

Mohammad Farooq Textile Mills Limited

Annual Report 1998

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CHAIRPERSON Mrs. Mariam A. K. Sumar

CHIEF EXECUTIVE Mr. Mohammad Farooq Sumar

DIRECTORS Mr. Mohammad Mukhtar Sumar
Mr. Razi-Ur-Rahman Khan (NIT Nominee)
Ms. Sabiha Sumar
Mr. Munir Ahmed Ansari
Mr. Yacoobali G. Zamindar

COMPANY SECRETARY Mr. Yacoobali G. Zamindar

LEGAL ADVISERS Mohsin Tayebali & Co.

AUDITORS M. Yousuf Adil Saleem & Co.
Chartered Accountants

BANKERS Habib Bank Limited
Muslim Commercial Bank Limited

REGISTERED OFFICE First Floor, Finlay House,
I.I. Chundrigar Road,
Karachi-74000

HEAD OFFICE AND MILLS Plot Nos. 6 & 7, Sector 21,
Korangi Industrial Area,
Karachi

CABLE FAROOQTEX

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NOTICE OF THE MEMBERS'
THIRTY-THIRD ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty-third Annual General Meeting of Mohammad Farooq Textile Mills Limited will be held at Company's Mills Premises, Plot Nos. 6 & 7, Sector 21, Korangi Industrial Area, Karachi on Wednesday, 31st March 1999 at 11:00 a.m. to transact the following business:

1. To receive, consider and adopt the Balance Sheet and Profit & Loss Account for the year ended 30th September, 1998 together with the Directors' and Auditors' Reports thereon.
2. To appoint Auditors and fix their remuneration.
3. To elect seven Directors as fixed by the Board in accordance with the provision of Section 178 of the Companies Ordinance, 1984, in place of retiring Directors, namely Mrs. Mariam A. K. Sumar, Mr. Mohammad Farooq Sumar, Mr. Mohammad Mukhtar Sumar, Mr. Razi-Ur-Rahman Khan, Ms. Sabiha Sumar, Mr. Munir Ahmed Ansari and Mr. Yacoobali G. Zamindar.

BY THE ORDER OF THE BOARD

Yacoobali G. Zamindar
Director/Secretary

Karachi: 15th February, 1999

NOTES:

1. The Shares Transfer Books of the Company will remain closed from 25th March, 1999 to 31st March, 1999 (both dates inclusive).
2. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf. Proxies, in order to be valid, must be deposited at the Registered Office of the Company not less than 48 hours before the time of meeting.
3. Shareholders are requested to promptly notify the Company of any change in their addresses to ensure delivery of mail.

DIRECTORS' REPORT TO THE SHAREHOLDERS

1. Your Directors are presenting their report and the Statement of Account for the year ended 30th September, 1998 as under:

(Rupees '000)

Loss for the year amounted to	21,371
To which we must add provision for minimum tax for the year	4,203

	25,574

To this must be added

loss brought forward	218,472
Leaving accumulated loss	-----
carried forward to next year	244,046
	=====

2. The accompanying Chief Executive's Report deals with the year's activities and the Directors of the Company endorse the contents of that Report.

3. You are requested to elect seven Directors for a period of 3 years in accordance with the provision of the Companies Ordinance, 1984 as term of the existing Board expires on 26th March, 1999.

4. The pattern of shareholding is attached.

5. The management of your Company is aware of year 2000 problem which can affect the working of computers and systems, if not addressed. Necessary software/hardware equipments have been acquired to face the millennium challenge. For in house designed softwares, work is in process to make them compatible with Y2K. Inshallah we shall be Y2K compliant in time.

6. Your present Auditors M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, retire and offer themselves for reappointment.

For and on behalf of
the Board of Directors

Karachi: 15th February, 1999

MOHAMMAD FAROOQ SUMAR
Chief Executive

CHIEF EXECUTIVE'S REVIEW

IN THE NAME OF ALLAH
THE BENEFICENT
THE MERCIFUL

Al-Hamdolillah, I am pleased to welcome you to the 33rd Annual General Meeting of the Company to consider the results for the year ending 30th September 1998.

The Directors' report along with the audited accounts for the period under review are already placed before you.

In keeping with our tradition to provide maximum disclosure for the benefit of shareholders, I shall review the major events of the financial year.

OUR PERFORMANCE THIS YEAR

The Country's economy operated under the dark clouds of uncertainty, insecurity and chaos, particularly since May '98 due to India's nuclear explosions and Pakistan's decision to follow suit. In these highly disturbed conditions the lack of cohesive policies,

unified approach and clear thinking on part of the government led to panic and despair which to a large extent still continue.

In this setting of sanctions and defaults the Country's largest industry - textile - also suffered considerably; Already reeling under the continuing Asian debacle of the year before, these new conditions really dealt a severe blow to the textile Industry.

I am thankful to God that under these conditions your Company has done well and there is a big improvement all-round as compared to the previous couple of years. From a loss of Rs.56.13 million last year, our loss for the year under review came down by over 60% to Rs.21.37 million, and the first few months of the current year 1998-99 show a promising trend for the future. Therefore the strategy adopted in the last couple of years to cut uneconomical production lines, reduce costs and concentrate on value added processed goods is paying off. Yarn production increased by a robust 33% while cloth production went up by more than 10% thus reducing purchases of yarn and cloth and contributing towards reduction of overheads.

The large increase of 43% made in the sale of printed and dyed goods last year has been fully maintained during the year under review and it is hoped that in the current year Inshallah further gains in processing capacity utilization will be achieved.

Our efforts at cutting costs are working as can be seen by the fact that overall costs are down by 4.3% as compared to last year which must be seen as a major achievement in view of the inflationary conditions.

