

PEL Appliances Limited

Annual Report 1999

Contents

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

BOARD OF DIRECTORS

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

COMPANY SECRETARY

Sheikh Muhammad Shakeel

AUDITORS

M/s Manzoor Hussain Mir & Co.
Chartered Accountants

BANKERS

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

REGISTERED OFFICE

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

WORKS

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

Notice of Annual General Meeting

Notice is hereby given that the Eighteenth Annual General Meeting of Shareholders of **PEL APPLIANCES LIMITED** will be held on Friday December 31, 1999 at 11:00 A.M. at Factory Premises, 14 Kilometers Ferozepur Road, Lahore to transact the following business:-

1. To confirm the minutes of Seventeenth Annual General Meeting held on December 31, 1998.
2. To receive and adopt the Annual Audited Accounts for the year ended June 30, 1999 alongwith Directors' and Auditors' Reports thereon.
3. To appoint Auditors to hold office till the conclusion of the next Annual General Meeting and to fix their remuneration.
4. Any other business with the permission of the Chair.

By order of the Board

Lahore
December 08, 1999

SHEIKH MUHAMMAD SHAKEEL
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from December 30, 1999 to January 05, 2000 (both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint another member as proxy. Proxies in order to be effective, must be received at the Registered Office of the Company not later than forty-eight hours before the time of the meeting and must be duly stamped, signed and witnessed.
3. Members of all recognized fiqas may file with the Company their declaration (if any) for Non-Deduction of Zakat.
4. Members are requested to notify the Company change in their addresses, if any.
5. Members whose shares are deposited with Central Depository System are requested to bring their original National Identity Card alongwith their Account Number in Central Depository System for attending the meeting.

Directors' Report to the Members

GENTLEMEN

Your Directors are pleased to submit their Report together with the Audited Accounts of the Company for the year ended June 30, 1999.

FINANCIAL

	<i>1999</i>	<i>1998</i>
	<i>(Rupees in thousands)</i>	
Gross sales	453,371	732,530
Gross profit	47,022	92,637
Operating loss	(9,568)	(9,068)
Net loss for the year	(120,600)	(88,113)

CHAIRMAN'S REVIEW

The Review included in the Annual Report deals inter alia with the performance of the Company for the year ended June 30, 1999 and future prospects. The directors endorsed the contents of the review.

DIRECTORS

During the period since last annual general meeting Mr. Haroon Ahmad Khan, Sheikh Mohibullah Usmani, Mr. Homaer Waheed and Mr. Maqbool Elahi have been appointed as director in place of Mr. Muhammad Ilyas Bajwa, Mr. Muhammad Asif Bajwa, Mr. Saeed Mian Ansari and Mr. Irfan Zubair.

We wish to record deep appreciation of the valuable services rendered by the outgoing directors.

AUDITORS AND THEIR REPORT

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

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

No provision has been made for diminution in the value of short term investments in view of the fact that prices quoted on Stock Exchanges are abnormally depressed these days. Furthermore, some of the investments have been sold in the subsequent year at a price much higher than that quoted on Stock Exchanges.

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

YEAR 2000-COMPLIANCE

The company has already converted all its applications in compliance

PATTERN OF SHAREHOLDING

A statement showing pattern of holding of the shares held by the shareholders of PEL APPLIANCES LIMITED as at June 30, 1999 is attached.

For and on behalf of the Board

Lahore
December 08, 1999

M. Naseem Saigol
Chairman/Chief Executive

Auditors' Report to the Members

We have audited the annexed balance sheet of PEL APPLIANCES LIMITED as at June 30, 1999 and the related profit and loss account and 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 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 cash flow statement, together with the notes part thereof, give the information required by the Companies Ordinance 1984 in the so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 1999 and of the loss and cash flow statement for the year then ended except for the following and the extent to which it may effect, and

(i) Share-holders' equity shows an adverse balance of Rs. 38.814 Million while the current liabilities have exceeded current assets by Rs. 17.674 Million. Without qualifying our report it is added that conception of going concern will be valid if some further capital is injected in the business or production activity is improved which during this year remained substantially below the plant rated capacity.

