



ANNUAL REPORT 2003



Nishat Chunian Ltd

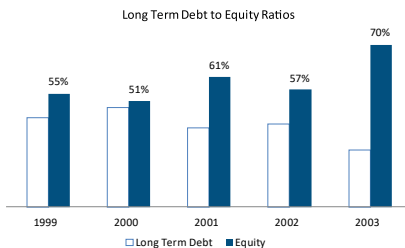
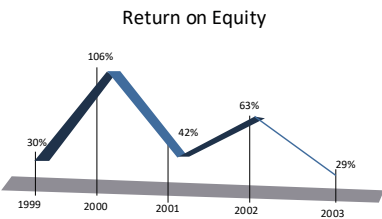
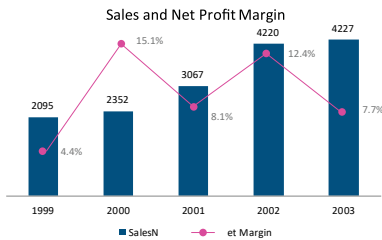
Brief Profile

The Company was incorporated in 1990 as a public limited company with an equity investment of PKR 100 million. A spinning mill having a capacity of 14,400 spindles was established at Bhai Pheru, Tehsil Chunian. It started commercial production on March 10, 1991. The capacity was enhanced to 19,200 spindles in 1998. In 1998, the Company diversified its business interests by venturing into a weaving project with the installation of 99 air jet looms. A new state of the art spinning unit started production in November 2000, increasing the total spinning capacity to about 40,872 spindles. Subsequently weaving capacity has been increased to 212 air jet looms while the spinning capacity has been enhanced to 50,952 spindles. The company is now equipped with the most modern manufacturing facilities in the country to produce high quality specialized products for its customers all over the world.

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COMPANY INFORMATION

Board of Directors:	Mr. Muhammad Saleem Mr. Shahzad Saleem Mr. Yahya Saleem Mr. Asif Jameel Mr. Khalid Niaz Khawaja Syed Jawad Gillani Mr. Farid Fazal	Chairman Chief Executive Nominee NIT
Audit Committee:	Mr. Shahzad Saleem Mr. Farid Fazal Syed Jawad Gillani	Chairman Member Member
Company Secretary:	Mr. Farrukh Ifzal	
Bankers to the Company:	ABN AMRO Bank N.V American Express Bank Askari Commercial Bank Citi Bank N.A Credit Agricole Indosuez Faysal Bank Limited Habib Bank Limited PICIC Commercial Bank Limited Standard Chartered Bank Union Bank Limited United Bank Limited	
Auditors:	Riaz Ahmad & Company Chartered Accountants	
Registered & Head Office:	31-Q, Gulberg-II, Lahore, Pakistan. Phone :5761730-39 Fax :5878696-97	
Mills:	Spinning 1 49th Kilometre, Multan Road, Bhai Pheru, Tehsil Chunian, District Kasur. Spinning 2 & Weaving 49th Kilometre, Multan Road, Kamogal, Tehsil Pattoki District Kasur.	



Economic Environment

During the year under review the economy moved into the most stable phase experienced in the recent history. All the major indicators like inflation, exchange rates and balance of payment remained very stable. Interest rates came down to the lowest ever level in the history of the country. Security situation also improved with improvement in law and order and de-escalation of border tension. However, the international economic scenario remained bleak with the continuation of the worldwide recession. Iraq war and outbreak of SARS aggravated the slow down in the world economy. The export sector of Pakistan, although benefiting from the positive developments at home, remained under pressure because of the unfavorable international conditions and a further appreciation of Pak Rupee against the US Dollar.

Performance of the Company

Sales increased by 4.3% during the year to Rs 4.227 billion while net profit decreased by 34.9% to Rs 327.418 million. Net profit margin reduced to 7.7% from 12.4% last year. The illustration shows the cyclical nature of the business during the last five years. The performance of the company, although not as good as the last year's historic best, is impressive as compared to the industry. The drop in the profitability is because of a number of factors. The cotton prices remained high during the year as compared to last year, whereas the prices of yarn and fabric remained under pressure because of the worldwide recession and the effects of Iraq war and SARS. The Pak Rupee continued to appreciate against the US Dollar making a negative impact on the bottom line of the exporters. However the management effectively took advantage of the positive developments such as reduction in the interest rates, restoration of confidence of the export customers and better marketing capability of the company after increase in capacity. The company has retained its position as one of the most profitable textile companies in the country. Return on equity this year is 28.6%, while earning per share is Rs 7.38. The average return on equity during the last five years is 55%. Our target is to maintain a long term ROE of around 30%.

Credit Rating by PACRA

Pakistan Credit Rating Agency (PACRA) has assigned long term entity rating of A+ to our company. We are proud to mention that this is the highest rating assigned to any textile company in the country. The rating denotes a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

Investments and Sources of Financing

During the year Rs. 489 million were invested in the fixed assets to complete the installation of 10,000 spindles in November 2002 and for the addition of 24 airjet looms in June 2003. Depreciation cash flow of Rs. 196 million and retained earnings were used to finance this expansion. Total long term loan also reduced from Rs. 890 million to Rs. 700 million. Internal cash flows were used to repay the long term loan.

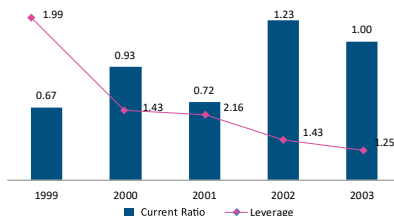
Financial Structure

A conservative financial structure has been employed in view of the seasonality and cyclicity of the textile industry. We have identified the targeted levels of critical financial ratios such as the current ratio, debt to equity ratio and leverage. Decisions for future investments are made subject to the constraints of the targeted financial ratios. The illustration shows the historic figures of our current ratio and leverage. The management took effective measures to take advantage of the fall in the interest rates and re-profiled the entire long term and short term debt. The result is a sharp reduction in the financial charges from Rs. 185.19 million in the last year to Rs. 119.08 million this year. The full impact of the restructuring of the debt will be visible next year with a further steep fall in the financial charges. The illustration shows the last five years financial charges as a percentage of sales depicting the declining trend.

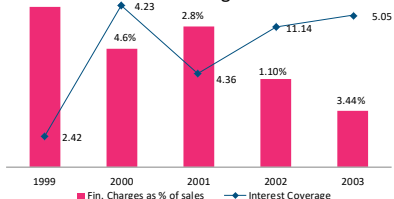
Business Strategy

Aggressive marketing has been the major factor in our consistent profitability over the past years. Our strategy is to remain at the cutting edge in terms of exploring new markets and new products. The focus is on niche marketing with specialized products. Our quality products are supplemented with professional customer service to build long term relationship with the customers. We have differentiated our company through consistent quality, reliable deliver and proactive handling of customers' needs. Investment in state of the art technology and top quality human resources has been the key element of our business strategy. The organizational structure is kept lean with very little hierarchy and bureaucracy compared to other organizations of similar size. This gives us the flexibility to respond quickly to the changes in the market situation.

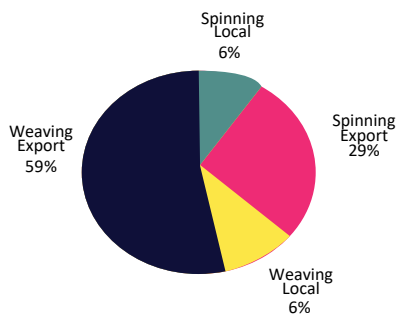
Financial Ratios



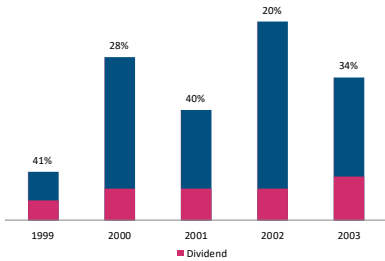
Financial Charges and Interest Coverage



Sales Breakup



Payout to Shareholders



Dividends

The company has maintained a steady stream of dividend payouts while retaining adequate portion of the profits for future growth. This year also we have proposed Rs. 2.5 per share as dividend that amounts to Rs. 111 million. Rs. 215 million are being transferred to the general reserves.

