

PEL Appliances Limited

Annual Report 2001

CONTENTS

Company Information
Notice of Meeting
Directors' Report
Auditors' Report
Balance Sheet
Profit & Loss Account
Cash Flow Statement
Statement of Changes in Equity
Notes to the Accounts
Pattern of Shareholding

COMPANY INFORMATION

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. Homaer Waheed
Mr. Maqbool Elahi

COMPANY SECRETARY

Sheikh Muhammad Shakeel ACA

AUDITORS

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 20th Annual General Meeting of the Shareholders of PEL Appliances Limited will be held on Monday, 31 December 2001 at 11:00 A.M. at 06-Egerton Road, Lahore the Registered Office of the Company to transact the following business:-

1. To confirm the minutes of Extraordinary General Meeting held on 03 November 2001.
2. To receive and adopt the Annual Audited Accounts for the year ended 30 June, 2001 alongwith Directors' and Auditors' Reports thereon.
3. To appoint Auditors to hold office till the conclusion of the next Annual General Meeting and to fix their remuneration.
4. Any other business with the permission of the Chair.

By order of the Board

Lahore

SHEIKH MUHAMMAD SHAKEEL

December 08, 2001

Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from 31 December 2001 to 07 January 2002 (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 06-Egerton Road, Lahore, the Registered Office of the Company not later than forty-eight hours before the time for holding the meeting and must be duly stamped, signed and witnessed.
3. Members whose shares are deposited with Central Depository System (CDS) are requested to bring their original National Identity Cards or original Passports alongwith their Account Numbers in CDS 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 2001.

FINANCIAL

	<i>2001</i>	<i>2000</i>
	<i>(Rupees in thousands)</i>	
Gross sales	502,528	511,960
Gross profit	12,162	27,413
Operating loss	(36,817)	(21,416)
Net loss for the year	(137,560)	(137,269)

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, 2001. 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 formulated 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 investments in view of their long term nature and the fact that prices quoted on Stock Exchanges are abnormally depressed these days.

Investment in shares was made prior to 1995. According to the opinion of legal advisor relevant provision of Companies Ordinance 1984 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, 2001 is attached.

For and on behalf of the BoardLahore
December 08, 2001**M. Naseem Saigol**
Chairman / Chief Executive**Auditors' Report to the Members**

We have audited the annexed balance sheet of **PEL APPLIANCES LIMITED** as at 30th June, 2001 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, and subject to the observations expressed below and extent to which the notes referred to may effect, 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 30th June, 2001 and of the loss, its cash flows and changes in equity for the year then ended; and

1. It is pointed out that shareholders equity shows an adverse balance of Rs. 313.643 Million as on 30th June, 2001 against Rs. 176.083 Million on the corresponding date in the last year. As a result of continuous losses the current liabilities have exceeded the current assets and working capital position is badly effected which has increased from adverse balance of Rs. 196.839 Million to Rs. 412.548 Million. A study of Note No. 28 to Annual Accounts reveals that there is no improvement in the capacity utilization. The production of the Air-conditioners has slightly increased while there is material shortfall in production of Deep Freezers. Considering the present level of production it may not be possible for company to recoup even its fixed expenses of constant nature. It is also facing difficulties in making payments of the over due and current installments of long term loans and all these factors create a doubt about the company's ability to continue its operations in the foreseeable future. In our opinion the business of company 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 value. In our opinion the diminution in the value of the shares indicated at Note No. 7(i) of Rs. 27.337 Million should have been provided in the accounts.

3. Advances to associated Companies amounting to Rs. 36.624 Million indicated at Note No. 6.2 are in excess of 30% shareholders equity, which shows deficit balance. The 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 08, 2001.