Our overall sales are Rs.838 million as compared to Rs.845 million in the previous year, this represents a slight drop of less than 1%, the reason for this fall is that yarn and grey cloth sale which in the previous year accounted for 6.6% of overall sales fell to 1.8% in 1997-98 and therefore resulted in a slight overall decrease.

The operating profit for the year under review is Rs.67.87 million and after accounting for non-operating income and financial and other charges the loss for the year is Rs.21.37 million. After accounting for minimum tax for current year of Rs.4.2 million the loss after taxation amounts to Rs. 25.57 million. After accounting for loss brought forward of Rs. 218.47 million the accumulated loss amounts to Rs.244.05 million.

EXPORTS

The Company's exports amounted to Rs.390 million as compared to Rs.404 million in the previous year, this was as a result of reduced grey cloth and yarn sale, while finished goods sale actually increased. In accordance with our strategy we sold insignificant amounts of yarn and grey cloth and reduced the purchase of these items from market also so as to utilize more and more of our own production.

During the last couple of years new strategies have been evolved for increasing our market share in finished products which have started to pay dividends by way of increased customer interest, successful product launches and a better order book, the coming months and years will Inshallah provide the benefits from these initiatives.

Pakistan's exports are continuously falling for the last year or so, neither have we learnt how to grapple with the challenges nor how to seize the opportunities, the result is a continuous erosion of our market share and competitive ability. Whilst the government is to blame for a lot of our woes inasmuch as there is no sane and lasting Export Policy framework, but the industry too has to accept that a large part of the blame lies on it also. Our policies are generally short sighted, short term and unrealistic. We built power projects by the dozens without developing a distribution system, the result is the Country is surplus in power generation but agriculture and industry and the people still go without power almost daily. Motorways are built at great costs but there is hardly any economic activity to support these roads, the Rupee is supported and defended by diktats and administrative measures once to lower and then to strengthen it, swinging like a pendulum, without anybody realizing the impact it has on trade. The examples are multifarious and unfortunately the result is that each successive government further damages and harms its own credibility so much so that people become impervious and start to discount its measures from the start.

Industry on the other hand has concentrated on commodity exports of yarn and grey cloth and too little on organized value added items of high quality. Our failure in the value added sector to produce quality goods, to develop marketing and distribution strategies, to innovate and develop the skill of our work force and our staff, is to my mind largely responsible for our miseries.

But the area of greatest neglect which has been and will be the largest contributor in our failure to

become a major force in textile exports is the lack of education and technical skills at all levels. We can have the best of machines we like, and we can have all the ISO certification that we want but who will manage this? We have one of the youngest textile industry in terms of machine age but other than in basic spinning and organized weaving everywhere else our productivity levels are below 50% and our quality levels are largely mediocre.

It is quite amusing that lip service is usually paid, whenever policies are made, to the fact that this is "A Three Years Policy", "A Long Term Policy" but then everybody forgets since they do not really believe in what they are saying. A glaring example is the recently announced Quota policy, the government is the same which last year announced the policy in January'98 that export quotas would be given on 35% value performance and 65% quantity performance and this policy was supposed to increase the percentage of value performance and take it to 50% in 1999. Instead the same government has for the year 1999 completely changed the policy and announced that in its wisdom 100% quota will now be given on quantity performance basis only! To add insult to injury the tragedy does not end here, various textile associations gave huge advertisements in the daily press welcoming the sagacity of the government decision!

On the one hand the government claims that it wants our abysmal level of Export prices to increase as they are one of the lowest in the world and on the other hand it says that quota will go to those who export at the lowest price. Do you see logic here? I don't. As far as the Associations are concerned who lobbied for this change and welcomed the decision, may I point out that these are mostly those father and son Association set-ups which were formed in 70's and 80's for the sole purpose of gathering Quota and are a vested interest. Most of them have been involved in the scandals of yesteryears and will surely contribute to the scandals of today and tomorrow.

I must again say that this policy needs to be reviewed as it is detrimental to exports of quality goods, it is against the recommendations of International experts, it is a failed policy which needs to be changed once and for all.

During the current year the country's exports of textile goods particularly yarn and grey cloth are suffering heavily due to the continuing Far East crisis resulting in both shrinking demand and reducing competitive ability as a result of much higher levels of devaluation carried out in the Far East as well as

by other textile exporting countries.

The fact that our cotton crop again has failed both quantitatively and qualitatively has deprived the Industry of purchasing cotton at international price levels and also resorting to imports of cotton. Therefore the Industry faced a situation of double jeopardy - sinking demand and rising input costs, this situation continues in the current year as well as the crop has again failed and is even lower than last year. Prevailing cotton prices are more than the international market. As a result the Country's yarn exports have already fallen by 35% during the current financial year commencing from July 1, 1998. Made-ups may be faring better but not by a great margin as there is hardly any room for growth in such circumstances.

Your Company as you know is not an exporter of yarns and greys, therefore there are no adverse affects during the current year on account of these products. Even on the value added side the Company's position is by the grace of God satisfactory and our order book for the current year looks healthy.

LOCAL SALES

Domestic sales registered a small increase of 1.8% over the previous year and were of the order of Rs.422 million. A closer look at the product mix shows a further sharp decline in yarn and grey cloth sales, which have now become quite insignificant, while branded fabrics which had increased by 45% last year have again shown a 21% increase in 1997-98, this is really a heartening development as great efforts were made to regain market share. On the other hand cloth processing income fell as activity of commercial exporters declined due to conditions described under Exports.

A word about the current year (1998-99) domestic sales is necessary. Since the middle of 1998 conditions of the domestic market have been quite severe as consumer confidence has suffered heavily on account of poor government policies regarding foreign currency accounts, foreign exchange controls, negotiations with IMF etc. As a result consumer spending has fallen off sharply, these conditions of the market have not changed much as yet, therefore domestic sales of branded goods are affected in the current year, however, efforts are being made to minimize the damage by diversifying product range and increasing institutional sales.

