

## **Shell Pakistan Limited**

### **Annual Report 1998**

#### ***Our Values and Principles***

*Shell has as its core values, honesty, integrity and respect for people. These underlying values determine our business principles and imbue us with a unifying identity for the benefit of business associates as much as employees.*

*The Business Principles are contained in the Statement of General Business Principles which cover such matters as our responsibilities to staff, to customers, to shareholders and our business partners. They also cover our approach to financial integrity and corruption.*

*In a very real sense they are our code of ethics and the basis of our identity. We do not bend these Principles. They are non-contestable and non-negotiable because it is these principles and values that link us together and give us confidence in our identity.*

*All employees and contractual staff of Shell Pakistan are committed to adhering to these Principles and have been issued a Code of Conduct in this regard. This Code of Conduct stems from the Principles and outlines Shell's policies on fraud, financial reporting, acceptance of gifts, services and payments etc.*

*In joint ventures we influence and persuade our partners to adopt and apply principles consistent with ours. We also expect our suppliers and contractors to conform to the Principles in all aspects of their work.*

#### ***Commitment to Quality***

*In pursuance of our commitment to market only the highest quality products, Shell Pakistan is the first company in the country to introduce state-of-the-art technology for checking adulteration. Our Quality Control vans, equipped with highly sensitive instruments which have been developed at Shell's research laboratories in the UK, travel across the country carrying out surprise checks at the Company's retail outlets. Customers are therefore assured that our dealers deliver the highest quality products in the right quantity.*

*The quality of Shell lubricants leaving the*

*blending plant is closely monitored and controlled in line with ISO 9002 Quality Management System specifications. Stringent care is taken in manufacturing to ensure that the products fully meet or exceed their stated specification. To monitor quality, a modern lab with state-of-the-art equipment is situated at the blending plant. A comprehensive testing procedure is in place to maintain quality at every step, from the time the raw material arrives at the depot to the time it is ready for shipment to the market.*

*Shell's commitment to quality is not limited to its products and innovative technology. Customer Service is also an integral part of the quality commitment. The attendants who fill gasoline in your car, clean your windscreen or guide your car to an empty bay to maintain a smooth flow of traffic are only an indication of our commitment to providing better quality service.*

*We are proud of our well trained staff and take great pains to maintain high standards which others aspire to emulate.*

*All these efforts enable us to claim "You can be sure of Shell."*

#### ***The Shell Brand***

*As international market leaders, Shell continues to set standards for high quality products and service. Shell's state-of-the-art technology has enabled us to launch the most advanced quality of professional lubricants in Pakistan.*

*Shell Helix motor oils are the ultimate range of lubricants. The three members of the Shell Helix family that cover the different ranges of gasoline engines in Pakistan are Shell Helix, Shell Helix Super and Shell Helix Plus. These high quality lubricants offer professional protection against wear, high temperatures, oil consumption and have up to twice the normal life as compared to their nearest competitor. Automobile industry professionals recommend these high quality Shell engine oils because they/prolong engine life and help conserve fuel.*

*Our commitment to providing world class products is also reflected in our service to customers. With the Genie oil change machine, Shell was once again the pioneer in introducing 5 minute oil change on the Pakistani forecourts. We have changed the age old time consuming and tedious techniques for oil change.*

*Our commitment to quality is also reflected in the 24 hours family shopping experience at Select stores. The distinction of being the first in the entire South East Asian Region, after Hong Kong, was achieved by the Askari Shell Station on Rashid Minhas Road, Karachi on April 1, 1995. Select offers shoppers a morning fresh and sparkling clean environment. Truly a neighbourhood store that offers prime value for money and caring service with a smile.*

*Shell Stations on the Lahore-Islamabad Motorway are also a testament to our commitment to high quality service for our customers. These sites provide not only quality petroleum products but also offer the convenience of hygienically prepared and wholesome snacks for the motorists at the Select stores.*

*Again- You can be sure of Shell!"*

#### ***Shell In Society***

*One of the more significant aspects of Shell's activities world-wide is its acceptance of responsibility towards the society within which it operates. Shell Pakistan has adopted this core value with great zeal and helps local communities through various social investment programs.*

*Our projects aim to deliver long term benefits to communities through diversified activities across Pakistan. Most of our sponsorships and donations fall into four categories, i.e. health, education, heritage and environmental protection.*

*Shell Pakistan is a long time financial supporter of the Layton Rahmatulla Benevolent Trust and the Kidney Centre, which provide special medical facilities and benefits to the people of Karachi and other locations in Pakistan. Shell Pakistan is also actively involved in the welfare of the young through its association with the SOS Villages where, it has constructed a dormitory for the residents.*

*Shell Pakistan is a leading sponsor of cricket in Pakistan and was at the forefront in sponsoring the Cricket World Cup in 1996 and the Golden Jubilee Cricket tournament in 1997.*

*Preservation and renovation of the Mohatta Palace, one of the most beautiful landmarks of Karachi, is amongst the projects supported by Shell Pakistan. Sponsorship of the Special*

*Olympics for handicapped youngsters and active support of fund raising activities by the Kidney Centre are examples of our contribution to societal causes.*

*After all we are a responsible, caring corporate member of the community.*

### ***Health, Safety and Environment***

#### ***...improving today for a better tomorrow***

*In 1997 the number of contractor and company staff who lost their lives in road accidents decreased as compared to 1996. However every loss of life is one too many. We are committed to causing no harm to people and we are taking steps to ensure that we fulfill our commitment.*

*Shell has a systematic approach to health, safety and environmental management with the aim of achieving continuous performance improvement. To this end, we manage these matters as any other critical business activity, set targets for improvement, measure, appraise and report performance.*

*Each accident is fully investigated and every fatality is reported immediately to senior management.*

*Shell Pakistan is working to raise the quality, competence and safety awareness of drivers involved in company business. Techniques include: Medical checks, defensive driving training, Shell Safety Club courses (on-the-job training was provided to approximately 430 drivers in 1997), higher vehicle standards, regular vehicle safety checks, planned journeys and the rewarding of safe driving practices. A Driver Training Video has been especially developed for the Pakistani environment featuring real life examples.*

*Seatbelts have been installed in 100% of vehicles. Protective equipment, such as safety boots, helmets and safety jackets with reflecting strips, has been introduced.*

*Recently a giant leap towards achieving our Group HSE standards was taken with the development of a company leased and operated bulk transport fleet. A fleet of 25 tractor-trailers, fully complying with Royal Dutch/Shell standards has been introduced paving the way for higher road safety standards in the industry. This has also been followed by a new and revised comprehensive cartage contract that aims to ensure compliance with the Company's HSE*

*policy, quality control and higher driving standards.*

*In terms of environmental protection, the Company has undertaken several initiatives including the construction of oil and water separators at its retail outlets. These separators help prevent effluents from contaminating sub-soil water, water supply and sewage systems. At our installations and depots extreme care is taken in the disposal of sludge and waste as per industry standards. Shell Pakistan participates when invited and provides useful input, based on Shell's vast international experience on the development of national policies and regulation relating to environmental*

*In this way we aim to have an HSE performance we can be proud of, to earn the confidence of customers, shareholders and society at large, to be a good neighbour and to contribute to sustainable development.*

**We care...**

*...all of us have a role to play.*

**Investing in the Future**

*We believe that responsible companies can - and should- play a positive role in the economic development of a country. Shell Pakistan Limited has been investing in petroleum distribution infrastructure in a meaningful manner and with a vision for future growth and development.*

*The Machike Installation is an example of Shell's long term commitment. Supplied by pipeline from the Parco terminal at Mehmoodkot, the installation delivers products to the Lahore and Gujranwala markets and also feeds our Chaklala Installation. It is equipped with state of the art equipment which not only improves efficiency but helps maintain better health and safety standards.*

*The Machike installation has not only replaced old, antiquated depots but has ample capacity to cater for expected growth in the foreseeable future. It has raised operational standards and made a tremendous contribution towards health, safety and the environment.*

*Our investments however go beyond*

*infrastructural developments.*

*This is not simply a matter of just creating capacity or creating jobs; it covers training and the general build up of experience and skill.*

*Our investment in people is comprehensive and diversified. We pride ourselves in developing and training people in sessions that are not restricted to the class room.*

*Mobile training units tour the various regions imparting skills beyond those required by the job - because we firmly believe that our people are our greatest assets.*

*After all we are committed to being the Top Performer of First Choice."*

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## **NOTICE OF MEETING**

Notice is hereby given that the Twenty Ninth Annual General Meeting of Shell Pakistan Limited will be held on Thursday November 26, 1998 at 10.30 a.m. at Hotel Holiday Inn Crowne Plaza, Karachi to transact the following business.

### **ORDINARY BUSINESS**

1. To receive and adopt the Report of Directors and Auditors together with Audited Accounts for the year ended June 30, 1998.
2. To approve the payment of final dividend of Rs. 4.50 per share (45%) and also the interim dividend of Rs.4.00 per share (40%) declared on February 11, 1998 making a total of Rs. 8.50 per share for the year ended June 30, 1998.
3. To appoint Auditors and fix their remuneration for the year 1998-99.

By Order of the Board

**FAWZIA B. KAZMI**

Secretary

Karachi: September 7, 1998

**NOTES:**

(i) The register of members will remain closed from November 17, 1998 to November 26, 1998 (both days inclusive).

(ii) A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his/her behalf. Proxies must be received at the registered office of the Company not less than 48 hours before the meeting.

(iii) Shareholders are requested to notify any change in their address immediately to our Share Registrars M/s. Ferguson Associates (Pvt.) Limited.

**COMPANY INFORMATION**

**Board of Directors**

Mr. T. V. Higgins

**Chairman**

Mr. A. Aziz

Mr. C. Balmes

Mr. F. K. Captain

Mr. A. Khawaja

Mr. G. Lezaun

Mr. S. Qureshi

Mr. M. Soomro

Ms. T. Taylor

Mr. F.W. Vellani

Mr. D. Weston

**Management**

Mr. T. V. Higgins

Managing Director & Chief Executive

Dr. A.M. Devine

Marketing Manager

Mr. H. Madani

Human Resources & Public Affairs Manager

Mr. H. van Roest

Operations Manager

Ms. T. Taylor

Finance Director

**Company Secretary**

Ms. F. B. Kazmi

**Auditors**

A.F. Ferguson & Co.

**Legal Advisers**

Fatehali W. Vellani & Co.

