

## **NAFEES COTTON MILLS LIMITED**

**ANNUAL REPORT 1997**

### **NOTICE OF MEETING**

NOTICE is hereby given that the 29th annual general meeting of the members of the Company will be held on Tuesday, March 31, 1998 at 11.00 a.m. at the Registered Office at Ismail Aiwan-i-Science, Shahrah-i-Jalaluddin Roomi, Lahore, to transact the following business:-

1. To confirm minutes of the 28th annual general meeting.
2. To receive, consider and adopt the directors report and the audited accounts for the year ended September 30, 1997, together with the auditors report thereon - annexed.
3. To appoint auditors for 1997-98 and to fix their remuneration.
4. Any other business with the permission of the Chairman.

The share transfer books of the Company will remain closed from March 28, 1998 to March 31, 1998 (both days inclusive).

A member entitled to attend and vote at this meeting may appoint another member as his proxy to attend and vote. The form of proxy is annexed, which duly completed, should reach the Registered Office of the Company at least 48 hours before the time of the meeting.

#### **BOARD OF DIRECTORS**

MR. NASEERA. SHAIKH - Chairman  
MR. HUMAYUN N. SHAIKH  
MR. AHMED H. SHAIKH - Chief Executive  
MR. AEHSUN M. H. SHAIKH  
MS. NASREEN H. SHAIKH  
MS. AMMILH. SHAIKH  
SYED ABID HUSAIN

#### **BANKERS**

Muslim Commercial Bank Limited  
Standard Chartered Bank  
Credit Agricole Indosuez  
Habib Bank Limited  
National Bank of Pakistan

#### **LEGAL ADVISOR**

Syed Sajjad, Advocate

#### **AUDITORS**

Hameed Chaudhri & Co.  
Chartered Accountants

#### **REGISTERED OFFICE**

Ismail Aiwan-i-Science  
Shahrah-i-Jalaluddin Roomi  
La ho re - 54600  
Fax: 5712987  
Phones: 5756751,5756801

#### **MILLS**

Alipur Road, Muzaffargarh  
Fax: 422652  
Phones: 423585, 3398

**DIRECTORS REPORT TO THE MEMBERS**

Dear members

I am pleased to report the performance of the company along with Auditors Report thereon for the year ended September 30, 1997.

The results for the year are improved over the preceding year despite very difficult economic conditions. Recession continues to plague the domestic economy. The Pak rupee continues to devalue and liquidity is tight throughout Pakistan.

In spite of these difficult conditions the company managed to turn a profit of Rs. 6.527 Million compared to a loss of Rs. 10.527 Million for the previous year. Sale improved by 6.3% equal to Rs. 47.5 Million.

New markets developed i.e., specialized cotton yarns and the export markets, have helped to improve the company's operating results and bring it back into the black.

During the coming year the situation continues to be difficult. Efforts continue based on a specialized approach to try and fight off these difficult times. Given the continuing poor state of the economy the future continues to look tough.

The management hereby places on record its profound appreciation and thanks for the dedicated services rendered by all the Employees, Bankers, and Financial Institutions.

The present Auditors, Messrs. Hameed Chaudhri and Company retire, and being eligible, offer themselves for re-appointment.

Note to the Accounts Number 33 fully explains the reservations expressed in the Auditors Report. Pattern of holding of shares held by the shareholders is given at page 28.

**CONSOLIDATED BALANCE SHEET  
AS AT 30 SEPTEMBER, 1997**

	1997 Rupees	1996 Rupees
<b>PROPERTY AND ASSETS</b>		
Tangible fixed assets	524,562,829	489,189,789
Long term investments, deposits and deferred costs	1,330,463	1,285,802
Current assets:	-----	-----
Inventories	221,198,172	177,833,490
Trade and other receivables	94,600,801	90,802,340
Cash and bank balances	17,101,751	5,578,351
	-----	-----
	332,900,724	274,214,181
	-----	-----
	858,794,016	764,689,772
	=====	=====
<b>CAPITAL AND LIABILITIES</b>		
Shareholders equity	369,740,008	363,076,789
Minority interest	1,527,541	1,527,541
Long term debt	113,781,006	88,956,588
Current liabilities:	-----	-----
Current portion of long term debt	41,923,809	49,427,840

Short term debt	118,497,510	71,639,531
Creditors, accrued and other liabilities	213,324,142	190,061,483
	-----	-----
	373,745,461	311,128,854
	-----	-----
	858,794,016	764,689,772
	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance sheet of NAFEES 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 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 ac. counting 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 by the Companies Ordinance, 1984 in the manner, so required and, except for the fact that provision for gratuity aggregating Rs. 2.457 million (note 33) has not been made in these accounts and the extent to which this may affect the annexed accounts, respectively give a true and fair view of the state of the Company's affairs as at 30 September, 1997 and of the profit for the year after current year's taxation 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 6, 1998

**BALANCE SHEET AS AT 30 SEPTEMBER, 1997**

	Note	1997 Rupees	1996 Rupees
SHARE CAPITAL & RESERVES			
Authorised Capital			
8,900,000 ordinary shares of Rs. 10 each		89,000,000	89,000,000
		=====	=====
Issued, subscribed and paid-up capital	3	86,989,000	86,989,000
Capital reserve	4	5,436,813	5,436,813
Unappropriated profit		55,805,633	61,978,332

		148,231,446	154,404,145
SURPLUS ON REVALUATION OF FIXED ASSETS	5	159,035,052	159,035,052
REDEEMABLE CAPITAL			
Long term finances under mark- up arrangements	6	1,049,778	2,044,095
Term finance certificates	7	0	2,054,343
		1,049,778	4,098,438
LONG TERM LOANS	8	34,761,128	16,084,604
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	9	67,434,336	34,022,740
DEFERRED TAXATION	14.4	9,600,000	9,600,000
LONG TERM DEPOSITS	10	935,764	319,359
CURRENT LIABILITIES			
Current portion of redeemable capital and long term liabilities	11	41,923,809	49,427,840
Short term finances	12	118,497,510	71,639,531
Creditors, accruals and other liabilities	13	188,010,936	193,552,265
Provision for taxation	14	24,700,000	8,000,000
Workers' welfare fund		600,000	464,081
Unclaimed dividend		10,705	10,705
		373,742,960	323,094,422
CONTINGENCIES AND COMMITMENTS	15		
		794,790,464	700,658,760
		=====	=====
The annexed notes form an integral part of these accounts.			
TANGIBLE FIXED ASSETS			
Operating fixed assets	16	455,265,704	390,045,524
Capital work in progress	17	3,936,801	33,765,809
		459,202,505	423,811,333
LONG TERM INVESTMENTS	18	2,197,924	2,197,263
SECURITY DEPOSITS		441,250	397,250
CURRENT ASSETS			
Stores, spares and loose tools	19	7,675,442	5,298,510
Stock in trade	20	213,522,730	172,534,980
Trade debtors	21	42,868,073	39,260,866
Advances, deposits, prepayments and other receivables	22	51,780,789	51,580,207
Cash and bank balances	23	17,101,751	5,578,351
		332,948,785	274,252,914
		794,790,464	700,658,760
		=====	=====

