



ANNUAL REPORT 1998



Nishat Chunian Ltd

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ANNUAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 1998

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COMPANY INFORMATION

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
Hong Kong and Shanghai Banking Corporation Ltd.

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 NISHT PK.
Fax: (042) 6367414

Mills:**Spinning:**

49th Kilometre, Multan Road,
Bhai Pheru, Tehsil Chunian,
District Kasur.

Weaving

49th Kilometre, Multan Road,
Kamogal, Tehsil Pattoki,
District Kasur.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 9th 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 Wednesday, March 31, 1999 at 11.30 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, 1998 together with Directors' and Auditors' reports thereon.
3. To appoint auditors for the year ending September 30, 1999 and fix their remuneration. The Present Auditors M/s. A.F. Ferguson & Co. Chartered Accountant, retire and being eligible, offer themselves for reappointment.
4. 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, 1999 to April 07, 1999 (both days inclusive).

By Order of the Board

Lahore:
March 08, 1999

FARRUKH IFZAL
Corporate Secretary

NOTES:

- i) 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.
- ii) Members are requested to immediately notify the change of address, if any.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors of your company welcome you to the 9th Annual General Meeting of the company and present the audited accounts and annual report for the year ended September 30, 1998.

The directors are pleased to report yet another year of success by earning a pre tax profit of Rs. 63.222 Million (1997. Rs 53.026 Million) the company has provided depreciation amounting to Rs. 35.446 Million and taxation to Rs. 11.611 Million. Earning per share comes to Rs. 3.58.

The year 1997-98 was a significant and successful year for Nishat (Chunian) Limited in terms of Profitability and higher value added products through planned and balance development. During the year under review the company has successfully completed erection of complete weaving unit consisting of 99 state of the art picanol air jet looms along with necessary back process. The weaving unit successfully started its commercial production w.e.f. September 1, 1998.

During the year under review 4 Chinese ring spinning frames, one set of Toyoda draw frame and two simplex machines were added. As already reported in the previous year's directors report 39 Crossrol cards (MK4) were replaced with 19 brand new, state of the art DK 803 Trutzschler Cards imported from Germany. This addition and modernization has resulted in enhanced production, lowering of operational cost and improvement in product quality.

The devaluation of Pak rupee by 8.7% in October 1997 was a major event for local exporters of textile related products. Limited gains were made on the exports which were in the pipeline at the time of devaluation as buyers came back on devaluation news and re-negotiated the prices. One go devaluation also resulted in increase in cotton prices as October is the start of cotton buying season. However devaluation through realistic adjustment on a day to day basis through a policy of managed currency float have better results for the industry.

Pakistan's textile exports to Hong kong, Japan and Korea were badly effected due to un-expected currency crises in the Far East. With the massive devaluation, countries like Indonesia were able to offer yarn at throw away prices. However with the timely shifting of market base your company was able to minimize the effect of above crises.

SHORT TERM OUTLOOK

Diversifying its business interest by venturing into a weaving unit, modernization and additions in existing production facilities has further enabled NCL to produce best quality, value added goods primarily for exports. You will be delighted to know that during the current year 29 wider width Picanol looms have been added to existing production facilities.

Your directors are hopeful that like previous year the year 1998-99 is expected to yield excellent results. Special emphasis has been placed to diversify our customer base by exploring new markets in search of new horizons. This will help us to secure non traditional markets and, in turn, achieve a higher degree of economic security while entering into the 21st century.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Access to high quality and contamination free cotton is required to reach high standard of excellence in our products. Unfortunately for the last few years Pakistan's cotton crop has been suffering from various natural and man made problems resulting cotton prices in Pakistan are above international parity. Keeping in view above mentioned problem your company has also imported cotton from C.I.S countries.

Your directions would like to take this opportunity to register their appreciation for the un-tiring efforts of the staff, management and customers, who have placed so much faith on us for the last so many years, resulting in continued profitability for the company.

The directors are pleased to state that the computers and software used by the company are year 2000 compliant.

The retiring auditors M/S .A.F. Ferguson & Co., Chartered Accountants, being eligible, offer themselves for reappointment.