Future Outlook

The trend towards free trade regime worldwide is creating opportunities as well as threats. Efficient and competitive organizations are likely to undergo accelerated growth getting market share from the less competitive ones. We are focusing our efforts on specializing in value added products and to become one of the top suppliers of high quality textile products worldwide. Different plans for product diversification are under consideration that will materialize in the future. The plans include diversification into an area other than textiles so as to diversify the business and reduce the exposure to seasonal factors, currency fluctuation and international shocks.

Corporate Governance

As required by the Code of Corporate Governance, directors are pleased to report that:

- a. The financial statements prepared by the management of the Company present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- b. Proper books of account of the Company have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International accounting standards, as applicable in Pakistan have been followed in preparation of financial statements.
- e. The system of internal control is sound and has been effectively implemented and monitored.
- f. There are no doubts upon the Company's ability to continue as a going concern.
- g. There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations of the stock exchanges.
- h. The value of investment of unapproved contributory provident fund as at September 30, 2003 amounts to Rs. 1,547,851.
- i. The pattern of shareholding as at September 30, 2003 is annexed.

DIRECTORS' REPORT

Board Meetings

During the year under review 4 meetings were held Attendance by each director is as follows:

Name of Directors	Attendance
Mr. Muhammad Saleem	1
Mr. Shahzad Saleem	4
Mr. Yahya Saleem	3
Mr. Asif Jameel *	2
Mr. Khalid Niaz Khawaja**	1
Mr. Anis Wahab Zuberi***	1
Syed Jawad Gilani	1
Mr. Farid Fazal	3
Mr. Shujaat Mirza****	1

* Elected in Annual General Meeting on March 31, 2003.

** Appointed to fill casual vacancy of January 27, 2003.

*** Retired on March 31, 2003.

**** Resigned on January 27, 2003.

On behalf of the board

Muhammad Saleem

Chairman

Lahore: December 05, 2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	(Rupees in thousand)									
Capital	120,000	144,000	144,000	144,000	144,000	144,000	403,200	403,200	403,200	443,520
Reserves	86,730	64,306	86,988	110,627	162,237	194,792	192,289	340,409	742,888	919,106
Net Worth	206,730	208,306	230,988	254,627	306,237	338,792	595,489	743,609	1,146,088	1,362,626
Long Term Liabilities	116,660	50,657	34,737	26,765	270,431	280,856	567,030	476,321	865,539	589,642
Current Liabilities	200,045	242,494	235,245	201,965	702,242	1,015,989	619,802	1,130,202	773,885	1,110,076
Total Liabilities	523,435	501,457	500,970	483,357	1,278,910	1,635,637	1,782,321	2,350,132	1,639,424	3,062,545
Fixed Assets	326,765	299,319	271,695	258,221	886,593	956,365	1,202,614	1,537,288	1,829,775	1,954,767
Long Term Deposits	6,311	4,707	2,059	311	227	227	527	545	545	426
Current Assets	190,359	197,431	227,216	224,825	392,090	679,048	579,180	812,298	955,192	1,107,352
Total Assets	523,435	501,457	500,970	483,357	1,278,910	1,635,637	1,782,321	2,350,132	2,785,512	3,062,545
Sales	663,261	838,915	971,188	1,111,537	1,148,551	2,094,958	2,367,018	3,066,830	4,054,099	4,226,715
Gross Profit	162,425	92,821	172,615	186,017	183,371	362,475	628,457	684,287	966,745	742,242
Operating Profit plus Other Income	125,212	54,421	148,573	144,251	156,465	290,531	533,773	523,634	781,787	519,004
Financial & Other charges	56,633	47,620	91,423	91,225	93,244	185,936	155,772	237,811	218,099	143,586
Taxation	10,232	5,225	5,669	7,787	11,611	13,000	20,504	36,903	50,409	48,000
Net Profit	58,347	1,576	51,481	45,239	51,610	91,595	357,497	248,920	503,279	327,418
Gross Margin	24.5%	11.1%	17.8%	16.7%	16.0%	17.3%	26.6%	22.3%	23.8%	17.6%
Net Margin	8.8%	0.2%	5.3%	4.1%	4.5%	4.4%	15.1%	8.1%	12.4%	7.7%
Current Ratio	0.95	0.81	0.97	1.11	0.56	0.67	0.93	0.72	1.23	1.00
Current Ratio as per SBP Regulations	1.38	1.12	1.04	1.16	0.61	0.80	1.52	0.87	1.30	1.12
Leverage (Total Liab./Net Worth)	1.53	1.41	1.17	0.90	3.18	3.83	1.99	2.16	1.43	1.25
Long Term Debt: Equity	36.64	20.80	13.87	10.90	47.53	45.55	49.51	39.61	43.57	30.70
EPS	4.86	0.11	3.58	3.14	3.58	6.36	8.87	6.17	12.48	7.38
EPS (Adjusted for bonus shares)	4.86	0.13	4.29	3.77	4.3	7.63	29.79	20.74	41.93	27.28

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 14th Annual General meeting of the Shareholders of Nishat (Chunian) Limited will be held at the Registered Office of the Company, 31 -Q, Gulberg II, Lahore on January 5, 2004 (Monday) at 10:30 am. to transact the following business:-

1. To confirm the minutes of the last General Meeting.
2. To receive and adopt audited accounts of the Company for the year ended September 30, 2003 together with Directors' and Auditors' reports thereon.
3. To approve 25% Cash Dividend (i.e. Rs. 2.5 Per share) as recommended by the Directors.
4. To appoint auditors for the year ending September 30, 2004 and to fix their remuneration. The present Auditors M/s Riaz Ahmad & Company, 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 30-12-2003 to 05-01-2004 (both days inclusive) for the entitlement of dividend.

By Order of the Board

Farrukh Ifzal
Company Secretary

Lahore: December 05, 2003

Notes:

- 1 The Cash Dividend will be paid to the shareholders, whose names will appear in the register of members as at the close of business on December 29, 2003.
- 2 All members should bring their Original National identity Cards for identification purpose.
- 3 The beneficial owners of the shares registered in the name of Central Depository Company of Pakistan (CDC) and / or their proxies are required to produce their original National identity Card (NIC) or Passport for identification purpose at the time of attending the meeting. The form of the proxy must be submitted with the Company within the stipulated time, duly witnessed by two persons whose names, addresses and NIC numbers must be mentioned on the form along with attested copies of the NIC or the Passport of the beneficial owner and the proxy.
- 4 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 during working hours.
- 5 Members are requested to immediately notify the change of address, if any.

WITH THE CODE OF CORPORATE GOVERNANCE

The Board of Directors take pleasure in announcing that the Company has adopted the Code of Corporate Governance and actions have been taken for relevant clauses of the Code applicable during the year ended September 30, 2003 and has been duly complied with.

On behalf of the board

Muhammad Saleem
Chairman

Lahore: December 05, 2003

Review Report

to the members on statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Nishat (Chunian) Limited to comply with the Listing Regulation No.37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and Listing Regulation No.40 (Chapter XIII) of the Lahore Stock Exchange(Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of 'various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement' on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

LAHORE: 05 December 2003

RIAZ AHMAD & COMPANY
Chartered Accountants

We have audited the annexed balance sheet of NISHAT (CHUNIAN) LIMITED as at 30 September 2003 and the related profit and loss account, cash flow statement and statement of changes in equity 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.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, 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, 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30 September 2003 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

The financial statements of the company for the year ended 30 September 2002 were Audited by another firm of chartered Accountants whose report dated 26 December 2002 expressed unqualified opinion thereon.

