

Pakistan Tobacco Company Limited
Annual Report 2000

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BOARD OF DIRECTORS

GOTTFRIED THOMA

Chairman &
Chief
Executive

ASLAM KHALIQ

Corporate & Regulatory
Affairs
Director

STEPHEN DAINTITH

Finance Director

ALAIN SCHACHER

Leaf Director

ZAFAR TAJI

Human Resources
Director

FATEHALI VELLANI
(Non-Executive Director)

MARCO NOVOA
Production Director

DR. AMJAD WAHEED
(Non-Executive Director)

CORPORATE INFORMATION

CHARLES RICHARD GREEN
(Non-Executive Director)

TAJAMAL SHAH
Company Secretary

BANKERS

ABN-AMRO Bank
American Express Bank
Standard Chartered Grindlays Bank
Askari Commercial Bank
Union Bank
Bank of Tokyo
Citibank N.A.
Emirates Bank International
Habib Bank
Ltd.
Hong Kong & Shanghai Banking Corp.
Muslim Commercial Bank
National Bank of Pakistan
Standard Chartered Bank
Societe Generale

AUDITORS

A.F. FERGUSON & Co.
Chartered Accountants

REGISTERED OFFICE

Saudi Pak Tower, 61/A,
Jinnah Avenue, Blue Area,
P.O. Box 2549
Islamabad - 44000
Telephone: (051) 20832000, 20832001
Fax: (051) 2278376, 2278377

SHARE REGISTRAR

Ferguson Associates (Pvt) Ltd,
State Life Building I-A,
I.I. Chundrigar Road.
Karachi.

CHAIRMAN'S MESSAGE

I am delighted to present my message to you after my first full year as Chairman of Pakistan Tobacco Company (PTC) -- and what an exciting year it was!

The major developments during 2000 were the strong recovery of our sales volume and the successful implementation of a major restructuring program.

Last year we sold 21.4 billion cigarettes which translated into an estimated market share of 37.6%. This is an annual growth in sales volume of 14% which compares favourably with the 1999 sales performance of 18.7 billion cigarettes and an estimated market share of 33.4%. The major part of this growth came from Gold Flake, a brand that sold just less than 1 billion cigarettes in 1999, but grew to 6.7 billion cigarettes in 2000!

This sales growth has not, however, translated into a similar growth in profitability. We are reporting an Operating Profit of Rs 316 million in 2000 compared with an Operating Profit of Rs 344 million in 1999, a decline of 8%. There are two main reasons for this:

1. Given the decline of our sales volume in 1999 -- down 15% versus 1998 -- we performed a thorough review of our brand portfolio and our level of marketing expenditure by brand. We identified brands that had failed to receive any level of support for many years and, conversely, areas where consumer response had been rather limited despite significant support levels. As a consequence of this review, we reallocated our marketing expenditure across our brands and, perhaps more importantly, increased our level of marketing expenditure by 28%. Our total marketing investment grew from a level of Rs 681 million in 1999 to Rs 873 million in 2000. This significant increase of Rs 192 million helps explain the decline in operating profit.

2. Secondly, in order to further protect and grow our sales volume, we did not implement the annual price increases typically carried out by the industry. Rather, we held the prices of most of our brands and repositioned two brands (Capstan and Gold Flake). For reference, we saw the negative effect of aggressive price increases in 1999 when our annual sales volume fell by 15% versus 1998 levels. The absence of price increases, combined with cost increases due to natural inflation, had an impact on our operating profit which we mitigated through stringent cost management initiatives. As a very positive side effect, our pricing initiatives also contributed significantly to the reduction of tax evasion in Pakistan. This is a subject that I shall turn to later in more detail.

It would be inappropriate to comment on the results without highlighting the restructuring costs of Rs 770 million included in "other expenses" within the Profit and Loss Account.

In my previous message accompanying the 1999 financial statements, I noted that -- despite various internal improvements -- our market position had in fact deteriorated. In 1999, our market share fell to 33.4% compared with 37.8% in 1998. I noted that all of us at PTC were fully determined to reverse this position and that part of this reversal would include a restructuring of the Company in all aspects of the business - including significant personnel reductions. This restructuring took place during the course of 2000 at a total cost of Rs 770 million and affected approximately 1,200 employees - around one third of our workforce. The benefits of this-are coming through already, not only in cost savings, but also in a more efficient and effective workforce.

An extremely pleasing aspect of 'the entire exercise was the manner in which the restructuring took place. I am delighted to report that due to the combined efforts of all our people and the Union officials, those members of staff affected were able to leave the Company in a most dignified and humane manner.

The full year savings of the restructuring exercise will be reflected in the results for 2001.

Another major event for us during the year was the successful completion of the \$ 40 million Right Issue. This saw Rs 2.2 billion injected into the Company -- the vast majority coming from our major shareholder, British American Tobacco Investments Limited. The funds were used as described above for the restructuring exercise and for the significant growth in marketing spend. At a time of limited foreign investment in Pakistan, the \$ 40 million Right Issue amply documents our confidence in a bright future for Pakistan and PTC.

I would now like to discuss the issue of tax evasion in Pakistan.

Pakistan has one of the lowest priced cigarettes in the world. This is largely due to tax evasion activity and is a key issue affecting the profitability of PTC. The manufacturers of tax-evaded products are -- as a consequence of this evasion -- able to position their brands at very low price points that would be unsustainable were they to pay excise duty. Without payment of excise duty, and at the expense of the Central Board of Revenue (CBR), the tax-evaders are able to generate very high profit margins on their products. Accordingly, they can operate at low selling prices and do not need to increase prices in line with inflation to make profits. To retain PTC's market share and to fulfill Government's expectations regarding excise revenues, we are forced to hold prices at these low levels. If we choose to increase prices substantially as in 1999, experience shows that we lose significant sales volume.

The determined steps taken by the Government to arrest evasion have been highly encouraging. Together with the lowering of prices by the industry of some key brands, this has led to a substantial reduction in tax-evaded products from around 17% in 1999 to the current level of around 6%. However, it is disturbing to note that the tax-evading local cigarette manufacturers are now moving facilities from their traditional stronghold of NWFP to other parts of Pakistan.

We seek ongoing Government support to further curtail these tax-evading activities (including counterfeit, imitation and smuggled products). We will continue to work with the Government to limit the damage that results from the illegitimate sector -- in particular the estimated annual loss of approximately Rs 2 billion.

As stated in my previous message, sufficient sales and adequate profits are key for any responsible company to operate on a sustainable basis. This applies equally well to Pakistan Tobacco Company. For each of the last six years, however, PTC has been losing money. Accumulated losses for the 1995 to 2000 period are now at about Rs 1.68 billion. During the same period, PTC generated Government revenue in excess of Rs 53 billion in the form Of duties and taxes. While we are delighted to contribute such substantial funds for national development, this highly unsatisfactory situation for PTC needs to be addressed urgently.

PTC has always been known as a highly ethical and responsible company in line with good corporate governance. In the absence of a 'level playing field' due to tax evasion -- and the resulting artificially low selling prices of our products as explained earlier -- we sincerely request the Government to lend their fullest support to the legal tobacco industry.

Finally, I would like to stress my firm belief that the abilities and commitment of our people are our greatest strengths. Ample testimony of this belief are our improved sales volume, the successful completion of a major restructuring program, and the injection of Rs 2.2 billion via a Right Issue as part of our recovery program during 2000. Together, we will strive to be the best in everything we do to overcome all current and future challenges.

With kind regards,

GOTTFRIED THOMA
Chairman & Chief
Executive

FINANCIAL HIGHLIGHTS

		<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
Volume	millions	21,360	18,694	22,115	20,599	21,318
Turnover	Rs millions	15,907	14,938	14,250	12,138	11,832
Excise and Sales Tax	"	9,790	9,345	8,846	7,703	7,804
Net Turnover	"	6,117	5,593	5,404	4,435	4,028
Operating Profit	"	316	344	92	8	139
(Loss) Before Tax	"	(854)	(108)	(281)	(246)	(39)
(Loss) After Tax	"	(884)	(136)	(308)	(268)	(59)
(Loss) Per Share Before Tax	Rs	(16.9)	(3.4)	(8.8)	(7.7)	(1.2)

(Loss) Per Share After Tax	Rs	(17.5)	(4.3)	(9.7)	(8.4)	(1.8)
Shareholders Funds	Rs millions	2,218	867	1,002	1,311	1,579
Capital Employed	"	2,430	1,324	1,414	1,710	1,843
Capital Expenditure	"	841	515	292	444	350
Government Levies						
Customs, Excise Duties and Sales Tax	Rs millions	10,230	9,927	9,356	8,110	8,290
Local Taxes and other Duties	"	74	83	47	48	46
Corporate Tax	"	31	28	27	22	20
Total	"	10,335	10,038	9,430	8,180	8,356

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2000

The Directors hereby present their Report and the Accounts for the year ended December 31, 2000 before the fifty-fourth Annual General Meeting of the Company to be held on June 12, 2001.

	<i>2000</i>	<i>1 999</i>
	<i>(Rs 000s)</i>	
(Loss) for the year	(884,474)	(135,699)
Unappropriated Profit Brought Forward	--	--
	-----	-----
Appropriation	(884,474)	(135,699)
Transfer from Revenue Reserve	547,427	135,699
	-----	-----
Accumulated Loss	(337,047)	--
	=====	=====

The operating performance for 2000 showed a slight decline, decreasing to Rs 316 million compared to Rs 344 million for 1999. This small decline is despite a substantial Rs 192 million increase in marketing expenses. As in prior years, our high debt levels resulted in a significant interest charge of Rs 409 million. Combined with restructuring costs of Rs 770 million (as discussed in the Chairman's Message), tax of Rs 31 million and other income of Rs 10 million, this generated a loss after taxation during the year ended December 31, 2000 of Rs 884 million.