(ii) The diminution in value of shares of short term investment amounting to Rs. 8.258 Million. in our view, following the method of valuation of lower of cost and market instead of cost should have been provided in the accounts.

(iii) Attention is also invited to Note No. 8.2 (i).

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

Lahore
December 08, 1999

Manzoor Hussain Mir & Co.
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 1999

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>(Rupees in thousand)</i>	
FIXED CAPITAL EXPENDITURE			
Land- Freehold		--	2,547
Operating assets	3	307,600	175,786
		-----	-----
		307,600	178,333
LONG TERM INVESTMENT			
	4	--	72,000
LONG TERM DEPOSITS			
		--	1,226
		-----	-----
		307,600	251,559
CURRENT ASSETS			
Stores, spares and stock in trade	5	234,787	164,242
Trade debts	6	148,057	74,302
Advances, deposits and prepayments	7	104,219	84,928
Short term investment	8	72,000	--
Cash and bank balances	9	14,864	17,012
		-----	-----
		573,927	340,484
CURRENT LIABILITIES			
Short term finances	10	325,212	253,807

Current portion of long term liabilities	11	51,200	4,815
Creditors, provisions and accrued liabilities	12	215,189	120,560
		-----	-----
		591,601	379.18
		-----	-----
Net working capital		(17,674)	(38,698)
		-----	-----
Total net assets		289,926	212,861
CONTINGENCIES AND COMMITMENTS	13	--	--
LONG TERM LIABILITIES			
Long term loans	14	183,166	128,213
Liabilities against assets subject to finance lease	15	--	2,862
		-----	-----
		183,166	131,075
		-----	-----
NET WORTH		106,760	81,786
		=====	=====
REPRESENTED BY			
Share capital	16	58,500	58.50
Reserves	17	245,250	245.25
Unappropriated loss		(342,564)	(221,964)
		-----	-----
SHAREHOLDER'S EQUITY		(38,814)	81,786
Surplus on revaluation of fixed assets	18	145,574	--
		-----	-----
		106,760	81,786
		=====	=====

The annexed notes (1) to (30) form an integral part of these financial statements.

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

Auditors' report annexed

Manzoor Hussain Mir & Co.
Chartered Accountants

Profit and Loss Account
For the year ended June 30, 1999

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>(Rupees in thousand)</i>	
SALES - GROSS (LOCAL)		453,371	732,530
SALES TAX		58,525	100,717
		-----	-----
SALES - NET		394.85	631,813
COST OF SALES	19	347,824	539,176
		-----	-----
GROSS PROFIT		47,022	92,637
OPERATING EXPENSES			
Administrative	20	15,318	19,798
Selling	21	41,272	81,907
		-----	-----
		56,590	101,705
		-----	-----
OPERATING LOSS		(9,568)	(9,068)
FINANCIAL EXPENSES	22	(90,128)	(83,575)
OTHER INCOMES	23	3,872	4,530
		-----	-----
NET LOSS FOR THE YEAR		(95,824)	(88,113)
UNUSUAL ITEMS	24	(24,776)	--
		-----	-----
NET LOSS AFTER UNUSUAL ITEMS		(120,600)	(88,113)
UNAPPROPRIATED LOSS BROUGHT FORWARD		(221,964)	(133,851)
		-----	-----
ACCUMULATED LOSS CARRIED TO BALANCE SHEET		(342,564)	(221,964)
		=====	=====
EARNING PER SHARE		--	--

The annexed notes (1) to (30) Form an integral part of these financial statements.