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

	Note	1997 Rupees	1996 Rupees
SALES - Net	24	808,990,988	761,463,980
COST OF SALES	25	730,178,652	718,267,302
		-----	-----
GROSS PROFIT		78,812,336	43,196,678
ADMINISTRATIVE AND SELLING EXPENSES	26	27,408,605	19,867,868
		-----	-----
OPERATING PROFIT		51,403,731	23,328,810
OTHER INCOME	27	1,602,674	702,503
		-----	-----
		53,006,405	24,031,313
		-----	-----
OTHER CHARGES			
Financial- Net	28	40,930,647	35,748,094
Miscellaneous	29	850,876	1,378,359
Workers' (Profit) Participation Fund		561,662	0
Workers' Welfare Fund		135,919	0
		-----	-----
		42,479,104	37,126,453
PROFIT / (LOSS) FOR THE YEAR			
-Before current year's taxation		10,527,301	(13,095,140)
CURRENT YEAR'S TAXATION	14	(4,000,000)	0
		-----	-----
PROFIT/(LOSS) FOR THE YEAR			
-After current year's taxation		6,527,301	(13,095,140)
PRIOR YEARS' TAXATION	30	(12,700,000)	0
UNAPPROPRIATED PROFIT			
- Brought forward		61,978,332	75,073,472
UNAPPROPRIATED PROFIT			
- Carried to Balance Sheet		55,805,633	61,978,332
		=====	=====

The annexed notes form an integral part of these accounts.

**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 SEPTEMBER, 1997**

	1996 Rupees	1997 Rupees
NET CASH FLOW FROM OPERATING ACTIVITIES (note 34)	63,501,980	82,042,167
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of redeemable capital	(5,001,244)	(6,994,826)
Loan from Associated/Subsidiary		
	(683,758)	(8,000,000)
Repayment of long term loans and		

redemption of debentures	(6,187,066	(762,876)	
Lease finances obtained	29,288,329		0
Lease finances repaid	(40,188,114	(17,408,000)	
Short term finances - Net	46,857,979	6,599,413	
Financial Charges paid	(54,480,708)	(28,685,257)	
	-----	-----	
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(30,394,582)	(55,251,546)	
CASH FLOW FROM INVESTING ACTIVITIES			
Tangible fixed assets acquired excluding exchange fluctuations loss of Rs. 128,548			
(1996: Rs. 1,086,120)	(32,241,727	(43,958,265)	
Sale proceeds of fixed assets	1,550,000	1,768,000	
Sale proceeds of long term investments	0	8,364,869	
Income from deposits and financial charges received	9,107,729	11,348,104	
	-----	-----	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(21,583,998)	(22,477,292)	
	-----	-----	
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,523,400	4,313,329	
CASH AND CASH EQUIVALENTS			
- At the beginning of the year	5,578,351	1,265,022	
	-----	-----	
CASH AND CASH EQUIVALENTS			
- At the end of the year	17,101,751	5,578,351	
	=====	=====	

The annexed notes form an integral part of this statement.

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

### 1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on 13 February, 1969 as a Public Company and its shares are quoted on Karachi Stock Exchange (Guarantee) Limited. It is principally engaged in manufacture and sale of yarn.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention except that certain fixed assets have been included at revaluation and certain exchange elements referred to in notes 2.4 and 2.5 have been incorporated in the cost of relevant assets.

#### 2.2 Staff retirement benefits

The Company operates a Provident Fund Scheme for its employees and contribution to the fund is made monthly to cover obligation under the Scheme. The Company also operates an unfunded gratuity scheme for those employees whose full length of service is not covered by the Provident Fund Scheme and it is accounted for on 'payment basis'.

#### 2.3 Taxation

Provision for current taxation is made on taxable income for the year, if any. Tax credits, rebates and brought forward losses are recognized for arriving at taxable income. The Company accounts for deferred taxation using the liability method on all major timing differences to the extent these differences are expected to reverse in the foreseeable future.

#### 2.4 Foreign currency translations

Liabilities in foreign currencies are translated into Pak Rupees at rates of exchange ruling on the balance sheet date except where forward exchange rates have been booked which are translated at the contracted rates. Export bills outstanding at year end are stated at amounts subsequently realized. Exchange gains/losses on principal loans are transferred to the cost of plant and machinery acquired out of the proceeds of such loans. Other exchange differences are taken to the profit and loss account currently.

#### 2.5 Tangible fixed assets and depreciation

##### Owned:

Operating fixed assets, except freehold land, are stated at cost or revalued amounts less accumulated depreciation. Freehold land is stated at revalued amount. Capital work-in-progress is stated at cost. Cost of plant and machinery consists of historical cost and exchange fluctuations on foreign currency loans utilized for acquisition thereof. Depreciation on operating assets is charged applying reducing balance method to write off the cost, revaluation adjustments and capitalized exchange fluctuations over remaining useful life of assets. Rates of depreciation are stated in note 16. 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 maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and assets replaced, if not kept as stand-by, are retired.

##### Leased:

These are stated at cost less accumulated depreciation. The assets not installed or erected upto the balance sheet date are stated at cost. Depreciation is charged at the same rates and basis as applicable to the company's owned assets. Outstanding obligation under the lease less financial charges allocated to future period is shown as a liability. The financial charge is calculated at the interest rate implicit in the lease and is charged to current income.

#### 2.6 Borrowing Cost

Borrowing costs pertaining to construction/erection period are capitalized as part of historical cost of respective fixed assets.

#### 2.7 Investments

These are stated at cost less permanent diminution in value. Bonus shares are accounted for by increase in number of shares without any change in value.

#### 2.8 Stores, spares and loose tools

These are valued at moving 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 mills	-At lower of cost (FIFO) and net realizable value.
In transit	-At cost accumulated to balance sheet date.
Work-in-process	

Materials in process	-At raw materials cost.
Unpacked yarn	-At lower of cost and net realizable value.
Finished goods	-At lower of cost and net realizable value.
Waste	-At realizable value.

- Cost in relation to unpacked yarn and finished goods represents annual average cost which consists of prime cost and appropriate production overheads.

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

### 2.10 Revenue recognition

- Local sales are accounted for when goods are delivered to customers and invoices raised.

- Export sales are accounted for on shipment basis.

- Income from investments and deposits is accounted for on 'Receipt Basis'.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL	1997	1996
	Rupees	Rupees
2,674,725 ordinary shares of Rs. 10 each issued for cash	26,747,250	26,747,250
6,024,175 ordinary shares of Rs. 10 each issued as bonus shares	60,241,750	60,241,750
	-----	-----
	86,989,000	86,989,000
	=====	=====

In case the Company raises its capital during the subsistence of local currency loan stated in note 8.1, Industrial Development Bank of Pakistan (IDBP) has right to subscribe for and receive preferential allotment of shares at par value upto 20% of the outstanding balance of the loan. The value of option as at 30 September, 1997 worked out Rs. 0.049 million (1996:Rs.0.146 million).

### 4. CAPITAL RESERVE

This represents premium received @ Rs. 2.50 per share on 2,174,725 Right Shares issued during 1994.

