

Legler-Nafees Danim Mills Limited

Annual Report 1998

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COMPANY PROFILE

BOARD OF DIRECTORS

Mr. Humayun Naseer Shaikh (Chairman/Chief Executive)
Pir Munawar Shah
Ms. Bushra Naz Malik
Khawaja Amir Rafiq
Mr. Khalid AH. Al-Sagar
Mr. Agostino Parati
(Nominee Legler S.p.A)
Mr. Giuliano Buzzetti
(Nominee Legler S.P.A)

BANKERS

Muslim Commercial Bank Limited
Standard Chartered Bank
Credit Agricole Indosuez The Global French Bank
Union Bank Limited
The Hongkong and Shanghai Banking Corporation
Citibank N. A.
Askari Commercial Bank Limited
Habib Bank Limited
Islamic Investment Bank Limited
Pakistan Industrial Credit & Investment Corporation Limited
National Bank of Pakistan

LEGAL ADVISORS

Hamid Law Associates
Advocates

AUDITORS

A.F. Ferguson and Company
Chartered Accountants

REGISTERED OFFICE

Ismail Aiwan-i-Science,
Shahrah-i-Roomi,
Lahore - 54600
Pakistan
Fax: 92 42 576 1791
Ph: 92 42 576 1792 - 5

WORKS

2.5 km off Manga - Raiwind Road,
Lahore - Pakistan
Fax: 92 4951 383 591

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that 6th Annual General Meeting of the Members of the Company will be held on Wednesday, March 31, 1999 at 10:00 a.m. at the Registered Office at Ismail Aiwan-i-Science, Shahrah-i-Roomi, Lahore-54600 to transact the following business:

1. To confirm minutes of the 5th Annual General Meeting.
2. To receive, consider and adopt the directors report and the audited accounts for the year ended September 30, 1998, together with the auditors report thereon - annexed.
3. To appoint Auditors for 1998-99 and to fix their remuneration. The retiring Auditors M/s. A.F. Ferguson & Company, Chartered Accountants, Lahore, being eligible have offered themselves for re-appointment.
4. Any other business with the permission of the chairman.

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.

Shareholders are requested to promptly notify the Company of any change in their address to ensure delivery of mail.

By order of the Board of Directors

Lahore;
March 8, 1999

BUSHRA NAZ MALIK
Director/Secretary

DIRECTORS' REPORT

The directors of your company take pleasure in submitting their report with audited financial statements together with auditors thereon, for the year ended September 30, 1998.

THE PAST

The Country's macro-economics scenario was the worst in 1997-98. The developments in May 1998 spiraled the negative view of the Pakistans' economy. The nuclear blast shook the confidence of the international business community and the company witnessed turmoil in the export markets. The foreign currency account debacle added to the down turn in the overall economy. Because of this the export market declined tremendously.

The local markets were also very tough because of global denim over supply. Furthermore cotton and yarn rates also played havoc which resulted in heavy losses.

As informed in the last report during the year full technical and financial support was provided by the joint venture partner Legler S.p.A which will start yielding results from the current year.

THE FUTURE

Subsequently the management has tried hard to turnaround the company with the support of Legler S.p.A by

doing the following:

Restructuring of long term debts
Injection of equity
Production of more value added goods

Legler S.p.A has already given technical guidance for making these value added goods and marketing the same. The market continues to be tough but we expect better changes in the results due to these measures.

The year 2000 implication for computer software, hardware and the manufacturing machinery was already identified and complied with at the time of setting up of the plant.

APPOINTMENT OF AUDITORS

The present auditors M/s A.F. Ferguson and Company, Chartered Accountants retire and being eligible offer themselves for re-appointment.

PATTERN OF SHAREHOLDING

The pattern of shareholding as required by section 236 of the Companies Ordinance, 1984 is given on page 23.

ACKNOWLEDGEMENT

The directors place on record their deep appreciation of dedication of our staff members. We are also thankful for the support provided by our joint venture partners Legler of Italy in helping us achieve world class standards and marketing of our products.

For and on behalf of the Board

Lahore: March 09, 1999

Humayun N. Shaikh
Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Legler-Nafees Denim Mills Limited as at September 30, 1998 and the related profit and loss account and cash flow statement for the year then ended, together with the notes forming part thereof, and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for changes in accounting policy referred to in note 2.8 and 2.9 to the accounts, with which we concur;

(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 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 September 30, 1998 and of the loss for the year and of cash flow for the year then ended; and

