



ANNUAL REPORT 1997



| Nishat Chunian Ltd

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ANNUAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 1997

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Board of Directors:

Mr. Shahzad Saleem

(Chief Executive)

Mian Muhammad Omar

Mrs. Akhtar Jehan Begum

Mrs. Farhat Saleem

Mrs. Sughra Begum

Mian Raza Mansha

Mian Umer Mansha

Corporate Secretary:

Mr. Farrukh Ifzal

Bankers to the Company:

ABN AMRO Bank N.V.

Citibank N.A.

American Express Bank Ltd.

Deutsche Bank

Credit Agricole Indosuez

Faysal Bank Ltd.

Bank of America NT & SA

Standard Chartered Bank

Auditors:

A.F. Ferguson & Company

Chartered Accountants

Head Office:

4-Happy Homes,

38-A, Main Gulberg, Lahore.

Phone: 5761730-39

Telex: 47823 NISHAT PK.

Fax: (042) 5711340

Registered Office:

53-A, Lawrence Road,

Lahore – Pakistan.

Phone: 6367812-15

Telex: 47523 NISHAT PK.

Fax: (042) 6367414

Mills:

49th Kilometre, Multan Road,

Bhai Pheru, Tehsil Chunian,

District Kasur.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 8th Annual General Meeting of the Shareholders of **NISHAT (CHUNIAN) LIMITED** will be held at the Head Office of the Company, 4-Happy Homes, 38-A, Main Gulberg, Lahore, on March 31, 1998 (Tuesday) at 10.00 A.M. to transact the following business:-

1. To confirm the minutes of last General Meeting:
2. To receive and adopt audited accounts of the Company for the year ended September 30, 1997 together with Directors' and Auditors' reports thereon.
3. To approve payment of Cash Dividend. The Directors have recommended the Cash Dividend at the rate of Rs. 1.50 per share (i.e. 15%)
4. To appoint auditors for the year ending September 30, 1998 and fix their remuneration. The Present Auditors M/s. A.F. Ferguson & Co. Chartered Accountants, retire and being eligible, offer themselves for reappointment.
5. To transact any other business with the permission of the Chair.

BOOKS CLOSURE

The Share Transfer Books of the Company will remain closed from March 31, 1998 to April 06, 1998 to (both days inclusive).

By Order of the Board

Lahore:
March 09, 1998

FARRUKH IFZAL
Corporate Secretary

NOTES:

- i) The members whose names appear in the register of members as at the close of business on March 30, 1998 will qualify for the payment of the Cash Dividend.
- ii) A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the Registered Office not later than 48 hours before the time for holding the meeting in working hours.
- iii) Members are requested to immediately notify the change of address, if any.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors of your company welcome to the 8th Annual General Meeting of the company and present the audited accounts and annual report for the year ended September 30, 1997.

YEAR UNDER REVIEW

There are several reasons why 1996-97 should be considered to be particularly successful year for NCL. Sales increased by 14.5%, crossing the Billion rupees mark and closed at Rs. 1.112 Billion from the previous years level of Rs. 971 Million. Current Ratio improved to 1.16 : 1 from the previous years figure of 1.05 : 1. Similarly, Long Term Debt to Equity ratio further improved to an enviable level of 11 : 89, hence minimizing the financial costs and improving the profitability. Only set back was the sharp rise in the purchase price of raw cotton, which was the main cause of reduction witnessed in the company's profitability.

Another achievement for NCL was the decision to replace 39 Crosrol Cards (MK 4) with 19 brand new, state of the art DK 803 Trutzschler Cards imported from Germany. This modernization of back process has resulted in enhanced production, lowering of operational costs and improvement in product quality in the Year 1997-98. In addition to the foregoing, one set of Toyoda Draw Frames and two Simplex machines were also imported during the current year.

A milestone was achieved with the signing of a Joint Pari Passu Agreement between NCL and the consortium of lending banks, thus creating a joint security in respect of the working capital requirements for the company. This arrangement has resulted in reduction of time, effort and money involved in the day to day operations of the company.

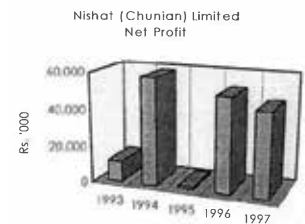
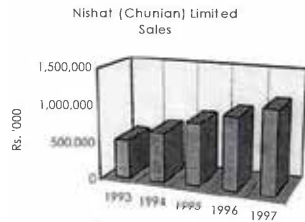
All the above mentioned achievements have made NCL one of the most efficient and productive outfit in this highly competitive industry. The Earning Per Share comes to Rs. 3.14 per share.

