

PEL Appliances Limited

Annual Report 2000

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BOARD OF DIRECTORS

Mr. M. Naseem Saigol (Chairman/Chief Executive)
Mr. M. Azam Saigol
Mr. Shahid Sethi
Mr. Haroon Ahmad Khan
Sh. Mohibullah Usmani
Mr. Homaeer Waheed
Mr. Maqbool Elahi

COMPANY SECRETARY

Sheikh Muhammad Shakeel, ACA

AUDITORS

M/s Manzoor Hussain Mir & Co.
Chartered Accountants

BANKERS

ABN Amro Bank N.V.
Deutsche Bank AG
Faysal Bank Limited
Mashreq Bank PSC
National Bank of Pakistan

REGISTERED OFFICE

06-Egerton Road,
Lahore
Tel: 6306131 (5 Lines)

WORKS

302-Gadoon Amazai
Industrial Estate,
District Swabi (NWFP)

Notice of Annual General Meeting

Notice is hereby given that the Nineteenth Annual General Meeting of Shareholders of PEL APPLIANCES LIMITED will be held on Saturday 23rd December 2000 at 10:30 A.M. at 06-Egerton Road, Lahore the Registered Office of the Company to transact the following business:-

1. To confirm the minutes of Eighteenth Annual General Meeting held on December 31, 1999.
2. To receive and adopt the Annual Audited Accounts for the year ended 30 June, 2000 alongwith Directors' and Auditors' Reports thereon.
3. To approve the appointment of Chief Executive of the Company as recommended by the Board.
4. To appoint Auditors to hold office till the conclusion of the next Annual General Meeting and to fix their remuneration.
5. Any other business with the permission of the Chair.

By order of the Board

Lahore
December 01, 2000

SHEIKH MUHAMMAD SHAKEEL
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from 23rd December 2000 to 29 December 2000 (both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint another member as proxy. Proxies in order to be effective, must be received at the Registered Office of the Company not later than forty-eight hours before the time of the meeting and must be duly stamped, signed and witnessed.
3. Members whose shares are deposited with Central Depository System are requested to bring their original National Identity Card alongwith their Account Number in Central Depository System for attending the meeting.
4. Members are requested to notify the Company change in their addresses, if any.

Directors' Report to the Members

GENTLEMEN

Your Directors are pleased to submit their Report together with the Audited Accounts of the Company for the year ended 30 June 2000.

FINANCIAL	2000	1999
	<i>(Rupees in thousands)</i>	
Gross sales	520,683	453,371
Gross profit	36,136	47,022
Operating loss	(21,416)	(9,568)
Net loss for the year	(137,269)	(120,600)

CHAIRMAN'S REVIEW

The Review included in the Annual Report deals inter alia with the performance of the Company for the year ended June 30, 2000 and future prospects. The directors endorsed the contents of the review.

AUDITORS AND THEIR REPORT

The present Auditors Messrs Manzoor Hussain Mir & Company, Chartered Accountants, retires and being eligible, offer themselves for reappointment.

The company has chalked out a plan to bring its air-conditioner business out of losses and to expand sales of deep-freezer in a way that it should improve its operating results substantially in the ensuing year. This plan has been explained in more detail in the Chairman's review and the management is confident to achieve the targets for the current year.

No provision has been made for diminution in the value of short term investments in view of the fact that prices quoted on Stock Exchanges are normally depressed these days.

Investment in shares was made prior to 1995. According to the opinion of M/S Hassan & Hassan Advocates relevant provision of Companies Ordinance will be operative with effect from 2nd day of July 1995 and will not be applicable to the investment made prior to amendment in statute.

PATTERN OF SHAREHOLDING

A statement showing pattern of holding of the shares held by the shareholders of PEL APPLIANCES LIMITED as at 30 June, 2000 is attached.

For and on behalf of the Board

Lahore
December 01,2000

M. Naseem Saigol
Chairman / Chief Executive

Auditors' Report to the Members

We have audited the annexed balance sheet of PEL APPLIANCES LIMITED as at 30 June 2000 and the related profit and loss account, cash flow statement and statement of changes in equity 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.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis,

evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement, and statement of changes in equity, together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2000 and of the loss, its cash flow and changes in equity for the year then ended; and

1. The Company is sustaining losses continuously from 1997 to 2000, it has sustained losses aggregating to Rs. 479.833 Million, as a result of which the share-holders equity has converted into deficit balance of Rs. 176.083 Million. The current liabilities have exceeded the current assets by Rs. 196.839 Million. The production capacity is not fully utilized and unit is working much below the rated capacity. The business of the company in our opinion, can be viable only if further funds are introduced for meeting working capital requirements and management is in a position to improve future profitability by improving production activities.