MANZOOR HUSSAIN MIR & CO.
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 2001

	<i>Note</i>	<i>2001</i>	<i>2000</i>
		<i>(Rupees in thousand)</i>	
FIXED CAPITAL EXPENDITURE			
Operating assets	3	386,819	289,759
CURRENT ASSETS			
Stores, spares and stock in trade	4	234,323	206,265
Trade debts	5	99,910	118,308
Advances, deposits and prepayments	6	79,696	78,463
Short term investment	7	37,954	37,954
Cash and bank balances	8	12,269	20,742
		-----	-----
		464,152	461,732
CURRENT LIABILITIES			
Short term finances	9	251,704	225,819
Current portion of long term liabilities	10	146,755	87,463

Creditors, provisions and accrued liabilities	11	478,241	345,289
		-----	-----
		876,700	658,571
		-----	-----
Net working capital		(412,548)	(196,839)
		=====	=====
Total net assets		(25,729)	92,920
CONTINGENCIES AND COMMITMENTS			
LONG TERM LIABILITIES			
Long term loans	13	24,989	123,429
		-----	-----
NET- WORTH		(50,718)	(30,509)
		=====	=====
REPRESENTED BY			
Share capital	14	58,500	58,500
Reserves	15	245,250	245,250
Unappropriated loss		(617,393)	(479,833)
		-----	-----
SHAREHOLDER'S EQUITY		(313,643)	(176,083)
Surplus on revaluation of fixed assets	16	262,925	145,574
		-----	-----
		(50,718)	(30,509)
		=====	=====

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, 2001**

	<i>Note</i>	<i>2001</i>	<i>2000</i>
		<i>(Rupees in thousand)</i>	
SALES - GROSS (LOCAL)		502,528	511,960
SALES TAX		71,366	76,221
		-----	-----
SALES - NET		431,162	435,739
COST OF SALES	17	419,000	408,326
		-----	-----
GROSS PROFIT		12,162	27,413
OPERATING EXPENSES			
Administrative	18	20,281	20,165
Selling	19	28,698	28,664
		-----	-----
		48,979	48,829
		-----	-----
OPERATING LOSS		(36,817)	(21,416)
FINANCIAL EXPENSES	20	(104,366)	(116,350)
OTHER INCOMES	21	5,461	497
		-----	-----
LOSS BEFORE TAXATION		(135,722)	(137,269)
Provision for taxation	22	(1,838)	--
		-----	-----
LOSS AFTER TAXATION		(137,560)	(137,269)
UN-APPROPRIATED LOSS BROUGHT FORWARD		(479,833)	(342,564)
		-----	-----
ACCUMULATED LOSS CARRIED TO BALANCE SHEET		(617,393)	(479,833)
		=====	=====
EARNING PER SHARE (Rs.)		(23.51)	(23.46)
		=====	=====

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, 2001

	<i>2001</i>	<i>2000</i>
	<i>(Rupees in thousand)</i>	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from customers	475,579	457,672
Cash paid to suppliers and employees	(375,737)	(252,885)
	-----	-----
Cash generated from operations	99,842	204,787
Markup paid	(99,314)	(111,699)
Tax refund	1,826	4,470
	-----	-----
Net cash flow from operating activities	2,354	97,558
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditures	(3,026)	(3,365)
Proceeds from sale of fixed assets	--	10
Proceeds from sale of Investments	--	30,142
Interest received	5,461	4,401
	-----	-----
Net cash flow from investing activities	2,435	31,188
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of Long Term Loans	(39,147)	(18,764)
Payment of lease liabilities	--	(4,710)
Increase / (decrease) in short term finances	25,885	(99,394)
	-----	-----
Net cash flow from financing activities	(13,262)	(122,868)
	-----	-----
Net decrease in cash and cash equivalents	(8,473)	5,878
Cash and cash equivalents at the beginning of the year	20,742	14,864
	-----	-----
Cash and cash equivalents at the end of the year	12,269	20,742
	=====	=====

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2001

	<i>(Rupees in thousand)</i>			
	<i>Share Capital</i>	<i>Un-appropriated Loss</i>	<i>Reserves</i>	<i>Total</i>
Balance as at 01-07-1999	58,500	(342,564)	245,250	(38,814)
Net loss for the year	--	(137,269)	--	(137,269)
	-----	-----	-----	-----
Balance as at 30-06-2000	58,500	(479,833)	245,250	(176,083)
	=====	=====	=====	=====
Balance as at 01-07-2000	58,500	(479,833)	245,250	(176,083)
Net loss for the year	--	(137,560)	--	(137,560)
	-----	-----	-----	-----
Balance as at 30-06-2001	58,500	(617,393)	245,250	(313,643)
	=====	=====	=====	=====

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2001

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 land leasehold, building and plant & machinery which are stated at re-valued amount.