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

A. F. FERGUSON & CO.
Chartered Accountants

Lahore: March 9, 1999

BALANCE SHEET AS AT SEPTEMBER 30, 1998

	Note	1998 Rupees	1997 Rupees
SHARE CAPITAL AND RESERVES			
Authorised capital			
28,000,000 (1997: 24,000,000)			
Ordinary shares of Rs.10 each		280,000,000	240,000,000
		=====	=====
Issued, subscribed and paid-up capital			
24,000,000 ordinary shares of Rs 10 each	3	240,000,000	240,000,000
Share deposit money	4	30,266,785	-
Capital reserve - share premium		130,904,620	130,904,620
Accumulated loss		(215,471,119)	(52,965,720)
		-----	-----
		185,700,286	317,938,900
NON-PARTICIPATORY REDEEMABLE CAPITAL-SECURED	5	8,395,311	9,017,189
LONG TERM LIABILITIES			
Long term loans - secured	6	368,115,568	337,683,101
Liabilities against assets subject to finance lease	7	26,053,689	26,082,275
Other long term payables - unsecured	8	37,545,913	21,496,802
		-----	-----
		431,715,170	385,262,178
DEFERRED LIABILITIES			
Gratuity		5,964,007	2,009,291
CURRENT LIABILITIES			
Current portion of:			
Non - participatory redeemable capital - secured	5	1,243,750	932,811
Long term loans - secured	6	81,549,000	2,588,000
Liabilities against assets subject to finance lease	7	3,647,076	10,756,421
Finances under mark up arrangements and other credit facilities - secured	9	216,864,383	197,341,888
Creditors, accrued and other liabilities	10	105,915,885	98,122,081
		-----	-----
		409,220,094	309,741,201
CONTINGENCIES AND COMMITMENTS	11		
		-----	-----
		1,040,994,868	1,023,968,759

=====

HUMAYUN N. SHAIKH

Chief Executive

	Note	1998 Rupees	1997 Rupees
FIXED CAPITAL EXPENDITURE			
Operating fixed assets - tangible	12	669,443,037	736,488,529
Assets subject to finance lease	13	38,733,320	43,196,919
		-----	-----
		708,176,357	779,685,448
LONG TERM DEPOSITS AND DEFERRED COSTS			
	15	18,721,648	21,730,314
CURRENT ASSETS			
Stores and spares	16	18,519,006	2,755,882
Stock in trade	17	128,634,070	139,761,093
Trade debts	18	82,527,514	50,079,475
Advances, deposits, prepayments and other receivables	19	37,896,521	26,470,618
Cash and bank balances	20	46,519,752	3,485,929
		-----	-----
		314,096,863	222,552,997
		-----	-----
		1,040,994,868	1,023,968,759
		=====	=====

The annexed notes form an integral part of these accounts.

BUSHRA NAZ MALIK

Director

	Note	Year ended September 30, 1998 Rupees	April 1, to September 30, 1997 Rupees
Sales	21	618,287,784	361,351,780
Cost of goods sold	22	642,794,078	347,860,112
		-----	-----
Gross (Loss)/Profit		(24,506,294)	13,491,668
Administrative and selling expenses	23	51,051,416	21,529,326
		-----	-----
Operating loss		(75,557,710)	(8,037,658)
Other income	24	11,992,485	840,647
		-----	-----
Financial charges	25	(63,565,225)	(7,197,011)
		97,894,645	45,768,709
		-----	-----
Loss for the year before tax		(161,459,870)	(52,965,720)
Provision for taxation	27	1,045,529	-

Loss for the year after tax	(162,505,399)	(52,965,720)
Accumulated loss brought forward	(52,965,720)	-
Accumulated loss carried forward	(215,471,119)	(52,965,720)
	=====	=====

The annexed notes form an integral part of these accounts.

HUMAYUN N. SHAIKH
Chief Executive

BUSHRA NAZ MALIK
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 1998

	Note	1998 Rupees	1997 Rupees
Cash flow from operating activities			
Cash flow from operating activities	30	5,181,417	99,893,956
Interest and mark-up paid		(47,045,631)	(78,273,483)
Taxes paid		(1,532,026)	(1,926,251)
Interest received		448,002	143,215
Long term security deposits and deferred costs - export quota purchased		(2,890,602)	(8,338,296)
Other long term security deposits and deferred costs		20,000	(372,857)
Gratuity paid		(639,731)	-
Other long term payables		16,049,111	21,496,802
		-----	-----
Net cash (outflow)/inflow from operating activities		(30,409,460)	32,623,086
Cash flow from investing activities			
Fixed capital expenditure		(3,903,690)	(21,905,103)
Sale proceeds of fixed assets		125,000	6,500
Sale proceeds of assets subject to finance lease		292,980	369,580
Sale proceeds of export quota		156,800	6,190,661
		-----	-----
Net cash outflow from investing activities		(3,328,910)	(15,338,362)
Cash flow from financing activities			
Share deposit money		30,266,785	-
Repayment of redeemable capital		(310,939)	-
Net proceeds from long term loans		34,431,783	(49,449,813)
Payment of finance lease liabilities		(7,137,931)	3,135,880
		-----	-----
Net cash inflow/(outflow) from financing activities		57,249,698	(46,313,933)
		-----	-----
Net increase/(decrease) in cash and cash equivalents		23,511,328	(29,029,209)
Cash and cash equivalents at beginning of the year		(193,855,959)	(164,826,750)
		-----	-----
Cash and cash equivalents at end of the year	31	(170,344,631)	(193,855,959)
		=====	=====

HUMAYUN N. SHAIKH

BUSHRA NAZ MALIK

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED SEPTEMBER 30, 1998**

1. The company and its operations

The company incorporated in Pakistan is listed on the Karachi Stock Exchange. The company is a composite spinning, weaving, dyeing and stitching Unit engaged in manufacturing denim and denim product.

The company has incurred losses since commencement of its commercial production and has also incurred a loss of Rs. 163 million during the year ended September 30, 1998. In order to improve the financial position of the company the management has drawn up a plan which involves injection of equity, restructuring of long term debts and moving to more value added products.

Subsequent to year end, as more fully explained in note 6 to these accounts, long term loans have been rescheduled as part of the above mentioned plan.