The government's failure to enforce the General Sales Tax system on retail trade has led to increase in the

burden of general sales tax on those who are already paying more by the increase in the rate of GST by 2.5%. I am certain that this burden will be again increased for the same reasons. Like always we failed to broaden the base of our taxes both direct and indirect and it is always the few whose back is broken by carrying the burden of the many. The result of such a situation is usually that many amongst the few who pay are then tempted to find ways and means of avoiding the taxes for survival. As a result a host of distortions are created which cannot be termed healthy for the economy nor for the country.

COST STRUCTURE

Your management concentrated its efforts towards cutting costs in a very organized manner and I am happy to report that it has been successful in many areas. On the raw material side as productivity in Spinning and Weaving increased purchases of yarn and cloth fell by 32%, thus resulting in a Rs.106 million drop in other raw material purchases, while only an additional Rs.47 million was spent on raw cotton and fibre to achieve almost the same volume of sale with just a Rs.20 million increase in conversion cost. The overall cost situation was therefore 4.29% lower than the previous year.

COST STRUCTURE

(Figures in thousand)

	1993 - 94		1994-95		1995 - 96		1996-97		1997 - 98	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Raw Materials	305,845	40.04	562,228	533.02	449,051	47.78	461,196	51.42	402,155	46.84
Raw Cotton & Fibre (Quantity in Kgs)	152,218	19.93	311,391	29.36	283,006	30.11	128,875	14.37	175,308	20.42
Other Raw Material	153,627	20.11	250,837	23.66	166,045	17.67	332,321	37.05	226,847	26.42
Conversion Cost	432,361	56.61	460,597	43.44	456,992	48.63	409,845	45.69	429,730	50.05
Wages & Salaries	122,684	16.06	125,550	11.84	119,373	12.70	109,103	12.17	108,253	12.61
Store Consumption	51,776	6.78	55,518	5.24	55,946	5.95	33,055	3.68	44,711	5.21
Depreciation	50,748	6.65	47,052	4.44	42,798	4.56	49,994	5.57	45,025	5.24
Fuel & Power	65,394	8.56	82,975	7.83	80,282	8.54	90,409	10.08	95,710	11.15
Other Manufacturing Expenses	19,013	2.49	16,666	1.57	16,274	1.73	17,690	1.97	21,628	2.52
Financial Expenses	91,626	12.00	104,997	9.90	117,156	12.47	84,943	9.47	91,791	10.69
Administration Expenses	22,695	2.97	26,223	2.47	24,844	2.65	23,990	2.68	22,474	2.62
Other Charges	8,425	1.10	1,616	0.15	319	0.03	661	0.07	138	0.01
Selling/Distribution Expenses	25,580	3.35	37,566	3.54	33,747	3.59	25,963	2.89	26,658	3.11
(a) Freight	14,954	1.96	10,555	1.00	10,370	1.10	8,283	0.92	6,781	0.79
(b) Others	10,626	1.39	27,011	2.54	23,377	2.49	17,680	1.97	19,877	2.32

Total Rs.	763,786	100.00	1,060,391	100.00	939,790	100.00	897,004	100.00	858,543	100.00
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Looking at some other individual heads in the accompanying cost structure chart, it can be seen that wages and salaries were slightly lower than last year inspite of the fact that machine deployment actually increased such as in Spinning and yearly increments were given to Staff and Workers. This was achieved through further cuts allround in order to attain economic operations. Similarly Administrative expenses were also kept in check and were lower by 6.3%.

Stores consumption shows an increase of 35%, but this is largely due to deferred charges and writing-off of inventory. Manufacturing charges increased due to commissioning of Sulzer looms and increased Spindleage operated during the year.

Therefore it can be seen that on the whole your management has succeeded in bringing down its costs by an appreciable level. This is an ongoing exercise and will continue to be given high priority in the current year as well.

Your Company's workers, staff and officers deserve to be thanked for their hardwork and sincere efforts for the marked improvement in the Company's performance. I am confident that their continued efforts will Inshallah make the current year a turning point for the Company.

MOHAMMAD FAROOQ SUMAR
Chief Executive

15th February, 1999

STATEMENT SHOWING PRODUCTION OF YARN (IN KGS.) DURING THE PERIOD FROM OCTOBER, 1997 TO SEPTEMBER, 1998

Month		No. of Frame/ Shift	Total	Efficiency %
October,	1997	2,418	143,182	87.7
November,	1997	2,347	161,293	87.9
December,	1997	2,325	180,706	90.1
January,	1998	2,349	174,898	85.8
February,	1998	2,268	150,856	88.5
March,	1998	2,725	167,078	88.3
April,	1998	2,731	152,370	82.3
May,	1998	2,880	115,066	55.9

June,	1998	2,371	150,712	68.2
July,	1998	2,502	160,744	68.7
August,	1998	2,463	195,896	85.2
September,	1998	2,374	174,160	83.1
		-----	-----	-----
Total		29,753	1,926,961	80.4
		=====	=====	=====

**STATEMENT SHOWING PRODUCTION OF FABRICS DURING THE PERIOD
FROM OCTOBER, 1997 TO SEPTEMBER, 1998**

TOTAL

Month		L. Metre	Sq. Metre	Efficiency %
October,	1997	823,239	1,429,497	88.2
November,	1997	866,378	1,494,886	88.6
December,	1997	955,591	1,578,898	89.5
January,	1998	816,742	1,343,224	90.0
February,	1998	731,871	1,231,468	88.5
March,	1998	824,974	1,371,683	89.0
April,	1998	723,916	1,229,243	89.8
May,	1998	743,276	1,294,817	88.0
June,	1998	683,096	1,193,298	85.5
July,	1998	690,920	1,227,280	86.7
August,	1998	694,955	1,281,295	89.4
September,	1998	715,200	1,322,013	83.0
		-----	-----	-----
Total		9,270,158	15,997,602	88.1
		=====	=====	=====