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

Current

The tax holiday concession allowed for ten years under clause 122(c) of second schedule of Income Tax Ordinance, 1979 has expired on 16-11-2000 where-after the tax is payable as prescribed under the law. In view of losses, the provision of current year is made under section 80-D on the sales falling in taxable period.

Deferred

No provision for deferred taxation is made in books of account as the company is sustaining heavy operating losses.

2.4 Tangible Fixed Assets and Depreciation

Operating assets are stated at cost, except land leasehold, 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 1st March 1995.

2.6 Investments

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

2.7 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.

2.8 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.

2.9 Revenue recognition

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

2001 **2000**
(Rupees in thousand)

3. OPERATING ASSETS

Own (Note 3.1)	386,819	287,143
Capital work in progress	--	2,616
	-----	-----
	386,819	289,759
	=====	=====

3.1 Schedule of operating assets-Own

(Rupees in thousand)

Description	Cost as at 01 July 2000	Addition/ (Deletion)	Cost as at 30 June 01	Depre- ciation rate %	Accumulated depreciation as at 30 June 01	Written down value as at 30 June 01	Revaluation Surplus	Revalued amounts as at 30 June 2001
TANGIBLE								
Land-Leasehold Building on leasehold land	4,734	--	4,734	--	550	4,184	4,845	9,029
Plant and Machinery	128,155	--	128,155	5%	39,515	88,640	(640)	88,000
Office Equipment furniture & fixture	202,370	2,616	204,986	5%	60,499	144,487	113,146	257,633
Vehicles	3,939	410	4,349	10%	2,011	2,338	--	2,338
	2,525	--	2,525	20%	2,039	486	--	486
INTANGIBLE								
Trademark	80,000	--	80,000		50,667	29,333	--	29,333
Total (Rupees) 2001	421,723	3,026	424,749		155,281	269,468	117,351	386,819
2000	406,499	15,249 (25)	421,723		134,580	287,143	--	287,143

2001 2000
(Rupees in thousand)

3.1.1 Depreciation for the year has been charged to

Cost of sales	20,508	20,999
Administrative Expenses	191	198
	20,699	21,197

3.1.2 The revaluation has been carried out on the last day of the year i.e. 30-06-2001 considering the written down value on that date, therefore depreciation has not been charged on the revaluation surplus for the year incorporated in the accounts.

3.1.3 Fixed assets register is under preparation.

3.1.4 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%.

4. STORES, SPARES AND STOCK IN TRADE

Store	311	192
Spares	225	98
Raw materials and components		
In stores	93,551	102,091
In bonded warehouse	85,281	30,801
In transit	1,597	16,536
Work in process	6,038	5,930
Finished goods	48,013	50,617
Less: provision for obsolete & damaged stock	693	--
	47,320	50,617
	234,323	206,265

5. TRADE DEBTS UN-SECURED

Considered good	99,910	118,308
Considered doubtful	11,053	5,921
	110,963	124,229
Less: Provision for doubtful debts	11,053	5,921
	99,910	118,308

6. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances to employees (considered good) for		
Purchases	2,396	1,163
Expenses	123	155
Others	809	723

	3,328	2,041
Advances to suppliers and contractors	7,602	5,487
Less: Provision against doubtful advances	3,530	1,067
	-----	-----
Advances to suppliers and contractors - considered good	4,072	4,420
Advance Excise duty & Sales tax (Note 6.1)	23,639	23,829
Letters of credit	66	115
Security deposits	537	537
Margin deposits	664	1,408
Prepaid expenses	450	574
Other receivables (Note 6.2)	36,624	31,559
Tax recoverable less provision (Note 6.3)	10,316	13,980
	-----	-----
	79,696	78,463
	=====	=====

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 filed 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. The writ filed for the balance amount of Rs. 11.725 Million was decided in the favour of company by the Honourable Peshawar High Court vide its order dated 2-08-2001 as confirmed by the legal advisor. There is no appeal by department against relief of Rs. 11.725 Million allowed by the Court.