Despite the sixth consecutive year of losses, there are some encouraging signs.

* A strong recovery in our sales volumes-up by 14% on 1999 levels.

* An improvement in our gross margins-up from 8.6% of gross turnover in 1999 to 9.3% in 2000.

* Reduced manufacturing costs -- the full year benefit of the restructuring exercise carried out in 2000 will be seen in 2001.

* A significant investment behind our brands -- an increase of 28% in marketing expenses versus last year.

The combined effect of all of the above should help us to see a significant improvement in our 2001 results when compared with the performance in 2000.

We are cautiously optimistic that we may even see a small profit after tax in 2001--for the first time since 1994.

Our commitment to re-establish Pakistan Tobacco Company as a stronger company remains on track and has the full support of our major shareholder, British American Tobacco. This support was evident in 2000 through the successful completion of the Rs 2.2 billion Right Issue, the vast majority of these funds coming from British American Tobacco. The proceeds from the Right Issue were used to invest heavily in building our brands, people and asset base.

Aside from marketing expenses as described above, there were no major growth areas in expenses. As part of our Head Office expenses, our salary bill actually declined by around 2% largely due to the reduction of staff as discussed in the Chairman's Message. We were also able to implement salary increases below inflation and with the full support of our staff who appreciated the financial situation the Company faced. Our travelling costs also increased by around 96% to just less than Rs 20 million. As with our brands, we have invested heavily behind our people in 2000. This has led to increased exposure of our people to businesses in other parts of the world. We have no doubt that this investment in people will help us further move towards international standards and world class performance!

We are pleased to report a significant reduction in working capital during the year. This has been achieved despite a 14% growth in sales volumes. The main area of improvement is in finished goods that at the end of 2000 were some Rs 244 million lower than at the end of 1999.

We also continued our investment in plant and machinery with some Rs 923 million invested in fixed assets to provide superior quality products to our consumers and to improve productivity in the long run. Despite this significant investment, our total debt fell by approximately Rs 1.3 billion to Rs 1.7 billion at December 31, 2000. This reduction is largely due to the proceeds of the Right Issue as described above.

Finally, we should like to record our appreciation for the significant contribution of all our employees during 2000 and request their ongoing commitment for the future. This was an exciting year and we all look forward to the challenges ahead and to winning in the market!

Given the loss reported, continued high debt and the need to retain cash in the business to fund our investment, the Board of Directors recommended that no dividend be paid for this financial year.

DIRECTORS

Mr. John Victor Richardson resigned from the Board with effect from 15th May 2000.
The Board is pleased to welcome Mr. Stephen Wayne Daintith, who joined the Board on 3rd July 2000 as Finance Director.

AUDITORS

The Auditors Messrs A. F. Ferguson & Co. retire and offer themselves for re-appointment.

HOLDING COMPANY

British American Tobacco (Investments) 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 December 31, 2000 is shown on page 40.

**On behalf of the
Board**

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**

Islamabad: April 10, 2001

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December 31, 2000 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management. as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

Companies Ordinance, 1984;

(b) in our opinion

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2000 and of the loss. its cash flows and changes in equity for the year then ended; and

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

Islamabad: April 12, 2001

A.F. FERGUSON & CO.
Chartered Accountants

PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2000

	<i>Note</i>	<i>2000</i>	<i>1999</i>
		<i>(Rs 000s)</i>	
TURNOVER		15,907,028	14,937,845
Less: Cost of sales	3	14,431,980	13,648,562
		-----	-----
GROSS PROFIT		1,475,048	1,289,283
Less: Marketing expenses	4	872,522	680,643
Administration expenses	5	286,752	264,192
		-----	-----
		1,159,274	944,835
		-----	-----

OPERATING PROFIT		315,774	344,448
Add: Other income	6	11,159	11,459
Less: Other expenses	7	771,467	53,612
		-----	-----
		(444,534)	302,295
Less: Financial charges	8	409,354	410,028
		-----	-----
(LOSS) BEFORE TAXATION		(853,888)	(107,733)
TAXATION			
Current - For the year		30,586	27,966
		-----	-----
(LOSS) AFTER TAXATION		(884,474)	(135,699)
APPROPRIATION			
Transfer from revenue reserves	24	547,427	135,699
ACCUMULATED (LOSS) CARRIED FORWARD		-----	-----
		(337,047)	--
		=====	=====
(Loss) Per Share	31	(Rs 17.49)	(Rs 4.25)

The annexed notes form an integral part of these accounts.

**GOTTFRIED
THOMA**
Chairman &
Chief Executive

F. W. VELLANI
Director

**BALANCE SHEET
AS AT DECEMBER 31, 2000**

	<i>Note</i>	<i>2000</i>	<i>1999</i>
		<i>(Rs 000s)</i>	
TANGIBLE FIXED ASSETS	10	2,421,086	1,805,236
LONG TERM INVESTMENT	11	5,000	5,000
LONG TERM LOANS	12	6,984	6,762
LONG TERM DEPOSITS AND PREPAYMENTS	13	3,168	1,273
CURRENT ASSETS			
Stores and spares	14	140,909	172,583
Stocks	15	2,591,731	2,875,207
Trade debts	16	11,717	91,053

Loans and advances	17	35,039	16,060
Prepayments and other receivables	18	353,603	255,292
Cash and bank balances	19	95,575	61,234
		-----	-----
		3,228,574	3,471,429
LESS: CURRENT LIABILITIES			
Current portion of long term loans	25	445,000	400,000
Short term finances and loans	20	1,050,543	2,149,870
Creditors, accrued and other liabilities	21	1,739,378	1,416,036
		-----	-----
		3,234,921	3,965,906
NET CURRENT (LIABILITIES)		(6,347)	(494,477)
		-----	-----
		2,429,891	1,323,794
		=====	=====
FINANCED BY:			
SHARE CAPITAL			
Authorised capital	22	3,000,000	320,000
Issued, subscribed and paid-up capital	23	2,554,938	319,367
REVENUE RESERVES	24	--	547,427
ACCUMULATED (LOSS)		(337,047)	--
		-----	-----
SHAREHOLDERS' EQUITY		2,217,891	866,794
LONG TERM LOANS	25	200,000	445,000
DEFERRED TAXATION	26	12,000	12,000
COMMITMENTS AND CONTINGENCIES	27		
		-----	-----
		2,429,891	1,323,794
		=====	=====

The annexed notes form an integral part of these accounts.

**GOTTFRIED
THOMA**
Chairman &
Chief Executive

F. W. VELLANI
Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2000**

2000 **1999**
(Rs 000s)

**CASH FLOW FROM OPERATING
ACTIVITIES**

Cash receipts from customers	15,986,364	14,859,002
Cash paid to Government for cigarette and tobacco excise duty, sales tax and other levies	(10,400,902)	(9,659,583)
Cash paid to suppliers	(3,500,907)	(3,858,260)
Cash paid to employees, provident and retirement funds	(1,644,997)	(775,840)
Income tax paid	(13,849)	(41,651)
Interest received on bank deposits	2,070	--
Other cash (payments)/receipts	(4,221)	12,845
	-----	-----
	423,558	536,513
	-----	-----

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of tangible fixed assets	(840,773)	(514,659)
Proceeds from sale of fixed assets	21,155	10,985
	-----	-----
	(819,618)	(503,674)
	-----	-----

CASH FLOW FROM FINANCING ACTIVITIES

Receipt from issue of right shares	2,235,571	--
Repayment of lease obligations	--	(16,782)
Long term loans (repaid)/received	(200,000)	25,000
Short term loans (repaid)/received	(1,079,850)	484,048
Long term deposits, prepayments and loans	(2,170)	640
Cash paid to Phoenix (Private) Limited	(645)	(622)
Financial charges paid	(503,028)	(378,424)
	-----	-----
	449,878	113,860
	-----	-----

NET INCREASE IN CASH AND CASH EQUIVALENTS

	53,818	146,699
--	--------	---------

CASH AND CASH EQUIVALENTS AT JANUARY 1

	(908,788)	(1,055,487)
--	-----------	-------------

CASH AND CASH EQUIVALENTS AT DECEMBER 31

	(854,970)	(908,788)
	=====	=====

CASH AND CASH EQUIVALENTS COMPRISE:

Cash and bank balances	95,575	61,234
Short term finances	(950,545)	(970,022)
	-----	-----
	(854,970)	(908,788)
	=====	=====

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2000**

(Rs 000s)

	<i>Share Capital</i>	<i>Revenue Reserves</i>	<i>Accumulated (Loss)</i>	<i>Total</i>
BALANCE AT DECEMBER 31, 1	319,367	683,126	--	1,002,493
Loss for the year	--	--	(135,699)	(135,699)
Transfer from revenue reserves to profit and loss account	--	(135,699)	135,699	--
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1	319,367	547,427	--	866,794
Issue of right shares	2,235,571	--	--	2,235,571
Loss for the year	--	--	(884,474)	(884,474)
Transfer from revenue reserves to profit and loss account	(547,427)	547,427	--	--
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2	2,554,938	--	(337,047)	2,217,891
	=====	=====	=====	=====
	=	=====	=====	=====

The annexed notes form an integral part of these accounts.