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

Auditors' report annexed

Manzoor Hussain Mir & Co.
Chartered Accountants

Cash Flow Statement for the year ended June 30, 1999

	1999	1998
	<i>(Rupees in thousand)</i>	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from customers	337,165	603,952
Cash paid to suppliers and employees	(448,519)	(427,080)
	-----	-----
Cash generated from operations	(111,354)	176,872
Markup paid	(66,589)	(77,728)
Tax refund / (payment)	(1,241)	(3,226)
	-----	-----
Net cash flow from operating activities	(179,184)	95,918
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditures	(1,010)	(832)
Proceeds from sale of fixed assets	2,007	210
Net (increase) / decrease in long term deposits	1,226	1,562
Interest received	4,932	--
	-----	-----
Net cash flow from investing activities	7,155	940
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease liabilities	(2,967)	(5,966)
Increase/(decrease) in short term finances	172,848	(94,700)
	-----	-----
Net cash flow from financing activities	169,881	(100,666)
	-----	-----
Net decrease in cash and cash equivalents	(2,148)	(3,808)
Cash and cash equivalents at the beginning of the year	17,012	20.82
	-----	-----
Cash and cash equivalents at the end of the year	14,864	17,012
	=====	=====

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

Notes to the Accounts for the year ended June 30, 1999

1. THE COMPANY AND ITS OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

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

2.2 Employees Retirement Benefits

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

2.3 Taxation

No provision for taxation is made as the project is located in the area exempted under clause 122 (c) of

the lind schedule of the Income Tax Ordinance, 1979. The exemptions claimed. has since been accepted by the department.

2.4 Tangible Fixed Assets and Depreciation

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

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

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

2.5 Trade Mark

The Consideration paid for using trade mark is amortized over a period of ten years commencing from March 01, 1995.

2.6 Assets Subject to Finance lease

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

2.7 Investments

Long term investments are stated at cost while short term investments are valued at lower of cost or market value.

2.8 Stores, Spares and Stock-in-Trade

Stores and spares are valued at moving average cost.

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

2.9 Foreign Currency conversion

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

2.10 Revenue recognition

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

	1999	1998
	<i>(Rupees in thousand)</i>	
Own (Note 3.1)	297,819	164,368
Subject to finance lease (Note 3,2)	9,781	11,418
	307,600	175,786
	307,600	175,786

3. OPERATING ASSETS

Own (Note 3.1)	297,819	164,368
Subject to finance lease (Note 3,2)	9,781	11,418
	307,600	175,786
	307,600	175,786

3.1 Schedule of operating assets - Own

	<i>(Rupees in thousands)</i>							
<i>Description</i>	<i>Cost as at July 01, 1998</i>	<i>Addition / (Deletion)</i>	<i>Cost as at June 30, 1999</i>	<i>Depreciation rate %</i>	<i>Accumulated depreciation as at June 30, 1999</i>	<i>Written down value as at June 30, 1999</i>	<i>Revaluation Surplus</i>	<i>Re-valued amount as at June 30, 1999</i>
TANGIBLE								
Land - Leasehold	4,734	--	4,734	--	454	4,280	--	4,280
Building on leasehold land	65,945	--	65,945	5%	29,938	36,007	62,210	98,217
Plant and Machinery	101,142	2,618	103,760	5%	40,333	63,427	83,364	146,791
Office Equipment, furniture & fixture	3,711	249	3,960	10%	1,522	2,438	--	2,438
	3,690	43	2,525	20%	2,453	760	--	760
Vehicles	3,690	(1,208)	2,525	20%	(688)	760	--	760
	80,000	--	80,000	--	34,667	45,333	--	45,333
INTANGIBLE								
Trade mark	80,000	--	80,000	--	34,667	45,333	--	45,333

Total (Rupees) 1999	259,222	2,910 (1,208)	260,924	109,367 (688)	152,245	145.57	297,819
1998	245,116	14,565 (459)	259,222	95,155 (301)	164,368	--	164,368

1999 1998
(Rupees in thousand)

3.1.1 Depreciation for the year has been charged to

Cost of sales	13,505	19,776
Administrative Expenses	230	315
	-----	-----
	13,735	20,091
	=====	=====

3.2 Operating assets - subject to finance lease

(Rupees in thousand)