6.2 It represents amount due from associated companies. This is in excess of 30% of share holders equity representing deficit balance which is contrary to provisions of Section 208 of the Companies Ordinance, 1984.

6.3 Amounts recoverable mostly are 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	37,954
Market value of shares is Rs. 6.15 per share = Rs. 10.617 Million (2000: 1,726,265 ordinary shares of market value of Rs. 8.70 per share = Rs. 15.019 Million).	-----	-----
	37,954	37,954
	=====	=====

(i) The short fall in the value of shares amounting to Rs. 27.337 Million is not provided being of temporary nature.

(ii) The Union Bank Limited has since ceased to be an associated company.

8. CASH AND BANK BALANCES

Cash in hand	624	329
Balance with banks - on current accounts	11,645	20,413
	-----	-----
	12,269	20,742
	=====	=====

9. SHORT TERM FINANCES - SECURED

	<i>Limit</i> (Rs. Million)		
From:			
Banking Companies			
Running Finance	245.00	171,452	169,833
Import Bills Purchased	--	70,252	32,479
Financial Institutions	10.00	10,000	20,000
Book Overdrawn	--	--	3,507
	-----	-----	-----
	251,704	225,819	225,819
	=====	=====	=====

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 some of the 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	146,755	87,463
	=====	=====

10.1 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Opening Balance	--	4,710
Less: Payments during the year	--	4,710
	-----	-----
Less: Current portion	--	--
	-----	-----
	--	--
	=====	=====

11. CREDITORS, PROVISIONS AND ACCRUED LIABILITIES

Trade creditors:		
For goods	23,805	22,062
For expenses	18,712	11,195
Advances from customers	35,478	10,178
Accrued liabilities	3,892	3,126
Sales tax	9,282	3,435
Import duties	6,530	2,497
Accrued mark-up on secured loans	47,696	42,644
Other liabilities (including Rs. 327.098 Million due to Pak Elektron Limited - Holding Company) (2000 Rs. 246.205 Million)	332,846	250,152
	-----	-----
	478,241	345,289
	=====	=====

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	15,479	36,739
12.1.2 Letter of credit	7,664	33,510
12.2 Turnover tax and other disputed liability	29,394	20,919

12.3 Unprovided liability shown at Note: 13.1.1 is under negotiation with bank amounting to Rs. 2.150 Million.

13. LONG TERM LOANS - SECURED

(Rupees in thousand)

<i>Description</i>	<i>2001</i>	<i>2000</i>	<i>M.Up</i>	<i>Security</i>	<i>Repayment</i>
13.1 From Banking Companies					
13.1.1 Demand Finance-1	120,840	120,840	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. 13.060 Million commenced from March 27, 2000.	
13.1.2 Term finance	18,000	23,600	15% p.a. - First Pari-Passu Charge on all current & fixed assets of the comp - Personal Guarantees of the Directors. - Corporate Guarantee from Pak Elektron Limited.	- Grace Period till December 1999 Principal repayments commenced from 15 Jan 2000 ending in December 2001 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	24,459	36,385	14% p.a. - Hypo charge over Plant & Machinery and Current Assets of the Company to the extent of Rs 157.4 Million. - Personal Guarantees of Directors.	- Loan was originally payable in 48 equal monthly installments of Rs. 1.167 Million commenced from Oct 01, 1999. A revised agreement was made as on April 20, 2001 and loan was determined at 35.510 Million. Payment of Rs. 11.051 Million was made	

till June 30, 2001 and balance of Rs. 24.459 Million is payable in 6 monthly installments commencing from July 2001 to Dec 2001. No interest will be payable if the loan is repaid as per terms and conditions settled. In case the stipulated conditions are not satisfied the concession will automatically stand withdrawn.