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2000**

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. The edible oil operations were discontinued during the year.

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 on 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 (See note 26).

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, 1999. The fair values of the Schemes' assets and liabilities at the latest actuarial valuation date were Rs 554.621 million and Rs 623.049 million respectively. The projected unit credit actuarial cost 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 (See note 28).

ii) approved contributory Provident Fund for all employees.

2.4 Tangible 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.

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.

	<i>2000</i>	<i>1999</i>
	<i>(Rs 000s)</i>	
3. COST OF SALES		
Opening stock of raw materials and work in progress	2,439,836	2,096,378
Raw material purchases and expenses (Note 3.1)	2,955,053	3,164,281
Closing stock of raw materials and work in progress	(2,401,189)	(2,439,836)
Government taxes and levies		
Cigarette and tobacco excise duty and sales tax	9,882,727	9,588,262
Customs duty and surcharges	346,909	339,163
Provincial and municipal taxes and other excise duties	74,284	82,540
	-----	-----
	10,303,920	10,009,965
	-----	-----
	13,297,620	12,830,788
Production overheads		
Salaries, wages and benefits	458,341	456,827
Stores, spares and machine repairs	198,842	174,940

Fuel and power	68,540	66,988
Property and vehicle rentals	388	1,178
Insurance	10,625	13,461
Repairs and maintenance	8,795	9,320
Postage, telephone and stationery	7,281	7,288
Depreciation	125,562	108,096
Sundries	11,157	2,677
	-----	-----
	889,531	840,775
	-----	-----
Cost of goods manufactured	14,187,151	13,671,563
Cost of finished goods		
Opening stock	435,371	412,370
Closing stock	(190,542)	(435,371)
	-----	-----
	244,829	(23,001)
	-----	-----
	14,431,980	13,648,562
	=====	=====

3.1 RAW MATERIAL PURCHASES AND EXPENSES

Materials	2,635,987	2,862,592
Salaries, wages and benefits	138,367	144,201
Stores, spares and machine repairs	56,293	53,509
Fuel and power	45,497	41,916
Property and vehicle rentals	11,592	10,595
Insurance	5,188	3,906
Repairs and maintenance	4,842	6,212
Postage, telephone and stationery	3,856	4,162
Depreciation	40,835	27,935
Sundries	12,596	9,253
	-----	-----
	2,955,053	3,164,281
	=====	=====

4. MARKETING EXPENSES

Salaries, wages and benefits	77,099	69,847
Selling expenses	650,113	469.31
Freight	55,844	64,340
Property and vehicle rentals	4,631	4,965
Insurance	8,236	5.74
Repairs and maintenance	32,758	26,071
Postage, telephone and stationery	8,038	7,916
Travelling	21,587	18,499
Depreciation	14,216	13,949

-----	-----
872,522	680,643
=====	=====

5. ADMINISTRATION EXPENSES

Salaries, wages and benefits	107,564	110.20
Fuel and power	2,549	2,123
Property and vehicle rentals	10,668	9.50
Insurance	687	805
Repairs and maintenance	20,157	14.83
Postage, telephone and stationery	11,213	12,292
Legal and professional charges	12,553	4.41
Provincial and municipal taxes	532	433
Donations (Note 5.1)	1,401	1,210
Travelling	19,822	10,168
Depreciation	22,121	22,895
Sundries	73,336	71,708
Auditors' remuneration and expenses		
Statutory audit	450	400
Special certifications, audit of consolidated accounts, half yearly accounts and staff funds	996	971
Tax and other consultancy services	2,573	2,075
Out-of-pocket expenses	130	127
	-----	-----
	4,149	3,573
	-----	-----
	286,752	264,192
	=====	=====

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

6. OTHER INCOME

Insurance commission	1,950	1,224
Interest on bank deposits	2,070	--
Profit on disposal of fixed assets	--	6,234
Miscellaneous	7,139	4,001
	-----	-----
	11,159	11,459
	=====	=====

7. OTHER EXPENSES

Staff separation scheme	769,834	41,612
Loss on disposal of fixed assets	1,034	--
Miscellaneous	599	12,000
	-----	-----
	771,467	53,612

8. FINANCIAL CHARGES

On short term finances and loans	379,153	348.49
On long term loans	21,589	51,190
On leasing finance	--	1,250
Bank charges and fees	8,612	9,103
	-----	-----
	409,354	410,028
	=====	=====

9. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	<i>Chief Executive</i>		<i>Directors</i>		<i>Executives</i>		<i>Total</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
Managerial remuneration	1,553	1,387	11,786	7,555	136,069	118,142	149,408	127,084
Leave fare assistance	1,300	383	4,242	2,301	--	--	5,542	2,684
Retirement benefits	--	--	2,027	1,244	73,004	69,046	75,031	70,290
Housing and utilities	1,128	1,080	5,242	3,997	63,551	54,207	69,921	59,284
Medical expenses	--	31	356	303	10,446	8,789	10,802	9,123
	-----	-----	-----	-----	-----	-----	-----	-----
	3,981	2,881	23,653	15,400	283,070	250,184	310,704	268,465
	=====	=====	=====	=====	=====	=====	=====	=====
Number of persons	1	1	6	6	578	403	585	410
	=====	=====	=====	=====	=====	=====	=====	=====

9.1 The Company also, in certain cases, provides individuals 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 (1999: Rs 1,500) were paid to one (1999: one) non-executive director for attending board meetings during the year.

2000

1999

(Rs 000s)

10. TANGIBLE FIXED ASSETS

Operating fixed assets (Note 10.1)	2,260,182	1,562,599
Capital work in progress (Note 10.2)	160,904	242,637
	-----	-----
	2,421,086	1,805,236
	=====	=====

10.1 Operating fixed assets

	<i>COST</i>				<i>DEPRECIATION</i>				<i>(Rs. 000s)</i>	
								<i>Cost less depreciation</i>		
	<i>At</i>	<i>Additions</i>	<i>Disposals</i>	<i>At</i>	<i>At</i>	<i>Charge</i>	<i>On</i>	<i>At</i>	<i>at</i>	
<i>01.01.2000</i>			<i>31.12.2000</i>	<i>01.01.2000</i>	<i>for the</i>	<i>disposals</i>	<i>31.12.2000</i>	<i>31.12.2000</i>		
Freehold:										
land	3,777	2,124	--	5,901	--	--	--	5,901		
buildings	196,487	29,877	(284)	226,080	51,589	6,139	(75)	57,653	168,427	
Leasehold:										
buildings	12,962	58	(730)	12,290	8,003	929	(724)	8,208	4,082	
Private railway sidings	354	--	--	354	311	4	--	315	39	
Plant and machinery	1,866,629	824,397	(34,243)	2,656,783	596,181	143,183	(15,897)	723,467	1,933,316	
Office and household machinery and equipment	113,265	18,227	(9,928)	121,564	63,062	17,120	(8,832)	71,350	50,214	
Furniture and fittings	26,973	751	(194)	27,530	18,613	1,660	(161)	20,112	7,418	
Vehicles	175,637	47,072	(13,250)	209,459	95,726	33,699	(10,751)	118,674	90,785	
	-----	-----	-----	-----	-----	-----	-----	-----	-----	
Total	2,396,084	922,506	(58,629)	3,259,961	833,485	202,734	1,364,401	999,779	2,260,182	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	
1999	2,141,192	381,014	(126,122)	2,396,084	680,683	172,875	(20,073)	833,485	1,562,599	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	

2000

1999

(Rs 000s)

10.2 Capital work in progress

Civil works and buildings	2,599	15,607
Plant and machinery	37,449	176,214
Advances to suppliers	16,305	4,351

Machinery and fixtures in transit/storage	104,551	46,465
	-----	-----
	160,904	242,637
	=====	=====

10.3 Sale of tangible fixed assets

(Rs 000s)

	<i>Original Cost</i>	<i>Accumulate d Depreciatio n</i>	<i>Book Value</i>	<i>Sale Proceeds</i>	<i>Particulars of Buyers</i>	<i>Mode of Disposal</i>
Plant & Machine	11	9	2	9	Idrees Shakir, Ex-employee	By Negotiation
Plant & Machine	10,034	2.32	7.71	8,063	Morning Enterprises - Lahore	By Negotiation
Office Equipmen	179	161	18	13	Minhaj Auction Centre - Rawalpi	By Negotiation
Office Equipmen	27	10	17	11	Hot Communication Islamabad	By Negotiation
Office Equipmen	61	42	19	70	Akhtar Alam - Akora Khattak	By Negotiation
Household Furni	24	21	3	5	Dre Ostrom, Ex-employee	By Negotiation
Airconditioner s	58	52	6	36	Gulberg Household Traders - Lah	By Negotiation
Vehicle	831	692	139	358	Bakhtiar Ahmed Toor, Ex-employ	As per company policy
Vehicle	399	341	58	165	Said Ahmed Khan, Ex-employee	As per company policy
Vehicle	544	490	54	54	Gul Nawab, Ex-employee	As per company policy
Vehicle	64	58	6	6	Khalid Siddiqui, Employee	As per company policy
Vehicle	61	55	6	6	Nadeem Akram, Employee	As per company policy
Vehicle	62	56	6	6	Mohammad Tahir, Employee	As per company policy
Vehicle	69	62	7	17	Khurshid Ahmed, Ex-employee	As per company policy
Vehicle	67	52	15	33	Adeel Ahmed, Ex-employee	As per company policy
Vehicle	69	43	26	40	Khalid Nasir, Ex-employee	As per company policy
Vehicle	73	24	49	59	Raja Saeed, Employee	As per company policy
Vehicle	72	26	46	49	Pervaiz Ansar Siddiqui, Ex-emplo	As per company policy
Vehicle	72	26	46	51	Zia Khaliq Chughtai, Ex employee	As per company policy
Vehicle	64	24	40	48	Idrees Shakir, Ex-employee	As per company policy
Vehicle	434	163	271	43	Ayaz Ahmed, Employee	As per company policy
Vehicle	55	6	49	55	Mian Masood Ahmed, Employee	As per company policy
Vehicle	62	56	6	6	Muzaffar Ali, Employee	As per company policy
Vehicle	47	42	5	5	Islam Siddiqui, Employee	As per company policy
Vehicle	56	7	49	56	Ahmed Nawaz, Employee	As per company policy