2. The short term investment is allowed to stand at cost which is contrary to method of valuation of lower of cost and market. In our opinion the diminution in the value of the shares indicated at Note No. 7(i) of Rs. 22.935 Million should have been provided in the accounts.

3. Investment in shares of associated Companies and advances to them aggregating to Rs. 69.512 Million indicated at Note No. 7(ii) are in excess of 30% share holders equity which shows deficit balance. The investment made and advances given are contrary to the provisions of Section 208 of the Companies Ordinance, 1984.

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

Lahore,
December 02, 2000.

MANZOOR HUSSAIN MIR & CO.
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 2000

	<i>Note</i>	<i>2000</i>	<i>1999</i>
		<i>(Rupees in thousand)</i>	
FIXED CAPITAL EXPENDITURE			
Operating assets	3	289,759	307,600
		-----	-----
		289,759	307,600
CURRENT ASSETS			
Stores, spares and stock in trade	4	2,062,651	234,787
Trade debts	5	118,308	148,057
Advances, deposits and prepayments	6	78,463	104,219
Short term investment	7	37,954	72,000
Cash and bank balances	8	20,742	74,864
		-----	-----
		461,732	573,927
CURRENT LIABILITIES			
Short term finances	9	225,819	325,212
Current portion of long term liabilities	10	87,463	51,200
Creditors, provisions and accrued liabilities	11	345,289	215,189
		-----	-----
		658,571	591,601
		-----	-----
Net working capital		(196,839)	(17,674)

Total net assets		92,920	289,926
CONTINGENCIES AND COMMITMENTS		--	--
LONG TERM LIABILITIES			
Long term loans	13	123,429	183,166
Net - Worth		(30,509)	106,760
REPRESENTED BY			
Share capital	14	58,500	58,500
Reserves	15	245,250	245,250
Unappropriated loss		(479,833)	(342,564)
SHAREHOLDER'S EQUITY		(176,083)	(38,814)
Surplus on revaluation of fixed assets	16	145,574	145,574
		(30,509)	106,760

The annexed notes (1) to (29) form an integral part of these financial statements.

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

Auditors' report annexed
Lahore

Manzoor Hussain Mir & Co.
Chartered Accountants

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2000

	Note	2000	1999
<i>(Rupees in thousand)</i>			
SALES - GROSS (LOCAL)		520,683	453,371
SALES TAX		76,221	58,525
SALES - NET		444,462	394,846
COST OF SALES	17	408,326	347,824
GROSS PROFIT		36,136	47,022
OPERATING EXPENSES			
Administrative	18	20,165	15,318
Selling	19	37,387	41,272
		57,552	56,590
OPERATING LOSS		(21,416)	(9,568)
FINANCIAL EXPENSES	20	(116,350)	(90,128)
OTHER INCOMES	21	497	3,872
NET LOSS FOR THE YEAR BEFORE UNUSUAL ITEMS		(137,269)	(95,824)
UNUSUAL ITEMS	22	--	(24,776)
NET LOSS FOR THE YEAR		(137,269)	(120,600)
UNAPPROPRIATED LOSS BROUGHT FORWARD		(342,564)	(221,964)
ACCUMULATED LOSS CARRIED TO BALANCE SHEET		(479,833)	(342,564)
EARNING PER SHARE		--	--

The annexed notes (1) to (29) form an integral part of these financial statements.

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

Auditors' report annexed
Lahore

Manzoor Hussain Mir & Co.
Chartered Accountants

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2000

2000 **1999**
(Rupees in thousand)

CASH FLOW FROM OPERATING ACTIVITIES

Cash received from customers	457,672	337,165
Cash paid to suppliers and employees	(252,885)	(448,519)
	-----	-----
Cash generated from operations	204,787	(111,354)
Markup paid	(111,699)	(66,589)
Tax refund	4,470	(1,241)
	-----	-----
Net cash flow from operating activities	97,558	(179,184)

CASH FLOW FROM INVESTING ACTIVITIES

Fixed capital expenditures	(3,365)	(1,010)
Proceeds from sale of fixed assets	10	2,007
Proceeds from sale of investments	30,142	--
Net (increase)/decrease in long term deposits	--	1,226
Interest received	4,401	4,932
	-----	-----
Net cash flow from investing activities	31,188	7,155

