

## **Nagina Cotton Mills Limited**

### **Annual Report 1998**

#### **COMPANY INFORMATION**

##### **BOARD OF DIRECTORS**

Mr. Shaikh Enam Ellahi	Chairman
Mr. Shahzada Ellahi Shaikh	
Mr. Shaukat Ellahi Shaikh	
Mr. Shafqat Ellahi Shaikh	
Mr. S.M. Yusuf	
Mr. Munawar Iqbal	
Mr. Hasan Mahmood	(Nominee of National Investment Trust Ltd.)
Mr. M. Farooq Khan	(Nominee of Pak Libya Holding Co. (Pvt) Ltd.)

##### **MANAGING DIRECTOR (Chief Executive)**

Mr. Shaukat Ellahi Shaikh

##### **AUDITORS**

Messrs. M Yousuf Adil Saleem & Co.  
Chartered Accountants,  
Cavish Court, A-,35, Block 7 & 8 KCHSU.  
Shahrah-e-Faisal,  
Karachi.

##### **REGISTERED OFFICE**

2nd Floor, Shaikh Sultan Trust Bldg. No. 2  
26, Civil Lines, Beaumont Road,  
Karachi- 75530

##### **MILLS**

Aminabad, A-16, S.I.T.E.,  
National Highway,  
Kotri.

#### **NOTICE OF MEETING**

31st Annual General Meeting of NAGINA COTTON MILLS LTD. will be held at the Registered Office of the Company, 2rid Floor, Shaikh Sultan Trust Building No. 2, 26, Civil Lines, Beaumont Road, Karachi-75530 on Thursday, the 25th March, 1999 at 3.00 P.M. to transact the following business :-

1. To confirm minutes of the 30th Annual General Meeting held on 27th March, 1998.
2. To receive and adopt audited accounts of the Company for the year ended on 30th September, 1998 together with the Directors' and Auditors' reports thereon.
3. To elect 7 (seven) Directors for a period of three years from 31st March, 1999 as fixed by the Board in place of retiring Directors namely: Mr. Shaikh Enam Ellahi, Mr. Shahzada Ellahi Shaikh, Mr. Shaukat Ellahi Shaikh, Mr. Shafqat Ellahi Shaikh, Mr. S.M. Yusuf, Mr. 'Munawar Iqbal and Mr. Hassan Mahmood (nominee NIT).

Mr. M. Farooq Khan, Nominee of M/s. Pak-Libya Holding Co. (Pvt) Ltd., is not subject to retirement.

4. To appoint auditors and to fix their remuneration.
5. To approve as SPECIAL BUSINESS remuneration to the full time working Directors including Mg. Director (Chief Executive).
6. To transact any other ordinary business with the permission of the Chair.

Resolutions proposed to be moved and statement under Section 160 of the Companies Ordinance, 1984 are annexed.

By Order of the Board

**Sheikh Mohammad Shafi**  
Corporate Secretary

February 27, 1999.

**NOTES:**

1. The share transfer books of the Company will be closed from Friday, the 19th March, 1999 to Thursday, the 25th March, 1999 (both days inclusive).
2. A member entitled to attend and vote at the general meeting is entitled to appoint another members as proxy. Proxies, in order to be effective, must be received at the Company's registered office not less than 48 hours before the time of meeting.
3. Any share holder who seeks to contest election to the office of Director shall file with the Company not later than fourteen days before the date of meeting, a notice of his intention to offer himself for election as a Director in terms of Section 178(3) of the Companies Ordinance, 1984.
4. Shareholders are requested to promptly notify the company of any change in their address.

**Proposed resolutions and Statements under Section 160  
of the Companies Ordinance, 1984**

The following resolutions which set out the material facts concerning the ordinary and special business will be moved at the meeting for approval with or without modification(s):-

**A. ORDINARY BUSINESS:**

RESOLVED that the retiring auditors Messrs. M. Yousuf Adil Saleem & Co., Chartered Accountants, Karachi be and are hereby appointed auditors of the Company for the year ending on 30th September, 1999 and that the Mg. Director (Chief Executive) be and is hereby authorised to fix their remuneration.

**B. SPECIAL BUSINESS:**

RESOLVED that the Company hereby approves payment of a sum of Rs. 2.50 million (Rupees two million five hundred thousand only) per annum for the year ending on 30th September, 1999 and for the subsequent years, the said amount increased by 15% (fifteen percent) per annum as managerial remuneration including perquisites/benefits (other than provision of transport, travelling and telecommunications) to the working Directors including Mg. Director (Chief Executive) and the Board of Directors be and is' hereby authorised to determine individual remuneration and terms from time to time.

Mr. Shaukat Ellahi Shaikh, Mg. Director (Chief Executive) and Mr. Munawar Iqbal, Director are interested in the remuneration.

**DIRECTORS' REPORT**

**IN THE NAME OF ALLAH, THE MOST GRACIOUS  
THE MOST BENEVOLENT, THE MOST MERCIFUL**

The Directors have the honour to present the 31st Annual report of the Company together with the audited accounts and the auditors report thereon for the year ended on 30th September, 1998.

**Alhamdolillah, inspite of slowdown in global yarn markets resulting from crisis in the Far Eastern countries, the Company during the year earned profit before tax at Rs. 41,051,970/= (1997: Rs. 37,629,618/=). After tax profit amounts to Rs. 26,912,124/= (1997: Rs. 4,870,983/=).**

During the year, 7,286,676 Kgs. of Cotton yarn were spun against 7,871,275 Kgs. spun in the previous year. Production was lower by 7.43% although average count of yarn spun during the year was 877% finer.

Quantity of Yarn exported accounted for 39.33% of total quantity of yarn sold during the year against 40.52% in the previous year. Export quantity is 13.51% lower than the previous year. Value of yarn exports, however, was lower by 10.00% due to higher (4.04%) price obtained.

Local sales of yarn quantitatively were also lower 9.11% from the previous year. Value of local yarn sales were also lower by 10.13% due to average sales price being lower by 1.11% from the previous year.

Cotton crop in Pakistan has been failing for the last few years. Rosy forecasts of large Cotton crop are made. On the basis of forecasts free export of Raw cotton is permitted. Prices of Cotton lint is increased to level much

higher than International parity. Season 1997-98 was no exception.

Costs continue to increase. Salaries and Benefits increased Rs. 4,119,857/- or by 8.58% over the previous year and amount to 6.60% of the cost of goods produced. Electricity costs increased 8.62% due to higher 7.73% cost per unit and increased consumption by 0.83%.

Financial charges constitute a large percentage of the overall costs. Therefore, fund management, as usual, continued to receive very close attention in the year under report financial charges could be reduced by Rs. 6,216,930/= or 7.76%. Financial charges could have been lower, but for large increase in bank charges specially for collection of foreign bills.

Selling and Distribution expenses on export were reduced due to lower quantity and value of exports. Selling & Distribution expenses are 1.70% of sales against 1.96% of sales in the previous year.

By a great deal of effort Administrative expenses were contained/reduced by nominal sum of Rs. 298,897/= from the previous year but amount to 3.08% of sales as compared to the previous year's 2.81%.

Gross profit for the year amounted to 13.40% (1997: 13.03%). Profit before tax increased to Rs. 41,051,970/= over the previous year's Rs. 37,629,618/=. Profit after tax-amounts to Rs. 26,912,124/= (1997: Rs. 4,870,983/=).

In to day's fast changing markets, balancing, modernisation and replacement of machinery to keep up with the changing trends is essential for profitable operations. During the year, balancing, modernisation and replacement of machinery and equipment has been carried out.

The auditors' in their report have again drawn attention to the non-provision of Excise Duty on bank borrowings. The management had stated in the previous year's report of having been advised that the levy is unconstitutional. The Company's writ petition on the subject is pending adjudication. The management is hopeful of decision in favour of the Company and therefore, have preferred not to provide for the amount in the accounts.

Prices of our raw materials and other inputs have continued to increase very substantially from year to year. High prices are likely to prevail in the near future. We have to purchase Raw Cotton for the whole year during a period of about 3 months. This requires huge amount of finances as the Banks advance against raw action only a percentage of the value.

Balance has to be self financed. Money required for the purpose runs into tens of millions. Under the circumstances, conservation of liquidity assumes great importance. However, the Directors declared an/interim cash dividend @ Re. 1/= (i.e. 10%) per ordinary share of Rs. 10/- each.

By the Grace of ALMIGHTY ALLAH THE MOST GRACIOUS, THE MOST MERCIFUL the Directors have the pleasure to report that subsidiary of the Company Messrs. ELLCOT SPINNING MILLS LTD., have earned net profit after tax of Rs. 17,890,001/= during the year. The subsidiary has paid interim cash dividend @ 2/00 (i.e.. 20%) on ordinary share of Rs. 10/'- each. Directors report, audited accounts and the auditors report of the subsidiary are attached.

The other subsidiary company Messrs. PROSPERITY WEAVING MILLS LTD., have, with the grace of almighty ALLAH earned after tax profit for the year amounting to Rs. 56,414,492/=. PROSPERITY paid interim cash dividend @ Rs. 2/= (i.e. 20%) on ordinary shares of Rs. 10/= each. Directors report, audited accounts and auditors report of the subsidiary company are enclosed.

The Associated Company Messrs. Ellahi Electric Co. Ltd., paid dividend @ Rs. 1/50 (i.e. 15%) on ordinary share of Rs. 10/= each.

Messrs. Pacific Leasing Co. Ltd., the other Associated company also paid dividend @ Rs. 1/50 (i.e. 15%) on ordinary shares of Rs. 10/= each.

The Directors have the pleasure to state that the Computers and software used by the Company are year 2000 compliant.

Prospects for the current year (1998-99) do not appear to be bright. Textile exports, from Pakistan, specially those of Cotton yarn are substantially down. Although efforts are on to re-float economies of our main customers i.e. Japan and Hong Kong, how far the efforts succeed remains to be seen. In view of the situation, the Directors are unable to predict the results for 1998-99.

The Directors are once again very pleased to place on record their appreciation of continued excellent human relations that they continue to enjoy with the staff and workers who continue to work devotedly. The Directors continue to look to a very lengthy period of the happy relationship.

On behalf of the Board

**Shaukat Ellahi Shaikh**  
Mg. Director (Chief Executive)

February 27, 1999.

**OPERATING FINANCIAL & INVESTMENT RATIOS  
AS AT 30TH SEPTEMBER**

Particulars		1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Cost of sales as% of sales	%	86.60	86.97	85.28	92.63	84.33	83.79	79.86	78.21	78.53	69.79	76.12	67.00
Gross profit as % of sales	%	13.40	13.03	14.72	7.37	15.67	16.21	20.14	21.79	21.47	30.21	23.88	33.00
Operating profit as % of sales	%	13.31	11.99	11.21	2.19	9.11	8.21	11.56	14.09	13.59	22.78	17.31	25.06
Net profit/(loss) after tax													
As % of sales	%	2.99	0.49	3.13	(4.59)	2.12	-	2.23	6.75	7.79	14.09	8.74	20.61
Shareholders' equity (Min)	Rs.	140.77	123.21	127.69	100.47	141.80	133.29	141.74	144.83	128.58	121.61	92.23	43.20
Pretax profit to equity	%	29.16	30.54	21.32	-	8.74	-	8.69	25.74	20.29	38.61	23.94	64.04
Sales to capital employed	%	2.21	2.71	3.26	3.88	2.02	1.62	1.50	1.65	1.20	1.21	1.28	1.03
Gross profit to capital employed	%	29.57	35.27	48.09	28.57	31.54	26.37	30.11	36.02	25.85	36.75	30.50	33.98
Pretax profit to capital employed	%	10.07	10.20	10.20	-	4.27	-	3.47	11.15	9.38	17.05	11.16	21.21
Earning per share, pretax	Rs.	4.39	4.02	2.91	-	1.50	-	1.45	4.39	3.07	6.37	8.03	25.15
Dividend to capital													
Cash	%	10.00	10.00	-	-	5.00	10.00	15.00	25.00	22.50	15.00	-	-
Bonus	%	-	-	-	-	10.00	-	-	-	-	15.33	34.00	150.00
Break upvalue per share	Rs.	15.06	13.18	13.66	10.75	17.18	15.68	16.68	17.04	15.13	16.50	33.54	39.28
Debt Equity ratio		65.47	66.60	52.11	64.36	51.49	59.41	60.40	56.46	54.46	56.44	56.46	67.33
Current ratio		1.03	0.95	0.70	0.70	0.86	0.97	1.11	1.16	1.24	1.79	1.04	0.50
Acid Ratio		0.83	0.74	0.52	0.48	0.59	0.73	0.87	0.97	0.94	1.54	0.97	0.27
Total Debts to total Assets	%	83	82	81	85	74	72	73	74	65	65	71	77
Stock as % of sales	%	8.92	6.24	7.83	6.23	10.24	6.39	4.79	5.25	4.36	3.67	2.23	7.99

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of NAGINA COTTON MILLS LIMITED as at September 30, 1998 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, except for the effect of the eventual resolution of the matter of non provision of central excise duty as referred to in Note 12.1, the balance sheet, profit and loss account and statement of changes in financial position (cash flow statement), together with the notes forming part thereof, give a true and fair view of the state of the Company's affairs as September 30, 1998 and of the profit and the changes in the financial position 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.

Karachi:

**M. YOUSUF ADIL SALEEM & CO.,**

**BALANCE SHEET AS AT SEPTEMBER 30, 1998**

	Note	1998 Rupees	1997 Rupees
<b>SHARE CAPITAL</b>			
Authorised			
10,000,000 Ordinary shares of Rs. 10/= each		100,000,000	100,000,000
		=====	=====
Issued, subscribed and paid up	3	93,500,000	93,500,000
Unappropriated profit		47,274,476	29,712,352
		-----	-----
		140,774,476	123,212,352
<b>REDEEMABLE CAPITAL</b>			
	4	16,975,796	23,585,940
<b>DEBENTURES AND LONG TERM LOANS</b>			
	5	188,930,776	180,528,788
<b>LIABILITIES AGAINST ASSETS</b>			
<b>SUBJECT TO FINANCE LEASE</b>	6	24,143,440	11,125,586
<b>DEFERRED LIABILITIES</b>			
Staff gratuity		7,867,223	6,954,225
Deferred custom levies	7	-	400,589
Taxation		5,000,000	-
		-----	-----
		12,867,223	7,354,814
<b>CURRENT LIABILITIES</b>			
Short term bank borrowings	8	340,771,800	219,538,155
Current portion of long term liabilities	9	36,876,891	30,455,416
Creditors, accrued and other liabilities	10	73,426,888	76,056,375
Taxation		9,769,708	12,286,232
Dividend	11	296,206	254,952
		-----	-----
		461,141,493	338,591,130
<b>CONTINGENCIES AND COMMITMENTS</b>			
	12	-	-
		-----	-----
		844,833,204	684,398,610
		=====	=====
<b>FIXED CAPITAL EXPENDITURE</b>			
Operating assets	13	264,287,673	253,347,381
Capital work in progress	14	8,554,851	2,847,645
		-----	-----
		272,842,524	256,195,026
<b>LONG TERM INVESTMENTS</b>			
	15	133,985,960	133,985,960
<b>LONG TERM DEPOSITS</b>			
		513,810	513,810
<b>CURRENT ASSETS</b>			
Stores and spares	16	3,702,071	4,831,003
Stock in trade	17	80,198,909	62,336,726
Trade debtors	18	141,828,334	39,502,032
Loans and advances	19	33,953,238	25,917,825
Deposits and prepayments	20	6,771,669	2,675,634
Short term investment	21	107,718,200	-
Other receivables	22	23,098,620	13,012,603
Cash and bank balances	23	40,219,869	145,427,991
		-----	-----
		437,490,910	293,703,814
		-----	-----
		844,833,204	684,398,610
		=====	=====

The annexed notes from 1 to 37 form an integral part of these accounts.

February 27, 1999.

**Shafqat Ellahi Shaikh**  
Director

**Shaukat Ellahi Shaikh**  
Mg Director (Chief Executive)

**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	Note	1998 Rupees	1997 Rupees
Sales	24	899,389,160	998,672,122
Cost of goods sold	25	778,825,304	868,541,695
		-----	-----
Gross profit		120,563,856	130,130,427
		-----	-----
Trading profit	26	7,971,361	2,166,642
Other income	27	34,158,871	35,103,707
		-----	-----
		42,130,232	37,270,349
		-----	-----
		162,694,088	167,400,776
Operating expenses			
Administration	28	27,725,976	28,024,873
Selling	29	15,293,939	19,595,162
		-----	-----
		43,019,915	47,620,035
		-----	-----
Operating profit		119,674,173	119,780,741
Other charges			
Financial	30	73,927,746	80,144,676
Provision for doubtful debts		2,500,000	-
Workers' profit participation fund		2,194,457	2,006,447
		-----	-----
		78,622,203	82,151,123
		-----	-----
Profit before taxation		41,051,970	37,629,618
Taxation			
Current year		7,062,189	5,684,312
Prior years		2,077,657	27,074,323
Deferred		5,000,000	-
		-----	-----
		14,139,846	32,758,635
		-----	-----
Profit after taxation		26,912,124	48,709.83
Unappropriated profit brought forward		29,712,352	34,191,369
		-----	-----
Profit available for appropriation		56,624,476	39,06235,2
Appropriations:			
Interim dividend @ 10% (1997 @10%)		9,350,000	9,350,000
		-----	-----
Unappropriated profit carried forward		47,274,476	29,712352
		=====	=====

The annexed notes from 1 to 37 form an integral part of these accounts.