Additionally, further equity has also been injected as referred to in note 4 to these accounts.

2. Significant accounting policies

2.1 Accounting convention

These accounts have been prepared under the historical cost convention modified by the capitalization of exchange differences referred to in note 2.4.

2.2 Employee retirement benefits

The company operates an unfunded gratuity scheme for all its employees. Under the scheme, gratuity is payable on the basis of last drawn salary for each completed year of service. Contributions required under the scheme to meet the liability are charged to income.

2.3 Taxation

Profit and gains of the company are exempt from tax for five years commencing April 1, 1996 under clause 118(D) of the Second Schedule of the income Tax Ordinance, 1979.

The charge for taxation is based on taxable income at the current rates of tax after taking into account available tax credits and rebates, if any.

The company accounts for deferred taxation using the liability method on all major timing differences which are expected to reverse in the foreseeable future. However, provision for deferred taxation is not considered necessary for the year.

2.4 Foreign currency transactions

Transactions in foreign currencies are translated into Rupees at the approximate rates prevailing on the transaction dates or the contracted rates where applicable.

All assets and liabilities in foreign currencies are translated into Rupees at rates of exchange prevailing on the balance sheet date except in the case of forward exchange contracts where balances are converted at the contracted rates.

Exchange differences arising from translation and repayment of foreign currency are capitalized as part of cost of the fixed assets acquired out of the proceeds of such loans. Other exchange differences are included in income for the year.

2.5 Fixed capital expenditure and depreciation

Fixed assets, except freehold land and capital work in progress, are stated at cost less accumulated depreciation. Freehold land and capital work in progress are stated at cost. Cost in relation to certain plant and machinery signifies historical cost and exchange differences referred to in note 2.4 and financial charges referred to in note 2.10.

Depreciation on operating fixed assets is charged to income on the reducing balance method so as to write off the historical cost of an asset over its estimated useful life at the rates given in note 12. The full annual rate of depreciation is applied on cost of additions, except major additions or extension to production facilities, while no depreciation is charged on assets deleted during the year. Major additions or extensions to production facilities are depreciated on a pro-rata basis for the period of use during the year. The net exchange difference is amortised in equal installments over the useful life of the related asset. Major renewals and improvements are capitalized. Gains or losses on disposal of assets are recognised as income or expense respectively.

2.6 Assets subject to finance lease

Assets subject to finance lease are stated at the lower of the present value of minimum lease payments under the lease agreement and the fair value of the assets. The related obligations of the lease are accounted for as liabilities. Assets acquired under the finance leases are depreciated over the useful life of the assets on the reducing balance method at the rates given in note 13.

2.7 Deferred costs

Costs, the benefit of which is expected to be spread over several years, are amortized over a period not exceeding five years commencing from the date of commercial operations.

2.8 Stores and spares

These are valued at the lower of cost determined using First in First out (FIFO) method and net realizable value except items in transit which are valued at cost comprising invoice value plus other charges paid thereon. During the year the company changed its policy of determining cost from moving average method to First in First out method. This change in policy has been accounted for prospectively, since the effect on prior periods cannot be reasonably determined. Had there been no change, the current year's loss would have been lower by Rs.649,944.

2.9 Stock in trade

Stock of raw material except for those in transit, work-in-process and finished goods are valued at the lower of cost and net realizable value. Cost in relation to raw materials is determined using the First in First out (FIFO) method. Cost in relation to work-in-process and finished goods includes an appropriate portion of production overheads. Materials in transit are valued at cost comprising invoice values plus other charges paid thereon. During the year the company changed its policy of determining cost of chemicals, dyes and garment accessories from moving average method to First in First out method. This change in policy has been accounted for prospectively, since the effect on prior periods cannot be reasonably determined. Had there been no change, the current year's loss would have been lower by Rs.295,617.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and less cost necessary to be incurred in order to make the sale.

2.10 Financial charges

Mark up, interest and other charges on long term liabilities are capitalized upto the date of commissioning of the respective fixed assets acquired out of the proceeds of such long term liabilities. All other mark up, interest and other charges are charged to income.

2.11 Revenue recognition

Revenue from sales is recognized on shipment or acceptance of the products depending on the terms of supply.

	1998 Rupees	1997 Rupees
3. Issued, subscribed and paid-up capital		
17,880,000 (1997: 17,880,000) ordinary shares of Rs 10 each fully paid in cash	178,800,000	178,800,000
6,120,000 (1997: 6,120,000) ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	61,200,000	61,200,000
	-----	-----
	240,000,000	240,000,000
	=====	=====

4. Share deposit money

Share deposit money represents amount received from Legler S.p.A. for further issue of shares.

5. Non - Participatory Redeemable Capital - secured

Long term running finances	9,639,061	9,950,000
Less: Current maturity	1,243,750	932,811
	-----	-----
	8,395,311	9,017,189
	=====	=====

Long term running finance from Pakistan Industrial Credit and Investment Corporation Limited (PICIC) under mark up arrangement amounts to Rs. 9.64 million (1997: Rs.9.95 million). Mark up is charged quarterly at the rebated rate of Re. 0.35 per Rs. 1,000 per diem on the outstanding balance. In the event the company fails to pay the installments on due dates, markup is to be charged at the rate of Re. 0.54 per Rs. 1,000 per diem. The finances were repayable in 31 quarterly installments, however, installments due on April 1, 1998 and July 1, 1998 were not paid by the company. Subsequent to September 30, 1998 PICIC has rescheduled these installments including the installment due on October 1, 1998 aggregating Rs. 932,811 into demand finance repayable in monthly installments from October 1, 2000. Mark up is to be charged at the rebated rate of Re. 0.465 per Rs. 1,000 per diem. In the event the company fails to pay installments on due dates, the mark up will be charged at the rate of Re. 0.575 per Rs. 1,000 per diem.