Advocates & Solicitors

**Registered Office**

Shell House

6, Ch. Khaliqzaman Road

Karachi - 75530

**Registrar and Share**

**Registration Office**

Ferguson Associates (Pvt) Ltd.  
P.O. Box 4716  
State Life Building 1-A  
Off I.I. Chundrigar Road  
Karachi 74000

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Report and the Audited Accounts for the year ended June 30, 1998.

|  | (Rupees '000) |           |
|--|---------------|-----------|
| The profit of the Company for the year ended June 30, 1998 after providing for administrative, marketing, financial and other charges amounts to |               | 987,909   |
| Less: Provision for  |               |           |
| Workers' Profits Participation Fund  | 49,395        |           |
| Workers' Welfare Fund  | 17,000        | 66,395    |
|  | -----         | -----     |
|  |               | 921,514   |
| Less: Taxation   |               |           |
| For the year   | 287,282       |           |
| For prior years  | (21,840)      |           |
| Deferred tax   | 64,521        | 329,963   |
|  | -----         | -----     |
| Profit after taxation  |               | 591,551   |
| To this must be added  |               |           |
| Amount of unappropriated profit brought forward from previous year   |               | 731,747   |
|  |               | -----     |
| Making available for appropriation   |               | 1,323,298 |
| <b>APPROPRIATIONS:</b>   |               |           |
| An interim dividend of Rs 4.00 per share of Rs 10 each (equivalent to 40%) was declared on February 11, 1998 absorbing                           |               | 140,263   |
| and the Directors now recommend the payment of a final dividend of Rs 4.50 per share of Rs 10 each (equivalent to 45 %) amounting to             |               | 157,796   |
|  |               | -----     |
| Making a total appropriation of  |               | 298,059   |
|  |               | -----     |
| Leaving for carry over to next year an unappropriated profit of  |               | 1,025,239 |
|  |               | =====     |
| Earnings per share   |               | Rs 16.87  |

1. The Company's margins on fuel products were last increased by the Government three and a half years ago. This is despite the Government's stated policy of revising these margins on an annual basis. Your Company continues emphasising to the Government the importance of margin increases which are necessary to justify the investment required within the industry.

2. During the year the High Court of Sindh sanctioned the Scheme of Arrangement for the amalgamation of the wholly owned subsidiaries into Shell Pakistan Limited. In



accordance with the Court order, the subsidiaries were amalgamated with Shell Pakistan based on figures as of the close of business on June 30, 1997.

3. Your Company continues to spend money on its capital investment programme in line with its objective of providing quality products and services to its customers and in improving its operational safety standards. During the year under review an amount of Rs 1,188.7 million was spent on these capital investment programmes. As in the past the most visible impact of this investment is in the form of the Shell branded retail outlets. Upto June 30, 1998, the number of such sites was 172 compared to 101 at June 30, 1997.

4. During the year under review, the tax authorities have issued a show cause notice in respect of the year ended June 30, 1997, indicating their intention to tax the Company's share in the imported fuels under section 80C of the Income Tax Ordinance. Your Company has objected to this proposed additional tax as these products were exempted from import tax with effect from July 1997. As Oil Industry margins for these products are controlled by the Ministry of Petroleum, the Company has taken this matter up with the Ministry of Petroleum, Ministry of Finance and Chairman Central Board of Revenue. The Ministry of Finance has approached the Law Division for their advice on how to apply retrospective exemption.

5. Since the last review the following changes have taken place on the Board of Directors: Mr. F. D. de Koning and Mr. S. N. A. Razvi resigned and in their place Mr. Christian Balmes and Ms. Trudy Taylor were co-opted as Directors. The Board places on record its appreciation and gratitude to the two outgoing directors for the valuable services they have rendered for the Company.

6. The Auditors M/s A. F. Ferguson & Co. retire and being eligible offer themselves for re-appointment.

7. The pattern of share holding is given on page 44. The Shell Petroleum Company Limited, London, holds 51.59% of the Company's shares.

On behalf of the Board

**T. V. HIGGINS**  
Chairman

Karachi: September 7, 1998

## **CHAIRMAN'S REVIEW**

It gives me great pleasure to welcome you to the 29th. Annual General meeting of the Company to present the Annual Accounts and the Auditors Report thereon for the financial year ended June 30, 1998.

As mentioned in my last year's review the slowdown in the economic activity and its resultant impact on the demand for fuel products has continued during the year. This period has shown the first significant slowdown in automotive fuels for many years and highlights the economic difficulties facing the country. Despite the downturn in the oil industry, Shell Pakistan Limited registered a higher growth in white oils thereby improving its market share.

Your Company continues to focus on its customers and their satisfaction. During the year capital expenditure amounting to Rs 1.1 billion was spent mainly on upgrading our retail network to bring them in line with international standards in terms of product quality, safety and environmental standards. A total of 71 retail outlets were upgraded during the year compared to 42 retail outlets during the previous year. Your Company also

recognises the customer's need for convenience. The "Select" stores have brought a new concept in convenience shopping to Pakistan. Upto June 30, 1998 a total of 56 convenience stores have been opened all over the country. The emphasis is to provide better and modern facilities for our customers. We are delighted with the customer response to these initiatives.

It is important to recognise that these re-developments require very substantial capital investment. The new retail outlets cost much more to maintain and service enhancement programmes do not come cheaply. These investment decisions were taken by your Company against Government planned margin increases which unfortunately have not materialised. The financing of the capital expenditure during the year was done partly through re-investing of the Company's profits and partly through short-term borrowing. The Company also proposed its second rights issue during the first half of 1998. This was a tremendous success and 98.5% of the options were taken up by the shareholders. This issue has strengthened our ability to grow the Company in the coming years.

On the financial side the performance of your Company has been encouraging despite the adverse economic conditions mentioned earlier. Gross margin remained steady at Rs 2.2 billion. This is despite the fact that in the previous year we had a substantial amount of inventory gain due to frequent price changes made by the Government. These were not there in the current year. Sales volume achieved during the year was 3.17 mn tonnes compared to 2.97 mn tonnes in the previous year up 6.7%. Profit after tax increased from Rs 543 mn to Rs 592 mn, an increase of 9%.

As in the past lubricants continued to play a significant role in the profit generation. The market is highly competitive and investments have been made to improve the product offering to secure customers. During the year your Company successfully launched Shell Advance Oils for use in two and four stroke motorcycles. Plans are also being made to set up a "state of the art" lubricants blending plant in the next few years. Currently 42% of the Company's gross margin is earned from lubricants.

The low level of margins on fuels make it imperative that we control operating expenses in order to optimise profits and shareholder returns. This is difficult in view of the inflationary pressures prevalent in the country, which has increased the cost of goods and services that we receive. Staff at all levels contributed in controlling costs as a result of which administrative and marketing expenses excluding depreciation have increased from Rs 893.3mn to Rs 929.9mn, an effective increase of 4.1% compared to an increase of 25.6% in the previous year.

The profit for the year after tax is Rs 591.5mn. An interim dividend of Rs 4.00 per share was declared in February 1998. At their meeting on September 7, 1998, the Board of Directors recommended a final dividend of Rs 4.50 per share, making a total distribution of Rs 8.50 per share for the year ended June 30, 1998.

Your Company continues to pursue its strategy of investment in infrastructure, information technology and human resource development. The objective is to remain the industry leader in customer service, product quality and in matters relating to health, safety and environmental protection. These efforts require capital, which is not easy to raise. The industry currently generates net income after tax of only 1.4% on a turnover of over Rs 180 billion. Low margins deter new entrants into the market, which denies the customer a wide choice, thus limiting competition and ultimately efficiency. The last increase in margins came in February 1995. Efforts to persuade the Government to implement its declared policy of gradually increasing margins continue, so as to sustain the development programme of your Company.

An essential part of the marketing of products is its safe and efficient distribution. The current railway infrastructure is woefully inadequate. As a result we are increasingly

dependent on road transport and currently an estimated 15,000 lorries are engaged in transporting and delivering products all over the country. Your Company has recently introduced for the first time in Pakistan 25 lorries of 40KL capacity, which have been built to international standards. This is a first step towards introducing quality and safety in the transport sector and it is hoped that private contractors will follow this example. On our part we also provide defensive driving training to truck drivers and encourage them to wear safety belts to meet our objective of safer road travel, as numerous fatalities occur each year.

Our efforts towards quality and service have received recognition from our customers who regard your Company as their preferred fuel supplier. Over the years we have grown to be in good financial strength. With the combined efforts of the Management team and dedication of our staff at all levels, we will continue to grow and to serve our customers. On behalf of the Board I would like to thank everyone for their efforts and their contribution.

## HIGHLIGHTS

|                           |         | Year ended<br>June 30,<br>1998 | Year ended<br>June 30,<br>1997 |
|---------------------------|---------|--------------------------------|--------------------------------|
| Sales volumes             | Tonnes  | 3,170,545                      | 2,973,118                      |
| Sales revenue             | Rs / mn | 42,980                         | 37,695                         |
| Profit before tax         | Rs / mn | 922                            | 927                            |
| Profit after tax          | Rs / mn | 592                            | 543                            |
| New capital expenditure   | Rs / mn | 1,189                          | 956                            |
| Shareholders' equity      | Rs / mn | 3,609                          | 1,823                          |
| Dividend                  | Rs / mn | 298                            | 199                            |
| Earning per share         | Rs      | 16.87                          | 23.23                          |
| Foreign exchange earnings | Rs / mn | 610                            | 642                            |

## FINANCIAL STATISTICAL SUMMARY

|   | 1998        | 1997     | *1996    | 1994     | 1993   | 1992   | 1991   | 1990    | 1989   | 1988   |        |
|---|-------------|----------|----------|----------|--------|--------|--------|---------|--------|--------|--------|
|   | Re-arranged |          |          |          |        |        |        |         |        |        |        |
| <b>Investment Measures</b>              |             |          |          |          |        |        |        |         |        |        |        |
| Share capital                           | Rs/mn       | 350.66   | 233.77   | 233.77   | 135.52 | 123.20 | 123.20 | 123.20  | 107.80 | 107.80 | 98.00  |
| Reserves                                | Rs/mn       | 3,258.27 | 1,589.57 | 1,237.57 | 468.11 | 339.36 | 274.15 | 196.56  | 285.90 | 284.36 | 252.60 |
| Shareholders' equity                    | Rs/mn       | 3,608.92 | 1,823.34 | 1,471.34 | 603.63 | 462.56 | 397.35 | 319.76  | 393.70 | 356.16 | 350.60 |
| Break-up value                          | Rs          | 102.92   | 78.00    | 62.94    | 44.54  | 37.55  | 32.25  | 25.91   | 36.52  | 33.04  | 35.78  |
| Dividend per share                      | Rs          | 8.5      | 8.50     | 8.25     | 4.00   | 4.00   | 2.00   | --      | 4.50   | 6.00   | 4.50   |
| Bonus                                   |             | --       | --       | --       | 3:20   | 1:10   | --     | --      | 1:7    | --     | 1:10   |
| Profit before tax                       | Rs/mn       | 921.51   | 927.14   | 517.04   | 311.78 | 177.26 | 42.44  | 24.66   | 150.06 | 121.58 | 95.99  |
| Profit/(loss) after tax                 | Rs/mn       | 591.55   | 543.1    | 316.39   | 195.28 | 114.49 | 102.23 | (73.94) | 80.06  | 70.24  | 62.44  |
| Earning/(loss) per share<br>of Rs. 10/- | Rs          | 16.87    | 23.23    | 13.53    | 14.40  | 9.30   | 8.30   | (6.00)  | 7.98   | 6.52   | 6.37   |
| Price earning ratio                     |             | 8.60     | 10.12    | 11.90    | 19.43  | 22.80  | 9.50   | --      | 6.70   | 9.00   | 9.90   |
| <b>Measures of financial status</b>     |             |          |          |          |        |        |        |         |        |        |        |
| Current assets to current liabilities   |             | 1.20     | 0.91     | 1.2      | 1.1    | 1.1    | 1.0    | 1.0     | 1.0    | 1.1    | 1.2    |
| Number of days stocks                   |             | 15       | 17       | 19       | 14     | 19     | 15     | 18      | 21     | 19     | 20     |
| Number of days trade debts              |             | 4        | 7        | 8        | 8      | 7      | 7      | 8       | 9      | 9      | 6      |
| <b>Measures of performance</b>          |             |          |          |          |        |        |        |         |        |        |        |