13.1.4 Morabaha Term L.P.O	--	14,885	17% p.a. - Ranking charge on fixed and current assets of the company to the extent of Rs. 25 Million. - Personal guarantees of sponsors directors.	- Repayable in 48 equal monthly installments of Rs. 0.499 Million commenced from December 01, 1999. - However, the loan is paid entirely upto April 30, 2001.
13.2 Financial Institutions	8,445	15,182	21% p.a. - Pledge of 904,600 shares of Union Bank Ltd., PEL Appliances Ltd., Pak Elektron Ltd., and Kohinoor Power Company of market value of aggregating to Rs. 4.444 Million. - Equitable mortgage 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. 0.887 Million commenced from June 17, 2000.
	-----	-----		
Less: Current portion	171,744	210,892		
Overdue principal	62,552	10,235		
Due within next 12 months	84,203	77,228		
	-----	-----		
	146,755	87,463		
	-----	-----		
	24,989	123,429		
	=====	=====		

13.1.1 As per confirmation of the bank the loan balance including interest is Rs. 167.635 M while loan balance as per books is Rs. 151.768 M comprising of Rs. 120.840 M shown as loan at above note and interest payable of Rs. 30.928 M included in accrued mark up shown at note no. 11. Cushion and future period mark-up included in the bank confirmation is Rs. 5.192 and 8.525 Million respectively. Unprovided mark-up liability is Rs. 2.150 Million. The bank has charged mark-up after capitalization of grace period mark up which the company has not accepted. The matter is under negotiation with the bank. It has the impact of understating the losses for the year by Rs. 2.150 Million.

2001 2000
(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
2,725,000 Shares as bonus shares

31,250 31,250
27,250 27,250

58,500 58,500

15. RESERVES

Reserve - General

Balance from previous year
Premium on issue of shares

189,000 189,000
56,250 56,250

245,250 245,250

16. SURPLUS ON REVALUATION OF FIXED ASSETS

Opening Surplus on revaluation
Surplus arising by the end of the year 2001

145,574 145,574
117,351 --

Total revaluation surplus	262,925	145,574
---------------------------	---------	---------

The fixed assets of the company i.e. land-leasehold, building on leasehold land and machinery were revalued for the second time by M/s Hamid Mukhtar (pvt) Ltd. Valuation Consultants and then the Surplus on revaluation was determined by M/s M. Yousuf Adil Saleem & Co., Chartered Accountants, Lahore (appearing on the State Bank of Pakistan's list of chartered accountants approved for the purpose of revaluation) vide their report dated October 26, 2001.

17. COST OF SALES

Raw materials and components	333,055	312,235
Direct Wages	9,395	8,578
Factory Overheads (Note 17.1)	28,269	27,294
	370,719	348,107

(Increase) in work in process

Opening Inventory	59,301	3,124
Closing Inventory	6,038	5,930

	(108)	(2,806)
--	-------	---------

Finished Goods Purchased	370,611	345,301
Decrease in finished goods	45,785	48,664

Opening inventory	50,617	64,978
Closing Inventory	48,013	50,617

	2,604	14,361
--	-------	--------

	419,000	408,326
--	---------	---------

17.1 FACTORY OVERHEADS

Salaries and other benefits	8,435	8,081
Travelling & conveyance	307	214
Electricity and gas	3,637	3,558
Repairs and maintenance	2,790	2,759
Vehicles running and maintenance	673	498
Insurance	1,373	1,220
Depreciation/Amortisation	20,508	20,999
Carriage and freight	3,286	2,605
Provision for obsolete & damage stock	693	--
Other factory overheads	1,085	430

