL	<i>Managing Director</i>
CHANG NAM KIM	
DEWAN GHULAM MUSTAFA KHALID	
DEWAN MOHAMMED YOUSUF FAROOQUI	
DEWAN MOHAMMAD AYUB KHALID	
DEWAN ABDUL REHMAN FAROOQUI	
YOON KIM	(Alternate Director)
KOICHIRO YABUTA	(Alternate Director)
HIROYUKI AOKI	(Alternate Director)
HO-SIK KI	(Alternate Director)

AUDITORS

FARUQ ALI & COMPANY	CHARTERED ACCOUNTANTS
FEROZE SHARIF TARIQ & COMPANY	CHARTERED ACCOUNTANTS

SECRETARY

TARIQ MOHAMMAD KHAN

LEGAL ADVISORS

KHALID ANWER & COMPANY ADVOCATES

TAX ADVISORS

SHARIF & COMPANY ADVOCATES

FACTORY OFFICE

PLOT NO. 1, DEWAN FAROOQUE INDUSTRIAL PARK,

DISTRICT HARIPUR (N.W.F.P.)

HEAD OFFICE

DEWAN CENTRE,
S-A, LALAZAR,
BEACH HOTEL ROAD,
KARACHI-74000.

REGISTERED OFFICE

DEWAN CENTRE,
17, STREET-84,
SECTOR G-6/4, ISLAMABAD-44000.

BANKERS

ABN AMRO BANK
AMERICAN EXPRESS BANK
BANK OF AMERICA
CITIBANK
FAYSAL BANK LIMITED
HABIB BANK LTD.
MUSLIM COMMERCIAL BANK LTD.
SOCIETE GENERALE, THE FRENCH AND INTERNATIONAL BANK
STANDARD CHARTERED BANK

NOTICE OF EIGHTH ANNUAL GENERAL MEETING

Notice is hereby given that the Eighth Annual General Meeting of DEWAN SALMAN FIBRE LIMITE will be held on 26 February 1998 at 3.00 p.m. at Dewan Centre, 17, Street 84, Sector G-6/4 Islamabad, to transact the following business:

ORDINARY BUSINESS:

1. Recitation from HOLY QURAN.
December, 1996

3. To receive, consider and adopt the annual audited accounts for the year ended 30 June 1997, together with the Directors' and Auditors' Report thereon.

4. To approve the declaration of 7.5% Cash Dividend and issuance of Bonus Shares at the rate of 15%.

5. To appoint Auditors of the Company for the year ending 30 June 1998 and to fix their remuneration.

SPECIAL BUSINESS:

6. To consider and approve alteration in Memorandum of Association.

7. To consider, approve and authorise the President/Chief Executive of the Company to finalise various contracts required for implementing the Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow.

8. To consider authorisation to the Board of Directors of the Company for making necessary financing arrangements up to the extent of US\$ 45 million for financing the Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow, to be raised through various means of financing both in local and foreign currency and to authorise them to negotiate, finalise and sign contracts, deeds and any other documents in this respect after taking approval by way of unanimous resolution passed in a meeting of Board of Directors convened in accordance with the Articles of Association of the Company.

9. To consider and authorise the Board of Directors to make necessary plans to expand the Company's Polyester products manufacturing facilities and recommend that the Board of Directors be authorised to negotiate, finalise and sign machinery contracts for the most economical capacity and to explore, negotiate and finalise efficient means of financing for such expansion plans after taking approval by way of unanimous resolution passed in a meeting of Board of of Directors convened in accordance with the Articles of Association of the Company.

10. To consider and approve short term loans and advances, out of surplus funds available with the Company to Dewan Textile Mills Limited and / or Dewan Khalid Textile Mills Limited and / or Dewan Mushtaq Textile Mills Limited in compliance with the provisions of Section 208 of the Companies Ordinance, 1984.

11. To transact any other business with permission of the Chair.

Date: 04 February 1998

Place: Karachi

By Order of the Board

(TARIQ MOHAMMAD KHAN)

Company Secretary

NOTES:

1. The Shares Transfer Books of the Company will remain closed from 18 February 1998 to 28 February 1998 (Both days inclusive).

2. A member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and vote for him/her (A proxy must be a member of the Company).

3. An instrument of proxy and a power of attorney or other authority (if any) under which it is signed or a notarilly certified copy of such power of attorney, in order to be valid must be deposited at the registered office of the Company not less than 48 hours before the time of the meeting.

4. Members are requested to notify any changes in their address immediately.

"Statement under Section 160 of the Companies Ordinance, 1984 is attached with the Annual Report circulated to the members of the Company"

**STATEMENT UNDER SECTION 160 OF THE COMPANIES
ORDINANCE, 1984**

This statement is annexed to the Notice of the Eighth Annual General Meeting of Dewan Salm Fibre Limited (hereinafter referred to as DSFL) to be held on 26 February 1998 and sets out facts concerning the Special Business to be transacted at the Meeting.

1. Establishment of Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow:

The Management is pleased to announce that the company is at an advanced stage in establishing an Acrylic Fibre and Tow Plant of 55,000 tons per annum, with 25,000 tons in the first phase and 30,000 tons in the second phase, at a total capital cost of approximately US\$ 100 million. The Capital Cost for first phase is estimated at US\$ 45 million. The negotiations for the first phase have been completed and the Management is now fast approaching financial close, thereby necessary Letters of Credit for setting up of this project shall be opened. It is expected that the first phase will commence commercial operations in the first quarter of the year 1999. The drafts of Commercial and Technical Contracts have been negotiated and agreed in principle. The construction work of the project shall start very soon. Shipments of plant and machinery will commence from the month of May 1998. The work on second phase of 30,000 tons capacity with capital cost of approximately US\$ 55 million shall commence in 1999 and expected to be completed by the year 2001.

Currently, the domestic demand of Acrylic Fibre and Tow is estimated at about 30,000 to 35,000 tons per annum which is being met through costly imports. With the local production of Acrylic Fibre and Tow, the cotton spinning, worsted spinning, weaving, knitting, carpet, blanket and quilt manufacturing industry of Country will further benefit from widening of the raw material availability, diversification and increase of exportable value-added textile products. Similar expansion and diversification have been witnessed since the commencement of local production of Polyester Fibre.

None of the Directors of DSFL have any vested or non-vested interest, whether directly or indirectly, in the proposed new business except that they are the Directors and Shareholders of DSFL. However, Mitsubishi Corporation, one of the major share holders of the Company, are one of the largest player in Acrylonitrile business (the basic raw material used in the production of Acrylic Fibre and Tow) may offer its services for supply of raw material and marketing of finished product of new business but the decision in this respect shall be taken by the Board of Directors of the Company at arms length basis on most competitive terms and conditions. Mr. Akira Yamamura is the nominee director of Mitsubishi Corporation.

In this respect, approval is sought from the shareholders for the following:

a) Alteration in Memorandum of Association

- b) Execution of Contracts
- c) Financing of the Project

a) Alteration in Memorandum of Association:

In order to enable the Company to proceed with implementation of its plan to set up the Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow in combination with Polyester Products more conveniently and advantageously, it is proposed to insert new sub-clauses in the Object Clause of Memorandum of Association under the provisions of Section 21 (1) (d) of the Companies Ordinance, 1984.

For the said purpose it is intended to pass following resolution, with or without modification, as a "Special Resolution".

"Resolved that the following new sub-clauses be added as 53 & 54 after existing sub-clause 52 in the Object Clause of the Memorandum of Association".