EXPANSION-WEAVING PROJECT

After a period of consolidation, NCL now is diversifying its business interests by venturing into a weaving project. Being part of NCL, this weaving unit is being set up within a distance of two kilometers from the existing spinning unit, for which 99 state of the art air jet looms are being sourced from Picanol of Belgium. These looms and other machinery have been financed through a combination of internally generated cash flows and term loans obtained from ABN-AMRO Bank N.V. and Citibank N.A. and are expected to reach project site in Bhai Pheru by mid May.

Civil works contract for the project has been awarded to a renowned civil engineering firm of the country and project activities are in full swing. Approximately, 50% of the civil work is complete and final hand over has been planned for mid May.

With commercial production expected to start by the middle of 1998, this project is going to further strengthen



the already existing huge goodwill, enjoyed by NCL, within the textile circles of Pakistan and abroad.

Keeping in view the outstanding financial results, achieved during the financial year 1996-97, Board of Directors of NCL are pleased to propose a 15% cash dividend of the company and to transfer an amount of Rs. 24 million to General Reserves.

SHORT TERM OUTLOOK

currency de-valuation : In October of 1997, SBP devalued the Pak rupee by 8.7% which resulted in wind fall gains to the exporters for the consignments already shipped. However, as expected the buyers came back on the devaluation news and re-negotiated the future orders, thereby nullifying the temporary advantage created by de-valuation.

turmoil in the far-east : Another un-expected setback was the currency crisis in the far-east. Majority of our exports are to the far-east i.e. Hong Kong, Japan, Korea, Indonesia etc. With a massive devaluation, countries like Indonesia were able to offer yarns at dirt cheap prices to the buyers in Hong Kong and Japan.

This plus the Christmas, new year and Chinese new year holidays resulted in a major decline in export orders for the months of December to February. However, situation has considerably improved since then as the far-eastern currencies have re-bounded against the dollar due to intervention of IMF and World Bank. As a result fresh export orders have started pouring in again.

cotton crop : This year Pakistan had a reasonably good crop which till now has resulted in the production of 8 Million bales and is expected to reach a figure of 8.5 Million bales by the end of season. This is sufficient to take care of nations total requirements. We, as a policy have already covered our position till the end of September and as such have gained considerable advantage over our competitors who will now have to cope with low quality, high on trash cotton at considerably higher prices.

1997-98, like the previous year is again expected to yield positive results for the company. Whereas, in the spinning side efforts are underway to develop new products to carve out niches in a highly commoditized industry, new markets are also being explored to diversify our customer base, thereby reducing the risks which traditional yarn exporters are exposed to.

With the crisis in the far-east out of sight, full coverage of cotton stock, prudent management policies and the un-tiring effort of the employees, NCL is once again set to add wealth to its share holders.

We would like to take this opportunity to thank our bankers, management team, staff, suppliers and our shareholders for their continued commitment and support to Nishat (Chunian) Limited.

The pattern of shareholding as required by Section 236 of the Companies Ordinance, 1984 is enclosed.

For and on behalf of the board

Lahore :- March 09, 1998

SHAHZAD SALEEM
Director/Chief Executive

We have audited the annexed balance sheet of NISHAT (CHUNIAN) LIMITED as a September 30, 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 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, investment 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 respectively give a true and fair view of the state of the company's affairs as at September 30, 1997 and of the profit and the cash flow for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Usher Ordinance, 1980 Was deducted by the company and deposited in the Central Zakat Fund established Under section 7 of that Ordinance.

Lahore :- March 09, 1998.

A. F. FERGUSON & CO.
Chartered Accountants

BALANCE SHEET AS AT SEPTEMBER 30, 1997

	NOTE	1997 Rupees	1996 Rupees
SHARE CAPITAL AND RESERVES			
Authorised Capital 15,000,000 ordinary shares of Rupees 10/= each		<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid up capital	3	144,000,000	144,000,000
Reserves	4	110,000,000	86,000,000
Unappropriated profit		<u>626,611</u>	<u>987,617</u>
		254,626,611	230,987,617
REDEEMABLE CAPITAL-SECURED	5	21,586,228	26,633,534
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	6	--	3,136,521
DEBENTURES AND DEFERRED LIABILITY			
Debentures	7	<u>1,884,762</u>	<u>2,513,017</u>
Staff gratuity		<u>3,294,357</u>	<u>2,454,306</u>
		5,179,119	4,967,323
CURRENT LIABILITIES			
Current Portion of:			
Redeemable capital	5	<u>5,047,306</u>	<u>4,248,216</u>
Liabilities against assets subject to finance lease	6	<u>3,136,521</u>	<u>14,740,636</u>
Debentures	7	<u>628,255</u>	<u>628,255</u>
Finances under mark up arrangements and other credit facilities-secured	8	<u>116,253,774</u>	<u>148,172,538</u>
Creditors, accrued and other liabilities	9	<u>55,299,164</u>	<u>38,655,285</u>
Proposed dividend		<u>21,600,000</u>	<u>28,800,000</u>
		201,965,020	235,244,930
CONTINGENCIES AND COMMITMENTS	10	--	--
		<u>483,356,978</u>	<u>500,969,925</u>

The annexed notes from an integral part of these accounts.

