

BABRI COTTON MILLS LTD.

27TH ANNUAL REPORT 1997

CONTENTS

COMPANY'S PROFILE
NOTICE OF ANNUAL GENERAL MEETING
DIRECTORS' REPORT
AUDITORS' REPORT
BALANCE SHEET
PROFIT & LOSS ACCOUNT
CASH FLOW STATEMENT
NOTES TO THE ACCOUNTS
PATTERN OF SHAREHOLDING

COMPANY'S PROFILE

BOARD OF DIRECTORS RAZA KULI KHAN KHATTAK
Chairman/Chief Executive

BEGUM TEHMINA HABIBULLAH KHAN
AHMAD KULI KHAN KHATTAK
Brig. (Retd.) MAHMUD JAN
HOSHANG M. KANDAWALA
MUHAMMAD AZHAR KHAN
MUSHTAQ AHMAD KHAN, FCA
SHAHEEN TARIQ KHALIL
M. JAWAID KHAN (SLIC)

AUDITORS HAMEED CHAUDHRI & CO.,
Chartered Accountants

SECRETARY AMIN-UR-RASHEED
(Manager Corporate Affairs)

BANKERS ALLIED BANK OF PAKISTAN LTD.
HABIB BANK LIMITED
UNITED BANK LIMITED

REGISTERED OFFICE
& MILLS HABIBABAD, KOHAT
Phone (0922) 512931 - 510063
Fax: (0922) 510474

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that 27th Annual General Meeting of the shareholders of BABRI COTTON MILLS LIMITED will be held at Mills premises Habibabad, Kohat on Monday, 30 March, 1998 at 01.15 P.M. to transact the following business:-

1. To confirm the minutes of the Annual General Meeting held on

31 March, 1997.

2. To receive, consider and adopt the annual Audited Accounts together with the Directors' and Auditors' reports thereon for the year ended 30 September, 1997.

3. To appoint Auditors for the year 1997-98 and fix their remuneration.

4. To consider any other business which may be placed before the meeting with the permission of the chair.

NOTES:

1. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. The instrument of proxy in order to be effective must be received by the company not less than 48 hours before the meeting.

2. The Register of Members and Share Transfer Books of the company shall remain closed from 26 March, 1998 to 6 April, 1998 (both days inclusive). Transfer of shares received in order at the Registered Office of the company at the close of business hours on 25 March, 1998 will be considered in time.

3. Shareholders are requested to notify the change of address, if any, immediately.

DIRECTORS' ANNUAL REPORT TO THE SHAREHOLDERS

Dear Shareholders,

The Directors of your company are pleased to present the 27th annual report with the balance sheet as on 30 September, 1997. The profit and loss account for the year alongwith auditors' report on these accounts is also being presented. We are pleased to report that performance of the company has improved during the year under review. The company has earned net profit of Rs. 13.931 million and with extra ordinary gain on account of remission granted by PICIC as a result of final settlement, the profit before taxation is Rs. 20.534 million as compared to Rs. 3.492 million for the previous year - 1996. The operating profit has also increased to Rs. 30.352 million (1996: Rs. 19.644 million). This improvement in profitability is mainly due to production of super fine counts and improved market conditions alongwith superior quality of yarn produced by your mills during the year under review.

FUTURE OUTLOOK

During the last five months due to the unprecedented financial turmoil in south Asian countries and massive devaluation of their currencies, the demand for Pakistan's exportable yarn and cloth has gone down. Thus there is a glut in the domestic market. The number of mills spinning super fine yarn has also increased. Thus for the future we are expecting tougher competition in our speciality of super fine counts.

The textile industry as a whole is being affected by the devaluation of Pakistani

rupee thus raising the price of imported materials. The rise in power tariff is also an unfavourable factor leading to the increase in the cost of production. Since July 1996 sales tax @ 10% was levied on gross sales. This tax was further enhanced on 1st March, 1997 to 12.55%. The imposition of the above mentioned sales tax has increased the cost of production of the company by Rs. 28.00 million per annum. For all the above mentioned reasons there is going to be an increase in cost of production which we will not be able to pass on to the consumer, so next year we are expecting lower profits.

FINANCIAL RESULTS

The total sales for the year under review were Rs. 260,205 million (1996: Rs. 253,592 million). Gross profit for the year amounted to Rs. 36.725 million which is higher by Rs. 11.432 million when compared to the gross profit of 1996. Gross profit percentage also improved to 14.11% (1996: 9.97%). We are pleased to report that the company has increased its operating profit to Rs. 30.352 million (1996: Rs. 19.645 million). After adding other income of Rs. 0.241 million and the extra ordinary gain of Rs. 6.603 million on account of loans liability waived off by PICIC towards payments made under the final settlement package offered by the PICIC.

Since a total remission of Rs. 17.603 million has been offered, out of this only Rs. 6.603 million has been included in the profit of the current year. The remaining amount of the waiver will be availed as and when the company will further liquidate its remaining liabilities of Rs. 25 million to be paid in full by 30th June, 1999.

OPERATING PERFORMANCE

The company with installed capacity of 25056 spindles has produced 1470191 kgs (1996:1831112 kgs) of super fine counts of yarn during the year under review. Average count spun was 58.70 (1996:50.13), when converted into 20s count, the actual production works out to 7.392 million kgs (1996: 7.266 million kgs). The capacity of the plant was utilised to the extent of 98.58% (1996; 98.55%).

INVESTMENT IN PLANT AND MACHINERY

We are pleased to inform you that in spite of financial constraints due to large payments to PICIC on account of final settlement, we have managed to invest Rs. 24.842 million for addition of fifteen new Chinese Ring Spinning Frames towards major renovation of the plant and addition of other fixed assets, the detail of which is as under:-

	(RUPEES IN 000)
Buildings	743
PLANT & MACHINERY:	
1) Cost OF 15-Ring Spinning Frames	18,586
2) Major replacements and renovations capitalised	4,652
Tools, machines and other office machinery	69
Vehicles	792

	24,842

=====

PAYMENT TO FINANCIAL INSTITUTIONS

The company has paid Rs. 29.902 million to the financial institutions. National Bank of Pakistan was paid Rs. 11.902 million on account of mark up charges on Cash Finance Limit, and PICIC Rs. 18.00 million, out of which Rs. 15.00 million were accounted for payment towards final settlement package made in June, 1997. Another amount of Rs. 10.00 million has also been paid to PICIC subsequently during December, 1997.