	<i>Cost as at July 01, 1998</i>	<i>(Deletion)</i>	<i>Cost as at June 30, 1999</i>	<i>Depreciation rate %</i>	<i>Accumulated depreciation as at June 30, 1999</i>	<i>Written down value as at June 30, 1999</i>
Plant & Machinery	16,400	-- (1,900)	14,500	5	4,719	9,781
Total (Rupees) 1999	16,400	(1,900)	14,500		4,719	9,781
1998	30,133	(13,733)	16,400		4,982	11,418

3.2.1 Depreciation for the year has been charged to

Cost of sales	515	1.27
	=====	=====

3.3 The management of the company this year has reviewed remaining estimated useful life of the building, machinery & tools which is estimated 20 years by an independent valuer and the depreciation has been charged @ 5%. Had the depreciation been charged @ 10% instead of 5% the loss for the year would be higher by Rs. 5,742 thousand.

3.4. Disposal of fixed assets

(Rupees in thousand)

<i>Description</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	<i>Sale Price</i>	<i>Profit/ (Loss)</i>	<i>Particulars of Purchaser (Through Negotiation)</i>
Freehold land	2,547	--	2,547	1,573	(974)	Mr. Israr Muhammad, Village Mainee, Distt, Swabi
LOX-2469 Suzuki Mehran	248	121	127	57	(70)	Mr. S.M. Aamir H#E-71/B, Badian Road, Lahore
LOW-2186 Suzuki Mehran	235	139	96	96	--	Malik Haroon-ur-Rashid H#2/B Phase III, GEHS, Lahore.
LOW-2376 Suzuki Mehran	208	123	85	55	(30)	Mr. Atta Ullah Siddiqui H#64 Siddiqian Wali, Gujranwala
LOV-8751 Suzuki Mehran	207	122	85	103	18	Mr. Altamash Masood 133-E Gulberg III, Lahore.
LOV-8118 Suzuki Khyber	310	183	127	123	(4)	Mr. M. Akram H#31-A, Near Gulab Devi Hospital, Lahore.
TOTAL	3,755	688	3,067	2,007	(1,060)	

3.5 Fixed assets register is under preparation.

1999 1998
(Rupees in thousand)

4. LONG TERM INVESTMENT - AT COST

Associated company (Quoted)		
UNION BANK LIMITED	72,000	72,000

Transferred to short term investment	72,000	--
	-----	-----
	--	72,000
	=====	=====

5. STORES, SPARES AND STOCK IN TRADE

Store	292	224
Spares	117	124
Raw materials and components		
In stores	92,831	64,682
In bonded warehouse	73,445	31,311
In transit	--	5,445
Work in process	3,124	12,709
Finished goods	64,978	49,747
	-----	-----
	234,787	164,242
	=====	=====

6. TRADE DEBTS UN-SECURED

Considered good	148,057	74,302
Considered doubtful	996	996
	-----	-----
	149,053	75,298
Less:		
Provision for doubtful debts	996	996
	-----	-----
	148,057	74,302
	=====	=====

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

7. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances to employees (considered good) for		
Purchases	774	711
Expenses	332	275
Others	66	95
	-----	-----
	1,172	1,081
Advances to suppliers and contractors	1,259	587
Advances against supplies	1,770	1,746
Advance excise duty/Sale tax (Note 7.1)	24,050	28,134
Letters of credit	24,094	6,292
Security deposits	2,083	1,064
Margin deposits	1,173	3,566
Prepaid expenses	329	395
Other receivable (Note 7.2)	29,839	24,854
Tax recoverable (Note 7.3)	18,450	17,209
	-----	-----
	104,219	84,928
	=====	=====

7.1 It includes Rs. 11,914 thousand on account of regulatory duty. The matter was decided by the Honourable Peshawar High Court in favour of the company but Custom Authorities have filed an appeal before the Honourable Supreme Court of Pakistan against relief allowed. The Honourable Apex Court vide its recent judgement dated 12-01-1999 has decided the issue involved against the revenue authorities.