"(53) to buy, sell, manufacture, produce, import, export, manipulate, refine, process, supply and deal in, all kinds of Poly-Acrylonitrile products including Acrylic Staple Fibre and Tow in Pakistan or in any part of the world and either as principal or otherwise and either alone or in conjunction with others, and whether by or through agents, sub-contractors, or otherwise, all substances, machinery, apparatus, equipment and things capable of being used in the business of Poly-Acrylonitrile products".

"(54) to own, purchase, acquire, build, erect, install, establish, hire on lease, operate, use, manage, repair, maintain and dispose of factories, machinery, plants, laboratories, equipment, apparatus and other facilities for the manufacturing, storage, sale and distribution of Poly-Acrylonitrile products including Acrylic Staple Fibre and Tow, etc".

"Further resolved that after insertion of new clauses the existing sub-clauses of Object Clause be re-numbered accordingly".

b) Execution of contracts

In order to purchase the plant and machinery, approval of the shareholders is sought to consider and authorise the President / Chief Executive of the Company to negotiate, finalise, seal and sign various contracts such as Contract for Supply of Plant and Machinery, Technical Know-How and Supervision, Civil Works and other contracts related to setting up of Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow and pass the following special resolution with, or without modification:

"Resolved that the president / Chief Executive of the Company be and is hereby authorised to negotiate with the machinery suppliers and other contractors and to execute various contracts such as Contract for Supply of Plant and Machinery, Technical Know-How and Supervision, Civil Works and other contracts, on behalf of the Company, as deemed appropriate by him for the establishment of Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow".

c) Financing of the project

The Company will need substantial foreign and local currency funds amounting to approximately US\$ 45 Million, in order to meet the cost of plant and machinery, erection of machinery, construction of building, etc. for the first phase of the Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow. The Management has been considering various financing options in order to minimise the burden on the Company and to make the project economical and competitive. Among various financing options being considered by the management of the Company include Suppliers Credit, Lease Financing, Medium Term Financing, Term Finance Certificates, Bonds, etc. The foreign currency financing may be available at an interest rate ranging between 3 to 5 percent over and above prevailing LIBOR (London Inter Bank Offering Rate). Whereas the local currency funds may be available at a mark-up rate ranging between 17% to 20% per annum. The financing for the project would be secured by creating charge on the assets of the Company.

For the said purpose it is intended to pass following resolution, with or without modification, as a "Special Resolution".

"Resolved that for the purpose of financing the establishment of the Poly-Acrylonitrile plant to produce Acrylic Staple Fibre and Tow, the Board of Directors of the Company be and is hereby authorised to obtain foreign and local currency financing on such terms and conditions as the Board of Directors of the Company may approve by way of unanimous resolution in accordance with the provisions of Articles of Association of the Company. including the proportion of local and foreign currency loans in the total borrowing".

"Further resolved that the Board of Directors of the Company be and is hereby authorised to negotiate, finalise and sign contracts, deeds and any other documents in this behalf".

2. Expansion in Polyester Products Manufacturing Facilities:

The demand for polyester staple fibre (PSF) is showing rapid growth due to various reasons such as shortage of cotton, increased export of blended yarn and fabrics and easy availability of PSF due to sufficient local production and competitive prices of PSF as compared to cotton. The consumption of PSF increased from 158,000 tons in 1995 to 310,000 tons in 1997 and expected to reach 350,000 tons by the end of 1998. It is estimated that the entire existing capacity to produce PSF will be consumed by the mid of year 1999 and there may be room for expansion in the existing capacities in order to fulfill the local demand of PSF.

In order to attain the lead position and after closely monitoring the prevailing situation of local as well as international Polyester industry, the Management of the Company has decided to further expand its existing facilities to manufacture polyester products. In order to make the project feasible and viable, the Management is striving hard to make a best deal for procurement of Plant & Machinery and its financing at most competitive terms and costs. The management is exercising various options of project configurations and

capacity and will decide the most appropriate configuration and size of the plant, ranging from 300-450 tons per day of polymerisation capacity.

None of the Directors of DSFL have any vested or non-vested interest, whether directly or indirectly, in the proposed new business except that they are the Directors & Shareholders of DSFL. However, Mitsubishi Corporation, one of the major share holders of the company, having a long term agreement for supply of raw material used in the production of Polyester Products may offer its services for supply of raw material and marketing of finished product of new business as well as they may have interest in supply of Plant and Machinery but the decision in this respect shall be taken by the Board of Directors of the Company at arms length basis on most competitive terms and conditions. The Sam Yang Corporation, also one of the major share holders of the company may also have interest in supply of Plant, Machinery, Stores, Spares, Catalysts and Finish Agent for the new business but the decision in this respect shall be taken by the Board of Directors of the Company at arms length basis on most competitive terms and conditions. Mr. Akira Yamamura and Mr. Chang Nam Kim are the nominee directors of Mitsubishi Corporation and Sam Yang Corporation respectively.

For the said purpose it is intended to pass following resolution, with or without modification as a "Special Resolution".

"Resolved that the Board of Directors of the Company be and is hereby authorised to make necessary plans to expand the Company's Polyester Products Manufacturing Facilities".

"Further resolved that the Board of Directors be and is hereby authorised to negotiate, finalise and sign machinery contract(s) for most economical configuration and capacity and in the manner as the Board of Directors may approve by way of unanimous resolution in accordance with the provisions of Articles of Association of the Company for expansion of Company's Polyester Products Manufacturing Facilities".

"Further resolved that for the purpose of financing the expansion of Company's Polyester Products Manufacturing Facilities, the Board of Directors of the company be and is hereby authorised to explore, negotiate and finalise financing on such terms and conditions as the Board of Directors of the Company may approve by way of unanimous resolution in accordance with the provisions of Articles of Association of the Company, including the proportion of local and foreign currency loans in the total borrowing".

"Further resolved that the Board of Directors of the company be and is hereby authorised to negotiate, finalise and sign contracts, deeds and any other documents in this behalf".

3. Investments in Associated Companies

The Board of Directors considers to advance temporary short term financing to the associated companies out of surplus funds available with the Company. Details of such financing are given below:-

(i) Name of Borrower Company and -- Dewan Textile Mills Limited

- | | | |
|-------|--|--|
| | associated undertaking together with the amount of loan and advance. | Rupees Fifty Million only
-- Dewan Khalid Textile Mills Limited
Rupees Fifty Million only
-- Dewan Mushtaq Textile Mills Limited
Rupees Fifty Million only
-- 1% above the rate on which the Lending Company has obtained its own borrowing.
-- No security is considered necessary as all the companies are under common management control.
-- Twelve Months |
| (ii) | Rate of interest to be charged on each loan and advance together with the particulars of collateral security to be obtained from borrower. | |
| (iii) | Period for which these loans and advances will be made | |
| (iv) | The terms of repayment or any other terms of loans and advances. | -- The loans and Advances are adjustable within a period of twelve months or more and when required by the Lending Company, whichever is earlier. |
| v) | Purpose of loans and advances | -- The purpose of loans and advances is to meet any immediate requirement of the working capital of the Borrowing Company. |
| (vi) | Benefits likely to accrue to the Company and its shareholders from loans and advances. | -- The Investing Company and its shareholders will be benefited in a number of ways, that their investment will fetch a return of one percent over and above the mark up rate at which the Investing Company has borrowed. Further, the surplus funds will not remain idle and will be invested in the most efficient manner whereby the Investing Company not only getting good returns but the funds will also remain at the disposal of the Investing Company as such loans and advances are repayable on demand. |

In this regard following resolution is proposed to be passed, with or without modification as a "SPECIAL RESOLUTION".