### 5. SURPLUS ON REVALUATION OF FIXED ASSETS

Freehold land and buildings thereon had been revalued on 30 June, 1995. The revaluation resulted in an appraisal surplus of Rs. 159.035 million detailed as follows:

Note	1997	1996
	Rupees	Rupees
Freehold Land	145,329,096	145,329,096
Buildings on Freehold Land:	-----	-----
-Factory	9,997,942	9,997,942
-Others	3,708,014	3,708,014
	-----	-----
	13,705,956	13,705,956
	-----	-----
	159,035,052	159,035,052
	=====	=====



**6. LONG TERM FINANCES UNDER MARK-UP ARRANGEMENTS -Secured**

Habib Bank Limited (HBL)	6.1	2,197,579	4,437,579
Industrial Development Bank of Pakistan (IDBP)		-----	-----
- Finance 5724-E-9	6.2	1,405,404	2,108,106
- Finance 5724-F-6	6.3	393,296	568,094
- Grace period mark up		245,395	362,212
		-----	-----
		2,044,095	3,038,412
		-----	-----
		4,241,674	7,475,991
Less: Current portion grouped under current liabilities		-----	-----
Habib Bank Limited		2,197,579	4,437,579
Industrial Development Bank of Pakistan			
- Finance 5724-E-9		702,702	702,702
- Finance 5724-F-6		174,798	174,798
		-----	-----
		3,075,079	5,315,079
Grace period mark up - Grouped in accrued mark-up		116,817	116,817
		-----	-----
		3,191,896	5,431,896
		-----	-----
		1,049,778	2,044,095
		=====	=====

**6.1 Habib Bank Limited**

a) The Company had executed a buy-back agreement with Habib Bank Limited for financing of purchase of plant and machinery. The Bank had purchased machinery valuing Rs. 22.408 million and simultaneously sold it to the Company at a marked-up price of Rs. 36.912 million. The marked-up price is payable in 10 equal half yearly instalments commencing 31 December, 1992. The finance carries mark-up @ 16.43% per annum.

b) The finance is secured by a charge on freehold land, buildings and plant and machinery to the tune of Rs. 52.394 million with a cushion of Rs. 36.912 million ranking pari passu with the charges created in favour of other creditors.

**6.2 IDBP Finance 5724-E-9**

a) IDBP had purchased plant and machinery valuing Rs. 5.620 million and simultaneously sold it to the Company at a marked-up price of Rs. 14236 million.

b) The marked-up price is payable in 16 equal half yearly installments of Rs. 0.890 million each commencing 31 March, 1992. In case of payment on or before the due date, the installment amount will be reduced to Rs. 0.482 million.

c) The mark-up rate applied (after rebate) works out 6% per annum. However, the Company is charging the difference of purchase and marked-up price in the installments due as marked-up for the period. In case of default in payment of installments, fine will be payable @ Re. 0.60 per thousand rupees per day.

**6.3 IDBP Finance 5724-F-6**

a) IDBP had purchased plant and machinery valuing Rs. 1.398 million and simultaneously sold it to the Company at a marked-up price of Rs. 3.520 million.

b) The marked-up price is payable in 32 equal quarterly installments of Rs. 0. 'I 10 million

each commencing 31 March, 1992. In case of payment on or before the due date, the installment will be reduced to Rs. 0.090 million.

c) The mark-up rate applied (after rebate) works out 16% per annum approximately. However, the Company is charging the difference of purchase and marked-up price in the installments due as mark-up for the period. In case of default in payment of installments, the Company will be liable to pay fine @ Re. 060 per thousand rupees per day.

6.4 The finances from IDBP are secured by charges and mortgages as stated in note 8.1(C).

6.5 'Special Reserve Fund' equivalent to instalments of the finances due to IDBP within the following twelve months as required by the agreement has not been created.

#### 7. TERM FINANCE CERTIFICATES (Non-Participatory) -Secured

These have been issued to Investment Corporation of Pakistan (ICP) led Consortium of Financial Institutions as detailed below for financing of plant and machinery.

	1997	1996
	Rupees	Rupees
Investment Corporation of Pakistan	503,670	935,485
Allied Bank of Pakistan Limited	151,100	280,645
Muslim Commercial Bank Limited	226,651	420.97
United Bank Limited	377,751	701,613
Habib Bank Limited	377,751	701,613
National Bank of Pakistan	377,751	701,613
Grace period mark-up	39,669	79,333
	-----	-----
	2,054,343	3,821,270
Less: Current portion grouped under current liabilities	-----	-----
Principal	2,014,674	1,727,263
Grace period mark-up- Grouped in accrued mark-up	39,669	39,664
	-----	-----
	2,054,343	1,766,927
	-----	-----
	0	2,054,343
	=====	=====

7.1 The Consortium had purchased plant and machinery valuing Rs. 10.0 million and simultaneously sold it to the Company at a marked-up price of Rs. 22.119 million. The marked-up price includes mark up for the grace period upto 30 June, 1990. The marked-up price is payable in 16 half yearly equal instalments of Rs. 1.380 million each commencing 31 December, 1990. However, in case of timely payment the installment will be reduced to Rs. 1.150 million. Mark-up rate applied works out 16% per annum (after rebate). In case of non-payment of instalments, liquidated damages @ 20% will be payable.

7.2 These are secured by registered mortgage charge on all present and future movable and immovable properties and book debts of the Company ranking pari passu with charges created in favour of other creditors.

	Note	1997	1996
		Rupees	Rupees
<b>8. LONG TERM LOANS</b>			
Secured:			
IDBP Loan	8.1	243,211	729,635

Supplier's Credit	8.2	15,920,157	21,121,857
		-----	-----
		16,163,368	21,851,492
Unsecured:			
Associated Undertaking	8.3	24,147,689	0
		-----	-----
		40,311,057	21,851,492
Less: Current portion grouped under current liabilities:		-----	-----
-IDBP Loan		243,211	486,424
- Supplier's Credit		5,306,718	5,280,464
		-----	-----
		5,549,929	5,766,888
		-----	-----
		34,761,128	16,084,604
		=====	=====

8.1 a) This has been obtained from IDBP in terms of Pak Rupees against two credit lines of Japanese Yens 31,400,000 and Deutsche Marks 159,218 converted into Pak Rupees at disbursements' dates rates.

b) This loan carries interest @ 14% per annum (including 3% exchange risk fee) payable half yearly and penal interest @ 5% per annum payable in case of default. It is repayable in 20 half-yearly equal instalments commencing 15 April, 1988.

c) This IDBP loan along with the finances stated in notes 6.2 and 6.3 are secured by:

- A first charge by way of an equitable mortgage of freehold land, buildings and plant and machinery by deposit of title deeds with IDBP.
- An irrevocable general power of attorney in favour of IDBP giving full powers to take-over, manage and sell all the assets of the Company.
- A first charge by way of hypothecation of entire plant and machinery, both present and future.
- A demand promissory note for the amount of loan executed by the Company renewable after every two years.
- These charges rank pari passu with the charges created in favour of other senior creditors to secure their long term loans/finances.