|  |       |       |       |       |       |       |         |       |       |       |
|--|-------|-------|-------|-------|-------|-------|---------|-------|-------|-------|
| Profit/(loss) after tax as % of average capital employed     | 18.81 | 23.07 | 24.24 | 31.68 | 17.36 | 12.70 | (6.40)  | 9.30  | 11.80 | 12.80 |
| Profit/(loss) after tax as % of average shareholders' equity | 21.25 | 33.22 | 30.50 | 36.63 | 26.60 | 28.50 | (20.70) | 23.00 | 19.90 | 18.30 |
| Cost of sales as % of sales                                  | 94.87 | 94.23 | 95.61 | 96.13 | 96.31 | 97.23 | 97.50   | 96.30 | 96.70 | 97.00 |
| Profit before tax as % of sales                              | 2.14  | 2.46  | 1.25  | 1.43  | 0.94  | 0.24  | 0.15    | 1.10  | 1.10  | 0.90  |
| Profit after tax as % of sales                               | 1.38  | 1.44  | 0.77  | 0.89  | 0.61  | 0.60  | (0.40)  | 0.60  | 0.60  | 0.60  |
| Total debt ratio %   | 3.25  | 28.33 | 32.81 | 37.41 | 45.22 | 40.20 | 67.10   | 64.30 | 37.60 | 30.70 |

\* Based on eighteen months results

#### **BREAK-UP OF SELLING PRICE OF MAIN FUEL PRODUCTS AS AT JUNE 30 1998**

|                             | <b>Motor Gasoline Regular</b> | <b>Kerosine</b> | <b>High Speed Diesel Oil</b> | <b>Furnace Oil</b> |
|-----------------------------|-------------------------------|-----------------|------------------------------|--------------------|
|                             | <b>Rs/Litre</b>               | <b>Rs/Litre</b> | <b>Rs/Litre</b>              | <b>Rs/Litre</b>    |
| Cost of Product             | 4.888                         | 4.5516          | 4.3169                       | 3,216.20           |
| Custom/Excise Duty          | 0.88                          | --              | 0.25                         | 35.20              |
| Development Surcharge       | 10.88                         | 4.16            | 4.11                         | 1,457.84           |
| Inland Freight Equalisation |                               |                 |                              |                    |
| Margin                      | 0.49                          | 0.60            | 0.65                         | 700.00             |
| Distributor's Margin        | 0.3849                        | 0.1284          | 0.1854                       | 90.76              |
| Fixed Selling Price         | 17.5229                       | 9.4400          | 9.5123                       | 5,500.00           |
| Dealer's Commission         | 0.2271                        | --              | 0.1477                       |                    |
| Ex-pump Selling price       | 17.75                         | 9.44            | 9.66                         | 5,500.00           |

#### **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Shell Pakistan Limited as at June 30, 1998 and the related Profit and Loss account and Cash Flow Statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion

(i) the Balance Sheet and Profit and Loss Account together with 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 and Cash Flow Statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 1998 and of the profit and cash flows for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the company but was deposited subsequent to the year end in the Central Zakat Fund established under section 7 of that Ordinance.

**A.E FERGUSON & CO.**

Chartered Accountants

Karachi: September 7, 1998

**BALANCE SHEET  
AS AT JUNE 30, 1998**

|   | Note | 1998<br>(Rupees '000 ) | 1997      |
|---|------|------------------------|-----------|
| Tangible Fixed Assets   | 3    | 3,101,399              | 2,147,618 |
| Long-term Investments   | 4    | 5,001                  | 1         |
| Long-term Loans   | 5    | 7,141                  | 5,418     |
| Long-term Deposits and Prepayments                                    | 6    | 17,748                 | 21,763    |
| Deferred Taxation   | 7    | --                     | 12,557    |
|   |      | -----                  | -----     |
| Total Long-term Assets  |      | 3,131,289              | 2,187,357 |
| <b>Current Assets</b>   |      |                        |           |
| Stores and spares   | 8    | 19,879                 | 8,580     |
| Stock-in-trade  | 9    | 1,776,516              | 1,785,426 |
| Trade debts   | 10   | 358,205                | 553,682   |
| Loans and advances  | 11   | 6,391                  | 7,049     |
| Trade deposits and short-term prepayments                             | 12   | 82,189                 | 79,690    |
| Other receivables   | 13   | 157,355                | 613,087   |
| Taxation  |      | 91,575                 | --        |
| Cash and bank balances  | 14   | 1,300,533              | 500,186   |
|   |      | -----                  | -----     |
| <b>Total Current Assets</b>   |      | 3,792,643              | 3,547,700 |
| <b>Current Liabilities</b>  |      |                        |           |
| Current maturity of liability against assets subject to finance lease | 15   | 12,164                 | --        |
| Current maturity of redeemable capital                                | 16   | --                     | 236,667   |
| Short-term running finance utilised under mark-up arrangements        | 17   | 8,855                  | 461,887   |
| Creditors, accrued and other liabilities                              | 18   | 2,981,050              | 2,878,445 |
| Taxation  |      | --                     | 192,664   |
| Proposed dividend   |      | 157,796                | 116,886   |
|   |      | -----                  | -----     |
| Total Current Liabilities   |      | 3,159,865              | 3,886,549 |
|   |      | -----                  | -----     |
| Net Current Assets / (Liabilities)                                    |      | 632,778                | (338,849) |
|   |      | -----                  | -----     |
| Total Assets less Current Liabilities                                 |      | 3,764,067              | 1,848,508 |
| Surplus on Revaluation of Fixed Assets                                | 19   | 2,946                  | 2,946     |

|   |    |           |           |
|---|----|-----------|-----------|
| Deferred Taxation                                   | 7  | 51,964    | --        |
| Long-Term Liabilities                               |    |           |           |
| Liabilities against assets subject to finance lease | 15 | 100,234   | --        |
| Redeemable Capital                                  | 16 | --        | 22,222    |
|   |    | -----     | -----     |
|   |    | 100,234   | 22,222    |
| Contingent Liabilities and Commitments              | 20 |           |           |
|   |    | -----     | -----     |
| Net Assets  |    | 3,608,923 | 1,823,340 |
|   |    | =====     | =====     |
| Represented by:                                     |    |           |           |
| Share Capital                                       | 21 | 350,658   | 233,772   |
| Reserves  | 22 | 2,233,026 | 830,394   |
| Unappropriated Profit                               |    | 1,025,239 | 731,747   |
| Provision Against Investment in Subsidiaries        |    | --        | 27,427    |
|   |    | -----     | -----     |
| Shareholders' Equity                                |    | 3,608,923 | 1,823,340 |
|   |    | =====     | =====     |

The annexed notes form an integral part of these accounts.

#### **PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1998**

|                                       | <b>Note</b> | <b>1998</b>          | <b>1997</b> |
|---------------------------------------|-------------|----------------------|-------------|
|                                       |             | <b>(Rupees '000)</b> |             |
| Sales                                 |             | 42,980,058           | 37,694,737  |
| Less: Duties, taxes and levies        | 23          | 17,846,219           | 13,182,035  |
|                                       |             | -----                | -----       |
|                                       |             | 25,133,839           | 24,512,702  |
| Cost of products sold                 | 24          | 22,929,523           | 22,336,880  |
|                                       |             | -----                | -----       |
|                                       |             | 2,204,316            | 2,175,822   |
| Transportation expenses               | 25          | 143,124              | 120,759     |
| Administrative and marketing expenses | 26          | 1,131,742            | 1,015,282   |
|                                       |             | -----                | -----       |
|                                       |             | 1,274,866            | 1,136,041   |
| <b>Operating Profit</b>               |             | 929,450              | 1,039,781   |
| Other income                          | 27          | 164,480              | 61,942      |
|                                       |             | -----                | -----       |
|                                       |             | 1,093,930            | 1,101,723   |
| Financial charges                     | 28          | 92,216               | 94,831      |
| Other charges                         | 29          | 80,200               | 79,752      |
|                                       |             | -----                | -----       |
|                                       |             | 172,416              | 174,583     |
| Profit Before Taxation                |             | 921,514              | 927,140     |
| Taxation                              | 30          | 329,963              | 384,044     |
|                                       |             | -----                | -----       |

|   |                  |                |
|---|------------------|----------------|
| Profit After Taxation                             | 591,551          | 543,096        |
| Unappropriated profit brought forward             | 731,747          | 387,357        |
|   | -----            | -----          |
| <b>Profit Available for Appropriation</b>         | <b>1,323,298</b> | <b>930,453</b> |
| <b>Appropriations:</b>                            |                  |                |
| Interim dividend Rs 4.00 (1997:Rs 3.50) per share | 140,263          | 81,820         |
| Final dividend Rs 4.50 (1997:Rs 5.00 ) per share  | 157,796          | 116,886        |
|   | -----            | -----          |
|   | 298,059          | 198,706        |
|   | -----            | -----          |
| Unappropriated profit carried forward             | 1,025,239        | 731,747        |
|   | =====            | =====          |

The annexed notes form an integral part of these accounts.

### CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 1998

|  | Note | 1998<br>(Rupees '000 ) | 1997      |
|--|------|------------------------|-----------|
| <b>CASH FLOW FROM OPERATING<br/>ACTIVITIES</b>         |      |                        |           |
| Cash generated from operations                         | 33   | 1,935,327              | 1,549,375 |
| Mark-up on short-term finances paid                    |      | (28,476)               | (26,898)  |
| Taxes paid   |      | (549,681)              | (229,777) |
| Long-term loans and advances                           |      | (1,723)                | (1,462)   |
| Long-term deposits and prepayments                     |      | 4,015                  | (6,305)   |
| Gratuity paid  |      | --                     | (67)      |
|  |      | -----                  | -----     |
| Net cash inflow from operating activities              |      | 1,359,462              | 1,284,866 |
| <b>CASH FLOW FROM INVESTING<br/>ACTIVITIES</b>         |      |                        |           |
| Fixed capital expenditure                              |      | (1,075,569)            | (956,066) |
| Investments made                                       |      | (5,000)                | --        |
| Proceeds from sale of fixed assets                     |      | 3,531                  | 5,648     |
|  |      | -----                  | -----     |
| Net cash outflow from investing activities             |      | (1,077,038)            | (950,418) |
| <b>CASH FLOW FROM FINANCING<br/>ACTIVITIES</b>         |      |                        |           |
| Proceeds from issue of shares                          |      | 1,519,518              | --        |
| Repayment of long-term finances                        |      | (258,889)              | (156,111) |
| Dividends paid   |      | (245,252)              | (141,768) |
| Mark-up on redeemable capital paid                     |      | (34,928)               | (55,276)  |
| Repayment of liability under finance lease             |      | (9,494)                | --        |
|  |      | -----                  | -----     |
| Net cash inflow/(outflow) from financing activities    |      | 970,955                | (353,155) |
|  |      | -----                  | -----     |
| Net increase / (decrease) in cash and cash equivalents |      | 1,253,379              | (18,707)  |

|                                      |    |           |        |   |
|--------------------------------------|----|-----------|--------|---|
| Cash and cash equivalents at July 1  |    | 38,299    | 57,006 | ~ |
|                                      |    | -----     | -----  |   |
| Cash and cash equivalents at June 30 | 34 | 1,291,678 | 38,299 | ∴ |
|                                      |    | =====     | =====  |   |

The annexed notes form an integral part of these accounts.