Security

The finance is secured by a first charge on the company's immovable properties including buildings, plant and machinery and a first floating charge on the company's current assets, both ranking pari passu with the charges referred to in note 6 and note 9.

6. Long term loans - secured

	Currency balance		Rupees equivalent	
	1998	1997	1998	1997
These are composed of:				
Lender				
Loan 1 Pakistan Industrial Credit and Investment Corporation Limited (PICIC)			43,247,850	44,494,850
Loan 2 Marubeni Benelux				
Principal amount	598.2	747.8	205,222,613	252,719,722
Accrued interest thereon	-	12.1	-	4,087,707
	-----	-----	-----	-----
	598.2	759.9	205,222,613	256,807,429

Loan 3 Pakistan Industrial Credit and Investment Corporation Limited (PICIC)	201,194,105	38,968,822
	-----	-----
	449,664,568	340,271,101
Less: Current maturity shown under current liabilities	81,549,000	2,588,000
	-----	-----
	368,115,568	337,683,101
	=====	=====

Terms of repayment and interest

Balance of loan 1 is repayable in 17 semi annual unequal installments. Interest is payable half yearly at the rate of 15% per annum plus penalty of 5% per annum in case of delayed payments. Installment due on July 1, 1998 was not paid by the company. Subsequent to the year end, PICIC has rescheduled this overdue installment and the installment due on January 1, 1999 aggregating Rs. 2,782,000 into demand finance repayable in monthly installments commencing October 1, 2000.

Balance of loan 2 represents supplier's credit repayable in 8 semi annual installments. Interest is payable half yearly at the rate of 8% per annum. The loan is repayable in Japanese Yen (¥). The repayment of the supplier's credit is secured by a guarantee issued by PICIC. The guarantee carries a commission of 2% per annum and in case of default in payment of commission, additional interest of 5% per annum or the bank rate whichever is higher of the amount so unpaid is to be charged. The company did not pay the 3rd and 4th installments due on January 18, 1998 and July 18, 1998, which were paid by PICIC and were converted into loan 3. Subsequent to the year end, PICIC has undertaken to repay the 5th and 6th installments of the supplier's credit amounting to ¥ 98,709,587 and ¥ 95,718,387 inclusive of interest due on January 18, 1999 and July 18, 1999 respectively. These payments inclusive of overdue installments are to be converted into demand finance repayable in monthly installments commencing October 1, 2000.

Loan 3 represents 1st, 2nd, 3rd and 4th installment of supplier's credit including interest thereon amounting to ¥496,539,132 taken over by PICIC, including accrued guarantee commission and interest on loan 1 and 2 and on long term running finance referred to in note 5. The loan carries interest upto 17% per annum.

Subsequent to year end, PICIC through their letter dated January 27,1999 has rescheduled above mentioned overdues into demand finance, whereby the company is to pay to PICIC Rs. 80 million by June 30, 1999, while Rs. 75 million is payable by each September 30, 2001, and 2002, and Rs. 90 million in each subsequent year till liquidation of the entire demand finance in monthly installments commencing October 1, 2000. Interest is to be charged at the rate ranging upto 17% per annum. In the event company fails to pay the installments on due dates interest to be charged at the rates ranging from 21% to 23% per annum. The supplementary agreement in respect of the rescheduling is yet to be signed.

Security

Loan 1 and 3 are secured by a first charge on the present and future immovable properties including buildings, plant and machinery and fixtures, a first hypothecation charge in respect of all machinery and a first floating charge on all current assets ranking pari passu with the charges referred to in note 5.

Loan 2 is secured by a guarantee issued by PICIC. The guarantee is secured by the securities referred to in loan 1 and 3.

	1998	1997
	Rupees	Rupees
7. Liabilities against assets subject to finance lease		
Present value of minimum lease rental payments	29,700,765	36,838,696
Less: Current portion shown under current liabilities	3,647,076	10,756,421

-----	-----
26,053,689	26,082,275
=====	=====

The value of the minimum rental payments have been discounted at implicit interest rates ranging from 21% to 25% per annum to arrive at their present value. The balance rentals due under the lease agreements aggregate to Rs. 45,713,928 (1997: Rs. 51,800,090) and are payable in equal monthly or quarterly installments between October 1998 and August 2001.

Taxes, repairs and insurance costs are borne by the lessee. In case of termination of the agreement, the lessee is to pay the lessor a loss value computed on a basis specified in the agreement.

8. Other long term payables - unsecured

Claims payable	note 8.1	7,490,000	10,250,568
Payable to Legler S.p.A.	note 8.2	30,055,913	11,246,234
		-----	-----
		37,545,913	21,496,802
		=====	=====

8.1 These represent amounts payable to customers on account of claims lodged against sales. The customers have deferred the payment to after October 1, 2000.