	42,787	40,364
--	--------	--------

Less: charged to components and assets fabricated

	14,518	13,070
--	--------	--------

	28,269	27,294
--	--------	--------

18. ADMINISTRATIVE EXPENSES

Salaries and other benefits	6,607	7,402
Travelling and conveyance	285	376
Rent, rates and taxes	440	498
Legal and Professional (Note 18.1)	431	746
Electricity and gas	122	130
Auditors' remuneration	45	45
Repairs and maintenance	97	223
Vehicles running and maintenance	749	701
Printing, stationery and periodicals	250	519
Postage, telegrams and telephones	727	902
Entertainment and staff welfare	126	7
Advertisement	26	25
Provision for Doubtful Debts & advances	7,595	5,993
Insurance	190	--
Depreciation	191	198

Charges for services rendered by holding company	2,400	2,400
--	-------	-------

	20,281	20,165
--	--------	--------

18.1 Including Rs. 155,000 (2000: Rs. 155,000) for out of pocket expenses and tax consultancy to auditors.

19. SELLING EXPENSES

Rent, rates & taxes	--	658
Advertisement and sales promotion	14,785	13,864
Royalty	1,261	535
Insurance	18	358
Freight and forwarding	2,864	3,914
Warranty period service	5,570	5,130
Electricity	--	5
Charges for services rendered by holding company	4,200	4,200
	-----	-----
	28,698	28,664
	=====	=====

20. FINANCIAL EXPENSES

Bank charges and commission	604	6,444
Interest/Mark-up on:		
Long term loans	20,712	29,270
Lease finance	--	1,202
Short term finances	42,577	57,133
Holding/Associated Companies	40,473	22,301
	-----	-----
	104,366	116,350
	=====	=====

21. OTHER INCOMES / (LOSS)

Mark up income:		
from Bank Deposits	409	73
from Associated Companies	5,052	4,328
Loss on Sale of Investments	--	(3,904)
	-----	-----
	5,461	497
	=====	=====

22. PROVISION FOR TAXATION

22.1 Assessments of the company are completed for and upto assessment year 1998-99 and losses assessed are Rs. 222.264 Million. While losses declared in succeeding two years i.e. 1999-2000 and 2000-2001 are Rs. 257.869 Million.

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

22.3 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. Taxability of the bonus shares issued out of exempted income in assessment year 1996-97 was also confirmed by ITAT.

22.4 The reference application moved by the company relating to assessment years 1995-96 to 1997-98 to ITAT for reference to High Court on the issue of taxability of interest income as other income u/s 30 of income-tax Ordinance, 1979 and that of bonus shares issued out of the exempted profits are yet not decided. Such applications moved by department against deletion of tax levy u/s 80-D are also pending.

23. 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:

	<i>2001</i>	<i>2000</i>
	<i>(Rupees in thousand)</i>	
Number of person	3	2
	-----	-----
Managerial Remuneration	658	556
House Rent	213	201
Utilities	66	56
Bonus	110	93
Company's contribution to provident fund	66	56
	-----	-----
	228	213
	-----	-----
	93	60
	-----	-----

REIMBURSABLE EXPENSES

Vehicles running & maintenance	228	213
Medical Expenses	93	60
	-----	-----

	1,434	1,235
	=====	=====

No remuneration has been paid to Chief Executive and Directors.

24. AVERAGE NUMBER OF EMPLOYEES	356	390
	=====	=====
25. EARNING PER SHARE		
Net loss for the year	(137,560)	(137,269)
Weighted average number of shares	5,850	5,850
Earning per share	(23.51)	(23.46)

26. TRANSACTIONS WITH ASSOCIATED COMPANIES AND MAXIMUM DEBIT BALANCES

Sales	16,387	14,816
Purchase/Services	135,267	126,574
Mark up earned	5,052	4,328
Mark up expense	40,473	22,301
The maximum aggregated amount due from Associated Companies at the end of any month during the year.	36,624	32,433

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

27. FINANCIAL INSTRUMENTS

Interest Risk Management

Interest rate risk is the risk that value of a financial instrument will fluctuate due to changes in market interest rates. Changes in interest rates can adversely affect the rates charged on interest bearing assets/liabilities. This can result in an increase in interest expense relative to finance income or vice versa. The company manages its risk by maintaining a fair balance between interest rates, financial assets and financial liabilities.