## **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1998**

### **1. THE COMPANY AND ITS OPERATIONS**

Shell Pakistan Limited is incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. The company markets petroleum and petrochemical products. It also blends and markets various kinds of lubricating oils.

#### **1.1 Amalgamation with six wholly owned subsidiaries**

The High Court of Sindh has sanctioned the scheme of arrangement for amalgamation of the company with its wholly owned subsidiaries, namely Pak People Products Corporation (Private) Limited, Jamia Industries (Private) Limited, Petroleum Industries of Pakistan (Private) Limited, International Lubricants (Private) Limited, Arnif Petroleum (Private) Limited and Lahore Lubricants (Private) Limited with effect from the close of business on June 30, 1997. All these companies, with the exception of Lahore Lubricants (Private) Limited, were engaged in the business of blending and marketing of various kinds of lubricating oils. Lahore Lubricants (Private) Limited had not commenced operations on the date of amalgamation. Accordingly, these accounts reflect the combined results of the amalgamated company and have been prepared on a pooling of interest basis in accordance with the International Accounting Standard - 22 "Accounting for Business Combinations".

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Accounting convention**

These accounts have been prepared under the historical cost convention, except to the extent that certain fixed assets pertaining to Pak People Products Corporation (Private) Limited, one of the six companies amalgamated during the year, have been included at revalued amounts.

#### **(b) Staff retirement benefits**

Except for certain expatriates for whom benefits are provided by membership of the Shell Overseas Contributory Pension Fund, staff retirement benefits include:

i) approved funded pension and gratuity schemes for both management and unionised staff. Contributions for management staff are made on the basis of actuarial recommendations at the rate of 16.2% per annum and 4.45% per annum of basic salaries for pension and gratuity respectively. No further contributions are necessary at present for unionised staff on the basis of actuarial recommendation. The actuarial valuation is carried out once in every three years or earlier. The latest valuation for management and unionised staff was carried out as at December 31, 1995. The fair value of the schemes' assets and liabilities for past services of the employees at the latest valuation date were Rs 258.109 million and Rs 246.984 million respectively for the pension scheme and Rs 43.231 million and Rs 33.096 million respectively for the gratuity scheme. The future contribution rates of these schemes include allowance for this surplus. The Attained Age Normal Method,



using the following significant assumptions, is used for valuation of these schemes:

- Expected rate of increase in salary level at 6% per annum
- Expected rate of interest at 8% per annum; and

ii) approved contributory provident funds for all employees.

During the current year Rs 28.140 million was charged as an expense in respect of the above benefits (1997: Rs 27.225 million).

Benefits under the pension and gratuity schemes are payable to staff on completion of prescribed qualifying period of service.

### **(c) Taxation**

#### **Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, or half percent of turnover, whichever is higher.

#### **Deferred**

Provision for deferred taxation is made on all significant timing differences using the liability method. However, deferred tax is not provided if it can be established with reasonable probability that these timing differences will not reverse in the foreseeable future.

### **(d) Investments**

Long-term investments are stated at cost less provision for diminution in value. In arriving at the provision in respect of any diminution in the value of long-term investments, consideration is given only if there is a permanent impairment in the value of the investment. Dividends are reflected in the profit and loss account on receipt basis.

### **(e) Stores and spares**

Stores are valued at average cost whereas spares are valued at cost worked out on a first-in first-out basis. Items in transit are stated at cost incurred to date.

### **(f) Fixed assets and depreciation**

Operating fixed assets are stated at cost or revalued amounts less accumulated depreciation except freehold land and capital work-in-progress which are stated at cost.

Depreciation is charged to income applying the straight line method whereby the cost or revalued amount of an asset is written off over its estimated useful life.

Depreciation on additions to fixed assets is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed of.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired.

Profit and loss arising on disposal of fixed assets is included in income in the year of disposal.

### **(g) Stock-in-trade**

Stock-in-trade is valued at the lower of cost, calculated on a first-in first-out basis,

and net realisable value. Charges such as excise and customs duties and similar levies incurred on unsold stock of products are added to the value of the stock and carried forward.

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

#### (h) Foreign currencies

Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange which approximate those prevailing at the balance sheet date except for the liabilities covered under forward exchange contracts which are translated at the contracted rates. Exchange gains and losses are taken to income currently.

#### (i) Revenue recognition

Sales are recorded on despatch of goods to customers. Commission income is recognised on shipment of goods by the principals.

#### (j) Liabilities against assets subject to finance lease

Finance charge under the lease agreement is allocated to periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining

### 3. TANGIBLE FIXED ASSETS

|                                    | 1998<br>(Rupees '000 ) | 1997      |
|------------------------------------|------------------------|-----------|
| Operating fixed assets -Note 3.1   | 1,929,193              | 942,921   |
| Capital work-in-progress -Note 3.5 | 1,172,206              | 1,204,697 |
|                                    | 3,101,399              | 2,147,618 |

#### 3.1 OPERATING FIXED ASSETS

The following is a statement of operating fixed assets:

|                                | Cost and<br>revaluation at<br>July 1, 1997 | Additions/<br>(deletions) | Transfer<br>in/(out) | Cost and<br>revaluation at<br>June 30,<br>1998 | Accumulated<br>depreciation<br>at July 1,<br>1997 | Charge<br>for the year/<br>(accumulated<br>depreciation<br>on disposals) | Transfers<br>in/(out) | Accumulated<br>depreciation<br>at June 30,<br>1998 | Book value<br>at June 30,<br>1998 | Annual<br>rate of<br>depreciation<br>% |
|--------------------------------|--|---------------------------|----------------------|--|---|--|-----------------------|--|-----------------------------------|--|
| Freehold land                  | 45,835                                     | 24,756                    | --                   | 70,591   | --  | --   | --                    | --   | 70,591                            | --                                     |
| Leasehold land                 | 40,265                                     | 21,810                    | --                   | 62,075   | 6,616   | 2,511  | --                    | 9,127  | 52,948                            | 5                                      |
| Buildings on<br>freehold land  | 42,852                                     | 62,393                    | --                   | 105,245  | 13,278  | 2,925  | --                    | 16,203   | 89,042                            | 5                                      |
| Buildings on<br>leasehold land | 437,216                                    | 250,730<br>(38)           | (98)                 | 687,810  | 96,639  | 31,437<br>(38)   | (22)                  | 128,016  | 559,794                           | 5 to 10                                |
| Tanks and Pipelines            | 261,662                                    | 398,966<br>(929)          | (2,238)              | 657,461  | 151,584   | 44,314<br>(928)  | (2,238)               | 192,732  | 464,729                           | 10                                     |
| Plant and Machinery            | 143,469                                    | 15,470<br>(71)            | --                   | 158,868  | 77,857  | 14,167<br>(171)  | --                    | 91,953   | 66,915                            | 10                                     |
| Airconditioning plant          | 12,329                                     | 132                       | --                   | 12,461   | 11,093  | 455  | --                    | 11,548   | 913                               | 10                                     |

|  |           |                      |       |           |         |                    |       |         |           |          |
|--|-----------|----------------------|-------|-----------|---------|--------------------|-------|---------|-----------|----------|
| Lifts  | 4,481     | --                   | --    | 4,481     | 2,547   | 246                | --    | 2,793   | 1,688     | 10       |
| Dispensing pumps   | 211,676   | 66,708<br>(1149)     | --    | 278,235   | 135,049 | 27,119<br>(67)     | --    | 162,101 | 116,134   | 15       |
| Rolling stock<br>and vehicles                            | 59,030    | 85,695<br>(1,091)    | --    | 143,634   | 34,074  | 15,448<br>(705)    | --    | 48,817  | 94,817    | 10 to 55 |
| Electrical, mechanical<br>and fire fighting<br>equipment | 159,053   | 94,798<br>(70)       | 1,544 | 255,325   | 56,038  | 21,575<br>(68)     | 1,468 | 79,013  | 176,312   | 10       |
| Furniture, office<br>equipment and<br>other assets       | 114,899   | 42,941<br>(1,787)    | 694   | 156,747   | 50,423  | 17,566<br>(1,530)  | 694   | 67,153  | 89,594    | 10 to 15 |
| Personal computers                                       | 49,858    | 23,310<br>(1,110)    | 98    | 72,156    | 19,710  | 22,337<br>(980)    | 98    | 41,165  | 30,991    | 33.33    |
| Main frame   | 18,374    | --                   | --    | 18,374    | 3,170   | 4,994              | --    | 8,164   | 10,210    | 25       |
| Assets held under<br>finance lease<br>- Vehicles         | --        | 113,109              | --    | 113,109   | --      | 8,594              | --    | 8,594   | 104,515   | 20       |
| 1998   | 1,600,999 | 1,200,818<br>(5,245) | --    | 2,796,572 | 658,078 | 213,688<br>(4,387) | --    | 867,379 | 1,929,193 |          |
| 1997   | 1,231,894 | 378,807<br>(9,702)   | --    | 1,600,999 | 541,515 | 122,681<br>(6,118) | --    | 658,078 | 942,921   |          |

3.2 Included in the fixed assets are certain assets of Pak People Products Corporation (Private) Limited which have been included at revalued amounts. The revaluation was carried out on September 30, 1977 and resulted in a surplus of Rs 2.946 million. The surplus arising on revaluation has been fully depreciated.