CHIEF EXECUTIVE

BALANCE SHEET AS AT SEPTEMBER 30, 1997

	NOTE	1997 Rupees	1996 Rupees
FIXED CAPITAL EXPENDITURE			
Operating fixed assets - tangible	11	250,940,593	254,394,008
Assets subject to finance lease	12	6,752,254	17,301,480
Capital work in progress	13	528,461	--
		<u>258,221,308</u>	<u>271,695,488</u>
LONG TERM DEPOSITS	14	310,599	2,059,199
CURRENT ASSETS			
Stores and spares	15	10,171,282	8,779,272
Stock-in-trade	16	35,475,504	22,887,384
Trade debts	17	133,700,566	117,031,237
Advances, deposits, prepayments and other receivable	18	35,139,442	76,347,748
Cash and bank balances	19	10,338,277	2,169,597
		<u>224,825,071</u>	<u>227,215,238</u>
		 <u>483,356,978</u>	 <u>500,969,925</u>
			 <u>DIRECTOR</u>

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	NOTE	1997 Rupees	1996 Rupees
Sales	20	1,111,536,798	971,188,024
Cost of goods sold	21	<u>925,520,151</u>	<u>798,573,284</u>
Gross profit		186,016,647	172,614,740
Administrative expenses	22	<u>23,043,889</u>	<u>13,523,732</u>
Selling and distribution expenses	23	<u>47,335,135</u>	<u>40,955,698</u>
		<u>70,379,024</u>	<u>54,479,430</u>
Operating profit		115,637,623	118,135,310
Other income	24	<u>28,613,484</u>	<u>30,437,291</u>
		<u>144,251,107</u>	<u>148,572,601</u>
Financial charges	25	<u>88,223,439</u>	<u>88,335,573</u>
Other charges	26	<u>3,001,891</u>	<u>3,086,847</u>
		<u>91,225,330</u>	<u>91,422,420</u>
Profit before taxation		53,025,777	57,150,181
Provision for taxation	27	<u>7,786,783</u>	<u>5,668,888</u>
Profit after taxation		45,238,994	51,481,293
Unappropriated profit brought forward		<u>987,617</u>	<u>2,306,324</u>
Available for appropriations		46,226,611	53,787,617
Appropriations:			
Transfer to general reserve		<u>24,000,000</u>	<u>24,000,000</u>
Proposed final dividend Rs. 1.50 (1996: Rs.2.00) per share		<u>21,600,000</u>	<u>28,800,000</u>
		45,600,000	52,800,000
Unappropriated profit carried forward		<u>626,611</u>	<u>987,617</u>

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	Note	1997 Rupees	1996 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	31	198,395,425	160,120,142
Financial charges paid		(83,064,010)	(88,748,622)
Taxes paid		(13,354,001)	(6,027,962)
Payment of Gratuity		(639,403)	(769,427)
Net cash inflow from operating activities		101,338,011	64,574,131
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(18,753,910)	(14,175,042)
Sale proceeds of fixed assets		4,171,850	946,510
Decrease in long term deposits		1,748,600	--
Net cash (outflow) from investing activities		(12,833,460)	(13,228,532)
CASH FLOW FROM FINANCING ACTIVITIES			
Custom debentures issued		--	3,141,272
Debentures repaid		(628,255)	(1,481,554)
Payment of redeemable capital		(4,248,216)	(23,575,637)
Payment of finance lease liabilities		(14,740,636)	(13,258,899)
Long term loans paid		--	(28,135,581)
Dividend paid		(28,800,000)	--
Net cash (outflow) from financing activities		(48,417,107)	(63,310,399)
Net increase/ (decrease) in cash and cash equivalents		40,087,444	(11,964,800)
Cash and cash equivalents at beginning of the year		(146,002,941)	(134,038,141)
Cash and cash equivalents at end of the year	32	(105,915,497)	(146,002,941)

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

1. LEGAL STATUS AND NATURE OF BUSINESS

Nishat (Chunian) Limited is a public company incorporated under the Companies Ordinance, 1984 and is listed on the Lahore and Karachi Stock Exchanges. The company is engaged in the manufacture and sale of cotton yarn.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under "Historical Cost Convention" modified by Capitalisation of exchange differences referred to in Note 2.8.

2.2 Taxation

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

The company accounts for deferred taxation, using the liability method, on all major timing differences. However, provision for the current year is not considered necessary in view of available tax losses.

2.3 Staff retirement benefits

The company operates an unfunded gratuity scheme covering all its employees. Annual provision is made in the accounts to cover the company's obligations.