Shafqat Ellahi Shaikh  
Director

Shaukat Ellahi Shaikh  
Mg. Director (Chief Executive)

February 27, 1999.

**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**{CASH FLOW STATEMENT}**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	1998 Rupees	1997 Rupees
<b>A. CASH FROM OPERATING ACTIVITIES</b>		
Profit before taxation	41,051,970	37,629,618
Adjustments for:		
Depreciation	26,779,111	19,956,204
Provision for gratuity	3,709,395	3,084,864
Provision for doubtful debts	2,500,000	-
Gain on disposal of fixed assets	(861,065)	(703,036)
Payment of gratuity	(2,796,397)	(2,574,349)
Dividend income	(21,884,482)	(23,394,740)
Financial charges	73,927,746	80,144,676

Operating profit before working capital changes	122,426,278	114,143,237
Changes in working capital		
(Increase)/decrease in current assets		
Stores and spares	1,128,932	1,320,333
Stock in trade	(17,862,183)	5,842,056
Trade debtors	(104,826,302)	(6,795,530)
Loans and advances	(982,772)	11,403,147
Deposits and prepayments	(4,096,035)	15,153,866
Other receivables	(10,086,017)	6,264,851
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities	(2,861,832)	527,082
	(139,586,209)	33,715,805
Cash (used in)/generated from operations	(17,159,931)	147,859,042
Financial charges paid	(74,095,990)	(78,954,201)
Taxation paid	(18,709,011)	(13,259,522)
Net cash (used in)/from operating activities	(109,964,932)	55,645,319
<b>B. CASH FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of fixed assets	1,954,000	2,928,256
Fixed capital expenditure	(44,519,544)	(21,593,516)
Disposal of short term investments	-	49,070,813
Long term deposits	-	(10,000)
Net cash (used in)/from investing activities	(42,565,544)	30,395,553
<b>C. CASH FROM FINANCING ACTIVITIES</b>		
redemption of redeemable capital	(5,744,873)	(4,879,603)
Long term loans obtained	132,000,000	-
Repayment of long term loans	(14,816,515)	(18,865,139)
Finance lease obtained	24,453,164	1,260,000
Repayment of lease liabilities	(8,017,984)	(7,419,825)
Payment of deferred liabilities	-	(5,336,693)
Net increase in short term bank borrowings	14,591,026	55,828,999
Dividend received	21,884,482	23,394,240
Payment of dividend	(9,308,746)	(9,221,478)
Net cash from financing activities	155,040,554	34,761,001
Net increase in cash and bank balances (A+B+C)	2,510,078	120,801,873
Cash and cash equivalent at the beginning of th	31 145,427,991	24,626,118
Cash and cash equivalent at the end of the year	31 147,938,069	145,427,991

Shafqat Ellahi Shaikh

Director

Shaukat Ellahi Shaikh

Mg. Director (Chief Executive)

February 27, 1999

**NOTES TO THE ACCOUNTS-SEPTEMBER 30, 1998****1. STATUS AND ACTIVITIES**

The Company is limited by shares incorporated in Pakistan on May 16, 1967 and is quoted on stock exchanges in Pakistan. The principal business of the Company is manufacture and sale of cotton and blended yarn. The Mills is located in Kotri Industrial Trading Estate in the Province of Sindh.

**2. SIGNIFICANT ACCOUNTING POLICIES****2.1 Accounting convention**

These accounts have been prepared under 'historical cost convention', modified by capitalisation of certain exchange differences mentioned in note 2.4.

## 2.2 Staff retirement benefits

The Company operates an unfunded gratuity scheme covering all its employees. Provision is made annually to cover the liability under the scheme.

## 2.3 Taxation

### Current

Provision for current taxation is based on taxable income at current tax rates after taking into account tax rebates and tax credits available, if any.

### Deferred

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 differences will not reverse in the foreseeable future.

## 2.4 Operating assets

Operating assets, except freehold land, are stated at cost less accumulated depreciation. Freehold land is stated at cost.

Depreciation is charged to income applying the reducing balance method at the rates specified in operating assets note.

Exchange differences in respect of foreign currency loans obtained for acquisition of fixed assets are incorporated in the cost of relevant assets.

Depreciation on day to day additions during the year is charged on the basis of whole year while no depreciation is charged on deletions during the year. However, major capitalisation of project cost are depreciated on proportionate basis for the period of use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

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

## 2.5 Accounting for leases

The Company accounts for the assets acquired under finance lease by recording the assets and related liability. 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 estimated useful life in view of the certainty of ownership of the assets at the end of the lease period.

## 2.6 Capital work in progress.

All costs/expenditure connected with specific assets incurred during the implementation period are carried under this head. These are transferred to specific assets as and when assets are available for use.

## 2.7 Investments

Long term investments in shares of joint stock companies are stated at cost. Permanent diminution in value is charged to current income. Short term investments in shares of Joint Stock Companies are stated at lower of cost and market value on aggregate basis.

## 2.8 Stores and spares

These are valued at moving average cost. Items in transit are valued at cost accumulated upto the balance sheet date.

## 2.9 Stock in Trade

These are valued at lower of average cost and net realizable value applying the following basis:

Raw material	Weighted average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Waste	Net realizable value

Average manufacturing cost in relation to work in process and finished goods signifies cost including a portion of related direct overheads. Net realizable value signifies the selling prices prevailing in the market less selling expenses incidental to sales,

## 2.10 Trade debts

Known bad debts are written off and provision is made for debts considered doubtful,



**2.11 Foreign currency**

Assets and liabilities in foreign currencies are converted into Pak Rupees at the rates of exchange ruling on the balance sheet date, exchange differences except those mentioned in note 24 are including in current income,

**2.12 Revenue recognition**

Sales are recorded on despatch of goods.

**3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

1997	1998		1998	1997
No. of shares			Rupees	Rupees
3,133,000	3,133,000	Ordinary share of Rs. 10/- each fully paid in cash	31,330,000	31,330,000
6,217,000	6,217,000	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	62,170,000	62,170,000
-----	-----		-----	-----
9,350,000	9,350,000		93,500,000	93,500,000
=====	=====		=====	=====

**4. REDEEMABLE CAPITAL****Non-Participatory-secured**

Pak Libya Holding Company  
(Private) Limited

	Term Finance Certificates		1998 Rupees	1997 Rupees
	I	II		
Opening balance	21,085,137	8,245,676	29,330,813	34,210,416
Redeemable during the year	(4,338,637)	(1,406,236)	(5,744,873)	(4,879,603)
	-----	-----	-----	-----
Redeemable within one year	16,746,500	6,839,440	23,585,940	29,330,813
Shown under current liabilities	(4,960,402)	(1,649,742)	(6,610,144)	(5,744,873)
	-----	-----	-----	-----
	11,786,098	5,189,698	16,975,796	23,585,940
	=====	=====	=====	=====
Redemption and repayment				
Half yearly installments		19	19	
Date of first installment		30-06-1992	31-12-1992	
Principal amount		33,833,585	12,265,904	
Marked up price		63,367,432	23,832,384	
Mark up		29,533,847	11,566,480	
Rate of profit per annum		14.50%	15.50%	

The repayment is secured by Trust Deeds dated April 01, 1987, September 07, 1987 and September 24, 1990 creating first mortgage on present and future properties of the Company ranking pari passu with the charge created in respect of each other and with long term loans (Refer Note 5.2). These are further secured by floating charge on assets of the Company.

In case the profit is not paid within 60 days of the close of the financial year, the Company shall issue TFCs as the case may be of the amount of profit payable. The TFCs so issued will be redeemed out of the profit of the subsequent financial year(s).

In the event of loss in any accounting year, the loss shall first be set off against reserves, if any and the balance loss shall be apportioned between paid up share capital and TFCs. The loss shared by the TFC holders shall be adjusted against the nearest repayable installment of principal and against the amount of such loss, the company shall issue to TFC holders convertible shares of an equal amount ranking pari passu J with the Ordinary shares in all respects including voting rights, rights of transfer, right of subscription for right issue and bonus shares. The convertible shares will be reconverted into TFCs and redeemed out of the profit of subsequent years in the prescribed manner.

The TFC holders have right to convert TFCs to the extent of 20% of the principal amount into Ordinary shares of the Company at par value.

The repayment of installments of Term Finance Certificates are made exactly as per the repayment schedule drawn by PLHCL. The financial charges are worked out and recorded in the books of the Company on the basis of constant periodic rate of return, whereby amount of each installment, after first adjusting financial charges are shown as redemption of principal. The difference, therefore in principal amount outstanding as per the Company's books and as per Repayment Schedules drawn on fixed installment basis is stated hereunder:

	TERM FINANCE	CERTIFICATES
	I	II
	Rupees	Rupees
Principal outstanding as per books	16,746,500	6,839,440
Principal outstanding as per PLHCL's Repayment Schedule	10,105,257	4,052,636
Difference	6,641,243	2,786,804

	1998	1997
	Rupees	Rupees
<b>5. DEBENTURES AND LONG TERM LOANS</b>		
Secured		
Custom debentures (5.1)	-	-
Long term loans (5.2)	188,930,776	180,528,788
	188,930,776	180,528,788

**5.1 Custom debentures**

Opening balance	2,832,155	2,832,155
Payment due shown under current liabilities	(2,832,155)	(2,832,155)
	-	-

The debentures have been issued in favour of Collector of Customs to cover the deferred payment of custom duty, iqra and surcharge on the imported machinery. The debentures are subject to surcharge at the rate of 11% per annum. The redemption was due on December 19, 1997.

The re-payment is secured against bank guarantees which are counter secured against pledge of term deposits.

**5.2 Long term loans**

	FINANCIAL INSTITUTION			BANKS			1998 Rupees	1997 Rupees	
	Local Currency 4th ADB	Local Currency ADB-775	Demand finance	Demand finance	Demand Finance	Demand Finance			
Opening balance	1,484,720	5,850,800	51,367,164	136,642,619	-	-	195,345,303	77,567,823	
Transferred/Obtained During the year	-	-	-	-	30,000,000	107,000,000	25,000,000	162,000,000	136,642,619
	1,484,720	5,850,800	51,367,164	136,642,619	30,000,000	107,000,000	25,000,000	357,345,303	214,210,442
Repaid/Transferred During the year	(1,474,720)	(2,295,400)	(10,406,395)	(136,642,619)	-	-	(151,459,134)	(18,865,139)	
	-	2,925,400	40,960,769	-	30,000,000	107,000,000	25,000,000	205,886,169	195,345,303
Payable within one year Shown under current Liabilities	-	(2,925,400)	(12,029,993)	-	(2,000,000)	-	(16,955,393)	(14,816,515)	
	-	-	28,930,776	-	28,000,000	107,000,000	25,000,000	188,930,776	180,528,788
No. of installments	-	20	20	5					

Date of first installment	-		Half yearly	Half yearly	Quarterly	Lumpsum	Lumpsum
			March 15,	March 05	December	by December	November
			1990	1992	1998	1999	1999
Principal amount	-	29,255,230	79,710,000	-	-	-	-
Marked up price	-	-	178,309,700	-	-	-	-
Mark up	-	-	85,238,840	-	-	-	-
Rebate for timely payment	-	-	13,360,860	-	-	-	-
Interest % per annum/markup							
Paisas per Rs 1,000/- per day 14%		14%	45 paisas	15%	20%	17%	20%
Sub note		5.2.1	5.21		5.2.2	5.2.2	5.2.2

5.2.1 The loans are secured against first equitable mortgage on present and future properties of the Company ranking pari passu with each other and with the charge created in respect of Redeemable capital (Refer Note 4) and further secured against first charge over the assets of the Company. IDBP has a preferential right to allotment upto 20% of fresh issue of share capital, if any, in respect of their loan.

The repayment of installments of Demand Finance is made exactly as per the repayment schedule drawn by bank. The financial charges are worked out and recorded in the books of the company on the basis of constant rate of return whereby amount of each installment, after first adjustment of financial charges are shown as redemption of principal. The difference therefore, in principal outstanding as per the company's book and as per repayment schedule drawn on fixed installment basis is as under:

	NBP DF Rupees
Principal outstanding as per books	40,960,769
Principal outstanding as per Repayment Schedule	18,000,000
	-----
Difference	22,960,769
	=====

5.2.2. These are secured against pledge of investment in shares, US dollar bonds, hypothecation of current assets and personal guarantee of directors.

	1998 Rupees	1997 Rupees
<b>6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>		
Opening balance	18,187,459	24,347,284
Acquired during the year	24,453,164	1,260,000
	-----	-----
	42,640,623	25,607,284
Paid during the year	(8,017,984)	(7,419,825)
	-----	-----
	34,622,639	18,187,459
Repayable within one year shown Under current liabilities	(10,479,199)	(7,061,873)
	-----	-----
	24,143,440	11,125,586
	=====	=====

Principal Rupees	Financial Charges Rupees	Rental Installment Rupees	Installment Payment Rest	No. of Installment	Commencing From	Rate %
693,800	342,200	51,800	Quarterly	20	June, 1995	21.32
815,940	402,460	60,920	Quarterly	20	July, 1995	21.32
19,456,025	10,519,922	1,498,798	Quarterly	20	February, 1995	19.27
4,350,000	1,876,080	389,130	Quarterly	16	March, 1995	19.77
2,000,000	950,280	147,514	Quarterly	20	July, 1996	18.04
1,050,000	499,000	77,450	Quarterly	20	December, 1996	18.04
1,200,000	717,840	95,890	Quarterly	20	November, 1997	19.80
4,000,000	2,227,600	311,380	Quarterly	20	July, 1998	18.58
17,026,081	9,635,319	1,333,070	Quarterly	20	July, 1998	18.58
1,327,083	762,557	104,482	Quarterly	20	July, 1998	19.12

1,900,000    1,091,760    149,482    Quarterly    20    July, 1998    19.12

The future minimum lease payments to which the Company is committed as at September 30, 1998 is as under:

Year ending September 30,	Rupees
1999	15,966,142
2000	10,662,653
2001	8,759,982
2002	7,977,640
2003	5,695,560
	-----
	49,061,977
Financial charges allocated to future period	(14,439,338)
	-----
	34,622,639
	=====

Purchase options are available to the Company after payment of last installment and on surrender of deposit at the end of lease period.

The cost of operating and maintaining the leased assets are borne by the Company,

	1998 Rupees	1997 Rupees
<b>7. DEFERRED CUSTOM LEVIES</b>		
Opening Balance	400,589	15,242,250
Paid/transferred during the year	(400,589)	(5,336,693)
Relief allowed by the Government	-	(9,504,968)
	-----	-----
	(400,589)	(14,841,661)
	-----	-----
	-	400,589
	=====	=====

#### 8. SHORT TERM BORROWINGS

Secured - under markup arrangements

	Limit Rupees In million	Banks Rupees	Financial Institution Rupees	1998 Total Rupees	1997 Total Rupees
Export finances	106	66,000,000	40,000,000	106,000,000	59,650,000
Running finances	64	47,671,547	-	47,671,547	58,797,662
Packing finance	60	55,899,848	-	55,899,848	24,172,173
F. I.M.	25	13,797,668	-	13,797,668	5,690,210
L.A.F.B.	157	92,947,000	-	92,947,000	-
Cash finances	150	24,455,737	-	24,455,737	41,228,110
Term finances	-	-	-	-	30,000,000
	-----	-----	-----	-----	-----
	562	300,771,800	40,000,000	340,771,800	219,538,155
	=====	=====	=====	=====	=====

The borrowings are secured against pledge of stock and floating charge on other current assets of the Company, lien on foreign currency deposits and personal guarantee of the Directors. Export finance are further secured against lien on export bills.

These are subject to markup ranging from 35 paisas to 58 paisas per Rs.1,000/= per day.

	1998 Rupees	1997 Rupees
<b>9. CURRENT PORTION OF LONG TERM LIABILITIES</b>		

Redeemable capital	6,610,144	5,744,873
Custom debentures	2,832,155	2,832,155
Long term loans	16,955,393	14,816,515
Finance lease liabilities	10,479,199	7,061,873
	-----	-----
	36,876,891	30,455,416
	=====	=====

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>

**10. CREDITORS, ACCRUED AND OTHER LIABILITIES**

Creditors	13,764,991	20,209,179
Accrued expenses (10.1)	22,983,014	18,553,050
Advance rent	4,034,767	6,311,073
Capital expenditure payable	2,109,860	878,641
Custom duty, sales tax and surcharge	4,384,460	3,983,871
Markup/interest on secured		
Redeemable capital	687,564	906,490
Debentures and long term loans	2,070,207	2,422,700
Finance lease	960,367	140,697
Short term borrowings	20,215,888	20,632,383
Withholding income tax	21,313	11,844
Workers' profit participation fund (10.2)	2,194,457	2,006,447
	-----	-----
	73,426,888	76,056,375
	=====	=====

10.1 It includes Rs. 10,361,078/- (1997 - Rs. 8,436,896/-) payable to an associated undertaking against power bills.

**10.2 Workers' profit participation fund**

Balance at October 01,	2,006,447	1,450,724
Interest on fund utilized in Company's business	250,810	181,342
	-----	-----
	2,257,257	1,632,066
Allocation for the year	2,194,457	2,006,447
	-----	-----
	4,451,714	3,638,513
Paid to workers on behalf of the fund	(2,257,257)	(1,632,066)
	-----	-----
	2,194,457	2,006,447
	=====	=====

**11. DIVIDEND**

Unclaimed	296,206	254,952
	=====	=====

**12. CONTINGENCIES AND COMMITMENTS****Contingencies**

Guarantees issued by bank and outstanding	147,000	147,000
Foreign bills discounted	5,798,312	63,547,608
Central Excise duty (12.1)	16,800,095	16,800,095
Indemnity	-	225,698

**Commitments**

Under documentary credit for stores and raw material	23,056,900	21,130,006
--	------------	------------

12.1 No provision has been made in these accounts for central excise duty on bank borrowings Rs.16,800,095/-. The Company has challenged the levy of Central Excise duty on short term borrowings in the High Court of Sindh and a stay has been obtained in this respect.