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

|  | 1998<br>(Rupees '000) | 1997    |
|--|-----------------------|---------|
| Cost of products sold  | 3,263                 | 748     |
| Administrative and marketing<br>expenses - Note 26   | 201,831               | 121,933 |
|  | 205,094               | 122,681 |
| Recoverable from the Government of<br>Pakistan under Petroleum Products<br>(Development Surcharge) Rules, 1967 | 8,594                 | --      |
|  | 213,688               | 122,681 |

3.4 The following assets were disposed of during the year:

|   | Cost          | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal | Particulars of buyers              |
|---|---------------|--------------------------|------------|---------------|------------------|------------------------------------|
|   | (Rupees '000) |                          |            |               |                  |                                    |
| <b>Buildings on leasehold land</b>                        |               |                          |            |               |                  |                                    |
| Items with written down value below Rs. 5,000 each        | 38            | 38                       | --         | 118           |                  | Various                            |
| <b>Tanks and pipelines</b>                                |               |                          |            |               |                  |                                    |
| Items with written down value below Rs 5,000 each         | 929           | 928                      | 1          | 1,544         |                  | Various                            |
| <b>Plant &amp; Machinery</b>                              |               |                          |            |               |                  |                                    |
| Items with written down value below Rs. 5,000 each        | 71            | 71                       | --         | 5             |                  | Various                            |
| <b>Dispensing pumps</b>                                   | 149           | 67                       | 82         | 463           | Negotiation      | Tezz filling station               |
| <b>Rolling stock and vehicles</b>                         | 891           | 505                      | 386        | 347           | Insurance Claim  | EFU General Insurance Limited      |
| Items with written down value below Rs. 5,000 each        | 200           | 200                      | --         | 200           |                  | Various                            |
|   | -----         | -----                    | -----      | -----         |                  |                                    |
|   | 1,091         | 705                      | 386        | 547           |                  |                                    |
| <b>Electrical, mechanical and fire fighting equipment</b> |               |                          |            |               |                  |                                    |
| Items with written down value below Rs. 5,000 each        | 70            | 68                       | 2          | 111           |                  | Various                            |
|   | -----         | -----                    | -----      | -----         |                  |                                    |
| Balance carried forward                                   | 2,348         | 1,877                    | 471        | 2,788         |                  |                                    |
| Balance brought forward                                   | 2,348         | 1,877                    | 471        | 2,788         |                  |                                    |
| <b>Furniture, office equipment and other assets</b>       | 29            | 10                       | 19         | 20            | Negotiation      | Akber Aziz (Ex-employee)           |
|   | 28            | 6                        | 22         | 28            | Negotiation      | Jeremy Davis (Ex-employee)         |
|   | 21            | 13                       | 8          | 11            | Negotiation      | M.Q.Azam (Employee)                |
|   | 20            | 7                        | 13         | 13            | Negotiation      | S. Fazli (Ex-employee)             |
|   | 43            | 1                        | 42         | 39            | Negotiation      | Wajeaha Ahmed (Ex-employee)        |
|   | 150           | 87                       | 63         | 55            | Trade-in         | Jaffer Brothers (Pvt) Ltd. Karachi |
|   | 39            | 28                       | 11         | 5             | Negotiation      | Mushkoor (Employee)                |
|   | 45            | 32                       | 13         | 20            | Negotiation      | Islam Nabi (Employee)              |
|   | 188           | 165                      | 23         | 5             | Negotiation      | Ayub Survey (Employee)             |
|   | 113           | 82                       | 31         | 7             | Negotiation      | Iftikhar-ur-Rehman (Employee)      |
| Items with written down value below Rs 5,000 each         | 1,111         | 1,099                    | 12         | 234           |                  | Various                            |
|   | -----         | -----                    | -----      | -----         |                  |                                    |
|   | 1,787         | 1,530                    | 257        | 437           |                  |                                    |
| <b>Personal computers</b>                                 | 73            | 63                       | 10         | 20            | Negotiation      | S.M.Qasim (Employee)               |
|   | 73            | 63                       | 10         | 20            | Negotiation      | Saleem Piracha (Employee)          |
|   | 73            | 63                       | 10         | 20            | Negotiation      | S.A. Faisal (Employee)             |
|   | 73            | 63                       | 10         | 20            | Negotiation      | S. Shahid All (Employee)           |

|   |       |       |       |       |             |                                   |
|---|-------|-------|-------|-------|-------------|-----------------------------------|
|   | 73    | 62    | 11    | 20    | Negotiation | Zia-ur-Rehman (Employee)          |
|   | 73    | 62    | 11    | 20    | Negotiation | Sabah-uz-Zaman (Employee)         |
|   | 73    | 62    | 11    | 20    | Negotiation | Naveed I. Khan (Employee)         |
|   | 72    | 62    | 10    | 20    | Negotiation | M. Zaman (Employee)               |
|   | 72    | 62    | 10    | 20    | Negotiation | Shazia Khan (Employee)            |
|   | 75    | 69    | 6     | 20    | Negotiation | Kashif Zia (Employee)             |
|   | 75    | 68    | 7     | 20    | Negotiation | Faisal (Employee)                 |
|   | 75    | 68    | 7     | 20    | Negotiation | W.A. Khan (Employee)              |
|   | 75    | 68    | 7     | 20    | Negotiation | Junaid-ud-din (contract employee) |
|   | 75    | 68    | 7     | 20    | Negotiation | Nasir Rehman (Employee)           |
| Items with written down value below Rs 5,000 each | 80    | 77    | 3     | 26    |             | Various                           |
|   | 1,110 | 980   | 130   | 306   |             |                                   |
| 1998  | 5,245 | 4,387 | 858   | 3,531 |             |                                   |
| 1997  | 9,702 | 6,115 | 3,584 | 5,648 |             |                                   |

### 3.5 CAPITAL WORK-IN-PROGRESS

|  | 1998           | 1997      |
|--|----------------|-----------|
|  | (Rupees '000 ) |           |
| Leasehold land                                     | 481            | 642       |
| Buildings on freehold land                         | 4,147          | 9,263     |
| Buildings on leasehold land                        | 310,962        | 199,326   |
| Tanks and pipelines                                | 218,368        | 449,842   |
| Plant and machinery                                | 43,737         | 30,591    |
| Airconditioning plant                              | 17,642         | 4,603     |
| Lifts  | 76             | 24        |
| Dispensing pumps                                   | 78,699         | 71,960    |
| Rolling stock and vehicles                         | 32,848         | 28,099    |
| Electrical, mechanical and fire fighting equipment | 103,320        | 60,084    |
| Furniture, office equipment and other assets       | 153,653        | 96,058    |
| Personal computers                                 | 32,705         | 17,630    |
| Main Frame   | 91             | --        |
| Capital stores and spares                          | 175,477        | 210,456   |
| Advances to suppliers                              | --             | 5,768     |
| Unallocated capital expenditure                    | --             | 20,351    |
|  | 1,172,206      | 1,204,697 |

### 4. LONG-TERM INVESTMENTS

|  | 1998               | 1997               |
|--|--------------------|--------------------|
|  | Percentage holding | Percentage holding |
|  | (Rs '000)          | (Rs '000)          |
| Arabian Sea Country Club Limited<br>500,000 (1997: Nil) ordinary shares of Rs 10 each. | --                 | 5,000              |
| Non-trading subsidiaries   | 100                | 1                  |

5,001

1

Investments in non-trading subsidiaries consists of:

Shell Pakistan Provident Trust (Private) Limited  
2 (1997: 2) fully paid ordinary shares of Rs 100 each

Shell Pakistan Pensions Trust (Private) Limited  
2 (1997: 2) fully paid ordinary shares of Rs 100 each

#### 5. LONG-TERM LOANS - CONSIDERED GOOD

|   | 1998          | 1997  |
|---|---------------|-------|
|   | (Rupees '000) |       |
| Due from executives                         | 10,924        | 7,551 |
| Less: Receivable within one year - Note 711 | 4,557         | 2,803 |
|   | -----         | ----- |
|   | 6,367         | 4,748 |
| Due from employees                          | 1,488         | 740   |
| Less: Receivable within one year            | 714           | 70    |
|   | -----         | ----- |
|   | 774           | 670   |
|   | -----         | ----- |
|   | 7,141         | 5,418 |
|   | =====         | ===== |
| Outstanding for periods                     |               |       |
| - less than three years                     | 7,109         | 5,351 |
| - three years and more                      | 32            | 67    |
|   | -----         | ----- |
|   | 7,141         | 5,418 |
|   | =====         | ===== |

Loans to executives and employees are given for housing and for purchase of motor cars and motorcycles in accordance with the company's policy and are repayable over a period of two to five years.

The maximum aggregate amount due from executives at the end of any month during the year was Rs 10.924 million (1997: Rs 7.551 million).

#### 6. LONG-TERM DEPOSITS AND PREPAYMENTS

|             | 1998           | 1997   |
|-------------|----------------|--------|
|             | (Rupees '000 ) |        |
| Deposits    | 3,480          | 1,773  |
| Prepayments | 14,268         | 19,990 |
|             | -----          | -----  |
|             | 17,748         | 21,763 |
|             | =====          | =====  |

## 7. DEFERRED TAXATION

This is composed of the following:

|  |          |          |
|--|----------|----------|
| Deferred liability arising in respect of tax depreciation allowances | (76,697) | (23,903) |
| Deferred asset in respect of short-term provisions                   | 24,733   | 36,460   |
|  | -----    | -----    |
|  | (51,964) | 12,557   |
|  | =====    | =====    |

## 8. STORES AND SPARES

|  |                       |
|--|-----------------------|
|  | <b>1998</b>           |
|  | <b>(Rupees '000 )</b> |
| Stores   | 18,217                |
| Spares   | 7,645                 |
|  | -----                 |
|  | 25,862                |
| Less: Provision for obsolete stores and spares | 5,983                 |
|  | -----                 |
|  | 19,879                |
|  | =====                 |

## 9. STOCK-IN-TRADE

|   |                      |
|---|----------------------|
|   | <b>1998</b>          |
|   | <b>(Rupees '000)</b> |
| Raw and packing materials   | 200,954              |
| Finished products   |                      |
| In hand and in PARCO pipeline system  | 1,185,062            |
| Less: Held in trust on behalf of the Government of Pakistan                                   | 78,164               |
|   | -----                |
|   | 1,106,898            |
| In exchange account with Pakistan State Oil Company Limited and Caltex Oil (Pakistan) Limited | 15,473               |
|   | -----                |
|   | 1,122,371            |
|   | -----                |
|   | 1,323,325            |
| Charges incurred thereon  | 458,837              |
|   | -----                |
|   | 1,782,162            |
| Less: Provision for stock losses  | 5,646                |
|   | -----                |
|   | 1,776,516            |
|   | =====                |

## 10. TRADE DEBTS

|  | <b>1998</b>           | <b>1997</b> |
|--|-----------------------|-------------|
|  | <b>(Rupees '000 )</b> |             |
| Considered good                                |                       |             |
| Secured  | 22,334                | 15,875      |
| - Unsecured                                    | 335,871               | 537,807     |
| Considered doubtful                            | 121,965               | 178,042     |
|  | -----                 | -----       |
|  | 480,170               | 731,724     |
| Less: Provision for doubtful debts - Note 10.1 | 121,965               | 178,042     |
|  | -----                 | -----       |
|  | 358,205               | 553,682     |
|  | =====                 | =====       |

Amounts due from associated undertakings at June 30, 1998 aggregated to Rs 80.749 million (1997: Rs 129.736 million).

The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs 187.144 million ( 1997: Rs 129.736 million).