8.2 a) This represents balance cost of four sets of Auto Coner supplied by M/s Marubeni Corporation, Japan.

b) The Credit is secured by an irrevocable letter of credit established by Muslim Commercial Bank Ltd and bills of exchange. The letter of credit, in turn, is secured against all present and future fixed assets ranking pari passu with other senior creditors.

c) It is payable in 8 half-yearly equal instalments of Yen 7.851 million each commencing 15 November, 1996

d) It carries interest @ 8.5% per annum.

e) The year end outstanding balance of Japanese Yens 47,107,886 has been converted into Pak Rupees at the exchange rate prevailing on the balance sheet date i.e. 1Y--Re. 0.337951.

8.3 This represents balance due to National Security Insurance Company Ltd. (an associated undertaking). It carries interest @ 10% per annum and is repayable after 30 September, 1998.

#### 9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

	1997	1996
	Rupees	Rupees
Balance amount of future lease payments and the periods in which these will become due:		
Year ending 30 September, 1997	0	50,477,381
1998	52,908,479	29,633,603
1999	35,307,497	10,897,739
2000	26,882,422	7,406,714
2001	25,480,728	4,136,140
	-----	-----
Less: Financial Charges:	140,579,126	102,551,577
	-----	-----
Allocated to future periods	31,431,559	19,262,960
Accrued during the year	2,730,856	5,457,687
	-----	-----
	34,162,415	24,720,647
	-----	-----
Less: Security deposits	106,416,711	77,830,930
	7,698,248	7,559,974
	-----	-----
	98,718,463	70,270,956
	-----	-----
Less: Current portion grouped under current liabilities	31,284,127	36,248,216
	-----	-----
	67,434,336	34,022,740
	=====	=====

9.1 The company has acquired plant and machinery, some items of office equipment and vehicles from various Leasing Companies. These are payable in instalments which vary from case to case. The discount factors applied range from 20.07% to 25.50% per annum.

9.2 These are secured against demand promissory notes. However, lease finance obtained from National Development Leasing Corporation Limited is also secured by second charge on all present and future fixed assets of the Company.

#### 10. LONG TERM DEPOSITS - Unsecured

These interest free deposits have been received from Company's employees under Company's Car Scheme. Vehicles have been provided to the employees against these deposits. These are adjustable after specified periods by transfer of vehicle to the respective employee.

#### 11. CURRENT PORTION OF REDEEMABLE CAPITAL AND LONG TERM LIABILITIES

	Note	1997	1996
		Rupees	Rupees
Long term finances under mark-up arrangements	6	3,075,079	5,315,079
Term finance certificates	7	2,014,674	1,727,263
Long term loans	8	5,549,929	5,766,888
Liabilities against assets subject to finance 1	9	31,284,127	36,248,216
Customs debentures	11.1	0	370,394
		-----	-----

41,923,809 49,427,840  
 =====

11.1 Outstanding balances of these debentures have been fully redeemed during the year.

## 12. SHORT TERM FINANCES -Secured

Short term finance facilities available from various commercial banks under mark-up arrangements aggregate Rs. 170.0 million (1996: Rs. 155.0 million). These facilities carry mark-up ranging from Re. 0.30 to Re. 0.60 per Rs. 1,000 per day. Facilities available for opening letters of credit aggregate Rs. 235.0 million (1996: Rs. 315.0 million). These are secured against pledge/hypothecation of stocks, book debts and current assets of the Company, lien on documents of title to the goods and pari passu charge on assets of the Company. The expiry dates of these facilities range from 30 September, 1997 to 30 September, 1998.

## 13. CREDITORS, ACCRUALS AND OTHER LIABILITIES

Due to:		
Associated undertakings	0	24,831,447
Ex-Subsidiary	0	39,971
Creditors	25,692,510	12,845,186
Accrued expenses	11,676,625	19,738,939
Bills payable	13.1 121,790,903	108,041,018
Advance payments	2,969,336	2,504,930
Mark-up (including current portion of grace period) on secured:		
Long term finances	297,788	116,817
Term finance certificates	120,257	189,341
Mark-up on short term finances	13,924,834	14,136,327
Interest on secured:		
Long term loans	588,754	2,602,704
Lease finances	2,730,856	5,457,687
Surcharge on secured Customs Debentures	0	12,023
Workers' (Profit) Participation Fund	13.2 561,662	0
Customs duty, Surcharge and Sales tax- Net of refundable of Rs. 3,543,715 (1996: Rs. 4,077,292)	6,554,061	2,319,176
Excise duty on bank borrowings	669,149	572,787
Tax deducted at source	220,251	38,581
Others	213,950	105,331
	-----	-----
	188,010,936	193,552,265
	=====	=====

13.1 These are secured against lien on import documents.

	1997 Rupees	1996 Rupees
<b>13.2 Workers' (Profit) Participation Fund</b>		
Opening balance	0	1,435,530
Interest for the year	0	92,891
	-----	-----
	0	1,528,421
Less: Payments made during the year	0	1,528,421
	-----	-----
	0	0
Contribution for the year	561,662	0
	-----	-----

561,662                      0  
 =====                      =====

#### 14 PROVISION FOR TAXATION

14.1 Income tax assessment of the Company for the Assessment Year 1992-93 is pending with the Department for partial relief and fresh decision on certain matters. Income tax assessment for the Assessment Years 1993-94 and 1994-95 are pending for de-novo assessments.

The effects of rectifications for the Assessment Years 1991-92 and 1992-93 are also awaited. The Company's appeal before the Income Tax Appellate Tribunal for the Assessment Year 1991-92 for capital gain on machinery is also pending. The Company has also filed appeals before the Lahore High Court for the Assessment Years 1988-89, 1992-93 and 1993-94.

14.2 Provision for current year's taxation represents minimum tax payable under section 80-D of the Income Tax Ordinance, 1979.

14.3 Deferred tax liability as at 30 September, 1997 worked out Rs. 32.395 million (1996: Rs. 35.0 million). Decrease during the year was Rs. 2.605 million (1996: Increase Rs. 2.0 million). The deferred tax liability has been provided for Rs. 9.6 million as in the opinion of management the timing differences will not reverse in the foreseeable future beyond the amount provided for due to expansion plans of the Company.

14.4 Also refer contents of note 30 for prior years' taxation.

#### 15 CONTINGENCIES AND COMMITMENTS

15.1 Counter guarantees given by the Company to its bankers outstanding as at 30 September, 1997 were for Rs. 6.530 million (1996: Rs. 4.995 million).

15.2 The Company filed a Writ Petition with Lahore High Court against levy of Regulatory Duty and Sales Tax thereon on Imports vide SRO No. 1050(1)/95 dated 29 October, 1995. The Company is of the view that the impugned SRO was not applicable on imports made before 29 October, 1995. The Honourable Lahore High Court has decided the case in favour of the Company on 28 August, 1996. However the Customs Department has filed an appeal before the Supreme Court of Pakistan. The amount of disputed Regulatory Duty and Sales Tax thereon worked out Rs. 9.234 million which has not been provided for in these Accounts as the Company is of the affirm view that no liability will arise.

15.3 Commitments against irrevocable letters of credit outstanding as at 30 September, 1997 were for Rs. 35.081 million (1996: Rs. 46.763 million).