The company was required to pay PICIC Rs. 40.00 million in full and final settlement of the total loans liability, out of which Rs. 25.00 million have been paid upto 31 December, 1997 and the balance amount of Rs. 15.00 million is Payable in installments of Rs. 5.00 million each by 30 June, 1998, 31 December, 1998 and 30 June, 1999. We feel that the final 'settlement Package made with PICIC by the management, will finally relieve the company of a 27 years old debt burden detained for the purchase of machinery and shall contribute towards improvement of the profitability of the company.

DIVIDEND

In view of accumulated loss of Rs. 20.561 million being carried forward, your Directors have decided not to recommend dividend to the ordinary shareholders of the company.

AUDITORS

Your company's auditors M/s Hameed Chaudhri & Co., Chartered Accountants, H.M.House, 7-Bank Square, Lahore retire and as are eligible, offer themselves for re-appointment for the next year.

ACKNOWLEDGMENT

Your Directors acknowledge with thanks the efforts and cooperation of the team of management and the work force. With good quality of imported cotton and investment in machinery, specially the combers and the new Ring Frames, it is hoped that with hard work and good planning, it will lead to higher profit for the next year.

We also express our gratitude to the financial institutions i.e. National Bank of Pakistan and PICIC for their cooperation and financial assistance extended to company.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of BABRI COTTON MILLS LIMITED as at 30 September, 1997 and the related Profit and Loss Account and the 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 verification thereof, we report that:

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

(b) in our opinion:

(i) the Balance Sheet and Profit and Loss Account together with

the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information .and according to the explanations given to us, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement, together with the notes forming part thereof, give the information required i3y the Companies Ordinance, 19.84 in the manner so required and, except for the contents of note 15.2 and the extent to which these may affect the annexed accounts, respectively give a true and fair view of the state of the company's affairs as at 30 September, 1.997 and of the profit and cash flows for the year then ended; and

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

HAMEED CHAUDHRI & CO.
CHARTERED ACCOUNTANTS

LAHORE: MARCH 02, 1998

BALANCE SHEET AS AT 30 SEPTEMBER, 1997

	Note	1997 Rupees	1996 Rupees
SHARE CAPITAL AND RESERVE			
Authorised capital			
5,000,000,ordinary shares			
of Rs. 10 each	3	50,000,000	50,000,000
		=====	=====
Issued, subscribed and paid-up capital			
2,000,000 ordinary shares			
of Rs. 10 each issued for cash		20,000,000	20,000,000
Capital Reserve	4	6,000,000	6,000,000
Accumulated loss		(20,560,923	(39,214,920)
		-----	-----
		5,439,077	(13,214,920)
DEFERRED LOAN	5	0	24,288,949
LONG TERM LOANS	6	10,000,000	25,336,398
DEFERRED CREDIT	6.3(F)	11,000,000	0
DEFERRED LIABILITIES			
Provision for gratuity		5,939,429	5,063,017
CURRENT LIABILITIES		-----	-----
Current portion of long	6	15,000,000	8,860,946
term loans	7	85,366,940	41,645,510

Short term finances			
Creditors, accruals and other liabilities	8	20,561,934	15,240,515
Provision for taxation	9	2,574,788	7,216,000
		306,580	306,674
		-----	-----
Unclaimed dividend		123,810,242	73,269,645
CONTINGENCIES AND COMMITMENTS	10		
		156,188,748	114,743,089
		=====	=====

The annexed notes form an integral part of these accounts.

FIXED CAPITAL EXPENDITURE

Operating fixed assets	11	43,629,568	43,595,319
Non-operating fixed assets	12	1,448,222	1,448,222
Capital work-in-progress	13	18,586 127	0
Stores held for capital expenditure		1,230,912	1,542,846
		-----	-----
		64,894,829	46,586,387
LONG TERM INVESTMENTS	14	2,531,100	2,531,100
DEPOSIT FOR INVESTMENTS	15	1,498,900	1,498,900
LONG TERM ADVANCES	16	174,847	120,820
LONG TERM DEPOSITS AND DEFERRED COSTS	17	640,746	61,780
CURRENT ASSETS			
Stores, spares and loose tools	18	4,062,974	3,699,005
Stock-in-trade	19	73,268,110	44,206,900
Trade debtors	20	40,000	704,495
Advances, deposits, prepayments and other receivables	21	8,098,145	14,506,061
Cash and bank balances	22	979,097	827,641
		-----	-----
		86,448,326	63,944,102
		-----	-----
		156,188,748	114,743,089
		=====	=====

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER, 1997**

		1997	1996
		Rupees	Rupees
SALES - Net	23	260,204,766	253,592,155
COST OF SALES	24	223,479,839	228,299,242
		-----	-----
GROSS PROFIT		36,724,927	25,292,913
ADMINISTRATIVE AND SELLING EXPENSES	25	6,373,322	5,648,395
		-----	-----
OPERATING PROFIT		30,351,605	19,644,518

OTHER INCOME	26	240,939	1,987,251
		-----	-----
		30,592,544	21,631,769
OTHER CHARGES		-----	-----
Financial - Net	27	14,653,625	17,505,887
Miscellaneous	28	876,480	242,316
Donation to Waqf-e-Kuli Khan Trust		377,060	130,365
Workers' (Profit) Participation fund		754,125	260,730
		-----	-----
		16,661,290	18,139,298
PROFIT BEFORE EXTRAORDINARY ITEMS AND TAXATION		13,931,254	3,492,471
EXTRAORDINARY ITEM	6.3(f)	6,602,542	0
		-----	-----
PROFIT BEFORE TAXATION		20,533,796	3,492,471
PROVISION FOR TAXATION			
Current		1,311,735	1,305,000
Prior years		568,064	5,911,000
		-----	-----
		1,879,799	7,216,000
PROFIT/(LOSS) - after taxation		18,653,997	(3,723,529)
(ACCUMULATED Loss) - brought forward		(39,214,920)	(35,491,391)
		-----	-----
(ACCUMULATED LOSS) - carried to Balance Sheet		20,560,923	(39,214,920)
		=====	=====