Vehicle	61	55	6	6 Amanullah, Employee	As per company policy
Vehicle	58	52	6	6 Jangrez Khan, Employee	As per company policy
Vehicle	57	52	5	6 Naseer Khan, Employee	As per company policy

11. LONG TERM INVESTMENT

This represents 500,001 (1999: 500,001) fully paid ordinary shares of Rs 10 each in Phoenix (Private) Limited. The break up value of shares calculated by reference to net assets was calculated to be Rs 10 per share based on audited accounts for the year ended December 31, 2000 (1999: Rs 10 per share).

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

2000 **1999**
(Rs 000s)

12. LONG TERM LOANS

Considered good

Loans due from directors and executives	8,352	8,077
Less: Receivable within one year (Note 17)	1,368	1,315
	-----	-----
	6,984	6,762
	=====	=====

The above comprises of interest free loans amounting to Rs 0.477 million (1999: Rs 0.344 million) and Rs 7.875 million (1999: Rs 7.733 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 installments.

The maximum amounts due from the directors and executives at the end of any month during the year were Rs 0.532 million and Rs 8.143 million respectively (1999: directors Rs 0.435 million and executives Rs 8.476 million).

13. LONG TERM DEPOSITS AND PREPAYMENTS

Security deposits	971	837
Prepayments	2,197	436
	-----	-----
	3,168	1,273
	=====	=====

14. STORES AND SPARES

Stores	3,506	5,400
Machine spares - Cigarette production	130,014	155,369
- Printing	1,955	1,686
- Leaf redrying	5,434	10,128
	-----	-----
	140,909	172,583

15. STOCKS

Raw materials	2,303,297	2,389,857
Raw materials in transit	79,323	39,470
Work in progress	18,569	10,509
Finished goods	190,542	435,371
	-----	-----
	2,591,731	2,875,207
	=====	=====

16. TRADE DEBTS

All trade debts are unsecured and considered good.

17. LOANS AND ADVANCES

Considered good		
Loans due from directors and executives (Note 12)	1,368	1,315
Advances due from employees (Note 17.1)	9,989	4,369
Advances due from others	23,682	10,376
	-----	-----
	35,039	16,060
	=====	=====

17.1 The above includes Rs 6.313 million (1999: Rs 3.084 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 8.048 million (1999: Rs 7.847 million).

18. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments	32,250	20,467
Due from Phoenix (Private) Limited - a subsidiary (Note 18.1)	20,670	28,933
Income tax	149,470	166,207
Claims - considered good	21,367	12,438
Employee's provident fund	51,781	1,540
Management provident fund	7,540	1,514
Employee's gratuity fund	38,523	344
Staff pension fund	2,673	--
Others	29,329	23,849
	-----	-----
	353,603	255,292
	=====	=====

18.1 The aggregate maximum amount due from associated company at the end of any month during the year was Rs 20.670 million (1999: Rs 28.933 million).

19. CASH AND BANK BALANCES

On hand	7,900	8,468
---------	-------	-------

In transit	25,525	30,337
At banks on current accounts	56,608	19,982
	-----	-----
	90,033	58,787
Security deposits - held in special account (Note 21)	5,542	2,447
	-----	-----
	95,575	61,234
	=====	=====

20. SHORT TERM FINANCES AND LOANS

Short term finances - Secured		
Under mark-up arrangements with banks (Note 20.1)	950,545	970,022
Short term loans - Secured		
Under mark-up arrangements with banks for deferred leaf purchase voucher scheme (Note 20.1)	99,998	149,988
Short term loan from a bank - Secured	--	50,000
Short term loan from British American Tobacco (Investments) Limited, United Kingdom - Unsecured	--	979,860
	-----	-----
	1,050,543	2,149,870
	=====	=====

20.1 The daily rate of mark-up ranges between 30 and 38 paisa (1999:34 and 42 paisa) per thousand rupees and is payable quarterly.

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

20.3 Total facility available under mark-up arrangements amount to Rs 1,669 million (1999: Rs 1,589 million) out of which the amount unavailed at the year end was Rs 618 million (1999: Rs 469 million). The facilities are renewable annually.

21. CREDITORS, ACCRUED AND OTHER LIABILITIES

Excise duties/Provincial taxes	380,530	464,778
Sales tax	139,318	152,052
Creditors (Note 21.1)	787,444	525,866
Accrued expenses	360,392	106,482
Mark-up on - short term finances and loans	33,319	32,388
- long term loans	--	30,058
Interest on short term loans	29,317	93,864
Security deposits (Note 19)	5,542	2,447
Staff pension fund	--	4,581
Unclaimed dividend	3,516	3,520
	-----	-----
	1,739,378	1,416,036
	=====	=====

21.1 Creditors include Rs 213.993 million (1999: Rs 67.766 million) payable to associated

companies.

22. AUTHORISED CAPITAL

Balance at the beginning of the year (32,000,000 ordinary shares of Rs 10 each)	320,000	320,000
Increase in authorised capital during the year (268,000,000 ordinary shares of Rs 10 each)	2,680,000	--
Balance at the end of the year (300,000,000: 1999:32,000,000 ordinary shares of Rs 10 each).	----- 3,000,000 =====	----- 320,000 =====

23. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Balance at the beginning of the year (31,936,724 ordinary shares of Rs 10 each including 25,136,724 bonus shares)	319,367	319,367
Shares issued during the year (223,557,068 ordinary shares of Rs 10 each)	2,235,571	--
Balance at the end of the year (255,493,792 ordinary shares of Rs 10 each including 25,136,724 bonus shares).	----- 2,554,938 =====	----- 319,367 =====

British American Tobacco (Investments) Limited held 241,045,141 ordinary shares of Rs 10 each at December 31, 2000 (1999: 20,240,875 shares).

24. REVENUE RESERVES

Balance at January 1	547,427	683,126
Transfer (to) profit and loss account	(547,427)	(135,699)
	----- -- =====	----- 547,427 =====

25. LONG TERM LOANS - SECURED

Term finance from banks (Note 25.1)	645,000	845,000
Less: shown under current liabilities	445,000	400,000
	----- 200,000 =====	----- 445,000 =====

25.1 Term finance facilities have been obtained from different banks on mark-up basis for purchase of plant & machinery and working capital requirements. The facilities are secured by hypothecation of plant & machinery. The facility amounting to Rs 75 million carries mark-up @ 16% per annum and is repayable on March 10, 2001. The remaining facilities carry floating mark-up @ last 6 months treasury bills auction rate plus 1.25% to 1.75% per annum and are repayable on various dates up to April 23, 2002. Amounts due within one year have been shown under current liabilities.

26. DEFERRED TAXATION

Considering potential tax benefit related to available tax losses there is no deferred tax liability at December 31, 2000 (1999: Rs Nil). However, the brought forward provision of Rs 12 million (1999: Rs 12 million) has been retained in the accounts.

27. COMMITMENTS AND CONTINGENCIES

27.1 Capital expenditure commitments outstanding at December 31, 2000 amounted to Rs 214 million (1999: Rs 194 million).

27.2 Claims not acknowledged as debt amounted to Rs 127 million (1999: Rs 46 million).

27.3 Guarantees issued by banks on behalf of the Company amounted to Rs 23 million (1999: Rs 17 million).

28. CONTRIBUTION TO PENSION AND GRATUITY SCHEMES

Salaries, wages and benefits in note 3, 4 and 5 include the following amounts in respect of pension and gratuity schemes:

Pension scheme	22,912	21,593
Gratuity scheme	37,557	20,912
	-----	-----
	60,469	42,505
	=====	=====

29. FINANCIAL ASSETS AND LIABILITIES

	<i>Interest bearing</i>			<i>Non-interest bearing</i>			<i>Total</i>
	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub Total</i>	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub Total</i>	
FINANCIAL ASSETS							
Long-term investment	--	--	--	--	5,000	5,000	5,000
Trade debts	--	--	--	11,717	--	11,717	11,717
Loans, deposits and other receivables	--	--	--	206,922	7,955	214,877	214,877
Cash and bank balances	5,542	--	5,542	90,033	--	90,033	95,575
	-----	-----	-----	-----	-----	-----	-----
	5,542	--	5,542	308,672	12,955	321,627	327,169
	=====	=====	=====	=====	=====	=====	=====
	=	=====	=====	=====	=====	=====	=====

FINANCIAL LIABILITIES

Term loans	445,000	200,000	645,000	--	--	--	645,000
Short term finances and loans	1,050,543	--	1,050,543	--	--	--	1,050,543
Creditors, accrued and other liabilities	--	--	--	1,739,378	--	1,739,378	1,739,378
Commitments	--	--	--	214,024	--	214,024	214,024
Bank guarantees	--	--	--	22,641	--	22,641	22,641
	-----	-----	-----	-----	-----	-----	-----
	1,495,543	200,000	1,695,543	1,976,043	--	1,976,043	3,671,586
	=====	=====	=====	=====	=====	=====	=====
	=	=====	=====	=====	=====	=====	=====

29.1 Credit risk

Since the major part of sales of the company is against advance payment, the credit risk is minimal.