8.2 This represents technical assistance expenditure and sales commission payable to Legler S.p.A, Italy, which has deferred the payment to three years after the commencement of commercial production date of April 1, 1997.

	1998	1997
	Rupees	Rupees

9. Finances under mark up arrangements and other credit facilities - secured

Finances under mark up arrangements	note 9.1	39,607,383	41,015,211
Export refinance	note 9.2	177,257,000	113,400,000
Short term loan		-	42,926,677
		-----	-----
		216,864,383	197,341,888
		=====	=====

9.1 Finances under mark up arrangements

Finances available from commercial banks tender mark-up arrangement amount to Rs. 57.5 million (1997: Rs. 107.5 million). Mark up is computed at rates ranging from Re. 0.52 to Re. 0.57 per Rs. 1,000 per diem or part thereof on the price outstanding. In the event the company fails to pay the repurchase price on the expiry of the demand, mark up is to be computed upto the rate of Re. 0.6028 per Rs. 1,000 per diem or part thereof on the price unpaid.

These finances are secured by a charge over current assets ranking pari passu with the charges referred to in note 5, 6 and 9.2, ranking charge on fixed assets, hypothecation of stocks of raw materials, work-in-process and finished goods, pledge of raw materials, goods imported through banks and export bills drawn under confirmed L/C's or contracts.

Of the aggregate facility of Rs. 40 million (1997: Rs. 40 million) for opening letters of credit and Rs. 1.0 million (1997: Rs. Nil) for guarantees, the amount utilised at September 30, 1998 was Rs. 37.67 million (1997: Rs.6.474 million) and Rs. 0.25 million (1997: Rs. Nil) respectively.

9.2 Export refinance

The company has obtained pre and post shipment finance facilities aggregating to Rs. 305 million

(1997: Rs.225 million) from commercial banks under the export refinance scheme of State Bank of Pakistan. The tenure of each facility availed is 150 to 180 days. Mark up is payable quarterly at the rebated rate of Re. 0.2192 per Rs. 1,000 per diem.

This is secured by a charge over current assets ranking pari passu with the charges referred to in note 5, 6, and 9.1, ranking charge on fixed assets, pledge of raw materials, goods imported through banks and export bills drawn under confirmed L/C's or contracts.

10. Creditors, accrued and other liabilities

Creditors	56,604,841	46,225,427
Bills payable	30,445,483	14,283,028
Accrued liabilities	6,518,704	4,959,733
Guarantee commission payable		18,582,706
Advances from customers	895,119	1,494,500
Interest accrued on long term loans	2,368,735	1,682,271
Mark-up accrued on short term finances	3,644,086	4,103,810
Mark-up accrued on short term loans	-	2,069,153
Due to associated undertakings	-	197,378
Retention money	1,198,921	1,222,728
Other liabilities	4,239,996	3,301,347
	-----	-----
	105,915,885	98,122,081
	=====	=====

11. Contingencies and commitments

11.1 Contingencies

(i) The company filed a writ petition in the Lahore High Court challenging the levy and collection of 1% excise duty on loan 1 referred to in note 6 of the accounts. The High Court has granted a stay against the recovery of the aforesaid duty. No provision has been made in these accounts for the excise duty which at September 30, 1998 is estimated at approximately Rs. 1,161,257 (1997: Rs. 1,161,257).

(ii) The company has filed a writ petition in the Lahore High Court against levy of customs duty and sales tax on certain plant and machinery which was denied exemption under SRO 484(I)/92. In case of adverse decision the maximum liability that is likely to arise is approximately Rs. 9.4 million.

(iii) The company has filed a constitutional petition in the Sind High Court against the custom authorities. The case has been referred to the Central Board of Revenue for decision and has not been decided yet. The disputed amount of Rs. 1,293,061 has been deposited with the Sind High Court.

No provision has been made in these accounts against the above mentioned cases since the management is of the view that there are meritorious grounds for decisions in favour of the company.

11.2 Commitments

Under Technical Service Agreement dated May 6, 1994, a fee of U.S. \$3,000,000 is payable to Legler Industrial Tessile S.p.A. (Legler S.p.A.) in consideration for various services. This fee is payable in four equal installments within thirty days after the second, third, fourth and fifth Annual General Meeting of the shareholders of the company, after the date of commencement of commercial production.

However, the company is not obligated to pay any installment if return on paid-up capital, specified in Marketing Agreement dated May 6, 1994, between the company and Legler S.p.A. is not achieved. The prescribed rate of return has not been achieved during the accounting year ended September 30, 1998, as the company has made a loss of Rs. 163 million in this period. Consequently, no provision in the accounts has been made for the first installment of fee due after thirty days of the second Annual General Meeting of the company. However, if at the end of any subsequent year, company having failed to achieve the return projected for any accounting year achieves an average rate of return which equals or exceeds the average of the rates of return for all preceding accounting years then ended, the company shall be liable to pay all the outstanding and unpaid installments.