Lahore: 05 December 2003

RIAZ AHMAD & COMPANY
Chartered Accountants

BALANCE SHEET AS AT 30 SEPTEMBER 2003

	NOTE	2003 Rupees	2002 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
50,000,000 ordinary shares of Rupees 10 each		500,000,000	500,000,000
Issued, subscribed and paid up share capital	3	443,520,000	403,200,000
Reserves	4	915,000,000	740,320,000
Unappropriated profit		4,105,869	2,568,277
		1,362,625,869	1,146,088,277
LONG TERM LOANS	5	579,166,664	855,000,000
RETIREMENT AND OTHER BENEFITS	6	10,675,706	10,538,301
CURRENT LIABILITIES			
Current portion of long term loans	5	120,833,336	35,000,000
Finances under mark up arrangements and other credit facilities - Secured	7	679,647,803	439,784,338
creditors, accrued and other liabilities	8	198,638,636	195,472,802
Taxation payable		76,684	2,828,228
proposed dividend		110,880,000	100,800,000
		1,110,076,459	773,885,368
CONTINGENCIES AND COMMITMENTS	9		
		3,062,544,698	2,785,511,946

The annexed notes form an integral part of these account.

CHIEF EXECUTIVE

BALANCE SHEET AS AT 30 SEPTEMBER 2003

	NOTE	2003 Rupees	2002 Rupees
ASSETS			
FIXED CAPITAL EXPENDITURE			
Operating fixed assets- Tangible	10	1,910,002,705	1,634,341,625
Capital work-in-progress	11	44,764,505	195,432,875
		1,954,767,210	1,829,774,500
LONG TERM DEPOSITS	12	425,450	545,450
CURRENT ASSETS			
Stores and spares	13	60,110,766	57,178,362
Stock in trade	14	532,498,532	489,611,544
Trade debts	15	291,023,004	260,760,567
Advances, deposits, prepayments and other receivables	16	193,411,358	140,654,017
Cash and bank balances	17	30,308,378	6,987,506
		1,107,352,038	955,191,996
		3,062,544,698	2,785,511,946

DIRECTOR

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	NOTE	2003 Rupees	2002 Rupees
Sales	18	4,226,715,280	4,054,099,207
Cost of goods sold	19	3,484,473,418	3,087,354,366
Gross profit		742,241,862	966,744,841
Administrative expenses	20	60,512,359	55,840,635
Selling and Distribution expenses	21	188,538,075	159,879,205
		249,050,434	215,719,840
Operating Profit		493,191,428	751,025,001
Other income	22	25,812,431	30,762,216
		519,003,859	781,787,217
Financial charges	23	119,083,826	185,188,080
Other Charges	24	24,502,441	32,911,183
Financing costs		143,586,267	218,099,263
Profit before taxation		375,417,592	563,687,954
Provision for taxation	25	48,000,000	60,408,702
Profit after taxation		327,417,592	503,279,252
Unappropriated profit brought forward		2,568,277	409,025
Available for appropriations		329,985,869	503,688,277
Appropriations			
Transfer to general reserve		215,000,000	360,000,000
Proposed dividend rupees 2.5 (2002: Rupees 2.5) per share		110,880,000	100,800,000
Transfer to reserve for issue of bonus shares		-	40,320,000
		325,880,000	501,120,000
Unappropriated profit		4,105,869	2,568,277
Earnings per share	33	7.38	11.35

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003 Rupees	2002 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated from operations (Note 31)	570,111,512	768,862,447
Financial charges paid	(134,785,104)	(197,224,669)
Taxes Paid	(50,751,544)	(25,359,474)
Gratuity paid	(2,861,843)	(1,104,771)
Payment of employees ' benefits	(2,090,111)	-
NET CASH INFLOW FROM OPERATING ACTIVITIES	379,622,910	545,173,533
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(338,180,232)	(465,605,911)
Sale proceeds fixed assets	29,652,759	7,720,804
Decrease in long deposits	120,000	0
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	(308,407,473)	(457,885,107)
CASH FLOW FROM FINANCING ACTIVITIES		
Long term loans received	350,000,000	881,000,000
Long term loans repaid	(540,000,000)	(657,500,000)
Dividend paid	(97,758,030)	(99,661,832)
Net cash inflow/(outflow) from financing activities	(287,758,030)	123,838,168
Net increase/(decrease) in cash and cash equivalents	(216,542,593)	211,126,594
Cash and cash equivalents at beginning of the year	(432,796,832)	(643,923,426)
Cash and cash equivalents at end of the year (Note 32)	(649,339,425)	(432,796,832)

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	Share capital	General reserve	Reserve for Issue of bonus shares	Accumulated profit	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at 30 September 2001	403,200,000	340,000,000	-	409,025	743,609,025
Net profit for the year	-	-	-	503,279,252	503,279,252
Dividend (Final) - Rupees 2.5 per share	-	-	-	(110,880,000)	(110,880,000)
Transfer from general reserved	-	360,000,000	-	(360,000,000)	-
for issue of bonus share	-	-	40,320,000	(40,320,000)	-
Balance as at 30 September 2002	403,200,000	700,000,000	40,320,000	2,568,277	1,146,088,277
Net profit for the year	-	-	-	327,417,592	327,417,592
Transferred from reserve	-	-	-	-	-
to issue of share capital	40,320,000	-	(40,320,000)	-	-
Dividend (Final) - Rupees 2.5 per share	-	-	-	(110,880,000)	(110,880,000)
Transferred to general reserve	-	215,000,000	-	(215,000,000)	-
Balance as at 30 September 2002	443,520,000	915,000,000	-	4,105,869	1,362,625,869

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 limited company incorporated under the Companies Ordinance, 1984 and is listed on the Lahore and Karachi Stock Exchanges. Its registered office is situated at Lahore. The company is principally engaged in the manufacture and sale of yarn and fabric.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention, modified by capitalisation of exchange differences as referred to in note 2.8, except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

2.3 Taxation

Current

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments where considered necessary to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

However, provision for the current year is not considered necessary as the Company is chargeable to tax under section 169 of the Income Tax Ordinance 2001 and no timing differences are expected to arise in the foreseeable future.

2.4 Employee benefits

The main features of the schemes operated by the company for its employees are as follows:

Gratuity

The company operates an unfunded statutory gratuity scheme for all its factory employees. Annual provision is made on the basis of actuarial valuation to cover the obligation under the scheme for all employees eligible to gratuity benefits.

The latest actuarial valuation was carried out as at 30 September 2002. Projected Unit Credit Method, using the following significant assumptions is used for valuation of the scheme.

- Discount Rate 10 percent per annum.
- Expected rate of increase in salary level 9 percent per annum.

FOR THE YEAR ENDED 30 SEPTEMBER 2003

The actuarial valuation of plan determined a transitional liability of Rs:1.881 million as on 30 September 2002 which is being amortized over a period of five years.

The company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 (revised 2000).

Provident fund

There is an unapproved contributory provident funds for its head office employees equal monthly contributions are made both by the employees and company to the funds in accordance with the fund rules.

Interest at the rate of 15% per annum (2002: 15 % per annum is payable to the fund on the balance utilized by the company which is charged to income.

Accumulating compensated absences

The company provides for accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences. Under the rules head office employees and factory staff are entitled to 20 days leave per year and factory workers are entitled to 14 days leave per year respectively. Unutilized leaves can be accumulated up to 40 days in case of head office employees and factory staff and upto 28 days in case of factory workers. Any further un-utilized leaves will lapse. Any un-utilized leave balance i.e. 40 days and 28 days in case of factory staff and workers respectively can be encashed by them at any time during their employment. Unutilised leaves can be used at any time by all employees, subject to the Company's approval.

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to income.

Retirement benefits are payable to employees on completion of prescribed qualifying period of service under these schemes.

2.5 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 and mark-up etc. in note 2.13.

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 10.