**13. OPERATING ASSETS**

Cost at October 01, 1997	Additions	Disposals/ Transfer	Cost at September 30, 1998	Accumulated Depreciation At September 30, 1998	Written down Value at September 30, 1998	Depreciation For the year	Rate %
--------------------------------	-----------	------------------------	----------------------------------	---	---	---------------------------------	-----------

Land- free hold	14,887,000	-	-	14,887,000	-	14,887,000	-	-
Commercial building on free hold land	31,456,376	-	-	31,456,376	5,834,961	31,456,376	1,348,496	5
Land - freehold	127,383	-	-	127,383	-	127,383	-	-
Factory building on freehold land	28,437,871	1,592,537	-	30,030,408	18,046,303	11,984,105	1,331,567	10
Non factory building on freehold land	9,360,484	-	-	9,360,484	3,845,790	5,514,694	290,247	5
Machinery and equipment	321,417,623	42,530,057	(23,994,459)	339,953,221	196,021,911	143,931,310	15,992,368	10
Electric installation and equipment	14,757,169	1,990,642	(20,000)	16,727,811	6,209,795	10,518,016	1,168,668	10
Office equipment	4,524,039	586,425	-	5,110,464	2,501,598	2,608,866	289,874	10
Furniture and fixture	3,382,154	156,397	-	3,538,551	1,798,308	1,740,243	193,360	10
Vehicles	13,484,710	62,350	(1,507,410)	12,039,650	6,994,450	5,045,200	1,261,300	20
	441,834,809	46,918,408	(25,521,869)	463,231,348	241,253,116	221,978,232	21,875,880	
<b>Under finance lease</b>								
Machinery and equipment	38,557,397	24,453,164	(10,206,071)	52,804,490	11,950,758	40,853,732	4,539,304	10
Vehicles	2,845,227	-	-	2,845,227	1,389,518	1,455,709	363,927	20
	483,237,433	71,371,572	(35,727,940)	518,881,065	254,593,392	264,287,673	26,779,111	
<b>Rupees</b>	478,922,429	14,625,784	(10,310,780)	483,237,433	229,890,052	253,347,381	19,956,204	

1998  
Rupees

1997  
Rupees

**13.1 Depreciation for the year has been allocated as under:**

Cost of goods manufactured	22,584,091	15,147,423
Administration	4,195,020	4,808,781
	26,779,111	19,956,204
	=====	=====

13.2 Disposal of leased assets represents transfer to own assets on completion of lease term.

**13.3 Detail of disposal of assets**

Description of assets	Mode of Disposal	Cost	Accumulated depreciation	Written Down value	Sale Proceed	Particulars of buyers
Machinery	by negotiation	4,000,000	-	4,000,000	4,000,000	Sale and lease back Dawood Leasing Company Limited, Karachi.
Machinery	by negotiation	17,026,081	-	17,026,081	17,026,081	Sale and lease back Askari Leasing Company Limited, Karachi.
Machinery	by negotiation	1,327,083	-	1,327,083	1,327,083	Sale and lease back Askari Leasing Company Limited, Karachi.
Machinery	by negotiation	195,000	19,500	175,500	110,000	Ellcot Spinning Mills Limited Subsidiary Company.
Machinery	by negotiation	1,446,295	942,003	504,292	515,000	Ellcot Spinning Mills Limited Subsidiary Company.
Electric Installment & equipment	Insurance claim	20,000	14,758	5,242	4,000	Adamjee Insurance Co. Ltd. I.I. Chundrigar Road, Karachi.
Vehicle	Insurance claim	51,000	24,888	26,112	50,000	Adamjee Insurance Co. Ltd. I.I. Chundrigar Road, Karachi.

Vehicle	by negotiation	1,456,410	1,074,621	381,789	1,275,000	Mr. Qamar Zaman S/o. All Ahmed, Awan Park Sargodha Road, Faisalabad.
<b>Rupees</b>		25,521,869	2,075,770	23,446,099	24,307,164	
<b>1997 Rupees</b>		7,890,780	4,465,560	3,425,220	4,128,256	

		<b>1998</b>	<b>1997</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>14. CAPITAL WORK IN PROGRESS</b>			
Civil work		6,768,971	1,061,765
Weaving project			
Land- free hold		1,565,287	1,565,287
Unallocated capital expenditure		220,593	220,593
		-----	-----
		8,554,851	2,847,645
		=====	=====

		<b>1998</b>	<b>1997</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>15. LONG TERM INVESTMENTS</b>			
Shares in quoted companies			
Ellicot Spinning Mills Limited (Subsidiary Company)			
5,277,596 fully paid Ordinary shares of Rs. 10/- each Equity held 60.25%			
Market value Rs.38,262,571/- (1997- Rs.62,803,392/-)		54,480,960	54,480,960
Prosperity Weaving Mills Limited (Subsidiary Company)			
4,800,500 fully paid Ordinary shares of Rs.10/= each Equity held 50.01%			
Market value Rs.33,603,500/- (1997- Rs.46,564,850/-)		48,005,000	48,005,000
Ellahi Electric Company Limited (Associated undertaking)			
1,150,000 fully paid Ordinary Shares of Rs.10/= each Equity held 4.15%			
Market value Rs.5,865,000/- (1997- Rs.6,325,000/-)		11,500,000	11,500,000
Pacific Leasing Company Limited (Associated undertaking)			
2,000,000 fully paid Ordinary Shares of Rs. 10/- each Equity held 20%			
Market value Rs.7,500,000/- (1997- Rs. 10,000,000/-)		20,000,000	20,000,000
		-----	-----
		133,985,960	133,985,960
		=====	=====

{Aggregate market value Rs.85,231,071/- (1997- Rs. 125,693,242/-)}.

No provision for diminution in value of investment in shares is considered necessary by the management due to the reason that management consider this to be temporary diminution and the equity held represent controlling interest/powers in investee companies and as such market value of these shares is not relevant.

Latest financial statements of the subsidiary Companies and statement under section 237 of the Companies Ordinance, 1984 are enclosed.

		<b>1998</b>	<b>1997</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>16. STORES AND SPARES</b>			
Stores		1,464,531	1,918,324
Spares		2,237,540	2,912,679
		-----	-----
		3,702,071	4,831,003

**17. STOCK IN TRADE**

Raw material	28,935,884	27,068,866
Work in process	12,137,723	8,533,210
Finished goods	37,787,867	24,902,393
Waste	1,337,435	1,832,257
	-----	-----
	80,198,909	62,336,726
	=====	=====

**18. TRADE DEBTS**

Foreign- secured	122,368,896	11,655,253
Local- unsecured- considered good	21,959,438	27,846,779
	-----	-----
	144,328,334	39,502,032
Provision for doubtful debts	2,500,000	-
	-----	-----
	141,828,334	39,502,032
	=====	=====

**19. LOANS AND ADVANCES****Considered good**

Due from employees	26,112	56,613
Advances		
Suppliers	5,577,827	4,557,876
Expenses	73,336	105,606
Letters of credit, fee and expenses	89,421	63,829
Income tax	28,186,542	21,133,901
	-----	-----
	33,953,238	25,917,825
	=====	=====

**20. DEPOSITS AND PREPAYMENTS**

Guarantee margin deposits	487,448	90,060
Security deposits	561,105	561,105
Short term prepayments	1,440,813	2,024,469
Export quota	4,282,303	-
	-----	-----
	6,771,669	2,675,634
	=====	=====

**21. SHORT TERM INVESTMENT**

US Dollar bonds	107,718,200	-
	=====	=====

**22. OTHER RECEIVABLES****Considered good**

Sales tax refundable	14,170,374	2,790,772
Export rebate claims	953,505	1,948,664
SBP fine against export refinance	2,760,342	2,973,166
Interest/profit receivable	196,259	1,272,843
Refundable		
T.P. deposit	286,322	282,534
Central excise duty	3,386,557	3,386,557
Other	1,345,261	358,067
	-----	-----
	23,098,620	13,012,603
	=====	=====

**23. CASH AND BANK BALANCES**

Cash in hand	57,393	99,490
Cash in transit	-	931,915
Cash with banks		
In current accounts	29,434,471	12,086,861
In deposit accounts	10,728,005	132,309,725
	-----	-----
	40,219,869	145,427,991
	=====	=====



**24. SALES**

Yarn		
Export	351,554,094	392,463,674
Local	537,354,465	598,436,585
	-----	-----
	888,908,559	990,900,259
Waste- local	16,981,871	17,341,160
	-----	-----
	905,890,430	1,008,241,419
Commission	(6,501,270)	(9,569,297)
	-----	-----
	899,389,160	998,672,122
	=====	=====

**25. COST OF GOODS SOLD**

Opening stock- finished goods	23,579,963	32,399,962
Cost of goods manufactured (25.1)	790,213,398	853,566,896
Purchase of finished goods	-	6,154,800
	-----	-----
	813,793,361	892,121,658
Closing stock- finished goods	(34,968,057)	(23,579,963)
	-----	-----
	778,825,304	868,541,695
	=====	=====

**25.1 Cost of goods manufactured**

Raw material (25.1.1)	573,896,406	602,031,583
Packing material	13,028,638	14,897,976
Stores and spares	10,855,527	12,622,610
Salaries, wages and benefits	52,144,323	48,024,466
Doubling charges	415,839	15,565
Power (25.1.2)	116,455,039	157,909,918
Rent, rates and taxes	399,420	351,189
Insurance	1,944,594	2,444,566
Repairs and maintenance	1,676,436	496,624
Depreciation	22,584,091	15,147,423
Other manufacturing overheads	417,598	696,240
	-----	-----
	793,817,911	854,638,160
Work in process		
Opening stock	8,533,210	7,461,946
Closing stock	(12,137,723)	(8,533,210)
	-----	-----
	(3,604,513)	(1,071,264)
	-----	-----
	790,213,398	853,566,896
	=====	=====

**25.1.1 Raw material consumed**

Opening stock	27,068,866	28,316,874
Purchases and purchase expenses - net of claim and sales	575,763,424	600,783,575
	-----	-----
	602,832,290	629,100,449
Closing stock	(28,935,884)	(27,068,866)
	-----	-----
	573,896,406	602,031,583
	=====	=====

25.1.2 It include Nil (1997: Rs. 50,693,312/-) in pursuance to the decision of the High Court in the matter involving the levy of additional surcharge.

**26. TRADING PROFIT**

Sales- yarn and cloth		
Export	91,616,236	76,456,562
Local	1,573,792	1,515,240

	-----	-----
Export rebate	93,190,028	77,971,802
	2,121,634	2,496,584
	-----	-----
	95,311,662	80,468,386
Cost of goods sold		
Opening stock	3,154,687	-
Purchases and weaving charges	82,149,626	76,921,165
Closing stock	(4,157,245)	(3,154,687)
	-----	-----
	81,147,068	73,766,478
	-----	-----
	14,164,594	6,701,908
Selling expenses	(6,193,233)	(4,535,266)
	-----	-----
	7,971,361	2,166,642
	=====	=====
<b>27. OTHER INCOME</b>		
Dividend on investments	21,884,482	23,394,740
Rental income	11,011,307	10,204,499
Gain on disposal of fixed assets	861,065	703,036
Scrap sales	402,017	801,432
	-----	-----
	34,158,871	35,103,707
	=====	=====

**28. ADMINISTRATION EXPENSES**

Directors' remuneration, fees and benefits	1,436,400	1,783,400
Staff salaries and benefits	8,307,290	8,072,316
Travelling and conveyance	1,266,623	1,066,905
Printing and stationery	1,046,126	1,101,945
Postage and telephone	3,581,252	3,579,870
Fees, subscription and periodicals	512,624	518,054
Legal and professional	315,939	362,120
Advertisement	86,718	107,798
Utilities	1,415,950	1,338,774
Rent, rates and taxes	1,443,169	1,518,401
Insurance	337,305	371,419
Auditors' remuneration (28.1)	160,000	160,000
Repairs and maintenance	524,353	348,619
Vehicles running and maintenance	2,309,930	2,043,102
Entertainment	216,158	161,624
Charity and donation (28.2)	334,100	506,300
Depreciation	4,195,020	4,808,781
Other	237,019	175,445
	-----	-----
	27,725,976	28,024,873
	=====	=====

**28.1 Auditors' remuneration**

Audit fee	125,000	125,000
Tax services	35,000	35,000
	-----	-----
	1601000	160,000
	=====	=====

28.2 No director or his spouse had any interest in the donees' fund.

**29. SELLING EXPENSES**

Export		
Ocean freight	8,407,897	11,709,005
Export development surcharge	836,412	708,190
	-----	-----
Local	9,244,309	12,417,195
Local freight	4,495,768	4,208,527

Distribution cost	569,702	559,322
Other	994,160	2,410,118
	-----	-----
	6,049,630	7,177,967
	-----	-----
	15,293,939	19,595,162
	=====	=====

**30. FINANCIAL CHARGES**

Markup/interest on Redeemable capital	3,169,542	4,046,508
Debentures and long term loans	12,984,076	9,726,969
Lease finance	5,060,244	3,959,169
Short term borrowings- net	39,546,860	49,977,326
Associated undertaking	9,530,269	9,059,764
Workers' profit participation fund	250,810	181,343
Bank charges and commission	4,680,607	3,730,830
	-----	-----
	75,222,408	80,681,909
Markup charged to associated undertaking	(1,294,662)	(537,233)
	-----	-----
	73,927,746	80,144,676
	=====	=====

**31. CASH AND CASH EQUIVALENT**

Cash and bank balances	40,219,869	145,427,991
Short term investment	107,718,200	-
	-----	-----
	147,938,069	145,427,991
	=====	=====

**32. Statement and report under Section 237 of Companies Ordinance, 1984.**

	1998		1997	
	Ellicot Spinning Mills Limited	Prosperity Weaving Mills Limited	Ellicot Spinning Mills Limited	Prosperity Weaving Mills Limited
Statement under section (1)(e)				
a) Extent of the interest of Nagina Cotton Mills Limited (the holding company) in the equity of its subsidiaries as at the end of the last of financial year of the subsidiaries.	60.25	50.01	60.25	50.01
b) The net aggregate amount of revenue profits less losses of the subsidiary companies so far as these concern members of the holding company and has not been dealt with in the accounts of the holding company for the year ended September 30, 1998 are:				
i) for the last of the financial year of the subsidiaries.	10,778,726	28,212,887	15,234,792	23,808,215
ii) for the previous years upto September 30, 1998 but subsequent to the acquisition of the controlling interest by the holding company.	20,567,413	36,353,427	20,344,487	17,742,460
c) The net aggregate amount of profits less losses of the subsidiary companies so far as these have been dealt with or provision made for losses in the account of the holding company for the year ended September 30, 1998:				
i) for the last of the financial year of the subsidiaries,	Nil	Nil	Nil	Nil
ii) for the previous years upto September 30, 1997 but subsequent to the acquisition of				

the controlling interest by the holding company.

Nil Nil Nil Nil

### 33. TAXATION

#### Current

The assessment of the Company has been finalized upto assessment year 1997-98 accounting year ended September 30, 1996.

#### Deferred

Tax effect of major timing differences (Cr) work out to Rs. 35.512 million (1997 - Rs. 34.641 million). In view of applicability of presumptive tax on estimated 50% of the sales and income, provision of Rs. 17.756 million was required against which part provision of Rs. 5 million has been made.

### 34. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Other Executives	
	1998	1997	1998	1997	1998	1997
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Meeting fees	-	-	1,500	-	-	-
Remuneration	642,000	642,000	336,000	583,333	2,164,400	1,364,300
House rent allowance	288,900	288,900	151,200	262,500	973,980	613,935
Other allowances	-	-	16,800	6,667	108,220	68,215
	-----	-----	-----	-----	-----	-----
	930,900	930,900	505,500	852,500	3,246,600	2,046,450
	=====	=====	=====	=====	=====	=====
Number of persons	1	1	1	3	10	9

Chief Executive and one Director are provided with free use of Company maintained cars and reimbursement of residential telephone and utilities bills the monetary value of which is Rs. 70,279-- (1997 - Rs. 130,691/=) and Rs. 491,691/= (1997 - Rs. 517,783/=) respectively.

### 35. AGGREGATE TRANSACTIONS WITH SUBSIDIARIES/ ASSOCIATED UNDERTAKINGS

The Company purchased goods and services Rs. 174,782,565/= (1997 - Rs. 157,908,266/=) sold goods and services Rs. 24,354,391/= (1997 - Rs. 44,654,227/=), interest paid Rs. 9,530,269/- (1997 - Rs. 9,059,765/=), interest earned Rs. 1,294,662/= (1997 - Rs. 537,233/=) and dividend on investment Rs. 21,881,192/= (1997 - Rs. 23,394,740/=).

Maximum aggregate amount due from associated companies at the end of any month during the year was Rs. 49,424,173/= (1997 - Rs. 15,079,628/=).