"resolved that the Board of Directors of the Company be and is hereby authorised to make temporary short term loans/advances to the following associated companies up to maximum limit of Rs.50 million each at the mark up rate of 1% above the rate on which the Company has obtained the borrowing.

m Dewan Textile Mills Limited

-- Dewan Khalid Textile Mills Limited

-- Dewan Mushtaq Textile Mills Limited

These temporary loans / advances shall be adjusted as and when required by the Company and shall not exceed 12 months period".

DIRECTORS' REPORT

Your Directors take pleasure in presenting to you the Eighth Annual Report of the Company with the audited accounts for the year ended on 30 June 1997.

Alhamdulillah, the results for the year under review are satisfactory considering the global Synthetic industry. The company has earned a consolidated Net Profit of Rs.350.262 million. highlights of the Accounts are as follows:

	Unit I	Unit II	(Rs. in '000')
			Consolidated
Gross Sales	3,472,619	3,844,643	7,317,262
Excise Duty	65,374	76,588	141,962
Sales Tax - net	134,013	145,696	279,707
Depreciation	178,798	323,627	502,425
Gross Profit	545,862	278,004	823,866
Net Profit	279,642	70,620	350,262

We humbly and gratefully bow our heads before Almighty Allah, the most Gracious and Merciful has rewarded and blessed Your Company with His innumerable bounties in the difficult times

IF YE GIVE THANKS, I WILL GIVE YOU MORE (AL-QURAN)

Appropriations:

Your Directors are pleased to propose appropriation of profit in the following manner:--

	(Rs. in '000')
-- Profit for the year 1996-97	350,262
-- Unappropriated profit brought forward	126,384

Profit available for appropriation	476,646
	=====
Appropriations	
-- Cash dividend @ 7.5%	90,954
-- Reserve for Proposed Issue of Bonus Shares @ 15%	181,908
-- Unappropriated Profit carried forward	203,784

Total	476,646
	=====

The Board of Directors took decision for appropriation of the profit keeping in view the e of the shareholders from Dewan Mushtaq Group, cash position of the company, burden of debt servicing and future plans i.e. upcoming Acrylic and Polyester projects.

The Board also decided to apprise the valued shareholders current status and future of loc

as well as international polyester industry, pressure from textile lobby and other prevalent situation of synthetic industry in detail through this report.

Salient features of the Accounts:

1. The total combined gross sales of the Company amounted to Rs. 7.3 billion as compared to Rs. 6.6 billion last year. The increase in sales is attributed to higher volume of sales.

2. The earning per share of the Company works out to Rs. 2.89 which shows considerable improvement over last years EPS which was Rs. 1.61.

3. During the year exchange differences amounted to Rs. 201.07 million arising in respect of US\$ denominated Convertible Bonds issued for the acquisition of assets have been incorporated in the cost of relevant assets.

4. The reviewing year was a bit stable as compared to volatile movements last year. The financial results of the year are attributed to the sound management policy, improving efficiencies, customer oriented marketing, effective cost controls, prudent raw material procurement policy, constructive efforts of dedicated manpower with participatory management and above all due to the immense blessings of Almighty Allah, Rehman-o-Rahim. Although the prices of PTA showed downward trend but on the other hand prices of MEG touched new heights. The selling price remained under pressure due to excess domestic capacity and severe international competition in absence of adequate protection against dumping by Far Eastern manufacturers.

5. The Company was paying minimum tax liability @ 0.5% of turnover under Section 80 (D) of the Income Tax Ordinance, 1979 under protest and filed a writ petition with Peshawar High Court against this provision of the Income Tax Ordinance, 1979. The decision on this petition is still pending with the Honourable Court. However, the Honourable Supreme Court of Pakistan vide order No. C.A. No. 307/95(80-D) dated 4th June 1997 has decided on identical petitions that those companies which are enjoying certain exemptions from levy of Income Tax are also excluded from the ambit of Section 80(D) of the Income Tax Ordinance, 1979. Accordingly, no provision for turn over tax has been made in these accounts for the year ended 30 June 1997 whereas refund applications have been filed with the tax authorities for payments of turn over tax made in respect of prior years.

6. Alhamdulillah, your Company has been able to meet all its financial obligations on time and from its own resources. To date nine instalments out of fourteen of long term foreign currency loan obtained in 1990 from Mitsubishi Corporation, Tokyo have been paid on schedule. Further, five instalments out of twelve of lease financing obtained in 1994 from AI Tawfeek Company for Investment Funds, Jeddah have also been remitted as per repayment schedule. In addition, interests on Euro Convertible Bonds are being remitted to the bondholders on due dates.

Systematic withdrawal of area-specific incentive:

As reported to you in last year's Annual Report, your Company has been continuously contesting

in the Courts of Law against withdrawal of the promised area-specific incentives by way of tempering with tariff and fiscal regime which has resulted in adversely affecting the margin.

Future Plans

After considering various new investment opportunities and diversification of business, the Board of Directors is pleased to announce the plans regarding its future business expansion and development as follows:

Acrylic Fibre Project:

The Management is pleased to announce that the Company is at an advanced stage in establishing an Acrylic Fibre and Tow Plant of 55,000 tons per annum, with 25,000 tons in the first phase and 30,000 tons in the second phase, at a total capital cost of approximately 100 million. The Capital Cost for first phase is estimated at US\$ 45 million. The negotiations for the first phase have been completed and the Management is now fast approaching financial close, thereby necessary Letters of Credit for setting up of this project shall be opened. It is expected that the first phase will Inshallah commence commercial operations in the first quarter of the year 1999. The drafts of Commercial and Technical Contracts have been negotiated and agreed in principal. The construction work of the project shall start very soon. Shipment of plant and machinery will commence from the month of May 1998. The work on second phase of 30,000 tons capacity with capital cost of approximately US\$ 55 million shall commence in 1999 and expected to be completed by the year 2001.

The polymerisation plant is based on continuous process whereas the spinning and drawing sections are based on wet process. The processes are safe in operation and environmental friendly.

Currently, the domestic demand Of Acrylic Fibre and Tow is estimated at about 30,000 to 35,000 tons per annum which is being met through costly imports. With the local production of Acrylic Fibre and Tow, the cotton spinning, worsted spinning, weaving, knitting, carpet, blanket and quilt manufacturing industry of Country will further benefit from widening of the raw material availability, diversification and increase of exportable value-added textile products. Similar expansion and diversification have been witnessed since the commencement of local production of Polyester Fibre.

At present, there is no Acrylic Fibre manufacturer in the Country. However, announcement has been made by one company for establishing such project at Winder with 30,000 tons per annum capacity. The management is confident that in case the said project also materialises as per the announcement, there shall be no threat of adverse competition as the management is confident due to its capital cost competitiveness and diverse facilities like capacity to produce 100% Fibre or Tow of various deniers ranging from 1.2 up to 15.0 denier, capability to produce high or medium bulk fibre, coloured fibre and tow which will bring revolutionary growth in the demand of Acrylic Fibre in the textile industry of the Country.

The Company was initially restricted to operate with a single object to produce Polyester Products only, in order to comply with the requirements to avail concessions of Eight Year Holiday available under the provisions of the Income Tax Ordinance, 1979. However, the Cen-

Board of Revenue has granted exception to set up new Acrylic units along with its existing. The project will be located adjacent to the existing polyester plants of the Company.