#### 10.1 Provision for doubtful debts

|  | <b>1998</b>           | <b>1997</b> |
|--|-----------------------|-------------|
|  | <b>(Rupees '000 )</b> |             |
| Balance at July 1                        | 178,042               | 68,249      |
| Provision made during the year - Note 26 | 2,500                 | 109,793     |
| Amount written off against provision     | (58,577)              | --          |
|  | -----                 | -----       |
| Balance at June 30                       | 121,965               | 178,042     |
|  | =====                 | =====       |

## 11. LOANS AND ADVANCES - CONSIDERED GOOD

|                       | <b>1998</b>           | <b>1997</b> |
|-----------------------|-----------------------|-------------|
|                       | <b>(Rupees '000 )</b> |             |
| Loans due from        |                       |             |
| - Executives - Note 5 | 4,557                 | 2,803       |
| - Employees           | 714                   | 674         |
|                       | -----                 | -----       |
|                       | 5,271                 | 3,477       |
| Advances to           |                       |             |
| - Executives          | 577                   | 2,621       |
| - Employees           | 543                   | 951         |
|                       | -----                 | -----       |
|                       | 1,120                 | 3,572       |
|                       | -----                 | -----       |
|                       | 6,391                 | 7,049       |
|                       | =====                 | =====       |

The maximum aggregate amounts of advances to the Chief Executive, Director and Executives at the end of any month during the year were Nil, Rs 114 thousand and Rs 1,108 thousand respectively (1997: Chief Executive Rs 93



thousand, Director Rs 41 thousand and Executives Rs 1,230 thousand).

## 12. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

|                                     | 1998<br>(Rupees '000 ) | 1997   |
|-------------------------------------|------------------------|--------|
| Balances with statutory authorities |                        |        |
| - Customs duty                      | 10,653                 | 34,792 |
| - Excise duty                       | 8,870                  | 5,707  |
| - Development surcharge             | 31,390                 | 16,044 |
|                                     | -----                  | -----  |
|                                     | 50,913                 | 56,543 |
| Trade deposits                      | 617                    | 3,110  |
| Short-term prepayments              | 30,659                 | 20,037 |
|                                     | -----                  | -----  |
|                                     | 82,189                 | 79,690 |
|                                     | =====                  | =====  |

## 13. OTHER RECEIVABLES

|  | 1997<br>(Rupees '000 ) | 1998    |
|--|------------------------|---------|
| Claim for inland freight equalisation deficit                | 80,886                 | 309,736 |
| Claim for refund of customs and excise duties                | 15,519                 | 14,801  |
| Claim for refund of price differential on imported purchases | --                     | 222,757 |
| Railway claims   | 6,478                  | 6,646   |
| Recoverable from oil companies                               | 10,438                 | 6,381   |
| Advances to suppliers  | 10,586                 | 37,530  |
| Others   | 66,626                 | 54,564  |
|  | -----                  | -----   |
|  | 190,533                | 652,415 |
| Less: Provision for doubtful claims - Note 13.1              | 33,178                 | 39,328  |
|  | -----                  | -----   |
|  | 157,355                | 613,087 |
|  | =====                  | =====   |

Amounts due from associated undertakings at the year-end aggregated to Rs 28.215 million (1997: Rs 5.193 million).

The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs 28.215 million ( 1997: Rs 5.193 million).

### 13.1 Provision for doubtful claims

| 1998 | 1997 |
|------|------|
|------|------|

**(Rupees '000 )**

|                                      |        |        |
|--------------------------------------|--------|--------|
| Balance at July 1                    | 39,328 | 31,088 |
| Provision made during the year       | --     | 13,244 |
| Amount written off against provision | 6,150  | 5,004  |
|                                      | -----  | -----  |
| Balance at June 30                   | 33,178 | 39,328 |
|                                      | =====  | =====  |

**14. CASH AND BANK BALANCES****1998                      1997****(Rupees '000)**

|                        |           |         |
|------------------------|-----------|---------|
| With banks             |           |         |
| - on deposit accounts  | 804,691   | --      |
| - on current accounts  | 379,682   | 204,048 |
| Remittances in transit | 29,231    | 5,311   |
| In hand                |           |         |
| - cheques              | 75,925    | 290,233 |
| - cash                 | 11,004    | 594     |
|                        | -----     | -----   |
|                        | 1,300,533 | 500,186 |
|                        | =====     | =====   |

**15. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

During the year the company has entered into a lease agreement with Askari Leasing Limited to acquire tank lorries. The liability under the lease agreement is payable by June 2003 and is subject to finance charge at the rate of 20.75 percent per annum. An additional charge of 3 percent per month is also leviable on over due rentals.

The company has the option to purchase the leased tank lorries for Rs 11.310 million upon completion of the lease period.

The amount of future payments for the lease and the period in which these payments will become due are as follows:

**1998                      1997****(Rupees '000)**

|  |         |       |
|--|---------|-------|
| Year   |         |       |
| 1998 - 1999  | 33,439  | --    |
| 1999 - 2000  | 33,439  | --    |
| 2000 - 2001  | 33,439  | --    |
| 2001 - 2002  | 33,439  | --    |
| 2002 - 2003  | 36,389  | --    |
|  | -----   | ----- |
|  | 170,145 | --    |
| Less: Finance charge not due                           | 57,747  | --    |
|  | -----   | ----- |
|  | 112,398 | --    |
| Less: Current maturity shown under current liabilities | 12,164  | --    |
|  | -----   | ----- |
|  | 100,234 | --    |

**16. REDEEMABLE CAPITAL- Secured (Non-participatory)**

| Financer  | Mark-up rate (%) | Repayment period | 1998<br>(Rupees '000) | 1997    |
|---|------------------|------------------|-----------------------|---------|
| ABN Amro Bank   | 15.50            | 1995-98          | --                    | 120,000 |
| Banque Indosuez                                       | 15.50            | 1996-97          | --                    | 25,000  |
| Bank of Tokyo   | 15.50            | 1995-98          | --                    | 25,000  |
| ANZ Grindlays Bank Limited                            | 15.50            | 1995-98          | --                    | 88,889  |
|   |                  |                  | --                    | 258,889 |
| Less: Current portion-shown under current liabilities |                  |                  | --                    | 236,667 |
|   |                  |                  | --                    | 22,222  |

**17. SHORT-TERM RUNNING FINANCE UTILISED****UNDER MARK-UP ARRANGEMENTS - Secured**

|       |         |
|-------|---------|
| 1998  | 1997    |
| 8,855 | 461,887 |

The facility for short-term running finance available from various banks amounts to Rs 897.40 million (1997: Rs 686.70 million). The rates of mark-up range from Re 0.383 to Re 0.410 per Rs 1,000 per day (1997: Re 0.380 to Re 0.417 per Rs 1,000 per day). The purchase prices are payable on various dates by June 21, 1999. These arrangements are secured by way of pari passu charges against hypothecation of the company's stock-in-trade, trade debts and other receivables.

**18. CREDITORS, ACCRUED AND OTHER LIABILITIES**

|  | 1998<br>(Rupees '000 ) | 1997      |
|--|------------------------|-----------|
| Creditors  | 1,446,211              | 1,650,703 |
| Accrued liabilities  | 682,977                | 635,678   |
| Mark-up accrued on secured - short-term running finance                        | 1,793                  | 4,424     |
| - redeemable capital   | 647                    | 6,818     |
| Excise and customs duties and development surcharge                            | 216,979                | 114,986   |
| Sales tax  | 15,446                 | 32,898    |
| Dealers' security deposits - refundable on termination of dealership           | 95,792                 | 84,488    |
| Advances from customers  | 155,038                | 260,447   |
| Price differential on imported purchases payable to the Government of Pakistan | 271,922                |           |
| Workers' welfare fund  | 20,121                 | 24,130    |

|  |           |           |
|--|-----------|-----------|
| Workers' profit participation fund - Note 18.1 | 4,028     | 1,426     |
| Unclaimed dividends                            | 23,066    | 11,169    |
| Retention money                                | 275       | 15,499    |
| Other liabilities                              | 46,755    | 35,779    |
|  | -----     | -----     |
|  | 2,981,050 | 2,878,445 |
|  | =====     | =====     |

Amount due to an associated undertaking at the year-end aggregated to Rs 405.441 million (1997: Rs 343.465 million).

#### 18.1 Workers' profit participation fund

|  | 1998<br>(Rupees '000) | 1997   |
|--|-----------------------|--------|
| Balance at July 1  | 1,426                 | 15,131 |
| Allocation for the year - Note 29                              | 49,395                | 52,096 |
| Interest on funds utilised in the company's business - Note 28 | --                    | 1,338  |
|  | -----                 | -----  |
|  | 50,821                | 68,565 |
| Less: Amount paid  | 46,793                | 67,139 |
|  | -----                 | -----  |
| Balance at June 30   | 4,028                 | 1,426  |
|  | =====                 | =====  |

#### 19. SURPLUS ON REVALUATION OF FIXED ASSETS

This represents surplus over book value produced by a revaluation of fixed assets of Pak People Products Corporation (Private) Limited on September 30, 1977.

#### 20. CONTINGENT LIABILITIES AND COMMITMENTS

##### 20.1 Contingent liabilities

(a) During the year, the Deputy Commissioner of Income Tax (DCIT) has issued a show cause notice indicating his intention to raise a demand of Rs 257.385 million in respect of the year ended June 30, 1997 relevant to assessment year 1997-98 on the grounds that the company has not offered certain imports of its fuel products for taxation under presumptive tax regime.

The company has disagreed with the view of the DCIT on the grounds that these products were not imported by them. Instead, these were purchased through the importing agents appointed by the Government of Pakistan. Further, one of the products namely MTBE is a chemical used in the blending of low lead super gasoline and would therefore not fall under the presumptive tax regime.

The company has objected to this proposed additional import tax as these products were exempted from import tax with effect from July 1997. As oil industry margins for these products are controlled by the Ministry of Petroleum, the company has taken this matter up with the Ministry of Petroleum, Ministry of Finance and Chairman of Central Board of Revenue. The Ministry of Finance has approached the Law Division for their advice on how to apply retrospective exemption. The management is confident that the

ultimate decision will be in favour of the company, hence no provision has been made for this disputed tax.

(b) Octroi levies amounting to approximately Rs 421.428 million (1997: Rs 396.464 million).

Certain municipal authorities have demanded octroi on the total quantity of petroleum products stored within their municipal limits whereas the company maintains that octroi is payable only on the quantities sold within the municipal limits, and not on the products temporarily stored there. The company has filed appeals before the High Court of Sindh against the above octroi levies. Pending outcome of the appeals and because the management is confident that the decisions will be in favour of the company, no provision has been made in these accounts for the aforesaid octroi levies.

(c) Claims against the company not acknowledged as debts were approximately Rs 222.414 million (1997: Rs 138.393 million).

## 20.2 Commitments

(a) Capital expenditure contracted for but not incurred amounted to approximately Rs 139.521 million (1997: Rs 62.277 million).