### 36. PLANT CAPACITY AND ACTUAL PRODUCTION

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

However, the following figures of capacity have been arrived at on the basis of capacity notified by the Central Board of Revenue under the defunct "Production Capacity (Cotton Yarn) Rules, 1975".

	1998	1998	1997	1997
	production capacity	actual production	production capacity	actual production
	Kgs	Kgs.	Kgs.	Kgs.
Coarse	3,755,315	156,991	3,755,315	1,187,071
Medium	2,133,701	6,084,817	2,133,701	5,855,341
Fine	256,043	1,044,868	256,043	828,863
	-----	-----	-----	-----
	6,145,059	7,286,676	6,145,059	7,871,275
	=====	=====	=====	=====

1998 1997

Total number of spindles installed	47,040	47,040
Total number of spindles worked	47,040	47,040
Number of shifts per day	3	3

**37. Figures**

Have been rounded off nearest to Rupee.

Corresponding figures have been rearranged wherever necessary for the purpose of comparison.

**Shafqat Ellahi Shaikh**  
Director

**Shaukat Ellahi Shaikh**  
Mg. Director (Chief Executive)

February 27, 1999.

**PATTERN OF SHAREHOLDING AS AT 30TH SEPTEMBER, 1998****FORM-34****THE COMPANIES ORDINANCE, 1984****(Section 236)****PATTERN OF SHAREHOLDING****As at 30th September, 1998**

No. of Shareholders	From	To	Total Shares held
558	1	100	20,219
285	101	500	62,298
123	501	1,000	88,050
153	1,001	5,000	293,252
29	5,001	10,000	194,778
5	10,001	15,000	56,617
6	15,001	20,000	110,583
1	20,001	35,000	34,243
1	35,001	40,000	38,500
1	40,001	45,000	43,450
1	45,001	55,000	54,500
1	55,001	115,000	110,097
1	115,001	125,000	121,829
1	125,001	145,000	140,800
1	145,001	200,000	200,000
1	200,001	385,000	381,642
1	385,001	615,000	610,582
1	615,001	1,005,000	1,000,068
1	1,005,001	1,125,000	1,123,270
3	1,125,001	1,560,000	4,665,222
-----			-----
1,174		TOTAL:	9,350,000
=====			=====

Categories of Shareholders	No. of Shareholders	Shares held	Percentage
Individuals	1,158	5,554,744	5.941
Investment Companies	6	1,613,767	17.26
Insurance Companies	2	124,469	1.33
Joint Stock Companies	3	621,040	6.64
Financial Institutions	3	1,049,348	11.22
Foreign Companies	2	386,632	4.14
-----		-----	-----
	1,174	9,350,000	100.00
=====		=====	=====

**ELLCOT SPINNING MILLS LIMITED****DIRECTORS' REPORT**

**IN THE NAME OF ALLAH THE MOST GRACIOUS  
THE MOST BENEVOLENT THE MOST MERCIFUL**

The Directors have the pleasure to herewith submit the audited accounts and the auditor's report thereon for the year ended on 30th September, 1998.

By the Mercy of Allah the Most Benevolent The Most Merciful, inspite of drastic contraction of yarn export markets resulting from continued economic turmoil in the far eastern countries, leading to drastic devaluation of the currencies of Thailand, South Korea and Indonesia, the Company has earned pre-tax profit amounting to Rs. 21,804,007/-- (1997: 44,060,590/:-).

Production of Cotton and Polycotton yarn during the year, was 8.60% higher than the previous year. The average count spun during the year was 5.39% coarser.

Net sale value of Yarn during the year was lower by 5.61% at Rs. 620,310,055/= (1997: Rs. 657,202,825/=) average sales price per Kg. having fallen by Rs. 10.19 per Kg. From previous year. Yarn exports were quantitatively lower by 18.14% over the previous year and were 72.54% (1997: 92.11%) of the total sales of yarn for the year. Value of yarn exports at Rs. 468,870,996/= (1997: Rs. 613,158,705/=) is lower by 23.53% over the previous year. Average price realised in export per Kg. was Rs. 7.39 lower than that of the previous year. Average price realization per Kg. of local sales of yarn were also lower by Rs. 4.67.

During the year, Company exported 265,981 meters (1997: 699,685 meters) of cotton fabrics for Rs. 10,776,245/: (1997: Rs. 22,538,247/-).

Cotton crop in Pakistan has been failing for the last so many years. Every year from the sowing stage to approximately middle/end of December, rosy forecasts of large Cotton Crop are made. On the basis of these forecasts, free export of Raw Cotton is permitted. This results in local cotton prices much higher than prevailing international parity. This year was no exception.

Overall fibre consumption during the year was 7,234,439 Kgs. (1997: 6,607,620 .Kgs.). In spite of increase in prices in Pakistan, by timely purchases, cost of fibres used was reduced by Rs. 6.44 per Kg.

Administrative expenses were reduced by Rs. 285,019/= from Rs. 17,734,925/= to Rs. 17,449,906/= Although staff salaries and benefits increased by Rs. 2,123,968/= and Rent rates and taxes increased by Rs. 211,655/=. The increases were covered by reducing expenditure on almost all other sub-heads including Directors remuneration reduced by Rs. 557,207/=.

Salaries, wages & benefits also increased by 14.92%. Fuel & Power costs increased partly due to large consumption of power for increased production and partly due to increase in unit cost of Electricity.

Financial charges are one of the major costs of the Company, therefore, fund management received closets possible attention. Helped by Export refinance, financial charges were reduced 25.46% over the previous year. Financial charges amounted to 3,19% of Sales against 3,95% of the previous year,

As stated earlier, the sales realisation were lower this year by Rs. 10.19 per Kg. While cost of raw materials used were lower by Rs. 6.44 per Kg. The other Manufacturing overheads increased Rs. 10,690,007/=. All this has resulted in 12,62% gross profit for the year. Profit before tax at Rs. 21,804,007/: (1997: Rs. 44,060,590/= is 3.40% (1997: 6,36%) of sales, However, after tax profit amounts to Rs. 17,890,001/= (1997: Rs. 25,285,961/=),

The results for the first half year induced the Directors to declare on 27th May, 1998 an interim cash dividend @ Rs.2/00 (i.e. 20%) on ordinary shares of Rs. 10/= each for the year ending 30th September, 1998. The dividend absorbed Rs. 17,520,000/= (Rupees seventeen million five hundred twenty thousand only). The Directors have decided to treat the dividend as final for the year.

The auditors in their report, as in the previous year, have drawn attention to the non provision of Federal excise duty on bank loans. The Company has been advised that the duty is unconstitutional. Hon'ble Lahore High Court has granted stay and therefore, the management does not consider any provision is required.

Failure of Cotton crop for the last many years and resulting increases in prices in Pakistan, which remain much higher than International parity, have been a big handicap for the spinning industry. Due to the higher Raw Cotton prices and excessive protection, the local Polyester fibre manufacturers have also kept Polyester fibre prices higher than the international prices.

The Government of Pakistan, in order to increase exports; have notified various scheme for import of raw materials for export purposes without payment of duty. However, these exclusively exclude Polyester fibres and therefore, these schemes do not help spinners to increase exports.

The trading results for the current year (1998-99), in the context of prevailing conditions in the World but more particularly our major Customers i.e. Japan and Hong Kong as also sluggishness in the European markets, so far, have been satisfactory and on this basis the Directors are hopeful that 1998-99 will be a profitable year, although the

currency and financial problems in the Far Eastern countries is causing anxiety.

Shares of the Company were declared "eligible security" by the Central Depository Company of Pakistan Ltd., (CDC). Creation of depository system is said to be to bring efficiency in capital markets, avoid delays, reduce costs involved in handling mass of paper and to eliminate the risk of bad deliveries.

The stated objects are laudable. The Directors support the objects of depository system but are of the opinion that costs of the system should be transaction related, agreement should be equitable and there should be no deposit. However, listed companies called "Issuers" are required to enter into inequitable one sided agreements and to make unnecessary large return free deposit and to pay large yearly fee.

The Lahore Stock Exchange have written to a number of Issuers that CDC have asked LSE to take action against them for not joining CDS. Therefore, the Company on advise of Counsel filed a Constitutional petition before the Honourable Lahore High Court.

The Directors are once again glad to be able to record their deep appreciation of the team spirit and hard work by the staff and workers of the Company, which has resulted in the good results achieved. It is hoped that the staff and workers would continue to work with same sense of devotion and the Directors will continue to have excellent relations with the staff and workers.

On behalf of the Board

**Shafqat Ellahi Shaikh**

Mg. Director (Chief Executive)

Lahore: February 27, 1999,

#### OPERATING FINANCIAL & INVESTMENT RATIOS AS ON 30TH SEPTEMBER

		1998	1997	1996	1995	1994	1993	1992	1991	1990
Cost of sales as % of sales	%	8,740	83.10	85.49	90.47	82.61	84.56	84.75	76.56	85.22
Gross profits as % of sales	%	1,262	16.90	14.51	9.53	17.39	15.44	15.25	23.44	14.78
Operating profit as % of sales	%	5.60	10.36	8.97	4.96	12.58	6.26	7.83	14.61	3.88
Net profit/(loss) as % of sales	%	2.80	3.65	5.48	0.82	5.48	-	-	1.51	4.05
Share holders' equity (millions)	Rs	121.74	121.37	117.98	92.30	87.74	64.70	80.14	77.16	73.63
Pre tax profit to equity	%	17.91	36.30	31.05	4.94	24.01	-	-	8.04	0.85
After tax profit to equity	%	14.70	20.83	31.05	4.94	26.27	-	-	4.58	0.85
Sales to Capital employed ratio		2.94	3.07	3.02	2.56	1.93	1.21	1.15	0.99	0.07
Gross profit to Capital employed	%	37.11	51.90	43.76	24.44	33.62	18.60	17.49	23.22	1.06
Pre tax profit to Capital employed	%	10.00	19.54	16.53	2.12	10.59	-	-	2.62	0.29
After tax profit to Capital employed	%	820	11.21	16.53	2.12	1,059	-	-	149	0.29
Earning per share-Pretax	Rs	2.49	5.03	4.18	0.52	2.63	-	-	85	9
Earning per share-after tax	Rs	2.04	2.89	4.18	0.52	2.63	-	-	0.85	0.09
Dividend to Capital-Cash	%	2,000	25.00	1,250	-	-	-	-	-	-
Break up value per share	Rs	13.90	13.85	13.47	10.54	10.02	7.39	9.15	10.57	10.09
Debt equity ratio		44.15	46.19	46.75	57.15	59.70	68.10	6,427	67.45	65.74
Current ratio		1.03	1.09	1.15	1.03	1.17	0.92	0.87	0.79	0.76
Acid ratio		0.94	0.96	1.02	0.77	0.92	0.41	0.48	0.44	0.48
Total debt as to % of total assets	%	80.37	74.56	72.23	72.11	74.92	77.59	72.27	76.38	71.74
Stocks as to % of sales	%	5.26	4.12	3.65	5.37	6.03	12.66	5.75	1,083	51.20

#### AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ELLCOT SPINNING MILLS LIMITED as at September 30, 1998 and the related profit and loss account and statement of changes in financial position, 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, except for the effect of the matter referred to in Note No. 10.1, the balance sheet, profit and loss account and the statement of changes in financial position, 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 September 30, 1998 and of the profit and the changes in financial position 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 under section 7 of that Ordinance.

Date: February 27, 1999  
Place: LAHORE

**M. YOUSUF ADIL SALEEM & CO.**  
Chartered Accountants

#### BALANCE SHEET AS AT SEPTEMBER 30, 1998

	Note	1998 Rupees	1997 Rupees
<b>SHARE CAPITAL AND RESERVE</b>			
Authorized capital			
10,000,000 Ordinary Shares of Rs. 10/- each		100,000,000	100,000,000
		-----	-----
Issued, subscribed and paid-up capital			
8,760,000 Ordinary Shares of Rs. 10/- each		87,600,000	87,600,000
Un-appropriated profit		34,136,785	33,766,784
		-----	-----
		121,736,785	121,366,784
<b>LONG TERM LOANS</b>	3	32,490,663	50,183,028
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>	4	36,067,871	30,170,735
<b>DEFERRED LIABILITY</b>			
Custom levies	5	9,689,817	9,689,817
Staff gratuity	6	3,058,954	1,741,191
		-----	-----
		12,748,771	11,431,008
<b>CURRENT LIABILITIES</b>			
Short term borrowings	7	300,136,746	152,967,082
Current portion of long term liabilities'	8	27,703,498	23,819,999
Creditors, accrued and other liabilities	9	66,574,038	68,271,771
Provision for taxation		22,688,635	18,774,629
		-----	-----
		417,102,917	263,833,481
<b>CONTINGENCIES AND COMMITMENTS</b>	10	-	-
		-----	-----
		620,147,007	476,985,036
		-----	-----
<b>FIXED CAPITAL EXPENDITURE</b>			
Operating fixed assets	11	184,997,656	186,826,390
Capital work-in-progress	12	2,068,593	918,009
		-----	-----
		187,066,249	187,744,399
<b>LONG TERM DEPOSITS</b>	13	2,665,862	2,466,662



**CURRENT ASSETS**

Stores, spares and loose tools	14	3,068,274	3,859,344
Stock in trade	15	33,755,501	28,518,478
Bills under collection	16	94,941,284	25,152,627
Advances, deposits and prepayments	17	38,467,149	29,176,393
Investments		11,500,000	11,500,000
Other receivables	18	20,868,978	34,042,770
Cash and bank balances	19	227,813,710	154,524,363
		-----	-----
		430,414,896	286,773,975
		-----	-----
		620,147,007	476,985,036
		=====	=====

The annexed notes from 1 to 31 form an integral part of these accounts.

**Shaukat Ellahi Shaikh**

**Shafqat Ellahi Shaikh**

Lahore: February 27, 1999.

Director

Mg. Director (Chief Executive)

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	Note	1998 Rupees	1997 Rupees
<b>SALES - Net</b>		641,020,041	692,746,205
<b>COST OF SALES</b>		560,117,483	575,693,778
		-----	-----
<b>GROSS PROFIT</b>		80,902,558	117,052,427
<b>OPERATING EXPENSES</b>			
Administration	22	17,449,906	17,734,925
Selling	23	27,721,178	27,518,049
		-----	-----
		45,171,084	45,252,974
		-----	-----
<b>OPERATING PROFIT</b>		35,731,474	71,799,453
<b>OTHER INCOME</b>	24	7,758,354	2,255,045
		-----	-----
		43,489,828	74,054,498
<b>FINANCIAL CHARGES</b>	25	20,422,884	27,401,175
<b>OTHER CHARGES</b>	26	1,262,937	2,592,733
		-----	-----
		21,685,821	29,993,908
<b>PROFIT FOR THE YEAR BEFORE TAXATION</b>		21,804,007	44,060,590
<b>TAXATION</b>			
Prior years'		-	12,889,319
Current		3,914,006	5,885,310
		-----	-----
		3,914,006	18,774,629
		-----	-----
<b>PROFIT AFTER TAXATION</b>		17,890,001	25,285,961
<b>ACCUMULATED PROFIT BROUGHT FORWARD</b>		33,766,784	30,380,823
		-----	-----
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>		51,656,785	55,666,784
<b>APPROPRIATION</b>			
<b>INTERIM DIVIDEND @ Rs. 2.00 per share</b> (1997 Rs. 2.50 per share)		(17,520,000)	(21,900,000)
		-----	-----
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>		34,136,785	33,766,784
		=====	=====

The annexed notes from 1 to 31 form an integral part of these accounts.

**Shaukat Ellahi Shaikh**

**Shafqat Ellahi Shaikh**

Director

Mg. Director (Chief Executive)

Lahore: February 27, 1999,

**STATEMENT OF CHANGES IN FINANCIAL POSITION (CASH FLOW STATEMENT)  
FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	1998 Rupees	1997 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	21,804,007	44,060,590
Adjustment for		
Depreciation	19,806,908	19,972,543
Provision for gratuity	1,839,818	883,942
Profit on disposal of assets	(704,208)	(375,003)
Financial charges	20,422,884	27,401,175
Payment of gratuity	(522,055)	(580,115)
	-----	-----
Operating profit before changes in working capital	62,647,354	91,363,132
<b>Changes in working capital</b>		
(Increase)/decrease in current assets		
Stores, spares and loose tools	791,070	(520,721)
Stock in trade	(5,237,023)	(4,148,115)
Bills under collection	(69,788,657)	13,882,721
Advances, deposits and prepayments	(9,290,756)	4,193,251
Other receivables	13,173,792	2,434,733
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities	(19,638)	7,470,833
	-----	-----
	(70,371,212)	23,312,702
	-----	-----
<b>Cash generated from operations</b>	(7,723,858)	114,675,834
Financial charges paid	(22,100,979)	(23,878,704)
	-----	-----
<b>NET CASH FROM OPERATING ACTIVITIES</b>	(29,824,837)	90,797,130
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of assets	8,210,000	847,000
Fixed capital expenditure	(26,634,550)	(29,514,658)
Long term deposits and deferred cost	(199,200)	(1,291,812)
	-----	-----
<b>NET CASH FROM INVESTING ACTIVITIES</b>	(18,623,750)	(29,959,470)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
(Decrease) in deferred custom levies	-	(1,329,539)
Repayment of custom levies	(1,393,910)	(1,393,910)
Repayment of long term bank loans	(16,086,599)	(15,900,292)
Finance lease obtained	16,577,000	23,012,239
Repayment of lease liability	(7,008,221)	(5,128,576)
Interim dividend paid	(17,520,000)	(21,900,000)
Increase in short term borrowing	147,169,664	19,456,643
	-----	-----
<b>NET CASH FROM FINANCING ACTIVITIES</b>	121,737,934	(3,183,435)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	73,289,347	57,654,225
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	154,524,363	96,870,138
	-----	-----
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	227,813,710	154,524,363
	=====	=====

Shaukat Ellahi Shaikh  
Director

Shafqat Ellahi Shaikh  
Mg. Director (Chief Executive)

Lahore: February 27, 1999.