The Company has applied to Board of Investment and National Tariff Commission for rational of tariff structure for Acrylic Staple Fibre and Tow Industry, as per cascading tariff pol adopted by the Government in accordance with the guidelines of multilateral agencies. We believe that the present Government is fully devoted for the rapid industrial development the Country which is evident by announcement of recent investment policy and positive attitude of Board of Investment and National Tariff Commission. In view of foregoing, the Management is quite hopeful of getting desired tariff protection so that the industry as w the Company is able to contribute towards the industrial development of the Country and join hands with the Government in achieving its objective of rapid growth of National Econ

Expansion in Polyester Products Manufacturing Facilities:

The demand for polyester staple fibre (PSF) is showing rapid growth due to various reasons as shortage of cotton, increased export of blended yarn and fabrics and easy availability PSF due to sufficient local production and competitive prices of PSF as compared to cotton. The consumption of PSF increased from 158,000 tons in 1995 to 310,000 tons in 1997 and exp to reach 350,000 tons by the end of 1998. It is estimated that the entire existing capacit produce PSF will be consumed by the middle of year 1999 and there may be room for expansio in the existing capacities in order to fulfil local demand of PSF.

In order to attain the lead position and after closely monitoring the prevailing situation as well as international polyester industry, the Management of the Company has decided to further expand its existing facilities to manufacture polyester products. In order to make project feasible and viable, the Management is striving hard to make a best deal for procu of Plant & Machinery and its financing at most competitive terms and costs. The management is exercising various options of project configurations and capacity and will decide the m appropriate configuration and size of the plant, ranging from 300-450 tons per day of poly capacity. The Board will report further on this issue to its valued shareholders in the ne

Current Situation:

After two years of dismal performance, there are sure signs of revived demand for polyeste staple fibre. However, the industry's troubles are not yet over. The domestic production c has nearly doubled in last two years, following the commencement of two new units and the expansion of two existing plants. The prices of PTA are presently at their lowest level wh MEG prices are still firm. The margins are likely to remain under pressure as the textile using the unfair advantage of domestic over capacity and continuous dumping of PSF by Far Eastern manufacturers, has been able to pressurise the Government to force the PSF Manufac to reduce the selling prices. On the other hand, PSF manufacturers are constantly pleading Government to either reduce duties on MEG and other raw materials or to impose regulatory duty on the import of PSF to enable the local PSF producers to combat with dumping imports

Contribution to National Exchequer:

During the year, the Company's contribution to the national exchequer amounted to over Rs. billion in respect of payments towards Sales Tax, Custom Duty, Central Excise Duty and oth

statutory levies. This does not include the withholding tax deducted by the Company from employees, suppliers and contractors, and deposited with the Government Treasury.

Vote of Thanks:

The Board puts on record its gratitude to its valued shareholders, Federal and Provincial Government Functionaries, banks, development financial institutions and customers of Salsa whose co-operation, continued support and patronage have enabled the Company to surpass the desired result.

The Board also expresses its thanks for the valuable services, loyalty and laudable effort rendered by the executives, staff members and workers of the Company, during the year under review, and wish to place on record its appreciation for the same.

Auditors:

The Auditors of your Company M/s. Faruq All and Company, Chartered Accountants, and Messers Feroze Sharif Tariq and Company, Chartered Accountants, retire and offer their services for re-appointment for the ensuing year on the same remuneration.

Conclusion:

In conclusion, we bow, beg and pray to Almighty Allah, Rahman-e-Rahim, in the name of our beloved prophet, Muhammed, peace be upon him, for continued showering of His Blessings, Guidance, Strength, Health and Prosperity on us, our Company, Country and Nation; and also pray to Almighty Allah to bestow peace, harmony, brotherhood and unity in true Islamic spirit to the whole of Muslim Ummah, Ameen, Summa-Ameen.

LO-MY LORD IS INDEED HEARER OF PRAYER (HOLY QURAN)

Karachi: 24 January 1998

For and on behalf of the Board of Directors
DEWAN ZIAUR REHMAN FAROOQUI
President / Chief Executive

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of Dewan Salman Fibre Limited, as at 30 June, 1997 and the related Profit and Loss Account and Cash Flow Statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose 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 the Cash Flow Statement together with the Notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 1997 and of the profit and the Cash Flow for the year then ended; and

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

Faruq Ali & Company
Chartered Accountants

Feroze Sharif Tariq & Company
Chartered Accountants

Place : Karachi
Date : 24 January 1998

BALANCE SHEET
AS AT 30 JUNE 1997

	Note	1997 (Rs. in '000')	1996
TANGIBLE FIXED ASSETS	3	4,204,516	4,383,60
LONG TERM INVESTMENT	4	50,000	50,00
CURRENT ASSETS			
Stores and Spares	5	117,302	76,50
Stock-in-Trade	6	1,394,712	1,706,74
Stock-in-Transit		78,799	174,04
Trade Debtors - unsecured (considered good)		146,144	133,75
Advances, Deposits, Prepayments and Other Receivables	7	199,314	339,32
Cash and Bank Balances	8	955,028	555,25
		-----	-----
		2,891,299	2,985,61
CURRENT LIABILITIES			

Current Portion of Long Term Liabilities	9	363,547	360,52
Short Term Running Finances - Secured	10	322,212	313,31
Creditors, Accrued Expenses and Other Liabilities	11	1,352,710	1,685,93
Dividend Payable / Proposed	12	92,041	142,40
Provision for Taxation		88,726	88,72
		-----	-----
		2,219,236	2,590,90
		-----	-----
NET CURRENT ASSETS		672,063	394,71
		-----	-----
FUNDS EMPLOYED		4,926,579	4,828,31
		=====	=====
SHAREHOLDERS' EQUITY			
Share Capital	13	1,212,721	1,212,72
Reserves and Surplus	14	1,359,696	1,100,38
		-----	-----
		2,572,417	2,313,10
NON CURRENT LIABILITIES			
Convertible Bonds - unsecured	15	1,517,807	1,316,74
Redeemable Capital --secured	16	25,496	47,48
Long Term Foreign Currency Loan -secured	17	478,224	717,33
Liability against Assets subject to Finance Lease	18	307,333	409,77
Deferred Liability for Gratuity		25,302	23,86
Contingencies	19		
		-----	-----
		4,926,579	4,828,31
		=====	=====
DEWAN ZIAUR REHMAN FAROOQUI		AKIRA YAMAMURA	
<i>President / Chief Executive</i>		<i>Chairman</i>	

**PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 1997**

		1997 (RS. in '000)			
	Note	Unit I	Unit II	Total	Unit I
SALES- NET	20	3,253,307	3,599,089	6,852,396	3,392,32
COST OF SALES	21	2,707,445	3,321,085	6,028,530	3,004,27
		-----	-----	-----	-----
GROSS PROFIT		545,862	278,004	823,866	388,04
OPERATING EXPENSES					
Administrative & General	22	50,525	28,139	78,664	33,07
Selling & Distribution	23	26,471	22,266	48,737	32,47

			-----	-----	-----	-----
			76,996	50,405	127,401	65,55
			-----	-----	-----	-----
OPERATING PROFIT			468,866	227,599	696,465	322,49
OTHER CHARGES						
Financial Charges	24		150,447	153,192	303,639	157,87
Donation	25		24,059	70	24,129	22,43
Workers' Profit Participation Fund			14,718	3,717	18,435	7,11
			-----	-----	-----	-----
			189,224	156,979	346,203	187,41
			-----	-----	-----	-----
NET PROFIT BEFORE TAX			279,642	70,620	350,262	135,08
TAXATION						
Current	28		-	-	-	17,02
			-----	-----	-----	-----
			279,642	70,620	350,262	118,06
			=====	=====	=====	=====
Unappropriated profit brought forward					126,384	

					476,646	
APPROPRIATIONS						
Transfer to General Reserve					-	
Final Dividend- Cash- 7.5% (1996: 10%)					90,954	
Reserve for proposed issue of bonus share- 15% (1996: Nil)					181,908	