The annexed notes form an integral part of these accounts.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER, 1997

	1997	1996
	Rupees	Rupees
CASH INFLOW FROM OPERATING ACTIVITIES (note 'A')	14,461,035	23,394,012
CASH FLOW FROM FINANCING ACTIVITIES	-----	-----
Long term loans repaid created	(16,612,007)	7,888,344
Short term finances - net	43,721,430J	2,019,487
Financial charges paid	(17,483,497)	(27,064,046)
Dividend paid	(94)	(3,180)
	-----	-----
NET CASH INFLOW/(OUTFLOW)/FROM FINANCING ACTIVITIES	9,625,832	(17,159,395)
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(24,531,311)	(6,150,785)
Sale proceeds of fixed assets	1,21 4,350	138,375
Long term deposits	(500,000)	0

Deferred costs incurred	(118,450)	0
	-----	-----
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	(23,935,411)	(6,012,410)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	151,456	222,207
CASH AND CASH EQUIVALENTS		
- At the beginning of the year	827,641	605,434
CASH AND CASH EQUIVALENTS	-----	-----
- At the end of the year	979,097	827,641
	=====	=====

The annexed note 'A' forms an integral part of this statement.

NOTE 'A'

	1997 Rupees	1996 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year - before taxation and extra-ordinary item	13,931,254	3,492,471
Adjustments for:		
Depreciation		
Loss/Gain on disposal of fixed assets	4,584,483	4,516,246
Provision for gratuity - net	424,036	(81,956)
Provision for diminution in value of investments written -back	876,412	1,783,450
Deferred cost amortised	39,484	(1,800,975)
Financial charges	16,063,505	43,716
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES		
- Before working capital changes	35,919,174	26,339,141
(Increase)/Decrease in current assets	-----	-----
Stores, spares and loose tools	(363,969)	(478,413)
Stock in trade	(29,061,210)	(2,689,754)
Trade debtors	664,495	(542,728)
Advances, deposits, prepayments and other receivables (excluding taxes paid and current portion of long term advances)	3,705,022	565,828
Increase in creditors, accrued and other liabilities (excluding accrued financial charges)	7,469,667	3,046,798
	-----	-----
	(17,585,995)	(98,269)
CASH INFLOW FROM OPERATING ACTIVITIES - Before taxation	18,333,179	26,240,872
Taxes paid	(3,779,117)	(2,798,692)
	-----	-----
CASH INFLOW FROM OPERATING ACTIVITIES - After taxation	14,554,062	23,442,180

Net increase in long term advances	(93,027)	(48,168)
	-----	-----
CASH INFLOW FROM OPERATING ACTIVITIES	14,461,035	23,394,012
	=====	=====

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER, 1997**

1. STATUS AND NATURE OF BUSINESS

The Company was incorporated in Pakistan on 26 October, 1970 as a Public Company. Its shares are quoted on Karachi Stock Exchange (Guarantee) Limited. It is principally engaged in manufacture and sale of yarn.

The Company is not operating its Weaving Unit and the cost of the said Unit has been grouped as part of Non-operating Fixed Assets.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under the historical cost convention modified by adjustments of exchange rate fluctuations as referred to in notes 2.3 and 2.5.

2.2 Taxation

Current:

Provision for current taxation is made at current rates of taxation on taxable income for the year, if any. Tax credits and brought forward losses are recognised for arriving at taxable income for the year.

Deferred:

The Company does not account for deferred taxation arising due to major timing differences due to reasons stated in note 9.3.

2.3 Foreign currency translations

Assets and liabilities financed in foreign currency, if any, are translated into Pak Rupees at the rates of exchange ruling on the balance sheet date.

Exchange gains/losses on principal loans are transferred to cost of plant and machinery acquired out of the proceeds of these loans.

2.4 Staff retirement benefits

The Company operates an un-funded Gratuity Scheme for all its employees. Provision is made annually to cover obligation under the Scheme.

2.5 Tangible fixed assets and depreciation

Fixed assets, except freehold land, are stated at cost less accumulated depreciation. Freehold land and capital work-in-progress are stated at cost. Cost of some items of plant and machinery consists of historical cost and

exchange fluctuations effects on foreign currency loans capitalised during prior years. Borrowing costs have also been capitalised for the period upto the date of commencement of commercial production of the respective plant and machinery, acquired out of the proceeds of such borrowings.

Depreciation on operating fixed assets is charged applying Reducing Balance Method to write off the cost and capitalised exchange fluctuations over estimated remaining useful life of assets. Rates of depreciation are stated in note 11.

Depreciation on Non-operating Fixed Assets is not being provided for.

No depreciation is provided on assets in the year of disposal whereas full year's depreciation is charged in the year of purchase.

Gains/losses on disposal of fixed assets are taken to Profit and Loss Account.

Normal repairs and replacements are taken to Profit and Loss Account. Major improvements and modifications are capitalised and assets replaced, other than those kept as stand-by, are retired.

2.6 Long term Investments

These are stated at cost.

2.7 Deferred costs

Expenses, the benefit of which is expected to spread over several years, are deferred and amortised over their useful life not exceeding five years.

2.8 Stores, spares and loose tools

These are valued at annual average cost except items-in-transit which are valued at cost accumulated to the balance sheet date.

2.9 Stock-in-trade

Basis of valuation are as follows:

Particulars	Mode of valuation
Raw materials	- At lower of annual average cost and market price.
Work-in-process	- At cost.
Finished goods	At lower of cost and net realisable value.
Waste	- At net realisable value.

Cost in relation to work-in-process and finished goods represents annual average manufacturing cost which consists of prime cost and appropriate manufacturing overheads.

Net realisable value signifies the selling price in the ordinary course of business less cost necessary to be incurred to effect such sale.