(b) Commitments for rentals under operating lease agreements amounted to Rs 25.779 million (1997: Rs 35.246 million) in respect of assets were payable as follows:

| Year      | ( Rupees '000 ) |
|-----------|-----------------|
| 1998-1999 | 11,639          |
| 1999-2000 | 8,725           |
| 2000-2001 | 3,805           |
| 2001-2002 | 1,610           |
|           | -----           |
|           | 25,779          |
|           | =====           |

## 21. SHARE CAPITAL

|  | 1998           | 1997    |
|--|----------------|---------|
|  | (Rupees '000 ) |         |
| <b>Authorised capital</b>  |                |         |
| 50,000,000 ordinary shares of Rs 10 each   | 500,000        | 500,000 |
|  | =====          | =====   |
| <b>Issued, subscribed and paid-up capital</b>                                      |                |         |
| 23,481,000 ordinary shares of Rs 10 each<br>fully paid in cash                     | 234,810        | 117,924 |
| 11,584,800 ordinary shares of Rs 10 each<br>----- issued as fully paid bonus share | 115,848        | 115,848 |
| 35,065,800   | 350,658        | 233,772 |
|  | =====          | =====   |

The Shell Petroleum Company Limited, United Kingdom held 18,093,804 (1997: 11,929,203) ordinary shares of Rs 10 each at June 30, 1998.

**22. RESERVES**

|   | <b>CAPITAL</b><br><b>(Share premium)</b> | <b>REVENUE</b><br><b>(General)</b> | <b>TOTAL</b><br><b>1998</b> | <b>1997</b>    |
|---|--|------------------------------------|-----------------------------|----------------|
| Balance at July 1   | 623,392                                  | 207,002                            | 830,394                     | 873,792        |
| Arising on amalgamation<br>of subsidiary companies under<br>the scheme of arrangement | --                                       | --                                 | --                          | (43,398)       |
| On issue of right shares<br>during the year   | 1,402,632                                | --                                 | 1,402,632                   | --             |
| Balance at June 30  | <u>2,026,024</u>                         | <u>207,002</u>                     | <u>2,233,026</u>            | <u>830,394</u> |

**23. DUTIES, TAXES AND LEVIES**

|                                       | <b>1998</b>           | <b>1997</b>       |
|---------------------------------------|-----------------------|-------------------|
|                                       | <b>(Rupees '000 )</b> |                   |
| Development surcharge                 | 13,776,224            | 9,406,010         |
| Excise duty                           | 978,953               | 854,810           |
| Customs duty                          | 670,250               | 663,025           |
| Inland freight equalisation margin    | 1,959,658             | 1,743,748         |
| Local duties, octroi and other levies | 459,993               | 513,222           |
| Wharfage                              | 1,141                 | 1,220             |
|                                       | <u>17,846,219</u>     | <u>13,182,035</u> |

**24. COST OF PRODUCTS SOLD**

|  | <b>1998</b>           | <b>1997</b>       |
|--|-----------------------|-------------------|
|  | <b>(Rupees '000 )</b> |                   |
| Opening stock of raw and packing material          | 155,701               | 160,012           |
| Raw and packing material purchased                 | 1,198,915             | 839,635           |
| Less: Closing stock of raw and<br>Packing material | <u>200,954</u>        | <u>155,701</u>    |
| Raw and packing material consumed                  | 1,153,662             | 843,946           |
| Add: Manufacturing expenses                        | <u>40,538</u>         | <u>28,311</u>     |
| Cost of products manufactured                      | 1,194,200             | 872,257           |
| Opening stock of finished products                 | 1,334,412             | 983,070           |
| Finished products purchased                        | 21,517,636            | 21,815,965        |
| Less: Closing stock of finished products           | <u>1,116,725</u>      | <u>1,334,412</u>  |
| Cost of products sold                              | <u>22,929,523</u>     | <u>22,336,880</u> |

**25. TRANSPORTATION EXPENSES**

|  | 1998           | 1997      |
|--|----------------|-----------|
|  | (Rupees '000 ) |           |
| Gross expenditure  | 2,966,517      | 2,832,605 |
| Less: Recoverable against inland freight equalisation margin | 2,823,393      | 2,711,846 |
|  | -----          | -----     |
|  | 143,124        | 120,759   |
|  | =====          | =====     |

## 26. ADMINISTRATIVE AND MARKETING EXPENSES

|  |           |           |
|--|-----------|-----------|
| Salaries, wages and benefits                 | 391,160   | 314,350   |
| Staff training                               | 13,055    | 22,788    |
| Stores and materials                         | 12,120    | 14,519    |
| Fuel and power                               | 30,663    | 22,885    |
| Rent, taxes and utilities                    | 68,003    | 63,426    |
| Lease rentals and charges                    | 16,860    | 19,714    |
| Repairs and maintenance                      | 45,253    | 42,674    |
| Insurance                                    | 35,090    | 30,130    |
| Commission and allowances                    | --        | 11,083    |
| Travelling                                   | 66,889    | 56,586    |
| Advertising and publicity                    | 116,983   | 81,135    |
| Technical service fee                        | 39,643    | 26,846    |
| Legal and professional charges               | 20,086    | 15,228    |
| Communication and stationery                 | 48,366    | 43,594    |
| Computer expenses                            | 9,566     | 5,080     |
| Depreciation - Note 3.3                      | 201,831   | 121,933   |
| Stocks written off                           | --        | 416       |
| Provision for doubtful debts - trade         | 2,500     | 109,793   |
| - others                                     | --        | 17,555    |
| Unallocated capital expenditure written off  | 20,351    | --        |
| Bad debts written off                        | 13,194    | 285       |
| Other receivables written off                | --        | 201       |
| Others                                       | 9,993     | 28,274    |
|  | -----     | -----     |
|  | 1,161,606 | 1,048,495 |
| Less: Handling and storage charges recovered | 29,864    | 33,213    |
|  | -----     | -----     |
|  | 1,131,742 | 1,015,282 |
|  | =====     | =====     |

## 27. OTHER INCOME

|  | 1998           | 1997   |
|--|----------------|--------|
|  | (Rupees '000 ) |        |
| Non fuel retail income                       | 20,633         | 1,200  |
| Interest on short-term deposits              | 52,585         | 10,537 |
| License/franchise fee recovered from dealers | 24,500         | 15,524 |
| Insurance commission                         | 5,280          | 381    |
| Profit on disposal of fixed assets           | 2,673          | 2,064  |
| Liabilities no longer payable written back   | 18,293         | 11,588 |
| Provision no longer required written back    | 27,427         | --     |
| Commission and agency fee                    | 1,499          | 3,035  |

|                                  |         |        |
|----------------------------------|---------|--------|
| Exchange gain                    | 7,165   | 521    |
| Scrap sales                      | 1,925   | 3,141  |
| Income from formulation services |         | 6,253  |
| Sundries                         | 2,500   | 7,698  |
|                                  | -----   | -----  |
|                                  | 164,480 | 61,942 |
|                                  | =====   | =====  |

## 28. FINANCIAL CHARGES

|   |        |        |
|---|--------|--------|
| Mark-up on short-term running finance                                       | 25,845 | 20,837 |
| Mark-up on redeemable capital   | 28,757 | 48,794 |
| Finance charge on liabilities against assets subject to finance lease (net) | 6,917  | --     |
| Bank charges  | 30,857 | 18,355 |
| Excise duty on short-term running finance                                   | --     | 4,655  |
| Interest on payments beyond agreed credit terms                             | --     | 1,071  |
| Interest on workers' profit participation fund - Note 18.1                  | --     | 1,338  |
|   | -----  | -----  |
|   | 92,376 | 95,050 |
|   | -----  | -----  |
| Less: Interest from cartage contractors                                     | 86     | 131    |
| Interest on securities  | --     | 29     |
| Others  | 74     | 59     |
|   | -----  | -----  |
|   | 160    | 219    |
|   | -----  | -----  |
|   | 92,216 | 94,831 |
|   | =====  | =====  |

## 29. OTHER CHARGES

|  | 1998           | 1997   |
|--|----------------|--------|
|  | (Rupees '000 ) |        |
| Auditors' remuneration - Note 29.1             | 1,948          | 2,478  |
| Workers' welfare fund                          | 17,000         | 22,604 |
| Workers' profit participation fund - Note 18.1 | 49,395         | 52,096 |
| Donations                                      | 5,639          | 2,218  |
| Expenses incurred on issuance of right shares  | 6,218          | --     |
| Others   | --             | 356    |
|  | -----          | -----  |
|  | 80,200         | 79,752 |
|  | =====          | =====  |

### 29.1 Auditors' Remuneration

|  |     |     |
|--|-----|-----|
| Audit fee  | 800 | 715 |
| Fee for substantiating inland freight equalisation margin and octroi to the Government | 243 | 180 |
| Audit of provident, pension, gratuity and workers' profits participation funds         | 95  | 89  |
| Tax services   | 174 | 827 |



|   |       |       |
|---|-------|-------|
| Special certifications and sundry advisory services | 391   | 462   |
| Out of pocket expenses                              | 245   | 118   |
| Central excise duty                                 | --    | 87    |
|   | ----- | ----- |
|   | 1,948 | 2,478 |
|   | ===== | ===== |

29.2 Interest of the directors or their spouses in the donations made during the year is as follows:

| Name of Donee                           | Name of interested directors and nature of interest           | Amount donated        |      |
|---|---|-----------------------|------|
|   |   | 1998<br>(Rupees '000) | 1997 |
| Rotary Club Metropolitan                | Mr. T.V. Higgins - Trustee                                    | 50                    | --   |
| The Layton Rehmatullah Benevolent Trust | Mr. T.V. Higgins - Trustee<br>Mr. Farrokh K. Captain- Trustee | 1,000                 | 750  |
| Spedal Olympics of Pakistan             | Mr. Farrokh K. Captain - Director                             | 250                   | 500  |

### 30. TAXATION

|                        | 1998<br>(Rupees '000) | 1997    |
|------------------------|-----------------------|---------|
| Current - for the year | 287,282               | 378,347 |
| - for prior years      | (21,840)              | (4,159) |
|                        | -----                 | -----   |
|                        | 265,442               | 374,188 |
| Deferred               | 64,521                | 9,856   |
|                        | -----                 | -----   |
|                        | 329,963               | 384,044 |
|                        | =====                 | =====   |

### 31. REMUNERATION OF DIRECTORS AND EXECUTIVES

|  | 1998            |           |            | 1997            |           |            |
|--|-----------------|-----------|------------|-----------------|-----------|------------|
|  | Chief Executive | Directors | Executives | Chief Executive | Directors | Executives |
|  | (Rupees '000)   |           |            |                 |           |            |
| Managerial remuneration  | 10,364          | 5,542     | 154,329    | 10,693          | 739       | 121,514    |
| Company's contribution to pension, gratuity and provident fund | 1,362           | 728       | 31,802     | 1,204           | 43        | 24,938     |
| Housing  |                 |           |            |                 |           |            |
| - Rent   | 600             | 633       | 46,102     | 600             | 286       | 36,835     |
| - Utilities allowance  | 602             | 110       | 4,944      | 464             | 71        | 3,416      |
| Other items  | 352             | 77        | 6,904      | 344             | 27        | 5,846      |

|                   |        |       |         |        |       |         |
|-------------------|--------|-------|---------|--------|-------|---------|
| Leave passage     | --     | 63    | 14,587  | --     | --    | 10,039  |
| Leave encashment  | --     | --    | --      | --     | 11    | --      |
| Medical expenses  | 22     | 73    | 1,898   | 5      | 806   | 774     |
|                   | -----  | ----- | -----   | -----  | ----- | -----   |
|                   | 13,302 | 7,226 | 260,566 | 13,310 | 1,983 | 203,362 |
|                   | =====  | ===== | =====   | =====  | ===== | =====   |
| Number of persons | 1      | 2     | 487     | 1      | 2     | 428     |

Aggregate amount charged in the accounts for the year for fee to 5 directors was Rs 8 thousand (1997:3 directors Rs 5 thousand).