CASH FLOW FROM FINANCING ACTIVITIES

Payment of Long Term Loan	(18,764)	--
Payment of lease liabilities	(4,710)	(2,967)
Increase/(decrease) in short term finances	(99,394)	172,848
	-----	-----
Net cash flow from financing activities	(122,868)	169,881
	-----	-----
Net decrease in cash and cash equivalents	5,878	(2,148)
Cash and cash equivalents at the beginning of the year	14,864	17,012
	-----	-----
Cash and cash equivalents at the end of the year	20,742	14,864
	=====	=====

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2000**1. THE COMPANY AND ITS OPERATIONS**

The Company as Private Limited Company was incorporated in Pakistan under the Companies Ordinance, 1984 and converted into Public Limited Company on 23 June 1992. Its shares are quoted on Stock Exchanges of Pakistan. It is a subsidiary of PAK ELEKTRON LIMITED holding 50.17% shares. The Company is engaged in the manufacture and sale of domestic appliances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 Accounting Convention**

These accounts have been prepared under "historical cost" Convention, except building and plant & machinery which are stated at re-valued amount.

2.2. Employees Retirement Benefits

The Company has maintained a provident fund scheme for all its permanent employees and contributions, based on salaries and wages, are made monthly to cover the obligations.

2.3 Taxation

No provision for taxation is made as the project is located in the area exempted under clause 122 (C) of the and schedule of the Income Tax Ordinance, 1979. The exemptions claimed has since been accepted by the department.

2.4 Tangible Fixed Assets and Depreciation

Operating assets are stated at cost, except building and plant & machinery which are stated at re-valued amount, less depreciation. Capital work-in-progress and machinery in transit are stated at cost.

Depreciation is charged to income on reducing balance method using the rates specified in fixed assets schedule except for leasehold land which is being amortized proportionately over the period of lease. A full year's depreciation is charged in the year of acquisition. However, depreciation on additions to plant & machinery is charged only for working period. No depreciation is charged in the year of disposal.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized. Profit or loss on disposal of operating assets is charged to current income.

2.5 Trade Mark

The Consideration paid for using trade mark is amortized over a period of ten years commencing from

March 01, 1995. However this year production of Airconditioners became an economical and order for supply of some Airconditioners were placed on Pak Elektron Limited.

2.6 Assets Subject to Finance lease

Assets under finance lease are stated at lower of present value of minimum lease payments under the agreement or the fair value of assets. The aggregate amount of obligations relating to these assets are accounted for at net present value of liabilities. Depreciation on these assets is charged in line with normal depreciation policy adopted for assets owned by the company.

2.7 Investments

Short term investments are valued at lower of cost or market value.

2.8 Stores, Spares and Stock-in-Trade

Stores and spares are valued at moving average cost.

Raw material and components are valued at moving average cost. The cost of work-in-process comprises of cost of materials, labour at actuals and factory overheads proportionate to labour. Finished goods are valued at lower of cost or net realisable value. The raw materials and components in bond and in transit are valued at cost.

2.9 Foreign Currency conversion

Foreign currency liability is converted at exchange rates prevailing at the balance sheet date. Variance relating to fixed assets are adjusted against the value of respective assets, while others are charged to current year's income.

2.10 Revenue recognition

The sale of goods is recognised on delivery of goods to customers.

2000 1999
(Rupees in thousand)

3. OPERATING ASSETS

Own (Note 3.1)	287,143	297,819
Subject to finance lease	--	9,781
Capital work in progress	2,616	--
	-----	-----
	289,759	307,600
	=====	=====

3.1 Schedule of operating assets - Own

(Rupees in thousand)

<i>Description</i>	<i>Cost as at July 01, 1999</i>	<i>Addition / (Deletion)</i>	<i>Cost as at June 30, 2000</i>	<i>Depre- ciation rate %</i>	<i>Accumulated depreciation as at June 30, 2000</i>	<i>Written down value as at June 30, 2000</i>
TANGIBLE						
Land - Leasehold	4,734	--	4,734	--	502	4,232
Building on leasehold land	128,155	--	128,155	5%	34,849	93,306
Plant and Machinery	187,125	15,245	202,370	5%	52,894	149,476
Office Equipment, furniture & fixture	3,960	4 (25)	3,939	10%	1,751	2,188
Vehicles	2,525	--	2,525	20%	1,917	608
INTANGIBLE						
Trade mark	80,000	--	80,000		42,667	37,333
	-----	-----	-----		-----	-----
Total (Rupees) 2000	406,499	(15,249 (25)	421,723		134,580	287,143
	=====	=====	=====		=====	=====
1999	259,224	148,484 (1,209)	406,499		109,368 (688)	297,819
	=====	=====	=====		=====	=====

2000 1999
(Rupees in thousand)

3.1.1 Depreciation for the year has been charged to

Cost of sales	20,999	13,505
Administrative Expenses	198	230
	-----	-----
	21,197	13,735
	=====	=====

3.1.2 In 1999 the remaining useful life of the building, Plant & Tools was estimated at 20 years by an independent valuer and depreciation since then is being charged on these fixed assets @ 5% instead of 10%.