2.10 Revenue recognition

Sales through agents are booked on intimation from agents whereas direct sales are booked on despatch of goods.

3. SHARE CAPITAL

Pakistan Industrial Credit and Investment Corporation Limited (PICIC) has option, during subsistence of its long term loans stated in note 6, to convert these into fully paid Ordinary Shares of the Company at any time or from time to time. The amount so converted, however, is not to exceed 20% of the amount of loans or the balance of loans outstanding at the time of exercise of such option, whichever is less. The amount of option worked out Rs.5.0 million as at 30 September, 1997 (1996: Rs. 6.839 million).

4. CAPITAL RESERVE

This represents share premium received @ Rs. 6 per share on 1,000,000 Right Shares issued by the Company.

5. DEFERRED LOAN - Secured

5.1 This interest free loan was created during 1987 by transfer from long term loan accounts in accordance with the arrangements made with PICIC. It was to be repaid in 10 equal half-yearly instalments commencing 01 July, 1998.

This loan was secured by arrangements as stated in note 6.4.

5.2 This loan has been restructured during the year as detailed in notes 6.2 and 6.3

6. LONG TERM LOANS - Secured

	Note	1997 Rupees	1996 Rupees
PICIC:			
- Rescheduled Loan-I	6.1 (b)	0	20,448,344
- Rescheduled Loan -II	6.1 (c]	0	13,749,000
- Loan R - Rupee/52-A	6.2 & 6.3	15,000,000	0
- Loan R - Rupee/52	6.2 & 6.3	10,000,000	0
		-----	-----
		25,000,000	34,197,344
Less: Current portion grouped under current liabilities:			
		-----	-----
- Installments overdue		0	681,611
- Installments due within the following twelve months:			
- Rescheduled Loan-I		0	8,179,335
- Loan R - Rupees/52-A		5,000,000	0
- Loan R - Rupees/52		10,000,000	0
		-----	-----
		15,000,000	8,860,946
		-----	-----
		10,000,000	25,336,398
		=====	=====

6.1 a) As per the Rescheduling Proposal, communicated by PICIC vide its Letter No. PD-I/TSG/B-01/96 dated June 24, 1996, the Company paid Rs. 6.250 million as Down Payment towards the clearance of overdues till 30 June, 1996.

b) After adjustments as per (a) above, Rescheduled Loan-I was created by transfer of balance overdues. This loan was payable in thirty equal monthly instalments commencing September, 1996. This loan carried interest @ 16% per annum effective 01 July, 1996.

c) Rescheduled Loan-II was created by transfer of 'Not Yet Due Portion of Interest Bearing Loan'. This loan was repayable in eight equal half-yearly instalments with an extension of four years in the terminal date. The loan carried interest @ 14% per annum.

d) The outstanding balances Of these loans have been restructured during the year as detailed in notes 6.2 and 6.3.

6.2 PICIC vide its letter no. SAM/GB2/B-3AI97 dated 24 June, 1997 offered the following Settlement Package (the Package] towards full and final settlement of PICIC liabilities.

a) For the purpose of settlement of loans liabilities, the cut-off date is 31 December, 1996.

b) The Company is required to pay to PICIC Rs. 40.0 million in full and final settlement of its total loans liabilities in the following manner:

- Payment of Interest Bearing Debt (IBD):

	Rupees
By 30 June, 1997	10,000,000
By 31 December, 1997	15,000,000

	15,000,000
	=====
- Payment of Interest Free Deferred debt [IFDD]	
Loan R-Rupee/52-A	
By 30 June, 1998	5,000,000
By 31 December 1998	5,000,000
By 30 June, 1999	5,000,000

	15,000,000
	=====

6.3 Salient Terms and Conditions Governing the Settlement package

(a) Bannu Woollen Mills Limited, an Associated Undertaking, was required to deposit Rs. 5.0 million by 30 June, 1997 with PICIC as Interest Free Deposit. This Deposit shall be adjusted in settlement of IBD by 31 December, 1997

(b) The Company is required to arrange a Corporate Guarantee by Bannu Woollen Mills Limited amounting Rs. 15.0 million in respect of PICIC loans by 30 June, 1997. Such guarantee shall be valid upto 30 June, 1999.

(c) In case of default in payment as per Condition at (a) above, the entire outstanding of the settlement amount shall become interest bearing from the date of approval of this Package attracting interest @ 18% per annum while the effective interest rate of overdue amount shall increase by 5% per annum over and above the said interest rate.

(d) Non-payment of any of the stated amounts on the stipulated dates and/or breach/violation of the terms and conditions mentioned in the Package shall render the Package immediately cancelled and withdrawn without further recourse to the Company. In that event, the company shall become liable to pay forthwith PICIC's entire loans liabilities on reinstated

basis with retrospective effect, disregarding this Arrangement.

Consequently, the payments made under this Arrangement shall be adjusted against PICIC's overdues retrospectively and PICIC shall be at liberty to take appropriate action for the recovery of its loans on reinstated basis with retrospective effect.

(e) The Company has agreed with the above Settlement Package and adjustments relating to this package have been incorporated in these accounts in the following manner:

Total loans liabilities outstanding

as at 31 December, 1996	Rupees
- Deferred loan	24,288,949
- Rescheduled loan - I	18,836,337
- Rescheduled loan - II	13,749,000
- Accrued interest on loans	728,256

	57,602,542
	=====
Restructured as:	
- Loan R - Rupee/52-A	15,000,000
- Loan R - Rupee/52	25,000,000

	40,000,000

Loans liabilities waived-off by PICIC	17,602,542
	=====

f) Loans liabilities waived-off by PICIC aggregating Rs. 17,602,542 have been accounted for in these accounts as a Deferred Credit. The Management has decided to credit it to Profit and Loss Account in accordance with the proportion of loans instalments paid during a year. Accordingly, Rs. 6,602,542 have been credited to Profit and Loss Account of the current year as an Extra-ordinary Item and the balance of Rs. 11,000,000 has been shown in the Balance Sheet as Deferred Credit.

g) The Company as on 26 June, 1997 made payment amounting Rs. 15,000,000 against the restructured Loan R-Rupee/52.

