

PAKISTAN TOBACCO COMPANY LIMITED

REPORT AND ACCOUNTS 1997

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CORPORATE INFORMATION

BOARD OF DIRECTORS

MICHAEL PAUL FENN
Chairman & Chief Executive

FRANCISCO JOSE T. GARCIA
Finance Director

IRFAN NASR
Marketing Director

SAFDAR IQBAL
Production Director

ASLAM KHALIQ
Consumer & Regulatory
Affairs Director

PHILIPPE ADAMS

Human Resources Director

ANTHONY CAMERON

JOHNSTON

(Non-Executive Director)

FATEHALI WALIMUHAMMAD

VELLANI

(Non-Executive Director)

A.K.M. SAYEED

(Non-Executive Director)

NAVEED AFTAB AHMAD

Secretary & Corporate

Affairs Manager

AUDITORS

A.E FERGUSON & CO.

Chartered Accountants

REGISTERED OFFICE

Saudi Pak Tower, 61/A

Jinnah Avenue Islamabad.

CHAIRMAN'S MESSAGE

It is with great pleasure that I present my first message to all the stakeholders in our Company, as we, together with Pakistan, look forward from our fiftieth anniversary in 1997. After taking over from Ben Stevens in April 1997, I am pleased to report that the Company fundamentals are firmly established and that PTC's Business Renewal Strategy, built on the strong foundations of its brands and its people, is well on track.

We have stated on numerous occasions that the turn around will not take place overnight, and once again we are reporting a less than satisfactory financial result for the year ending December 1997. We are however confident that we are on the right course and are determined to continue our current strategy so that PTC emerges amongst the strongest companies in Pakistan and can confidently offer all its stakeholders a sustainable return on their investment.

Our long-term optimism is based on the very encouraging results we have seen from the investments in our brands and our people made as a part of this continuing strategy.

Quality is foremost in our mind when addressing consumer needs. During the year we have continued to invest in all aspects of our business which ensures that our brands offer the best quality and value for money available in Pakistan. Capital Investment has been made to purchase new machinery and refurbish other equipment. Due to the size of our business, this will require an ongoing commitment to invest in order to ensure that we achieve our development plan.

In terms of our brands, our portfolio is well in place and offers consumers in Pakistan a well-segmented choice catering to their every requirement. Our brand performance has demonstrated that this strategy is sustainable into the future.

After launching imported Benson & Hedges in 1996, we are very happy to note that the brand is extremely well perceived by its consumers. More importantly it is setting a higher benchmark price for smuggled cigarettes thereby taking some of the pressure off locally manufactured cigarettes, whilst clearly setting us a premium Quality benchmark.

For the third year in succession John Player Gold Leaf has grown strongly with sales in 1997 increasing by some 17% over 1996. The brand is firmly positioned as a top quality international offer with all the elements of our brand support underlining that positioning. We have worked closely with our suppliers to ensure that the materials we use are continuously improved to build further on the brand quality. Although the volumes of the John Player Gold Leaf Lights line extension, remain low - in line with our expectations - we now have a better offer for the discerning Pakistani consumers on which we will build further.

Substantial support has been given to Wills Kings. This brand was relaunched nationally during the year with a new modern pack and advertising campaign. From Consumer Research, the relaunch has been very successful in building the brands image amongst its target consumers and recent sales figures show that the brand has a very positive future.

Within the low price segment of the market Embassy volumes have grown strongly in the second half of the year after a slow start. During the year we have enhanced both the product and the imagery and are confident that the brand, as the outright volume leader in Pakistan and together with future projects, will maintain a very solid platform on which to build on our other brands in the PTC portfolio.

In terms of developing our people -1997 has been an exciting year. We formally launched a Total Quality Management Programme in August 1997 to all our Managers under the banner of BEST 2000 Building Excellence & Success Together. We have established a shared vision in the Company of how to succeed through developing a culture of continuous improvement. The old fashioned hierarchical structures are being replaced with the clear message that each and everyone at PTC has an important role to play in making PTC the BEST. This programme has already demonstrated improvements in the way we interrelate and listen to our customers with cross-functional teams developing more efficient work practices. BEST 2000 will be further expanded during 1998 to cover our entire workforce. Throughout the year we have continued to recruit new young talent for the future and enhanced our internal training & development programmes in order to ensure that our team is well prepared to drive PTC into the 21st Century.

Within our entire operation we continue to invest in developing a safe, supportive and environmentally friendly working environment. We are pleased to note that our safety standards are constantly improving. Due to the very good working relationship we are developing with our workers & Unions we have not lost any production to industrial disputes and a shared vision for our future at PTC is clearly emerging.

Our Edible Oil Division has had a very successful year, with our brand Sundrop continuing to increase its share of a very competitive market. By the end of the third year after launch Sundrop accounts for 35% share of its segment and has achieved a positive Trading profit. Through these efforts PTC is demonstrating its contribution to Pakistan by helping develop the domestic Sunflower crop and thereby reducing Pakistan's almost US \$1billion Edible Oil import bill.

Pig Volumes (billion)

As a further contribution to safeguarding the environment for the future we continued with our Afforestation efforts, planting over 2.5 million saplings during 1997. This significant programme, demonstrating PTC's leading role as a good corporate citizen, was once again recognised with PTC being awarded a Merit Certificate by the Ministry of the Environment for the second consecutive year.

We continue to stress to the authorities the negative impact on PTC and the Government Revenue of the ongoing availability in this market of smuggled and domestic duty evaded cigarettes. This continues to hamper the legitimate industry in competing in the market "on a level playing field". We look to the Government of Pakistan to take the necessary action to curb this sector thereby allowing a return to sustainable turnover growth for the legitimate industry with positive impact on Government revenues.

Although, as I stated earlier the short-term results are disappointing, we are confident that we have a highly committed team of professionals at PTC who can deliver the long-term plan. The message to our stakeholders is that we will succeed and we look to you to continue your support of the Company's strategy as you have done in the past.

Review Of Our Brands

Benson & Hedges launched in 1996 is successfully playing its role as defined in our brand portfolio strategy to shape the premium price end of the market. Research clearly indicates that the brand is the preferred choice among consumers looking for international quality and imagery. Furthermore the brand has also set a higher benchmark price point for smuggled brands giving relief to the duty paid domestic products.

Total Quality

Management

Best 2000

Total Quality Management - BEST 2000 - is the most ambitious Change Management Programme ever initiated by our company.

Total Quality is more than just Product Quality; it is quality of everything we do in our Business. It means understanding our Consumers, Customers, Stakeholders and Suppliers, agreeing with them what they want and empowering our employees to organise their own work to deliver the required Products and Services to the agreed performance levels.

This programme will help us make Continuous Improvement a way of life and encourage development of an Open & Empowered culture in the spirit of Teamwork. Everyone will have a clear understanding of how their work contributes towards achievement of PTC's overall objectives.

BEST 2000 will enable us to realise our Mission, live our Values, develop & synchronise our Strengths and drive successfully into 21 st Century as one Team.

Year at a Glance

| | | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|--------------|-------|-------|-------|-------|-------|
| Volumes | millions | 20599 | 21318 | 19311 | 16352 | 16692 |
| Turnover | Rs. millions | 12138 | 11832 | 10152 | 8788 | 8642 |
| (Loss) / Profit Before Tax | " | (246) | (39) | (8) | 59 | 229 |
| (Loss) / Profit After Tax | " | (268) | (59) | (24) | 104 | 158 |
| Shareholders' Equity | " | 1311 | 1579 | 590 | 615 | 543 |
| Value Added | " | 8880 | 9045 | 8092 | 7252 | 7056 |
| Duties and Taxes | " | 8158 | 8356 | 7411 | 6556 | 6402 |
| Dividend Rate | % | Nil | Nil | Nil | 10 | 30 |
| Earnings / (Loss) Per Share Before Tax | Rs. | (7.7) | (1.2) | (0.2) | 1.9 | 7.2 |

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED DECEMBER 31, 1997

The Director hereby present their Report and the Audited Accounts for the year ended December 31, 1997 before the fifty first Annual General Meeting of the Company to be held on May 11,1998.

| | 1997 | 1996 |
|---------------------------------------|------------|-----------|
| | (Rs. 000s) | |
| Profit/(Loss) for the Year | (268,097) | 988,686 |
| Unappropriated Profit Brought Forward | - | - |
| | ----- | ----- |
| Appropriation | (268,097) | 988,686 |
| Transfer (to)/from Revenue Reserve | 268,097 | (988,686) |
| | ----- | ----- |
| Unappropriated Profit Carried Forward | Nil | Nil |
| | ===== | ===== |

The results for 1997 are a reflection of our continued strategy to rebuild PTC in very difficult market conditions. Whereas, the bottom line represents poor results, we are confident that we are well on track to re-establish PTC as a strong company with long-term competitive advantage. The major strengths of PTC are our people and our brands and we continue to enhance and develop both. This will put us in a very positive position once a more realistic perspective returns to the market.