The full annual rate of depreciation is applied to the costs of additions, except major additions or extension to existing facilities, while no depreciation is charged on assets deleted during the year. Major additions or extension to existing facilities are depreciated on a pro-rata basis for the period of use during the year.

Impairment loss or its reversal, if any, is also charged to income. Where an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the assets' revised carrying amount over its estimated useful life.

The net exchange differences relating to an asset at the end of each year are amortised in equal installments over its remaining useful life.

Major repairs and improvements are capitalized. Minor repairs and renewals are charged to income. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as income or expense.

2.6 Stores and spares

Useable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

FOR THE YEAR ENDED 30 SEPTEMBER 2003

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:

- 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 invoice values 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 a sale.

2.8 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate.

All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

Exchange differences on loans utilised 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 Borrowing cost

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

2.10. Revenue recognition

Revenue from sales is recognised on despatch of goods to customers.

Return on deposits is accrued on a time basis by reference to the principal outstanding and the applicable rate of return.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and finances under mark-up arrangements. In the balance sheet, finances under mark-up arrangements are included in current liabilities.

2.12 Financial instruments

Financial instruments carried on the balance sheet include receivables, short term investment, cash and bank balances, finances under mark-up arrangements, long term loans and other payables, deposits, creditors, accrued and other liabilities. Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument.

Trade debts

Trade debts are carried at original invoice less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

Borrowings

Loans and borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Finance charges are accounted for on an accrual basis

and are included in creditors, accrued and other liabilities to the extent of the amount remaining unpaid.

Creditors, accrued and other liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services.

Derivative financial instruments

These are recognized using the trade date accounting and are measured initially at cost. At subsequent reporting dates these are remeasured to fair value and any gain or loss arising from fair value measurement is reported in net profit or loss for the period.

The Company uses trade date accounting for the recognition of its forward exchange contracts. It designates these forward exchange contracts as fair value hedges of recognised assets or liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, along with changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement.

2.13 Mark-up, interest, profit and other charges

Mark-up, interest, profit and other charges on long term liabilities are capitalised upto the date of commencement of commercial production. All other mark-up, interest, profit and other charges are charged to income.

2.14 Provisions

Provisions are recorded when the company has a present obligation as a result of past event which it is probable will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

2.15 Business segments

The company is divided into two business segments

- Spinning: Manufacturing of yarn.
- Weaving: Weaving of fabric.

2.15.1 Allocation of Segment expenses

Joint expenses are allocated in the ratio of 60:40 to Spinning and Weaving segment respectively.

2.16 Related party transactions and transfer pricing

Transactions and contracts with the related parties are carried out at an arm's length price determined in accordance with comparable uncontrolled price method.

	2003	2002
	Rupees	Rupees
3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
12,000,000 ordinary shares of Rupees 10 each fully paid in cash	120,000,000	120,000,000
32,352,000 ((2002: 28,320,000) ordinary shares of Rupees 10 each Issued as fully paid bonus shares	323,520,000	283,200,000
	443,520,000	403,200,000
44,352,000	443,520,000	403,200,000

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003 Rupees	2002 Rupees
4. RESERVES		
Movement in and composition of reserve is as follows:		
Reserve for issue of bonus shares		
transferred from profit and loss account	40,320,000	0
Bonus share issued	(40,320,000)	40,320,000
	-	40,320,000
Revenue		
General Reserves		
At beginning of the year	700,000,000	340,000,000
Transferred from profit and loss account	215,000,000	360,000,000
	915,000,000	700,000,000
	915,000,000	740,320,000

5. LONG TERM LOAN - SECURED

Lender	2003 Rupees	2002 Rupees	Rate of interest	Number of installments	Interest Payable
ABN AMRO Bank (Note 5.1)		140,000,000	*SBP Discount rate + 2%	-	-
Standard Chartered Bank-1	200,000,000	200,000,000	6-month **T-Bill rate +1.75%	Six equal half yearly installments commencing on 27 March 2005 and ending on 26 September 2007	Quarterly
ABN AMRO Bank-2 (Note 5.2)	250,000,000	175,000,000	6-month **T-Bill rate +1.75% (1st year) and 6- month **T-Bill rate+2.25% (subsequent years)	Twelve equal quarterly installments commencing on 01 October 2003 and ending on 01 July 2006	Quarterly
Faysal Bank (Note 5.2)	50,000,000	50,000,000	6.50%	Eight equal half yearly installments commencing on 26 March 2004 and ending on 26 September 2007	Semi annually
United Bank Limited (Note 5.1)	-	275,000,000	*SBP Discount rate +1.5% subject to floor of 11% and cap of 16.5%	-	-
Habib Bank Limited (Note 5.2)	200,000,000	0	6-month **T-Bill rate+2%	Sixteen equal quarterly installments commencing on 01 May 2004 and ending on 01 February 2008	Quarterly
	700,000,000	840,000,000			
Less : Current portion shown under current liabilities	120,833,336	35,000,000			
	579,166,664	855,000,000			

* State Bank of Pakistan

** Treasury Bill

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

- 5.1 These have been repaid during the year.
 5.2 These are secured by first pari passu hypothecation charge on all present and future fixed assets of the Company and an equitable mortgage of the Company's land to the extent of Rupees 1,540 million (2002: Rupees 854 million).

	2003 Rupees	2002 Rupees
6. RETIREMENT AND OTHER BENEFITS		
Staff Gratuity (Note 6.1)	10,475,329	10,135,435
Leave encashment	200,377	402,866
	10,675,706	10,538,301
6.1 The amounts recongnized in the balance sheet are as follows:		
Present value defined benefit obligation	10,999,929	11,036,235
Unrecognized actuarial gains	604,000	604,000
Unrecognized transitional liability	(1,128,600)	(1,504,800)
	10,475,329	10,135,435
7. FINANCES UNDER MARK-UP ARRANGEMENT AND OTHER CREDIT FACILITIES - SECURED		
Short term running finances (Note 7.1)	619,227,247	171,390,840
Export finances - Preshipment / SBP refinance (Note 7.2)	60,420,556	268,393,498
	679,647,803	439,784,338

- 7.1 Short term running finances are available from commercial banks under mark-up arrangements amounting to Rupees 2,376 million (2002: Rupees 1,130 million). The rates of mark-up range from Rupees 0.0479 to Rupees 0.3973 per diem or part thereof on the balance outstanding. In the event the company fails to pay the balances on the expiry of the quarter, year or earlier demand, additional mark-up is to be computed at the rate of Rupees 0.5479 per Rupees 1,000 per diem or part thereof on the balance Unpaid.
- 7.2 The company has obtained export finance facilities aggregating to Rupees 700 million (2002: Rupees 1,465 million) from commercial banks. The rates mark-up range from Rupees 0.0548 to Rupees 0.3014 per Rupees 1,000 per diem or part thereof on the balance outstanding. In the event, the company fails to pay the balance of the expiry of the quarter, year or earlier demand, additional mark-up is to be computed at the rate of Rupees 0.5479 per Rupees 1,000 per diem or part thereof on the balance unpaid.
- 7.3 Of the aggregate facilities of Rupees 1,236 million (2002: Rupees 890 million) for opening letter of credit and Rupees 85 million (2002: Rupees 85 million) for opening letter of guarantee, the amount utilized as at 30 September 2003 was Rupees 98 million (2002: Rupees 348.718 million) and Rupees 1.0 million (2002: Rupees 66.821 million) respectively.

The aggregate facilities are secured by hypothecation of all present and future current assets of the Company and lien on export bills.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003	2002
	Rupees	Rupees
8. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	87,629,364	67,746,456
Accrued Liabilities	52,085,597	50,331,892
Advances from customers	15,350,428	5,260,802
Mark-up on:		
Short term running finances and other credit facilities - Secured	5,591,280	11,921,426
Long term loans - secured	1,202,429	13,740,985
Retention money	3,362,487	4,833,563
Due to associated undertaking - Security General Insurance	780,429	14,710
Forward exchange contracts (Note 8.2)	3,167,424	-
Workers profit participation fund (Note 8.3)	19,819,026	29,720,113
Income tax deducted at source	781,013	369,106
Unclaimed dividend	6,530,977	3,489,007
Others	2,338,182	8,044,742
	198,638,636	195,472,802

8.1 The maximum aggregate amount due to associated company - Security General Insurance at the end of any month during the year was Rupees 2.284 million (2002: Rupees 1.605 million). Balance with associated company rates to normal business of the company and is interest free.