#### 16. OPERATING FIXED ASSETS

PARTICULARS	COST/REVALUATION				Rate %	DEPRECIATION			Net book value as at 30 September, 1997
	As at 30 September, 1996	Additions	Disposals/ Adjustments	As at 30 September, 1997		To 30 September, 1996	For the year	On Disposals/ Adjustments	
Owned:									
Land Freehold									
- Cost		70,904	0	0	70,904	0	0	0	0
- Revaluation		145,329,096	0	0	145,329,096	0	0	0	0
		-----	-----	-----	-----	-----	-----	-----	-----
		145,400,000	0	0	145,400,000	0	0	0	0

Buildings on freehold land										
Factory										
- Cost	22,524,361	9,996,071	0	32,520,432	10	7,923,717	2,459,672	0	10,383,389	22,137,043
- Revaluation	9,997,942	0	0	9,997,942	10	1,224,748	877,319	0	2,102,067	7,895,875
	32,522,303	9,996.07	0	42,518,374		9,148,465	3,336,991	0	12,485,456	30,032,918
Others										
- Cost	4,520,870	0	0	4,520,870	5	1,828,373	134,625	0	1,962,998	2,557,872
-Revaluation	3,708,014	0	0	3,708,014	5	229,433	173,929	0	403,362	3,304,652
	8,228,884	0	0	8,228,884		2,057,806	308,564	0	2,366,360	5,862,524
	40,751,187	9,996,071	0	50,747,258		11,206,271	3,645,545	0	14,851,816	35,895,442
Plant & machinery	196,953,699	39,537,959	2,062,331	234,429,327	10	78,896,040	15,642,367	890,386	93,648,021	140,781,306
Electric Fittings	1,738,770	314,735	0	2,053,505	10	611,978	144,153	0	756,131	1,297,374
Tools and Equipment	2,513,212	507,078	0	3,020,290	15	1,092,213	289,212	0	1,381,425	1,638,865
Telephone exchange	797,753	186,335	0	984,088	15	382,798	90,194	0	472,992	511,096
Furniture and fixtures	2,208,922	189,729	0	2,398,651	10	703,378	169,527	0	872,905	1,525,746
Vehicles	1,491,104	467,376	0	1,958,480	20	913,412	209,014	0	1,122,426	836,054
	391,854,647	51,199,283	2,062,331	440,991,599		93,806,090	20,190,012	890,386	113,105,716	327,885,883
Leased:										
Plant and machinery	107,823,520	48,915,696	0	156,739,216	10	22,446,204	13,429,301	0	35,875,505	120,863,711
Office equipment	870,350	0	0	870,350	10	119,224	75,113	0	194,337	676,013
Vehicles	8,602,925	1,431,596	0	10,034,521	20	2,734,400	1,460,024	0	4,194,424	5,840,097
	117,296,795	50,347,292	0	167,644,087		25,299,828	14,964,438	0	40,264,266	127,379,821
Rupees	509,161,442	101,646,675	2,062,331	608,635,686		119,105,918	35,151,450	890,386	153,369,982	455,265,704
1996 Rupees	416,746,098	98,643,888	6,238,344	509,151,442		94,424,086	27,837,260	3,155,428	119,105,918	390,045,524

	1997 Rupees	1996 Rupees
16.1 Additions to plant and machinery include:		
Borrowing costs	4,348,594	4,761,196
Exchange fluctuations loss on Supplier's Credit	128,548	1,086,120
16.2 Depreciation for the year has been apportioned as under:		
Cost of sales	33,150,578	25,901,737
Administrative expenses	2,003,872	1,935,523
	35,154,450	27,837,260

16.3 Disposals of fixed assets

Particulars	Cost	Accumulated depreciation	Book value	Sale Proceeds	Gain/(Loss)	Mode of Disposal	Particulars of Purchasers
Cone winding machine 1 No.	776,331	363,757	412,574	550,000	137,429	Negotiation	Hussain Mills Limited, Vehari Road, Multan.
Cone winding							

machines 2 Nos.	1,286,000	526,629	759,371	1,000,000	240,629
	-----	-----	-----	-----	-----
Rupees	2,062,331	890,386	1,171,945	1,550,000	378,055
	=====	=====	=====	=====	=====
1996 Rupees	4,652,395	2,412,317	2,240,078	1,768,000	(472,078)

-do- Haji Suleman and Brothers,  
Jodia Bazar, Karachi

**17. CAPITAL WORK IN PROGRESS**

**1997**  
**Rupees**

**1996**  
**Rupees**

**Owned:**

- Buildings on freehold land	503,101	2,535,144
- Plant & machinery	2,787,840	20,230,665
- Electric fittings	545,950	0
- Tools & equipment	99,910	0

**Leased:**

Plant and machinery	0	11,000,000
	-----	-----
	3,936,801	33,765,809
	=====	=====

**18. LONG TERM INVESTMENTS**

## Subsidiary Company

Nafees Spinning Mills Ltd.

146,500 ordinary shares of Rs. 10 each

Equity held 97.67% (1996: 97.67%)

Net worth based on audited accounts

for the year ended 30 September, 1997

Rs. 1,465,000 (1996: Rs. 1,465,000)

1,465,000	1,465,000
-----------	-----------

**Associated Company - Quoted**

National Security Insurance Co. Ltd.

221,504 (1996: 221,504) ordinary shares of Rs. 10 each

Equity held 12.66% (1996: 12.66%)

Less: Provision for diminution in value

910,345	910,345
179,382	179,382
-----	-----
730,963	730,963

Market value

## Others - Quoted

Colony Textile Mills Ltd.

456 ordinary shares of Rs. 10 each

Less: Provision for diminution in value

8,664	8,664
6,703	7,364
-----	-----
1,961	1,300
-----	-----
2,197,924	2,197,263
=====	=====

Market value

**19. STORES, SPARES AND LOOSE TOOLS**

Stores	1,764,032	1,835,660
Spares	5,842,206	3,418,745
Loose tools	69,204	44,105
	-----	-----
	7,675,442	5,298,510
	=====	=====

19.1 The Company does not hold any stores and spares for specific capitalization.



<b>20. STOCK-IN-TRADE</b>	<b>Note</b>	<b>1997</b>	<b>1996</b>
		<b>Rupees</b>	<b>Rupees</b>
Raw materials			
At warehouses -including in Customs Bond:			
Rs. 86,901,226 (1996: Rs. 48,100,905)		114,528,384	101,603,694
Work in process		17,122,569	24,107,159
Finished goods:		-----	-----
-Yarn		80,497,790	144,385,026
-Waste		234,500	996,131
		-----	-----
		80,732,290	45,381,157
Other stocks		1,139,487	1,442,970
		-----	-----
		213,522,730	172,534,980
		=====	=====

**21. TRADE DEBTORS**

These are considered good and have been classified as follows:

Secured- Export bills		1,462,374	0
Unsecured		41,405,699	39,260,866
		-----	-----
		42,868,073	39,260,866
		=====	=====

**22. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

**Unsecured - considered good**

Due from Subsidiary/Associated Companies	22.1	8,267,207	12,892,938
Advance payments:			
- Employees		558,465	321,725
- Suppliers		10,250,265	15,010,052
Deposits		10,160,082	6,325,889
Prepayments		1,683,176	1,936,502
Letters of credit		290,024	453,700
Excise duty		88	88
		-----	-----
Sales tax refundable		0	183,300
Octroi refundable		77,432	77,432
Minimum tax paid under protest		0	1,081,225
Tax deducted at source		17,644,774	10,366,300
Insurance claim	22.2	2,462,187	2,462,187
Others		387,089	468,869
		-----	-----
		51,780,789	51,580,207
		=====	=====

22.1 These carry interest @10% to18%perannum.

<b>22.2 Insurance claim</b>		<b>1997</b>	<b>1996</b>
		<b>Rupees</b>	<b>Rupees</b>
Cost of stocks damaged			
- Raw materials		3,486,733	3,486,733
- Work in process		852,555	852,555
- Finished goods		1,343,690	1,343,690

	-----	-----
	5,682,978	5,682,978
<b>Less:</b>	-----	-----
Sales of salvage	14,461,361	1,446,136
Insurance claim received	1,774,655	1,774,655
	-----	-----
	3,220,791	3,220,791
	-----	-----
	2,462,187	2,462,187
	=====	=====

This represents the balance of claim receivable which is pending settlement in court.