Our short-term profits have been badly affected in the absence of realistic price increases due to market conditions. However, our resolve continues as strong as ever to take the short-term loss in order to secure the long-term position of the Company. This was anticipated and we knew that it would take some time to rebuild PTC to the level of profits that allows a good return to our shareholders. We are confident that the market conditions will change allowing our products to be offered at realistic prices, thereby ensuring reasonable and sustainable profit growth.

We are pleased that the Federal Budget in June 1997 took into account the problems of smuggling and excise evasion faced by the legitimate cigarette industry and reduced the level of Excise Duty from 65% to 63% in the high price slab. However, this tax relief alone could not fully offset the inflationary increase in our cost base.

Price increases are fundamental for inflation recovery and for enhancing shareholder returns. Nevertheless, we are convinced that we should maintain our investment programme during these difficult times.

Despite the disturbed political and depressed economic conditions during most of 1997, PTC was able to consolidate its volume base. The volumes in the second half of 1997 were higher than during the same period the year before, despite the continuing menace of smuggling, excise evasion and counterfeiting taking place in our market.

Among the main growth in expenses, spare parts and maintenance rose by 29% and depreciation by 41% due to the rupee devaluation and the induction of new generation high-speed machinery respectively. We further invested in supporting our brands in line with our long-term strategy and in training and developing our people, doubling our training and development budget from Rs. 7 million in 1996 to Rs. 18 million in 1997.

Working capital increased due to inflation and leaf stock built up to provide for the extra volume

projected in 1998. We maintained our investment in plant and machinery to provide superior quality products to our consumers while servicing the continuous volume growth. The investments in these areas have resulted in an increase in the total borrowing of 67% which consequently further increased our debt servicing cost.

We should like to place on record our appreciation of the contribution of all our employees during 1997 and their ongoing commitment to PTC's long-term strategy.

Taking into account the high debt level and the need to maintain investment behind our brands and people, the Board of Directors recommends that no dividend be paid for this financial year.

DIRECTORS

Mr. John Benedict Stevens, on his transfer to BAT Russia, resigned from the Board with effect from 1st April 1997. The Board would like to place on record their sincere appreciation for his decisive and expert contribution to PTC and wish well in his new assignment.

Mr. Michael Paul Fenn was appointed to fill the vacancy created by Mr. Steven's resignation and took over as Chairman, Managing Director and Chief Executive of the Company with effect from 1st April 1997.

AUDITORS

The auditors Messers A. F. Ferguson & Co. retire and offer themselves for re-appointment.

HOLDING COMPANY

British American Tobacco Company Limited is the Holding Company and is incorporated in the United Kingdom.

PATTERN OF SHAREHOLDING

The pattern of holding of shares of the company as at 31st December 1997 is shown on page. 34

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 1997 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 the 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 December 31, 1997 and of the loss and cash flows for the year then ended; and

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

Islamabad: March 18, 1998

A.F. FERGUSON & CO.
CHARTERED ACCOUNTANTS

Afforestation

Against a world average of 25% forest cover, Pakistan has only 4% of the total land area under forest. This is a significant environmental issue for the future, and your company continues to play a leading role here as a responsible corporate citizen. Our Afforestation programme continued as a key priority. In 1997 we planted some 2,500~000 trees. In recognition of these efforts, the Ministry of Environment, Government of Pakistan awarded PTC a Merit Certificate for the second consecutive year.

PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1997

| Note | 1997 | 1996 |
|------|------|------|
|------|------|------|

| (Rs. 000s) | | |
|------------------------------------|----|--------------------------|
| TURNOVER | | 12,138,290 11,832,493 |
| Less: Cost of sales | 3 | 11,467,010 11,088,646 |
| | | ----- |
| GROSS PROFIT | | 671,280 743,847 |
| | | ----- |
| Less: Marketing expenses | 4 | 504,178 487,152 |
| Administration expenses | 5 | 159,003 117,656 |
| | | ----- |
| | | 663,181 604,808 |
| | | ----- |
| OPERATING PROFIT | | 8,099 139,039 |
| Other income | 6 | 13,189 10,545 |
| Other expenses | 7 | 7,836 25,550 |
| | | ----- |
| | | 13,452 124,034 |
| Less: Financial charges | 8 | 259,372 163,064 |
| | | ----- |
| LOSS BEFORE TAXATION | | (245,920) (39,030) |
| | | |
| TAXATION | | |
| Current - For the year | | 22,177 19,896 |
| | | ----- |
| LOSS AFTER TAXATION | | (268,097) (58,926) |
| Gain on sale of immovable property | | - 134,650 |
| Trade Marks Sale | | - 912,962 |
| | | ----- |
| (LOSS)/PROFIT FOR THE YEAR | | (268,097) 988,686 |
| | | |
| APPROPRIATION | | |
| Transfer from/(to) revenue reserve | 25 | 268,097 (988,686) |
| | | |
| UNAPPROPRIATED PROFIT | | ----- |
| CARRIED FORWARD | | - - |
| | | ===== |

The annexed notes form an integral part of these accounts.

BALANCE SHEET
AS AT DECEMBER 31, 1997

1997 1996
(Rs. 000s)

| | | | |
|--|----|-----------|-----------|
| TANGIBLE FIXED ASSETS | 10 | 1,328,772 | 1,012,586 |
| LONG TERM INVESTMENT | 12 | 5,000 | 5,000 |
| LONG TERM LOANS | 13 | 5,609 | 6,037 |
| LONG TERM DEPOSITS AND PREPAYMENTS | 14 | 3,740 | 3,374 |
| CURRENT ASSETS | | | |
| Stores and spares | 15 | 161,596 | 113,122 |
| Stocks | 16 | 2,309,154 | 2,078,152 |
| Trade debts | 17 | 27,516 | 10,982 |
| Loans and advances | 18 | 16209 | 34,199 |
| Deposits, Prepayments and Other receivables | 19 | 201,442 | 199,031 |
| Cash and bank balances | 20 | 16,281 | 20,402 |
| | | ----- | ----- |
| | | 2,732,198 | 2,455,888 |
| LESS: CURRENT LIABILITIES | | | |
| Current portion of long term loans and lease obligations | | 235,270 | 80,019 |
| Short term finances and loans | 21 | 1,415,570 | 823,596 |
| Creditors, accrued and other liabilities | 22 | 714,843 | 736,267 |
| | | ----- | ----- |
| | | 2,365,683 | 1,639,882 |
| | | ----- | ----- |
| NET CURRENT ASSETS | | 366,515 | 816,006 |
| | | ----- | ----- |
| | | 1,709,636 | 1,843,003 |
| | | ===== | ===== |
| FINANCED BY: | | | |
| SHARE CAPITAL | | | |
| Authorised capital | 23 | 320,000 | 320,000 |
| | | ===== | ===== |
| Issued, subscribed and paid-up capital | 24 | 319,367 | 319,367 |
| RESERVES | 25 | 991,487 | 1,259,584 |
| | | ----- | ----- |
| SHAREHOLDERS' EQUITY | | 1,310,854 | 1,578,951 |
| LONG TERM LOANS | 26 | 370,000 | 207,500 |
| OBLIGATIONS UNDER FINANCE LEASES | 27 | 16,782 | 44,552 |
| DEFERRED TAXATION | 28 | 12,000 | 12,000 |
| COMMITMENTS AND CONTINGENCIES | 29 | | |
| | | ----- | ----- |
| | | 1,709,636 | 1,843,003 |
| | | ===== | ===== |

The annexed notes form an integral part of these accounts.