3.2 Disposal of fixed assets

(Rupees in thousand)

Description	Cost	Accumulated Depreciation	Net Book Value	Sale Price	Profit / (Loss)	Particulars of Purchaser (Through Negotiation)
Ceiling Fan	5	3	2	2	--	M. Azam Khan Swabi Gadoon
Desert Cooler	5	3	2	2	--	M. Azam Khan Swabi Gadoon
Geyser	3	2	1	1	--	M. Azam Khan Swabi Gadoon
Refrigerator	12	7	5	5	--	M. Azam Khan Swabi Gadoon
TOTAL	25	15	10	10	--	

4. STORES, SPARES AND STOCK IN TRADE

Store	192	292
Spares	98	117
Raw materials and components		
In stores	102,091	92,831
In bonded warehouse	30,801	73,445
In transit	16,536	--
Work in process	5,930	3,124
Finished goods	50,617	64,978
	206,265	234,787

4.1 Stocks of Rs. 31.301 Million were not offered for physical verification. However, stocks were reconciled with production and sales records of subsequent period.

5. TRADE DEBTS UN-SECURED

Considered good	118,308	148,057
Considered doubtful	5,921	996
	124,229	149,053
Less:		
Provision for doubtful debts	5,921	996
	118,308	148,057

These are due from customers against the goods supplied to them.

6. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances to employees (considered good) for		
Purchases	1,163	774
Expenses	155	332
Others	723	66
	2,041	1,172
Advances to suppliers and contractors	1,843	1,259
Provision for doubtful advances	641	--
	1,202	1,259
Advances against supplies	3,644	1,770
Provision for doubtful advances	426	--
	3,218	1,770
Advance excise duty / Sale tax (Note 6.1)	23,829	24,050
Letters of credit	115	24,094
Security deposits	537	2,083
Margin deposits	1,408	1,173
Prepaid expenses	574	329
Other receivable (note 6.2)	31,559	29,839
Tax recoverable (Note 6.3)	13,980	18,450
	78,463	104,219

6.1 (a) It includes Rs. 11.914 Million on account of regulatory duty. The matter was decided by the Honourable Peshawar High Court in favour of the company but Custom Authorities have filled an appeal before the Honourable Supreme Court of Pakistan against relief allowed. The Honourable Apex Court vide its judgement dated 12-01-1999 decided the issue involved against the revenue authorities.

(b) It also includes Rs. 11.725 million on account of custom duty and sales tax. In 1996 the company lodged a claim for Rs. 27.835 million with A.C. Customs Central Excise and Sales-tax for the custom duty and sales tax under SRO No. 108(I)/95 dated 12-02-1995 but claim was entertained to the extent of Rs. 16.111 million As confirmed by legal advisor the writ filed for the balance amount of Rs. 11.725 million is yet pending decision with the Peshawar High Court.

6.2 It includes Rs. 31.558 million due from associated companies (1999 - Rs. 29.698 million).

6.3 Amounts recoverable are mostly comprising of the Taxes paid U/S 80-D of the Income Tax Ordinance, 1979 and deductions made by the customers U/S 50(4).

7. SHORT TERM INVESTMENT - AT COST

UNION BANK LIMITED

1,726,265 ordinary shares of Rs. 10 each	37,954	72,000
(including 225,165 bonus shares (1999 - NIL))		
Market value of shares is Rs. 8.70/= per share =		
Rs. 15.019 Million (1999: 2,847,656 ordinary shares		
of market value of Rs. 22.384 per share = Rs. 63.741 Million.	-----	-----
	37,954	72,000
	=====	=====

(i) The short fall in the value of shares amounting to Rs. 22.935 million is not provided being of temporary nature.

(ii) Investments its shares of associated Companies of Rs. 37,954 million and advances of Rs. 31.558 million aggregating to Rs. 69.512 million are in excess of 30% of share holders' equity representing deficit balance which is contrary to provisions of Section 208 of the Companies Ordinance, 1984.

(iii) investment in shares was prior to 1995. According to legal advisor the provision to Section 208(I) inserted by finance Act, 1995 prescribing the limit of 30% of the paid up capital plus reserves being a substantive provision of law is operative prospectively with effect from 2nd day of July, 1995 and is not applicable to the investments made prior to amendment in statute.