FINANCIAL RATIOS AT 30TH SEPTEMBER

		1994	1995	1996	1997	1998
Cost of sales as %age of sales	%	81.40	84.65	96.66	90.85	86.03
Gross Profit as %age of sales	%	18.60	15.35	3.34	9.15	13.97
Operating Profit/(loss) as %age of sales	%	12.00	8.17	(3.34)	3.24	8.11
Net pre tax (loss) as %age of sales	%	(1.16)	(3.68)	(16.58)	(6.64)	(2.55)
Net pre tax (loss) as %age of						
Capital employed	%	(1.77)	(6.61)	(23.08)	(10.16)	(3.84)
Current Ratio		50:50	52:48	49:51	48:52	48:52
Stock as %age of sales	%	33	44	34	34	33
Debtors as %age of sales	%	10.55	7.40	11.39	11.15	12.77
Gearing Ratio (Debt Equity Ratio)		52:48	51:49	44:56	51:49	56:44
Total Debt Assets Ratio		38:62	40:60	32:68	35:65	39:61
Break up value of shares	Rs.	15.30	12.91	18.74	14.23	12.88

PROFIT & LOSS ACCOUNT COMPARISON AS PERCENTAGE OF SALES

1993-94	1994-95	1995 -96	1996-97	1997-98
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Net sales (Rupees in thousand)	731,299	888,599	876,992	845,010	837,785
(in terms of percentage)	100.00	100.00	100.00	100.00	100.00
Cost of sales	81.40	84.65	96.66	90.85	86.03
GROSS PROFIT	18.60	15.35	3.34	9.15	13.97
Administration Expenses	3.10	2.95	2.84	2.84	2.68
Selling Expenses	3.50	4.23	3.84	3.07	3.18
	6.60	7.18	6.68	5.91	5.86
OPERATING PROFIT/(LOSS)	12.00	8.17	(3.34)	3.24	8.11
Other Income	0.52	0.14	0.15	0.25	0.32
Other Charges	1.15	0.18	0.04	0.08	0.02
	(0.63)	(0.04)	0.11	0.17	0.30
	11.37	8.13	(3.23)	3.41	8.41
Financial Charges	12.53	11.81	13.35	10.05	10.96
NET PRE TAX LOSS	(1.16)	(3.68)	(16.58)	(6.64)	(2.55)
TAXATION	0.00	0.00	0.00	(3.44)	(0.50)
LOSS AFTER TAX	(1.16)	(3.68)	(16.58)	(10.08)	(3.05)

PATTERN OF SHAREHOLDING
as at 30th September, 1998

No. of Shareholders	Shareholding			Total Shares Held
871	1	to	100	25848
644	101	to	500	167499
241	501	to	1000	171779
310	1001	to	5000	694301
62	5001	to	10000	399414
13	10001	to	15000	162150
6	15001	to	20000	108634
5	20001	to	25000	112783
4	25001	to	30000	109019
-	30001	to	35000	-
1	35001	to	40000	36405
-	40001	to	45000	-
3	45001	to	50000	145827
-	50001	to	55000	-
2	55001	to	60000	113988
-	60001	to	65000	-
1	65001	to	70000	66656
1	70001	to	75000	74323
1	75001	to	80000	76230
-	80001	to	85000	-
2	85001	to	90000	172175

1	90001	to	95000	94780
-	95001	to	100000	-
1	100001	to	105000	103408
1	105001	to	110000	107720
3	110001	to	115000	338938
1	115001	to	120000	117229
-	120001	to	125000	-
2	125001	to	130000	253695
-	130001	to	195000	-
1	195001	to	200000	200000
-	200001	to	220000	-
1	220001	to	225000	223960
-	225001	to	375000	-
1	375001	to	380000	375452
-	380001	to	815000	-
1	815001	to	820000	819105
-	820001	to	920000	-
1	920001	to	925000	921376
-	925001	to	1020000	-
1	1020001	to	1025000	1021189
-	1025001	to	1095000	-
1	1095001	to	1100000	1098146
-	1100001	to	3870000	-
1	3870001	to	3875000	3871847
-	3875001	to	6705000	-
1	6705001	to	6710000	6705369

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2185	18889245
=====	=====

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	2154	5264056	27.87
Investment Companies	5	1243525	6.58
Insurance Companies	3	1396429	7.39
Joint Stock Companies	7	6724686	35.60
Banks & Financial Institutions	5	3992988	21.14
Modarabas	4	52061	0.28
Foreign Investors (Non-Resident)	3	1402	0.01
Trusts	2	205919	1.09
Others:			
Corporate Law Authority	1	1	0.00
Administrator Abandoned Properties	1	8178	0.04
	-----	-----	-----
	2185	18889245	100.00
	=====	=====	=====

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of MOHAMMAD FAROOQ TEXTILE MILLS LIMITED as at September 30, 1998 and the related profit and loss account and statement of changes in financial position (cash flow statement), together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and after due verification thereof, we report that:

- a. in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b. in our opinion:
- i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
- ii. the expenditure incurred during the year was for the purpose of the Company's business; and
- iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c. in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and statement of changes in financial position (cash flow statement), together with the notes forming part thereof, give the information as required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at September 30, 1998 and of the loss and the changes in the financial position for the year then ended; and
- d. in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