					272,862	

Unappropriated profit carried forward					203,784	
					=====	
DEWAN ZIAUR REHMAN FAROOQUI						
<i>President / Chief Executive</i>						
AKIRA YAMAMURA						
<i>Chairman</i>						

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 1997**

	Note	1997 (Rs. in '000')	1996
CASH FLOW FROM OPERATING ACTIVITIES			

Profit before Taxation	350,262	195,10
Adjustment for non cash charges and other items		
Depreciation	502,425	514,79
Financial Charges Accrued	303,639	325,57
Deferred Liability for Gratuity	1,439	80
	-----	-----
Changes in operating assets and liabilities	1,157,765	1,036,27
(Increase) / Decrease in Stores and Spares	(40,798)	(47,945)
(Increase) / Decrease in Stock-in-Trade	312,028	(856,802)
(Increase) / Decrease in Stock-in-Transit	95,243	39,09
(Increase) / Decrease in Trade Debtors	(12,394)	(69,324)
(Increase) / Decrease in Advances, Deposits, Prepayments & Other Receivables	140,007	(261,857)
Increase / (Decrease) in Creditors, Accrued Expenses & Other Liabilities	(329,529)	1,169,37
	-----	-----
	164,557	(27,463)
	-----	-----
Cash generated from Operations	1,322,322	1,008,80
Taxes Paid	--	(20,212)
	-----	-----
	1,322,322	988,59
CASH FLOWS FROM FINANCING ACTIVITIES		
Convertible Bonds	201,067	153,43
Payments for:		
Redeemable Capital	(18,968)	(16,363)
Long Term Foreign Currency Loan	(239,113)	(239,113)
Financial Charges	(307,335)	(323,373)
Liability against Assets subject to Finance Lease	(102,445)	(102,445)
Dividend	(141,315)	(401,069)
	-----	-----
	(608,109)	(928,926)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditure Incurred	(323,339)	(298,012)
Investment in Associated Company	--	(50,000)
	-----	-----
	(323,339)	(348,012)
	-----	-----
Net increase/(decrease) in Cash and Cash Equivalents	390,874	(288,342)
Cash & Cash Equivalents as on 01 July 1996	241,942	530,28
	-----	-----
Cash & Cash Equivalents as on 30 June 1997	632,816	241,94
	=====	=====

DEWAN ZIAUR REHMAN FAROOQUI
President / Chief Executive

AKIRA YAMAMURA
Chairman

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 1997**

1. STATUS AND NATURE OF BUSINESS

Dewan Salman Fibre Limited is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984, and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The Principal activity of the Company is manufacturing and sale of polyester staple fibre.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under the historical cost convention except for the capitalization of exchange difference as disclosed in Note 3.2 of these Financial Statements.

2.2 Staff retirement benefits

The Company operates an unfunded gratuity scheme. Annual provisions are made in the financial statements to cover obligations under this scheme.

2.3 Taxation

Provision for current taxation is based on current rates of tax after taking into account tax credits available, if any.

The Company accounts for deferred taxation on all material timing differences using the liability method. However, deferred tax is not provided if it can be established with reasonable probability that these timing differences will not reverse in the foreseeable future.

2.4 Tangible Fixed Assets and Depreciation

The Fixed Assets are stated at cost less accumulated depreciation except lease hold land and Capital Work-in-Progress which are stated at cost.

Depreciation, including that on capitalization of exchange differences is provided on reducing balance method at the rates specified in Note 3 and the rates applied are in no case less than the rates prescribed by the Central Board of Revenue.

Full year's depreciation is charged on additions and capitalization of exchange differences in the year of acquisition / capitalization, while no depreciation is charged in the year of disposal.

Major repairs and renewals are capitalized.

Profit or Loss if any, on disposal of Fixed Assets is included in the current year income.

2.5 Stores and Spares

These are valued at average cost except for those in transit which are valued at cost.

2.6 Stock-in-Trade

These are valued at lower of average cost and estimated net realizable value except for waste which is valued at selling price. Cost of raw and packing material is determined by average method except for those in transit, which are valued at cost. Cost of work-in-process comprises of raw material cost only. Conversion costs are not included as these are not significant.

Cost of finished goods comprises of prime cost and appropriate portion of production overheads.

Net Realizable Value signifies the estimated selling price in the ordinary course of business less cost necessary to be incurred in order to make the sale.

2.7 Foreign Currencies.

Transactions in foreign currencies are recorded using the rates of exchange ruling at the date of transaction.

Assets and Liabilities in foreign currencies are translated into rupees at the exchange rates prevailing on the Balance Sheet date except for those foreign currency balances which are covered under State Bank of Pakistan Exchange Risk Cover Scheme in which case it is translated at the rate fixed under the Exchange Risk Cover Scheme.

Exchange differences in respect of foreign currency loans / bonds obtained/issued for acquisition of fixed assets and against which there is no practical means of hedging, are incorporated in the cost of relevant assets up to the date of settlement/redemption of such loans/bonds and depreciation is charged thereon as per policy defined in Note 2.4.

All other exchange differences are taken to the Profit & Loss Account.

2.8 Revenue Recognition

Revenue from sales is recognized on despatch of goods to customers.

3. FIXED ASSETS - at cost less accumulated depreciation

(Rs. in '000')

Particulars	COST				
	As at 01 July 1996	Addition/ Transfer during the year	As at 30 June 1997	Rate Percent	As at 01 July 1996
UNIT I					
Leasehold Land	1,135	--	1,135	--	-
Islamabad Office	10,860	--	10,860	10	2,06
Factory Building	165,953	1,542	167,495	10	60,95
Non-Factory Building	147,374	--	147,374	25	91,87
Tank Terminal	15,412	--	15,412	10	4,50

Plant & Machinery	2,258,594	--	2,258,594	10	845,28
Vehicles	52,971	11,313	64,284	20	25,64
Furniture & Fixtures	10,219	5,019	15,238	10	3,20
Office Equipment	17,768	6,903	24,671	10	4,28
	-----	-----	-----		-----
1997	2,680,286	24,777	2,705,063		1,037,82
	-----	-----	-----		-----
1996	2,659,357	20,929	2,680,286		839,32
	-----	-----	-----		-----
UNIT II					
Leasehold Land	1,134	--	1,134	--	-
Factory Building	117,406	1,417	118,823	10	12,11
Non-Factory Building	66,271	74,903	141,174	25	16,67
Plant & Machinery					
-- Owned (Note 3.2)	2,254,038	210,650	2,464,688	10	233,13
-- Leased	614,668	--	614,668	10	63,77
Vehicles	7,486	4,964	12,450	20	1,49
Furniture & Fixtures	1,297	2,101	3,398	10	13
Office Equipment	6,854	4,527	11,381	10	68
	-----	-----	-----		-----
1997	3,069,154	298,562	3,367,716		328,01
	-----	-----	-----		-----
1996	2,792,071	277,083	3,069,154		11,71
	-----	-----	-----		-----
TOTAL- 1997	5,749,440	323,339	6,072,779		1,365,83
	=====	=====	=====		=====
TOTAL- 1996	5,451,428	298,012	5,749,440		851,04
	=====	=====	=====		=====

3.1 Depreciation has been allocated as follows:

	1997 (Rs. '000)				
	Unit I	Unit II	Total	Unit I	Unit II
Administrative	894	1,618	2,512	992	1,58
Cost of Sales	177,904	322,009	499,913	197,504	314,71
	-----	-----	-----	-----	-----
	178,798	323,627	502,425	198,496	316,29
	=====	=====	=====	=====	=====

3.2 Additions to Plant & Machinery - Owned include exchange differences of Rs. 201.07 million (1996: Rs. 153.4 million) arising on translation of long term loans / bonds as men in Note 2.7.