In addition, the Chief Executive, a Director and some of the Executives were also provided with free use of company cars and 6 of the Executives were also provided with free use of company-owned apartments.

### 32. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

|   | 1998          | 1997      |
|---|---------------|-----------|
|   | (Rupees '000) |           |
| (i) Purchases   | 8,460,891     | 7,316,963 |
| (ii) Sales  | 762,367       | 481,911   |
| (iii) Other items   |               |           |
| - Technical service fee expense                                 | 39,643        | 26,846    |
| - Handling and storage charges recovered                        | 4,365         | 4,948     |
| - Commission income   | 1,499         | 2,960     |
| (iv) Chief Executive's expenses charged to associated companies | 9,279         | 1,795     |

### 33. CASH GENERATED FROM OPERATIONS

|   | Note | 1998      | 1997      |
|---|------|-----------|-----------|
| Profit before taxation  |      | 921,514   | 927,140   |
| Adjustment for non cash charges and other items:                      |      |           |           |
| Depreciation expense charged to profit and loss account               | 3.3  | 205,094   | 122,681   |
| Unallocated capital expenditure written off                           | 25   | 20,351    | --        |
| Profit on disposal of fixed assets                                    | 27   | (2,673)   | (2,064)   |
| Provision no longer required written back                             | 27   | (27,427)  | --        |
| Mark-up on short-term running finance                                 | 28   | 25,845    | 20,837    |
| Mark-up on redeemable capital   | 28   | 28,757    | 48,794    |
| Finance charge on liabilities against assets subject to finance lease | 28   | 6,917     | --        |
| Working capital changes   | 33.1 | 756,949   | 431,987   |
|   |      | -----     | -----     |
|   |      | 1,935,327 | 1,549,375 |
|   |      | =====     | =====     |

#### 33.1 Working capital changes

|  | 1998 | 1997 |
|--|------|------|
|--|------|------|

(Rupees '000)

|   |          |           |
|---|----------|-----------|
| (Increase)/decrease in current assets     |          |           |
| Stores and spares                         | (11,299) | (812)     |
| Stock-in-trade                            | 8,910    | (343,374) |
| Trade debts                               | 195,477  | 3,345     |
| Loans and advances                        | 658      | (113)     |
| Trade deposits and short-term prepayments | (2,499)  | 11,704    |
| Other receivables (net)                   | 466,192  | 58,592    |
|   | -----    | -----     |
|   | 657,439  | (270,658) |

**Increase in current liabilities**

|  |         |         |
|--|---------|---------|
| Creditors, accrued and other liabilities (excluding unclaimed dividends and accrued financial charges) | 99,510  | 702,645 |
|  | -----   | -----   |
|  | 756,949 | 431,987 |
|  | =====   | =====   |

**34. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include:

|  |           |           |
|--|-----------|-----------|
| Cash and bank balances - Note 14   | 1,300,533 | 500,186   |
| Short-term running finance utilised under mark-up arrangements - Note 17 | (8,855)   | (461,887) |
|  | -----     | -----     |
|  | 1,291,678 | 38,299    |
|  | =====     | =====     |

**35. CORRESPONDING FIGURES**

Corresponding figures have been restated, wherever necessary, for the purpose of comparison. These also include corresponding figures of Pak People Products Corporation (Private) Limited, Jamia Industries (Private) Limited, Petroleum Industries of Pakistan (Private) Limited, International Lubricants (Private) Limited, Amif Petroleum (Private) Limited and Lahore Lubricants (Private) Limited for the purpose of comparison.

**SHAREHOLDERS' STATISTICS**

AS AT JUNE 30, 1998

| No. of Shareholders | Shareholding |    |        | Total Shares |  |
|---------------------|--------------|----|--------|--------------|--|
| 1,067               | 1            | TO | 50     | 19,994       |  |
| 497                 | 51           | TO | 100    | 38,077       |  |
| 2,273               | 101          | TO | 500    | 619,143      |  |
| 725                 | 501          | TO | 1,000  | 529,463      |  |
| 688                 | 1,001        | TO | 5,000  | 1,507,857    |  |
| 81                  | 5,001        | TO | 10,000 | 556,297      |  |
| 23                  | 10,001       | TO | 15,000 | 284,414      |  |
| 7                   | 15,001       | TO | 20,000 | 124,622      |  |
| 4                   | 20,001       | TO | 25,000 | 88,050       |  |
| 4                   | 25,001       | TO | 30,000 | 107,746      |  |
| 3                   | 30,001       | TO | 35,000 | 99,024       |  |
| 3                   | 35,001       | TO | 40,000 | 115,810      |  |
| 2                   | 40,001       | TO | 45,000 | 84,101       |  |

|   |            |    |            |            |
|---|------------|----|------------|------------|
| 2 | 45,001     | TO | 50,000     | 99,200     |
| 3 | 50,001     | TO | 55,000     | 153,049    |
| 2 | 65,001     | TO | 70,000     | 131,837    |
| 3 | 85,001     | TO | 90,000     | 266,413    |
| 1 | 100,001    | TO | 105,000    | 104,839    |
| 1 | 125,001    | TO | 130,000    | 128,025    |
| 2 | 130,001    | TO | 135,000    | 267,900    |
| 1 | 140,001    | TO | 145,000    | 141,556    |
| 1 | 165,001    | TO | 170,000    | 167,857    |
| 1 | 180,001    | TO | 185,000    | 184,991    |
| 1 | 185,001    | TO | 190,000    | 188,913    |
| 1 | 200,001    | TO | 205,000    | 204,688    |
| 1 | 230,001    | TO | 235,000    | 230,850    |
| 1 | 360,001    | TO | 365,000    | 364,400    |
| 1 | 925,001    | TO | 930,000    | 928,700    |
| 1 | 1,065,001  | TO | 1,070,000  | 1,068,643  |
| 1 | 2,040,001  | TO | 2,045,000  | 2,040,533  |
| 1 | 6,125,001  | TO | 6,130,000  | 6,125,004  |
| 1 | 18,090,001 | TO | 18,095,000 | 18,093,804 |

-----  
5,403-----  
35,065,800  
=====

| Categories of Shareholders   | Numbers | Shares Held | Percentage |
|------------------------------|---------|-------------|------------|
| Individuals                  | 5,328   | 4,175,039   | 11.91 %    |
| Investment Companies         | 9       | 227,880     | 0.65%      |
| Insurance Companies          | 9       | 1,392,259   | 3.97%      |
| Banks                        | 5       | 392,560     | 1.12%      |
| Modaraba Companies           | 6       | 91,190      | 0.26%      |
| Public Limited               | 2       | 14,106      | 0.04%      |
| Private Limited Companies    | 21      | 40,068      | 0.11%      |
| Financial Institutions       | 7       | 8,530,568   | 24.33%     |
| Associated Companies *       | 1       | 18,093,804  | 51.60%     |
| Abandoned Properties **      | 1       | 204,688     | 0.58%      |
| Corporate Law Authority      | 1       | 1           | --         |
| Joint Stock Companies        | 1       | 16,062      | 0.05%      |
| Foreign Investment Companies | 12      | 1,887,575   | 5.38%      |
|                              | -----   | -----       | -----      |
|                              | 5,403   | 35,065,800  | 100.00%    |
|                              | =====   | =====       | =====      |

\* This category represents the foreign shareholding (The Shell Petroleum Company Ltd., London).

\*\* This category represents shareholders of Bangladesh, whose dividend is paid to the Administrator, Abandoned Properties Organisation, Government of Pakistan.

## ACCOUNTS OF SUBSIDIARY COMPANIES

|           |   |
|-----------|---|
|           | <b>Shell Pakistan Provident Trust (Private) Limited</b> |
| Directors | Mr. T.V. Higgins  |
|           | Ms. T. Taylor   |
|           | Mr. H. Madani   |

**Shell Pakistan Pensions Trust (Private) Limited**

Directors  
 Mr. T.V. Higgins  
 Ms. T. Taylor  
 Mr. H. Madani

**SHELL PAKISTAN PROVIDENT TRUST (PVT) LTD.  
 BALANCE SHEET  
 AS AT DECEMBER 31, 1997**

|  | <b>1997</b>          | <b>1990</b> |
|--|----------------------|-------------|
|  | <b>(Rupees '000)</b> |             |
| <b>Authorised Capital</b>                            |                      |             |
| 10 ordinary shares of Rs. 100 each                   | 1,000                | 1,000       |
|  | =====                | =====       |
| <b>Issued and Subscribed Capital</b>                 |                      |             |
| 2 ordinary shares of Rs. 100 each fully paid in cash | 200                  | 200         |
|  | =====                | =====       |
| <b>Assets</b>  |                      |             |
| Balance with bank on current account                 | 200                  | 200         |
|  | =====                | =====       |

Note: As there were no revenue transactions during the year, no Profit and Loss Account has been prepared.

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Shell Pakistan Provident Trust (Private) Limited as at December 31, 1997 and 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 has been drawn up in conformity with the Companies Ordinance, 1984 and is in agreement with the books of account;

(ii) there was no expenditure incurred and no investment was made during the year; and

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet gives the information required by the Companies Ordinance, 1984 in the manner so required and gives a true and fair view of the state of the Company's affairs as at December 31, 1997; and

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

**A.E FERGUSON & CO.**  
 Chartered Accountants

Karachi - September 7, 1998

**SHELL PAKISTAN PENSIONS TRUST (PVT) LTD.  
BALANCE SHEET  
AS AT DECEMBER 31, 1997**

|  | <b>1997</b>          | <b>1996</b> |
|--|----------------------|-------------|
|  | <b>(Rupees '000)</b> |             |
| Authorised Capital                                   |                      |             |
| 10 ordinary shares of Rs. 100 each                   | 1,000                | 1,000       |
|  | =====                | =====       |
| Issued and Subscribed Capital                        |                      |             |
| 2 ordinary shares of Rs. 100 each fully paid in cash | 200                  | 200         |
|  | =====                | =====       |
| Assets   |                      |             |
| Balance with bank on current account                 | 200                  | 200         |
|  | =====                | =====       |

Note: As there were no revenue transactions during the year, no Profit and Loss Account has been prepared.

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Shell Pakistan Pensions Trust (Private) Limited as at December 31, 1997 and 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 has been drawn up in conformity with the Companies Ordinance, 1984 and is in agreement with the books of account;

(ii) there was no expenditure incurred and no investment was made during the year; and

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet gives the information required by the Companies Ordinance, 1984 in the manner so required and gives a true and fair view of the state of the Company's affairs as at December 31, 1997; and

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

Karachi: September 7, 1998

**A.F. FERGUSON & CO.**  
Chartered Accountants