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 1998**

**1. STATUS AND ACTIVITIES**

The Company was incorporated in Pakistan as a Public Limited Company and is quoted at stock exchanges at Karachi and Lahore and is a subsidiary of Nagina Cotton Mills Limited. The principal business of the

Company is manufacture and sale of yarn. The Mills is located at District Kasur in the Province of the Punjab.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Accounting Convention

These accounts have been prepared under "Historical Cost Convention" except to the extent of exchange differences as stated in note 2.4.

### 2.2 Staff Retirement Benefits

The Company operates an unfunded gratuity scheme covering all its employees. Provision is made annually to cover the liability under the scheme.

### 2.3 Taxation

#### Current

Provision for current taxation is based on taxable income at current tax rates after taking into account tax rebates and tax credits available, if any.

#### Deferred

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 differences will not reverse in the foreseeable future.

### 2.4 Operating Fixed Assets and Depreciation

Operating fixed assets, except freehold land, are stated at cost less accumulated depreciation. Freehold land is stated at cost. Depreciation is charged to income applying the reducing balance method at the rates specified in operating assets note.

Exchange differences in respect of foreign currency loans obtained for acquisition of fixed assets are incorporated in the cost of the relevant assets.

Depreciation is charged on proportionate basis in accordance with period of use on major project, costs capitalized during the year. Full year's depreciation is charged on other additions during the year while no depreciation is charged on deletions during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized.

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

### 2.5 Capital Work in Progress

Fixed assets under construction and installation are categorized as Capital Work in Progress and are stated at, cost. These are transferred to Operating Fixed Assets when brought into use for the operations of the Company.

### 2.6 Accounting for Lease

The Company accounts for assets acquired under finance lease by recording the assets and related liability. 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 the estimated useful life in view of the certainty of the ownership of the assets at the end of the lease period.

### 2.7 Deferred Costs

These are amortized to income over a maximum period of five years from the year of their deferment.

### 2.8 Stores, Spares and Loose Tools

These are valued at lower of moving average cost and net realizable value except stores in transit which are valued at cost accumulated upto the balance sheet date.

### 2.9 Stock in Trade

These are valued at lower of average cost and net realizable value applying the following basis:

Raw material	First in first out
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Waste	Net realizable value

Average manufacturing cost in relation to work in process and finished goods, includes prime cost and proportion of production overheads.

Net realizable value signifies the estimated selling price in ordinary course of business less cost necessarily to incurred in order to make the sales.

**2.10 Trade Debts**

Known bad debts are written off and provision is made for debts considered doubtful.

**2.11 Investments**

These are stated at lower of cost and net realizable value,

**2.12 Foreign Currency Transactions**

Assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, except those covered under forward exchange contracts which are translated at cover rates, All other exchange differences are included in current income.

**2.13 Revenue Recognition**

Revenue is recognized on despatch/shipment of goods to the customers.

	1998 Rupees	1997 Rupees
<b>3. LONG TERM LOANS-Secured</b>		
Custom levies (Note 3.1)	2,787,820	4,181,730
Long term loans (Note 3.2)	29,702,843	46,001,298
	-----	-----
	32,490,663	50,183,028
	=====	=====

**3.1 Custom Levies (Note 3.1.1)**

Opening balance	5,575,640	6,969,550
Payments during the year	(1,393,910)	(1,393,910)
	-----	-----
	4,181,730	5,575,640
Payable within one year shown under current liabilities (Note 8)	(1,393,910)	(1,393,910)
	-----	-----
	2,787,820	4,181,730
	=====	=====

3.1.1 These are secured against Bank Guarantee issued by IDBP and repayable in 5 equal installments and subject to markup @ 14% per annum.

**3.2 Long Term Loans - Secured**

	Sapico Foreign Currency	IDBP LMM-1	IDBP LMM-2		
Opening balance	55,626,848	3,045,242	3,415,805	62,087,895	77,988,187
Paid during the year	(13,908,000)	(1,100,544)	(1,078,055)	(16,086,599)	(15,900,292)
	-----	-----	-----	-----	-----
	41,718,848	1,944,698	2,337,750	46,001,296	62,087,895
Payable within one Year shown under Current liabilities (Note 8)	(13,908,000)	(1,253,053)	(1,137,400)	(16,298,453)	(16,086,597)
	-----	-----	-----	-----	-----
	27,810,848	691,645	1,200,350	29,702,843	46,001,298
	=====	=====	=====	=====	=====

Other significant financial term and conditions are as under

Installment	Half Yearly	Quarterly	Half Yearly
Number of installments	16	32	16
Each installment (Rs.)	6,954,000	363,649	624,979
Date of first installment	31-03-92	30-06-92	31-03-93
Marked-up price (Rs.)	-	11,636,767	9,999,669

Interest/mark-up rate	1400%	16.00%	600%
Note	3.2.1	3.2.2	3.2.2

3.2.1 The loan is secured against first equitable mortgage on all present and future immovable properties of the Company ranking pari-passu with charge created in favour of IDBP, hypothecation of all present and future moveable assets of the Company and personal guarantee of directors.

3.2.2 The loans are secured against first equitable mortgage on all present and future immovable properties of the Company, ranking pari-passu with the charge created in favour of Saudi Pak Industrial & Agricultural Investment Company (Pvt.) Limited (SAPICO), Hypothecation of all present and future moveable assets of the Company and personal guarantee of directors.

	1998 Rupees	1997 Rupees
<b>4. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>		
Opening balance	36,510,227	18,626,564
Obtained during the year	16,577,000	23,012,239
	-----	-----
	53,087,227	41,638,803
Paid during the year	(7,008,221)	(5,128,576)
	-----	-----
	46,079,006	36,510,227
Payable within one year shown under current liabilities Not	(10,011,135)	(6,339,492)
	-----	-----
	36,067,871	30,170,735
	=====	=====

These represent plant and machinery and vehicles, acquired under eighteen separate agreements with various leasing companies and financial institutions.

The purchase options are available to the Company on payment of last installment and surrender of margin deposit paid under the agreements.

Other significant financial terms and conditions are as under:-

Particulars	Principal and finance charges (Rs.)	Installment payment rest	Each installment (Rs.)	Number Of installments	Commenced From	Applicable rate of finance	Name of Company
Lease I	628,900	Quarterly	31,445	20	APR, '95	15.99%	ORIX LEASING
Lease II	2,102,400	Quarterly	105,120	20	APR, '95	15.52%	ORIX LEASING
Lease III	550,500	Quarterly	27,525	20	SEP, '95	18.77%	ORIX LEASING
Lease IV	10,640,120	Quarterly	532,006	20	NOV, '95	1560%	PAK LIBYA HOLDING CO (PVT) LTD,
Lease V	2,950,300	Quarterly	147,515	20	AUG, '96	21.00%	PARAMOUNT LEASING CO. LTD.
Lease VI	6,856,140	Quarterly	342,807	20	AUG, '96	20.47%	PAK LIBYA HOLDING CO (PVT) LTD.
Lease VII	3,687,900	Quarterly	184,395	20	AUG, '96	2100%	PARAMOUNT LEASING CO. LTD.
Lease VIII	4,889,500	Quarterly	244,475	20	FEB, '97	21.21%	PARAMOUNT LEASING CO. LTD.
Lease IX	1,373,300	Quarterly	68,665	20	JAN, '97	22.68%	ORIX LEASING
Lease X	4,474,900	Quarterly	223,745	20	OCT, '97	22.41%	ORIX LEASING
Lease XI	13,099,300	Quarterly	654,965	20	AUG, '97	20.05%	ORIX LEASING
Lease XII	10,623,000	Monthly	177,050	60	FEB, '97	19.52%	FIRST INTERNATIONAL BANK
Lease XIII	981,000	Monthly	16,350	60	FEB, '97	1948%	FIRST INTERNATIONAL BANK
Lease XIV	5,826,060	Quarterly	291,303	20	JULY, '98	2000%	ASKARI LEASING LIMITED
Lease XV	3,158,700	Quarterly	157,935	20	FEB, '98	18.01%	SAUDI-PAK LEASING CO. LTD.
Lease XVI	1,761,700	Quarterly	88,085	20	DEC, '97	19.56%	PARAMOUNT LEASING CO. LTD.
Lease XVII	14,597,140	Quarterly	729,857	20	AUG, '98	20.51%	GHANDHARA LEASING CO, LTB,
Lease XVIII	1,810,280	Quarterly	90,514	20	AUG, '98	17.13%	FIRST INTERNATIONAL BANK LTD.

The future minimum lease payments to which the company is committed as at September 30, 1998 are as

under:-

Year Ending September 30,	Rupees
1999	18,002,228
2000	17,701,573
2001	14,543,127
2002	8,892,588
2003	2,619,048
	-----
	61,758,564
Financial charges allocated to future period & deposits	(17,592,787)
	-----
	44,165,777
	=====

	1998 Rupees	1997 Rupees
<b>5. DEFERRED CUSTOM LEVIES</b>		
Opening balance	9,689,817	11,019,356
Paid during the year	-	(1,329,539)
	-----	-----
	9,689,817	9,689,817
	-----	-----

The Company has filed constitutional petition claiming exemption from Custom Duty, Iqra and Surcharge on imported machinery. The machinery has been released against bank guarantees as per court orders. The matter has been remanded back to Custom authorities.

<b>6. STAFF GRATUITY</b>		
Opening balance	1,741,191	1,437,364
Add: Provided during the year	1,839,818	883,942
	-----	-----
	3,581,009	2,321,306
Less: Paid during the year	(522,055)	(580,115)
	-----	-----
	3,058,954	1,741,191
	=====	=====

<b>7. SHORT TERM BORROWINGS</b>	<b>Sanctioned Limits (Rs. In Million)</b>	
Secured- Under markup arrangements		
Banking companies (Note 7.1)		
Cash finance	123	236
Export finances	280	279,717,000
Term finance	15	15,000,000
		-----
		294,717,236
Unsecured		
Book overdraft (Note 7.2)		5,419,510
		-----
		300,136,746
		=====
		152,875,243
		-----
		152,967,082
		=====

7.1 These are secured against hypothecation and pledge of stocks, charge on book debts and current assets of the company, demand promissory notes and personal guarantee of directors.

These are subject to mark-up ranging from 8% to 18% per annum.

These represents cheques issued by the Company in excess of balance at banks which have been presented for payment in subsequent period.

	1998 Rupees	1997 Rupees
<b>8. CURRENT PORTION OF LONG TERM LIABILITIES</b>		
Custom levies (Note 3.1)	1,393,910	1,393,910
Long term loans (Note 3.2)	16,298,453	16,086,597

Liabilities against assets subject to finance lease (Note 4)	10,011,135	6,339,492
	-----	-----
	27,703,498	23,819,999
	=====	=====

**9. CREDITORS, ACCRUED AND OTHER LIABILITIES**

Creditors	41,370,736	36,867,097
Advance from customers	3,947,325	4,573,747
Accrued expenses	14,065,309	17,577,947
Interest/mark-up on Secured:		
Custom levies and long term loans	529,304	757,890
Short term borrowings	3,558,957	5,420,038
Finance charges on lease	1,089,847	678,275
Workers' profit participation fund	1,147,580	2,318,978
Others	864,980	77,799
	-----	-----
	66,574,038	68,271,771
	=====	=====

**10. CONTINGENCIES AND COMMITMENTS****Contingencies**

Excise duty on loans (Note 10.1)	7,638,196	7,038,196
----------------------------------	-----------	-----------

**Commitments**

Letter of credit	1,333,464	3,115,184
------------------	-----------	-----------

10.1 No provision has been made for central excise duty on bank borrowings. The Company has challenged the levy in the Honorable Lahore High Court and a stay has been granted in this respect. The Company has, therefore, reversed the provisions made in earlier years.

**11. OPERATING FIXED ASSETS - At Cost Less Accumulated Depreciation**

PARTICULARS	Cost	Additions/ (Disposals)	Cost	Accumulated	Book	Depreciation	Rate (%)
	As on 01-10-97	During the year	As on 30-09-98	As on 30-09-98	Value As on 30-09-98	For the Year	
<b>Company Owned</b>							
Freehold land	3,498,516	-	3,498,516	-	3,498,516	-	-
Building on freehold land							
Mills	30,389,926	382,886	30,772,812	16,752,470	14,020,342	1,557,816	10
Other	17,239,742	519,670	17,759,412	5,678,543	12,080,869	635,835	5
Plant & machinery	192,892,086	3,617,850	188,275,342	100,267,899	88,007,443	9,778,605	10
		(8,234,594)		(823,460)			
Electric installation and equipment	13,415,954	15,000	13,430,954	7,665,981	5,764,973	640,553	10
Factory equipment	683,820	50,000	733,820	370,343	363,477	40,386	10
Laboratory equipment	2,349,732	36,345	2,386,077	1,318,744	1,067,333	118,593	10
Fire fighting equipment	29,067	-	29,067	16,612	12,455	1,384	10
Office equipment	5,186,665	2,143,819	7,330,484	2,662,327	4,668,157	518,684	10
Furniture and fixture	1,593,587	255,250	1,848,837	835,240	1,013,597	112,622	10
Arms and ammunitions	238,305	-	238,305	145,806	92,499	10,278	10
Vehicles	4,361,460	279,500	4,087,120	2,477,607	1,609,513	402,378	20
		(553,840)		(459,182)			
	-----	-----	-----	-----	-----	-----	-----
	271,878,860	7,300,320	270,390,746	138,191,572	132,199,174	13,817,134	-
		(8,788,434)		(1,282,642)			
<b>Assets Under Finance Lease</b>							
Plant & machinery (Note 11.1)	47,184,127	17,522,711	64,706,838	12,795,940	51,910,899	5,767,878	10
Vehicles	876,062	660,935	1,536,997	649,414	887,583	221,896	20
	-----	-----	-----	-----	-----	-----	-----
	48,060,189	18,183,646	66,243,835	13,445,354	52,798,482	5,989,774	
	-----	-----	-----	-----	-----	-----	-----
Rupees	319,939,049	25,483,966	336,634,581	151,636,926	184,997,656	19,806,908	-
		(8,788,434)		(1,282,642)			

1997 - Rupees	292,990,149	29,690,149	319,939,049	133,112,659	186,826,390	19,972,543	-
		(2,741,249)					

11.1 Assets under finance lease includes Rs. 1,606,646 (1997: Rs. 88,488) pertaining partial payments by the Company from its own sources.

	1998 Rupees	1997 Rupees
<b>11.2 Depreciation for the year has been allocated as under:</b>		
Cost of goods manufactured (Note 21.1)	19,212,701	19,184,896
Administration expenses (Note 22)	594,207	787,647
	-----	-----
	19,806,908	19,972,543
	=====	=====

**11.3 Disposal of fixed assets**

DESCRIPTION	Cost	Accumulated Depreciation	Written Down Value	Proceeds From Disposal	Gain/(loss) On Disposal	Mode Of Disposal	Particulars Of Purchaser
<b>PLANT &amp; MACHINERY</b>							
Drawing Frames	273,375	27,338	246,037	450,000	203,963	Negotiation	Textile Bank
Drawing Frames	546,750	54,675	492,075	500,000	7,925	Negotiation	North Star Textile
Drawing Frames	546,750	54,675	492,075	500,000	7,925	Negotiation	Nagina Cotton Mills Ltd.
Back processing machinery	6,867,719	686,772	6,180,947	6,500,000	319,053	Negotiation	Nagina Cotton Mills Ltd.
	-----	-----	-----	-----	-----		
	8,234,594	823,460	7,411,134	7,950,000	538,866		
<b>VEHICLES</b>							
Mitsubishi Lancer	520,000	434,213	85,787	232,000	146,213	Negotiation	Mr. M. Rashid Khan
LHZ 6545							
Motor Cycle							
LOM 6510	33,840	24,969	8,871	28,000	19,129	Negotiation	Mr. Zafar Iqbal
	-----	-----	-----	-----	-----		
	553,840	459,182	94,658	260,000	165,342		
	-----	-----	-----	-----	-----		
<b>Rupees</b>	8,788,434	1,282,642	7,505,792	8,210,000	704,208		
	=====	=====	=====	=====	=====		
1997- Rupees	1,241,249	769,252	471,997	847,000	375,003		
	=====	=====	=====	=====	=====		

	1998 Rupees	1997 Rupees
<b>12. CAPITAL WORK- IN-PROGRESS</b>		
Machinery	-	14,300
Building	2,068,593	903,709
	-----	-----
	2,068,593	918,009
	=====	=====

	1998 Rupees	1997 Rupees
<b>13. LONG TERM DEPOSITS</b>		
Opening balance	2,466,662	1,174,850
Deposited during the year	199,200	1,291,812
	-----	-----
	2,665,862	2,466,662
	=====	=====

	1998 Rupees	1997 Rupees
<b>14. STORES, SPARES AND LOOSE TOOLS</b>		
Stores	2,638,936	3,435,476
Spares	421,738	413,053
Loose tools	7,600	10,815
	-----	-----
	3,068,274	3,859,344
	=====	=====



**15. STOCK IN TRADE**

Raw material	6,402,361	12,628,832
Work in process	7,669,211	9,819,821
Finished goods	19,485,459	3,338,506
Waste	198,470	2,731,319
	-----	-----
	33,755,501	28,518,478
	=====	=====

**16. BILLS UNDER COLLECTION**

Foreign -Secured	93,741,570	24,661,178
Local-Unsecured- Considered good	1,199,714	491,449
	-----	-----
	94,941,284	25,152,627
	=====	=====

**17. ADVANCES, DEPOSITS AND PREPAYMENTS**

Advances- Considered good		
Employees (Note17.1)	106,446	108,500
Suppliers	3,460,994	669,868
Expenses	-	34,326
Letter of credit	861,796	504,257
Income tax	27,640,773	22,056,211
Bank Guarantee margin	54,000	62,000
	-----	-----
	32,124,009	23,435,162
Export quota deposits	5,741,527	4,958,085
Short term prepayments	601,613	783,146
	-----	-----
	38,467,149	29,176,393
	=====	=====

17.1 The advances have been given to employees against salaries and are considered good.

**18. OTHER RECEIVABLES**

Considered good		
Export rebate	6,680,373	19,018,144
Profit/mark-up on term deposit	763,020	804,854
Deposit refundable	514,824	805,274
Excise duty refundable	2,322,837	2,322,837
Sundry receivables	2,497,374	1,753,688
Sales tax receivable	6,807,054	8,060,072
Penalties receivable	1,283,496	1,277,901
	-----	-----
	20,868,978	34,042,770
	=====	=====

**19. CASH AND BANK BALANCES**

Cash in hand	5,000	17,129
Cash with banks	183,776,338	145,256,804
Term deposits certificates (Note 19.1)	44,032,372	9,250,430
	-----	-----
	227,813,710	154,524,363
	=====	=====

19.1 These are under lien with banks against guarantees issued by them.

These carry markup ranging from 11% to 13% per annum.