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 08, 1999

MIAN MUHAMMAD OMAR
Director

We have audited the annexed balance sheet of **NISHAT (CHUNIAN) LIMITED** as at September 30, 1998 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 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, 1998 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 08, 1999

A.F. FERGUSON & CO.
Chartered Accountants

BALANCE SHEET AS AT SEPTEMBER 30, 1998

	NOTE	1998 Rupees	1997 Rupees
SHARE CAPITAL AND RESERVES			
Authorised Capital			
15,000,000 ordinary shares			
of Rupees 10 each		150,000,000	150,000,000
Issued, subscribed and paid up capital	3	144,000,000	144,000,000
Reserves	4	162,000,000	110,000,000
Unappropriated profit		237,099	626,611
		306,237,099	254,626,611
REDEEMABLE CAPITAL-SECURED	5	15,589,522	21,586,228
LONG TERM LOANS-SECURED		250,000,000	--
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	--	--
DEBENTURES AND DEFERRED LIABILITY			
Debentures	8	1,256,507	1,884,762
Staff gratuity		3,585,088	3,294,357
		4,841,595	5,179,119
CURRENT LIABILITIES			
Current Portion of:			
Redeemable capital	5	5,996,706	5,047,306
Long term loans	6	50,000,000	--
Liabilities against assets subject to finance lease	7	--	3,136,521
Debentures	8	628,255	628,255
Finances under mark up arrangements and other credit facilities-secured	9	499,578,658	116,253,774
Creditors, accrued and other liabilities	10	146,038,060	55,299,164
Proposed dividend		--	21,600,000
		702,241,679	201,965,020
CONTINGENCIES AND COMMITMENTS	11	--	--
		1,278,909,895	483,356,978

DIRECTOR

The two Directors have signed the audited accounts, as the Chief Executive is for the being not in Pakistan.

BALANCE SHEET AS AT SEPTEMBER 30, 1998

	NOTE	1998 Rupees	1997 Rupees
FIXED CAPITAL EXPENDITURE			
Operating fixed assets - tangible	12	820,218,519	250,940,593
Assets subject to finance lease	13	--	6,752,254
Capital work in process	14	66,374,217	528,461
		886,592,736	258,221,308
LONG TERM DEPOSITS	15	227,450	310,599
CURRENT ASSETS			
Stores and spares	16	14,871,613	10,171,282
Stock-in-trade	17	85,883,147	35,475,504
Trade debts	18	193,845,027	133,700,566
Advances, deposits, prepayments and other receivables	19	94,492,011	35,139,442
Cash and bank balances	20	2,997,911	10,338,277
		392,089,709	224,825,071
		1,278,909,895	483,356,978

DIRECTOR

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	NOTE	1998 Rupees	1997 Rupees
Sales	21	1,148,551,138	1,111,536,798
Cost of goods sold	22	965,179,672	925,520,151
Gross Profit		183,371,466	186,016,647
Administration expenses	23	18,750,627	23,043,889
Selling and distribution expenses	24	40,339,294	47,335,135
		59,089,921	70,379,024
Operating profit		124,281,545	115,637,623
Other income	25	32,183,023	28,613,484
		156,464,568	144,251,107
Financial charges	26	89,893,009	88,223,439
Other charges	27	3,350,000	3,001,891
		93,243,009	91,225,330
Profit before taxation		63,221,559	53,025,777
Provision for taxation	28	11,611,071	7,786,783
Profit after taxation		51,610,488	45,238,994
Unappropriated profit brought forward		626,611	987,617
Available for appropriations		52,237,099	46,226,611
Appropriations:			
Transfer to general reserve		52,000,000	24,000,000
Proposed final dividend Rs. Nil (1997: Rs. 1.50) per share		--	21,600,000
		52,000,000	45,600,000
Unappropriated profit carried forward		237,099	626,611

The annexed notes from an integral part of these accounts.

DIRECTOR

DIRECTOR

The two Directors have signed the audited accounts, as the Chief Executive is for the time being not in Pakistan.