CASH FLOW STATEMENT**FOR THE YEAR ENDED DECEMBER 31, 1997**

| | 1997 | 1996 |
|---|-------------|-------------|
| | (Rs. 000s) | |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | 12,121,756 | 11,826,222 |
| Cash paid to Government for cigarette and tobacco excise duty, sales tax and other levies | (8,139,413) | (8,631,654) |
| Cash paid to suppliers | (3,574,289) | (3,400,729) |
| Cash paid to employees and provident and retirement funds | (599,557) | (492,912) |
| Income taxes paid | (48,705) | (55,243) |
| Other cash receipts/(payments) | 2,661 | (19,505) |
| | ----- | ----- |
| | (237,547) | (773,821) |
| | ===== | ===== |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of tangible fixed assets | (444,269) | (349,941) |
| Proceeds from sale of Trade Marks | - | 912,962 |
| Proceeds from sale of fixed assets and immovable property | 14,690 | 140,539 |
| | ----- | ----- |
| | (429,579) | 703,560 |
| | ===== | ===== |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Repayment of lease obligations | (29,686) | (62,870) |
| Long term loans | 319,667 | 155,166 |
| Short term loans | 49,683 | 288,013 |
| Long term deposits, prepayments and loans | (23) | 3,806 |
| Cash paid to Phoenix (Private) Limited | - | (1,195) |
| Financial charges paid | (218,898) | (141,155) |
| Dividend paid | (29) | (1,198) |
| | ----- | ----- |
| | 120,714 | 240,567 |
| | ===== | ===== |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (546,412) | 170,306 |
| CASH AND CASH EQUIVALENTS AS AT JANUARY 1, | (258,975) | (429,281) |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AS AT DECEMBER 31, | (805,387) | (258,975) |
| | ===== | ===== |
| CASH AND CASH EQUIVALENTS COMPRISE: | | |

| | | |
|------------------------|-----------|-----------|
| Cash and bank balances | 16,281 | 20,402 |
| Short term finances | (821,668) | (279,377) |
| | ----- | ----- |
| | (805,387) | (258,975) |
| | ===== | ===== |

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 1997**

1. THE COMPANY AND ITS OPERATIONS

Pakistan Tobacco Company Limited is incorporated in Pakistan and is listed on the three stock exchanges of Pakistan. It is engaged in the manufacture and sale of cigarettes and edible oil.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under historical cost convention without any adjustment for the effect of inflation.

2.2 Taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax rebates and tax credits available or based on 0.5% of turnover less related excise duty and sales tax, whichever is higher.

Deferred taxation is provided on timing differences using the liability method excluding the tax effects of those timing differences which are considered not likely to reverse in the foreseeable future (see Note 28).

2.3 Retirement benefits

The Company operates:

- i) approved funded Pension scheme for management and superintendent staff and gratuity scheme for all employees.

Actuarial valuation of these Schemes is carried out each year and the latest valuation was carried out as at December 31, 1996. The fair value of the Schemes' assets and liabilities at the latest actuarial valuation date were Rs. 405.643 million and Rs. 476.846 million respectively, The projected accrual method using expected interest @ 12% per annum, salary increase @ 12% per annum and post retirement pension increase @ 6% per annum were used for valuation of these schemes. The contributions during the year inclusive of special contribution to cover the deficit are charged to profit and loss account.

ii) approved contributory Provident Fund for all employees.

2.4 Tangible fixed assets

a) Company owned fixed assets

These are stated at cost less accumulated depreciation except freehold land, capital work-in-progress and items in transit which are stated at cost. Depreciation is charged to profit and loss account using the straight line method at the following rates:

| | |
|---|------------|
| Freehold buildings, leasehold land and buildings and private railway sidings | 3% |
| Plant and machinery | 7% |
| Airconditioners included in plant and machinery | 25% |
| Office and household machinery and equipment | 20% to 25% |
| Furniture and fittings | 10% to 20% |
| Vehicles | 25% |

Repairs and maintenance costs are charged to profit and loss account in the year in which they are incurred. Major renewals and improvements are capitalised.

Profits and losses on disposal of fixed assets are taken to profit and loss account.

b) Leased assets

Assets held under finance leases are stated at cost less depreciation, either at the same rates applicable to Company owned assets or over the lease period as appropriate. The outstanding obligations under the lease less financial charges allocated to future periods are shown as a liability. The financial charge is calculated at the interest rate implicit in the lease and is charged to the profit and loss account.

2.5 Investments

These are valued at cost.

2.6 Stocks

These are stated at the lower of net realisable value or cost determined on the moving average method. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

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

2.7 Stores and spares

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

2.8 Foreign currency transactions

Assets and liabilities in foreign currencies are stated in rupees at the rates of exchange ruling on the balance sheet date or at rates of exchange fixed under contractual arrangements, where lower. All exchange differences are included in the profit and loss account.

2.9 Revenue recognition

Sales are recorded on despatch of goods to customers.

| | 1997 | 1996 |
|--|-------------|-------------|
| | (Rs. 000s) | |
| 3. COST OF SALES | | |
| Opening stock of raw materials and work in progress | 1,655,042 | 1,250,636 |
| Raw material purchases and expenses (Note 3.1) | 2,830,612 | 2,762,228 |
| Closing stock of raw materials and work in progress | (1,917,668) | (1,655,042) |
| Government taxes and levies | | |
| Cigarette and tobacco excise duty and sales tax | 7,813,749 | 7,939,236 |
| Customs duty and surcharges | 295,998 | 351,249 |
| Tobacco cess | 9,326 | 10,423 |
| Provincial and municipal taxes and other excise duties | 39,072 | 35,422 |
| | ----- | ----- |
| | 8,158,145 | 8,336,330 |
| | ----- | ----- |
| | 10,726,131 | 10,694,152 |
| Production overheads | | |
| Salaries, wages and benefits | 357,245 | 305,139 |
| Stores, spares and machine repairs | 156,196 | 117,102 |
| Fuel and power | 66,086 | 55,655 |
| Property and vehicle rentals | 1,084 | 1,902 |
| Insurance | 14,704 | 10,682 |
| Repairs and maintenance | 20,906 | 16,532 |
| Postage, telephone and stationery | 7,795 | 6,991 |
| Depreciation | 78,568 | 54,203 |
| Sundries | 6,671 | 6,646 |
| | ----- | ----- |
| | 709,255 | 574,852 |
| | ----- | ----- |
| Cost of goods manufactured | 11,435,386 | 11,269,004 |
| Cost of finished goods | | |
| Opening stock | 423,110 | 242.75 |

| | | |
|---------------|------------|------------|
| Closing stock | (391,486) | (423,110) |
| | ----- | ----- |
| | 31,624 | (180,358) |
| | ----- | ----- |
| | 11,467,010 | 11,088,646 |
| | ===== | ===== |

1997 **1996**
(Rs. 000s)

3.1 RAW MATERIAL PURCHASES AND EXPENSES

| | | |
|------------------------------------|-----------|-----------|
| Materials | 2,590,949 | 2,550,538 |
| Salaries, wages and benefits | 110,608 | 99,700 |
| Stores, spares and machine repairs | 42,377 | 36,885 |
| Fuel and power | 35,800 | 31,707 |
| Property and vehicle rentals | 10,012 | 10,015 |
| Insurance | 3,396 | 2,934 |
| Repairs and maintenance | 5,480 | 5,418 |
| Postage, telephone and stationery | 3,168 | 2,986 |
| Depreciation | 15,187 | 12,581 |
| Sundries | 13,635 | 9,464 |
| | ----- | ----- |
| | 2,830,612 | 2,762,228 |
| | ===== | ===== |

4. MARKETING EXPENSES

| | | |
|-----------------------------------|---------|---------|
| Salaries, wages-and benefits | 53,410 | 44,556 |
| Selling expenses | 315,721 | 340,603 |
| Freight | 70,468 | 56,380 |
| Property and vehicle rentals | 3,527 | 2,572 |
| Insurance | 5,581 | 3,835 |
| Repairs and maintenance | 20,808 | 14,936 |
| Postage, telephone and stationery | 5,931 | 4,495 |
| Travelling | 18,332 | 11,783 |
| Depreciation | 10,400 | 7,340 |
| Sundries | - | 652 |
| | ----- | ----- |
| | 504,178 | 487,152 |
| | ===== | ===== |