As per legal advice the investment in shares made by the company in associated companies prior to the insertions of proviso remains unaffected, if such investment exceed the threshold provided in the proviso as substantive rights and liabilities were established under the arrangements entered into by and between the investing companies and the associated companies in which the investment were made.

8. CASH AND BANK BALANCES

Cash in hand	232	329
Balance with banks - on current accounts	14,632	20,413
	-----	-----
	14,864	20,742
	=====	=====

9. SHORT TERM FINANCES - SECURED

	<i>Limit</i> (Rs. Million)		
From:			
Banking Companies			
Running Finance	195.00	169,833	209,596
Import Bills Purchased	--	32,479	91,754
Financial Institutions	20.00	20,000	20,000
Book Overdrawn	--	3,507	3,862
		-----	-----
		225,819	325,212
		=====	=====

Security: Short term finance's limits are secured against the pledge/hypothecation of raw materials and components, work-in-process, finished goods, book debts, charge over other fixed assets documents of title of goods, shares of listed companies, cross corporate guarantees and personal guarantees of Directors of the company. The banks also have a first equitable mortgage charge on the fixed assets of the company.

Mark-up: Rupee 0.38 to Rupee 0.62 per thousand rupees per day.

10. CURRENT PORTION OF LONG TERM LIABILITIES

Long term loans	87,463	46,490
-----------------	--------	--------

Liabilities against assets subjects to finance lease	--	4,710
	-----	-----
	87,463	51,200
	=====	=====

10.1 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Opening Balance	4,710	7,677
Less: Payments during the year	4,710	2,967
	-----	-----
	--	4,710
Less: Current portion	--	4,710
	-----	-----
	--	--
	=====	=====

The rentals are payable in equal monthly installments under the lease agreement.

The balance amount is payable in the following periods:

Year ending 30 June 2000	--

Less: Financial Charges	--
	=====

The present value of minimum lease payments have been discounted at an effective interest rate of 19.46% to 20.16% per annum. Repairs and insurance costs are to be borne by the lessee.

The liability is secured by personal guarantees of some of the directors of the Company.

11. CREDITORS, PROVISIONS AND ACCRUED LIABILITIES

Trade creditors		
For goods	22,062	18,669
For expenses	11,195	8,708
Advances from customers	10,178	7,075
Accrued liabilities	3,126	2,590
Sales tax / Custom duty payable	3,435	23,076
Import duties and surcharge payable	2,497	5,725
Accrued mark-up on secured loans	42,644	37,993
Other liabilities (Including Rs. 246.205 million due to Pak Elektron Limited - Holding Company (1999: Rs. 108.243 million))	250,152	111,353
	-----	-----
	345,289	215,189
	=====	=====

12. CONTINGENCIES AND COMMITMENTS

12.1 The banks and insurance companies have issued following guarantees and letter of credit on behalf of the company.

12.1.1 Custom guarantees	36,739	22,321
12.1.2 Letter of credit	33,510	9,375
12.2 Turnover tax and other disputed liability	20,919	17,129
12.3 Claims of leasing companies	--	471

12.4 Appeal against the departmental contention of wrongly allowing refund of Rs. 16.111 million in past has been decided by the custom, excise and sales tax Learned Appellate Tribunal in favour of the company vide order dated 27-02-1999 against which the departmental appeal is pending in Honourable Peshawar High Court.

13. LONG TERM LOANS - SECURED

(Rupees in thousand)

Description	2000	1999	M.Up	Security	Repayment
13.1 From Banking Companies					
13.1.1 Demand finance	120,840	130,000	12% p.a.	- First charge on all present and future fixed assets of the company valuing Rs. 145 Million	- Repayable in 4 years including one year as a grace period 12 quarterly equal installments of Rs 13060 million commenced from March 27, 2000
13.1.2 Term finance	23,600	24,958	15% p.a.	- First Pari-Passu Charge on all current & fixed assets of the comp Personal Guarantees of	- Grace Period till December 1999 Principal repayments commenced from 15 Jan 2000 ending in December