CASH FLOW STATEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	NOTE	1998 Rupees	1997 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	32	74,434,569	198,395,425
Financial charges paid		(73,658,651)	(83,064,010)
Taxes paid		(21,308,021)	(13,354,001)
Payment of gratuity		(735,498)	(639,403)
Net cash (outflow)/inflow from operating activities		(21,267,601)	101,338,011
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(699,800,164)	(18,753,910)
Sale proceeds of fixed assets		60,065,410	4,171,850
Decrease in long term deposits		83,149	1,748,600
Net cash (outflow)/inflow from investing activities		(639,651,605)	(12,833,460)
CASH FLOW FROM FINANCING ACTIVITIES			
Debentures repaid		(628,255)	(628,255)
Payment of redeemable capital		(5,047,306)	(4,248,216)
Payment of finance lease liabilities		(3,136,521)	(14,740,636)
Long term loans		300,000,000	--
Dividend paid		(20,933,962)	(28,800,000)
Net cash inflow/(outflow) from financing activities		270,253,956	(48,417,107)
Net increase / (decrease) in cash and cash equivalents		(390,665,250)	40,087,444
Cash and cash equivalents at beginning of the year		(105,915,497)	(146,002,941)
Cash and cash equivalents at the end of the year	33	(496,580,747)	(105,915,497)

The annexed notes from an integral part of these accounts.

DIRECTOR

DIRECTOR

The two Directors have signed the audited accounts, as the Chief Executive is for the time being not in Pakistan.

1. LEGAL STATUS AND NATURE OF BUSINESS

Nishat (Chunian) Limited is a Public Limited 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 and fabric. The company commenced its commercial production of fabric from September, 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under the "Historical Cost Convention" modified by capitalisation of exchange differences referred to in note 2.7.

2.2 Taxation

The provision of current taxation is based on taxable income at the current rates 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 lives at the rates given in note 12.

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 capitalized.

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 at the given in note 13. Amortisation of leased assets is charged to profit.

2.6 Stores and spares

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

2.7 Stock in trade

These are stated at the lower cost and net realizable value except for waste stock which is valued at net realisable value. Cost of raw materials represents:

- Spinning: annual average cost
- Weaving: moving 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 values plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less cost necessary 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 capitalized 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, 1998

	1998 Rupees	1997 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 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	110,000,000	86,000,000
Transfer from profit and loss account	<u>52,000,000</u>	<u>24,000,000</u>
	<u>162,000,000</u>	<u>110,000,000</u>
5. REDEEMABLE CAPITAL		
Secured-(Non participatory)		
Term finance certificates	21,586,228	26,633,534
Less: Current portion shown under current liabilities	<u>5,996,706</u>	<u>5,047,306</u>
	<u>15,589,522</u>	<u>21,586,228</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. LONG TERM LOANS-SECURED

	Installments payable	Interest rate	Repayment period	1998 Rupees	1997 Rupees
1. Citibank N.A.	Half yearly	*STFB+1.7%	1999-2002	125,000,000	--
2. ABN AMRO Bank	Half yearly	STFB+1.7%	1999-2001	<u>175,000,000</u>	--
				<u>300,000,000</u>	
Less: Current portion shown under current liabilities				<u>50,000,000</u>	--
				<u>250,000,000</u>	--

* Short term federal bonds

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

Loan 1

Loan 1 is secured by a first pari passu charge on all present and future fixed and current assets of the weaving unit of the company.

Loan 2

Loan 2 is secured by a first pari passu charge on present and future fixed assets of the weaving unit of the company.

7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	1998 Rupees	1997 Rupees
Present value of minimum lease rental payments	--	3,136,521
Less: Current portion shown under current liabilities	<u>--</u>	<u>3,136,521</u>
	<u>--</u>	<u>--</u>

These have been repaid during the year.

8. DEBENTURES (Non convertible) - Secured

Custom debentures	1,884,762	2,513,017
Less: Current maturity shown under current liabilities	<u>628,255</u>	<u>628,255</u>
	<u>1,256,507</u>	<u>1,884,762</u>

These represent debentures issued in favour of Collector of 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 annual installments by November 2000. The surcharge on the balance outstanding is payable annually at the rate of 14% per annum. Debentures are secured against a bank guarantee furnished by a financial on behalf of the company.