7.2 It includes Rs. 29,698 thousand due from associated companies (1998 - Rs. 24,739 thousand).

7.3 Tax recoverable consisting of Rs. 7,987 thousand for payments made against disputed liability under Section 80 - D of income tax ordinance, 1979 and Rs. 10,463 thousand being deducted at source.

1998 **1999**
(Rupees in thousand)

8. SHORT TERM INVESTMENT - AT COST**UNION BANK LIMITED**

Transferred from long term investment		
2,847,656 ordinary shares of Rs. 10 each	72,000	--
Market value of shares is Rs. 22.384 per share		
= Rs. 63,741 thousand (1998: 2,847,656 ordinary shares		
of market value of Rs. 7.00 per share -- Rs. 19,934 thousand)		

72,000	--
--------	----

8.1 1,346,556 shares have been sold in the succeeding year in the month of August 1999 at the average sale of Rs. 22.384 per share in pursuance of sale agreement made in April, 1999 while the average cost of such shares of company was Rs. 25.284. Total loss at this price is Rs. 8,258 thousand.

8.2 (i) Investments in shares of associated Companies of Rs. 72,000 thousand and advances of Rs. 29,698 thousand aggregating to Rs. 101,698 thousand are in excess of 30% of share holders' equity representing deficit balance which is contrary to provisions of Section 208 of the Companies Ordinance, 1984.

(ii) Investment in share was prior to 1995. According to M/s Hassan & Hassan Advocates vide their letter dated 09-12-1999, the proviso to Section 208 (i) was inserted by finance Act 1995 prescribing the limit of 30% of the paid up capital plus reserves. The proviso being a substantive provision of law will be operative prospectively with effect from 2nd day of July 1995 and will not be applicable to the investments made prior to amendment in statute.

According to them, the investment made by the company in associated companies prior to the insertion of proviso will remain unaffected, if such investment exceed the threshold provided in the proviso as substantive rights and liabilities were established under the arrangements entered into by and between the investing companies and the associated companies in which the investment have been made.

9. CASH AND BANK BALANCES

Cash in hand	232	487
Balance with banks - on current accounts	14,632	16,525
	-----	-----
	14,864	17,012
	=====	=====
	1999	1998
	<i>(Rupees in thousand)</i>	

10. SHORT TERM FINANCES- SECURED

	<i>Limit</i>		
	<i>(Rs. Million)</i>		
From:			
Banking Companies			
Running Finance	195.00	209,596	183,211
Import Bills Purchased	--	91,754	31,625
Financial Institutions	20.00	20,000	37,281
Book Overdrawn	--	3,862	1,690
		-----	-----
		325,242	253,807
		=====	=====

Security: Short term finance's limits are secured against the pledge/hypothecation of raw materials and components, work-in-process, finished goods, book debts, charge over other fixed assets, shares belonging to directors of the company and personal guarantees of some of the Directors of the company. The banks also have a first charge on the fixed assets of the company.

Mark-up: Rupee 0.38 to Rupee 0.63 per thousand rupees per day.

11. CURRENT PORTION OF LONG TERM LIABILITIES

Long term loans	46,490	--
Liabilities against assets subjects to finance lease	4,710	4,815
	-----	-----
	51,200	4,815
	=====	=====

12. CREDITORS, PROVISIONS AND ACCRUED LIABILITIES

Trade creditors		
For goods	18,669	24,791
For expenses	8,708	15,434
Foreign bills payable	--	14,780
Advances from customers	7,075	6,789
Accrued liabilities	2,590	3,509
Sales tax / Custom duty payable	23,076	7,288
Import duties and surcharge payable	5,725	1,993
Accrued mark-up on secured loans	37,993	14,454
Other liabilities (Including Rs. 108,243 thousand due to Pak Elektron Limited - Holding Company) (1998: Rs. 28,750 thousand)	111,353	31,522
	-----	-----