5. ADMINISTRATION EXPENSES

| | | |
|-----------------------------------|--------|--------|
| Salaries, wages and benefits | 74,422 | 51,142 |
| Fuel and power | 1,527 | 1,627 |
| Property and vehicle rentals | 7,458 | 6,969 |
| Insurance | 361 | 174 |
| Repairs and maintenance | 6,457 | 7,987 |
| Postage, telephone and stationery | 10,903 | 8,270 |

| | | |
|---|---------|---------|
| Legal and professional charges | 8,722 | 5,810 |
| Provincial and municipal taxes | 544 | 351 |
| Donations (Note 5.11) | 77 | 60 |
| Travelling | 6,997 | 6,729 |
| Depreciation | 16,950 | 11,447 |
| Sundries | 23,029 | 15,533 |
| Auditors' remuneration | | |
| Statutory audit | 300 | 240 |
| Half annual audit, Special certifications, audit of funds, tax and other services | 1,060 | 1,052 |
| Out-of-pocket expenses | 121 | 139 |
| Excise duty | 75 | 126 |
| | ----- | ----- |
| | 1,556 | 1,557 |
| | ----- | ----- |
| | 159,003 | 117,656 |
| | ===== | ===== |

5.1 Recipients of donations do not include any body in whom a director or his spouse had any interest.

1997 **1996**
(Rs. 000s)

6. OTHER INCOME

| | | |
|--------------------------------|--------|--------|
| Profit on sale of fixed assets | 7,712 | 4,500 |
| Insurance commission | 3,683 | 3,767 |
| Income on short term deposits | 142 | 855 |
| Exchange gain | 668 | 1,190 |
| Miscellaneous | 984 | 233 |
| | ----- | ----- |
| | 13,189 | 10,545 |
| | ===== | ===== |

7. OTHER EXPENSES

| | | |
|--------------------|-------|-------|
| Severance payments | 7,836 | 21.47 |
| Miscellaneous | - | 4,080 |
| | ----- | ----- |
| | 7,836 | 25.55 |
| | ===== | ===== |

8. FINANCIAL CHARGES

| | | |
|----------------------------------|---------|--------|
| On short term finances and loans | 147,732 | 124.74 |
| On long term loans | 79,536 | 6.29 |
| On musharika arrangement | 13,340 | 7.27 |
| On leasing finance | 10,716 | 17.23 |

| | | |
|-----------------------|---------|--------|
| Bank charges and fees | 8,048 | 7.53 |
| | ----- | ----- |
| | 259,372 | 163.06 |
| | ===== | ===== |

9. REMUNERATION OF CHIEF (Rs. 000s)
DIRECTORS AND EXECUTIVES

| | Chief Executive | | Directors | | Executives | | Total | |
|-------------------------|-----------------|-------|-----------|--------|------------|--------|---------|---------|
| | 1997 | 1996 | 1997 | 1996 | 1997 | 1996 | 1997 | 1996 |
| Managerial remuneration | 1,179 | 1,813 | 5,605 | 5,767 | 59,988 | 49,794 | 66,772 | 57,374 |
| Retirement benefit | - | - | 1,796 | 1,345 | 18,087 | 17,513 | 19,883 | 18,858 |
| Housing and utilities | 1,008 | 953 | 3,343 | 3,025 | 26,029 | 21,675 | 30,380 | 25,653 |
| Medical expenses | 1 | - | 398 | 161 | 5,830 | 5,379 | 6,229 | 5,540 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | 2,188 | 2,766 | 11,142 | 10,298 | 109,934 | 94,361 | 123,264 | 107,425 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Number of persons | 1 | 1 | 6 | 5 | 212 | 196 | 219 | 202 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

9.1 The Company also. incases, provi with the use of Company accommodation, cars and household items. in accordance with their entitlements.

9.2 REMUNERATION TO OTHER DIRECTORS

Fees totalling Rs. 1,500 (1996: Rs. 1,500) were paid to one (1996: one) non-executive director for attending Board Meetings during the year.

10. TANGIBLE FIXED ASSETS

10.1 OWNED FIXED ASSETS

(Rs. 000s)

| | Cost | | | Depreciation | | | Cost less depreciation at 31.12.97 |
|----------------|-------------|-----------|-----------------------|--------------|-------------|---------------------|------------------------------------|
| | At 01.01.97 | Additions | Transfers/withdrawals | At 31.12.97 | At 01.01.97 | Charge for the year | |
| Freehold: land | 1,843 | - | - | 1,843 | - | - | 1,843 |

| | | | | | | | | | |
|---|-----------|---------|-----------|-----------|---------|---------|--------|---------|-----------|
| buildings | 131,599 | 11,944 | 18,750 | 162,293 | 38,194 | 4,066 | (7) | 42,253 | 120,040 |
| | | | - | | | | - | | |
| Leasehold: buildings | 7,367 | 1150 | 796 | 9,064 | 5,941 | 262 | 7 | 5,961 | 3,103 |
| | | | 249 | | | | 249 | | |
| Private railway sidings | 354 | - | - | 354 | 299 | 4 | - | 303 | 51 |
| Plant and machinery | 902,153 | 41,966 | 271,280 | 1,211,924 | 271,025 | 68,129 | 11,950 | 348,980 | 862,944 |
| | | | 3,475 | | | | 2,124 | | |
| Office and house- hold machinery and equipment | 62,502 | 24,031 | (114) | 84,219 | 31,542 | 10,924 | (4) | 40,770 | 43,449 |
| | | | 2,200 | | | | 1,692 | | |
| Furniture and fittings | 22,901 | 2,577 | 114 | 25,586 | 9,824 | 3,864 | 4 | 13,689 | 11,897 |
| Vehicles | 86,547 | 58,439 | - | 131,891 | 44,694 | 22,009 | - | 58,724 | 73,167 |
| | | | 13,095 | | | | 7,979 | | |
| | 1,215,266 | 140,107 | 290,826 | 1,627,174 | 401,519 | 109,258 | 11,950 | 510,680 | 1,116,494 |
| | | | 19,025 | | | | 12,047 | | |
| Capital work- in-progress (Note 10.31) | 41,728 | 101,486 | (109,018) | 34,196 | - | - | - | - | 34,196 |
| | | | - | | | | | | |
| Machinery and fixtures in transit and in storage | 12,782 | 202,676 | (153,374) | 62,084 | - | - | - | - | 62,084 |
| 31.12.97 | 1,269,776 | 444,269 | 28,434 | 1,723,454 | 401,519 | 109,258 | 11,950 | 510,680 | 1,212,774 |
| | | | 19,025 | | | | 12,047 | | |
| 31.12.96 | 772,896 | 349,941 | 162,348 | 1,269,776 | 295,417 | 61,816 | 58,306 | 401,519 | 868,257 |
| | | | 15,409 | | | | 14,020 | | |

10.2 LEASED ASSETS

| | | | | | | | | | |
|---------------------|---------|---|----------|---------|--------|--------|----------|--------|---------|
| Plant and machinery | 183,171 | - | (28,434) | 154,737 | 38,842 | 11,847 | (11,950) | 38,739 | 115,998 |
|---------------------|---------|---|----------|---------|--------|--------|----------|--------|---------|

| | | | | | | | | | |
|-----------------------------|-----------|---------|-----------|-----------|---------|---------|----------|---------|-----------|
| | | | - | | | | | | |
| 31.12.97 | 183,171 | - | (28,434) | 154,737 | 38,842 | 11,847 | (11,950) | 38,739 | 115,998 |
| | | | - | | | | | | |
| 31.12.96 | 345,519 | - | (162,348) | 183,171 | 73,393 | 23,755 | (58,306) | 38,842 | 144,329 |
| | | | | | | | | | |
| TOTAL TANGIBLE FIXED ASSETS | | | | | | | | | |
| 31.12.97 | 1,452,947 | 444,269 | - | 1,878,191 | 440,361 | 121,105 | - | 549,419 | 1,328,772 |
| | | | 19,025 | | | | 12,047 | | |
| 31.12.96 | 1,118,415 | 34,941 | - | 1,452,947 | 368,810 | 85,571 | - | 440,361 | 1,012,586 |
| | | | 15,409 | | | | 14,020 | | |