6.4 The restructured loans are secured by a first charge by way of an equitable mortgage of immovable properties, hypothecation of all plant and machinery, a floating charge on other assets and demand promissory note.

6.5 The Company has incorporated in its Books of Account adjustments on the basis of Settlement Package forwarded by PICIC as stated in note 6.2. No formal agreement in this regard has however, yet been executed. Year-end balance confirmation certificate directly received by the Auditors' also confirms the Settlement Package.

7. SHORT TERM FINANCES

Utilised under Mark-up Arrangements - Secured

These cash finances have been obtained against sanctioned facilities of Rs. 115.0 million (1996 : Rs. 75.0 million) from a Commercial Bank. These carry

mark-up ranging from Re.0.48 to Re. 0.60 per thousand Rupees calculated on daily products.

These facilities expired on 30 September, 1997 and have been renewed subsequent to the balance sheet date.

These arrangements are secured against pledge of stock-in-trade, hypothecation of stores and spares, a first registered charge on stock-in-trade, book debts and other assets of the Company and personal. guarantees of all the Directors except nominees of the Development Finance Institutions.

Facilities available for opening letters of credit aggregate Rs. 5.0 million (1996: Rs. 35.0 million) and are secured by documents of title to goods.

8. CREDITORS, ACCRUALS AND OTHER LIABILITIES

		1997 Rupees	1996 Rupees
Due to:			
Associated Undertakings'	21.2 (c)	633,920	1,055,254
Chief Executive		0	660
Advance payments		4,337,155	3,276
Creditors		2,208,045	1,434,673
Accrued liabilities		8,055,660	6,763,009
Interest on secured long term loans		0	2,116,249
Excise duty on secured loans and finances		616,524	648,523
Sales tax payable		3,005,286	2,689,698
Interest free security deposits			
- Repayable on demand		62,000	62,000
Income tax deducted at source		10,520	0
Workers' (Profit) Participation Fund	8.1	774,215	260,730
Waqf-e-Kuli Khan Trust		402,892	203,286
Others		455,717	3,157
		-----	-----
		20,561,934	15,240,515
		=====	=====
8.1 Worker's (Profit) Participation Fund			
Opening balance		260,730	0
Interest on amounts utilised by the Company		20,090	0
		-----	-----
		280,820	0
Less: Payments during the year		260,730	0
		-----	-----
		20,090	0
Contribution for the year		754,125	260,730
		-----	-----
		774,215	260,730
		=====	=====

9. TAXATION

1997	1996
------	------

	Rupees	Rupees
Opening balance	7,216,000	0
Provided during the year	-----	-----
Current year	1,311,735	1,305,000
Prior years	568,064	5,911,000
	-----	-----
	1,879,799	7,216,000
	-----	-----
	9,095,799	7,216,000
Less: Adjustments for completed assessments	6,521,011	0
	-----	-----
	2,574,788	7,216,000
	=====	=====

9.1 Income tax assessments of the Company have been finalised upto the Income year ended 30 September, 1995 (Assessment Year 1996-97)

9.2 In view of accumulated tax losses aggregating Rs. 35.964 million as per last Assessment Order; no provision for current taxation is required except for the Minimum Tax under section 80-D of the Income Tax ordinance, 1979.

9.3 In view of accumulated assessed tax losses aggregating Rs. 35.964 million, as stated in note 9.2, no provision is required for deferred taxation.

10. CONTINGENCIES AND COMMITMENTS

10.1 Refer contents of notes 31.

10.2 Commitments against irrevocable letters of credit outstanding as at 30 September, 1997 were for Rs.65.335 million (1996: Rs. 41.673 million).

	COST			As at 30 September, 1997	Rate %	DEPRECIATION			To 30 September, 1997	BOOK VALUE as at 30 September, 1997
	As at 30 September 1996	Additions	Deletions			To 30 September, 1996	For the year	On Deletions		
Freehand land	3,641,904	0	0	3,641,904		0	0	0	0	3,641,904
Roads, paths and culverts										
Buildings on freehold land	120,481	0	0	120,481	5	79,078	2,070	0	81,148	39,333
Factory	5,533,592	742,916	0	6,276,508	10	4,327,070	194,944	0	4,522,014	1,754,525
Non-factory	1,419,998	0	0	1,419,998	5	667,866	37,607	0	705,473	174,525
Residential - Officers	244,169	0	0	244,169	5	100,404	7,188	0	107,592	136,577
- Workers	4,600,445	0	0	4,600,445	10	2,574,301	202,614	0	2,776,915	1,823,530
	11,798,204	742,916	0	12,541,120		7,669,641	442,353	0	8,111,994	4,429,126
Plant and machinery	92,586,589	3,590,417	6,441,309	89,735,697	10	61,979,528	3,255,948	4,803,310	60,432,166	29,303,531
Generator	7,570,561	1,062,196	0	8,632,757	10	4,167,213	446,555	446,555	4,613,768	4,018,989
Tools and equipment	911,067	34,450	0	945,517	10	565,022	38,050	38,050	603,072	342,445
Furniture and fixtures	748,571	14,210	900	761,881	10	475,974	28,642	28,642	504,103	257,778
Office equipment	388,378	20,500	0	408,878	10	184,402	22,448	22,448	206,850	202,028
Vehicles	3,113,492	792,429	0	3,905,921	20	2,164,600	348,264	348,264	2,512,864	1,393,057

Arms	15,721	0	00	15,721	10	14,191	153	153	14,344	1,377
Rupees	120,894,968	6,257,118	6,442,209	120,709,877		77,299,649	4,584,483	4,584,483	77,080,309	43,629,568
1996 Rupees	115,047,018	6,097,555	249,605	120,894,968		72,976,589	4,516,246	4,516,246	77,299,649	43,595,319

11.1 Depreciation for the year has been apportioned as under:

	1997 Rupees	1996 Rupees
Cost of sales	4,140,181	4,178,748
Administrative expenses	444,302	337,498
	4,584,483	4,516,246

11.2 Depreciation on some items of the plant and machinery was not charged from 1980-81 to 1985-86 due to their non-operation. Unprovided depreciation upto 30 September, 1997 worked out Rs. 109,280 (1996 : Rs. 121,422). The book value of these items of plant and machinery as at 30 September, 1997 was Rs. 233,227 (1996: Rs. 259,141).