215,189	120,560
=====	=====

13. CONTINGENCIES AND COMMITMENTS

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

13.1.1 Custom guarantees	22,321	57,391
13.1.2 Letter of credit	9,375	15,545
13.2 Turnover tax and other disputed liability	17,129	16,128
13.3 Claims of leasing companies	471	--
13.4 Regulatory duty & sales tax	--	15,895

13.5 Appeal against the departmental contention of wrongly allowing refund of Rs. 16,111 thousand in past has been decided by the custom, excise and sales tax Learned Appellate Tribunal in favour of the company vide order dated 27-02-1999 against which the departmental appeal is pending in Honourable Peshawar High Court.

14. LONG TERM LOANS - SECURED*(Rupees in thousand)*

<i>Description</i>	<i>1999</i>	<i>1998</i>	<i>M. Up</i>	<i>Security</i>	<i>Repayment</i>
14.1 From Banking Companies					
14.1.1 Demand finance	130,000	128,213		12% p.a. - First charge on all present and future fixed assets of the company valuing Rs. 145,000 thousand	- Repayable in 4 years including one year as a grace period. 12 quarterly equal installments of Rs. 10,833 thousand commencing from December 26, 1999.
14.1.2 Term finance	24,958	--		15% p.a. - First Pari-Passu Charge on all current & fixed assets of the company. - Personal Guarantees of the Directors - Corporate Guarantee from Pak Elektron Limited	- Grace Period till December 1999 Principal repayments shall commence from Jan 15, 2000 ending in December 2001 through 24 monthly installments. - Non payment of mark-up by 15th of the month mark-up @ 18% will be applicable.
14.1.3 Term finance	41,396	--		14% p.a. - Hypo charge over Plant & Machinery and Current Assets of the Company - Personal Guarantees of Directors	- Repayable in 48 equal monthly installments of Rs. 1,167 thousand commencing from October 01, 1999.
14.1.4 Morabah Term L.P.O.	16,021	--		17% p.a. - Ranking charge on fixed and current assets of the company - Personal guarantees of sponsors directors.	- Repayable in 48 equal monthly installments of Rs. 499 thousand commencing from December 1, 1999.
14.2 Financial Institutions	17,281	--		21% p.a. - Pledge of 904,600 shares of Union Bank Ltd. PEL Appliances Ltd. Pak Elektron Ltd., and Kohinoor Power Company of Rs. 4,442 thousand - The bank also holds fard of property situated at Faisalabad alongwith memorandum of deposit of the title deed for this property and general power of attorney from owner - Personal guarantees of directors.	- Repayable in 24 monthly installments commencing from January 25, 2000.
Less: Current portion	229,656 46,490	128,213 --			
	183,166	128,213			
	=====	=====			

1999 **1998**
(Rupees in thousand)

15. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Opening Balance	7,677	13,643
Less: Payment during the year	2,967	5,966

	4,710	7,677
Less: Current portion	4,710	4,815
	--	2,862
	=====	=====

The rentals are payable in equal monthly installments under the lease agreement.
The balance amount is payable in the following periods:

Year ending June 30, 2000	5,141

Less: Financial Charges	431

	4,710
	=====

The present value of minimum lease payments have been discount at an effective interest rate of 19.46% to 20% per annum. Repairs and insurance costs are to be borne by the lessee.

The liability is secured by deposit of Rs. 1,226 thousand and personal guarantees of some of the Directors of the Company.

The Company intends to exercise its option to purchase the leased assets at the termination of lease period.