1997 **1996**
(Rs. 000s)

10.3 CAPITAL WORK-IN-PROGRESS

| | | |
|---------------------------|--------|--------|
| Civil works and buildings | 9,306 | 7,776 |
| Plant and machinery | 5,429 | 10,489 |
| Advances to suppliers | 19,461 | 23,463 |
| | 34,196 | 41,728 |

11. SALE OF TANGIBLE FIXED ASSETS BY NEGOTIATION

| | Original Cost | Accumulated Depreciation | Book Value | Sale Proceeds | Particulars of buyers |
|-----------------------------|------------------|-----------------------------|---------------|------------------|--|
| Leasehold Property | 117 | 117 | - | 151 | Muhammad Hanif, Younus, Sattan Akora Khattak |
| Plant & Machinery | 1,651 | 1,237 | 414 | 3,277 | Khyber Tobacco Company, Mardan |
| Furniture & Fittings | 6 | 3 | 3 | 1 | K. Nazir Graphic, Karachi |
| Office & Computer Equipment | 58 | 52 | 6 | 95 | IBM, Islamabad |
| Office & Computer Equipment | 102 | 92 | 10 | 147 | IBM, Islamabad |
| Office & Computer Equipment | 188 | 82 | 1116 | 149* | Commercial Union Assurance Co. plc. Karachi |
| Office & Computer Equipment | 57 | 51 | 6 | 16* | Commercial Union Assurance Co. plc. Karachi |
| Office & Computer Equipment | 51 | 20 | 31 | 72* | Commercial Union Assurance Co. plc. Karachi |
| Office & Computer Equipment | 87 | 17 | 70 | 72* | Commercial Union Assurance Co. plc. Karachi |
| Office & Computer Equipment | 32 | 11 | 21 | 61* | Commercial Union Assurance Co. plc. Karachi |

| | | | | | |
|-----------------------------|-------|-----|-------|--------|--|
| Office & Computer Equipment | 56 | 20 | 36 | 54* | Commercial Union Assurance Co. plc. Karachi |
| Office & Computer Equipment | 12 | 11 | 1 | 2 | Ghosia Mahmoodia Centre, Lahore |
| Office & Computer Equipment | 55 | 50 | 5 | 5 | Muzamal Supply, Lahore |
| Office & Computer Equipment | 17 | 5 | 12 | 16* | Commercial Union Assurance Co. plc. Karachi |
| Advertising Equipment | 15 | 14 | 1 | 14 | K. Nazir Graphic, Karachi |
| Airconditioner | 10 | 9 | 1 | 9 | Crown Engineering, Lahore |
| Airconditioner | 19 | 17 | 2 | 9 | Crown Engineering, Lahore |
| Vehicle | 39 | 35 | 4 | 4 | Tanveer Muhammad Qureshi (Employee) |
| Vehicle | 40 | 36 | 4 | 4 | Muhammad Rafiq (Employee) |
| Vehicle | 40 | 36 | 4 | 4 | S. Jamal Shah, (Employee) |
| Vehicle | 40 | 36 | 4 | 4 | Z.A. Zaki, (Employee) |
| Vehicle | 40 | 36 | 4 | 4 | Javed Iqbal, (Employee) |
| Vehicle | 40 | 36 | 4 | 4 | S.A. Badar, (Employee) |
| Vehicle | 33 | 30 | 3 | 3 | Mirza Abdul Razzaq, (Employee) |
| Vehicle | 35 | 31 | 4 | 4 | Raja Ghulam Sarwar, (Ex - employee) |
| Vehicle | 35 | 31 | 4 | 4 | Rana Shaukat All (Employee) |
| Vehicle | 40 | 36 | 4 | 4 | Mian Saghir, (Employee) |
| Vehicle | 40 | 36 | 4 | 4 | Zulfiqar All, (Employee) |
| Vehicle | 52 | 24 | 28 | 33 | Raja Muhammad Akram, (Ex - employee) |
| Vehicle | 549 | 275 | 274 | 274 | Anwar S. Khan (Ex-employee) |
| Vehicle | 223 | 201 | 22 | 22 | Zahid Raza (Employee) |
| Vehicle | 402 | 151 | 251 | 301 | Hafeezullah Jan (Ex-employee) |
| Vehicle | 1,948 | 406 | 1,542 | 1,913* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 1,927 | 402 | 1,525 | 1,666 | Iftikhar Ahmed Malik (Ex-employee) |
| Vehicle | 38 | 34 | 4 | 4 | Abdul Rasheed Khatri (Employee) |
| Vehicle | 549 | 343 | 206 | 332 | Muhammad Tahir Memon, (Ex - employee) |
| Vehicle | 563 | 340 | 223 | 351 | Mrs. Rubina Sajid w/o Syed Sajid (Ex-employee) |
| Vehicle | 34 | 31 | 3 | 33* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 41 | 37 | 4 | 47* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 63 | 12 | 51 | 62* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 63 | 12 | 51 | 62* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 63 | 12 | 51 | 62* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 63 | 12 | 51 | 62* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 63 | 12 | 51 | 62* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 72 | 12 | 60 | 71* | Commercial Union Assurance Co. plc. Karachi |
| Vehicle | 447 | 402 | 45 | 390* | Commercial Union Assurance Co. plc. Karachi |

*Insurance claim

12. LONG TERM INVESTMENT

This represents 500,001 (1996: 500,001) fully paid up ordinary shares of Rs. 10 each in Phoenix (Private) Limited. The break up value of shares calculated by reference to net asset works out to be Rs. 10 per share based on audited accounts for the year ended December 31, 1997 (1996: Rs. 10 per share).

This is a wholly owned subsidiary of Pakistan Tobacco Company Limited which has not yet commenced commercial production.

| | 1997 | 1996 |
|---|------------|-------|
| | (Rs. 000s) | |
| 13. LONG TERM LOANS | | |
| Secured and considered good | | |
| Outstanding for periods exceeding three years | 3,331 | 3,929 |
| Others | 3,417 | 3,162 |
| | ----- | ----- |
| | 6,748 | 7,091 |
| Less: Receivable within one year (Note 18) | 1,139 | 1,054 |
| | ----- | ----- |
| | 5,609 | 6,037 |
| | ===== | ===== |

The above comprises of interest free loans amounting to Rs. 0.231 million (1996: Rs. 0.283 million) and Rs.6.517 million (1996: Rs. 6.808 million) given to the Directors and Executives respectively for purchase of household furniture and appliances. These are repayable over 7 to 10 years in equal instalments.

The maximum amounts due from the Directors and Executives at the end of any month during the year were Rs. 0.290 and Rs. 6.725 million respectively (1996: Directors Rs. 0.331 and Executives Rs. 6.808 million).

14. LONG TERM DEPOSITS AND PREPAYMENTS

| | | |
|-------------------------------|-------|-------|
| Security deposits - on leases | - | 136 |
| - others | 1,192 | 2,140 |
| Prepayments | 2,548 | 1,098 |
| | ----- | ----- |
| | 3,740 | 3,374 |
| | ===== | ===== |

15. STORES AND SPARES

| | | |
|---------------------------------------|---------|--------|
| Stores | 5,669 | 6,230 |
| Machine spares - Cigarette production | 145,121 | 96,968 |
| - Printing | 2,394 | 2,317 |
| - Leaf redrying | 8,412 | 7,607 |
| | ----- | ----- |
| | 161,596 | 113.12 |
| | ===== | ===== |

| 1997 | 1996 |
|------------|------|
| (Rs. 000s) | |

16. STOCKS

| | | |
|--------------------------|-----------|-----------|
| Raw materials | 1,826,894 | 1,552,209 |
| Raw materials in transit | 70,386 | 79,425 |
| Work in progress | 20,388 | 23,408 |
| Finished goods | 391,486 | 423,110 |
| | ----- | ----- |
| | 2,309,154 | 2,078,152 |
| | ===== | ===== |

17. TRADE DEBTS

All trade debts are unsecured and considered good.