				the Directors - Corporate Guarantee from Pak Elektron Limited	through 24 monthly installments. - Non payment of mark-up by 15th of the month mark-up @ 18% will be applicable.
13.1.3 Term finance	36,385	41,396	14% p.a.	- Hypo charge over Plant a Machinery and Current Assets of the Company - Personal Guarantees of Directors	- Repayable in 48 equal monthly installments of Rs 1.167 commenced from October 01, 1999
13.1.4 Morabaha Term L.P.O	14,885	16,021	17% p.a.	- Ranking charge on fixed and current asses of the company - Personal guarantees of sponsors directors	- Repayable in 48 equal monthly installments of Rs 0.499 million commenced from December 01, 1999
13.2 Financial Institutions	15,182	17,281	21% p.a.	Pledge of 904,600 shares of Union Bank Ltd. PEL Appliances Ltd. Pak Elektron Ltd. and Kohinoor Power Company of Rs. 4.442 million. - The bank also holds fard of property situated at Faisalabad alongwith memorandum of deposit of the title deed for this property and general power of attorney from owner -- Personal guarantees of directors	Repayable in 19 monthly equal installments of Rs 0888 million commenced from June 17, 2000.
	-----	-----			
	210,892	229,656			
Less: Current portion	87,463	46,490			
	-----	-----			
	123,429	183,166			
	=====	=====			

2000 1999
(Rupees in thousand)

14. SHARE CAPITAL

Authorised 10,000,000 ordinary shares of Rs. 10/- each	100,000	100,000
	=====	=====
Issued, subscribed and paid-up 5,850,000 ordinary shares of Rs. 10/- each fully paid		
3,125,000 Shares for cash	31,250	31,250
2,725,000 Shares as bonus shares	27,250	27,250
	-----	-----
	58,500	58,500
	=====	=====

15. RESERVES

Reserve - General		
Balance from previous year	189,000	789,000
Premium on issue of shares	56,250	56,250
	-----	-----
	245,250	245,250
	=====	=====

16. SURPLUS ON REVALUATION OF FIXED ASSETS

745,574	145,574
=====	=====

The factory building and plant & machinery were revalued by Inspectorates Corporation (Pvt) Ltd. Lahore, a company of industrial valuation consultants as at 30 June, 1999 and accordingly such revaluation was incorporated in the books of account. Surplus on revaluation was determined by M. Yousaf Adil Saleem & Co. Chartered Accountants, Lahore (appearing on State Bank of Pakistan's list of Chartered Accountants approved for the purpose of revaluation) in their report of 01 November, 1999.

17. COST OF SALES

Raw materials and components	312,235	322,489
Direct Wages	8,578	8,087
Factory Overheads (Note 77.7)	27,294	22,894
	-----	-----
	348,107	353,470

(Increase)/decrease in work in process

Opening Inventory	3,124	12,709
Closing Inventory	5,930	3,724
	(2,806)	9,585
	345,301	363,055
Finished Goods Purchased	48,664	--
(Increase)/decrease in finished goods		
Opening inventory	64,978	49,747
Closing Inventory	50,617	64,978
	14,361	(75,231)
	408,326	347,824

17.1 Factory Overheads

Salaries and other benefits	8,081	7,737
Travelling & conveyance	214	185
Electricity and gas	3,558	3,394
Repairs and maintenance	2,759	2,690
Vehicles running and maintenance	498	421
Insurance	1,220	7,562
Depreciation/Amortisation	20,951	13,972
Amortisation of leasehold land	48	48
Carriage and freight	2,605	2,495
Other factory over heads	430	356
	40,364	32,860
Less: charged to components and assets fabricated	13,070	9,966
	27,294	22,894

18. ADMINISTRATIVE EXPENSES

Salaries and other benefits	7,402	8,601
Travelling and conveyance	376	370
Rent, rates and taxes	498	596
Legal and professional	746	304
Electricity and gas	130	137
Auditors' remuneration	45	45
Repairs and maintenance	223	147
Vehicles running and maintenance	701	909
Printing, stationery and periodicals	519	501
Postage, telegrams and telephones	902	972
Entertainment & staff welfare		
Advertisement	25	39
Provision for Doubtful Debts & advances	5,993	--
Depreciation	198	230
Charges for services rendered by holding company	2,400	2,400
	20,165	15,318

19. SELLING EXPENSES

Rent, rates & taxes	658	1,511
Advertisement and sales promotion	22,587	14,478
Royalty	535	1,671
Insurance	358	511
Freight and forwarding	3,914	10,074
Warranty period service	5,130	8,818
Electricity	5	9
Charges for services rendered by holding company	4,200	4,200
	37,387	41,272

20. FINANCIAL EXPENSES

Bank charges and commission	6,444	1,511
Interest/Mark up on:		
Long term loans	29,270	9,864
Lease finance	1,202	731
Short term finances	57,133	65,104

Holding/Associated Companies	22,301	12,487
	-----	-----
	116,350	90,128
	=====	=====

21. OTHER INCOMES/(LOSS)

Mark up income:		
from Bank Deposits	73	52
from Associated Companies	4,328	4,880
Loss on Sale of Assets	--	(1,060)
Loss on Sale of Investments	(3,904)	--
	-----	-----
	497	3,872
	=====	=====

1,346,556 shares were sold during the year at the average sale of Rs. 22.384 in pursuance of sale agreement made in April, 1999 while the average cost of such shares of company was Rs. 25.284 sustaining loss of Rs. 3.904 Million.