	1999	1998
	<i>(Rupees in thousand)</i>	
16. SHARE CAPITAL		
Authorised		
10,000 000 ordinary shares of		
Rs. 10/- each	100,000	100,000
	=====	=====
Issued, subscribed and paid-up		
5,850,000 ordinary shares of		
Rs. 10/- each fully paid		
3,125,000 Shares for cash	31,250	31,250
2,275,000 Shares as bonus shares	27,250	27,250
	-----	-----
	58,500	58,500
	=====	=====
17. RESERVES		
Reserve - General		
Balance from previous year	189,000	189,000
Premium on issue of shares	56,250	56,250
	-----	-----
	245,250	245,250
	=====	=====
18. SURPLUS ON REVALUATION OF FIXED ASSETS		
	145,574	--
	=====	=====

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

19. COST OF SALES

Raw materials and components	322,489	427,497
Direct Wages	8,087	8,183
Factory Overheads (Note 19.1)	22,894	28,284
	-----	-----
	353,470	463,974
(Increase)/decrease in work in process		
Opening Inventory	12,709	11,194
Closing Inventory	3,124	12,709
	-----	-----
	9,585	(1,515)
	-----	-----
	363,055	462,459

(Increase)/decrease in finished goods		
Opening inventory	49,747	126,464
Closing Inventory	64,978	49,747
	(15,231)	76,717
	347,824	539,176
	=====	=====

19.1 Factory Overheads

Salaries and other benefits	7,737	7,712
Travelling & conveyance	185	645
Electricity and gas	3,394	3,870
Repairs and maintenance	2,690	3,053
Vehicles running and maintenance	421	351
Insurance	1,562	1,611
Depreciation/Amortisation	13,972	20,997
Amortisation of leasehold land	48	48
Carriage and freight	2,495	3,091
Other factory overheads	356	42,517
	32,860	42,517
Less: charged to components and assets fabricated	9,966	14,223
	22,894	28,294
	=====	=====

20. ADMINISTRATIVE EXPENSES

Salaries and other benefits	8,601	10,873
Travelling and conveyance	370	693
Rent, rates and taxes	596	556
Legal and professional	304	210
Electricity and gas	137	141
Auditors' remuneration	45	45
Repairs and maintenance	147	385
Vehicles running and maintenance	909	861
Printing, stationery and periodicals	501	908
Postage, telegrams and telephones	972	1,278
Entertainment & staff welfare	67	12
Advertisement	39	16
Provision for Doubtful Debts	--	996
Depreciation	230	315
Charges for services rendered by holding company	2,400	2,400
	15,318	19,798
	=====	=====

21. SELLING EXPENSES

Rent, rates & taxes	1,511	1,435
Advertisement and sales promotion	14,478	43,565
Royalty	1,671	2,049
Insurance	511	519
Freight and forwarding	10,074	16,078
Warranty period service	8,818	14,033
Electricity	9	20
Charges for services rendered by holding company	4,200	4,200
Repairs and maintenance	--	8
	41,272	81,907
	=====	=====

22. FINANCIAL EXPENSES

Bank charges and commission	1,942	775
Interest/Mark-up on:		
Long term loans	9,864	--
Lease finance	731	1,983
Short term finances	65,104	67,967
Holding/Associated Companies	12,487	12,850
	90,128	83,575
	=====	=====

23. OTHER INCOMES / (LOSS)

Mark up income:		
from Bank Deposits	52	--

from Associated Companies	4,880	4,462
Profit/(Loss) on Sale of Assets	(1,060)	53
Rent income	--	15
	-----	-----
	3,872	4,530
	=====	=====

24. UN-USUAL ITEMS

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

25. PROVISION FOR TAXATION

25.1 Assessments of the company are completed upto assessment year 1998-99.

25.2 The Honourable Peshawar High Court vide judgement dated 02-06-1999 has adjudicated that workers welfare fund was not chargeable on the exempted income of the company.

25.3 In its judgement dated 14-04-1999 against the writs filed challenging the legality of the minimum tax levied under section 80-D, the Honourable Court held that writ of the Company has become infructuous in view of decision given by the learned ITAT dated 23-12-1998 and 09-12-1997 pertaining to assessment year 1994-95 and fresh writ may be permitted to be filed if the need arises. However, the appeals filed by the assessee pertaining to assessment years 1991-92 to 1993-94 and 1997-98 to 1998-99 are pending before the learned ITAT and the CIT(A).