2.4 Fixed capital expenditure

Operating fixed assets except freehold land and capital work-in-progress are stated at cost less accumulated depreciation. Cost in relation to certain plant and machinery signifies historical cost and exchange differences referred to in note 2.8.

Depreciation on all other operating fixed assets is charged to profit on the reducing balance method so as to write off the historical cost of the assets over their estimated useful life at the rates given in note 11.

The full annual rate of depreciation is applied to the 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 differences relating to an asset at the end of each year are amortised in equal instalments over its remaining useful life.

Minor renewals or replacements, maintenance, repairs and profit or loss on disposal of fixed Assets are included in profit currently. Major renewals and improvements are capitalised.

2.5 Assets subject to finance lease

Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. The related obligations of the lease are accounted for as liabilities.

Assets acquired under a finance lease are amortised over the useful life of the assets on a reducing balance method at the rate given in note 12. Amortisation of leased assets is charged to profit.

Previously the leased assets were amortised over the shorter of the lease term or useful life of the assets at the rate of 20% per annum.

Had the previously method been used the amortisation depreciation charge for the current year would have been Rs. 11,692,087 instead of Rs. 750,250.

2.6 Stores and spares

These are valued at moving average cost. Items in transit are valued at cost comprising invoices values plus other charges paid thereon.

2.7 Stock in trade

These are stated at the lower of cost and net realisable value except for waste stock which is valued at net realisable value. Cost of raw materials represents the annual average cost. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads. Goods purchased for resale are stated at lower of cost based on FIFO and net realisable value.

Materials in transit are stated at cost comprising invoices value s plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make the sale.

2.8 Foreign currencies

All assets and liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date and in the case of forward contracts at the committed rates.

Exchange differences on loans utilized for the acquisition of plant and machinery are capitalised upto the date of commissioning of the assets.

All other exchange differences are included in profit currently.

2.9 Revenue recognition

Sales are recognized on the dispatch/shipment of goods to customer.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	1997 Rupees	1996 Rupees
3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
12,000,000 Ordinary shares of Rs. 10/- each fully paid in cash	120,000,000	120,000,000
2,400,000 Ordinary shares of Rs. 10/- each fully paid as bonus shares		
	<u>24,000,000</u>	<u>24,000,000</u>
	<u>144,000,000</u>	<u>144,000,000</u>
4. RESERVES		
General reserves		
At the beginning of the year	86,000,000	62,000,000
Transfer from profit and loss account	<u>24,000,000</u>	<u>24,000,000</u>
	<u>110,000,000</u>	<u>86,000,000</u>
5. REDEEMABLE CAPITAL		
Secured-(Non participatory)		
Term finance certificates	26,633,534	30,881,750
Less: Current portion shown under current liabilities	<u>5,047,306</u>	<u>4,248,216</u>
	<u>21,586,228</u>	<u>26,633,534</u>

This represents Term Finance Certificates issued to National Investment Trust during 1992. Return on Term Finance Certificates is payable half yearly at a rate of 18% per annum. The principal amount of the certificate is primarily redeemable in 18 equal semi annual installments of Rs. 4.812 million each.

The certificates are secured by an equitable mortgage of factory land and building and hypothecation of present and future movable and immovable assets of the company.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Present value of minimum lease rental payments	3,136,521	17,877,157
Less: Current portion shown under current liabilities	<u>3,136,521</u>	<u>14,740,636</u>
	<u>--</u>	<u>3,136,521</u>

The value of minimum lease rental payments have been discounted at implicit interest rates ranging from 19.09% to 20.09% arrive at their present value. The balance rentals due under the lease agreements aggregate to Rs. 1.39 million (1996: Rs. 32.89 million) and are payable in equal monthly or quarterly installments plus lump sum payments of Rs. 1.83 million (1996: Rs. 4.48 million) for residual values between October and November 1997. Taxes, repair and insurance costs are to be borne by lessee. In case of termination of the agreement, the lessee is to pay the entire rent for the unexpired period of the lease agreement. The liability is partly secured by a deposit of Rs. 1.83 million (1996: Rs. 4.48 million) included in note 18.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

7	DEBENTURES		
	(Non convertible)-Secured	1997	1996
		Rupees	Rupees
	Custom debentures	2,513,017	3,141,272
	Less: Current maturity shown under current liabilities	628,255	628,255
		<u>1,884,762</u>	<u>2,513,017</u>

These represent debentures issued in favour of Collector or Customs by Nishat Mills Limited in lieu of deferred payment of custom charges on plant and machinery imported by them and sold to the company under agreement of sale dated March 09, 1991.

The debentures are payable in five equal installments by November 2000. The surcharge on the balance outstanding is payable annual at the rate of 14% per annum. Debentures are secured against a bank guarantee furnished by a financial institution on behalf of the company.