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

Short term running finances - Note 9.1	242,132,658	8,573,774
Export finances - Note 9.2		
- Preshipment/SBP refinance	<u>155,435,000</u>	<u>13,584,000</u>
- Post shipment	<u>102,011,000</u>	<u>94,096,000</u>
	<u>257,446,000</u>	<u>107,680,000</u>
	<u>499,578,658</u>	<u>116,253,774</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

- 9.1** Short term running finances are available from commercial banks under mark-up arrangements amounting to Rs. 495 million (1997: Rs 525 million). The rates of mark-up range from Re. 0.4246 to Re. 0.4520 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.
- 9.2** The company has obtained export finance facilities aggregating to Rs. 317 million (1997: Rs. 211 million) from commercial banks. Mark-up is payable quarterly at the rate ranging from Re 0.3013 to Re 0.4520 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 9.1.

	1998	1997
	Rupees	Rupees
10. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	49,519,951	16,378,219
Accrued liabilities	12,852,308	19,855,338
Advances from customers	3,537,774	1,216,374
Mark-up on:		
Short term running finance and other credit facilities	16,628,149	11,983,204
Redeemable capital	485,691	599,255
Debentures	236,050	315,572
Finance lease	--	46,848
Long term loans	11,829,347	--
Retention money	1,066,056	931,523
Workers' profit participation fund - note 10.1	3,350,000	2,817,087
Due to associated undertaking - Nishat Mills Ltd.	45,086,641	--
Unclaimed Dividend	666,038	--
Others	780,055	1,155,744
	<u>146,038,060</u>	<u>55,299,164</u>

The maximum aggregate amount due to associated company at any month during the year was:

- Nishat Mills Ltd. Rs. 45,086,641 (1997: Rs. Nil)

10.1 Workers' profit participation fund

Opening balance as at October 1	2,817,087	3,028,513
Provision for the year	3,350,000	2,817,087
Interest for the year	109,694	113,861
	<u>6,276,781</u>	<u>5,959,461</u>
Less: Payments made during the year	<u>2,926,781</u>	<u>3,142,374</u>
Closing balance	<u>3,350,000</u>	<u>2,817,087</u>

CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

During the year the company imported refrigeration system on which custom duties and sales tax were exempted vide SRO 27(1)/98 dated January 17, 1998, SRO 230(1)/97 dated March 29, 1997 along with CGO 12/81 on the grounds that these items are not manufactured in Pakistan. However, custom authorities subsequently contended that since these items are being manufactured in Pakistan, therefore, duties are leviable. The company thereafter issued bank guarantees aggregating Rs. 15,702,322 and filed a writ petition before the Honourable Lahore High Court which in turn has granted a stay against

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

the recovery.

However, no provision has been made in these accounts for the aforementioned amount as in management's view, there are meritorious grounds for a decision in the company's favour.

11.2 Commitments in respect of capital expenditure Rs. 88.40 million (1997: Rs. 97.46 million)

12. OPERATING FIXED ASSETS - TANGIBLE

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

	Cost as at September 30, 1997	Additions/ (deletions)	Cost as at September 30, 1998	Accumulated depreciation as at September 30, 1997	Charge for the year/ (Depreciation on deletions)	Accumulated depreciation as at September 30, 1998	Book value as at September 30, 1998	Rate %
Land	4,281,952	12,196,591	16,478,543	--	--	--	16,478,543	
Building	85,573,747	12,595,409	98,169,156	38,304,804	4,831,856	43,136,660	55,032,496	10
Plant & Machinery	326,560,661	595,537,297 (76,147,598)	845,950,360	146,136,103	27,122,151 (40,412,790)	132,845,464	713,104,896	10
Furniture and fixtures	1,521,955	420,878 (104,270)	1,838,563	667,621	85,972 (35,858)	717,735	1,120,828	10
Vehicles	9,636,167	4,124,072 (438,889)	13,321,350	3,308,246	2,060,844 (291,117)	5,077,973	8,243,377	20
Office equipments	2,952,609	607,879 (35,715)	3,524,773	752,474	257,982 (3,572)	1,006,884	2,517,889	10
Electrical installation	17,115,523	14,932,981	32,048,504	8,080,779	1,027,916	9,108,695	22,939,809	10
Tools and equipment	1,038,054	291,555	1,329,609	490,048	58,880	548,928	780,681	10
Rupees 1998	448,680,668	640,706,662 (76,726,472)	1,012,660,858	197,740,075	35,445,601 (40,743,337)	192,442,339	820,218,519	
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	

Included in additions are assets with book value aggregating Rs. 6,752,254 (1997: Rs. 9,798,976) 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.