4. LONG TERM INVESTMENTS

This represents advance against future issue of share capital of Dewan Farooque

Petrochemicals Limited, an associated public Un-quoted company, amounting to Rs.50 million (1996:Rs.50 million).

	1997	1996
	(Rs. in '000')	
5. STORES & SPARES		
Consumable stores	67,854	36,80
Packing material	1,620	3,48
Chemicals	2,581	4,15
Fuel, Oil & Lubricants	45,247	32,06
	-----	-----
	117,302	76,50
	=====	=====
6. STOCK IN TRADE		
Raw Materials	937,483	765,44
Work in Process	49,029	33,56
Finished Goods	395,597	901,03
Waste	12,603	6,69
	-----	-----
	1,394,712	1,706,74
	=====	=====
7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances	147,505	111,61
Deposits	1,242	3,48
Other Receivables	50,567	224,21
	-----	-----
	199,314	339,32
	=====	=====
8. CASH AND BANK BALANCES		
Cash in hand	911	84
Cash at Bank - Current Account	91,431	51,12
- Deposit Account		
(Foreign Currency)	862,686	503,27
	-----	-----
	955,028	555,25
	=====	=====
9. CURRENT PORTION OF LONG TERM LIABILITIES		
Redeemable Capital	21,989	18,96
Long Term Foreign Currency Loan	239,113	239,11
Lease Liability	102,445	102,44
	-----	-----
	363,547	360,52
	=====	=====
10. SHORT TERM RUNNING FINANCES - Secured		

This represents short term finances obtained from various banks against available facilities of Rs. 820 Million (1996: Rs.560) Million) at a mark up rate ranging between 41.10 paisa to 4 per Rs. 1000 per day. These facilities are secured against hypothecation of stocks and book debts and are generally for a period of twelve months renewable at the end of the period.

11. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

Creditors for goods		1,212,214	1,560,560
Accrued Expenses		80,733	68,950
Accrued Markup on Term Finance Certificates		1,824	64
Accrued Interest on Long Term Foreign Currency Loan		10,047	13,390
Accrued Interest on Convertible Bonds		11,805	10,240
Accrued Profit & Exchange Risk Fee on Lease Facility		13,537	16,620
Workers Profit Participation Fund	11.1	18,435	10,260
Other Liabilities		4,115	5,240
		-----	-----
		1,352,710	1,685,930
		=====	=====

11.1 Workers Profit Participation Fund

Opening balance		10,269	47,880
Allocation during the year		18,435	10,260
		-----	-----
		28,704	58,150
Less: Paid during the year		10,269	47,880
		-----	-----
		18,435	10,260
		=====	=====

12. DIVIDEND PAYABLE / PROPOSED

Unclaimed Dividend		1,087	21,130
Proposed Final Cash Dividend		90,954	121,270
		-----	-----
		92,041	142,400
		=====	=====

13. SHARE CAPITAL

Authorised

360,000,000 Ordinary Shares of Rs. 10 each		3,600,000	3,600,000
		=====	=====

Issued, Subscribed & Paid up Capital

65,000,000 Ordinary Shares of Rs. 10 each fully paid in cash		650,000	650,000
--	--	---------	---------

55,056,818 Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	550,568	550,568
--	---------	---------

1,215,345 Ordinary Shares of Rs. 10 each issued as fully paid shares against conversion of Convertible Bonds	12,153	12,153
--	--------	--------

-----	-----
1,212,721	1,212,721
=====	=====

14. RESERVES AND SURPLUS

Share Premium	224,004	224,000
---------------	---------	---------

General Reserve

Balance as at 01 July	750,000	350,000
-----------------------	---------	---------

Transfer from profit & loss account	--	400,000
-------------------------------------	----	---------

-----	-----
-------	-------

Closing Balance	750,000	750,000
-----------------	---------	---------

Reserve for proposed issue of bonus shares	181,908	-
--	---------	---

Unappropriated profit carried forward	203,784	126,380
---------------------------------------	---------	---------

-----	-----
1,359,696	1,100,380
=====	=====

15. CONVERTIBLE BONDS - unsecured

	1997		1996	
	(Amounts in '000')			
	US \$	Pak Rs.	US \$	Pak Rs.
Outstanding Principal Amount	37,290	1,517,807	37,290	1,316,740
	=====	=====	=====	=====

This represents unsecured Convertible Bonds in the aggregate principal amount of US \$ 45,000,000 issued by the company to partly finance its Unit 11. These bonds are listed on the Luxembourg Stock Exchange and carry interest at a rate of 5.00% per annum which is payable semi-annually commencing from 05 May 1994.

Each bond is, at the option of the holder, convertible from and including 5th May 1994 up to and including 30 April 2001, into fully paid ordinary shares par value Rs. 10 each, of the company at an initial conversion price of Rs. 195 per share, and with a fixed rate of exchange on conversion of Rs. 30.63 = US\$ 1.00. The conversion price is subject to adjustment for, amongst, other things, subdivision, consolidation of shares, bonus issues, right issues and other dilutive events as described in the Terms and Conditions of the Bond and the Trust Deed. The previous conversion price of Rs. 137 per share has been adjusted to Rs. 141 per share subsequent to the conversion of Scrip Dividend in to Cash Dividend due to non-receipt of approval for Scrip Dividend from the Corporate Law Authority.

The shares issued upon conversion of bonds will be entitled to receive dividends declared

after the date of conversion of such bonds once the person receiving such shares are registered as shareholders of the company. Hence, all the bonds converted into shares of the company up to the date of commencement of Members Book Closure to determine the entitlement of dividends, are entitled to receive dividends declared for the year and any subsequent dividend declarations.

Up to the date of Balance Sheet, bonds valuing US\$ 7,710,000 have been converted into 1,215,345 shares of the company. The amount in excess of par have been transferred to share premium account.

Unless previously redeemed or converted, these bonds will be redeemed at their principal amount on 05 May 2001. However, subject to certain conditions, the bonds may be redeemed at the option of the company at any time on or after 05 May 1998.

	Note	1997 (Rs. in '000')	1996
16. REDEEMABLE CAPITAL-			
Secured (Non Participatory)			
Term Finance Certificates			
Series 1		59,640	59,64
Series 2		60,000	60,00
		-----	-----
		119,640	119,64
Less: Payments made to date		72,155	53,18
Current Maturity		21,989	18,96
		-----	-----
		94,144	72,15
		-----	-----
		25,496	47,48
		=====	=====

16.1 The company has entered into "SALE-CUM-INVESTMENT" agreement with Bankers Equity Limited (BEL) and agreed to sell the investment property to BEL for Rs. 59,640,000 and repurchase the same for Rs. 106,402,117 for which the Term Finance Certificates (TFCs) have been issued to BEL. The difference of sale and purchase price amounting to Rs. 46,762,117 with a rebate of Rs. 6,862,685 for timely repayment is considered as financial cost and spread over the tenure of the TFCs.

16.2 The company has entered into "SALE-CUM-INVESTMENT" agreement with Bankers Equity Limited (BEL) and agreed to sell the investment property to BEL for Rs. 60,000,000 and re-purchase the same for Rs. 113,335,509 for which the Term Finance Certificates (TFCs) have been issued to BEL. The difference of sale and purchase price amounting to Rs. 53,335,509 with a rebate of Rs. 6,904,110 for timely repayment is considered as financial cost and spread over the tenure of the TFCs.

16.3 The TFCs. (1 & 2) are redeemable in 14 equal bi-annual installments commencing from 01 October 1992.

16.4 The TFCs (1 & 2) are secured against first mortgage / charge of all present and future movable and immovable properties and assets of the company ranking pari-passu with other first charge holders.