8. FINANCES UNDER MARK-UP ARRANGEMENTS AND OTHER CREDIT FACILITIES - SECURED

Short term running finances	- Note 8.1	8,573,774	41,879,538
Export finances	- Note 8.2		
- Preshipment/SBP refinance		13,584,000	60,000,000
- Post shipment		94,096,000	46,293,000
		<u>107,680,000</u>	<u>106,293,000</u>
		<u>116,253,774</u>	<u>148,172,538</u>

8.1 Short term running finances are available from commercial banks under mark-up arrangements amounting to Rs. 525 million (1996: Rs 672 million). The rates of mark-up ranging from Re. 0.3836 to Re. 0.4658 per Rs. 1,000 per diem or part thereof on the balance outstanding. The aggregate short term finances are secured by hypothecation of all present and future current assets of the company.

8.2 The company has obtained export finance facilities aggregating to Rs. 211 million (1996: Rs. 115 million) from commercial banks. Mark-up is payable quarterly at the rate ranging from Re 0.3013 to Re 0.4658 per Rs. 1,000 per diem. Export finance is secured by lien on export bills and hypothecation of all present and future current assets of the company ranking pari passu to the charge referred to in note 8.1.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	1997 Rupees	1996 Rupees
9. CREDITORS, ACCRUED AND OTHER LIABILITIES		
CREDITORS	16,378,219	6,942,668
Accrued liabilities	19,855,338	18,251,498
Advances from customers	1,216,374	1,019,265
Mark-up on:		
Short term running finance and other credit facilities	11,983,204	6,531,039
Redeemable capital	599,255	694,840
Debentures	315,572	370,341
Finance lease	46,848	189,230
Retention money	931,523	931,523
Workers' profit participation fund	2,817,087	3,028,513
Others	1,155,744	696,368
	<u>55,299,164</u>	<u>38,655,285</u>

9.1 Workers' profit participation fund

Opening balance as at October 1	3,028,513	378,180
Provision for the year	2,817,087	3,028,513
Interest for the year	113,861	42,459
	<u>5,959,461</u>	<u>3,449,152</u>
Less: Payments made during the year	3,142,374	420,639
Closing balance	<u>2,817,087</u>	<u>3,028,513</u>

10. CONTINGENCIES AND COMMITMENTS

10.1 Commitments in respect of capital expenditure Rs. 97.46 million (1996: Rs. Nil).

10.2 Commitments for rentals under finance lease agreements in respect of plant and machinery payable as follows:

Year	Rupees
1997-98	1,388,484

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

11. OPERATING FIXED ASSETS - TANGIBLE

11.1 The following is a statement of the tangible fixed assets.

	Cost as at September 30, 1996	Additions/ (deletions)	Cost as at September 30, 1997	Accumulated depreciation as at September 30, 1996	Charge for the year/ (Depreciation on deletions)	Accumulated depreciation as at September 30, 1997	Book value as at September 30, 1997	Rate %
Land	4,281,952	--	4,281,952	--	--	--	4,281,952	
Building	85,273,747	300,000	85,573,747	33,052,699	5,252,105	38,304,804	47,268,943	10
Plant and machinery	306,580,669	22,025,492 (2,045,500)	326,560,661	126,302,480	20,047,173 (213,550)	146,136,103	180,424,558	10
Furniture and fixtures	1,511,255	10,700	1,521,955	572,965	94,926	667,621	854,334	10
Vehicles	7,611,352	4,717,447 (2,692,632)	9,636,167	3,341,235	1,581,980 (1,614,969)	3,308,246	6,327,921	20
Office equipment	2,334,101	942,786 (324,278)	2,952,609	549,459	244,459 (41,444)	752,474	2,200,135	10
Electrical installation	17,115,523	--	17,115,523	7,076,919	1,003,860	8,080,779	9,034,744	10
Tools and equipment	1,010,054	28,000	1,038,054	429,158	60,890	490,048	548,006	10
Rupees 1997	425,718,653	28,024,425 (5,062,410)	448,680,668	171,324,645	28,285,393 (1,869,963)	197,740,075	250,940,593	
Rupees 1996	403,631,174	23,298,255 (1,210,776)	425,718,653	143,300,438	28,383,301 (359,094)	171,324,645	254,394,008	

Included in additions are assets with book value aggregating Rs. 9,798,976 (1996: Nil) which were originally acquired under a finance lease and have been transferred to fixed assets during the year at the end of their lease term.