18. LOANS AND ADVANCES

Considered good

| | | |
|---|--------|--------|
| Loans due from directors and executives (Note 13) | 1,139 | 1,054 |
| Advances due from employees (Note 18.1) | 1,804 | 3,726 |
| Advances due from others | 13,266 | 29,419 |
| | ----- | ----- |
| | 16,209 | 34,199 |
| | ===== | ===== |

18.1 The above includes Rs.1.016 million (1996:Rs.1.894 million) due from Executives of the Company.

The maximum amount due from the Executives of the Company at the end of any month during the year was Rs. 4.791 million (1996: Rs. 4.335 million).

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | | |
|---|---------|---------|
| Deposits | - | 14,491 |
| Prepayments | 26,406 | 12,982 |
| Due from Phoenix (Private) Limited - a subsidiary | 31,275 | 36,295 |
| Customs duty/Sales tax | 1,809 | 4,004 |
| Corporate tax | 102,014 | 75,486 |
| Claims - considered good | 13,370 | 28,723 |
| Others | 26,568 | 27,050 |
| | ----- | ----- |
| | 201,442 | 199,031 |
| | ===== | ===== |

20. CASH AND BANK BALANCES

| | | |
|---|--------|--------|
| On hand | 2,763 | 3,305 |
| In transit | 4,426 | 6,373 |
| At banks on current accounts | 7,151 | 8,740 |
| | ----- | ----- |
| | 14,340 | 18,418 |
| Security deposits - held in special account (Note 22) | 1,941 | 1,984 |

| | |
|--------|--------|
| ----- | ----- |
| 16,281 | 20,402 |
| ===== | ===== |

1997 **1996**
(Rs. 000s)

21. SHORT TERM FINANCES AND LOANS - (SECURED)

| | | |
|---|---------|-----------|
| Short term finances | | |
| Under mark-up arrangements with banks (Note 21.1) | 687,754 | 255,800 |
| Under musharika arrangement with a bank (Notes 21.1 and 21.2) | 133,914 | 23,577 |
| | ----- | ----- |
| | 821,668 | 279,377 |
| Short term loans | | |
| Under mark-up arrangements with banks for deferred leaf purchase voucher scheme (Note 21.1) | 417,878 | 392,890 |
| Offshore loan from a bank (Note 21.3) | 151,329 | 176,024 |
| | ----- | ----- |
| | 823,596 | 1,415,570 |
| | ===== | ===== |

21.1 The daily rate of mark-up ranges between 38 and 43 paisa (1996:38 and 43 paisa) per thousand rupees and is payable currently.

21.2 Prior written consent of the bank is required in certain cases of acquisition of shares in, giving loans to or giving credit (other than trade credit) to any company or person and issue of shares by the Company or to any change in its capital structure.

21.3 A loan amounting to US\$ 4 million (1996: US\$ 4 million) has been obtained from an offshore bank through the Company's bankers carrying interest @ 1.0% (1996: 0.5%) above six months LIBOR. The loan is secured by specific indemnity issued by the Company in favour of its bankers.

21.4 Short term finances and loans are secured by hypothecation of stocks of raw materials and finished goods.

21.5 Total facility available under mark-up and musharika arrangements amounts to Rs.1,406 million (1996: Rs. 1,139 million) out of which the amount unavailed at the year end was Rs. 166.450 million (1996:Rs.466.733 million).

22. CREDITORS, ACCRUED AND OTHER LIABILITIES

| | | |
|--|---------|---------|
| Excise duty | 46,686 | - |
| Sales tax | 88,486 | 116.44 |
| Creditors | 441,256 | 521,686 |
| Accrued expenses | 54,378 | 54,506 |
| Mark-up on - short term finances and loans | 34,961 | 24,913 |
| - long term loans | 25,354 | 4,211 |
| Interest on short term loans | 18,025 | 8,565 |
| Financial charges - lease finance | 211 | 388 |
| Security deposits (Note 20) | 1,941 | 1,984 |
| Unclaimed dividend | 3,545 | 3,574 |
| | ----- | ----- |
| | 714,843 | 736,267 |
| | ===== | ===== |

23. AUTHORISED CAPITAL

Authorised capital comprises 32,000,000 (1996: 32,000,000) ordinary shares of Rs. 10 each

| | 1997 | 1996 |
|--|------------|---------|
| | (Rs. 000s) | |
| 24. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL | | |
| 6,800,000 (1996: 6,800,000) ordinary shares of Rs.10 each fully paid-up in cash | 68,000 | 68,000 |
| 25,136,724 (1996: 25,136,724) ordinary shares of Rs.10 each issued as fully paid bonus shares | 251,367 | 251,367 |
| | ----- | ----- |
| | 319,367 | 319,367 |
| | ===== | ===== |

British-American Tobacco Company Limited held 20,250.875 (1996: 20,250~875) ordinary shares of Rs.10 each as at December 31, 1997.

25. RESERVES

| | | |
|--|-----------|-----------|
| Revenue Reserve | | |
| Balance as at January I | 1,259,584 | 270,898 |
| Transfer (to)/from profit and loss account | (268,097) | 988,686 |
| | ----- | ----- |
| | 991,487 | 1,259,584 |
| | ===== | ===== |

26. LONG TERM LOANS - SECURED

| | | |
|---------------------------------------|---|-------|
| Under mark-up arrangement with a bank | - | 2,000 |
|---------------------------------------|---|-------|

| | | |
|---------------------------------------|---------|---------|
| Term finance from banks (Note 26.1) | 577,500 | 255,833 |
| | ----- | ----- |
| | 577,500 | 257,833 |
| Less: Shown under current liabilities | 207,500 | 50,333 |
| | ----- | ----- |
| | 370,000 | 207,500 |
| | ===== | ===== |

26.1 Term finance facilities have been obtained from banks on mark-up basis for purchase of plant & machinery. The facilities are secured by hypothecation of plant & machinery and are repayable on various dates upto July 09, 1999. One facility amounting to Rs 7.5 million carries mark-up @ 15% per annum. The remaining facilities carry floating mark-up @ short term federal bond rate plus 1.25% to 1.75% per annum. Amounts due within one year have been shown under current liabilities.

27. OBLIGATIONS UNDER FINANCE LEASES

The rates of financing used as the discounting factor range between 6% and 18.60% per annum. Certain leases are subject to additional charge of 2% for overdue rentals.

The amounts of future payments and the periods during which they will fall due are:

| | 1997 | 1996 |
|---------------------------------------|------------|--------|
| | (Rs. 000s) | |
| Years ending December 31 | | |
| 1997 | - | 40,010 |
| 1998 | 33,248 | 33,248 |
| 1999 | 18,033 | 18,033 |
| | ----- | ----- |
| | 51,281 | 91,291 |
| - Less: Finance charges | 6,729 | 17,053 |
| | ----- | ----- |
| | 44,552 | 74,238 |
| Less: Shown under current liabilities | 27,770 | 29,686 |
| | ----- | ----- |
| | 16,782 | 44,552 |
| | ===== | ===== |

28. DEFERRED TAXATION

The deferred tax net debit balance arising from major timing differences, computed at the current rates of tax, amounts to approximately Rs. 19 million (1996: deferred tax liability Rs. 55 million). The brought forward provision of Rs 12 million (1996: Rs 12 million) has, however, been retained in the accounts.

29. COMMITMENTS AND CONTINGENCIES

29.1 Capital expenditure commitments outstanding at December 31, 1997 amounted to Rs. 177.336 million (1996: Rs. 78.113 million).

29.2 Rents payable under lease agreements for motor vehicles are:

Payable in years ending December 31

| | | |
|------|--------|--------|
| 1997 | - | 8,801 |
| 1998 | 7,124 | 7,610 |
| 1999 | 5,183 | 5,428 |
| 2000 | 2,168 | 2,168 |
| | ----- | ----- |
| | 14,475 | 24,007 |
| | ===== | ===== |

29.3 Commitments in respect of forward exchange contracts at December 31, 1997 amounted to Rs. 328.333 million (1996: Rs. 107.221 million).

29.4 Guarantees given by the Company to a bank aggregating Rs. 133.779 million (1996: Rs 133.779 million) in respect of repayment of amounts outstanding against financial and banking facilities extended by the bank to the Company's edible oil contractors against hypothecation of their stocks and promissory note.