12. Operating fixed assets - tangible

12.1 The following is a statement of the operating assets

	Cost as at October 01, 1997	Additions/ (deletions)	Cost as at September 30, 1998	Accumulated depreciation as at October 01, 1997	Depreciation charge for the year	Accumulated depreciation on deletions	Accumulated depreciation as at September 30, 1998	Net book value as at September 30, 1998	Annual depreciation rate (%)
Freehold land	7,417,648	-	7,417,648	-	-	-	-	7,417,648	-
Buildings on freehold land	120,599,617	193,700	120,793,323	6,029,981	11,476,334	-	17,506,315	103,287,008	10
Plant and machinery	629,988,353	5,823,964 (370,000)	35,442,317	31,531,001	60,401,159	100,270	91,831,890	543,610,427	10
Furniture and fittings	1,340,769	14,450	1,355,219	303,417	105,180	-	408,597	946,622	10
Vehicles	126,211	-	126,211	13,818	22,479	-	36,297	89,914	20
Office equipment	2,774,810	762,984	3,537,794	330,307	320,749	-	651,056	2,886,738	10
Electrical installation	13,104,890	-	13,104,890	655,245	1,244,965	-	1,900,210	11,204,680	10
Rupees 1998	775,352,298	6,795,104 (370,000)	781,777,402	38,863,769	73,570,866	100,270	112,334,365	669,443,037	
Rupees 1997	9,622,791	765,742,707 (13,200)	775,352,298	304,663	38,559,106	-	38,863,769	736,488,529	

12.2 included in plant and machinery is interest and mark up of Rs. 63.8 million (1997: Rs. 63.8 million) and net exchange loss of Rs. 41.49 million (1997: Rs. 37.8 million).

12.3 Disposal of operating assets

Particulars	Cost Rupees	Book value Rupees	Sale Proceeds Rupees	Mode of sale	Sold to others
Plant and machinery Generator	370,000	269,730	125,000	Negotiation	Al-Hilal Traders, Nishtar Road, Lahore.
	=====	=====	=====		

13. Assets subject to finance lease

13.1 The following is a statement of assets subject to finance lease

	Accumulated depreciation	Accumulated depreciation	Net book
--	-----------------------------	-----------------------------	----------

	Cost as at October 01, 1997	Additions/ (Deletions)	Cost as at September 30, 1998	as at October 01, 1997	Depreciation charge for the year	Accumulated depreciation on deletions	as at September 30, 1998	value as at September 30, 1998	Annual depreciation rate (%)
Plant and machinery	36,707,825	542,086	37,249,911	1,835,391	3,541,452	-	5,376,843	31,873,068	10
Furniture and fittings	2,527,100	-	2,527,100	474,464	205,264	-	679,728	1,847,372	10
Vehicles	6,667,801	294,000 (1,021,668)	5,940,133	2,542,252	779,291	498,574	2,822,969	3,117,164	20
Office equipment	2,621,260	- (54,800)	2,566,460	474,960	210,635	14,851	670,744	1,895,716	10
Rupees 1998	48,523,986	836,086 (1,076,468)	48,283,604	5,327,067	4,736,642	513,425	9,550,284	38,733,320	
Rupees 1997	39,628,786	9,438,700 (543,500)	48,523,086	2,265,989	3,256,738	195,660	5,327,067	43,196,919	

13.2 Detail of certain assets disposed off during the year

Particulars	Cost Rupees	Book value Rupees	Sale		Mode of sale
			Proceeds Rupees	Sold to executives	
Vehicles	675,000	345,600	214,100	Ms B.N. Malik	As per company policy
	346,668	177,494	78,880	Mr. Qamar Abbas	As per company policy
	1,021,668	523,094	292,980		

	1998 Rupees	1997 Rupees
14. Depreciation		
Operating fixed assets	note 12.1	73,570,866
Assets subject to finance lease	note 13.1	4,736,642
		78,307,508
		38,559,106
		3,256,738
		41,815,844

Depreciation charge has been allocated as follows:

Unallocated capital expenditure		-	922,337
Cost of goods sold	note 22	76,663,910	40,018,372
Administrative and selling expenses	note 23	1,643,598	875,135
		78,307,508	41,815,844

15. Long term deposits and deferred costs

Long term deposits		2,094,111	2,114,111
Deferred costs	note 15.1	10,737,577	13,805,456
Export quota	note 15.2	5,889,960	5,810,747
		18,721,648	21,730,314

15.1 Deferred costs

Preliminary expenses	439,386	488,207
Underwriting commission	12,119,861	13,466,512
Listing and other expenses	1,246,209	1,384,677
	-----	-----
	13,805,456	15,339,396
Amortised during the year	3,067,879	1,533,940
	-----	-----
	10,737,577	13,805,456
	=====	=====

15.2 Export quota

Export quota	5,810,747	3,556,700
Purchased during the year	2,890,602	8,338,296
Less: Sales during the year	156,800	5,438,610
	-----	-----
	8,544,549	6,456,386
Amortised and written off during the year	2,654,589	645,639
	-----	-----
	5,889,960	5,810,747
	=====	=====

15.3 Amortisation

Deferred costs	3,067,879	1,533,940
Export Quota	2,654,589	645,639
	-----	-----
	5,722,468	2,179,579
	=====	=====

Amortisation charge has been allocated as follows:

Unallocated capital expenditure		-	279,000
Administrative and Selling expenses	note 23	5,722,468	1,900,579
		-----	-----
		5,722,468	2,179,579
		=====	=====

1998	1997
Rupees	Rupees

16. Stores and spares

Stores	5,715,705	2,755,882
Spares	12,803,301	-
	-----	-----
	18,519,006	2,755,882
	=====	=====

17. Stock in trade

Raw material including in transit Rs 5,560,976 (1997: Rs Nil)	31,363,161	35,096,945
Work in process	25,615,294	22,692,704
Finished goods	71,432,252	81,152,216
Waste material	223,363	819,228
	-----	-----
	128,634,070	139,761,093
	=====	=====

18. Trade debts

Considered good		
Secured	77,676,123	40,974,909
Unsecured	4,851,391	9,104,566
	-----	-----
	82,527,514	50,079,475
	=====	=====

Included in trade debts are amounts due from associated company, Legler S.p.A, amounting to Rs. 1.47 million (1997: Rs. 0.9 million). The maximum aggregate amount due from associated companies at the end of any month during the year was Rs. 22.06 million (1997: Rs. 3.4 million).