8.2 The Company entered into forward exchange contracts with local banks to sell U.S. Dollars at contracted rates. The fair value of these contracts is recognized as follows:

	2003	2002
	Rupees	Rupees
Value of U.S. Dollars to be delivered	1,041,857,857	554,720,886
Receivables from banks against U.S Dollars sold	1,038,690,433	572,788,566
	3,167,424	(18,067,680)

8.3 WORKERS' PROFIT PARTICIPATION FUND

Opening balance as at 01 October	29,720,113	15,059,619
Provision for the year (Note 24)	19,819,026	29,720,113
Interest for the year (Note 23)	1,316,392	994,131
	50,855,531	45,773,863
Less: Payments made during the year	31,036,505	16,053,750
Closing balance as at 30 September	19,819,026	29,720,113

9 CONTINGENCIES AND COMMITMENTS

9.1 Commitments

Commitments in respect of capital expenditure are Rupees 20.01 million (2002: Rupees 238.65 million). Letters of credit other than capital expenditure are Rupees 87.44 million (2002: Rupees 116.18 million).

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

10. OPERATING FIXED ASSETS - TANGIBLE

DESCRIPTION	COST		ACCUMULATED DEPRECIATION			Rupees		
	As at 01 October 2002	As at September 2003	As at 01 October 2002	Charge for the year / (depreciation on deletions)	As at September 2003	Book Value as at 30 September 2003	Deprec- iation Rate %	
	Additions/ (Deletions)							
Land	39,807,821	-	39,807,821	-	-	39,807,821	-	
Building	457,342,796	6,289,193 (805,000)	462,626,949	132,205,202	33,049,420 (72,450)	165,182,172	297,444,777	10
Plant and machinery	1,668,280,827	459,138,585 (33,888,502)	2,093,530,910	499,308,294	348,258,813 (22,605,169)	624,961,938	1,468,568,972	10
Electrical installations	66,558,867	2,197,929	68,756,796	21,941,710	4,681,509	26,623,219	42,133,577	10
Tools and equipment	27,418,671	1,139,082	28,557,753	4,912,893	2,364,486	7,277,379	21,280,374	10
Furniture and fixture	10,585,105	444,613 (12,000)	11,367,718	2,549,169	881,855	3,431,024	7,936,694	10
Office equipment	9,850,231	1,326,436	11,176,667	3,218,711	795,796	4,014,507	7,162,160	10
Vehicles	32,364,144	18,312,764 (9,545,912)	41,130,996	13,880,818	6,417,081 (4,835,233)	15,462,666	25,668,330	20
Rupees 2003	2,312,358,422	488,848,602 (44,251,414)	2,756,955,610	678,016,797	196,448,960 (27,512,852)	846,952,905	1,910,002,705	
Rupees 2002	1,843,380,601	479,986,530 (11,008,709)	2,312,358,422	515,905,450	166,000,410 (3,889,063)	678,016,797	1,634,341,625	

10.1 Addition to building, plant and machinery and electrical installation include interest amounting to Rupees 2.66 million (2002: Rupees NIL).

	2003 Rupees	2002 Rupees
10.2 Depreciation charge for the year has been allocated as follows:		
Cost of goods sold (Note 19)	186,466,054	156,921,170
Administrative expenses (Note 20)	9,982,906	9,079,240
	196,448,960	166,000,410

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

10.3 DISPOSAL OF OPERATING FIXED ASSETS

Detail of fixed assets sold during the year is as under:

Particulars of the Assets	Sold to	Cost of Assets	Accumulated Depreciation	Book Value	Sale Proceeds	Mode of Disposal
		Rupees	Rupees	Rupees	Rupees	
Plant and machinery	Outsiders					
	North Star Spinning Mills Limited	5,000,000	3,519,073	1,480,927	3,550,000	Negotiation
	Green House Spinning Mills Limited	5,000,000	3,519,073	1,480,927	3,550,000	Negotiation
	Nayab Spinning Mills Limited	5,000,000	3,519,073	1,480,927	3,550,000	Negotiation
	Sargodha Spinning Mills Limited	5,000,000	3,519,073	1,480,927	3,550,000	Negotiation
	Creseent Spinning Mills Limited	10,000,000	7,038,146	2,961,854	7,100,000	Negotiation
	Nishat Mills Limited	805,000	72,450	732,550	700,000	Negotiation
	Mr. Sohail Arshad	1,981,162	1,128,337	852,825	145,000	Negotiation
	Taha Spinning Mills Limited	1,907,340	362,394	1,544,946	626,320	Negotiation
Furniture and fixtures	Outsiders					
	Mrs. Saira Shafi	12,000	-	12,000	12,000	Negotiation
Vehicles	Outsiders					
	Ms. Sabohi Naz	808,250	6,728,484	135,402	425,000	Negotiation
	H.S. Engineering Services	1,096,830	219,366	877,464	990,000	Negotiation
	Mr. Naseer Ahmad Malik	491,050	176,778	314,272	325,000	Negotiation
	Mr. Mazhar Ali	439,840	259,682	180,158	365,000	Negotiation
	Muhammad Aaqil Sultan	3,147,900	2,116,396	1,031,504	2,000,000	Negotiation
	Mr. Muhammad Javed Aftab	48,475	40,342	8,133	30,500	Negotiation
	Mr. Nasir Habib Rana	1,046,447	376,721	669,726	790,000	Negotiation
	Nisan Engineers (Private) Limited	995,120	669,039	326,081	635,000	Negotiation
	Employees					
	Mr. Qamar Mohyud-Din	327,000	193,061	133,939	133,939	Negotiation
	Ex-Employees					
	Syed Mansoor Gillani	555,000	111,000	444,000	555,000	Negotiation
	Malik Ashfaq Awan	590,000	-	590,000	570,000	Negotiation

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003 Rupees	2002 Rupees
11. CAPITAL WORK-IN-PROGRESS		
Plant, machinery and equipments [include in transit Rupees 9.288 million (2002: Rupees NIL)]	21,554,687	192,581,090
Civil works	23,209,818	2,851,785
	44,764,505	195,432,875
11.1 Capital work-in-progress includes mark-up of Rupees NIL (2002: Rupees 2.4 million).		
	2003 Rupees	2002 Rupees
12. LONG TERM DEPOSITS		
These represent long term security deposits.		
13. STORES AND SPARES		
Stores [include in transit Rupees NIL (2002: Rupees 7.039 million)]	31,859,452	34,196,335
Spares [include in transit Rupees NIL (2002: Rupees 1.325 million)]	28,251,314	22,982,027
	60,110,766	57,178,362
13.1 Stores include the following items held by third parties:		
Description	Name of Party	
Miscellaneous store items	M.K. Hussain-Supplier	300,705
Miscellaneous store items	3A International-Supplier	552,550
Miscellaneous store items	Rex Trading Corporation-Supplier	7,770
Miscellaneous store items	Askco-Supplier	26,593
Miscellaneous store items	Faisal Weaving Mills Limited-Supplier	20,500
Miscellaneous store items	Kohinoor Weaving Mills Limited-Supplier	3,327,918
		887,918
	3,348,418	887,918
14. STOCK IN TRADE		
Raw materials [Include in transit Rupees NIL (2002:Rupees 125.901 million)]	350,381,579	331,945,522
Work in process	54,151,437	59,630,739
Finished goods - own produced	124,434,389	88,069,613
Finished goods - trading stock	508,169	6,198,645
Waste	3,022,958	3,767,025
	532,498,432	489,611,544
14.1 Included in raw material are NIL (2002:998) bales of cotton valuing Rupees NIL (2002:Rupees 1.166 million) held at Umer Fabrics Limited.		
	2003 Rupees	2002 Rupees
15. TRADE DEBTS - CONSIDERED GOOD		
Export - Secured	229,746,401	192,032,350
Local (Note 15.1)	61,276,603	68,728,217
	291,023,004	260,760,567
15.1 Local debtors include secured debts of Rupees NIL (2002: Rupees 14.572 million).		