M. YOUSUF ADIL SALEEM & CO.,
Chartered Accountants

Karachi: 15th February, 1999

BALANCE SHEET AS AT SEPTEMBER 30, 1998

	Note	1998	1997
		(Rupees in '000)	
SHARE CAPITAL			
Authorised			
25,000,000 Ordinary Shares of Rs. 10/= each		250,000	250,000
		=====	=====
Issued, subscribed and paid up	3	188,892	188,892
Capital reserve	4	42,749	42,749
Accumulated loss		(244,046)	(218,472)
		-----	-----
		(12,405)	13,169
SURPLUS ON REVALUATION OF FIXED ASSETS			
	5	255,710	255,710
LONG TERM LOANS			
	6	305,759	271,656
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
	7	5,952	7,483
DEFERRED LIABILITY			
Staff gratuity		1,642	4,502
CURRENT LIABILITIES			

Finances under markup arrangements	8	332,413	323,246
Current portion of long term liabilities	9	58,635	41,961
Creditors, accrued and other liabilities	10	151,373	199,077
		-----	-----
		542,421	564,284
CONTINGENCIES AND COMMITMENTS	11	-----	-----
		1,099,079	1,116,804
		=====	=====

The annexed notes from 1 to 30 form an integral part of these accounts.

	Note	1998	1997
		(Rupees in '000)	
FIXED CAPITAL EXPENDITURE			
Operating assets	12	557,770	598,609
Capital work in progress			
Plant and machinery		34,617	-
		-----	-----
		592,387	598,609
LONG TERM SECURITY DEPOSITS		1,431	1,351
CURRENT ASSETS			
Stores and spares	13	75,736	71,424
Stock in trade	14	279,674	287,901
Trade debts	15	106,958	94,226
Loans and advances	16	23,363	11,316
Trade deposits, prepayments and other receivables	17	18,283	50,565
Cash and bank balances	18	1,247	1,412
		-----	-----
		505,261	516,844
		-----	-----
		1,099,079	1,116,804
		=====	=====

MOHAMMAD FAROOQ SUMAR
Chief Executive

MUNIR AHMED ANSARI
Director

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

	Note	1998	1997
		(Rupees in '000)	
SALES	19	837,785	845,000
COST OF GOODS SOLD	20	720,786	767,664
		-----	-----
GROSS PROFIT		116,999	77,346

Administration expenses	21	22,474	23,990
Selling expenses	22	26,658	25,963
		-----	-----
		49,132	49,953
		-----	-----
OPERATING PROFIT		67,867	27,393
		-----	-----
Other income	23	2,691	2,073
Other charges	24	(138)	(661)
		-----	-----
		2,553	1,412
		70,420	28,805
Financial charges	25	(91,791)	(84,943)
		-----	-----
LOSS BEFORE TAXATION		(21,371)	(56,138)
PROVISION FOR TAXATION			
Current	26	4,203	4,242
Prior years		-	24,799
		-----	-----
		(4,203)	(29,041)
		-----	-----
LOSS AFTER TAXATION		(25,574)	(85,179)
Accumulated loss brought forward		(218,472)	(133,293)
		-----	-----
ACCUMULATED LOSS CARRIED FORWARD		(244,046)	(218,472)
		=====	=====

The annexed notes from 1 to 30 form an integral part of these accounts

MOHAMMAD FAROOQ SUMAR
Chief Executive

MUNIR AHMED ANSARI
Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT)
for the year ended September 30, 1998**

	1998	1997
	(Rupees in '000)	
A. Cash from operating activities		
Profit before tax and Financial Charges	70,420	28,805
Adjustments for:		
Depreciation	45,660	50,144
Profit on sale of fixed assets	(1,466)	(661)
Provision for gratuity	338	811
	-----	-----
	44,532	50,294
	-----	-----

Operating profit	114,952	79,099
Financial charges	(91,791)	(84,943)
Taxes paid	14,538	(8,314)
Gratuity paid	(3,198)	(834)
	-----	-----
	(80,451)	(94,091)
	-----	-----
Operating profit/(loss) before working capital changes	34,501	(14,992)
(Increase)/decrease in current assets		
Stores and spares	(4,312)	(11,197)
Stock in trade	8,227	8,046
Trade debts	(12,732)	5,699
Loans and advances	(12,047)	(5,973)
Trade deposits, prepayments and other receivables	13,541	(12,598)
	-----	-----
	(7,323)	(16,023)
Increase/(decrease) in current liabilities		
Finances under mark-up arrangements	9,167	(31,325)
Creditors, accrued and other liabilities	(47,704)	37,637
	-----	-----
	(38,537)	6,312
	-----	-----
Net cash outflow from operating activities	(11,359)	(24,703)
B. Cash from investing activities		
Fixed capital expenditure	(40,468)	(2,230)
Sale proceed of fixed assets	2,496	763
Long term security deposits	(80)	124
	-----	-----
Net cash outflow from investing activities	(38,052)	(1,343)
C. Cash from financing activities		
Long term loans - net	56,403	29,302
Repayment of leased liabilities	(7,157)	(3,718)
Repayment of redeemable capital	-	(3,929)
	-----	-----
Net cash flow from financing activities	49,246	21,655
	-----	-----
Net decrease in cash and bank balances	(165)	(4,391)
Cash and bank balances at beginning of the year	1,412	5,803
	-----	-----
Cash and bank balances at end of the year	1,247	1,412
	=====	=====

MOHAMMAD FAROOQ SUMAR
Chief Executive

MUNIR AHMED ANSARI
Director

NOTES TO THE ACCOUNTS
for the year ended September 30, 1998

1. STATUS AND ACTIVITIES

The Company was incorporated in 1966 as Public Limited Company in Pakistan and is listed on the Karachi and Lahore Stock Exchanges of Pakistan. The principal activity of the Company is manufacture, processing

and sales of textile products.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting conventions

These accounts have been prepared under 'historical cost convention', except that certain fixed assets have been included at revaluation. These accounts are in compliance with the mandatory national and international accounting pronouncements, wherever applicable.