**23. CASH AND BANK BALANCES**

In hand	40,392	5,723
At banks on:	-----	-----
- Current accounts	2,790,504	2,851,378
- Savings accounts	14,270,855	2,422,600
- Deposit accounts	0	298,650
	-----	-----
	17,061,359	5,572,628
	-----	-----
	17,101,751	5,578,351
	=====	=====

**24. SALES - Net**

Yarn		
Local sales	856,310,307	791,799,079
Less:	-----	-----
Excise duty	0	11,438,815
Commission	362,394	1,855,298
Discount	0	18,046
Sales Tax	833,844,141	18,062,511
	-----	-----
	87,008,358	31,374,670
	-----	-----
	769,301,949	760,424,409
Export sales-Net of export development surcharge Rs. 85,514 (1996:NIL)	38,349,488	0
Export rebate	277,252	0
Waste-Net of sales tax Rs. 112,394 (1996: Rs. 60,175)	1,062,299	1,039,571
	-----	-----
	808,990,988	761,463,980
	=====	=====

	Note	1997 Rupees	1996 Rupees
<b>25. COST OF SALES</b>			
Raw materials consumed	25.1	570,212,812	572,291,586
Packing materials consumed		14,423,111	11,383,239
Salaries, wages and benefits		63,918,428	54,049,753
Power and fuel		53,561,969	56,930,691
Repairs and maintenance		891,352	1,016,203
Stores and spare parts consumed		15,412,258	13,639,800
Depreciation		-----	-----
For the year		331,505,781	25,901,737
Prior year excess charged		0	(743,111)
		-----	-----

	33,150,578	25,158,626
Insurance	3,100,696	1,895,373
Rent, rates and taxes	404,000	0
Yarn Processing charges	2,874,626	1,881,433
	-----	-----
	757,949,830	738,246,704
Adjustment of work in process	-----	-----
Opening	24,107,159	21,487,186
Insurance claim	0	(654,837)
Closing	(17,122,569)	(24,107,159)
	-----	-----
	6,984,590	(3,274,810)
	-----	-----
Cost of goods manufactured	764,934,420	734,971,894
Adjustment of finished goods	-----	-----
Opening stock	45,381,157	28,676,565
Outside purchases	595,365	0
Closing stock	(80,732,290)	(45,381,157)
	-----	-----
	(34,755,768)	(16,704,592)
	-----	-----
	730,178,652	718,267,302
	=====	=====
<b>25.1 Raw materials consumed</b>		
Opening stock	101,603,694	130,908,728
Purchases	594,177,246	593,664,847
Local taxes	1,545,687	946,816
	-----	-----
	697,326,627	725,520,391
Less:	-----	-----
Sales	12,638,594	51,681,056
Closing stock	114,528,384	101,603,694
	-----	-----
	127,166,978	153,284,750
Cotton cess	53,163	55,945
	-----	-----
	570,212,812	572,291,586
	=====	=====

25.2 Profit on sale of raw materials amounting Rs. 72,040 (1996: Loss of Rs. 1,231,686) has been adjusted in raw materials consumption.

**26. ADMINISTRATIVE AND SELLING EXPENSES**

	1997	1996
	Rupees	Rupees
Administrative:		
Directors' meeting fee	3,500	2,500
Salaries and benefits	7,315,826	5,718,914
Traveling and conveyance Including directors' Rs. 1,965,138 (1996: Rs. 418,145)	3,546,670	1,751,567
Rent, rates and taxes	275,855	253,683
Electricity	29,368	101,152
Communication	3,255,281	3,247,968
Printing and stationery	790,920	810,280
Advertisement	215,858	122,482
Vehicles' running	1,332,619	1,405,268
Subscription	676,764	455,392

Other office expenses	1,037,052	515,703
Repair and maintenance	328,231	81,241
Depreciation	2,003,872	1,935,523
Insurance	22,670	59,283
	-----	-----
	20,834,486	16,460,956
Selling:	-----	-----
Freight outward and other expenses	2,466,817	1,770,336
Samples	38,500	49,749
Salaries and benefits	1,194,121	643,381
Travelling	185,062	896,187
Insurance	20,742	47,259
Export expenses	2,562,597	0
Export quota expenses	106,280	0
	-----	-----
	6,574,119	3,406,912
	-----	-----
	27,408,605	19,867,868
	=====	=====

**27. OTHER INCOME**

Gain on disposals of fixed assets	378,055	0
Sale of salvage	582,971	118,508
Sale of export quota	175,000	0
Excess provisions written back	75,003	95,824
Profit on deposit accounts/certificates	313,721	394,229
Provision for diminution in value of investment reversed	661	0
Miscellaneous	77,263	93,942
	-----	-----
	1,602,674	702,503
	=====	=====

	1997	1996
	Rupees	Rupees
<b>28. FINANCIAL CHARGES - Net</b>		
Interest on:		
Long term loans	1,683,361	2,039,137
Workers' (Profit) Participation Fund	0	92,891
Subsidiary/Associated undertakings' balances	2,373,024	3,426,159
Lease finances	13,175,475	9,576,544
Surcharge on Customs Debentures	8,349	73,401
Mark-upon:		
Long term finances	2,248,862	1,427,299
Short term finances	26,247,547	25,225,953
Term finance certificates	463,188	719,457
Excise duty on bank borrowings	1,165,546	1,754,663
Commission on guarantees /letter of credit	457,166	718,313
Bank charges	1,859,589	1,648,152
Zakat	42,548	0
	-----	-----
	49,724,655	46,701,969
Less: Financial charges recovered	8,794,008	10,953,875
	-----	-----
	40,930,647	35,748,094
	=====	=====

**29. MISCELLANEOUS CHARGES**

Auditors' remuneration:

Audit fee	45,000	45,000
Excise duty	4,500	4,500
Out of pocket expenses	2,500	2,500
	-----	-----
	52,000	52,000
Donations (note 29.1 )	398,070	35,000
Legal and professional charges (other than Auditors')	400,806	691,237
Loss on disposals of fixed assets	0	472,078
Loss on disposals of ex-subsiary's investments	0	105,301
Provision for diminution in value of investments	0	22,743
	-----	-----
	850,876	1,378,359
	=====	=====

29.1 Recipients of donations do not include any donee in whom any director or his/her spouse has any interest

### 30. PRIOR YEARS' TAXATION

The Company, in view of the Supreme Court of Pakistan's Judgement dated 04 June, 1997 is liable to pay tax under section 80-D of the Income Tax Ordinance, 1979. Consequently, provision for taxation pertaining to Assessment Years 1993-94 to 1997-98 aggregating Rs. 10.80 million has been made in these accounts.