Additions to building, plant and machinery and electric installation include interest amounting to Rs. 33,787,796.

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

		1998 Rupees	1997 Rupees
Cost of goods sold	- note 22	33,045,740	26,364,028
Administration expenses	- note 23	2,399,861	1,921,365
		<u>35,445,601</u>	<u>28,285,393</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

12.3 Disposal of operating fixed assets

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

Particulars of the assets	Sold to	Cost Rupees	Accumulated depreciation Rupees	Book value Rupees	Sales proceeds Rupees
Vehicles	Executive				
	Mr. Iftikhar Ahmed	217,000	160,114	56,886	71,410
	Outsider				
	Rana Tanveer Aslam	221,889	131,003	90,886	203,000
Office equipment	Outsider				
	Dr. Shoukat	35,715	3,572	32,143	30,000
Furniture and fixtures	Outsider				
	Mr. Muhammad Riaz	104,270	35,858	68,412	35,000
Plant and machinery	Outsider				
	Ali Akbar Spinning Mills Ltd.	3,309,701	1,767,977	1,541,724	2,550,000
	Ayesha Cotton Mills Ltd.	12,927,304	6,905,509	6,021,795	9,960,000
	Chenab Fibre Ltd.	6,723,236	3,591,418	3,131,818	5,180,000
	Ejaz Spinning Mills Ltd.	9,669,520	5,165,265	4,504,255	7,450,000
	Maqbool Textile Mills Ltd.	3,179,909	1,698,644	1,481,265	2,450,000
	Nayab Spinning Mills Ltd.	5,516,169	2,946,628	2,569,541	4,250,000
	Premium Textile Mills Ltd.	11,097,234	5,927,922	5,169,312	8,550,000
	Rao Textile Mills Ltd.	6,749,195	3,605,286	3,143,909	5,200,000
	Resham Textile Mills Ltd.	3,374,598	1,802,643	1,571,955	2,600,000
	Taj Textile Mills Ltd.	1,635,382	873,588	761,794	1,260,000
	Idrees Textile Mills Ltd.	1,566,115	802,067	764,048	1,345,000
	Indus Dying Mills Ltd.	3,481,549	1,783,033	1,698,516	2,990,000
	Masood Textile Mills Ltd.	1,164,398	596,332	568,066	1,000,000
	Rao Textile Mills Ltd.	1,566,115	802,067	764,048	1,345,000
	Sunrays Textile Mills Ltd.	1,688,376	864,682	823,694	1,450,000
	Sapphire Textile Mills Ltd.	116,440	59,633	56,807	100,000
	Umer Fabrics Ltd.	2,382,357	1,220,096	1,162,261	2,046,000
		<u>76,726,472</u>	<u>40,743,337</u>	<u>35,983,135</u>	<u>60,065,410</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

13. ASSETS SUBJECT TO FINANCE LEASE

	Cost as at September 30, 1997	Additions/ (transfers)	Cost as at September 30, 1998	Accumulated amortisation as at September 30, 1997	Amortisation (transfers) for the year	Accumulated amortisation as at September 30, 1998	Book value as at September 30, 1998	Rate %
Plant and machinery	24,533,710	--	--	17,781,456	--	--	--	10
		(24,533,710)			(17,781,456)			
Rupees 1998	24,533,710	--	--	17,781,456	--	--	--	
		(24,533,710)			(17,781,456)			
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)			

Transfer represent assets transferred at the expiry of lease term to tangible fixed assets - note 12.1

	1998 Rupees	1997 Rupees
14. CAPITAL WORK IN PROGRESS		
This consists of civil works.	66,374,217	66,374,217
15. LONG TERM DEPOSITS		
Security deposit	<u>227,450</u>	<u>310,599</u>
16. STORES AND SPARES		
Stores	4,860,671	5,296,228
Spares	<u>10,010,942</u>	<u>4,875,054</u>
	<u>14,871,613</u>	<u>10,171,282</u>
17. STOCK IN TRADE		
Raw material [includes in transit Rs 5,701, 109 (1997: Rs Nil)]	32,875,288	21,160,300
Work in process	14,482,293	5,541,421
Finished goods	37,547,286	8,160,677
Cotton waste	<u>978,280</u>	<u>613,106</u>
	<u>85,883,147</u>	<u>35,475,504</u>
18. TRADE DEBTS - Considered good		
Export - Secured	189,491,106	130,898,235
Local - unsecured	<u>4,353,921</u>	<u>2,802,331</u>
	<u>193,845,027</u>	<u>133,700,566</u>

Trade debts include amounts due from associated company Nishat Mills Limited (Bhikki) Rs. 1.1 million (1997: Rs. 2.36 million) and the maximum aggregate amount outstanding against then at the end of any month during the year was Rs. 3.31 million (1997: Rs. 65.67 million).