29.2 Interest rate risk

Interest bearing financial liabilities include Rs 75 million which are subject to fixed interest rate of 16% per annum and Rs 1,621 million which are subject to floating interest rates ranging between 11% to 14.25% per annum.

29.3 Foreign exchange risk

The company hedges the foreign currency risk on its foreign currency payables through forward exchange contracts.

29.4 Fair value of financial assets and liabilities

The carrying values of financial assets and liabilities approximate their fair values.

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

a) The audited accounts of the Company's wholly owned subsidiary Phoenix (Private) Limited for the year ended December 31, 2000 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, 2000 was 100% (1999: 100%).

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

2000 **1999**
(Rs 000s)

31. (LOSS) PER SHARE

(Loss) after tax	(884,474)	(135,699)
Weighted average number of ordinary shares	50,566	31,937

(Loss) per share	Rs (17.49)	Rs (4.25)
------------------	------------	-----------

**32.
GENERAL**

32.1 Transactions with associated companies

Aggregate transactions with associated companies during the year were as follows:

Sale of goods	162,160	78,280
Purchase of goods and services	218,229	414,645
Interest expense	87,520	42,744
Royalty expense	163,296	140,065

32.2 Capacity and production

Against an estimated manufacturing capacity of 20,219 (1999: 20,940) million cigarettes. actual production was 20,892 (1999: 18,444) million cigarettes which included 1,887 million cigarettes (1999: 1,112 million) produced through outside manufacturing sources. Actual production was sufficient to meet market demand.

32.3 Number of employees

Number of employees at December 31	2,105	3,169
------------------------------------	-------	-------

32.4 Corresponding figures

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison.

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**

**PATTERN OF SHAREHOLDING
AS AT DECEMBER 31, 2000**

<i>No. of Shareholders</i>	<i>Categories</i>			<i>Total Shares</i>	
1,532	From	1	To	100	50,457
1,515	From	101	To	500	435,007
594	From	501	To	1,000	422,588
513	From	1,001	To	5,000	1,101,555
54	From	5,001	To	10,000	378,940
15	From	10,001	To	15,000	192,673
8	From	15,001	To	20,000	144,725
7	From	20,001	To	25,000	156,508
3	From	25,001	To	30,000	86,200

3	From	30,001	To	35,000	95,918
3	From	35,001	To	40,000	112,863
1	From	40,001	To	45,000	44,266
3	From	45,001	To	50,000	146,916
1	From	50,001	To	55,000	51,761
1	From	55,001	To	60,000	58,000
1	From	60,001	To	65,000	60,961
2	From	70,001	To	75,000	145,106
1	From	75,001	To	80,000	76,509
1	From	80,001	To	85,000	84,173
1	From	95,001	To	100,000	100,000
1	From	105,001	To	110,000	106,084
1	From	115,001	To	120,000	120,000
1	From	140,001	To	145,000	145,000
2	From	165,001	To	170,000	337,633
2	From	195,001	To	200,000	400,000
1	From	205,001	To	210,000	207,667
1	From	220,001	To	225,000	223,500
2	From	225,001	To	230,000	456,000
1	From	270,001	To	275,000	273,500
1	From	370,001	To	375,000	370,500
1	From	395,001	To	400,000	400,000
1	From	410,001	To	415,000	412,194
1	From	535,001	To	540,000	535,509
1	From	640,001	To	645,000	640,936
1	From	795,001	To	800,000	798,282
1	From	995,001	To	1,000,000	1,000,000
1	From	1,805,001	To	1,810,000	1,807,420
1	From	2,265,001	To	2,270,000	2,269,300
1	From	241,045,001	To	241,050,000	241,045,141

4,281
=====

255,493,792
=====

Categories of Shareholders

	Number	Shares Held	%
Individuals	4,174	3,903,163	1.5
Investment Companies	8	386,121	0.2
Insurance Companies	13	1,457,257	0.6
Joint Stock Companies	40	2,782,219	1.1
Financial Institutions	16	4,310,857	1.7
Charitable Institutions	8	744,467	0.2
Government Organisations	3	41	--
Foreign Investors	13	241,904,091	94.7
Co-operative Societies	3	3,488	--
Modaraba Company	2	1,122	--

Others	1	966	--
	-----	-----	-----
Total	4,281	255,493,792	100.0
	=====	=====	=====

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the fifty-fourth Annual General Meeting of Pakistan Tobacco Company Limited ("the Company") will be held in the Multipurpose Hall of the Saudi Pak Tower, 61/A Jinnah Avenue, Islamabad on Tuesday, 12th June, 2001 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 2000, and the Report of the Directors and Auditors thereon.
2. To appoint Auditors and to fix their remuneration.

B. SPECIAL BUSINESS

1. The Company has decided to reorganize its Board in line with good corporate governance and increase the number of non-executive directors sitting on the Board. This will considerably enhance the ability of the Board to be and to be seen as independent and objective. However, as there does not exist any mid-term mechanism under the regulatory system to achieve this objective, the Company has decided to request its current directors to resign and for new elections to be held. Hence the members will also be requested to approve the increase in the number of Directors from 9 to 15 as recommended by the Board of Directors.
2. To elect 15 directors in accordance with the provisions of Article 71 and 72 of the Articles of Association of the Company to fill in the vacant positions resulting from the resignations effective from 5.00 p.m. on June 12, 2001 of the present directors and to accommodate an increase in the number of directors. The term of the office of the directors so elected shall be for three years with effect from 5.00 p.m. on June 12, 2001, and expire at 5.00 p.m. on June 12, 2004. The directors who have submitted their resignations are Messrs Gottfried Thoma, Aslam Khaliq, Zafar Ahmed Taji, Marco Antonio Novoa, Fatehali Walimuhamad Vellani, Charles Richard Green, Alain Daniel Victor Schacher, Dr. Anjad Waheed, and Stephen Wayne Daintith.
3. To approve the deletion of Article 56 of the Articles of Association so as to bring the requirement for the qualification of a director in conformity with section 187 of the Companies Ordinance 1984. Therefore as per Section 187 no person shall be appointed as a director of a company if he is not a member. (A statement under section 160 (1)(b) of the Companies Ordinance 1984 pertaining to the special business is being sent to the shareholders with this notice).
4. To approve the amendment in Article 57(a) in order to allow ordinary remuneration for the non-executive directors to be fixed by the Board of the Directors. (A statement under section 160 (1)(b) of the Companies Ordinance 1984 pertaining to the special business is being sent to the

shareholders with this notice).

By Order of the Board

**Tajamal Shah
Company Secretary**

Islamabad: May 12, 2001.

N.B.

(1) 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 of the Company.

(2) 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.

(3) Attending of general meeting by account holders, sub-account holders or persons whose securities are in group account and their registration details are uploaded to Central Depository System ("CDS"):-

A) In person:

i) The Company shall obtain list of beneficial owners from the Central Depository Company ("CDC") as per Regulation 12.3.5. of the CDC Regulations;

ii) In the case of individuals, authenticate his identity by showing his/her National Identity Card (NIC) or original Passport at the time of the meeting; and

iii) In the case of a corporate entity provide the Board of Directors' Resolution/Power of Attorney with specimen signatures of the nominee at the time of the meeting.

By Proxy:

i) In case of individuals shall submit the proxy form as per requirement notified in Note 2 above.

ii) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be stated on the form.

iii) Attested copies of NIC or the passport of the beneficial owners and proxy furnished with the proxy form.

iv) The proxy shall produce his original NIC or original passport at the time of the meeting.

v) In case of a corporate entity, the Board of Directors' Resolution/Power of

Attorney with specimen signatures shall be submitted with the proxy form to the Company.

(4) The Share Transfer Books of the Company will be closed from 5th June, 2001 to 12th June 2001 both days inclusive. Transfers received in order at the office of the Company's Share Registrar, Ferguson Associates (Pvt) Ltd, State Life Building 1-A, 1.1. Chundrigar Road, Karachi, by 4th June, 2001 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.

Statement under Section 160 of the Companies Ordinance, 1984

The following statements are annexed to the Notice of the fifty-fourth Annual General Meeting of the Company to be held on 12th June, 2001 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 by the shareholders of an increase in the number of directors from 9 to 15 and for the election of all the nominated directors by the Board of Directors.

For this purpose, subject to election of directors, the following Special Resolution will be moved at the Meeting:-

"RESOLVED THAT the increase in the number of elected directors of the Company from 9 to 15 be and is hereby approved.

Note 2.

The directors recommend that Article 56 of the Articles of Association of the Company be deleted. Compliance with Section 187 of the Companies Ordinance 1984 is already provided for in Article 55 and it is felt that no further membership qualification is called for. This will facilitate the election of potentials non-executive directors to the Board. For this purpose, the following Special Resolution is proposed to be passed at the Annual General Meeting of the Company to be held on 12th June at 11.00 a.m.