12.1 The depreciation charge for the year has been allocated as follows:

		1997 Rupees	1996 Rupees
Cost of goods sold	- Note 21	26,364,028	27,013,194
Administration expenses	- Note 22	1,921,365	1,370,107
		<u>28,285,393</u>	<u>28,383,301</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

11.3 Disposal of operating fixed assets

Details of certain fixed assets sold during the year, all through negotiation, are as follows:

Particulars of the asset	Sold to	Cost Rupees	Accumulated depreciation Rupees	Book value Rupees	Sale proceed Rupees
Office equipment	Executive				
	Sheikh Mohammad Iqbal	18,500	1,850	16,650	13,500
	Associated undertaking				
	Umer Fabrics Limited	21,500	2,150	19,350	19,350
	Outsiders				
	Office Automation	43,500	8,265	35,235	20,000
	Adil Mehmood	13,200	1,320	11,880	8,500
	Computer Ways	11,500	4,910	6,590	3,000
	Mohammad Arif	25,288	--	25,288	15,000
	Tauseef & Brothers	43,000	8,170	34,830	12,000
	EGS	147,790	14,779	133,011	50,000
Plant and machinery	Associated undertaking				
	Nishat Mills Limited	1,945,500	194,550	1,750,950	1,945,500
	Outsiders				
Avon Spinning Mills	100,000	19,000	81,000	170,000	
Vehicles	Outsiders				
	Mohammad Azam Cheema	358,085	240,748	117,337	275,000
	Kazim Nazir	692,735	408,991	283,744	320,000
	Mohammad Ahsan	<u>1,641,812</u>	<u>965,230</u>	<u>676,582</u>	<u>1,320,000</u>
		<u>5,062,410</u>	<u>1,869,963</u>	<u>3,192,447</u>	<u>4,171,850</u>

12. ASSETS SUBJECT TO FINANCE LEASE

	Cost as at		Accumulated amortisation		Accumulated amortisation		Book value	Rate
	September 30, 1996	Additions/ (transfers)	September 30, 1997	September 30, 1997	Amortisation/ (transfers) for the year	September 30, 1997	September 30, 1997	
Plant and machinery	67,297,652	--	24,533,710	49,996,172	750,250	17,781,456	6,752,254	10
		(42,763,942)			(32,964,966)			
Rupees 1997	67,297,652	--	24,533,710	49,996,172	750,250	17,781,456	6,752,254	
		(42,763,942)			(32,964,966)			
Rupees 1996	67,297,652	--	67,297,652	37,432,448	12,563,724	49,996,172	17,301,480	

Transfers represent assets transferred at the expiry of lease term to tangible fixed assets - note 11.1
Amortisation charge during the year has been allocated to cost of goods sold.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	1997	1996
	Rupees	Rupees
13. CAPITAL WORK IN PROGRESS		
This represents stores held for capital expenditure.		
14. LONG TERM DEPOSITS		
Security deposit	310,599	2,059,199
15. STORES AND SPARES		
Stores	5,296,228	4,327,459
Spares	4,875,054	4,451,813
	<u>10,171,282</u>	<u>8,779,272</u>
16. STOCK IN TRADE		
Raw material	21,160,300	13,266,751
Work in process	5,541,421	5,017,041
Finished goods	8,160,677	3,572,889
Cotton waste	613,106	1,030,703
	<u>35,475,504</u>	<u>22,887,384</u>
17. TRADE DEBTS - Considered good		
Export - secured	130,898,235	55,170,859
Local - unsecured	2,802,331	61,860,378
	<u>133,700,566</u>	<u>117,031,237</u>
Trade debts include amounts due from associated companies Rs. 2.36 million (1996: Rs. 59.9 million) and the maximum aggregate amount outstanding against them at the end of any month during the year was Rs. 65.67 million (1996: Rs. 66.45 million).		
18. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE		
Advances - considered good to:		
Employees	546,204	801,656
Suppliers	7,918,153	2,099,915
Contractors	23,460	920,345
Others	--	6,827,707
Short term deposits	2,170,253	2,928,954
Due from associated undertakings	3,372,606	61,646,338
Prepayments	1,109,863	239,658
Letter of credit - margins, deposits, opening charges etc.	1,362,353	--
Income tax refundable	6,077,103	509,885
Balances with statutory authorities for:		
Sales tax	12,550,956	--
Excise duty	--	76,994
Other receivable	8,491	296,296
	<u>35,139,442</u>	<u>76,347,748</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

The maximum aggregate amount of advances to associated companies at the end of any month during the year was Rs. 68.82 million (1996: Rs. 61.65 million).

	1997	1996
	Rupees	Rupees
19. CASH AND BANK BALANCES		
Balances with banks on current accounts	10,132,376	2,007,996
Cash in hand	205,901	161,601
	<u>10,338,277</u>	<u>2,169,597</u>
20. SALES		
Export	853,405,643	614,880,402
Local	273,718,117	348,519,971
Cotton waste	16,509,957	19,491,165
	<u>1,143,633,717</u>	<u>982,891,538</u>
Less: Commission to selling agents		
Export sales	35,689,570	17,702,654
Local sales	153,549	467,454
	<u>35,843,119</u>	<u>18,170,108</u>
	<u>1,107,790,598</u>	<u>964,721,430</u>
Doubling income	3,746,200	6,466,594
	<u>1,111,536,798</u>	<u>971,188,024</u>

Sales are net off excise duty and sales tax aggregating Rs. 31,671,079 (1996: Rs. 7,265,231).