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003	2002
	Rupees	Rupees
16. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances - (considered good to:		
Employee (Note 16.1)	4,739,147	1,769,303
Suppliers	72,054,421	37,926,151
Contractors	1,129,187	404,167
Short term deposits	45,000	75,000
Prepayments	575,151	738,751
Letter of credit - Margin, Deposits etc.	26,972,041	5,754,586
Balances with statutory authorities for sale tax	86,007,988	64,001,213
Forward Exchange contracts (Note 8.2)	-	18,067,680
Export rebate receivable	400,330	11,230,769
Other receivables	1,488,093	686,397
	193,411,358	140,654,017
16.1 Included in advances to employees are amounts due from executives of Rupees 1.533 million (2002: Rupees 0.680 million). The maximum aggregated amount due from executives at the end of any month during the year was Rupees 1.533 million (2002: Rupees 0.659 million)		
	2003	2002
	Rupees	Rupees
17. CASH AND BANK BALANCES		
On saving accounts - Pak Rupees	5,512,631	1,031,458
On current accounts [Including US \$ 17,846.60 (2002: US \$ 743.83)] (Note 17.2)	22,975,118	5,847,350
Cash In Hand	1,820,629	108,698
	30,308,378	6,987,506
17.1 Included in saving accounts is a balance of rupees 1.548 million (2002: Rupees 0.952 million) relating to employees' provident fund.		
17.2 The foreign currency balances can only be utilized for the remittance of export marketing expenses.		
	2003	2002
	Rupees	Rupees
18. SALES		
Export	3,677,454,674	3,423,193,851
Local	564,686,502	628,863,182
Waste	27,093,263	20,098,036
	4,269,234,439	4,072,155,069
Less: Commission to selling agents		
Export sales	61,330,606	47,816,822
Local sales	2,982,031	2,600,606
	64,312,637	50,417,428
	4,204,921,802	4,021,737,641
Doubling income	9,832,350	11,455,170
Sizing income	50,330	2,269,180
Export rebate	11,910,798	18,637,216
	4,226,715,280	4,054,099,207
18.1 Sales are not sales tax aggregating to Rupees 107.049 million (2002: Rupees 108.213 million).		

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003 Rupees	2002 Rupees
19. COST OF GOODS SOLD		
Raw and Packing material consumed	2,219,145,831	2,075,861,686
Stores, spares consumed	125,927,032	103,125,596
Salaries, wages and other benefits (Note 19.1)	126,980,521	114,355,676
Fuel and power	293,982,897	234,302,297
Insurance	4,436,086	4,496,090
Postage and telephone	1,206,004	1,223,742
Traveling and conveyance	667,529	774,199
Vehicle running	1,265,958	954,898
Entertainment	399,991	389,831
Depreciation	186,466,054	156,921,170
Repair and Maintenance	1,626,334	1,111,142
Others	15,138,751	8,461,866
	2,977,242,988	2,701,978,193
Opening work-in-process	59,630,739	43,905,811
Closing work-in-process	(54,151,437)	(59,630,739)
Cost of goods manufactured	2,982,722,290	2,686,253,265
Opening stocks	88,069,613	114,370,877
Finished goods	3,767,025	2,749,312
Waste	91,836,638	117,120,189
	3,074,558,928	2,803,373,454
Finished goods and waste-closing stock	(124,434,389)	(88,069,613)
Finished goods	(3,022,958)	(3,767,025)
Waste	(127,457,347)	(91,836,638)
	2,947,101,581	2,711,536,816
Cost of goods purchased for resale	537,371,837	375,817,550
	3,484,473,418	3,087,354,366

19.1 Salaries, wages and other benefits include Rupees 1.741 million (2002: Rupees 1.644 million), Rupees 3.202 million (2002: Rupees 5.724 million) in respect of staff compensated absences and staff gratuity respectively.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003	2002
	Rupees	Rupees
20. ADMINISTRATIVE EXPENSES		
Salaries, Allowances and benefits	21,319,533	16,670,802
Printing and stationery	1,078,501	1,149,361
Vehicle's running	1,557,223	2,045,512
Traveling and conveyance	12,170,345	13,614,423
Postage and telephone	5,416,116	5,829,264
Fee and subscription	2,112,863	838,847
Legal and professional	784,080	405,500
Electricity, gas and water	2,024,734	2,043,343
Insurance	1,351,253	1,731,563
Repair and maintenance	384,727	397,596
Entertainment	784,054	571,169
Auditor's remuneration (Note 20.2)	355,000	300,000
Advertisement	233,542	144,887
Depreciation (Note 10.2)	9,982,906	9,079,240
Other expenses	957,482	1,019,128
	60,512,359	55,840,635
20.1 Salaries, allowances and benefits include Rupees 0.245 million(2002: Rupees 0.198 million) and Rupees 0.147 million (2002: Rupees 0.741 million) in respect of provident fund contribution by the employer and staff compensated absences respectively.		
	2003	2002
	Rupees	Rupees
20.2 AUDITORS' REMUNERATION		
Statutory audit	220,000	220,000
Half yearly review	55,000	-
Certification fees etc.	25,000	25,000
Out of pocket expenses	55,000	55,000
	355,000	300,000
21. SELLING AND DISTRIBUTION EXPENSES		
Ocean freight	51,757,554	38,167,648
Freight and octroi	18,637,515	16,534,471
Forwarding and other expenses	20,610,799	13,738,673
Export marketing expenses	97,532,207	91,438,413
	188,538,075	159,879,205
22. OTHER INCOME		
Profit on sale of fixed assets	12,914,197	602,804
Sale of scrap	1,368,932	868,250
Exchange gain (Note 22.1)	9,620,988	9,183,459
Unrealized gain on forward contracts (Note 22.2)	-	18,067,680
Mark-up on saving accounts	107,101	350,160
Others	1,801,213	1,689,863
	25,812,431	30,762,216

22.1 This includes net gain on forward exchange contracts settled during the year.

22.2 This represent the unrealised gain recognition of forward contracts, a hedging instruments, at fair value (Note 16).

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003 Rupees	2002 Rupees
23. FINANCIAL CHARGES		
Mark-up on running finances	26,240,397	67,481,428
Mark-up on export finances:		
Preshipment	16,369,390	11,070,851
Postshipment	53,610	6,674,909
Interest on long term loans - secured	54,187,883	80,094,496
Loan arrangement fee		467,500
Interest on workers' profit participation fund	1,316,392	994,131
Bank and other charges	20,916,154	18,404,765
	119,083,826	185,188,080

24. OTHER CHARGES

Workers' profit participation fund	19,819,026	29,720,113
Donations (Note 24.1)	1,515,991	3,191,070
Unrealized loss on forward contracts (Note 24.2)	3,167,424	-
	24,502,441	32,911,183

24.1 Donations

Name of donee in which a director or his spouse has an interest:

Mian Muhammad Yahya Trust, Lahore

Mr. Muhammad Saleem, Chairman and

Mr. Shahzad Saleem, Chief Executive are trustees.

1,515,991

3,171,070

24.2 This represents the unrealized loss o recognition of the forward contracts, a hedging instrument, at fair value (Note 8).