RESOLVED THAT Article 56 of the Company's Articles of Association be and is hereby deleted.

Note 3.

The directors recommend that Article 57(A) of the Articles of Association be amended to change the ordinary remuneration for the non-executive directors. For this purpose, the following Special Resolution is proposed to be passed at the Annual General Meeting of the Company to be held on 12th June 2001 at 11.00 a.m.

RESOLVED THAT clause (c) of Article 57 of the Company's Article of Association be and is hereby amended by substituting for the words "rupees five hundred per meeting of the Board of Directors or a Committee of such Board attended by him" the words "such amount as may be fixed from time to time by the Board of Directors or a committee of such Board set up for this purpose".

**SUBSIDIARY COMPANY
PHOENIX
(PRIVATE) LIMITED**

BOARD OF DIRECTORS

MASOOD AHMED

Chief
Executive

MARCO ANTONIO NOVOA

Director

MAHBOOB AHMAD

Director

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, 2000**

The Directors have pleasure in presenting their report together with the Audited Accounts of the Company for the year ended December 31, 2000.

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

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

On behalf of the

Board

MASOOD AHMED
Chief Executive

MARCO NOVOA
Director

Islamabad: April 10, 2001

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Phoenix (Private) Limited as at December 31, 2000 and the related 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

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements, An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

(b) in our opinion

(i) the balance sheet 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 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 conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2000 and its 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 (XVIII of 1980).

Islamabad: April 12, 2001

A.F. FERGUSON & CO.
Chartered Accountants

BALANCE SHEET AS AT DECEMBER 31, 2000

	<i>Note</i>	<i>2000</i> <i>(Rs 000s)</i>	<i>1999</i>
FIXED ASSETS	3	25,692	33,860
PRELIMINARY EXPENSES	4	1	96
CURRENT ASSETS			
Balance with a bank in current account		4	4
LESS: CURRENT LIABILITIES			
Creditors, accrued and other liabilities	5	20,697	28,960
NET CURRENT (LIABILITIES)		----- (20,693)	----- (28,956)
		----- 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.

MASOOD AHMED
Chief Executive

MARCO NOVOA
Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<i>2000</i> <i>(Rs 000s)</i>	<i>1999</i>
CASH FLOW FROM INVESTING ACTIVITIES		
Capital Work-in-Progress	(644)	(615)
CASH FLOW FROM FINANCING ACTIVITIES		
Cash received from Pakistan Tobacco Company Limited	645	622
Other cash payments	(1)	(7)
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	--	--
CASH AND CASH EQUIVALENTS AT JANUARY 1	4	4
	-----	-----
CASH AND CASH EQUIVALENTS AT DECEMBER 31	4	4
	=====	=====

MASOOD AHMED
Chief Executive

MARCO NOVOA
Director

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2000**

1. THE COMPANY AND ITS OPERATIONS

Phoenix (Private) Limited was incorporated on March 9, 1992 in Azad Kashmir as a wholly owned 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 & 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

Capital work-in-progress and freehold land are stated at cost.

	<i>2000</i>	<i>1999</i>
	<i>(Rs 000s)</i>	
3. FIXED ASSETS		
Operating fixed assets - freehold land	3,364	3,364
Capital work-in-progress:		
Civil and electrical works	12,561	12,561
Plant and machinery	9,121	9,121
Advances to suppliers	2	2
Pre-operating expenses	9,456	8,812
	-----	-----
	31,140	30,496
Pre-operating expenses transferred to Pakistan Tobacco Company Limited account	(8,812)	--
	-----	-----
	25,692	33,860
	=====	=====
4. PRELIMINARY EXPENSES		
Legal fees	16	15
Registration fees	81	81
	-----	-----
	97	96
Preliminary expenses transferred to Pakistan Tobacco Company Limited account	(96)	--
	-----	-----
	1	96
	=====	=====
5. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Due to Pakistan Tobacco Company Limited	20,670	28,933
Others	27	27
	-----	-----

20,697

28,960

6. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

500,001 ordinary shares (1999:500,001 ordinary shares) of Rs 10 each. All the shares of the Company are held by Pakistan Tobacco Company Limited.

7. FINANCIAL ASSETS AND LIABILITIES

*Non-interest
bearing*

*Maturity
up to one
Year
(Rs 000s)*

FINANCIAL ASSETS

Cash and bank balances

4

4

FINANCIAL LIABILITIES

Creditors, accrued and other liabilities

20,697

20,697

7.1 Fair value of financial assets and liabilities

The carrying values of financial assets and liabilities approximate their fair values.

8. CORRESPONDING FIGURES

Corresponding figures have been rearranged, wherever necessary, for the purposes of comparison.

MASOOD AHMED
Chief Executive

MARCO NOVOA
Director

**PATTERN OF SHAREHOLDING
AS AT DECEMBER 31, 2000**

*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	
=====				=====	

<i>Categories of Shareholders</i>	<i>Number</i>	<i>Shares Held</i>	<i>%</i>
Individuals-nominees of Pakistan Tobacco Company Ltd.	3	15,000	3.0
Joint Stock Company	1	485,001	97.0
	-----	-----	-----
	4	500,001	100.0
	=====	=====	=====

CONSOLIDATED REPORT AND ACCOUNTS 2000

AUDITORS' REPORT TO THE MEMBERS

We have examined the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan Tobacco Company Limited (PTC) and its subsidiary company as at December 31, 2000 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year ended December 31, 2000. These financial statements are the responsibility of PTC's management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was made in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements examined by us present fairly the financial position of Pakistan Tobacco Company Limited and its subsidiary company consolidated therein as at December 31, 2000 and the results of their operations for the year then ended.

Islamabad: April 12, 2001

A.F. FERGUSON & CO.
Chartered Accountants

CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2000

<i>Note</i>	<i>2000</i>	<i>1999</i>
		(Rs 000s)

TURNOVER		15,907,028	14,937,845
Less: Cost of Sale	3	14,431,980	13,648,562
		-----	-----
		1,475,048	1,289,283
GROSS PROFIT		872,522	680,643
Less: Marketing expenses	4	286,752	264,192
Administration expenses	5	-----	-----
		1,159,274	944,835
		-----	-----
		315,774	344,448
OPERATING PROFIT			
Add: Other income	6	11,159	11,459
Less: Other expenses	7	771,467	53,612
		-----	-----
		(444,534)	302,295
		409,354	410,028
Less: Financial Charges	8	-----	-----
		(853,888)	(107,733)
(LOSS) BEFORE TAXATION			
TAXATION		30,586	27,966
		-----	-----
Current - For the year		(884,474)	(135,699)
(LOSS) AFTER TAXATION			
APPROPRIATION			
Transfer from revenue reserves	23	547,427	135,699
		-----	-----
ACCUMULATED (LOSS) CARRIED FORWARD		(337,047)	--
		=====	=====
(Loss) Per Share	29	(Rs 17.49)	(Rs 4.25)

The annexed notes form an integral part of these accounts.

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**

**CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2000**

Note

2000

1999

(Rs 000s)

TANGIBLE FIXED ASSETS	10	2,446,778	1,830,284
LONG TERM LOANS	11	6,984	6,762
LONG TERM DEPOSITS AND PREPAYMENTS	12	3,168	1,273
CURRENT ASSETS			
Stores and spares	13	140,909	172,583
Stocks	14	2,591,731	2,875,207
Trade debts	15	11,717	91,053
Loans and advances	16	35,039	16,060
Prepayments and other receivables	17	332,934	226,359
Cash and bank balances	18	95,579	61,238
		-----	-----
		3,207,909	3,442,500
LESS: CURRENT LIABILITIES			
Current portion of long term loans	24	445,000	400,000
Short term finances and loans	19	1,050,543	2,149,870
Creditors, accrued and other liabilities	20	1,739,405	1,407,155
		-----	-----
		3,234,948	3,957,025
NET CURRENT (LIABILITIES)		(27,039)	(514,525)
		-----	-----
		2,429,891	1,323,794
		=====	=====
FINANCED BY:			
SHARE CAPITAL			
Authorised Capital	21	3,000,000	320,000
		=====	=====
Issued, subscribed and paid-up capital	22	2,554,938	319,367
REVENUE RESERVES	23	--	547,427
ACCUMULATED (LOSS)		(337,047)	--
		-----	-----
SHAREHOLDERS' EQUITY		2,217,891	866,794
LONG TERM LOANS	24	200,000	445,000
DEFERRED TAXATION	25	12,000	12,000
COMMITMENTS AND CONTINGENCIES	26		
		-----	-----
		2,429,891	1,323,794
		=====	=====

The annexed notes form an integral part of these accounts.