The Company, has also made provision for taxation aggregating Rs. 1.90 million pertaining to Assessment Years 1991-92 and 1992-93.

### 31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for remuneration including all benefits to Chief Executive, Directors and Executives of the Company was as follows:

Particulars	Chief Executive		Directors		Executives	
	1997	1996	1997	1996	1997	1996
Managerial remuneration	200,000	200,000	212,000	164,000	2,282,431	1,725,192
House rent	90,000	90,000	95,400	73,800	628,854	452,340
Bonus	0	0	0	0	157,407	156,152
Leave encashment	0	0	0	0	46,522	35,432
Retirement benefits	0	0	0	0	180,679	118,887
Utilities	10,000	10,000	10,600	8,200	69,871	50,268
	-----	-----	-----	-----	-----	-----
Rupees	300,000	300,000	318,000	246,000	3,365,764	2,538,271
	=====	=====	=====	=====	=====	=====
Number of persons	1	1	2	1	14	11

31.1 In addition to above the Chief Executive and one of the Directors are provided with free use of Company maintained cars. Four (1996: four) of the Executives are also provided with Company residences.

31.2 Meeting fee of Rs. 3,500 (1996: Rs. 2,500) has been paid to four Directors (1996: four Directors).

### 32. SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

32.1 Maximum aggregate debit balance of Subsidiary/Associated Undertakings at any month end during the year was Rs. 13,924,310 (1996: Rs. 12,892,938).

32.2 Aggregate transactions with Subsidiary/Associated Undertakings during the year were as follows:

	1997 Rupees	1996 Rupees
Interest paid	2,373,024	3,426,159
Financial charges received	8,794,008	10,953,875
Loan made	0	29,840,272
Loan received back	0	20,707,641
Loans received/returned	3,192,382	35,820,796
Expenses shared	0	528,501
Sale of goods	959,961	0

### 33. GRATUITY

Provision for gratuity has not been made in respect of those employees whose total length of service is not covered by Provident Fund Scheme. Such unprovided liability worked out Rs. 2,456,734 as at 30 September 1997 (1996:Rs. 2,105,673).

	1997 Rupees	1996 Rupees
<b>34. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit/(Loss) for the year-Before taxation	10,527,301	(13,095,140)
Adjustments for:		
Depreciation	35,154,450	27,837,260
Depreciation reversed	0	(743,111)
(Gain) / Loss on disposal of fixed assets	(378,055)	472,078
Loss on sale of long term investments	0	105,301
Provision for diminution in value of investments (reversed) / made	(661)	22,743
Income on deposits from bank	(313,721)	(394,229)
Workers' Welfare Fund	135,919	0
	-----	-----
Financial Charges - Net	40,930,647	35,748,094
 CASH FLOW FROM OPERATING ACTIVITIES - Before working capital changes	 86,055,880	 49,952,996
 (Increase)/decrease in current assets	 -----	 -----
Stores, spares and loose tools	(2,376,932)	(33,006)
Stock-in-trade	(40,987,750)	8,910,586
Trade debtors	(3,607,207)	(25,870,200)
Advances, deposits, prepayments & other receivables	5,996,667	(29,732,265)
Increase in creditors, accruals and other liabilities excluding financial charges	24,046,166	79,527,622
	-----	-----
	(16,929,056)	32,802,737
 CASH FLOW FROM OPERATING ACTIVITIES -Before taxation	 ----- 69,126,824	 ----- 82,755,733
Taxes paid	(6,197,249)	(1,037,566)
 NET CASH' IN FLOW FROM OPERATING ACTIVITIES -After taxation	 62,929,575	 81,718,167

(Increase) /decrease in long term security deposits - Net	(44,000)	324,000
Increase in long term deposits	616,405	0
	-----	-----
NET CASH INFLOW FROM OPERATING ACTIVITIES	63,501,980	82,042,167
	=====	=====

**35. PLANT CAPACITY AND ACTUAL PRODUCTION**

	1997	1996
Number of spindles installed	39,804	39,804
Number of spindles worked	40,964,924	37,326,176
Number of shifts worked	1,077	1,092
Capacity at 20's count on the basis of utilization (Kgs)	13,192,300	11,591,000
Actual production at 20's count (Kgs)	12,738,600	11,312,000

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, spindle speed, twist and raw materials used, etc. It would also vary according to the pattern of production adopted in a particular year. Production was low due to old machinery and power shut downs.

**36. STATEMENT UNDER SECTION 237 OF THE COMPANIES ORDINANCE, 1984**

36.1 The audited accounts of Nafees Spinning Mills Limited, subsidiary company for the year ended 30 September, 1997 along with Directors' and Auditors' report are attached herewith.

36.2 Statement under sub section (1)(e)	1997	1996
(a) Extent of shareholding	97.67%	97.67%

(b) The aggregate amount of profits less losses of Subsidiary Company so far as this concerns members of the holding Company and has not been dealt with in the accounts of the Holding Company for the year ended 30 September, 1997 are:

(i) For the last financial year of the subsidiary	NIL	NIL
(ii) For the previous years but subsequent to the acquisition of controlling interest by the Holding Company	NIL	NIL

(c) The aggregate amount of profits less losses of subsidiary company so far as this has been dealt with or provisions made for losses in the accounts of the Holding Company for the year ended 30 September, 1997 are:

(i) For the last financial year of the subsidiary	NIL	NIL
(ii) For the previous years but subsequent to the acquisition of controlling interest by the Holding Company		

**37. 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.

**FORM 34****THE COMPANIES ORDINANCE, 1984****(Section 236)**

**PATTERN OF HOLDING OF THE SHARES HELD BY THE SHAREHOLDERS OF  
NAFEES COTTON MILLS LIMITED AS AT 30 SEPTEMBER, '1997**

Number of Shareholders		Shareholdings			Total Shares held
104	from	1	to	100 shares	4,621
241	from	101	to	500 shares	61,606
154	from	501	to	1,000 shares	115,128
197	from	1,001	to	5,000 shares	441,460
25	from	5,001	to	10,000 shares	174,804
8	from	10,001	to	15,000 shares	99,405
10	from	15,001	to	20,000 shares	178,496
3	from	20,001	to	25,000 shares	67,474
1	from	35,001	to	40,000 shares	40,000
2	from	40,001	to	45000 shares	86,467
1	from	50,001	to	55,000 shares	50,887
3	from	60,001	to	65,000 shares	187,979
1	from	65,001	to	70,000 shares	67,560
1	from	95,001	to	100,000 shares	98,754
1	from	130,001	to	135,000 shares	133,713
1	from	140,001	to	145,000 shares	143,324
2	from	145,001	to	150,000 shares	300,000
1	from	165,001	to	170,000 shares	169,340
2	from	190,001	to	195,000 shares	388,000
1	from	235,001	to	240,000 shares	236,512
1	from	370,001	to	375,000 shares	374,537
1	from	395,001	to	400,000 shares	399,635
1	from	405,001	to	410,000 shares	406.80
1	from	410,001	to	415,000 shares	413,476
2	from	415,001	to	420,000 shares	831,052
1	from	430,001	to	435,000 shares	430,699
1	from	470,001	to	475,000 shares	474,000
1	from	485,001	to	490,000 shares	484,662
1	from	510,001	to	515,000 shares	510,835
1	from	580,001	to	585,000 shares	582,541
1	from	745,001	to	750,000 shares	745,129
-----					-----
771					8,698,900
=====					=====