29.5 Claims not acknowledged as debt amount to Rs. 18.082 million (1996: Rs. 18.569 million).

30. STATEMENT PURSUANT TO SECTION 237 OF COMPANIES ORDINANCE, 1984

The audited accounts of the Company's wholly owned subsidiary Phoenix (Private) Limited for the year ended December 31, 1997 are annexed to these accounts.

b) The extent of the interest of Pakistan Tobacco Company Limited as a holding company in its subsidiary Phoenix'(Private) Limited, as at December 31, 1997 was 100% (1996: 100%).

The subsidiary of the Company has not yet started commercial production so other disclosures pursuant to section 237 are not applicable.

31. CAPACITY AND PRODUCTION

Against an estimated manufacturing capacity of 20,550 (1996: 20,550) million cigarettes, actual production was 20,699 (1996: 22,052) million cigarettes which included 4,243 million cigarettes (1996:3,384 million) produced through outside manufacturing sources. Actual production was sufficient to meet market demand.

32. GENERAL

Previous year's figures have been rearranged wherever necessary for the purpose of comparison.

(Rs. millions)

Financial Highlights

| | 1997 | 1996 | 1995 | 1994 | 1993 | |
|---|-------|-------|--------|-------|------|-----|
| Turnover | 12138 | 11832 | 10152 | 8788 | 8642 | |
| Excise and Sales Tax | 7703 | 7804 | 6973 | 6253 | 6103 | |
| Net Turnover | 4435 | 4028 | 3179 | 2535 | 2539 | |
| Operating Profit | 8 | 139 | 155 | 225 | 359 | |
| (Loss) / Profit Before Tax | (246) | (39) | (8) | 59 | 229 | |
| (Loss) / Profit for the year | (268) | 989 | (24) | 104 | 158 | |
| Dividends Declared | - | - | - | 32 | 96 | |
| Value Added | 88811 | 9045 | 8092 | 7252 | 7056 | |
| Shareholders Funds | 1311 | 1579 | 590 | 615 | 543 | |
| Capital Employed | 1710 | 1843 | 734 | 836 | 677 | |
| Capital Expenditure | 444 | 350 | 95 | 272 | 121 | |
| Duties and Taxes | | | | | | |
| Customs, Excise Duties and Sales Tax | 81111 | 8290 | 7364 | 6520 | 6311 | |
| Local Taxes and Cess | 48 | 46 | 31 | 23 | 20 | |
| Corporate Tax | 22 | 20 | 16 | 13 | 71 | |
| Total | 8180 | 8356 | 7411 | 6556 | 6402 | |
| Profit Before Tax vs Turnover | % | - | - | 0.7 | 2.6 | |
| Return on Capital Employed | | | | | | |
| - Before Tax | % | - | - | 7.1 | 33.8 | |
| - Profit for the Year | % | - | 53.7 | 12.4 | 23.3 | |
| Earning / (Loss) Per Share | | | | | | |
| - Before Tax | Rs. | - | (1.21) | (0.2) | 1.9 | 7.2 |
| - Profit for the Year | Rs. | - | 31.0 | (0.8) | 3.2 | 4.9 |
| Dividends Per Share | Rs. | - | - | 1.0 | 3.0 | |

PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 1997

| No. of Shareholders | Categories | Total Shares |
|------------------------|------------|--------------|
| 1,546 | From 1 To | 100,353 |

| | | | | | |
|-------|------|------------|----|------------|------------|
| 1,607 | From | 101 | To | 500 | 461,258 |
| 599 | From | 501 | To | 1,000 | 418,478 |
| 527 | From | 1,001 | To | 5,000 | 1,104,279 |
| 40 | From | 5,001 | To | 10,000 | 255,563 |
| 16 | From | 10,001 | To | 15,000 | 201,759 |
| 4 | From | 15,001 | To | 20,000 | 64,925 |
| 4 | From | 20,001 | To | 25,000 | 89,637 |
| 2 | From | 25,001 | To | 30,000 | 53,602 |
| 1 | From | 30,001 | To | 35,000 | 32,071 |
| 2 | From | 35,001 | To | 40,000 | 72,463 |
| 1 | From | 50,001 | To | 55,000 | 51,761 |
| 1 | From | 60,001 | To | 65,000 | 60,961 |
| 1 | From | 70,001 | To | 75,000 | 70,140 |
| 1 | From | 80,001 | To | 85,000 | 84,173 |
| 2 | From | 85,001 | To | 90,000 | 174,612 |
| 1 | From | 105,001 | To | 110,000 | 106,500 |
| 1 | From | 135,001 | To | 140,000 | 139,507 |
| 1 | From | 140,001 | To | 145,000 | 145,000 |
| 1 | From | 145,001 | To | 150,000 | 146,800 |
| 1 | From | 165,001 | To | 170,000 | 167,633 |
| 1 | From | 175,001 | To | 180,000 | 180,000 |
| 1 | From | 205,001 | To | 210,000 | 207,667 |
| 1 | From | 250,001 | To | 255,000 | 253,501 |
| 1 | From | 270,001 | To | 275,000 | 270,184 |
| 1 | From | 335,001 | To | 340,000 | 340,000 |
| 1 | From | 410,001 | To | 415,000 | 412,274 |
| 1 | From | 535,001 | To | 540,000 | 535,509 |
| 1 | From | 740,001 | To | 745,000 | 744,802 |
| 1 | From | 795,001 | To | 800,000 | 798,282 |
| 1 | From | 4,000,001 | To | 4,005,000 | 4,002,156 |
| 1 | From | 20,240,001 | To | 20,245,000 | 20,240,875 |

Total 4,370
=====

31,936,724
=====

Categories of Shareholders

| | Number | Shares Held | % |
|--------------------------|--------|-------------|------|
| Individuals | 4,289 | 2,796,055 | 8.7 |
| Investment Companies | 6 | 4,104,446 | 12.8 |
| Insurance Companies | 11 | 1,507,387 | 4.7 |
| Joint Stock Companies | 18 | 58,683 | 0.2 |
| Financial Institutions | 12 | 445,581 | 1.4 |
| Charitable Institutions | 8 | 754,467 | 2.4 |
| Government Organisations | 4 | 139,548 | 0.5 |

| | | | |
|------------------------|-------|------------|--------|
| Foreign Investors | 18 | 22,121,925 | 69.3 |
| Co-operative Societies | 3 | 3,488 | - |
| Modaraba Company | 1 | 5,144 | - |
| | ----- | ----- | ----- |
| Total | 4,370 | 31,936,724 | 100.00 |
| | ===== | ===== | ===== |

Notice of Meeting

Notice is hereby given that the Fifty-First Annual General Meeting of Pakistan Tobacco Company Limited will be held in the Auditorium of the Saudi Pak Tower, 61/A Jinnah Avenue, Islamabad on Monday, 11th May, 1998 at 11.00 A.M. to transact the following business:

A. ORDINARY BUSINESS:

1. To receive and consider the audited Accounts for the year ended 31st December 1997, and the Reports of the Directors and Auditors thereon.
2. To appoint Auditors and to fix their remuneration.
3. To increase the number of the Directors from nine to ten.
4. To elect one (1) additional director in accordance with the provisions of Article 71 and Article 72 of the Articles of Association of the Company. The term of office of the Director so elected shall expire on 17th July 1999.

B. SPECIAL BUSINESS

5. To approve the increase in the number of directors from nine to ten.
(A statement under Section 160 of the Companies Ordinance, 1984 pertaining to the special business is being sent to the shareholders with this notice).
6. To amend certain Articles of Association to ensure conformity with change in the Company's registered office. (A statement under Section 160(1)(b) of the Companies Ordinance, 1984 is being sent to the shareholders with this notice).

N.B. (1)

In accordance with Section 178(1) of the Companies Ordinance, the number of elected directors has been fixed at ten.

(2) A member entitled to attend and vote at this Meeting is entitled to appoint a proxy to attend instead of him and such proxy will have the right to attend, speak and vote in place of the member. A proxy need not be a member of the Company.

(3) Forms of proxy must be deposited at the office of the Company's Share Registrar not less

than 48 hours before the time appointed for the Meeting and in default forms of proxy will not be treated as valid.