17. LONG TERM FOREIGN CURRENCY LOAN - Secured

	Note		1997		1996	
			(Rs. in '000')			
	Japan Yen	Pak Rs.	Japan Yen	Pak Rs.	Japan Yen	Pak Rs.
Opening balance	6,339,502	956,450	7,924,378	1,195,563		
Less: Payment	1,584,876	239,113	1,584,876	239,113		
Current maturity	1,584,876	239,113	1,584,876	239,113		
	-----	-----	-----	-----		
	3,169,752	478,226	3,169,752	478,226		
	-----	-----	-----	-----		
	3,169,750	478,224	4,754,626	717,337		
	=====	=====	=====	=====		

This represents foreign currency loan amounting to Japanese Yen 8,997,250,000 from Mitsubishi Corporation, Japan for the import of Plant and Machinery and other capital expenditure.

The loan carries interest at the rate of 7.1% per annum. The interest during grace period has been added to loan amount.

The loan and interest thereon is repayable in fourteen half yearly installments commencing from 19 October 1993. The loan and interest thereon is secured against Bank Guarantee given by Habib Bank Limited which is counter guaranteed by Bankers Equity Limited led Syndicate.

The company has obtained the exchange risk cover against the currency fluctuation of the balance loan and interest amount. The exchange rate applicable is Japanese Yen 1.00 = Re. 0.150872 and exchange risk fee is payable @ 5% per annum on the outstanding liability.

	1997	1996
	(Rs. in '000')	
18. LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Principal Amount	614,668	614,666

Less: Payment made to date	204,890	102,44
Current Maturity	102,445	102,44
	-----	-----
	307,335	204,89
	-----	-----
	307,333	409,77
	=====	=====

This represents lease facility of US \$ 20,000,000 provided by AI-Tawfeek Company for Investment Funds for Unit-II of the company. The financing is repayable in 12 equal semi annual installments commencing from 20 October 1995 along with profit payment rate for 6 months London Inter Bank Offering Rate (LIBOR)+ 2.5% or 7.5% per annum, whichever is higher. The facility is secured by way of first charge on movable and immovable assets of the company ranking pari-passu with existing first charge holders and personal guarantee of the directors.

The company has obtained the exchange risk cover against the currency fluctuation of the balance facility and profit amount. The exchange rate applicable is US\$ 1.00 = Rs. 30.7334 and exchange risk fee is payable @ 8.17% per annum on the outstanding liability.

19. CONTINGENCIES

Bank Guarantees	41,552	49,31
	=====	=====

20. SALES

	1997			Unit I	Unit II
	(Rs. in '000)				
	Unit I	Unit II	Total	Unit I	Unit II
Fibre	3,463,773	3,840,643	7,304,416	3,566,093	3,056,31
Waste	8,846	4,000	12,846	9,900	10,01
	-----	-----	-----	-----	-----
	3,472,619	3,844,643	7,317,262	3,575,993	3,066,32
Less: Excise Duty	65,374	76,588	141,962	160,209	145,53
Sales Tax	134,013	145,696	279,709	--	-
Commission	19,925	23,270	43,195	23,461	21,35
	-----	-----	-----	-----	-----
	219,312	245,554	464,866	183,670	166,89
	-----	-----	-----	-----	-----
	3,253,307	3,599,089	6,852,396	3,392,323	2,899,43
	=====	=====	=====	=====	=====

21. COST OF SALES

Raw Material Consumption

Opening Stock	296,157	469,288	765,445	361,044	140,17
---------------	---------	---------	---------	---------	--------

Purchases of Raw Materials	2,242,698	2,310,178	4,552,876	2,432,855	3,076,988
Less: Closing Stock	(439,773)	(497,710)	(937,483)	(296,157)	(469,288)
	<u>2,099,082</u>	<u>2,281,756</u>	<u>4,380,838</u>	<u>2,497,742</u>	<u>2,747,877</u>
Salaries, Wages & Other Benefits	89,467	70,200	159,667	79,555	40,511
Electricity, Fuel & Power	149,273	151,594	300,867	87,201	90,141
Packing Material Consumed	31,506	34.30	65,806	23,940	26,461
Stores & Spares Consumed	59,594	19,916	79,510	53,303	12,471
Insurance	14,730	14,959	29,689	11,926	13,181
Depreciation	177,904	322,009	499,913	197,504	314,711
Repairs & Maintenance	1,678	3,071	4,749	1,520	861
Vehicle running expenses	3,248	2,770	6,018	3,812	1,671
Travelling & Conveyance	2,035	2.07	4,102	2.40	2,641
Chemicals	6,582	6.69	13.27	4.95	5,461
Miscellaneous	19	18	37	291	321
	<u>2,635,118</u>	<u>2,909,346</u>	<u>5,544,464</u>	<u>2,964,135</u>	<u>3,256,351</u>
Work-in-process (Opening)	20,725	12,842	33,567	1,700	27,661
Work-in-process (Closing)	(18,252)	(30,777)	(49,029)	(20,725)	(12,842)
Cost of Goods Manufactured	<u>2,637,591</u>	<u>2,891,411</u>	<u>5,529,002</u>	<u>2,945,110</u>	<u>3,271,171</u>
Finished Goods (Opening)	130,760	776,968	907,728	189,925	127,131
Finished Goods (Closing)	(60,906)	(347,294)	(408,200)	(130,760)	(776,968)
	<u>2,707,445</u>	<u>3,321,085</u>	<u>6,028,530</u>	<u>3,004,275</u>	<u>2,621,341</u>
	=====	=====	=====	=====	=====

22. ADMINISTRATIVE & GENERAL EXPENSES

Note	1997 (Rs. in '000)				
	Unit I	Unit II	Total	Unit I	Unit II
Salaries, Wages & Other Benefits {including Directors' Remuneration amounting to Rs.1.8 Million (1996: Rs. 1.8 Million)}	12,495	12,399	24,894	9,155	8,171
Entertainment	2,584	493	3,077	1,648	1,471
Communication	5,918	2,806	8,724	4,526	4,041
Depreciation	894	1,618	2,512	992	1,581

Vehicle Running Expense	2,992	1,426	4,418	1,210	97
Legal & Professional	5,518	2,082	7,600	3,387	1,77
Printing & Stationery	5,059	2,678	7,737	2,831	2,52
Electricity, Fuel & Power	3,222	1,386	4,608	1,133	1,01
Repair & Maintenance	2,602	215	2,817	1,181	21
Insurance	2,095	1,680	3,775	1,829	1,63
Travelling & Conveyance	5,453	870	6,323	4,267	1,55
Auditors' Remuneration	150	--	150	130	-
Miscellaneous	1,543	486	2,029	783	82
	-----	-----	-----	-----	-----
	50,525	28,139	78,664	33,072	25,77
	=====	=====	=====	=====	=====

23. SELLING & DISTRIBUTION

Advertisement	1,031	402	1,433	1,549	1,38
Cartage, Freight & Octroi	19,529	17.78	37,312	27,583	14,29
Miscellaneous	5,911	4,081	9,992	3,347	2,98
	-----	-----	-----	-----	-----
	26,471	22,266	48,737	32,479	18,66
	=====	=====	=====	=====	=====

24. FINANCIAL EXPENSES

Interest on Long Term Foreign Currency Loan	60,326	--	60,326	77513	-
Mark-up on Term Finance Certificates	13,427	--	13,427	11,481	-
Mark-up & Excise Duty on Running Finance	12,942	3,781	16,723	9,426	-
Guarantee Commission	14,183	--	14,183	14,889	-
Interest on Convertible Bonds	--	68,570	68,570	--	63,32
Profit on Lease Facility	--	40,891	40,891	--	55,79
Exchange Risk Fee	45,560	38,539	84,099	42,114	46,86
Bank Charges	4,009	1,411	5,420	2,449	1,71
	-----	-----	-----	-----	-----
	150,447	153,192	303,639	157,872	167,69
	=====	=====	=====	=====	=====

25. DONATION

25.1 This includes Rs.20.00 Million (1996: Rs. 20.00 Million) donated to Society for the Welfare of Patients of Urology & Transplantation for construction of Dewan Farooq Medical

Complex at Civil Hospital Karachi and Rs.2.5 Million (1996: Nil) donated to Prime Minister Debt Retirement Fund.