Categories of Shareholders	No. of Shareholders Shares held Percentage		
	No. of Shareholders	Shares held	Percentage
Individuals	752	6,318,445	72.63
Investment Company	1	406,804	4.68
Insurance Company	1	42,517	0.49
Joint Stock Companies	10	662,026	7.61
Financial Institutions	4	961,255	11.05
Modarabas	2	138,513	1.59
Other	1	169,340	1.95
-----			-----
771			8,698,900
=====			=====



of  
**Nafees Spinning Mills Limited**

**DIRECTORS REPORT TO THE MEMBERS**

Gentlemen:

Your Directors present their 6th Report to the Members along with the Auditors Report and the audited Accounts for the year ended September 30, 1997, which are reflective of the state of affairs of the Company.

As reported last year, the conditions prevailing in the country for setting up new spinning units are still unchanged. Your Directors are, therefore, not going ahead with the setting up of the project till it is considered feasible by them to do so.

The present Auditors of the Company, Zafar Iqbal & Co., Chartered Accountants, would be retiring on the forthcoming annual general meeting. They have offered for re-appointment and, being eligible, are recommended to be appointed as auditors for the next year for the audit of Accounts for the year ending September 30, 1998.

The information about the pattern of holding of the shares in the prescribed form 34 as at September 30, 1997, is also annexed.

**AUDITORS REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of NAFEES SPINNING MILLS LIMITED as at 30 September, 1997 together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and, after due verification thereof we report that:

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

b) in our opinion:

1) the balance sheet together with 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 the accounting policies consistently applied;

2) the expenditure incurred during the year was for the purposes of the Company's business; and

3) 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 together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 September, 1997; and

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

**BALANCE SHEET AS AT 30 SEPTEMBER, 1997**

	Note	1997 Rupees	1996 Rupees
PROPERTY AND ASSETS			
Fixed assets	3	64,405,873	64,406,605

Capital work in progress	4	954,451	971,851
		-----	-----
		65,360,324	65,378,456
DEFERRED COSTS			
Preliminary expenses	2.4	156,289	156,289
		-----	-----
		65,516,613	65,534,745
		=====	=====
FINANCED BY			
CAPITAL AND LIABILITIES			
Authorized share capital			
7,380,000 ordinary shares of Rs. 10 each		73,800,000	73,800,000
Issued, subscribed and paid-up share capital		=====	=====
150,000 ordinary shares of Rs. 10 each	5	1,500,000	1,500,000
RESERVES			
Surplus on revaluation of land	6		
		63,966,052	63,966,052
CURRENT LIABILITIES			
Accrued and other liabilities	7	50,561	68,693
		-----	-----
		65,516,613	65,534,745
		=====	=====

The annexed notes form an integral part of these accounts.

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

### 1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated on 17 December, 1991 as a Public Company. The main object of the Company is to set up a spinning plant. The Company is a subsidiary of Nafees Cotton Mills Limited.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

#### 2.2 Fixed assets

The freehold land is stated at revalued amount and the other assets and capital work in progress are stated at cost. Depreciation will be provided from the commencement of commercial operations.

#### 2.3 Unallocated capital expenditure

All costs and expenses not directly related to any specific assets incurred during the project implementation period are capitalized and apportioned to buildings and plant and machinery on commencement of commercial operations.

#### 2.4 Deferred costs

Expenses, the benefit of which is expected to be spread over several years, are deferred and amortized over their useful life after commencement of commercial operations.

### 3. FIXED ASSETS

Freehold land at cost		33,948	33,948
Revaluation	6	63,966,052	63,966,052
		-----	-----

	64,000,000	64,000,000
Office equipment	1,208	1,940
Boundary wall	404,665	404,665
	-----	-----
	64,405,873	64,406,605
	=====	=====

**4. CAPITAL WORK IN PROGRESS**

	Note	1997 Rupees	1996 Rupees
Building-Advance payments		50,000	50,000
Unallocated capital expenditure	4.1	904,451	921,851
		-----	-----
		954,451	971,851
		=====	=====
4.1 Unallocated Capital Expenditure			
Project examination fee		75,000	75,000
Project feasibility report		22,888	22,888
Chief Executive remuneration		341,000	351,500
Salaries		34,414	34,414
Travelling and conveyance-Chief Executive		367,173	367,173
Travelling and conveyance-Others		33	33
Printing and stationery		2,429	2,429
Soil testing fee		20,000	20,000
Auditors' remuneration		16,000	23,500
Bank charges		2,659	2,659
Import and Export registration fee		3,391	3,391
Interest		8,014	8,014
Land revaluation fee		7,500	7,500
Fee and charges		3,950	3,350
		-----	-----
		904,451	921,851
		=====	=====

**5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL**

Nafees Cotton Mills Limited (Holding Company) held 146,500 (1996:146,500) shares of the Company as at 30 September, 1997.

**6. SURPLUS ON REVALUATION OF LAND**

The Freehold land was revealed on 30 June, 1995 by Blue Feather Affiliations, independent valuers and Ilyas Saleem & Co. Chartered Accountants. The revaluation of land is based on market value and it resulted into surplus of Rs. 63.966 million over the book value.

**7. ACCRUED AND OTHER LIABILITIES**

Accrued expenses	2,500	23,000
Due to Holding Company	48,061	45,693
	-----	-----
	50,561	68,693
	=====	=====

**8. PROFIT AND LOSS ACCOUNT**

Profit and loss account has not been prepared as the Company has not yet commenced commercial operations.

**FIGURES**

- in the accounts are rounded-off to the nearest rupee;
- of previous year are re-arranged wherever necessary for the purpose of comparison.

**FORM 34****THE COMPANIES ORDINANCE, 1984 (Section 236)**

**PATTERN OF HOLDING OF THE SHARES HELD BY THE SHAREHOLDERS OF  
NAFEES SPINNING MILLS LIMITED AS AT 30 SEPTEMBER, 1997**

Number of Shareholders		Shareholdings				Total Shares held
7	from	1	to	100	shares	7
5	from	101	to	500	shares	2,500
1	from	501	to	1000	shares	993
1	from	145,001	to	150,000	shares	146,500
-----						-----
14						150,000
=====						=====

Categories of Shareholders	No. of Shareholders			Percentage
	Shareholders	Shares held	Percentage	
Individuals	12	3,499	2.33	
Joint Stock Companies	2	146,501	97.67	
-----				
	14	150,000	100.00	
=====				