**20. SALES- Net**

<b>Yarn</b>		
Local	151,764,213	44,044,120
Export	457,836,218	577,578,216
<b>Fabric</b>		
Local	-	777,597
Export	10,464,670	21,450,757
	-----	-----
	620,065,101	643,850,690
Wastes	9,933,740	12,227,536
	-----	-----

Export Rebates	629,998,841	656,078,226
	16,088,102	45,784,448
	-----	-----
	646,086,943	701,862,674
<b>Less</b>		
Commission	(5,066,902)	(9,116,469)
	-----	-----
	641,020,041	692,746,205
	=====	=====
<b>21. COST OF SALES</b>		
Opening stock- Finished goods	6,069,825	4,852,338
Cost of goods manufactured (Note 21.1)	561,847,430	546,295,214
Finished goods purchased	11,884,157	30,616,051
	-----	-----
	579,801,412	581,763,603
Closing stock-Finished goods	(19,683,929)	(6,069,825)
	-----	-----
	560,117,483	575,693,778
	=====	=====
<b>21.1 Cost of Goods Manufactured</b>		
Raw material (Note 21.1.1)	414,461,798	414,569,235
Packing Material	13,557,613	13,189,035
Stores and spares	9,186,913	13,552,909
Salaries, wages and benefits	30,571,673	26,603,306
Fuel and power	68,205,883	59,340,986
Insurance	1,449,281	1,091,285
Repair and maintenance	1,260,978	839,617
Other manufacturing overheads	1,789,980	742,981
Depreciation (Note 11.2)	19,212,701	19,184,896
	-----	-----
	559,696,820	549,114,250
Work in process	-----	-----
Opening stock	981,982	7,000,785
Closing stock	(7,669,211)	(9,819,821)
	-----	-----
	2,150,610	(2,819,036)
	-----	-----
	561,847,430	546,295,214
	=====	=====
<b>21.1.1 Raw Material Consumed</b>		
Opening stock	12,628,832	12,517,240
Purchases- Net	408,235,327	414,680,827
	-----	-----
	420,864,159	427,198,067
Closing stock	(6,402,361)	(12,628,832)
	-----	-----
	414,461,798	414,569,235
	=====	=====
<b>22. ADMINISTRATION EXPENSES</b>		
Directors remuneration	1,294,892	1,852,099
Salaries & benefits	7,454,206	5,330,238
Rent, rates and taxes	1,454,040	1,242,385
Printing & stationery	372,273	442,054
Postage and telephone	2,337,548	2,986,485
Electricity	524,524	467,937
Repair and Maintenance	134,623	130,948
Vehicles running and maintenance	1,131,948	1,568,635
Advertisement	173.71	43,726
Travelling and conveyance	647.45	1,174,950
Legal and professional	93.50	407,750
Auditors' remuneration (Note 22.1)	92.00	114,500
Fees, subscription and periodicals	223,526	246,493
Entertainment	48,582	204,083
Insurance	625,556	469,087
Depreciation (Note 11.2)	594,207	787,647
Others	247,326	265,908

	-----	-----
	17,449,906	17,734,925
	=====	=====
<b>22.1 Auditors' Remuneration</b>		
Audit fee	60,000	76,000
Tax services	26,000	38,500
Out of pocket	6,000	-
	-----	-----
	92,000	114,500
	=====	=====
<b>23. SELLING EXPENSES</b>		
Export:		
Ocean freight & forwarding	18,900,270	19,626,281
Export development surcharge	1,116,982	1,106,499
Quality claims	2,322,658	-
	-----	-----
	22,339,910	20,732,780
Local:		
Inland transportation and octroi	4,088,622	4,952,965
Distribution cost	1,142,343	480,450
Others	150,303	1,351,854
	-----	-----
	5,381,268	6,785,269
	-----	-----
	27,721,178	27,518,049
	=====	=====
<b>24. OTHER INCOME</b>		
Gain on sale of assets	704,208	375,003
Gain on foreign currency deposits	5,210,127	1,673,997
Dividend income	1,725,000	-
Scrap sales	119,019	206,045
	-----	-----
	7,158,354	2,255,045
	=====	=====
<b>25. FINANCIAL CHARGES</b>		
Mark-up on Secured Finance:		
Short term borrowings-Net	1,125,420	12,438,044
LMM loan	525,957	712,261
Interest on Secured Finance:		
Long term loans	8,005,397	10,011,554
Custom levies	604,155	873,145
Finance charges on lease liabilities	7,912,615	4,234,703
Bank charges and commission	3,185,402	2,090,878
Profit on dollar account	(936,062)	(2,959,410)
	-----	-----
	20,422,884	27,401,175
	=====	=====
<b>26. OTHER CHARGES</b>		
Donations (Note 26.1)	115,000	269,600
Zakat	357	4,155
Workers' profit participation fund	1,147,580	2,318,978
	-----	-----
	1,262,937	2,592,733
	=====	=====

26.1 Recipients of donation do not include any donee in whom any director or his spouse had any interest.

## 27. TAXATION

### Current

Income tax assessment of Company have been finalized upto accounting year 1995-96 (assessment year 1997-98) tax loss available to be carried forward is Rs. 42.069 million.

**Deferred**

In view of carried forward losses, no provision for deferred tax liability is required.

**28. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS**

The Company purchased from and sold to associated undertakings materials, goods and services in aggregate sum of Rs. 84.943 million (1997: Rs. 82.279 million) and Rs. 282.723 million (1997: Rs. 45.241 million) respectively.

Maximum aggregate amount due from associated undertakings at the end of any' month during the year was Rs. 35.025 million (1997:29.987 million)

**29. PAYMENTS TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

	Chief Executive		Directors		Executives		Total	
	1998 Rupees	1997 Rupees	1998 Rupees	1997 Rupees	1998 Rupees	1997 Rupees	1998 Rupees	1997 Rupees
Meeting fees	-	-	1,000	500	-	-	1,000	500
Remuneration	642,000	642,000	336,000	535,000	1,964,884	1,320,299	2,942,884	2,497,299
House rent	288,900	288,900	130,800	216,675	787,567	594,135	1,207,267	1,099,710
Utilities	362,992	138,038	33,600	30,986	167,037	66,014	563,629	235,038
	-----	-----	-----	-----	-----	-----	-----	-----
	1,293,892	1,068,938	501,400	783,161	2,919,488	1,980,448	4,714,780	3,832,547
	=====	=====	=====	=====	=====	=====	=====	=====
Number of person(s)	1	1	1	1	12	8		

Meeting fee has been paid to directors other than working directors.

**30. PLANT CAPACITY AND ACTUAL PRODUCTION**

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

	1998	1997
Total number of spindles installed	24,960	24,960
Total number of spindles worked	24,960	24,960
Number of shifts per day	3	3
Plant Capacity 100% at 30/s (Kgs)	5,988,460	5,988,460
Actual production converted in to 30/s count (Kgs)	5,668,578	5,681,905

**31. FIGURES**

- Have been rounded off to the nearest rupee.

- Of the prior year have been re-arranged wherever necessary for the purpose of comparison.

Shaukat Ellahi Shaikh  
Director

Shafqat Ellahi Shaikh  
Mg. Director (Chief Executive)

Lahore: February 27, 1999.

**PATTERN OF SHAREHOLDING AS AT 30TH SEPTEMBER, 1998**

FORM - 34

THE COMPANIES ORDINANCE, 1984

(Section 236)

PATTERN OF SHAREHOLDING

As at 30th September, 1998

No. of Shareholders	From	To	Total Shares held
---------------------	------	----	-------------------

27	1	100	1,643
51	101	500	19,040
91	501	1,000	70,280
64	1,001	5,000	165,900
6	5,001	10,000	43,720
2	10,001	15,000	24,500
1	15,001	20,000	15,500
3	20,001	25,000	74,000
1	25,001	35,000	31,200
1	35,001	80,000	79,500
1	80,001	410,000	409,600
1	410,001	445,000	442,900
1	445,001	455,000	453,500
1	455,001	505,000	501,800
1	505,001	1,150,000	1,149,321
1	1,150,001	5,280,000	5,277,596
-----			-----
253		TOTAL:	8,760,000
=====			=====

Categories of Shareholders	No. of Shareholders	Shares held	Percentage
Individuals	237	421,383	4.81
Investment Companies	6	474,000	5.41
Insurance Company	1	2,000	0.02
Joint Stock Companies	6	6,688,096	76.35
Financial Institutions	3	1,174,521	13.41
-----		-----	-----
	253	8,760,000	100.00
=====		=====	=====

## PROSPERITY WEAVING MILLS LIMITED

### DIRECTORS' REPORT

IN THE NAME OF ALLAH THE MOST GRACIOUS  
THE MOST BENEVOLENT THE MOST MERCIFUL

The Directors have the pleasure to present the 7th Annual report of the Company together with the audited accounts for the year ended 30th September, 1998.

The Directors have utmost pleasure to state that by mercy of Almighty ALLAH THE MOST BENEVOLENT the Company during the year made all round progress. Net after tax profit is 18.50% higher than the previous year at Rs. 56,414,492/= against Rs. 47,606,909/= in 1997. Members will recall that profit in 1997 was 61.75% higher than that of 1996.

Year	Profit before tax	Tax for the year	Profit after tax
1996	29,432,693	Tax exempted	29,432,693
1997	47,606,909	Tax exempted	47,606,908
1998	58,235,419	1,820,927	56,414,492

During the year, production was 17,636,323 linear meters = 19,381,221 statistical (50 picks) meters (1997: 18,040,562 linear meters = 19,774,329 statistical [50 picks] meters). Actual production during the year decreased by 404,239 meters or 2.24% (statistical production was lower by only 1.99%) due to different, more value added, constructions woven than the previous year.

Total cloth sales in the year amounted to 17,497,670 meters (1997: 18,387,823 meters). Quantity sold is lower by 4.84% than the previous year. Of the total cloth sales, export sales were again 12.81% higher at 15,184,141 meters from 13,460,006 meters in 1997. Members would recall that export sales in 1997 were 7.43% higher than quantity exported in 1996. Export of cloth by value increased once again by 21.59% from that of 1997 which were higher by 30.59% than the value earned in 1996. Export quantitatively were 86.78% of total cloth sales (1997: 73.20%). Value

of exports was 89.79% (1997: 77.48%) of sales. Average price per meter exported was 7.76% higher than that of 1997.

Local cloth sales were again lower by 53.05% to 2,313,529 meters (1997: 4,927,817 meters), value of local sales, decreased by 52.40% to Rs. 93,261,093/= (1997 : 195,939,073/=). Waste sales during the year were Rs. 5,121,900/= (1997: Rs. 5,637,651/=).

With timely purchases average price of yarn used was reduced from the previous year by 5.57%, however, total yarn consumed was higher by 6.69% which resulted in increased by .74% in cost of all yarn consumed. Cost of Raw material consumed amounted to 66.54%. Wages salaries & benefits increased by 23.46% over the previous year. With better process controls and production of higher value added fabric, cost of sale was reduced and gross profit rate increased by 1.62% over the previous year.

With strict fund management, financial charges were reduced by Rs. 1,137,236/= or 2.60% from those of the previous year. As stated in the report for 1997, financial charges would have been still lower if Customs, Sales Tax and Income Tax Departments of the Government of Pakistan had timely paid/refunded various receivables of the Company, such as Sales tax refunds Rs. 22,384,370/= (1997: Rs. 13,898,936/=), Export rebates Rs. 5,477,535/: (1997 : Rs. 5,884,441/=), Minimum Income Tax and Presumptive tax on exports Rs. 10,348,534/= (1997 : Rs.7,147,408/=) the tax collected for which Company was not liable. Total amount of delayed payments amount to Rs. 38,210,439/= (1997: Rs. 26,930,785/=). Reduction in Financing cost of the stuck up Rs. 38.21 million would have helped the profitability and export sales.

Members are aware, Hon'ble Supreme Court by judgement dated 4th June, 1997 decided that Industrial Units entitled to tax holiday under Notification No. SRO 1283(1)/90 dated 13th December, 1990 are not liable to tax under Sections 80CC and 80D of the Income Tax Ordinance, 1979, As a result the Company's petitions have borne fruit. Our applications for refund of taxes collected are pending.

The auditors in their report, as in the previous year, have drawn attention to the non provision of Federal excise duty on bank loans. The Company has been advised that the duty is unconstitutional. Hon'ble Lahore High Court has granted stay and therefore, the management does not consider any provision is required,

In the report for the previous year it was stated that "to provide further flexibility in increasing production both quantitatively and to enhance capability to produce higher value added fabrics. the Company has placed orders for one Benninger Beaming machine and one Benninger-Zefi Sizing machine". The machines have been installed and are in operation since 1st October, 1998, contributing to better production and profitability.

Better results had become apparent by the middle of the year enabling the Directors to declare on May 28, 1998 interim cash dividend @ 20% i.e. Rs. 2/= (Rupees two only) [1997: 15% or Rs. 1/50] for each ordinary share of Rs. 10/= The interim dividend absorbed Rs. 19,200,000/= (1997: Rs. 14,400,000/=).

Income Tax exemption of the Company ended on 30th June, 1998. Period from 1st July, 1998 to 30th September, 1998 of the year under report is subject to income tax which has been provided in the accounts.

The Directors have in principle decided to expand capacity of the mill by installation of additional 60 (sixty) weaving machines at estimated cost of Rs. 200 million (Rupees two hundred million only). Detailed designs are being prepared and financing is being arranged. Since a part will have to be financed from the Company's own resources, the interim dividend already paid is to be treated as final.

Unfortunately, for last few years Pakistan's Cotton crop has been suffering from various manmade and natural problems and as a result the cotton price in Pakistan have been above international parity. Polyester staple fibre producers, due to excessive protection, have taken advantage and kept the price of Polyester fibre above international parity. The prevalence of higher prices of basic raw materials has effected export of textile products from Pakistan.

Members would recall. the European Economic Community had provisionally imposed anti dumping duty ranging from 17% to 32.50% on Pakistan's Grey fabrics. The measure was unwarranted and nothing but disguised protection for the European Industry. The provisional duty was subsequently dropped but immediately thereafter, on the same grounds, another anti-dumping enquiry, the third enquiry in succession on same allegations, was commenced and the European Economic Commission had proposed levy anti-dumping duty on Pakistan's Grey fabrics however, saner counsel prevailed and the matter has beer, dropped.

Financial crisis in far eastern countries has yet to be resolved. Markets are in suspense, there are fears that unless matters are soon resolved, the crisis may have serious repercussion on World economy. By the mercy of ALLAH THE MOST GRACIOUS. Pakistan has so far escaped any major adverse effect.

The Directors have the pleasure to state that the Computers and software used by the Company are year 2000 compliant.

Shares of the Company were declared "eligible security" with effect from 23rd December, 1998 by the Central Depository Company of Pakistan Ltd., (CDC). Creation of depository system is said to be to bring efficiency in capital

markets, avoid delays, reduce costs involved in handling mass of paper and to eliminate the risk of bad deliveries.

The stated objects are laudable. The Directors support the object of depository system but are of the opinion that costs of the system should be transaction related, agreement should be equitable and there should be no deposit. However, listed companies called "Issuers" are required to enter into inequitable one sided agreements and to make unnecessary large return free deposit and to pay large yearly fee. The Lahore Stock Exchange have written to a number of Issuers that CDC have asked LSE to take action against them for not joining CDS. Therefore, the Company on advise of Counsel filed a Constitutional petition before the Honourable Lahore High Court.