2.2 Retirement benefits

The Company operates an unfunded gratuity scheme covering unionised employees. Provision is made annually to cover the liability under the scheme. The employees not covered by the gratuity scheme enjoy the benefits of contributory provident fund.

2.3 Taxation

Provision for current taxation is based on taxable income at the current tax rates after taking into account tax rebates and tax credits available, if any. The Company accounts for deferred taxation on material timing differences using the liability method. However, deferred tax is not provided, if it can be established with reasonable probability that these differences will not reverse in the foreseeable future.

2.4 Fixed assets and depreciation

Own

Operating assets are stated at cost or valuation less accumulated depreciation except leasehold land and capital work-in-progress which are stated at cost.

Depreciation is charged on reducing balance method at the normal tax rates whereby the cost of an asset is written off over its estimated useful life.

Full year's depreciation is charged on additions during the year except in case of significant additions where the charge for depreciation is made with reference to the date of commercial use of such assets. No depreciation is charged on assets deleted or retired.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and replacements are deferred and written off equally over a period of three years, including the year in which they are incurred.

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

Leased

The Company accounts for assets acquired under finance lease by recording the assets and related liability at fair value.

Financial charges are allocated to accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged at the rates specified in the related note to write off the assets over its estimated useful life. Lease rentals payable on assets held under operating lease are charged to profit and loss account.

2.5 Stores, spares and stock in trade

Stores, spares and work-in-process are valued at weighted average cost. Finished goods and raw materials are valued at lower of weighted average cost and net realisable value and goods in transit are valued at cost.

2.6 Foreign currencies

Assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange pre-

vailing at the balance sheet date except for liabilities covered under forward exchange contracts which are translated at the contractual rates. Exchange gains and losses are included in income currently.

2.7 Revenue recognition

Sales of goods and services are recognized on despatch of goods and rendering of services to customers.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

1998	1997		1998	1997
No. of shares			(Rupees in '000)	
11,222,685	11,222,685	Ordinary shares of Rs. 10/= each fully paid in cash	112,226	112,226
7,666,560	7,666,560	Ordinary shares of Rs.10/= each issued as fully paid bonus shares	76,666	76,666
-----	-----		-----	-----
18,889,245	18,889,245		188,892	188,892
=====	=====		=====	=====

1998 1997
(Rupees in '000)

4. CAPITAL RESERVE

Share premium account	42,749	42,749
	=====	=====

5. SURPLUS ON REVALUATION OF FIXED ASSETS

	255,710	255,710
	=====	=====

Revaluation of land and buildings has been carried out as on September 30, 1996 by M/s. Ibgal A. Nanjee & Co. Surveyors and Valuation Consultants on the basis of depreciated replacement values.

6. LONG TERM LOANS

From banking companies

Secured		
Demand finance 1	140,140	140,140
Demand finance 2	19,164	19,164
Demand finance 3	13,500	13,500
Demand finance 4	21,483	2,812
Demand finance 5	26,500	-
	-----	-----
	220,787	175,616
Demand finance 6	135,779	124,547
	-----	-----
	356,566	300,163
Less: Payable within one year shown under current liabilities	50,807	28,507
	-----	-----
	305,759	271,656
	=====	=====

These demand finances and interest thereon are secured by legal mortgage and charge on movable and immovable properties of the Company both present and future ranking pari passu with each other.

The restructuring of demand finance Nos. 1 to 5 is under consideration by the Bank. In the meantime a sum of Rs. 26 million is payable during the year ending September 30, 1999.

Principal sum of demand finance No.6 together with part of accrued mark-up thereon upto December 31, 1998 is rescheduled for payment in 108 monthly installments commencing from January 01, 1999.

1998 1997
(Rupees in '000)

7. LIABILITIES AGAINST ASSETS
SUBJECT TO FINANCE LEASE

Balance as on October 01,	20,937	24,655	
Less: Payments during the year	7,157	3,718	
	-----	-----	
	13,780	20,937	
Less: Payable within one year shown under current liabilities	7,828	13,454	
	-----	-----	
	5,952	7,483	
	=====	=====	

The above represent finance obtained under various arrangements from Modaraba and leasing companies to finance fixed capital expenditure.

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

Year ending September 30,			
		(Rupees in '000)	
1999	9,777		
2000	5,783		
2001	452		

	16,012		
Financial charges allocated to future periods	2,232		

	13,780		
	=====		

The cost of operating and maintaining the leased assets is borne by the Company.

The terms of repayment ranges between 36 months to 60 months in quarterly installments. Financing rates of approximately 20 to 24 percent per annum have been used as discounting factor.

8. FINANCES UNDER MARKUP ARRANGEMENTS
Secured

From banking companies			
Running finances	105,232	164,006	
Export refinances	207,331	145,940	
Term finances	19,850	13,300	

-----	-----
332,413	323,246
=====	=====

The export refinances have been obtained under State Bank Export Refinance Scheme on which mark-up is payable at 8 % per annum.

The mark-up on the running and term finances is payable on a quarterly basis at rates ranging from 45 to 50 paises per thousand per day.

The above facilities are secured by charge/hypothecation and/or pledge of stock-in-trade, book debts, export documents, lien on bills of exchange, stores and spares.

The overall limit of Rs. 410 million (1997: Rs. 350 million) available under export refinance, running and term finance facilities.