21. COST OF GOODS SOLD		
Raw and packing material consumed	733,184,507	608,311,322
Stores and spares consumed	9,464,398	7,492,827
Salaries, wages and benefits	31,669,275	28,609,876
Fuel and power	58,147,001	48,922,477
Insurance	1,491,472	746,453
Depreciation	26,364,028	27,013,194
Amortisation of leased assets	750,250	12,563,724
Repair and maintenance	915,530	712,399
Others	2,416,641	1,555,002
	<u>864,403,102</u>	<u>735,927,274</u>
Opening work in process	5,017,041	4,679,907
Closing work in process	(5,541,421)	(5,017,041)
	<u>863,878,722</u>	<u>735,590,140</u>
Cost of goods manufactured		
Opening stocks		
Finished goods	3,572,889	8,080,939
Cotton waste	1,030,703	2,148,744
	<u>4,603,592</u>	<u>10,229,683</u>
	<u>868,482,314</u>	<u>745,819,823</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	1997 Rupees	1996 Rupees
Closing stocks		
Finished goods	<u>(8,160,677)</u>	<u>(3,572,889)</u>
Cotton waste	<u>(613,106)</u>	<u>(1,030,703)</u>
	<u>(8,773,783)</u>	<u>(4,603,592)</u>
	<u>859,708,531</u>	<u>741,216,231</u>
Cost of goods purchased for resale	<u>65,811,620</u>	<u>57,357,053</u>
	<u>925,520,151</u>	<u>798,573,284</u>
22. ADMINISTRATIVE EXPENSES		
Salaries, allowances and benefits	4,349,520	3,346,976
Printing and stationery	292,813	367,371
Motor vehicles running	687,830	786,314
Travelling and conveyance	3,951,327	2,608,866
Postage and telephone	1,731,365	2,195,009
Fees and subscription	357,320	326,965
Electricity, gas and water	410,133	426,057
Insurance	721,087	554,339
Office expenses	73,475	169,968
Repairs and maintenance	892,315	683,972
Entertainment	98,457	156,370
Audit fee	130,000	55,000
Advertisement	195,652	60,371
Depreciation	1,921,365	1,370,107
Advances written off	6,827,707	--
Other expenses	403,523	416,047
	<u>23,043,889</u>	<u>13,523,732</u>
23. SELLING AND DISTRIBUTION EXPENSES		
Ocean freight	37,460,254	29,847,777
Freight and octroi	7,036,312	6,557,858
Forwarding and other expenses	2,838,569	4,550,063
	<u>47,335,135</u>	<u>40,955,698</u>
24. OTHER INCOME		
Profit on sale of fixed assets	979,403	94,828
Sale of scrap	1,430,747	1,876,463
Exchange gain	3,900,763	--
Mark up on balances with associated undertakings	21,475,938	28,371,551
Liabilities no longer payable written back	750,778	--
Miscellaneous	75,855	94,449
	<u>28,613,484</u>	<u>30,437,291</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	1997 Rupees	1996 Rupees
25. FINANCIAL CHARGES		
Mark-up on redeemable capital	5,280,199	5,967,911
Mark-up on running capital	40,254,966	56,599,714
Mark-up on export finances		
- Preshipment	6,813,509	4,784,535
- Postshipment	26,411,819	953,650
Surcharge on debentures	385,009	391,578
Interest on long term loan - secured	--	2,206,391
Financial charge on leased assets	1,525,340	4,187,024
Interest on workers' profit participation fund	113,861	42,459
Bank and other charges	5,291,816	9,705,198
Excise duty on bank borrowings	2,146,920	3,497,113
	<u>88,223,439</u>	<u>88,335,573</u>
26. OTHER CHARGES		
Worker's profit participation fund	2,817,087	3,028,513
Donations	-Note 26.1 184,804	58,334
	<u>3,001,891</u>	<u>3,086,847</u>

26.1 None of the directors and their spouses have any interest in any of the donees.

27. PROVISION FOR TAXATION

In view of available tax losses the provision for current taxation represent the tax due under section 80CC of the Income Tax Ordinance, 1979. For purposes of current taxation the tax losses available for carry forward as at September 30, 1997 are estimated at approximately Rs. 35.54 million (1996: Rs. 45.29 million), including assessed tax losses of Rs. 65.45 million (1996: Rs. 65.45 million).

28. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Executives	
	1997 Rupees	1996 Rupees	1997 Rupees	1996 Rupees
Number of persons	1	1	9	7
Managerial remuneration	164,000	112,000	2,048,269	929,765
Contribution to gratuity fund	--	--	202,043	358,437
Housing	73,800	50,400	921,720	417,832
Conveyance	--	--	20,940	10,800
Utilities	8,200	5,600	81,166	56,403
	<u>246,000</u>	<u>168,000</u>	<u>3,274,138</u>	<u>1,773,237</u>

The company also provides some of them with free transport and residential telephones.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

29. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The company purchased from and sold to associated undertakings goods and services aggregating Rs. 27.581 million (1996: Rs. 46.857 million) and Rs. 212.559 million (1996: Rs. 271.716 million) respectively.

	1997	1996
30. PLANT CAPACITY AND ACTUAL PRODUCTION		
Number of spindles installed	17,280	17,280
Number of spindles worked	17,280	17,280
Number of shifts per day	3	3
Capacity after conversion into 20 count (Kgs.)	5,525,165	5,525,165
Actual production of yarn after conversion into 20 count (Kgs.)	5,131,276	5,131,415

30.1 Under utilisation of available capacity is due to processing of coarser counts.

	1997 Rupees	1996 Rupees
31. CASH GENERATED FROM OPERATIONS		
Profit before taxation	53,025,777	57,150,181
Add/(less) adjustment for non cash charges and other items:		
Depreciation	28,285,393	28,383,301
Amortisation	750,250	12,563,724
Profit on sale of fixed assets	(979,403)	(94,828)
Provision for gratuity	1,479,454	1,326,049
Financial charges	88,223,439	88,335,573
Working capital changes	- Note 31.1 27,610,515	(27,543,858)
	<u>198,395,425</u>	<u>160,120,142</u>
31.1 Working Capital Changes		
(Increase) / decrease in current assets		
Stores and spares	(1,392,010)	(1,085,548)
Stock in trade	(12,588,120)	12,339,595
Trade debts	(16,669,329)	(82,768,068)
Advances, deposits prepayments and other receivables excluding taxes refundable	46,775,524	33,764,403
	<u>16,126,065</u>	<u>(37,749,618)</u>
Increase / (decrease) in current liabilities		
Creditors, accrued and other liabilities	11,484,450	10,205,760
	<u>27,610,515</u>	<u>(27,543,858)</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	1997	1996
	Rupees	Rupees
32. CASH AND CASH EQUIVALENTS		
Cash and bank balances	10,338,277	2,169,597
Finances under mark-up arrangements and other credit facilities	(116,253,774)	(148,172,538)
	<u>(105,915,497)</u>	<u>(146,002,941)</u>

33. CORRESPONDING FIGURES

Corresponding figures for 1996, where necessary, have been re-arranged for purposes of comparison.

CHIEF EXECUTIVE

DIRECTOR

FORM - 34
THE COMPANIES ORDINANCE, 1984
PATTERN OF HOLDING OF SHARES
HELD BY THE MEMBERS AS AT SEPTEMBER 30, 1997

No. of Shareholders	Shareholding		Total Shares Held
	From	To	
361	1	100	21760
1247	101	500	250288
1024	501	1000	694528
220	1001	1500	282272
56	1501	2000	104776
65	2001	2500	152300
35	2501	3000	99940
12	3001	3500	39820
27	3501	4000	99880
13	4001	4500	56280
26	4501	5000	125480
5	5001	5500	26740
21	5501	6000	125460
4	6001	6500	25856
4	6501	7000	26896
11	7001	7500	79500
5	7501	8000	38940
5	8001	8500	41440
2	8501	9000	17160
2	9001	9500	18980
11	9501	10000	109120
27	10001	15000	342460
9	15001	20000	161684
5	20001	25000	118356
1	30001	35000	31000
3	35001	40000	113104
2	40001	45000	83800
1	50001	55000	54320
4	55001	60000	238320
1	60001	65000	64800
1	65001	70000	68200
2	75001	80000	154140
1	95001	100000	99180
1	180001	185000	183000
1	220001	225000	222480
1	230001	235000	230200
1	305001	310000	305940
1	400001	405000	400160
1	490001	495000	490808
1	535001	540000	540000
1	555001	560000	558120
2	595001	600000	1200000
1	1735001	1740000	1740000
1	1770001	1775000	1771912
1	2790001	2795000	2790600

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Categories of Shareholders	Number of Shareholders	Shares Held	% Percentage
Individuals	3198	7895320	54.83
Investment Companies	8	907848	6.3
Insurance Companies	3	406380	2.82
Joint Stock Companies	10	3073420	21.34
Financial Institutions	4	1791592	12.44
Modaraba Company	1	1500	0.02
Foreign Companies	2	323940	2.25
	3226	14400000	100.00



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