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	1998 Rupees	1997 Rupees
19. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances - considered good to		
Employees	1,505,515	546,204
Suppliers	15,441,911	7,918,153
Contractors	6,569,699	23,460
Short term deposits	740,358	2,170,253
Due from associated undertaking	--	3,372,606
Prepayments	276,175	1,109,863
Letter of credit - margins, deposits, opening charges etc.	27,610,381	1,362,353
Income tax refundable	15,774,053	6,077,103
Balances with statutory authorities for:		
Sales tax	23,432,351	12,550,956
Other receivables	3,141,568	8,491
	<u>94,492,011</u>	<u>35,139,442</u>
20. CASH AND BANK BALANCES		
Balances with banks on current accounts	2,405,022	10,132,376
Cash in hand	592,889	205,901
	<u>2,997,911</u>	<u>10,338,277</u>
21. SALES		
Export	873,810,421	853,405,643
Local	268,492,050	273,718,117
Cotton waste	16,618,369	16,509,957
	<u>1,158,920,840</u>	<u>1,143,633,717</u>
Less: Commission to selling agents		
Export sales	13,009,715	35,689,570
Local sales	292,258	153,549
	<u>13,301,973</u>	<u>35,843,119</u>
	<u>1,145,618,867</u>	<u>1,107,790,598</u>
Doubling income	2,135,500	3,746,200
Export rebate	796,771	--
	<u>1,148,551,138</u>	<u>1,111,536,798</u>

Sales are net off excise duty and sales tax aggregating Rs. 33,561,603 (1997: Rs. 31,671,079).

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	1998 Rupees	1997 Rupees
22. COST OF GOODS SOLD		
Raw and packing material consumed	744,016,004	733,184,507
Stores and spares consumed	12,154,776	9,464,398
Salaries, wages and benefits	37,839,146	31,669,275
Fuel and power	72,857,804	58,147,001
Insurance	1,744,074	1,491,472
Depreciation	33,045,740	26,364,028
Amortisation of leased assets	--	750,250
Repair and maintenance	1,357,250	915,530
Others	2,238,048	2,416,641
	<u>905,252,842</u>	<u>864,403,102</u>
Opening work in process	5,541,421	5,017,041
Transferred from trial run	6,141,700	--
Closing work in process	<u>(14,482,293)</u>	<u>(5,541,421)</u>
	902,453,670	863,878,722
Opening Stocks:		
Finished goods	8,160,677	3,572,889
Cotton waste	613,106	1,030,703
Transferred from trial run	22,065,685	--
	<u>30,839,468</u>	<u>4,603,592</u>
	933,293,138	868,482,314
Closing stocks:		
Finished goods	(37,547,286)	(8,160,677)
Cotton waste	(978,280)	(613,106)
	<u>(38,525,566)</u>	<u>(8,773,783)</u>
	894,767,572	859,708,531
Cost of goods purchased for resale	<u>70,412,100</u>	<u>65,811,620</u>
	<u>965,179,672</u>	<u>925,520,151</u>
23. ADMINISTRATION EXPENSES		
Salaries, allowances and benefits	5,864,814	4,349,520
Printing and stationery	255,653	292,813
Vehicle running expenses	560,517	687,830
Travelling and conveyance	3,894,419	3,951,327
Postage and telephone	2,152,565	1,731,365
Fee and subscription	469,159	357,320
Electricity, gas and water	575,898	410,133
Insurance	975,965	721,087
Office expenses	63,450	73,475
Repairs and maintenance	240,611	892,315
Entertainment	109,233	98,457
Audit fee	150,000	130,000
Advertisement	169,853	195,652
Depreciation	2,399,861	1,921,365
Advances written off	--	6,827,707
Other expenses	868,629	403,523
	<u>18,750,627</u>	<u>23,043,889</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	1998 Rupees	1997 Rupees
24. SELLING AND DISTRIBUTION EXPENSES		
Ocean freight	27,699,921	37,460,254
Freight and octroi	6,377,548	7,036,312
Forwarding and other expenses	6,261,825	2,838,569
	<u>40,339,294</u>	<u>47,335,135</u>
25. OTHER INCOME		
Profit on sale of fixed assets	24,082,275	979,403
Profit on FDR's	141,744	--
Sale of scrap	2,497,325	1,430,747
Exchange gain	--	3,900,763
Mark up on balances with associated undertakings	4,771,531	21,475,938
Liabilities no longer payable written back	467,538	750,778
Miscellaneous	222,610	75,855
	<u>32,183,023</u>	<u>28,613,484</u>
26. FINANCIAL CHARGES		
Mark-up on redeemable capital	4,463,130	5,280,199
Mark-up on running finances	36,986,759	40,254,966
Mark-up on export finances		
- Preshipment	17,001,781	6,813,509
- Postshipment	19,900,955	26,411,819
Mark-up on term finance	1,418,225	--
Surcharge on debentures	272,301	385,009
Interest on long term loans - secured	4,150,685	--
Financial charge on leased assets	36,864	1,525,340
Interest on workers' profit participation fund	109,694	113,861
Bank and other charges	5,552,615	5,291,816
Excise duty on bank borrowings	--	2,146,920
	<u>89,893,009</u>	<u>88,223,439</u>
27. OTHER CHARGES		
Workers' profit participation fund	3,350,000	2,817,087
Donations	--	184,804
	<u>3,350,000</u>	<u>3,001,891</u>
28. PROVISION FOR TAXATION		
Current year	8,391,318	7,786,783
Prior year	3,219,753	--
	<u>11,611,071</u>	<u>7,786,783</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