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<i>2000</i>	<i>1999</i>
	<i>(Rs 000s)</i>	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	15,986,364	14,859,002
Cash paid to Government for cigarette and tobacco excise duty, sales tax and other levies	(10,400,902)	(9,659,583)
Cash paid to suppliers	(3,500,907)	(3,867,175)
Cash paid to employees and provident and retirement funds	(1,644,997)	(775,840)
Income tax paid	(13,849)	(41,651)
Interest received on bank deposits	2,070	--
Other cash (payments)/receipts	(4,222)	12,941
	-----	-----
	423,557	527,694
	=====	=====
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of tangible fixed assets	(841,417)	(506,462)
Proceeds from sale of fixed assets	21,155	10,985
	-----	-----
	(820,262)	(495,477)
	=====	=====
CASH FLOW FROM FINANCING ACTIVITIES		
Receipts from issue of right shares	2,235,571	--
Repayment of lease obligations	--	(16,782)
Long term loans (repaid)/received	(200,000)	25,000
Short term loans (repaid)/received	(1,079,850)	484,048
Long term deposits, prepayments and loans	(2,170)	640
Financial charges paid	(503,028)	(378,424)
	-----	-----
	450,523	114,482
	=====	=====

NET INCREASE IN CASH AND CASH EQUIVALENTS	53,818	146,699
CASH AND CASH EQUIVALENTS AT JANUARY 1	(908,784)	(1,055,483)
	-----	-----
CASH AND CASH EQUIVALENTS AT DECEMBER 31	(854,966)	(908,784)
	=====	=====
Cash and bank balances	95,579	61,238
Short term finances	(950,545)	(970,022)
	-----	-----
	(854,966)	(908,784)
	=====	=====

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2000**

(Rs 000s)

	<i>Share Capital</i>	<i>Revenue Reserves</i>	<i>Accumulated (Loss)</i>	<i>Total</i>
BALANCE AT DECEMBER 31, 1	319,367	683,126	--	1,002,493
Loss for the year	--	--	(135,699)	(135,699)
Transfer from revenue reserves to profit and loss account	--	(135,699)	135,699	--
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1	319,367	547,427	--	866,794
Issue of right shares	2,235,571	--	--	2,235,571
Loss for the year	--	--	(884,474)	(884,474)
Transfer from revenue reserves to profit and loss account	--	(547,427)	547,427	--
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2	2,554,938	--	(337,047)	2,217,891
	=====	=====	=====	=====
	=	=====	=====	=====

The annexed notes form an integral part of these accounts.

GOTTFRIED

F.W. VELLANI

THOMA
Chairman &
Chief Executive

Director

NOTES TO AND FORMING PART OF THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2000

1. LEGAL STATUS AND OPERATIONS

Pakistan Tobacco Company Limited (the Company) is incorporated in Pakistan and is listed on the three stock exchanges of Pakistan. It is engaged in the manufacture and sale of cigarettes. The edible oil operations were discontinued during the year.

Phoenix (Private) Limited, which is a wholly owned subsidiary of the Company, is incorporated in Azad Kashmir, Pakistan to manage and deal in tobacco products and has not yet commenced its commercial production.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention and basis of consolidation

These accounts have been prepared under historical cost convention without any adjustment for the effect of inflation and include the accounts of Pakistan Tobacco Company Limited and its wholly owned subsidiary Phoenix (Private) Limited.

2.2 Taxation

Provision for current taxation is based on taxable income on 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 (see note 25).

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, 1999. The fair values of the Schemes' assets and liabilities at the latest actuarial valuation date were Rs 554.621 million and Rs 623.049 million respectively. The projected unit credit actuarial cost method using expected interest @ 12% per annum, salary increase @ 12% per annum and post retirement pension increase @ 6% per annum was 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 (See note 27).

ii) approved contributory Provident Fund for all employees.

2.4 Tangible 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.

2.5 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.

2.6 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.

2.7 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.

2.8 Revenue recognition

Sales are recorded on despatch of goods to customers.

	<i>2000</i>	<i>1999</i>
	<i>(Rs 000s)</i>	
3. COST OF SALES		
Opening stock of raw materials and work in progress	2,439,836	2,096,378
Raw material purchases and expenses (Note 3.1)	2,955,053	3,164,281
Closing stock of raw materials		

and work in progress	(2,401,189)	(2,439,836)
Government taxes and levies		
Cigarette and tobacco excise duty and sales tax	9,882,727	9,588,262
Customs duty and surcharges	346,909	339,163
Provincial and municipal taxes and other excise duties	74,284	82,540
	-----	-----
	10,303,920	10,009,965
	-----	-----
	13,297,620	12,830,788
Production overheads		
Salaries, wages and benefits	458,341	456,827
Stores, spares and machine repairs	198,842	174,940
Fuel and power	68,540	66,988
Property and vehicle rentals	388	1,178
Insurance	10,625	13,461
Repairs and maintenance	8,795	9,320
Postage, telephone and stationery	7,281	7,288
Depreciation	125,562	108,096
Sundries	11,157	2,677
	-----	-----
	889,531	840,775
	-----	-----
Cost of goods manufactured	14,187,151	13,671,563
Cost of finished goods		
Opening stock	435,371	412,370
Closing stock	(190,542)	(435,371)
	-----	-----
	244,829	(23,001)
	-----	-----
	14,431,980	13,648,562
	=====	=====
3.1 RAW MATERIAL PURCHASE AND EXPENSES		
Materials	2,635,987	2,862,592
Salaries, wages and benefits	138,367	144,201
Stores, spares and machine repairs	56,293	53,509
Fuel and power	45,497	41,916
Property and vehicle rentals	11,592	10,595
Insurance	5,188	3,906
Repairs and maintenance	4,842	6,212
Postage, telephone and stationery	3,856	4,162

Depreciation	40,835	27,935
Sundries	12,596	9,253
	-----	-----
	2,955,053	3,164,281
	=====	=====

4. MARKETING EXPENSES

Salaries, wages and benefits	77,099	69,847
Selling expenses	650,113	469,313
Freight	55,844	64,340
Property and vehicle rentals	4,631	4,965
Insurance	8,236	5,743
Repairs and maintenance	32,758	26,071
Postage, telephone and stationery	8,038	7,916
Travelling	21,587	18,499
Depreciation	14,216	13,949
	-----	-----
	872,522	680,643
	=====	=====

5. ADMINISTRATION EXPENSES

Salaries, wages and benefits	107,564	110,195
Fuel and power	2,549	2,123
Property and vehicle rentals	10,668	9,498
Insurance	687	805
Repairs and maintenance	20,157	14,825
Postage, telephone and stationery	11,213	12,292
Legal and professional charges	12,543	4,457
Provincial and municipal taxes	532	433
Donations (Note 5.1)	1,401	1,210
Travelling	19,822	10,168
Depreciation	22,121	22,895
Sundries	73,336	71,708
Auditors remuneration and expenses		
Statutory audit	460	410
Special certifications, audit of consolidated accounts half yearly accounts and staff funds	996	971
Tax and other consultancy services	2,573	2,075
Out-of-pocket expenses	130	127
	-----	-----
	4,159	3,583
	-----	-----
	286,752	264,192
	=====	=====

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

31.12.000	2,399,448	922,506	(58,629)	3,263,325	833,485	202,734	(36,440)	999,779	2,263,546
31.12.1999	2,144,56	381,014	(126,122)	2,399,448	680,683	172,875	(20,073)	833,485	1,565,963
				2000	1999				
				(Rs 000s)					

10.2 Capital work in progress

Civil works and buildings	15,160	28,168
Plant and machinery	47,214	185,335
Advances to suppliers	16,307	4,353
Machinery and fixtures in transit/storage	104,551	46,465
	183,232	264,321

10.3 Sale of tangible fixed assets

	<i>Original Cost</i>	<i>Accumulated Depreciation</i>	<i>Book Value</i>	<i>Sale Proceeds</i>	<i>Particulars of Buyers</i>	<i>Mode of Disposal</i>
Plant & Machinery	11	9	2		9 Idrees Shakir, Ex-employee	By Negotiation
Plant & Machinery	10,034	2,320	7,714		8,063 Morning Enterprises - Lahore	By Negotiation
Office Equipment	179	161	18		13 Minhaj Auction Centre - Rawalpi	By Negotiation
Office Equipment	27	10	17		11 Hot Communication Islamabad	By Negotiation
Office Equipment	61	42	19		70 Akhtar Alam - Akora Khattak	By Negotiation
Household Furniture & Equipmen	24	21	3		5 Dre Ostrom, Ex-employee	By Negotiation
Airconditioner s	58	52	6		36 Gulberg Household Traders - Lah	By Negotiation
Vehicle	831	692	139		Bakhtiar Ahmed Toor, Ex-358 employ	As per company policy
Vehicle	399	341	58		165 Said Ahmed Khan, Ex-employee	As per company policy
Vehicle	544	490	54		54 Gul Nawab, Ex-employee	As per company policy
Vehicle	64	58	6		6 Khalid Siddiqui, Employee	As per company policy

Vehicle	61	55	6	6 Nadeem Akram, Employee	As per company policy
Vehicle	62	56	6	6 Mohammad Tahir, Employee	As per company policy
Vehicle	69	62	7	17 Khurshid Ahmed, Ex-employee	As per company policy
Vehicle	67	52	15	33 Adeel Ahmed, Ex-employee	As per company policy
Vehicle	69	43	26	40 Khalid Nasir, Ex-employee	As per company policy
Vehicle	73	24	49	59 Raja Saeed, Employee	As per company policy
Vehicle	72	26	46	Pervaiz Ansar Siddiqui, Ex- 49 employ	As per company policy
Vehicle	72	26	46	Zia Khaliq Chughtai, Ex- 51 employee	As per company policy
Vehicle	64	24	40	48 Idrees Shakir, Ex-employee	As per company policy
Vehicle	434	163	271	43 Ayaz Ahmed, Employee	As per company policy
Vehicle	55	6	49	55 Mian Masood Ahmed, Employee	As per company policy
Vehicle	62	56	6	6 Muzaffar Ali, Employee	As per company policy
Vehicle	47	42	5	5 Islam Siddiqui, Employee	As per company policy
Vehicle	56	7	49	56 Ahmed Nawaz, Employee	As per company policy
Vehicle	61	55	6	6 Amanullah, Employee	As per company policy
Vehicle	58	52	6	6 Jangrez Khan, Employee	As per company policy
Vehicle	57	52	5	6 Naseer Khan, Employee	As per company policy

2000 **1999**
(Rs 000s)

11. LONG TERM LOANS

Considered good

Loan due from directors and executives	8,352	8,077
Less: Receivable within one year (Note 16)	1,368	1,315
	-----	-----
	6,984	6,762
	=====	=====

The above comprises of interest free loans amounting to Rs 0.477 million (1999: Rs 0.344 million) and Rs 7.875 million (1999: Rs 7.733 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 installments.