1998	1997
(Rupees in '000)	

9. CURRENT PORTION OF LONG TERM LIABILITIES

Long term loans	50,807	28,507
Lease financing	7,828	13,454
	-----	-----
	58,635	41,961
	=====	=====

10. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	108,951	125,215
Foreign and local bills payable under L/Cs	11,268	29,746
Accrued expenses	12,515	14,339
Markup, interest, excise duty on secured borrowings	16,052	27,285
Unclaimed dividends	241	287
Others	2,346	2,205
	-----	-----
	151,373	199,077
	=====	=====

11. CONTINGENCIES AND COMMITMENTS

Contingent liabilities		
Claims not acknowledged as debt by the company	845	845
Commitments		
Lease rentals on assets held under operating lease payable over the next three years	1,071	504
Letters of credit opened by banks	30,865	40,165

12. OPERATING ASSETS

(Rupees in '000)

Cost/value at October	Additions/ (Deletions)	Cost/value at September	Accumulated Depreciation	Written down value	Depreciation For the	Rate
--------------------------	---------------------------	----------------------------	-----------------------------	-----------------------	-------------------------	------

	01, 1997		30, 1998	at September 30, 1998	at September 30, 1998	Year	%
Own							
Leasehold land	140,882	-	140,882	-	140,882	-	-
Buildings on leasehold land	144,756	-	144,756	26,080	118,676	12,277	5 & 10
Plant and machinery	640,108	3,594 (4,023)	639,679	381,766	257,913	28,657	10
Power and other installation	4,996	-	4,996	3,238	1,758	195	10
Furniture and fixtures	3,822	63	3,885	2,398	1,487	165	10
Tools and equipments	17,218	987	18,205	10,731	7,474	831	10
Vehicles	4,743	1,207 (970)	4,980	3,191	1,789	447	20
	956,525	5,851 (4,993)	957,383	427,404	529,979	42,572	
Leased							
Plant and machinery	39,129	-	39,129	14,354	24,775	2,753	10
Equipments	7,002	-	7,002	3,986	3,016	335	10
	46,131	-	46,131	18,340	27,791	3,088	
Rupees	1,002,656	5,851 (4,993)	1,003,514	445,744	557,770	45,660	
Rupees 1997	1,000,553	5,230 (3,127)	1,002,656	404,047	598,609	50,144	

12.1 Had there been no revaluation, the related figures of land and buildings as at September 30, 1998 would have been as follows:

	Cost	Accumulated depreciation	Written down value
Land	343	-	343
Buildings	54,471	31,707	22,764
	54,814	31,707	23,107

12.2 The depreciation charged for the year has been allocated as follows:

	1998 (Rupees in '000)	1997
Cost of sales	45,025	49,994
Administration expenses	619	132
Selling expenses	16	18
	45,660	50,144

12.3 Sale of fixed assets

(Rupees in '000)

Description	Cost	Accumulated depreciation	Written down value	Sales proceed	Purchaser
Machinery (By negotiation)	3,285	3,034	251	420	Hail Abdul Majeed Shop No. 5, Cloth Market Near Ghanta Ghar, Faisalabad
	738	685	53	120	Shafiq Enterprises Street No. 4, 1329/D, Peoples Colony, Faisalabad
Vehicles (Insurance claim)	809	161	648	725	EFU General Insurance Ltd., 3rd floor, Karachi House, I.I. Chundrigar Road Karachi
	46	27	19	46	EFU General Insurance Ltd., 3rd floor, Karachi House, I.I. Chundrigar Road Karachi
Vehicles (By negotiation)	33	12	21	271	Islamic Book Corporation 1-B, 8/1, Nazimabad-1, Karachi
	10	5	5	192	Mohammad Iqbal Gul Sharif 11/7-D-VI, Nazimabad Karachi
	39	19	20	371	Raheel Hyder A-157, Yasinabad E B. Area Block No. 9, Karachi
	33	20	13	351	Ms Zainab Dojki 166/G/2 Block 3 P.E.C.H. Society, Karachi
Rupees	4,993	3,963	1,030	2,496	
Rupees 1997	127	25	102	763	

1998 1997
(Rupees in '000)

13. STORES AND SPARES

Stores	341	712
Spares	68,228	66,353
Spares in transit	7,167	4,359
	-----	-----
	75,736	71,424
	=====	=====

14. STOCK IN TRADE

Raw materials	37,223	43,603
Raw materials in transit	5,227	3,770

Work in process	13,477	16,343
Finished goods	223,747	224,185
	-----	-----
	279,674	287,901
	=====	=====

1998 **1997**
(Rupees in '000)

15. TRADE DEBTS

Considered good		
Secured	38,814	46,057
Unsecured	68,144	48,169
	-----	-----
	106,958	94,226
	=====	=====

Due from associated undertakings Rs. 29.946 million (1997: Rs. 31.381 million)

The maximum amount-due from the associated undertakings at the end of any month during the year was Rs. 45.830 million (1997: Rs. 41.134 million).