25.2 None of the directors or their spouse have any interest in the donee fund.

26. CHIEF EXECUTIVE & DIRECTORS' REMUNERATION

Particulars	1997 (Rs. in '000)				
	Chief Executive	Director	Total	Chief Executive	Director
Managerial Remuneration	792	396	1,188	792	396
House Rent Allowance	348	174	522	348	174
Utilities	60	30	90	60	30
	-----	-----	-----	-----	-----
Total	1,200	600	1,800	1,200	600
	-----	-----	-----	-----	-----
Number of Persons	1	1	2	1	1
	-----	-----	-----	-----	-----

1997
(Rs. in '000')

1996

27. AUDITORS' REMUNERATION

Feroze Sharif Tariq & Co.

Audit Fees	50	4
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Faruq All & Company

Audit Fees	50	4
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Other Services	50	5
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-----	-----
100	9

-----	-----
150	13

=====

28. TAXATION

The Unit I of the company enjoys Income Tax exemption for eight years from the date of commencement of commercial production i.e, 01 January 1992 in accordance with the clause 118 (C) of IInd Schedule of Income Tax Ordinance, 1979. Further the Unit II of the company also enjoys Tax Exemption for eight years from the date of commencement of commercial production i.e, 15 June 1995 in accordance with the clause 118 (H) of the IInd Schedule of Income Tax Ordinance, 1979. The Unit II has also been certified by the Regional Commissioner of Income Tax for the purpose of above mentioned clause. However, with the inception of section 80 (D) of Income Tax Ordinance, 1979, minimum tax liability @ 0.5% of turnover was imposed on the company. The company filed a writ petition against this provision of Income Tax Ordinance, 1979, with Peshawar

32. CASH AND CASH EQUIVALENTS

Cash & Bank Balances	955,028	555,25
Short Term Running Finance	(322,212)	-313,31
	-----	-----
	632,816	241,94
	=====	=====

33. GENERAL

33.1 Figures have been rounded off to the nearest thousand rupees.

33.2 Previous year's figures have been re-arranged, wherever necessary to facilitate the comparison.

SUMMARY OF DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS, UK GAAP AND U.S. GAAP

THIS INFORMATION IS PRESENTED FOR THE CONVENIENCE OF INTERNATIONAL USERS, INCLUDING OUR SHAREHOLDERS, BONDHOLDERS AND CREDITORS.

The following is a summary of differences between IAS, generally accepted accounting principles in the United Kingdom ("UK GAAP") and in the United States ("U.S. GAAP") respectively in so far as they are relevant to the financial statements of the Company.

IAS	UK GAAP	U.S. GAAP
Inventories are valued at lower of cost and net realisable value.	Inventories are valued at lower of cost and net realisable value.	Inventories whichever means current purchase or case may be -- Market s realisable selling p of busine predictab and dispo -- Market s realisable allowance f normal prof
Earnings per share not disclosed.	Earnings per share data for before extraordinary items and net income are required to be disclosed.	Earnings pe before extr income are

No disclosures made for particulars of staff.	Average number of persons employed by the company analysed by category and aggregate payroll costs are required to be disclosed.	No disclosure
Total amount of directors remuneration disclosed.	Aggregate amount of directors' emoluments including money value of benefits in kind and the number of directors whose aggregate emoluments fall within various bands are required to be disclosed.	No disclosure
Repayment terms for term loans disclosed.	Amounts falling due after more than five years are required to be disclosed separately.	Repayment terms disclosed.
Maximum amount due from companies affiliated to the company's shareholders at the end of any month during the year and sales to affiliates during the year disclosed.	No UK standard on related party transactions.	Disclosures of transactions -- The nature of the transactions -- A description of the transactions including the terms and conditions, no amounts are ascribed to the transactions -- The terms of the transactions and settlement.
Proposed dividends for the year, though proposed after the year end, are reflected in the related financial statements.	Proposed dividends for the year, though proposed after the year end, are reflected in the related financial statements.	Dividends are disclosed as associated with the year end earnings and are reflected in the financial statement.

PATTERN OF SHARE HOLDINGS AT 30 JUNE 1997

NUMBER OF SHARE HOLDERS	SHARE HOLDINGS			TOTAL SHARES HELD	
473	1	--	100	20,848	
610	101	--	500	176,559	
604	501	--	1000	486,740	
613	1001	--	5000	1,368,497	
148	5001	--	10000	1,093,123	
40	10001	--	15000	494,765	
38	15001	--	20000	686,060	

11	20001	--	25000	252,772
10	25001	--	30000	274,105
4	30001	--	35000	127,718
6	35001	--	40000	220,226
4	40001	--	45000	164,900
4	45001	--	50000	189,389
5	50001	--	55000	262,004
2	55001	--	60000	115,200
3	60001	--	65000	182,514
2	65001	--	70000	136,250
5	70001	--	75000	367,112
1	80001	--	85000	81,500
2	85001	--	90000	173,706
4	90001	--	95000	369,176
1	90001	--	100000	96,600
1	105001	--	110000	105,840
1	110001	--	115000	110,016
1	115001	--	120000	120,000
1	120001	--	125000	124,600
1	125001	--	130000	128,798
1	130001	--	135000	130,998
2	140001	--	145000	285,196
2	150001	--	155000	303,414
1	160001	--	165000	162,686
1	170001	--	175000	174,000
6	180001	--	185000	1,103,988
1	245001	--	250000	246,000
1	250001	--	255000	251,600
1	325001	--	330000	328,420
1	385001	--	390000	387,090
1	520001	--	525000	520,328
1	535001	--	540000	535,616
1	560001	--	565000	561,750
1	590001	--	595000	594,195
1	595001	--	600000	598,797
1	600001	--	605000	602,520
1	615001	--	620000	615,618
1	710001	--	715000	710,014
1	765001	--	770000	769,906
1	770001	--	775000	771,012
1	775,001	--	780000	778,371
1	835001	--	840000	839,397
1	965001	--	970000	969,126
1	2400001	--	2405000	2,404,580
1	3005001	--	3010000	3,008,982
1	7355001	--	7360000	7,359,998

1	7825001	--	7830000	7,829,548
1	11955001	--	11960000	11,959,998
2	14945001	--	14950000	29,899,996
1	38635001	--	38,640,000	38,640,000
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2,633	TOTAL			121,272,162
=====	=====	=====	=====	=====

CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARE HOLDERS	SHARES HELD	PERCENTAGE
-----	-----	-----	-----
1. INDIVIDUALS	2,516	14,846,020	12.242
2. INVESTMENT COMPANIES	5	601,958	0.496
3. INSURANCE COMPANIES	3	1,012,248	0.835
4. JOINT STOCK COMPANIES	32	61,120,726	50.400
5. FINANCIAL INSTITUTIONS	14	9,100,523	7.504
6. MODARABA	12	51,204	0.042
7. FOREIGN INVESTORS	50	34,535,805	28.478
8. OTHERS	1	3,678	0.003
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TOTALS :-	2,633	121,272,162	100.00
=====	=====	=====	=====