25.4 Appeal filed for the charge year 1996-97 on the question of tax liability on bonus share is yet not concluded.

25.5 The provision for the disputed liability of Rs. 17,129 thousand (1998: Rs. 16,128 thousand) as indicated in Note No. 13.2 is not made.

26. REMUNERATION OF EXECUTIVES

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

	<i>1999</i>	<i>1998</i>
	<i>(Rupees in thousand)</i>	
Number of person	3	2
Managerial Remuneration	724	440
House Rent	347	203
Utilities	72	44
Bonus	121	73
Company's contribution to provident fund	72	44

REIMBURSABLE EXPENSES

Vehicles running & maintenance	252	239
Medical Expenses	143	108
	-----	-----
	1,731	1,151
	=====	=====

No remuneration has been paid to Chief Executive and Directors.

27. STATEMENT OF CHANGES IN EQUITY

The change in equity is as follows:

	<i>(Rupees in thousand)</i>			
	<i>Share Capital</i>	<i>Unappropriated Loss</i>	<i>Reserves</i>	<i>Total</i>
Balance as at June 30, 1998	58,500	(221,964)	245,250	81,786
Net loss for the year		(120,600)		(120,600)
	-----	-----	-----	-----
Balance as at June 30, 1999.	58,500	(342,564)	245,250	(38,814)

**28. TRANSACTIONS WITH ASSOCIATED COMPANIES
AND MAXIMUM DEBIT BALANCES**

	<i>1999</i>	<i>1998</i>
	<i>(Rupees in thousand)</i>	
Sales	11,695	15,530
Purchase / Services	113,337	112,026
Markup earned	4,880	4,462
Markup expense	12,487	12,850
 The maximum aggregated amount due from associated companies at the end of any month during the year.	 29,698	 29,246

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

29. PLANT CAPACITY AND ACTUAL PRODUCTION

	<i>Installed Capacity 1999</i>	<i>Actual Production 1999</i>	<i>Installed Capacity 1998</i>	<i>Actual Production 1998</i>
Airconditioners	64125 Tons	29685 Tons	64125 Tons	32455 Tons
Deep Freezers	207143 Cft	39181 Cft	207143 Cft	116351 Cft

The utilization of Capacity is dependent on overall demand.

30. GENERAL

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

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

M. Azam Saigol
Director

M. Naseem Saigol
Chairman/Chief Executive

**PATTERN OF HOLDING OF SHARES
HELD BY THE SHAREHOLDERS AS AT JUNE 30, 1999**

<i>NUMBER OF SHAREHOLDERS</i>	<i>FROM</i>	<i>SHAREHOLDING TO</i>	<i>TOTAL SHARES HELD</i>
487	1	--	100 Shares
198	101	--	500 Shares
62	501	--	1,000 Shares
71	1,001	--	5,000 Shares
18	5,001	--	10,000 Shares
8	10,001	--	15,000 Shares
1	15,001	--	20,000 Shares
1	20,001	--	25,000 Shares
2	25,001	--	30,000 Shares
2	50,001	--	55,000 Shares
2	55,001	--	60,000 Shares
2	60,001	--	65,000 Shares
1	70,001	--	75,000 Shares
1	80,001	--	85,000 Shares
1	95,001	--	100,000 Shares
1	105,001	--	110,000 Shares
2	180,001	--	185,000 Shares
1	200,001	--	205,000 Shares
1	320,001	--	325,000 Shares
1	675,001	--	680,000 Shares
1	2,930,001	--	2,935,000 Shares
-----			-----
864			5,850,000
-----			-----

Note: The slabs not applicable have not been shown.

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	819	572,965	9.79
Investment Companies	5	74,438	1.27
Insurance Companies	3	18,098	0.31
Joint Stock Companies	14	2,953,495	50.49
Financial Institutions	5	612,592	10.47
Foreign Companies	18	1,618,412	27.67
	-----	-----	-----
	864	5,850,000	100.00
	=====	=====	=====