	2003 Rupees	2002 Rupees
25. PROVISION FOR TAXATION		
Current year (Note 25.1)	47,050,821	45,000,000
Prior year	949,179	15,408,702
	48,000,000	60,408,702

25.1 The provision for current year taxation represents the tax liability under section 169 of the Income Tax Ordinance, 2001. For Purposes of current year taxation the Tax losses available for carry forward as at 30 September 2003 are estimated at approximately Rupees 23.903 million (2002: Rupees 44.220 million). including assessed tax losses of Rupees 44.827 million (2002: Rupees 48.771 million).

25.2 Deferred tax provision has not been recognized, as the company is being assessed under the presumptive tax regime and the Company's export sales for the foreseeable future are likely to remain above the present threshold, i.e. 80% of the total sales.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003	2002
	%	%
25.3 TAX CHARGES RECONCILIATION		
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	35.00	35.00
Tax effect under presumptive tax regime	(22.46)	(27.02)
Effect of charges in prior year's tax	(0.25)	2.73
	(22.21)	(24.29)
Average effective tax rate charged to profit and loss account.	12.79	10.71

26. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Directors		Executives	
	2003	2002	2003	2002	2003	2002
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	890,100	801,000	1,990,896	1,695,667	12,852,565	10,480,053
Contribution to provident fund	-	-	-	-	1,729,470	768,117
House rent	400,548	360,450	895,908	763,050	4,892,483	4,149,069
Utilities	432,557	413,470	328,937	402,303	919,791	758,029
Others	1,572,194	2,135,032	3,675,080	3,640,043	-	-
	3,295,399	3,709,952	6,890,821	6,501,063	20,394,309	16,155,268
Number of persons	1	1	2	2	63	50

26.1 The company also provides to chief Executive, Directors and certain Executives with free use of company maintained cars and residential telephones.

	2003	2002
	Rupees	Rupees
27. TRANSACTIONS WITH ASSOCIATED UNDERTAKING		
Insurance premium paid	4,549,856	3,105,358
Insurance claims received	358,856	202,334
	4,908,712	3,307,692

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	Spinning		Weaving		Total	
	2003 Rupees	2002 Rupees	2003 Rupees	2002 Rupees	2003 Rupees	2002 Rupees
28. SEGMENT INFORMATION						
Segment revenue						
- External	1,622,024,195	1,604,044,311	2,604,691,085	2,450,054,896	4,226,715,280	4,054,099,207
- inter segment	571,482,657	517,008,125	-	-	571,482,657	517,008,125
Net sales	2,193,506,852	2,121,052,436	2,604,691,085	2,450,054,896	4,798,197,937	4,571,107,332
Segment result before tax	251,908,394	460,597,001	241,283,034	290,428,000	493,191,428	751,025,001
28.1 INTER SEGMENT PRICING						
Inter segment sales are recorded at fair market value. Effect of gain / loss on transfer is reversed periodically.						
	Spinning		Weaving		Total	
	2003 Rupees	2002 Rupees	2003 Rupees	2002 Rupees	2003 Rupees	2002 Rupees
28.2 SEGMENT ASSETS						
Segment assets	1,465,979,303	1,417,263,269	1,284,192,044	1,133,476,946	2,450,171,347	2,550,740,215
Unallocated assets					312,373,351	234,771,731
					2,762,544,698	2,785,511,946
28.3 SEGMENT LIABILITIES						
Segment liabilities	50,975,207	79,303,970	100,047,197	31,989,729	151,022,404	111,293,699
Unallocated liabilities					1,548,896,425	1,528,129,970
					1,699,918,829	1,639,423,669
28.4 OTHER SEGMENT INFORMATION						
Capital expenditure	222,405,781	80,872,393	101,963,034	322,058,139	324,413,815	402,930,532
Unallocated capital expenditure					13,766,417	62,675,379
					338,180,232	465,605,911
Depreciation	100,832,545	77,842,054	85,633,509	79,079,116	186,466,054	156,921,170
Unallocated depreciation					9,982,906	9,079,240
					196,448,960	166,000,410
Non-cash items other than depreciation					-	-
					2003 Rupees	2002 Rupees
28.5 SECONDARY REPORTING FORMAT						
Segment revenue from external customers by geographical areas is as follows:						
Export sales					1,429,059,136	1,526,045,095
- Far East countries					1,650,945,519	1,376,998,812
- USA					597,450,019	520,149,944
- Other countries					601,662,445	662,685,568
Local sales						
					4,279,117,119	4,085,879,419

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

29. FINANCIAL INSTRUMENTS

DESCRIPTION	INTEREST/MARK-UP-BEARING			NON INTEREST/MARK-UP-BEARING			TOTAL	
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total	2003	2002
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets								
Long term deposits	-	-	-	-	425,450	425,450	425,450	545,450
Trade debts	-	-	-	291,023,004	-	291,023,004	291,023,004	260,760,567
Advances, deposits and other receivables	-	-	-	78,326,661	-	78,326,661	78,326,661	55,203,439
Cash and bank	5,512,631	-	5,512,631	24,795,747	-	24,795,747	30,308,378	6,987,506
	5,512,631	-	5,512,631	394,145,412	425,450	394,570,862	400,083,493	323,496,962
Financial Liabilities								
Long term loans	120,833,336	579,166,664	700,000,000	-	-	-	700,000,000	890,000,000
Finance under mark-up arrangements	679,647,803	-	679,647,803	-	-	-	679,647,803	439,784,338
Creditors, accrued and other liabilities	-	-	-	141,651,697	-	141,651,697	141,651,697	140,505,076
Commitments	-	-	-	20,011,359	-	20,011,359	20,011,359	238,658,155
Letter of Credit	-	-	-	87,438,405	-	87,438,405	87,438,405	116,180,369
	800,481,139	579,166,664	1,379,647,803	249,101,461	-	249,101,461	1,628,749,264	1,825,127,938
Unrecognized financial Instruments								

29.1 FINANCIAL RISK MANAGEMENT OBJECTIVES

The company's activities expose it to variety of financial risks including the effects of changes in foreign exchange rates, market interest rates such as State Bank of Pakistan's discount rate and short term federal bond rates, credit risks associated with various financial assets as referred to in note 29 and cash flow risk associated with accrued interests in respect of secured long term borrowings as referred to in note 5.

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

29.1.1 CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Company's credit risk is primarily attributable to its trade receivables and its balances at bank. The credit risk on liquid funds is limited because the counterparties are banks with reasonably high credit rating. The company has no significant concentration of credit risk as exposure is spread over a large number of counterparties in the case of trade debts. Out of the total financial assets of Rupees 400.083 million (2002: Rupees 323.497 million) financial assets which are subject to credit risk amounting to Rupees 346.246 million (2002: Rupees 318.965 million). To manage exposure to credit risk, the company also applies credit limits to its customers.

29.1.2 FOREIGN EXCHANGE RISK MANAGEMENT

Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect U.S. Dollars. The company uses forward contracts to hedge their exposure to foreign currency risk in the local reporting currency.

29.1.3 INTEREST RATE RISK

The company usually borrows funds at fixed and market based rates and as such the risk is minimized. Significant interest rate and cash flow risks exposures are primarily managed by contracting floor and cap of interest rates.

29.1.4 LIQUIDITY RISK

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planing policy to ensure availability of funds and to take appropriate measures for new requirements.

29.1.5 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all financial instruments reflected in the financial statements approximate their fair values. The fair value of forward foreign exchange contracts is the difference between the committed rate and the exchange rate prevailing at the balance sheet date.