19. Advances, deposits, prepayments and other receivables

Advances considered good		
To employees	840,751	837,562
To suppliers and contractors	2,624,495	3,570,256
Margin deposits	970,439	692,106
Due from associated undertakings - Nafees Cotton Mills Limited	8,833,454	-
Prepayments	713,753	352,647
Export rebate receivable	9,879,271	11,275,925
Customs duties	54,391	-
Sales tax recoverable	6,957,848	5,065,064
Taxes recoverable	4,659,395	4,172,898
Bills receivables	872,526	400,806
Other receivables	1,490,198	103,354
	-----	-----
	37,896,521	26,470,618
	=====	=====

Included in advances to employees are amounts due from executives Rs. 0.338 million (1997: Rs. 0.363 million). The maximum aggregate amount due from executives at the end of any month during the year was Rs. 0.461 million (1997: Rs. 0.97 million). The maximum aggregate amount due from associated undertaking at the end of any month during the year was Rs. 10.169 million (1997: Rs. 8.19 million).

20. Cash and bank balances

Cash in hand	208,629	103,179
Cash at banks		
On current accounts	6,586,104	2,155,553
On deposit accounts	39,725,019	1,227,197
	-----	-----
	46,519,752	3,485,929
	=====	=====

Year ended	April 1, to
September	September
30, 1998	30, 1997
Rupees	Rupees

21. Sales

Own manufactured		
Local	296,550,209	182,249,401
Waste	5,004,099	2,004,496
Export	334,566,344	184,054,055
	-----	-----
	636,120,652	368,307,952

Less: Commission to selling agents	16,334,983	6,774,518
Brokerage and discounts	1,497,885	181,654
	-----	-----
	17,832,868	6,956,172
	-----	-----
	618,287,784	361,351,780
	=====	=====

21.1 Sales are exclusive of sales tax of Rs. 37,828,971 (1997: Rs. 16,058,735).

22. Cost of goods sold

Raw material and other direct material consumed	431,463,676	194,699,818
Salaries, wages and benefits	45,184,475	19,595,066
Fuel and power	47,002,819	21,390,721
Stores and spares consumed	21,116,980	14,651,128
Travelling, conveyance and entertainment	2,872,599	1,486,705
Rent, rates and taxes	225,312	152,579
Insurance	1,734,407	1,431,165
Repairs and maintenance	3,617,973	699,054
Processing charges	2,500,700	9,718,932
Depreciation	note 14 76,663,910	40,018,372
Printing and stationery	106,747	57,469
Communication	487,770	288,613
Others	2,423,471	897,463
	-----	-----
Opening stock of work-in-process	22,692,704	34,144,856
	-----	-----
Closing stock of work-in-process	658,093,543	339,231,941
	-----	-----
Cost of goods manufactured	25,615,294	22,692,704
Opening stock of finished goods and waste materials	-----	-----
	632,478,249	316,539,237
Cost of goods available for sale	81,971,444	113,292,319
	-----	-----
Closing stock of finished goods and waste materials	714,449,693	429,831,556
	-----	-----
	71,655,615	81,971,444
	-----	-----
	642,794,078	347,860,112
	=====	=====

Year ended	April 1, to
September	September
30, 1998	30, 1997
Rupees	Rupees

23. Administrative and selling expenses

Salaries, wages and benefits	8,804,186	4,281,943
Travelling, conveyance and entertainment	2,367,757	1,147,030
Rent, rates and taxes	126,500	143,838
Insurance	403,950	184,900
Freight outward	19,324,460	8,995,035
Printing and stationery	482,025	459,908
Communication	1,737,837	1,066,316
Advertisement and sales promotion	1,396,998	761,442
Legal and professional	note 26 4,467,640	89,250

Depreciation	note 14	1,643,598	875,135
Amortisation	note 15.3	5,722,468	1,900,579
Fee and subscription		1,245,986	979,681
Claims against sales		2,285,000	-
Others		1,043,011	644,269
		-----	-----
		51,051,416	21,529,326
		=====	=====

24. Other income

Return on bank deposits		448,002	-
(Loss)/Profit on disposal of fixed assets		(374,844)	15,040
Exchange gain - net		11,106,532	73,556
Interest on balances with associated undertakings		812,795	-
Gain on sale of export quota		-	752,051
		-----	-----
		11,992,485	840,647
		=====	=====

25. Financial charges

Mark up on non - participatory redeemable capital - secured		1,600,730	648,522
Interest on long term loans - secured		42,293,466	18,520,897
Mark up on finance lease		7,804,887	3,497,274
Mark up on finances under mark up arrangements - secured		31,706,498	16,245,721
Excise duty		51,496	205,198
Guarantee commission and bank charges		14,437,568	6,651,097
		-----	-----
		97,894,645	45,768,709
		=====	=====

26. Professional services

The charges for professional services include the following in respect of auditor's services for:

Statutory audit		130,000	100,000
Consultancy services		-	20,000
Out of pocket expenses		38,200	23,300
		-----	-----
		168,200	143,300
		=====	=====

27. Taxation

Prior years		1,045,529	-
		-----	-----

This represents tax assessed on return on bank deposits by the Income Tax department. The company has filed an appeal against the decision with the Commissioner of Income Tax (Appeals).