22. UN-USUAL ITEMS

Government of Pakistan vide Notification No. SRO-517(1)89 dated 03-06-1989 allowed exemption to all industrial units established in Gadoon Amazai (NWFP) from levy of custom duty and sales tax etc. This concession was subsequently withdrawn vide Notification No. SRQ-419(1)91 dated 09-05-1991. The withdrawal of the exemption was challenged by the company through Constitutional Writ but the Honourable Peshawar High Court did not accept the claim of the company for exemption. However, material was released by the custom authorities on the guarantees issued by the banks. Writ filed before the Honourable Supreme Court of Pakistan has been decided in which it has been held that Government of Pakistan was competent to withdraw the exemption. Review Petition filed before the Honourable Apex Court was also turned down vide judgement dated 18-12-1998. Duty paid relating to earlier period as a result of rejection of claim for exemption being final in its character is written off as un-usual items,

23. PROVISION FOR TAXATION

23.1 Assessments of the company are completed for and upto assessment year 1998-99 and losses assessed are Rs. 222.264 million. the losses declared in assessment year 1999-2000 are Rs. 120.600 million.

23.2 Appeals relating to assessment years 1992-93 and 1993-94 against levy of tax u/s 80-D are pending before the ITAT while those relating to succeeding years (1996-97 to 1998-99) were decided in favour of the company either by the CIT (A) or by ITAT. Appeal filed by department against deletion of 80-D liability relating to assessment year 1994-95 is still pending with Honourable Peshawar High Court.

23.3 Their lordship of Supreme court of Pakistan has already held that the Industrial Units protected by Economic Reform Act, 1992 are not liable to levy of tax u/s 80-D. The company claims that it is entitled to protection under Reform Act, 1992.

23.4 The IAC in respect of assessment year 1994-95 has issued a notice u/s 66-A to charge tax on interest income treating it as income from other sources instead of as a part of business profits exempt from tax. The matter stands replied but no order is yet issued. His action apparently is barred by limitation.

23.5 The learned Tribunal in the years 1995-96 to 1997-98 has, however, held that the interest income is taxable as income from other sources, against which the company is filing appeals before the Honourable Peshawar High court. Taxability of the bonus shares for the assessment year 1996-97 was also confirmed by ITAT and this matter is also being taken up in appeal before the court.

23.6 Their Lordship of Supreme Court of Pakistan in its recent judgement has adjudicated that units approved of tax holiday concession under 2nd Schedule to the Income-tax Ordinance, 1979 are not liable to levy of W.W.F. The Industrial Unit of the company is also approved under Clause 122(c) of the 2nd Schedule to the Income-tax Ordinance and as such no W.W.F. is payable by it and no provision is made for the same.

24. REMUNERATION OF EXECUTIVES

The aggregate amount charged in the accounts for the year for remuneration, including certain benefits to the executives of the Company is as follows:

	2000	1999
	<i>(Rupees in thousand)</i>	
Number of person	2	3
	-----	-----
Managerial Remuneration	556	724
House Rent	201	347
Utilities	56	72
Bonus	93	121
Company's contribution to provident fund	56	72

REIMBURSABLE EXPENSES

Vehicles running & maintenance	213	252
--------------------------------	-----	-----

Medical Expenses	60	143
	-----	-----
	1,235	1,731
	=====	=====

No remuneration has been paid to Chief Executive and Directors.

25. STATEMENT OF CHANGES IN EQUITY

The change in equity is as follows:

(Rupees in thousand)

	<i>Share Capital</i>	<i>Unappropriated Loss</i>	<i>Reserves</i>	<i>Total</i>
Balance as at June 30, 1999	58,500	(342,564)	245,250	(38,814)
Net loss for the year	--	(137,269)	--	(137,269)
	-----	-----	-----	-----
Balance as at June 30, 2000	58,500	(479,833)	245,250	(176,083)
	=====	=====	=====	=====

26. TRANSACTIONS WITH ASSOCIATED COMPANIES AND MAXIMUM DEBIT BALANCES

Sales	14,816	11,695
Purchase / Services	126,574	113,337
Markup earned	4,328	4,880
Markup expense	22,301	12,486
The maximum aggregated amount due from associated companies at the end of any month during the year	32,433	29,698

The pricing policy for transactions with associated company is market value.