In view of available tax losses the provision for current taxation represent that 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, 1998 are estimated at approximately Rs. 51.50 million (1997: Rs. 35.54 million), including assessed tax losses of Rs. 18.89 million (1997: Rs. 65.45 million). Included in taxation for prior years is an amount of Rs. 408,649 being the penalty under section 52 of Income Tax Ordinance imposed by the income tax authorities which has been contested by the company.

29. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Executive	
	1998	1997	1998	1997
	Rupees	Rupees	Rupees	Rupees
Number of persons	1	1	10	9
Managerial remuneration	365,733	164,000	3,313,382	2,048,269
Contribution to gratuity fund	--	--	225,514	202,043
Housing	164,580	73,800	1,472,014	921,720
Conveyance	--	--	21,210	20,940
Utilities	18,287	8,200	152,367	81,166
	548,600	246,000	5,184,487	3,274,138

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

30. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The company purchased from and sold to associated undertakings goods and services aggregating Rs. 72.06 million (1997: Rs. 27.581 million) and Rs. 180.346 million (1997: Rs. 212.559 million) respectively.

31. PLANT CAPACITY AND ACTUAL PRODUCTION

	1998	1997
Spinning		
Number of spindles installed	19,200	17,280
Number of spindles worked	17,825	17,280
Number of shifts per day	3	3
Capacity after conversion into 20 count (kgs.)	6,164,444	5,525,165
Actual production of yarn after conversion into 20 count (Kgs.)	5,884,295	5,326,635

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

Weaving

Number of looms installed	99	--
Number of shifts per day	3	--
Capacity after conversion into 50 picks (for the month of September)-yards	3,952,800	--
Actual production of fabric after conversion into 50 picks (for the month of September)-yards	2,388,168	--