16. LOANS AND ADVANCES

Considered good		
Loans due from		
Executives	114	388
Other employees	400	215
	-----	-----
	514	603
Advance to suppliers	22,849	10,713
	-----	-----
	23,363	11,316
	=====	=====

**17. TRADE DEPOSITS, PREPAYMENTS
AND OTHER RECEIVABLES**

Considered good		
Trade deposits	9,834	11,123
Prepayments	1,098	5,377
Duty drawback	3,395	8,170
Income tax recoverable	2,607	21,348
Sales tax recoverable	269	3,467
Other	1,080	1,080
	-----	-----
	18,283	50,565
	=====	=====

18. CASH AND BANK BALANCES

Cash in hand	6	5
Cash at banks		
In deposit account	9	9
In current accounts	1,232	1,398
	-----	-----
	1,247	1,412
	=====	=====

1998 **1997**
(Rupees in '000)

19. SALES- Not

Yarn and fabrics		
Export	389,621	404,295
Local	369,561	321,360
Duty drawback	18,937	22,413
Cotton and waste	5,435	5,858
Cloth processing	51,979	92,736
Insurance claim	4,620	913
	-----	-----
	840,153	847,575
	-----	-----
Less: Export duty and surcharge	1,126	943
Export commission	460	521
Local sales commission	782	1,101
	-----	-----
	2,368	2,565
	-----	-----
	837,785	845,010
	=====	=====

20. COST OF GOODS SOLD

Raw materials consumed		
Opening stock	43,603	38,688
Purchases	315,341	309,101
Closing stock	(37,223)	(43,603)
	-----	-----
	321,721	304,186
Yarn and cloth purchases and service charges	80,434	157,010
Manufacturing expenses		
Salaries, wages and benefits	108,253	109,103
Stores and spares	44,711	33,055
Fuel and power	95,710	90,409
Rent, rates and taxes	1,028	452
Rental of leased assets	298	754
Insurance	6,364	7,390
Repairs and maintenance	5,198	2,814
Communication and stationery	2,114	2,020
Depreciation	45,025	49,994
Others	6,626	4,260
	-----	-----
	315,327	300,251
Work in process		
Opening stock	16,343	14,716
Closing stock	(13,477)	(16,343)
	-----	-----
	2,866	(1,627)
	-----	-----
Cost of goods manufactured	720,348	759,820
Finished goods		
Opening stock	224,185	232,029

Closing stock	(223,747)	(224,185)
	-----	-----
	438	7,844
	-----	-----
	720,786	767,664
	=====	=====

1998 1997
(Rupees in '000)

21. ADMINISTRATION EXPENSES

Salaries and benefits	14,012	14,201
Utilities	608	1,207
Rent, rates and taxes	396	350
Rental of leased assets	261	425
Repairs and maintenance	477	248
Vehicles running	1,011	1,811
Travelling	92	86
Conveyance and entertainment	724	794
Communication and stationery	2,468	3,081
Legal and professional	1,050	727
Advertisement	58	36
Subscription and periodicals	204	403
Depreciation	619	132
Others	494	489
	-----	-----
	22,474	23,990
	=====	=====

22. SELLING EXPENSES

Freight	6,781	8,283
Forwarding	2,468	1,816
Bank collection charges	2,361	1,200
Transport and insurance	1,786	1,609
Advertising and sales promotion	10,529	10,033
Export quota premium	275	458
Display center including depreciation	1,195	931
Others	1,263	1,633
	-----	-----
	26,658	25,963
	=====	=====

23. OTHER INCOME

Profit on sale of fixed assets	1,466	661
Sales of scrap	361	486
Others	864	926
	-----	-----
	2,691	2,073
	=====	=====

24. OTHER CHARGES

Audit fee	100	100
Promotion of education	14	138
Donations (24.1)	24	423

-----	-----
138	661
=====	=====

24.1 No director and his spouse had any interest in the donees fund.

1998	1997
(Rupees in '000)	

25. FINANCIAL CHARGES

Markup/interest on long term loans	40,030	37,733
Markup/interest on short term borrowings	48,282	38,185
Finance charges on leased assets	1,708	3,962
Bank guarantee commission and other charges	1,771	5,063
	-----	-----
	91,791	84,943
	=====	=====

26. TAXATION

Current provision represents the income tax due under section 80D of the Income Tax Ordinance, 1979.

The deferred tax liability arising from the timing differences at the current rate of taxation as at September 30, 1998 including for the current year amounts to approximately Rs. 1.894 million. Provision for deferred tax is not considered necessary as the liability is not likely to crystalize in the foreseeable future.

27. REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for the year for remuneration, including benefits, to the Chief Executive, full time working Directors and Executives of the Company were as follows:

	(Rupees in '000)					
	Chief Executive		Directors		Executives	
	1998	1997	1998	1997	1998	1997
Managerial remuneration	1,104	1,104	3,914	4,313	12,991	11,709
Retirement benefits	-	-	150	182	809	763
House rent and utilities	563	546	1,565	1,680	5,755	5,254
Telephone	83	101	133	128	-	-
	-----	-----	-----	-----	-----	-----
	1,750	1,751	5,762	6,303	19,555	17,726
	=====	=====	=====	=====	=====	=====
No. of persons	1	1	5	5	52	48
	=====	=====	=====	=====	=====	=====

In addition above Directors and Senior Executives are provided with free use of Company maintained cars.

28. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

1998	1997
(Rupees in '000)	

Sales	78,770	67,329
Services rendered	179	1,892

1998 1997

29. PRODUCTION CAPACITY

Total number of spindles installed	24,968	24,968
Total number of spindles worked	1,390,100	11,580
Plant capacity of yarn after conversion into 20/s count (Kgs)	4,618,000	4,618,000
Actual production of yarn after conversion into 20/s count (Kgs)	2,381,390	1,807,690
Production of yarn average count 24.72 (1997: 29.42) (Kgs)	1,926,961	1,228,977
Number of shifts worked per day	Three	Three
Plant capacity of fabrics (Sq Mrs)	14,150,000	15,126,000
Actual production of fabrics (Sq Mts)	15,997,602	14,452,821

Production was affected by frequent electric shut down and intermittent load shedding as well as part closure of Mill No. 1 in the Spinning Department on account of high operating cost and low efficiency. 140 picanol looms were scrapped during the year.

30. CORRESPONDING FIGURES

Figures of the previous year have been rearranged and regrouped wherever necessary for the purpose of comparison.

MOHAMMAD FAROOQ SUMAR
Chief Executive

MUNIR AHMED ANSARI
Director