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, 2001 are summarised as follows:

(Rupees in thousand)

	<i>INTEREST BEARING</i>				<i>NON-INTEREST BEARING</i>				<i>TOTAL</i>
	<i>Upto one year</i>	<i>One to five years</i>	<i>Five to ten years</i>	<i>Total</i>	<i>Upto one year</i>	<i>One to five years</i>	<i>Five to ten years</i>	<i>Total</i>	
Financial Assets:									
Trade debts	--	--	--	--	110,963	--	--	110,963	110,963
Advances, deposits, prepayments & other receivables	36,690	--	--	36,690	1,201	--	--	1,201	37,891
Short term investment	--	--	--	--	37,954	--	--	37,954	37,954
Cash & bank balances	6,113	--	--	6,113	6,156	--	--	6,166	12,269
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	42,803	--	--	42,803	156,274	--	--	156,274	199,077
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Financial Liabilities:									
Long term loans from bank	146,755	24,989	--	171,744	--	--	--	--	171,744
Short term loans	251,704	--	--	251,704	--	--	--	--	251,704
Creditors, accrued & other liabilities	332,846	--	--	332,846	94,105	--	--	94,105	426,951
Contingencies	--	--	--	--	17,629	--	--	17,629	17,629
Commitments	7,664	--	--	7,664	--	--	--	--	7,664
	-----	-----	-----	-----	-----	-----	-----	-----	-----
RUPEES	738,969	24,989	--	763,958	111,734	--	--	111,734	875,692
	=====	=====	=====	=====	=====	=====	=====	=====	=====

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

Interest rate relating to financial assets ranges from 5% to 16%.

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. All financial assets except cash & bank balances are subject to credit risk.

Fair value of financial instruments

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

28. PLANT CAPACITY AND ACTUAL PRODUCTION

	<i>Installed Capacity 2001</i>	<i>Actual Production 2001</i>	<i>Installed Capacity 2000</i>	<i>Actual Production 2000</i>
Air-conditioners	64125 Tons	26341 Tons	64125 Tons	24755 Tons
Deep Freezers	207143 Cft	41010 Cft	207143 Cft	96731 Cft

The utilization of Capacity is dependent on overall demand.

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, 2001**

<i>Number of Share Holders</i>	<i>Shareholding</i>				<i>Total Shares Held</i>
	<i>From</i>		<i>To</i>		
487	1	--	100	Shares	14,782
221	101	--	500	Shares	63,967
86	501	--	1000	Shares	78,431
95	1001	--	5000	Shares	235,801
25	5001	--	10000	Shares	186,461
9	10001	--	15000	Shares	109,700
3	15001	--	20000	Shares	54,670
3	20001	--	25000	Shares	66,896
1	25001	--	30000	Shares	28,670
2	30001	--	35000	Shares	68,100
2	35001	--	40000	Shares	78,500
2	45001	--	50000	Shares	97,100
1	75001	--	80000	Shares	76,200
1	90001	--	95000	Shares	92,000
2	165001	--	170000	Shares	336,400
1	180001	--	185000	Shares	180,592
1	270001	--	275000	Shares	275,000
1	320001	--	325000	Shares	323,500
1	545001	--	550000	Shares	549,000
1	2930001	--	2935000	Shares	2,934,230
-----					-----
945					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	884	1,942,003	33.20
Investment Companies	24	189,698	3.24
Insurance Companies	3	18,098	0.31
Joint Stock Companies	15	3,228,744	55.19
Financial Institutions	3	190,857	3.26
Foreign Companies	16	280,600	4.80
-----			-----
	945	5,850,000	100.00
=====			=====