Alhamdulillah, trading results of the Company, so far, are quite good and on this basis, the Directors expect the current year (i.e. 1998-99), Inshallah, will again be good, profitable year for the Company.

The Directors wish to place on record their appreciation of the hard work and devotion to duty by the Company's staff and workers.

On behalf of the Board

Lahore: February 27, 1999.

**Shaukat Ellahi Shaikh**  
Mg. Director (Chief Executive)

#### OPERATING FINANCIAL & INVESTMENT RATIOS AS ON 30TH SEPTEMBER

		1998	1997	1996	1995	1994
Cost of sales as % of sales	%	83.90	85.52	85.87	94.90	84.71
Gross profits as % of sales	%	16.10	14.48	14.13	510	15.29
Operating profit as % of sales	%	11.36	10.70	10.58	1.16	11.64
Net profit as % of sales	%	6.32	5.40	3.75	-	3.80
Share holders' equity (millions)	Rs.	168.70	131.00	98.00	6,800	71.00
Pre tax profit to equity	%	34.52	36.21	29.95	-	31.98
After tax profit to equity	%	33.44	36.21	29.95	-	31.98
Sales to Capital employed ratio		2.46	2.78	2.44	1.97	1.61
Gross profit to Capital employed	%	39.60	40.30	34.52	10.04	24.59
Pre tax profit to Capital employed	%	15.54	15.02	9.15	-	6.10
After tax profit to Capital employe	%	15.05	15.02	9.15	-	6.10
Earning per share - Pretax	Rs.	6.07	4.96	3.07	-	4.70
Earning per share - after tax	Rs.	5.88	4.96	3.07	-	4.70
Dividend to Capital - Cash	%	20.00	15.00	-	-	-
Break up value per share	Rs.	17.57	13.70	10.24	7.17	14.70
Debt equity ratio		54.98	58.52	69.45	77.91	80.92
Current ratio		1.06	1.03	0.94	0.77	0.89
Acid ratio		0.95	0.80	0.67	0.60	0.71
Total debt as % of total assets	%	23.79	31.72	41.48	39.57	51.48
Stocks as % of sales	%	5.24	6.70	7.89	8.93	7.10

#### AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of PROSPERITY WEAVING MILLS LIMITED as at September 30, 1998 and the related profit and loss account and statement of changes in financial position, 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, except for the effect of the matter referred to in Note No. 10.1, the balance sheet, profit and loss account and the statement of changes in financial position, 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 September 30, 1998 and of the profit and the changes in financial position for the year then ended; and

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 under section 7 of that Ordinance.

Date: February 27, 1999

**M. YOUSUF ADIL SALEEM & CO.**

Place: LAHORE

Chartered Accountants

#### BALANCE SHEET AS AT SEPTEMBER 30, 1998

	Note	1998 Rupees	1997 Rupees
<b>SHARE CAPITAL AND RESERVE</b>			
Authorized capital			
10,000,000 Ordinary Shares of Rs. 10/- each		100,000,000	100,000,000
		=====	=====
Issued, subscribed and paid-up capital			
9,600,000 Ordinary Shares of Rs. 10/- each		96,000,000	96,000,000
Unappropriated profit		726,923,161	35,477,824
		-----	-----
		168,692,316	131,477,824
<b>REDEEMABLE CAPITAL</b>	3	18,643,349	23,002,552
<b>LONG TERM LOANS</b>	4	98,946,249	125,788,790
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>		35,487,629	275,005
<b>DEFERRED LIABILITY- Staff gratuity</b>	6	4,527,486	2,095,525
<b>CURRENT LIABILITIES</b>			
Short term borrowings	7	445,194,172	234,919,242
Current portion of long term liabilities	8	52,942,298	36,441,737
Creditors, accrued and other liabilities	9	39,831,622	30,868,107
Provision for taxation		1,820,927	-
		-----	-----
		539,789,019	302,229,086
<b>CONTINGENCIES AND COMMITMENTS</b>	10	-	-
		-----	-----
		866,086,048	584,868,782
		=====	=====
<b>FIXED CAPITAL EXPENDITURE</b>			
Operating fixed assets	11	288,797,495	272,084,840
<b>LONG TERM DEPOSITS AND DEFERRED COSTS</b>	12	3,950,267	1,514,143
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	13	11,305,658	11,338,919
Stock in trade	14	48,332,968	59,064,370
Bills under collection	15	194,331,462	27,119,424



Advances, deposits and prepayments	16	31,281,867	32,381,284
Other receivables	17	44,273,211	30,003,564
Cash and bank balances	18	243,813,120	151,362,238
		-----	-----
		573,338,286	311,269,799
		-----	-----
		866,086,048	584,868,782
		=====	=====

The annexed notes from 1 to 29 form an integral part of these accounts,

Lahore: February 27, 1999.

**Shaukat Ellahi Shaikh**                      **Shafqat Ellahi Shaikh**  
 Mg Director (Chief Executive)              Director

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	Note	1998 Rupees	1997 Rupees
<b>SALES- Net</b>	19	921,448,199	882,129,994
<b>COST OF SALES</b>	20	773,060,756	754,381,309
		-----	-----
<b>GROSS PROFIT</b>		148,387,443	127,748,685
<b>OPERATING EXPENSES</b>			
Administration	21	14,121,590	11,486,362
Selling	22	29,558,802	21,840,970
		-----	-----
		43,680,392	33,327,332
		-----	-----
<b>OPERATING PROFIT</b>		104,707,051	94,421,353
<b>OTHER INCOME</b>		63,323	73,842
		-----	-----
		104,770,374	94,495,195
		-----	-----
<b>FINANCIAL CHARGES</b>	23	42,533,903	43,671,139
<b>OTHER CHARGES</b>	24	4,001,052	3,217,147
		-----	-----
		46,534,955	46,888,286
		-----	-----
<b>PROFIT FOR THE YEAR BEFORE TAXATION</b>		58,235,419	47,606,909
<b>PROVISION FOR TAXATION</b>	25	1,820,927	-
		-----	-----
<b>PROFIT AFTER TAXATION</b>		56,414,492	47,606,909
<b>ACCUMULATED PROFIT BROUGHT FORWARD</b>		35,477,824	2,270,915
		-----	-----
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>		91,892,316	49,877,824
<b>APPROPRIATION:-</b>			
INTERIM DIVIDEND @ Rs. 2.0 per share (1997 Rs. 1.50 per share)		19,200,000	14,400,000
		-----	-----
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>		72,692,316	35,477,824
		=====	=====

The annexed notes from 1 to 29 form an integral part of these accounts.

**Shafqat Ellahi Shaikh**                      **Shaukat Ellahi Shaikh**  
 Director    M9. Director (Chief Executive)

Lahore: February 27, 1999.

**STATEMENT OF CHANGES IN FINANCIAL POSITION CASH FLOW STATEMENT)  
FOR THE YEAR ENDED SEPTEMBER 30, 1998**

	1998 Rupees	1997 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	58,235,419	47,606,909

Adjustment for		
Depreciation	32,264,625	30,446,054
Provision for gratuity	3,250,950	920,266
Deferred cost amortized	546,500	546,500
Profit on disposal of assets	(98,848)	(87,055)
Financial charges	42,533,903	43,671,139
Payment of gratuity	(818,989)	(434,195)
	-----	-----
<b>Operating profit before changes in working capital</b>	<b>135,913,560</b>	<b>122,669,618</b>
<b>Changes in working capital</b>		
(Increase)/decrease in current assets		
Stores, spares and loose tools	33,261	(2,379,454)
Stock in trade	10,731,402	1,370,931
Bills under collection	(167,212,038)	(11,707,802)
Advances, deposits and prepayments	1,099,417	(8,775,121)
Other receivables	(14,269,647)	47,070,508
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities	4,789,216	(4,242,114)
	-----	-----
	(164,828,389)	21,336,948
<b>Cash generated from operations</b>	<b>(28,914,829)</b>	<b>144,006,565</b>
Financial charges paid	(38,359,603)	(41,294,062)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(67,274,432)</b>	<b>102,712,503</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of assets	738,000	450,000
Fixed capital expenditure	(49,616,432)	(10,709,625)
Long term deposits and deferred cost	(2,982,624)	38,444
	-----	-----
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(51,861,056)</b>	<b>(10,221,181)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Long term loans obtained	62,000,453	65,242,685
Lease liability obtained	41,180,701	-
Repayment of long term loans	(82,530,228)	(102,358,055)
Repayment of lease liability	(139,485)	(781,926)
Payment of dividend	(19,200,000)	(14,400,000)
Increase in short term borrowing	210,274,930	52,404,742
	-----	-----
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>211,586,371</b>	<b>107,446</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>92,450,883</b>	<b>92,598,768</b>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT THE BEGINNING OF THE YEAR</b>	<b>151,362,237</b>	<b>58,763,469</b>
	-----	-----
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>243,813,120</b>	<b>151,362,237</b>
	=====	=====

Shafqat Ellahi Shaikh  
Director

Shaukat Ellahi Shaikh  
Mg. Director (Chief Executive)

Lahore: February 27, 1999.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 1998

### 1. STATUS AND ACTIVITIES

The Company was incorporated in Pakistan on November 20, 1991 as a Public Limited Company and is quoted at stock exchanges at Karachi and Lahore and is a subsidiary of Nagina Cotton Mills Limited. The principal business of the Company is manufacture and sale of cloth. The Mills is located in District Sheikhpura in the Province of the Punjab.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting convention

These accounts have been prepared under "Historical Cost Convention" except to the extent of exchange differences as stated in note 2.4.

## 2.2 Staff Retirement Benefits

The Company operates an unfunded gratuity scheme covering all its employees. Provision is made annually to cover the liability under the scheme.

## 2.3 Taxation

### Current

Provision for current taxation is based on taxable income at current tax rates after taking into account tax rebates and tax credits available, if any.

### Deferred

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 differences will not reverse in the foreseeable future.

## 2.4 Operating Fixed Assets and Depreciation

Operating fixed assets, except freehold land, are stated at cost less accumulated depreciation, Freehold land is stated at cost. Depreciation is charged to income applying the reducing balance method at the rates specified in operating fixed assets note.

Exchange differences and exchange risk covera9e fee in respect of foreign currency loans obtained for acquisition of operating assets are capitalized as cost of the relevant assets,

Depreciation is char9ed on proportionate basis in accordance with period of use on major project costs capitalized during the year. Full year's depreciation is char9ed on other additions during the year while no depreciation is charged on deletions during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized,

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

## 2.5 Capital Work in Progress

Fixed assets under construction and installation are categorized as Capital Work in Progress and are stated at cost. These are transferred to Operating Fixed Assets when brought into use for the operations of the Company.

## 2.6 Accounting for Lease

The Company accounts for assets acquired under finance lease by recording the assets and related liability. Finance 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 the estimated useful life in view of the certainty of the ownership of the assets at the end of the lease period.

## 2.7 Deferred Costs

These are amortized to income over a maximum period of five years from the year of their deferment.

## 2.8 Stores, Spares and Loose Tools

These are valued at lower of moving average cost and net realizable value except stores in transit which are stated at cost accumulated upto the balance sheet date.

## 2.9 Stock in Trade

These are valued at lower of cost and net realizable value applying the following basis:

Raw material	First in first out
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Waste	Net realizable value

Average manufacturing cost in relation to work in process and finished goods, includes prime cost and proportion of production overheads.

Net realizable value signifies the estimated selling price in ordinary course of business less cost necessary to incur in order to make the sales.

## 2.10 Trade Debts

Known bad debts are written off and provision is made for debts considered doubtful.

## 2.11 Investments

These are stated at lower of cost and net realizable value.

**2.12 Foreign Currency Transactions**

Assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, except those covered under forward exchange contracts which are translated at cover rate. Exchange differences, except as stated in note 2.4 are included in current income.

**2.13 Revenue Recognition**

Revenue is recognized on despatch/shipment of goods to the customers.

**3. REDEEMABLE CAPITAL- Secured**

	1998 Rupees	1997 Rupees
Term finance certificates		
Opening balance	26,671,606	29,759,776
Redeemed during the year	(3,669,054)	(3,088,170)
	-----	-----
	23,002,552	26,671,606
Current portion (Note 8)	(4,359,203)	(3,669,054)
	-----	-----
	18,643,349	23,002,552
	=====	=====

These have been issued to Pak Libya Holding Company (Pvt) Limited.

These are secured against first floating charge on present and future movable and immovable properties and assets of the Company ranking pari passu with the guarantees issued by Industrial Development Bank of Pakistan to secure Supplier's Credit and LMM loan.

These are redeemable in 15 half yearly installments commencing from December 31, 1995 and are subject to mark-up @ 18% per annum.

Pak Libya Holding Company (Pvt) Limited has a right to convert upto 20% of the principal amount of TFC's outstanding, into Ordinary Shares at par.

**4. LONG TERM LOANS-Secured**

Suppliers' credit (Note 4.1)	54,438,831	90,731,385
LMM loan (Note 4.2)	2,575,481	3,190,500
Local currency (Note 4.3)	-	-
Demand finance (Note 4.4)	41,931,937	31,866,905
	-----	-----
	98,946,249	125,788,790
	=====	=====

**4.1 Suppliers' Credit**

Openin9 balance	90,731,385	127,023,939
Adjusted/paid during the year	(36,292,554)	(36,292,554)
	-----	-----
	54,438,831	90,731,385
	=====	=====

This represents 90% cost of plant and machinery imported from C. Itoh & go. Limited, Japan for a total sum of Japanese Yen 1,015.20 million arranged through Industrial Development Bank of Pakistan. It is secured against bank guarantee issued by Industrial Development Bank of Pakistan which is counter secured against first charge by way of mortgage on Company's present and future properties and assets ranking pari passu with the charge created to secure Redeemable Capital and LMM loan.

The foreign currency has been converted into Pak rupees @ Japanese Yen is Rs. 0.214495 which is the rate booked and covered by the State Bank of Pakistan against payment of exchange risk cover fee @ 7.5% per annum.

The loan is repayable in 12 half yearly equal installments commencing from September 09, 1994.

The loan is subject to interest @ 9% per annum.

Industrial Development Bank of Pakistan has preferential right to allotment upto 20% of the fresh issue

of the share capital, if any, in respect of its loans.

	1998	1997
	Rupees	Rupees
<b>4.2 LMM Loan</b>		
Opening balance	3,759,120	4,284,841
Paid during the year	(568,620)	(525,721)
	-----	-----
	3,190,500	3,759,120
Current portion (Note 8.1)	(615,019)	(568,620)
	-----	-----
	2,575,481	3,190,500
	=====	=====

The loan has been obtained under an agreement dated July 31, 1991 for purchase of locally manufactured machinery (LMM) from Industrial Development Bank of Pakistan.

It is secured against first mortgage on company's present and future properties and assets ranking pari passu with the charge created to secure Redeemable Capital and bank guarantee to secure Supplier's Credit.

The loan is repayable in 16 equal half yearly installments commencing from September 30, 1995.

It is subject to mark-up @ 8% per annum.

Industrial Development Bank of Pakistan has preferential right to allotment upto 20% of the fresh issue of the share capital, if any, in respect of its loans.

#### 4.3 Local Currency

Opening balance	-	5,704,738
Paid during the year	-	(5,704,738)
	-----	-----
	-	-
Current portion	-	-
	-----	-----
	-	-
	=====	=====

The finance was obtained from Pak Libya Holding Company (Pvt) Limited and has been repaid.

#### 4.4 Demand Finance

	1998	1997
	Rupees	Rupees
Opening balance	63,931,484	44,332,671
Transferred during the year from Supplier's Credit (Principal & mark-up)	62,000,453	65,242,685
	-----	-----
	125,931,937	109,575,356
Payment made during the year	(42,000,000)	(45,643,872)
	-----	-----
	83,931,937	63,931,484
Current portion (Note 8.1)	(42,000,000)	(32,064,579)
	-----	-----
	41,931,937	31,866,905
	=====	=====

On October 2, 1996 an agreement was entered into with Industrial Development Bank of Pakistan for rescheduling of loan liabilities. According to this agreement, existing dues including Principal amount, Interest, Exchange risk fee and Guarantee commission under Supplier's Credit will be transferred to this loan each year till maturity upto March 09, 2003. The company will pay Rs.. 42.000 million per year w.e.f July 1996 in monthly installments of Rs. 3.500 million each, till liquidation of entire dues under Supplier's Credit.

The loan is subject to markup @ 18% per annum payable half yearly.