11.3 Disposal of operating fixed assets

Particulars	Cost	Accumulated depreciation	Book value	Sale Proceed	Gain/(Loss)	Mode of Disposal	Particulars of Purchaser
Plant and machinery:							
Metallic card clothing 7 set	50,624	41,242	9,382	0	(9,382)	Scrapped	
Spinning rings 5616 Nos.	52,450	45,365	7,085	0	(7,085)	Scrapped	
Spindles with bolister 988 Nos.	53,557	43,633	9,924	0	(9,924)	Scrapped	
Ring frames (SCAM: - 7 Nos.	3,658,858	2,720,788	938,070	714,000	(224,070)	Negotiation	Haji Abdul Majeed Dar-ul-lhsan Town Samunday Road Faisalabad
5 Nos.	2,613,470	1,943,420	670,050	500,000	(170,050)	Negotiation	Sardarpur Textile Mills Ltd. Lahore
Flyer pressure with steel 130 Nos.	12,350	8,862	3,488	0	(3,488)	Scrapped	
	6,441,309	4,803,310	1,637,999	1,214,000	(423,999)		
Furniture and fixture:							
Bed 1 No.	900	513	387	350	(37)	Negotiation	An employee
Rupees	6,442,209	4,803,823	1,638,386	1,214,350	(424,036)		

=====

12. NON OPERATING FIXED ASSETS - Tangible [Weaving Section]

PARTICULARS	COST	Depreci- ation	Book VALUE
	As at 30 September, 1997	to 30 September 1997	AS AT 30 SEPTEMBER, 1997
Freehold land	341,784	0	341,784
Buildings on free- hold land:	-----	-----	-----
Factory	977,617	264,934	712,683
Non-factory	71,907	10,255	61,652
Residential-Workers	62,110	8,858	53,252
	-----	-----	-----
	1,111,634	284,047	827,587
Plant and machinery	382,513	103,662	278,851
	-----	-----	-----
Rupees	1,835,931	387,709	1,448,222
	=====	=====	=====
1996 Rupees	1,835,931	387,709	1,448,222

12.1 Depreciation on non-operating fixed assets has not been provided for as per policy. Had depreciation been provided, the profit for the year would have been lower by Rs. 18,714 [1996 : Rs. 20,717] Unprovided depreciation till 30 September, 1997 worked out Rs. 925,134 [1996 :Rs. 906,420].

13. CAPITAL WORK-IN-PROGRESS

	1997	1996
	Rupees	Rupees
Plant and machinery:		
Cost of ring frames	17,796,473	0
Erection expenses	789,654	0
	-----	-----
	18,586,127	0
	=====	=====

14. LONG TERM INVESTMENTS - At cost

Janana De Malucho Textile Mills Limited [an Associated Undertaking]-Listed 194,700 fully paid ordinary Shares of Rs. 10 each Market value Rs. 1,1 68,200 (1996: Rs. 389,400)	2,531,100	2,531,100
	=====	=====

14.1 Provision for diminution in value of investments amounting Rs. 1,362,900(1996: Rs. 2,141,700) has not been made in these accounts as the Management

considers fall in the value of investments a temporary phenomenon.

15. DEPOSIT FOR INVESTMENTS

15.1 This represents amount deposited with National Bank of Pakistan (NBP) for purchase of 115,300 shares of Janana De Malucho Textile Mills Limited (an Associated Undertaking), held by NBP. Provision for diminution in the value amounting Rs.807,100 (1996 : Rs. 1,268,300) has not been made in these accounts. The market value of these shares as at the balance sheet date worked out Rs. 691,800 (1996: Rs. 230,600).

15.2 Year end balance confirmation certificate from NBP was not received. The Auditors, in the absence of this certificate, could not verify this deposit.

16. LONG TERM ADVANCES

	1997 Rupees	1996 Rupees
Advances to employees - Considered good		
Balance as at 30 September,	302,647	209,620
Less: Current portion grouped under current assets	127,800	88,800
	-----	-----
	174,847	120,820
	=====	=====

a) These interest free advances are secured against guarantees of third parties and are recoverable in instalments which vary from case to case.

b) No part of these advances is outstanding for more than three years.

17. LONG TERM DEPOSITS AND DEFERRED COSTS

Deposits:		
Security	61,780	61,780
Others	17.1 500,000	0
	-----	-----
Deferred Costs	561,780	61,780
	17.2 78,966	0
	-----	-----
	640,746	61,780
	=====	=====

17.1 This represents amount deposited with a commercial bank under the Prime Minister of Pakistan's National Debt Retirement Fund for a period of two years.

17.2 Deferred costs

	1997 Rupees	1996 Rupees
Expenses incurred on:		
Issue of Right Shares		

Judicial Papers of Mortgage	0	43,716
Deed in favour of PICIC	118,450	0
	118,450	43,716
Less: Amortized during the year	39,484	43,716
	-----	-----
	78,966	0
	=====	=====

These are being amortised over a period of three years

18. STORES, SPARES AND LOOSE TOOLS

Stores	1,158,740	1,087,239
Spares	2,623,976	2,334,189
Loose tools	280,258	277,577
	-----	-----
	4,062,974	3,699,005
	=====	=====

19. STOCK-IN-TRADE

Raw materials - At mills	66,445,700	25,891,872
- In transit	0	2,342,963
	-----	-----
	66,445,700	28,234,835
Work-in-process	4,963,034	6,945,036
Finished goods:	-----	-----
Yarn	1,856,157	9,014,643
	-----	-----
Waste	3,219	12,386
	-----	-----
	1,859,376	9,027,029
	-----	-----
	73,268,110	44,206,900
	=====	=====

20. TRADE DEBTORS

These are unsecured and considered good.

21. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	1997 Rupees	1996 Rupees
Due from Associated Undertakings	21.1	4,641,851	6,887,077
Advances to:			
Executives - Considered good		142,773	312,294
Other employees - Considered good		371,156	219,619
Advance payments		81,162	149,942
Letters of credit		423,892	801,595
Deposits		33,465	800.07
Prepayments		18,750	26,625
Advance income tax and tax deducted at source		2,385,096	3,876,990
Minimum tax paid under protest		0	1,250,000

Insurance Claim receivable	0	181,854
	-----	-----
	8,098,145	14,506,061
	=====	=====
21.1 Due from Associated undertakings:		
Janana De Malucho Textile Mills Limited	1,013,270	3,293,869
Bibojee Services [Pvt] Ltd.	2,979,739	2,401,720
Rahman Cotton Mills Ltd.	573,383	1,112,841
Bannu Woollen Mills Ltd.	75,459	78,647
	-----	-----
	4,641,851	6,887,077
	=====	=====

12.2 a) The Shareholders of the Company have authorised the Chief Executive of the Company, by a special resolution, for advancing loans upto Rs. 2.0 million to any Associated Undertaking to meet the business transactions involving payment/reimbursement of branch office/other expenses incurred on Company's behalf.

b) Maximum aggregate debit balance of the Associated Undertakings at any month end during the year was Rs. 18,207,987 (1996: Rs.6,887,077).

c) Mark up has been charged at the rates ranging from Re. 0.49 to 0.57 per thousand Rupees calculated on daily products on the current account balances of all the Associated Undertakings.

d) Aggregate transactions during the year with the Associated Undertakings were as follows:

	1997	1996
	Rupees	Rupees
Sale of goods and services	3,174,676	6,279,420
Purchase of goods and services	3,243,013	7,214,769
Assets purchased	763,200	0
Insurance claim received	32,597	99,000
Residential rent		
- Paid	117,000	117,000
- Received	48,600	48,600
Interest charged	1,413,564	1,093,896
Dividend received	194,700	0

21.3 Maximum aggregate debit balances due from Directors and Executives at any month end during the year were Rs. 98,255 (1996: Rs. 103,300 and Rs. 319,294/1996: Rs. 334,412) respectively.

22. CASH AND BANK BALANCES

1997	1996
------	------

	Rupees	Rupees
	19,013	83,799
At Banks:	-----	-----
On current accounts	528,533	661,600
On dividend accounts	6,573	6,574
On security deposit account	424,978	75,668
	-----	-----
	960,084	743,842
	-----	-----
	979,097	827,641
	=====	=====

23. SALES - Net

- Yarn	289,651,484	260,356,616
- Waste	523,990	654,494
	-----	-----
	290,175,474	261,011,110

Less:

- Commission	1,898,030	2,139,970
- Sales tax	28,072,678	5,278,985
	-----	-----
	29,970,708	7,418,955
	-----	-----
	260,204,766	253,592,155
	=====	=====

24. COST OF SALES

	Note	1997 Rupees	1996 Rupees
	24.1	129,347,077	145,830,098
Raw materials consumed		3,789,386	3,662,238
Packing materials consumed		31,863,473	27,192,765
Salaries, wages and benefits		39,750,847	36,354,130
Power and fuel			
Repair and maintenance:		3,933,541	4,005,113
Stores consumed		902,185	544,609
Expenses		0	3,307,734
Excise duty		4,140,181	4,178,748
Depreciation		603,494	325,092
Insurance		-----	-----
		214,330,184	225,400,527
		-----	-----
Adjustment of work-in-process		6,945,036	4,463,932
Opening		0	(99,000)
Insurance claim received		(4,963,034)	(6,945,036)
Closing		-----	-----
		1,982,002	(2,580,104)
		-----	-----
		216,312,186	222,820,423
		-----	-----
Cost of goods manufactured		9,027,029	14,505,848
Adjustment of finished goods			

Opening stock	(1,859,376)	(9,027,029)
Closing stock	-----	-----
	7,167,653	5,478,819
	-----	-----
	223,479,839	228,299,242
	=====	=====

24.1 Raw materials consumed

	1997	1996
	Rupees	Rupees
Opening stock	28,234,835	22,547,366
Purchases	170,418,215	157,526,127
Local taxes	20,820	275,607
	-----	-----
	198,673,870	180,349,100
	-----	-----
Less:		
Sales	2,905,329	6,373,473
Closing stock	66,445,700	28,234,835
	-----	-----
	69,351,029	34,608,308
	-----	-----
	129,322,841	145,740,792
Cess on cotton consumed	24,236	89,306
	-----	-----
	129,347,077	145,830,098
	=====	=====

a) Gain on sale of raw materials amounting Rs. 307,747(1996: Loss Rs. 385,265) and sale proceeds of binding materials amounting Rs. 62,880 (1996: Rs. 129,883) have been adjusted in raw materials consumption.

b) Sale of scrap materials amounting Rs.60,442 (1996: Rs.57,214) and Rs. 124,800 (1996 : Rs.182,000) has been adjusted in packing materials consumed and stores consumed respectively.

25. ADMINISTRATIVE AND SELLING EXPENSES

	1997	1996
	Rupees	Rupees
Administrative:		
Salaries and benefits	2,234,610	1,846,928
Printing and stationery	257,241	224,831
Communication	566,338	414,121
Travelling and conveyance		

including directors		
Rs. 32,927 (1996 · Rs.31,422)	185,405	187,305
Rent, rates and taxes	163,089	173,518
Insurance	80,745	90,767
Advertisement	26,300	15,960
Repair and maintenance	111,770	80,290
Vehicles' running	719,050	515,008
Guest house and entertainment	136,151	109,489
Subscription	140,254	79,920
Depreciation	444,302	337,498
	-----	-----
	5,065,255	4,075,635
 Selling:	-----	-----
Freight, loading and travelling	997860	1,363,362
Salaries and benefits	224,213	129,563
Samples	69,319	77,735
Publicity	16,675	2,100
	-----	-----
	1,308,067	1,572,760
	-----	-----
	6,373,322	5,648,395
	=====	=====

25.1 The Company has shared expenses aggregating Rs. 1,187,531(1996 : Rs.1,068,474) out of the total expenses of Rs. 4,398,558 (1996 : Rs.3,965,171) of the Combined Offices with the Associated Undertakings. These expenses have been booked in respective heads of accounts as follows:

Administrative and selling expenses	909,064	771,129
Manufacturing expenses	278,467	297,345
	-----	-----
	1,187,531	1,068,474
	=====	=====

26. OTHER INCOME

	1997 Rupees	1996 Rupees
Unclaimed balances written back	46,239	104,320
Dividend	194,700	0
Gain on disposal of fixed assets	0	81,956
Provision for diminution in value of Investments written back	0	1,800,975
	-----	-----
	240,939	1,987,251
	=====	=====

27. FINANCIAL CHARGES - Net

Interest on long term loan	0	6,184.13
Associated Undertaking's balance	0	6,635
Workers' (Profit)'participation Fund	20,090	0

-Mark-up on short term-finances	15,505,937	11,554,446
Excise duty on bank borrowings	557,568	647,616
Bank charges	212,761	213,142
Loans documents processing fee	25,000	0
	-----	-----
	16,321,356	18,605,966
	-----	-----
Interest/profit received on:		
Associated Undertakings'		
loan/balances	1,413,564	1,093,896
Bank deposits	254,167	6,183
	-----	-----
	1,667,731	1,100,079
	-----	-----
	14,653,625	17,505,887
	=====	=====

28. MISCELLANEOUS CHARGES

	Note	1997 Rupees	1996 Rupees
Auditors' remuneration:			
Audit fee		60,000	60,000
Consultancy charges		0	80,000
Out-of-pocket expenses		5,000	5,000
		-----	-----
		65,000	145,000
Legal and professional charges (Other than Auditors)		95,900	51,100
Loss on disposal of fixed assets		424,036	0
Donations	28.1	252,060	2,500
Amortization of deferred costs		39,484	43,716
		-----	-----
		876,480	242,510
		=====	=====

28.1 In addition to these donations Rs. 377,060 (1996 :Rs. 130,365) have been donated to Waqf-e-Kuli Khan Trust (a Charitable Institution) administered by the following directors of the Company:

- | | |
|------------------------------|-----------------------------|
| - Mr. Raza Kuli Khan Khattak | Mr. Ahmad Kuli Khan Khattak |
| - Mrs. Shahnaz Sajjad Ahmad | Mr. Mushtaq Ahmad Khan, FCA |

29. REMUNERATION TO DIRECTORS AND EXECUTIVES

Chief executive	Working director	Executives
-----------------	------------------	------------

PARTICULARS

	1997	1996	1997	1996	1997	1996
remuneration	0	0	69,001	72,589	848,724	845,013
Bonus/Ex-gratia	0	0	0	0	155,643	79,534
Retirement						
benefits	0	0	0	0	70,727	65,227
Rent and						
utilities	0	0	14,127	11,929	89,100	89,100
Insurance	0	1685	1027	2,016	2,526	2,526
Medical	0	0	0	437	76,351	87,666
	-----	-----	-----	-----	-----	-----
	0	1,685	84,155	86,971	1,243,071	1,169,066
Less: Charged to						
Associated						
Undertakings	0	0	0	0	198,408	200,781
	-----	-----	-----	-----	-----	-----
Rupees	0	1,685	84,155	86,971	1,044,663	968,285
	=====	=====	=====	=====	=====	=====
Number of persons	1	1	1	1	4	4

29.1 The Chief Executive has voluntarily discontinued to draw salaries from the Company. Hence, no remuneration or benefit, was paid to him or on his behalf during the year.

29.2 Some of the Directors and Executives of the Company are also provided with free use of Company maintained cars and telephones at their residences. The above payments to working Director represent the proportionate share paid by the Company and do not include any amount paid or provided for by the Associated Undertakings.

29.3 The Company has also provided rent free accommodation to one of its Directors and Executives in the Mills' colony.

29.4 In addition to above, meeting fee of Rs. 3,000 [1996 · Rs. 4,500] was paid to three (1996 · Six) non-working Directors.

30. CAPACITY AND PRODUCTION

	1997	1996
Yarn		
Number of spindles installed	25,056	25,056
Number of shifts worked	1,075	1,077
Number of spindles/shifts worked	26,333,99]	26,594,669
Installed capacity at 20's count		
on the basis of shifts worked	(Kgs) 4,581,675	4,590,200
Actual production of yarn		
all counts	(Kgs) 1,470,191	1,831,112
Actual production converted		
into 20's count	(kgs) 7,392,412	7,266,458

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, spindles

speed, twist per inch and raw materials used etc. It also varies according to the pattern of production adopted in a particular year.

31. FIGURES

- in the accounts are rounded-off to the nearest Rupee;

- of the previous year are re-arranged wherever necessary for the purpose of comparison.

PATTERN OF SHAREHOLDING AS ON 30 SEPTEMBER, 1997

NUMBER OF SHAREHOLDERS	SHAREHOLDING FROM	TO	TOTAL SHARES HELD
1055	1	100	30,397
320	101	500	81,576
109	501	1,000	84,772
107	1,001	5,000	276,879
25	5,001	10,000	180,236
7	10,001	15,000	87,709
2	15,001	20,000	32,100
2	20,001	25,000	45,100
1	25,001	30,000	28,351
1	35,001	40,000	38,768
1	45,001	50,000	49,338
1	50,001	55,000	54,716
1	75,001	80,000	75,400
1	100,001	105,000	103,936
1	125,001	130,000	125,654
1	150,001	155,000	151,612
1	550,001	555,000	553,456
-----	-----	-----	-----
1636		TOTAL:	2,000,000
=====	=====	=====	=====

Categories of Shareholders	Number	Shares held	Percentage
Individuals	1605	912,819	45.641
Investment Companies	1	28,351	1.418
Insurance Companies	4	54,538	2.727
Joint Stock Companies	12	832,197	41.610
Financial Institutions	11	144,805	7.240
Provincial Government Administrator	1	12,187	0.609
Abandoned properties	1	1,503	0.075
Modaraba Companies	1	13,600	0.680
-----	-----	-----	-----
TOTAL	1,636	2,000,000	100.00
=====	=====	=====	=====