(4) The Share Transfer Books of the Company will be closed from 29th April, 1998 to 10th May, 1998 both days inclusive. Transfers received in order at the office of the Company's Share Registrar Ferguson Associates (Pvt) Ltd., State Life Building I-A, I.I. Chundrigar Road, Karachi, by 28th April 1998 will be in time to be entitled to vote.

(5) Shareholders are requested to notify the Company's Share Registrar promptly of changes in their address.

Statements under Section 160 of the Companies Ordinance, 1984

The following statements are annexed to the Notice of the Fifty-first Annual General Meeting of Pakistan Tobacco Company Limited to be held on 11th May, 1998 and sets out the material facts concerning the special business to be transacted at the Meeting.

NOTE 1

The Board of Directors have recommended for approval of shareholders an increase in the number of directors from nine to ten and for the election of one additional director.

For this purpose, subject to the election of one additional director, the following Ordinary Resolution will be moved at the Meeting:-

"BE AND IT IS HEREBY RESOLVED that the increase in the number of elected directors of the Company from Nine (9) to Ten (10) is hereby approved and the term of office of such additional -director shall expire on 17th July, 1999" ..

NOTE 2

Article 2 of the Memorandum of Association has been amended to reflect the change in the Company's registered office to Islamabad in accordance with the requirements of the Companies Ordinance, 1984. It is now proposed to amend the Articles 30, 48 and 79 of the Company's Articles of Association to ensure conformity with change in the Company's registered office by substituting the word "Karachi" with the word "Islamabad" therein. Article 30 pertains to quorum for an Extraordinary General Meeting. Article 48 pertains, inter alia, to the place of deposit of a proxy. Article 79 pertains to notice for a meeting of the Directors.

For this purpose, the following Special Resolution proposed to be passed at the Annual General Meeting of Pakistan Tobacco Company Limited to be held on 11th May, 1998 at 11 A.M.

"BE AND IT IS HEREBY RESOLVED that the word "Karachi" appearing in Article 30, Article 48 and Article 79 of the Company's Articles of Association be replaced by the word "Islamabad".

SUBSIDIARY COMPANY

**Phoenix
(Private) Limited**

BOARD OF DIRECTORS

ZAHEER-UD-DIN-AHMED
Chief Executive

SAFDAR IQBAL

SHAHID PARWAIZ

NAVEED AFTAB AHMAD
Director & Secretary

AUDITORS

A.F. FERGUSON & CO.
Chartered Accountants

REGISTERED OFFICE

Bun Khuma Chichian Road,
Mirpur, Azad Jammu & Kashmir.

REPORT OF THE DIRECTORS

For the Year Ended December 31, 1997

The Directors have pleasure in presenting report together with the Audited Accounts of the Company for the year ended December 31, 1997.

Due to restrictions imposed on manufacture of Pakistani brand cigarettes in Azad Kashmir, and non-existence of an opportunity for export, no cigarette production activity took place during the year.

The Company is a wholly-owned subsidiary of Pakistan Tobacco Company Limited.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Phoenix (Private) Limited as

at December 31, 1997 and the related cash flow statement, together with the notes forming part thereof, and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

(i) the balance sheet together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984 and is in agreement with the books of account, and is further in accordance with the 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 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 December 31, 1997 and of cash flows for the year then ended; and

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

A.F. FERGUSON & CO.
CHARTERED ACCOUNTANTS

Islamabad: March 18, 1998

BALANCE SHEET

As at December 31, 1997

| | Note | 1997 | 1996 |
|--------------|-------------|-------------------|-------------|
| | | (Rs. 000s) | |
| FIXED ASSETS | 3 | 32,742 | 41,322 |

| | | | |
|--|---|----------|----------|
| PRELIMINARY EXPENSES | 4 | 96 | 96 |
| CURRENT ASSETS | | | |
| Account Receivable | | 3,462 | - |
| Balance with a bank in current account | | 9 | 9 |
| LESS: CURRENT LIABILITIES | | | |
| Creditors, accrued and other liabilities | 5 | 31,309 | 36,427 |
| | | ----- | ----- |
| NET CURRENT LIABILITIES | | (27,838) | (36,418) |
| | | ----- | ----- |
| | | 5,000 | 5,000 |
| | | ===== | ===== |
| FINANCED BY: | | | |
| SHARE CAPITAL | | | |
| Authorised capital | | | |
| 5,000,000 ordinary shares of Rs. 10 each | | 50,000 | 50,000 |
| | | ===== | ===== |
| Issued, subscribed and paid-up-capital | 6 | 5,000 | 5,000 |
| | | ----- | ----- |
| | | 5,000 | 5,000 |
| | | ===== | ===== |

The annexed notes form an integral part of these accounts.

CASH FLOW STATEMENT

For the Year Ended December 31, 1997

| | 1997 | 1996 |
|---|------------|---------|
| | (Rs. 000s) | |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Capital Work-in-Progress | - | (2,065) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Long Term Deposits | - | 20 |
| Cash received from Pakistan Tobacco Company Limited | - | 1,195 |

| | | |
|---|------------|------------|
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS | - | (850) |
| CASH AND CASH EQUIVALENTS AS AT JANUARY 1, | 9 | 859 |
| CASH AND CASH EQUIVALENTS AS AT DECEMBER 31, | ----- 9 | ----- 9 |
| | ===== | ===== |

NOTES TO AND FORMING PART OF THE ACCOUNTS

For the Year Ended December 31, 1997

1. THE COMPANY AND ITS OPERATIONS

Phoenix (Private) Limited was incorporated on March 9, 1992 in Azad Kashmir as a wholly owed subsidiary of Pakistan Tobacco Company Limited. The object for which the Company has been incorporated is to operate and manage an industrial undertaking in Azad Kashmir to manage and deal in tobacco products. The Company has not yet commenced its commercial operation. Therefore, a Profit and Loss account has not been prepared.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under historical cost convention without any adjustment for the effect of inflation.

2.2 Tangible fixed assets

Freehold land and capital work-in-progress are stated at cost.

3. FIXED ASSETS

| | 1997 | 1996 |
|----------------------------|------------|--------|
| | (Rs. 000s) | |
| Freehold land | 3,364 | 3,364 |
| Capital work-in-progress: | | |
| Civil and electrical works | 12,561 | 12,561 |
| Plant and machinery | 9,121 | 7,393 |
| Advances to suppliers | 2 | 10,842 |
| Pre-operating expenses | 7,694 | 7,162 |
| | ----- | ----- |
| | 29,378 | 37,958 |

| | | |
|--------------------------------|--------|--------|
| | ----- | ----- |
| | 32,742 | 41,322 |
| | ===== | ===== |
| 4. PRELIMINARY EXPENSES | | |
| Legal fees | 15 | 15 |
| Registration fees | 81 | 81 |
| | ----- | ----- |
| | 96 | 96 |
| | ===== | ===== |

5. CREDITORS, ACCRUED AND OTHER LIABILITIES

| | | |
|---|--------|--------|
| Due to Pakistan Tobacco Company Limited-current account | 31,275 | 36,295 |
| Others | 34 | 132 |
| | ----- | ----- |
| | 31,309 | 36,427 |
| | ===== | ===== |

6. ISSUED, SUBSCRIBED AND PAID-UP-CAPITAL

500,001 ordinary shares (1996:500,001 ordinary shares) of Rs. 10 each. All the shares of the Company are held by Pakistan Tobacco Company Limited.

7. COMPARATIVE FIGURES

Previous year's figures have been rearranged, wherever necessary, for the purposes of comparison.

PATTERN OF SHAREHOLDING

As at December 31, 1997

| No. of Shareholders | Categories | Total Shares |
|---------------------|-------------------------|--------------|
| 3 | From 1 To 5,000 | 15,000 |
| 1 | From 450,000 To 490,000 | 485,001 |
| | ----- | ----- |
| Total | 4 | 500,001 |
| | ===== | ===== |

| Categories of Shareholders | Number | Shares held | % |
|----------------------------|--------|-------------|---|
|----------------------------|--------|-------------|---|

Individuals-nominees of
Pakistan Tobacco Company Ltd.
Joint Stock Company

| | | |
|-------|---------|--------|
| 3 | 15,000 | 3.00 |
| 1 | 485,001 | 97.00 |
| ----- | ----- | ----- |
| 4 | 500,001 | 100.00 |
| ===== | ===== | ===== |