#### 5. LIABILITIES AGAINST ASSETS

**SUBJECT TO FINANCE LEASE**

Opening balance	414,489	1,196,415
Obtained during the year	41,180,701	-
	-----	-----
	41,595,190	1,196,415
Paid during the year	(139,485)	(781,926)
	-----	-----
	41,455,705	414,489
Less: Current portion (Note 8)	(5,968,076)	(139,484)
	-----	-----
	35,487,629	275,005
	=====	=====

Significant terms and conditions are as under:-

Particulars	Lease # 1	Lease # 2	Lease # 3	Lease # 4
	Orix Lease	Orix Lease	Dawood Lease	Saudi Pak Lease
Principal and finance charges (Rs.)	1,103,300	1,462,800	30,815,000	30,751,500
Installment payment rest	Quarterly	Quarterly	Quarterly	Quarterly
Each installment (Rs.)	55,165	73,140	1,540,750	1,618,500
Number of installments	20	20	20	19
Commenced from	Apr 25, 95	Dec.25, 98	Oct. 31,98	Nov. 10,98
	-----	-----	-----	-----
Applicable rate of finance	22.27%	22%	18.10%	18.29%
	=====	=====	=====	=====

The future minimum lease payments to which the Company is committed as at September 30, 1998 are as under:-

Particulars	Lease # 1	Lease # 2	Lease # 3	Lease # 4	Total
September 30, 1999	220,660	292,560	6,163,000	6,474,000	13,150,220
September 30, 2000	110,330	292,560	6,163,000	6,474,000	13,039,890
September 30, 2001	-	292,560	6,163,000	6,474,000	12,929,560
30-Sep-02	-	292,560	6,163,000	6,474,000	12,929,560
September 30, 2003	-	292,560	6,163,000	4,855,500	11,311,060
	-----	-----	-----	-----	-----
Total:	330,990	1,462,800	30,815,000	30,751,500	63,360,290
	-----	-----	-----	-----	-----
Less: Financial Charges	(55,986)	(542,800)	(10,815,000)	(10,490,799)	(21,904,585)
	=====	=====	=====	=====	=====
	275,004	920,000	20,000,000	20,260,701	41,455,705
	=====	=====	=====	=====	=====

The Company has purchase option on surrender of security deposit at the end of lease term.

	1998 Rupees	1997 Rupees
<b>6. DEFERRED LIABILITY-Staff gratuity</b>		
Opening balance	2,095,525	1,609,454
Provided during the year	3,250,950	920,266
	-----	-----
	5,346,475	2,529,720
Paid during the year	(818,989)	(434,195)
	-----	-----
	4,527,486	2,095,525
	=====	=====

**7. SHORT TERM BORROWINGS**

	Sanctioned Limits (Rs. In Million)	
Secured- Under markup arrangements		
Export finances from banks (Note 7.1)	446	441,212,000
		218,520,000

Unsecured		
Book overdraft (Note 7.2)	3,982,172	16,399,242
	-----	-----
	445,194,172	234,919,242
	=====	=====

7.1 These are secured against pledge of stocks of raw material and finished goods of the Company, lien on term deposit certificates (Refer Note 18), equitable mortgage of Company's Head Office building (owned by Nagina Cotton Mills), personal guarantee and pledge of shares of some of the Directors.

These are subject to mark-up ranging from 8% to 18% per annum.

7.2 This represents cheques issued in excess of balance at banks, which were presented for payments in subsequent periods.

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

Redeemable capital (Note 3)	4,359,203	3,669,054
Long term loans (Note 8.1)	42,615,019	32,633,199
Liabilities against assets subject to finance lease (Note 5)	5,968,076	139,484
	-----	-----
	52,942,298	36,441,737
	=====	=====

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>

#### 8.1 Long term loans

LMM loan (Note 4.2)	615,019	568,620
Demand finance (Note 4.4)	42,000,000	32,064,579
	-----	-----
	42,615,019	32,633,199
	=====	=====

#### 9. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	4,913,245	4,979,188
Accrued expenses	18,280,843	9,877,691
Advance from customers	599,852	1,002,579
Capital expenditure payable	631,936	631,936
Interest/mark-up on secured:		
Long term loans	3,850,838	2,743,670
Short term borrowings	8,186,452	5,119,320
Exchange risk fee payable	234,907	391,512
Income tax payable	61,047	55,320
Workers' profit participation fund (Note 9.1)	3,065,022	5,854,887
Other	7,480	212,004
	-----	-----
	39,831,622	30,868,107
	=====	=====

#### 9.1 Workers' profit participation fund

Opening balance	5,854,887	2,977,120
Markup during the year	156,876	372,140
	-----	-----
	6,011,763	3,349,260
Paid during the year	(6,011,763)	-
	-----	-----
	-	3,349,260
Provided during the year	3,065,022	2,505,627
	-----	-----
	3,065,022	5,854,887
	=====	=====

#### 10. CONTINGENCIES AND COMMITMENTS

##### Contingencies

Excise duty on loans (Note 10.1)	6,024,130	6,024,130
----------------------------------	-----------	-----------

Commitments		
Letter of credit	753,771	437,184

10.1 No provision has been made for central excise duty on bank borrowings. The Company has challenged the levy in the Honourable Lahore High Court and a stay has been granted in this respect.

#### 11. OPERATING FIXED ASSETS-At Cost Less Accumulated Depreciation

Particulars	Cost As on 01-10-97	Additions/ (Disposal) During the Year	Cost As on 30-09-98	Accumulated Depreciation As on 30-09-98	Book Value As on 30-09-98	Depreciation For the Year	Rate (%)
Freehold land	2,207,366	-	2,207,366	-	2,207,366	-	-
Building on freehold land							
Factory	32,993,682	-	32,993,682	13,259,382	19,734,300	2,192,700	10
Residential	17,568,395	1,098,801	18,667,196	7,296,262	11,370,934	1,263,437	10
Plant & machinery	329,081,374	6,217,764	335,299,138	130,954,650	204,344,488	22,704,943	10
Electric installation	14,087,492	-	14,087,492	5,768,968	8,318,524	924,280	10
Factory equipment	883,415	73,285	956,700	368,735	587,965	65,330	10
Office equipment	1,881,389	352,762	2,234,151	755,218	1,478,933	164,326	10
Furniture and fixture	1,788,635	170,061	1,958,696	791,768	1,166,928	129,659	10
Arms and ammunitions	51,500	-	51,500	21,090	30,410	3,379	10
Vehicles	4,689,479	311,611	4,202,150	2,296,543	2,065,395	516,349	20
		(798,940)		(159,788)			
	405,232,727	8,224,284	412,658,071	161,512,616	251,305,243	27,964,403	-
		(798,940)		(159,788)			
<b>Assets Under Finance Lease</b>							
Plant & machinery	-	40,472,148	40,472,148	4,036,157	36,435,991	4,036,157	10
Vehicles	781,887	920,000	1,701,887	645,626	1,056,261	264,065	20
Rupees	406,014,614	49,616,432	454,832,106	166,194,399	288,797,495	32,264,625	
		(798,940)		(159,788)			
	=====	=====	=====	=====	=====	=====	=====
1997- Rupees	396,191,085	10,709,625	406,014,614	134,452,925	272,084,840	30,446,054	
		(886,096)		(523,151)			
	=====	=====	=====	=====	=====	=====	=====

11.1 Addition in plant and machinery includes exchange risk fee of Rs 5,967,764 (1997: Rs. 8,689,705) on loan obtained for acquisition of machinery,

	1998 Rupees	1997 Rupees
11.2 Depreciation for the year has been allocated as under:		
Cost of sales	31,160,373	29,320,799
Administration expenses	1,104,252	1,125,255
	-----	-----
	32,264,625	30,446,054
	=====	=====

#### 11.3 Disposal of fixed assets

Description	Cost	Accumulated Depreciation	Written Down Value	Proceeds From Disposal	Profit	Mode of Disposal By	Particulars Of Purchaser
Toyota Corolla (LXB 663)	798,940	159,788	639,152	738,000	98,848	Insurance Claim	Habib Insurance Co. Ltd.
	-----	-----	-----	-----	-----		
Rupees	798,940	159,788	639,152	738,000	98,848		
	=====	=====	=====	=====	=====		
1997- Rupees	886,096	523,151	362,945	450,000	87,055		
	=====	=====	=====	=====	=====		



	1998 Rupees	1997 Rupees
<b>12. LONG TERM DEPOSITS AND DEFERRED COSTS</b>		
Security deposit	3,403,767	421,143
Deferred costs:-		
Public issue expenses	1,093,000	1,639,500
Amortization during the year	(546,500)	(546,500)
	-----	-----
	546,500	1,093,000
	-----	-----
	3,950,267	1,514,143
	=====	=====
<b>13. STORES, SPARES AND LOOSE TOOLS</b>		
Stores	10,445,896	10,848,106
Spares	766,432	473,955
Loose tools	93,330	16,858
	-----	-----
	11,305,658	11,338,919
	=====	=====
<b>14. STOCK IN TRADE</b>		
Raw material	17,842,776	18,288,318
Work in process	11,530,225	7,208,881
Finished goods	18,935,534	33,567,171
Waste	24,433	-
	-----	-----
	48,332,968	59,064,370
	=====	=====
<b>15. BILLS UNDER COLLECTION</b>		
Foreign-Secured	194,146,423	24,410,122
Local-Unsecured-Considered good	185,039	2,709,302
	-----	-----
	194,331,462	27,119,424
	=====	=====
<b>16. ADVANCES, DEPOSITS AND PREPAYMENTS</b>		
Advances- Considered good		
Employees (Note 16.1)	697,482	125,688
Suppliers and contractors	1,222,166	6,867,652
Income tax	10,348,533	7,147,408
Letters of credit	115,864	1,325,379
	-----	-----
	12,384,045	15,466,127
Export quota deposits	18,533,114	16,519,318
Short term prepayments	364,708	395,839
	-----	-----
	31,281,867	32,381,284
	=====	=====

16.1 These represent interest free and unsecured advances given to employees against salaries & wages and are considered good by the management.

	1998 Rupees	1997 Rupees
<b>17. OTHER RECEIVABLES-Considered Good</b>		
Excise duty refundable	3,998,192	3,500,251
Penalty refundable	4,273,248	4,253,139
Sales tax receivable	22,384,370	13,898,936
Profit on investments	7,563,317	2,466,769
Export rebates	5,477,535	5,884,441
Miscellaneous	576,549	28
	-----	-----
	44,273,211	30,003,564

**18. CASH AND BANK BALANCES**

Cash in hand	10,000	6,000
Cash with banks	174,109,720	95,556,484
Term deposits certificates (Note 18.1)	69,693,400	55,799,754
	-----	-----
	243,813,120	151,362,238
	=====	=====

18.1 These carry profit ranging from 11% to 13% per annum.

Part of these TDR's are under lien with banks against short term borrowing. (Refer note 7.1)

**19. SALES-Net**

Cloth		
Export	819,836,603	674,288,553
Local	93,261,093	195,939,072
Waste- Local	5,121,899	5,637,651
	-----	-----
	918,219,595	875,865,276
Export rebates	16,017,324	10,917,922
	-----	-----
	934,236,919	886,783,198
<b>Less:</b>		
Commission	(12,788,720)	(4,653,204)
	-----	-----
	921,448,199	882,129,994
	=====	=====
	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>

**20. COST OF SALES**

Raw material (Note 20.1)	613,141,012	608,607,203
Packing material	3,182,621	3,672,479
Stores and spares	9,677,001	4,833,557
Sizing material	24,028,444	27,318,930
Salaries, wages and benefits	23,478,358	19,016,801
Insurance	1,220,940	1,161,274
Fuel and power	55,910,647	50,797,655
Repair and maintenance	225,931	610,450
Depreciation	31,160,373	29,320,799
Other manufacturing overheads	749,569	622,011
	-----	-----
	762,774,896	745,961,159
Work in process		
Opening	7,208,881	10,508,919
Closing	(11,530,225)	(7,208,881)
	-----	-----
	(4,321,344)	3,300,038
	758,453,552	749,261,197
Finished goods		
Opening	33,567,171	38,687,283
Closing	(18,959,967)	(33,567,171)
	-----	-----
	14,607,204	5,120,112
	-----	-----
	773,060,756	754,381,309
	=====	=====

**20.1 Raw Material**

Opening stock	18,288,318	11,239,099
Purchases- Net	612,695,470	615,656,422
	-----	-----
	630,983,788	626,895,521
Closing stock	(17,842,776)	(18,288,318)

	-----	-----
	613,141,012	608,607,203
	=====	=====
<b>21. ADMINISTRATION EXPENSES</b>		
Directors' remuneration	1,106,130	545,822
Staff salaries and benefits	4,724,410	3,832,569
Vehicle running and maintenance	732,266	533,063
Rent, rates and taxes	1,425,000	1,200,000
Telephone, telex and postage	1,298,115	1,208,543
Conveyance	1,611,958	1,181,379
Insurance	349,258	234,044
Repair and maintenance	110,172	143,980
Fee and subscription	182,908	173,808
Printing and stationery	609,553	595,930
Advertisement	46,080	-
Entertainment	74,820	64,708
Legal and professional	116,000	69,650
Auditors' remuneration (Note 21.1)	94,000	69,000
Electricity	518,073	420,155
Depreciation	1,104,252	1,125,255
Others	18,595	88,456
	-----	-----
	14,121,590	11,486,362
	=====	=====
	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>21.1 Auditors' Remuneration</b>		
Audit fee	40,000	44,000
Tax services	50,000	25,000
Out of pocket	4,000	-
	-----	-----
	94,000	69,000
	=====	=====
<b>22. SELLING EXPENSES</b>		
Export:		
Ocean freight	18,218,613	14,803,145
Export development surcharge	2,005,489	1,246,027
	-----	-----
	20,224,102	16,049,172
Local:		
Inland transportation and octroi	3,896,887	3,161,690
Distribution costs	2,573,782	1,939,862
Others	2,864,031	690,246
	-----	-----
	9,334,700	5,791,798
	-----	-----
	29,558,802	21,840,970
	=====	=====
<b>23. FINANCIAL CHARGES</b>		
Interest/mark-up on:		
Long term loans	22,736,905	23,798,253
Short term borrowings	12,289,118	13,400,472
Workers' profit participation fund	156,876	372,140
Finance charges on lease	1,409,111	161,534
Guarantee commission	2,407,296	2,832,324
Bank charges and commission	3,534,597	3,106,416
	-----	-----
	42,533,903	43,671,139
	=====	=====
<b>24. OTHER CHARGES</b>		
Charity and donation (Note 24.1)	375,000	165,020

Amortization of deferred costs	546,500	546,500
Workers' profit participation fund	3,065,022	2,505,627
Miscellaneous	14,530	-
	-----	-----
	4,001,052	3,217,147
	=====	=====

24.1 No director and his spouse had any interest in the donee's fund.

## 25. TAXATION

### Current

Income Tax exemption of the Company under Clause 118-D of the Second Schedule to the Income Tax Ordinance, 1979 expired on 30th June 1998. The Income Tax assessments of the Company have been completed to accounting year ended on 30th September, 1996 (assessment year 1997-98).

However, the Income Tax authorities have sought to re-open the completed assessments for the assessment years 1995-96 to 1997-98 under Section 65 of the Income Tax Ordinance, 1979. The Company has been advised that the notices are invalid. The Company has filed constitutional petition before the Hon'ble Lahore High Court for declaration of the notices as without lawful authority and of no legal effect.

### Deferred

No deferred tax liability has been recognized as the major timing differences are not expected to reverse in the foreseeable future.

## 26. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The Company purchased from and sold to associated undertakings materials, goods and services in aggregate sum of Rs. 124.969 million (1997: Rs. 101.054 million) and Rs. 72.755 million (1997: Rs. 150.806 million) respectively.

Maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs. 22.451 million (1997: Rs. 29.420 million).

## 27. PAYMENTS TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Directors		Executives		Total	
	1998 Rupees	1997 Rupees	1998 Rupees	1997 Rupees	1998 Rupees	1997 Rupees
Meeting Fee	500	500	-	-	500	500
Basic salary	642,000	285,169	2,143,670	1,254,122	2,785,670	1,539,291
House rent allowance	288,900	119,537	889,706	518,524	1,178,606	638,061
Other allowances	174,730	140,616	203,267	123,354	377,997	263,970
	-----	-----	-----	-----	-----	-----
	1,106,130	545,822	3,236,643	1,896,000	4,342,773	2,441,822
	=====	=====	=====	=====	=====	=====
Number of persons	1	2	13	9		

Meeting fee has been paid to 1 director other than working directors,

## 28. PRODUCTION DATA

It is difficult to precisely describe production capacity in the textile industry since it fluctuates widely depending on various factors such as loom width, width of fabric produced, type of yarn used etc. It would also vary according to pattern of production adopted in a particular year.

However, the following figures of capacity have been estimated:-

	1998	1997
Air Jet Looms Installed	132	132
100% Capacity at 50 Picks (meters)	23,296,380	23,296,380
Actual Production (meters)	17,636,323	18,040,562
Actual Production after conversion into 50 Picks (meters)	19,381,221	19,774,329

## 29. FIGURES

- Have been rounded off to the nearest rupee.
- Of the prior year have been re-arranged wherever necessary for the purpose of comparison.

**Shafqat Ellahi Shaikh**  
Director

**Shaukat Ellahi Shaikh**  
Mg. Director (Chief Executive)

Lahore: February 27, 1999.

**PATTERN OF SHAREHOLDING AS AT 30TH SEPTEMBER, '1998**

**FORM- 34**

**THE COMPANIES ORDINANCE, 1984**

**(Section 236)**

**PATTERN OF SHAREHOLDING**

**As at 30th September, '1998**

No. of Shareholders	From	To	Total Shares held
287	1	500	143,500
1	501	5,000	1,500
1	5,001	10,000	10,000
3	10,001	20,000	48,000
1	20,001	245,000	244,500
1	245,001	490,000	489,200
1	490,001	3,865,000	3,862,800
1	3,865,001	4,805,000	4,800,500
-----			-----
296		TOTAL	9,600,000
=====			=====

Categories of Shareholders	No. of Shareholders	Shares held	Percentage
Individuals	291	201,500	2.10
Investment Company	1	1,500	0.02
Joint Stock Companies	2	8,663,300	90.24
Financial Institutions	2	733,700	7.64
	-----	-----	-----
	296	9,600,000	100.00
	=====	=====	=====