27. PLANT CAPACITY AND ACTUAL PRODUCTION

	<i>Installed Capacity 2000</i>	<i>Actual Production 2000</i>	<i>Installed Capacity 1999</i>	<i>Actual Production 1999</i>
Airconditioners	64125 Tons	24755 Tons	64125 Tons	29685 Tons
Deep Freezers	207143 Cft	96731 Cft	207143 Cft	39181 Cft

The utilization of Capacity is dependent on overall demand.

28. FINANCIAL INSTRUMENTS

Interest rate risk

The company's exposure to interest rate risk and the effective rates on its financial assets and liabilities as on June 30, 2000 are summarised as follows:

	<i>INTEREST BEARING</i>				<i>NON-INTEREST BEARING</i>				<i>(Rupees in thousand)</i>	
	<i>Upto one yrs</i>	<i>One to five yrs</i>	<i>Five to ten yrs</i>	<i>Total</i>	<i>Upto one yrs</i>	<i>One to five yrs</i>	<i>Five to ten yrs</i>	<i>Total</i>	<i>TOTAL</i>	
Financial Assets:										
Trade debts	--	--	--	--	118,308	--	--	118,308	118,308	118,308
Short term investment	--	--	--	--	37,954	--	--	37,954	37,954	37,954
Advances, deposits, prepayments & other receivables	31,559	--	--	31,559	46,904	--	--	46,905	78,463	78,463
Cash bank balances	15,953	--	--	15,953	4,789	--	--	4,789	20,742	20,742
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	47,512	--	--	47,512	207,955	--	--	207,955	255,467	255,467
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
Financial Liabilities:										
Long term loans from bank	87,463	--	123,429	210,892	--	--	--	--	210,892	210,892
Short term loans	221,238	--	--	221,238	4,581	--	--	4,581	225,819	225,819
Creditors, accrued & other liability	250,151	--	--	250,151	95,138	--	--	95,138	345,289	345,289
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	558,852	--	123,429	682,281	99,719	--	--	99,719	782,000	782,000
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Effective interest rates for the monetary financial liabilities are mentioned in the respective rates to the accounts.

Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted.

Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

29. GENERAL

1. Balance confirmation letters were circulated to debtors and creditors for confirmation direct to the auditors, only a few replies were received.

2. Figures have been rounded off to the nearest of thousand rupees and the figures of previous year have been reclassified wherever necessary, for the purpose of comparison.

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

PATTERN OF HOLDING OF SHARES HELD BY THE SHAREHOLDERS AS AT JUNE 30, 2000

<i>NUMBER OF SHARE HOLDERS</i>	<i>FROM</i>	<i>SHAREHOLDING TO</i>	<i>TOTAL SHARES HELD</i>
485	1	--	100 Shares 14,934
208	101	--	500 Shares 58,575
79	501	--	1,000 Shares 70,365
95	1001	--	5,000 Shares 258,359
30	5,001	--	10,000 Shares 228,767
10	10,001	--	15,000 Shares 123,718
1	15,001	--	20,000 Shares 20,000
4	20,001	--	25,000 Shares 87,970
3	25,007	--	30,000 Shares 84,370
1	35,001	--	40,000 Shares 38,524
2	40,001	--	45,000 Shares 84,600
1	50,001	--	55,000 Shares 52,221
1	80,001	--	85,000 Shares 80,275
1	90,001	--	95,000 Shares 92,000
1	135,001	--	140,000 Shares 137,700
1	180,001	--	785,000 Shares 180,592
1	235,001	--	240,000 Shares 237,300
1	255,001	--	260,000 Shares 257,500
1	320,001	--	325,000 Shares 325,000
1	480,001	--	485,000 Shares 483,000
1	2,930,001	--	2,935,000 Shares 2,934,230
-----			-----
928			5,850,000
=====			=====

Note: The slabs not applicable have not been shown.

<i>Categories of Shareholders</i>	<i>Number</i>	<i>Shares Held</i>	<i>Percentage</i>
Individuals	871	1,745,602	29.84
Investment Companies	2	3,670	0.06
Insurance Companies	3	18,098	0.31
Joint Stock Companies	26	3,151,958	53.88
Financial Institutions	9	559,706	9.57
Foreign Companies	14	364,466	6.23
Others	3	6500	0.11
-----		-----	-----
	928	5,850,000	100.00
=====		=====	=====