Under utilisation of available capacity was due to lower speeds for completion of initial running.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	1998 Rupees	1997 Rupees
32. CASH GENERATED FROM OPERATIONS		
Profit before taxation	63,221,559	53,025,777
Add/(less) adjustment for non cash charges and other items:		
Depreciation	35,445,601	28,285,393
Amortisation	--	750,250
Profit on sale of fixed assets	(24,082,275)	(979,403)
Provision for gratuity	1,026,229	1,479,454
Financial charges	89,893,009	88,223,439
Working capital changes - note 32.1	<u>(91,069,554)</u>	<u>27,610,515</u>
	<u>74,434,569</u>	<u>198,395,425</u>
32.1 Working Capital Changes		
(Increase)/decrease in current assets		
Stores and spares	(4,700,331)	(1,392,010)
Stock in trade	(50,407,643)	(12,588,120)
Trade debts	(60,144,461)	(16,669,329)
Advances, deposits and other receivables excluding taxes refundable	<u>(49,655,619)</u>	<u>46,775,524</u>
	<u>(164,908,054)</u>	<u>16,126,065</u>
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities	<u>73,838,500</u>	<u>11,484,450</u>
	<u>(91,069,554)</u>	<u>27,610,515</u>
33. CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,997,911	10,338,277
Finances under mark-up arrangements and other credit facilities	<u>(499,578,658)</u>	<u>(116,253,774)</u>
	<u>(496,580,747)</u>	<u>(105,915,497)</u>
34. CORRESPONDING FIGURES		
Corresponding figures for 1997, where necessary, have been re-arranged for purposes of comparison.		

DIRECTOR

DIRECTOR

The two Directors have signed the audited accounts, as the Chief Executive is for the time being not in Pakistan.

FORM - 34
THE COMPANIES ORDINANCE, 1984
PATTERN OF HOLDING OF SHARES
HELD BY THE MEMBERS AS AT SEPTEMBER 30, 1998

No. of Shareholders	Shareholding		Total Shares Held
	From	To	
486	1	100	30148
1215	101	500	249352
924	501	1000	633456
189	1001	1500	243384
52	1501	2000	97036
54	2001	2500	126872
37	2501	3000	105920
13	3001	3500	43200
24	3501	4000	89300
12	4001	4500	52200
31	4501	5000	151640
9	5001	5500	47348
18	5501	6000	107460
2	6001	6500	12756
4	6501	7000	27720
10	7001	7500	72200
5	7501	8000	39400
4	8001	8500	33140
4	8501	9000	35160
14	9501	10000	138660
24	10001	15000	302912
7	15001	20000	126256
4	20001	25000	89720
2	25001	30000	53000
2	30001	35000	65000
1	35001	40000	36000
1	40001	45000	42300
3	50001	55000	158820
4	55001	60000	238320
1	60001	65000	64800
2	75001	80000	155140
1	100001	105000	101680
1	220001	225000	222480
2	295001	300000	598040
1	395001	400000	397888
1	400001	405000	400160
1	535001	540000	540000
1	555001	560000	558120
2	795001	800000	1600000
1	910001	915000	911500
1	1270001	1275000	1270912
1	1335001	1340000	1340000
1	2590001	2795000	2790600
3172			14400000
Categories of Shareholders	Number of Shareholders	Shares Held	% Percentage
Individuals	3143	8062880	55.99
Investment	6	1476328	10.25
Insurance Companies	3	406380	2.82
Joint Stock Companies	11	3138520	21.8
Financial Institutions	4	1287792	8.94
Modaraba Companies	4	28000	0.2
Foreign Company	1	100	0
	3172	14400000	100.00

PROXY FORM

The Corporate Secretary,
NISHAT (CHUNIAN) LIMITED
4- Happy Homes,
38-A, Main Gulberg,
Lahore

I/We _____

of _____ being a member(s) of

NISHAT (CHUNIAN) LIMITED, and holder of _____ ordinary shares

as per Share Register Folio No. _____

hereby appoint Mr. /Mrs. /Miss _____

of _____ or falling him/her Mr. /Mrs. /Miss

_____ of _____

(being member of company) as my/our Proxy to attend, act and vote for me/us and on my/our behalf at the Annual

General Meeting of the Company to be held at the Head Office of the Company at 4-Happy Homes, 38-A, Main

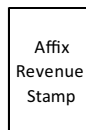
Gulberg, Lahore on Wednesday, March 31, 1999 at 11.30 a.m. and at every adjournment thereof:

As witness my hand this _____ day of _____ 1999

Signed by the said _____ in presence of

Witness

Signature



Signature

NOTES:

1. Proxies, in order to be effective, must be received at the company's Head Office/Registered Office not less than 48 hours before the meeting duly stamped, signed and witnessed.
2. Signature must agree with the specimen signature registered with the Company.
3. No person shall act as proxy unless he/she is member of the Company.



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