28. Remuneration of Chief Executive, Directors and Executives

28.1 The aggregate amount charged in the accounts for the year for remuneration, including certain benefits, to the Chief Executive and executives of the company is as follows:

Chief Executive		Executives	
1998	1997	1998	1997
Rupees	Rupees	Rupees	Rupees

Number of persons	1	1	34	28
Managerial remuneration	360,000	360,000	9,128,229	8,288,212
Contribution to gratuity	-	-	1,677,356	813,999
Sales commission	-	-	609,233	200,037
	-----	-----	-----	-----
	360,000	360,000	11,414,818	9,302,248
	=====	=====	=====	=====

The company also provides certain executives with free transport.

28.2 Remuneration to other directors

Aggregate amount charged in the accounts for fee to 7 directors (1997:7 directors) was Rs. Nil (1997: Rs. Nil).

28.3 Remuneration to executive directors

Aggregate amount charged in the accounts for services rendered by 3 directors (1997: Nil) was Rs. 623,800.

	1998 Rupees	1997 Rupees
29. Transactions with associated companies		
Sales	23,537,033	4,297,128
Purchases, services and interest	3,469,885	4,646,587
Commission payable	13,456,934	5,358,093

30. Cash flow from operating activities

Loss before taxation	(161,459,870)	(52,965,720)
Add/(Less) adjustment for non-cash charges and other items		
Depreciation	78,307,508	40,893,507
Amortisation	5,722,468	1,900,579
Loss/(Profit) on disposal of fixed assets	374,844	(15,040)
Gratuity expense.	4,594,447	659,291
Interest income	(448,002)	-
Gain on sale of export quota	-	(752,051)
Financial charges	97,894,645	45,768,709
Working capital changes	note 30.1 (19,804,623)	64,404,681
	-----	-----
	5,181,417	99,893,956
	=====	=====

	1998 Rupees	1997 Rupees
30.1 Working capital changes		
Decrease/(increase) in current assets		
Stores and spares	(15,763,124)	1,449,464
Stock in trade	11,127,023	32,858,450
Trade debts	(32,448,039)	(1,095,999)
Advances, deposits, prepayments and other receivables	(10,939,406)	185,354
	-----	-----
	(48,023,546)	33,397,269

Increase in current liabilities		
Creditors, accrued and other liabilities	28,218,923	31,007,412
	-----	-----
	(19,804,623)	644,046.81
	=====	=====

31. Cash and cash equivalents

Cash and bank balances	46,519,752	3,485,929
Finances under mark up arrangements and other credit facilities	(216,864,383)	(197,341,888)
	-----	-----
	(170,344,631)	(193,855,959)
	=====	=====

32. Capacity and production

	1998		1997	
	12 months		6 months	
	Capacity	Production	Capacity	Production
	(Thousand)		(Thousand)	
Spinning - Lbs	8,820	6,446	4,410	2,990
Weaving - Meters	8,868	6,366	4,434	2,695
Garments - Pieces	1,200	688	600	196

Under utilization of capacity is due to restricted demand for products.

33. Corresponding figures

Corresponding figures have been rearranged, wherever necessary, for the purposes of comparison.

HUMAYUN N. SHAIKH
Chief Executive

BUSHRA NAZ MALIK
Director

**PATTERN OF SHAREHOLDING
AS AT SEPTEMBER 30, 1998**

No. of Shareholders	From	Shareholding	To	Total Shares Held
261	1	-	500	130,500
1	501	-	1000	1,000
12	45001	-	50000	600,000
1	55001	-	60000	57,315
1	115001	-	120000	118,765
1	230001	-	235000	234,583
1	235001	-	240000	273,530
2	275001	-	280000	552,600
1	345001	-	350000	348,254
1	520001	-	525000	523,161
1	875001	-	880000	878,439
2	1160001	-	1165000	2,325,800
1	1420001	-	1425000	1,420,873
1	1465001	-	1470000	1,469,786
1	1535001	-	1540000	1,539,800

1	1700001	-	1705000	1,700,300
1	2085001	-	2090000	2,089,519
1	3650001	-	3655000	3,651,475
1	6115001	-	6120000	6,120,000
-----				-----
	292			24,000,000
=====				=====

S. No.	Categories of Shareholders	Number of Shareholders	Number of Shares Held	Percentage
1.	Individuals	281	10,558,290	43.99
2.	Investment Companies	1	1,469,786	6.12
3.	Insurance Companies	2	119,265	0.50
4.	Joint Stock Companies	3	7,521,900	31.34
5.	Financial Institutions	4	3,982,505	16.59
6.	Modaraba Companies	1	348,254	1.46
		-----	-----	-----
		292	24,000,000	100.00
		=====	=====	=====