	2003	2002
30. PLANT CAPACITY AND ACTUAL PRODUCTION		
Spinning		
Number of spindles installed	50,952	40,872
Number of spindles worked	50,312	40,872
Number of shifts per day	3	3
Capacity after conversation into 20 count (Kgs.)	16,770,807	14,285,569
Actual Production of yarn after conversion into 20 count (Kgs.)	15,583,927	13,652,258
Under utilisation of available capacity was due to processing of coarser counts.		
Weaving		
Number of looms installed (average)	212	188
Number of looms worked	212	188
Number of shifts per day	3	3
Capacity after conversion into 50 picks - square yards	105,155,020	75,049,973
Actual production after conversion into 50 picks - square yards	104,185,060	74,396,351
Reasons for low production		
Under utilisation of available capacity was due to following reasons		
Change of article required		
Width loss due to specification of the cloth and		
Due to normal maintenance		
	2003	2002
	Rupees	Rupees
31. CASH GENERATED FROM OPERATIONS		
Profit before taxation	375,417,592	563,687,954
Add/(less) adjustment for non cash charges and other items.		
Depreciation	196,448,960	166,000,410
Profit on sale of operating fixed assets	(12,914,197)	(602,804)
Provision for gratuity	3,201,737	5,724,206
Provision for leave encashment	1,887,622	402,866
Unrealized gain on short term investment		(18,067,680)
Financial charges	119,083,826	185,188,080
Working capital charges (Note 32.1)	(113,014,028)	(133,470,585)
	570,111,512	768,862,447

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003 Rupees	2002 Rupees
31.1 WORKING CAPITAL CHANGES		
(Increase) / decrease in current assets		
stores and spares	(2,932,404)	4,941,215
Stock in trade	(42,886,988)	(44,396,163)
Trade debts	(30,262,437)	(95,828,658)
Advances, Deposits, Prepayments and other receivables	(52,757,341)	(35,334,113)
	(128,839,170)	(170,617,719)
Increase in current liabilities		
Creditors, accrued and other liabilities	15,825,142	37,147,134
	(113,014,028)	(133,470,585)
32. CASH AND CASH EQUIVALENTS		
Cash and bank balances (Note 17)	30,308,378	6,987,506
Finance under mark-up arrangements and other credit facilities (Note 7)	(679,647,803)	(439,784,338)
	(649,339,425)	(432,796,832)

	2003	2002
33. EARNING PER SHARE - BASIC		
There is no dilutive effect on the basic earning per share which is based on		
Profit attributable to ordinary shareholders	(Rupees) 327,417,592	503,279,252
Weighted average number of ordinary shares	(Number) 44,352,000	44,352,000
Earning per share-basic	(Rupees) 7.38	11.35
Since the bonus issue is an issue without consideration, the issue is treated as if it has occurred prior to beginning of 2002.		

	2003	2002
34. NUMBER OF EMPLOYEES		
Number of employees at the year end	2,322	2,092

35. DATE OF AUTHORIZATION FOR ISSUE
These financial statements were authorized for issue on 05 December 2003 by the Board of Directors of the Company.

36. CORRESPONDING FIGURES
Corresponding figures for the year, where necessary, have been re-arranged for the purpose of comparison. However, there is no significant re-classification of the previous figures.

CHIEF EXECUTIVE

DIRECTOR

PATTERN OF SHARE HOLDING

AS AT 30 SEPTEMBER 2003

Share Holders	Shares Holding		Total Shares Held
	From	To	
453	1	100	23183
1092	101	500	324864
329	501	1000	236189
824	1001	5000	1796423
117	5001	10000	854965
35	10001	15000	434205
24	15001	20000	404866
18	20001	25000	401423
7	25001	30000	192541
16	30001	35000	510226
5	35001	40000	183888
4	40001	45000	170384
6	45001	50000	284310
3	50001	55000	152510
1	55001	60000	55440
1	60001	65000	63274
1	65001	70000	66220
1	70001	75000	75000
1	75001	80000	75100
3	80001	85000	248852
1	85001	90000	88000
1	90001	95000	93940
2	105001	1100000	220000
1	125001	130000	126500
1	185001	190000	190000
1	190001	195000	195000
1	215001	220000	219200
1	270001	275000	272800
1	275001	280000	275330
1	305001	310000	306900
2	400001	405000	800560
1	410001	415000	413028
1	425001	430000	429500
1	505001	510000	507639
1	530001	535000	532100
2	535001	540000	1074400
1	570001	575000	574200
1	605001	610000	608000
1	670001	675000	673656
1	685001	690000	685238
1	825001	830000	827200
1	1340001	1345000	1340532
1	1600001	1605000	1600770
1	1660001	1665000	1663200
1	1875001	1880000	1877700
1	1935001	1940000	1936000
1	2195001	2200000	2200000
1	2460001	2465000	2464000
1	2520001	2525000	2522300
1	3280001	3285000	3280041
1	4100001	4105000	4104053
1	5695001	5700000	5696350
2976			44352000

CATEGORIES OF SHAREHOLDERS

AS AT 30 SEPTEMBER 2003

Categories of Shareholders	Number of Shareholders	Shares Held	Percentage
Individuals	2874	24086640	54.31
Investment Cos.	1	220	0.00
Insurance Cos.	6	1822682	4.11
Joint Stock Cos.	65	12507342	28.2
Financial Institutions	20	5716859	12.89
Modaraba Cos.	4	135450	3.31
Foreign Cos.	1	308	0.00
Mutual Funds	1	5000	0.01
Others	4	77499	0.17
	2,976	44,352,000	100.00

	Shareholding as at 30 September 2003	Percentage
1. Associated Companies:	-	-
2. NIT & ICP		
National Bank Of Pakistan Trustee Deptt.	4,109,253	9.27%
Investment Corporation of Pakistan	12,187	0.03%
3. Directors, CEO and their spouse and minor children:		
Mr. Muhammad Saleem (Chairman)	2,200,000	4.96%
Mr. Shahzad Saleem (Chief Executive)	4,400,000	9.92%
Mr. Yahya Saleem (Director)	4,400,000	9.92%
Spouse:		
Mrs. Farhat Saleem w/o Mr. Muhammad Saleem	2,200,000	4.96%
Mrs. Ayesha Shahzad w/o Mr. Shahzad Saleem	45,100	0.10%
4. Executives:	17,020	0.04%
5. Public Sector, Companies & Corporations		
Joint Stock Companies	12,507,342	28.20%
6. Banks, Development Financial Institutions, Non Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds:		
a) Investment Companies	220	0.00%
b) Insurance Companies	1,822,682	4.11%
c) Financing Companies	5,716,859	12.89%
d) Modaraba Companies	135,450	0.31%
7. Share holders holding ten percent or more voting interest in the company:		
M/s Umer Fabrics Limited	6,096,750	13.75%

INFORMATION UNDER CLAUSE XIX(J) OF THE CODE OF CORPORATE GOVERNANCE

The CEO, Directors, CFO, Company Secretary and their spouses and Minor Children have no sale / purchase of Company's shares during the year ended on September 30, 2003.

PROXY FORM

The Company Secretary,
Nishat (Chunian) Limited
31 -Q, Gulberg-II,
Lahore.

I/We _____

of _____ being a member(s) of

Nishat (Chunian) Limited, and a holder of _____ Ordinary shares

as per Share Register Folio No _____

(in case of Central Depository System Account Holder A/c No. _____

Participant I.D. No _____) hereby appoint _____

of _____ another member of the Company as per

Register Folio No. _____ or (failing him/her) _____

of _____ another member of the Company) as my / our Proxy of

attend and vote for me / us and on my / our behalf at Annual General Meeting of the Company, to be held on 25 January 2004 (Monday) at 10:30 a.m. at the Registered Office of the Company (31-Q, Gulberg-II, Lahore) and at any adjournment thereof.

As witness my hand this _____ day of _____ 2003/2004

signed by the said _____ in presence

of _____

Witness

Signature

Affix
Revenue
Stamp

Signature

Notes:

- 1 Proxies, in order to be effective, must be received at the Company's Registered Office / Head Office not less than 48 hours before the meeting duly stamped, sighted and witnessed.
- 2 Signature must agree with the specimen signature registered with the Company.
- 3 In case of Central Depository System Account Holder, an attested copy of identity card should be attached to this Proxy Form
- 4 No person shall act as proxy unless he is member of the Company



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www.facebook.com/NishatChunianGroup