The maximum amounts due from the directors and executives at the end of any month during the year were Rs 0.532 million and Rs 8.143 million respectively (1999: directors Rs 0.435 million and executives Rs 8.476 million).

12. LONG TERM DEPOSITS AND PREPAYMENTS

Security deposits	971	837
Prepayments	2,197	436
	-----	-----
	3,168	1,273
	=====	=====

13. STORES AND SPARES

Stores	3,506	5,400
Machine spares - Cigarette production	130,014	155,369
- Printing	1,955	1,686
- Leaf redrying	5,434	10,128
	-----	-----
	140,909	172,583
	=====	=====

14. STOCKS

Raw materials	2,303,297	2,389,857
Raw material in transit	79,323	39,470
Work in progress	18,569	10,509
Finished goods	190,542	435,371
	-----	-----
	2,591,731	2,875,207
	=====	=====

15. TRADE DEBTS

All trade debts are unsecured and considered good.

16. LOANS AND ADVANCES

Considered good

Loans due from directors and executives (Note 11)	1,368	1,315
Advances due from employees (Note 16.1)	9,989	4,369
Advances due from others	23,682	10,376
	-----	-----
	35,039	16,060
	=====	=====

16.1 The above includes Rs 6.313 million (1999: Rs 3.084 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 8.048 million (1999: Rs 7.847 million).

17. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments	32,250	20,467
Income tax	149,470	166,207
Claims - considered good	21,367	12,438
Employees' provident fund	51,781	1,540
Management provident fund	7,540	1,514
Employees' gratuity fund	38,523	344
Staff pension fund	2,673	--
Others	29,330	23,849
	-----	-----
	332,934	226,359
	=====	=====

18. CASH AND BANK BALANCES

On hand	7,900	8,468
In transit	25,525	30,337
At banks on current accounts	56,612	19,986
	-----	-----
	90,037	58,791
Security deposits - held in special account (Note 20)	5,542	2,447
	-----	-----
	95,579	61,238
	=====	=====

19. SHORT TERM FINANCES AND LOANS

Short term finances - Secured		
Under mark-up arrangements with banks (Note 19.1)	950,545	970,022
Short term loans - Secured		
Under mark-up arrangements with banks for deferred leaf purchase voucher scheme (Note 19.1)	99,998	149,988
Short term loan from a bank - Secured	--	50,000
Short term loan from British American Tobacco (Investments) Limited, United Kingdom - Unsecured	--	979,860
	-----	-----
	1,050,543	2,149,870
	=====	=====

19.1 The daily rate of mark-up ranges between 30 and 38 paisa (1999: 34 and 42 paisa) per thousand rupees and is payable quarterly.

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

19.3 Total facility available under mark-up arrangements amounts to Rs 1,669 million (1999: Rs 1,589 million) out of which the amount unavailed at the year end was Rs 618 million (1999: Rs 469 million). The facilities are renewable annually.

20. CREDITORS, ACCRUED AND OTHER LIABILITIES

Excise duties/Provincial taxes	380,530	464,778
Sales tax	139,318	152,052
Creditors (Note 20.1)	787,471	516,985
Accrued expenses	360,392	111,063
Mark-up on - short term finances and loans	33,319	32,388
- long term loang	--	30,058
Interest on short term loans	29,317	93,864
Security deposits (Note 18)	5,542	2,447
Unclaimed dividend	3,516	3,520
	-----	-----
	1,739,405	1,407,155

20.1 Creditors include Rs 213.993 million (1999: Rs 67.766 million) payable to the associated companies.

21. AUTHORISED CAPITAL

Balance at the beginning of the year (32,000,000 ordinary shares of Rs 10 each)	320,000	320,000
Increase in authorised capital during the year (268,000,000: ordinary shares of Rs 10 each)	2,680,000	--
Balance at the end of the year (300,000,000; 1999:32,000,000 ordinary shares of Rs 10 each).	----- 3,000,000 =====	----- 320,000 =====

22. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Balance at the beginning of the year (31,936,724 ordinary shares of Rs 10 each including 25,136,724 bonus shares)	319,367	319,367
Shares issued during the year (223,557,068 ordinary shares of Rs 10 each)	2,235,571	--
Balance at the end of the year (255,493,792 ordinary shares of Rs 10 each including 25,136,724 bonus shares)	----- 2,554,938 =====	----- 319,367 =====

British American Tobacco (Investments) Limited held 241,045,141 ordinary shares of Rs 10 each at December 31, 2000 (1999: 20,240,875 shares).

23. REVENUE RESERVES

Balance at January 1	547,427	683,126
Transfer (to) profit and loss account	(547,427)	(135,699)
	----- -- =====	----- 547,427 =====

24. LONG TERM LOANS - SECURED

Term finance from banks (Note 24.1)	645,000	845,000
Less: shown under current liabilities	445,000	400,000
	----- 200,000 =====	----- 445,000 =====

24.1 Term finance facilities have been obtained from different banks on mark-up basis for purchase of plant & machinery and working capital requirements. The facilities are secured by hypothecation of plant & machinery. The facility amounting to Rs 75 million carries mark-up @ 16% per annum and is repayable on March 10, 2001. The remaining facilities carry floating mark-up @ last 6 months treasury bills auction rate plus 1.25% to 1.75% per

annum and are repayable on various dates up to April 23, 2002. Amounts due within one year have been shown under current liabilities.

25. DEFERRED TAXATION

Considering potential tax benefit related to available tax losses there is no deferred tax liability at December 31, 2000 (1999: Rs Nil). However, the brought forward provision of Rs 12 million (1999: Rs 12 million) has been retained in the accounts.

26. COMMITMENTS AND CONTINGENCIES

26.1 Capital expenditure commitments outstanding at December 31, 2000 amounted to Rs 214 million (1999: Rs 194 million).

26.2 Claims not acknowledged as debt amounted to Rs 127 million (1999: Rs 46 million).

26.3 Guarantees issued by banks on behalf of the Company amounted to Rs 23 million (1999: Rs 17 million).

27. CONTRIBUTION TO PENSION AND GRATUITY SCHEMES

Salaries, wages and benefits in note 3, 4 and 5 include the following amounts in respect of pension and gratuity schemes:

Pension scheme	22,912	21,593
Gratuity scheme	37,557	20,912
	-----	-----
	60,469	42,505
	=====	=====

28. FINANCIAL ASSETS AND LIABILITIES

	<i>Interest bearing</i>			<i>Non-interest bearing</i>			<i>Total</i>
	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub Total</i>	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub Total</i>	
FINANCIAL ASSETS							
Trade debts	--	--	--	11,717	--	11,717	11,717
Loans, deposits and other receivables	--	--	--	186,253	7,955	194,208	194,208
Cash and bank balances	5,542	--	5,542	90,037	--	90,037	95,579
	-----	-----	-----	-----	-----	-----	-----
	5,542	--	5,542	288,007	7,955	295,962	301,504
	=====	=====	=====	=====	=====	=====	=====

(Rs. 000s)

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FINANCIAL LIABILITIES

Term loans	445,000	200,000	645,000	--	--	--	645,000
Short term finances and loans	1,050,543	--	1,050,543	--	--	--	1,050,543
Creditors, accrued and other liabilities	--	--	--	1,739,405	--	1,739,405	1,739,405
Commitments	--	--	--	214,024	--	214,024	214,024
Bank guarantees	--	--	--	22,641	--	22,641	22,641
	-----		-----	-----	-----	-----	-----
	1,495,543	200,000	1,695,543	1,976,070	--	1,976,070	3,671,613
	=====	=====	=====	=====	=====	=====	=====
	=	=	=	=	=	=	=

28.1 Credit risk

Since the major part of sales of the company is against advance payment, the credit risk is minimal.

28.2 Interest rate risk

Interest bearing financial liabilities include Rs 75 million subject to fixed interest rate of 16% per annum and Rs 1,621 million subject to floating interest rates ranging between 11% to 14.25% per annum.

28.3 Foreign exchange risk

The company hedges the foreign currency risk on its foreign currency payables through forward exchange contracts.

28.4 Fair values of financial assets and liabilities

The carrying values of financial assets and liabilities approximate their fair values.

	2000	1999
	<i>(Rs 000s)</i>	
29. (LOSS) PER SHARE		
(Loss) after tax	(884,474)	(135,699)
Weighted average number of ordinary shares	50,566	31,937
(Loss) per share	Rs (17.49)	Rs (4.25)

30. GENERAL

30.1 Transactions with associated companies

Aggregate transactions with associated companies during the year were as follows:

Sale of goods	162,160	78,280
Purchase of goods and services	218,229	414,645

Interest expense	87,520	42,744
Royalty expense	163,296	140,065

30.2 Capacity and production

Against an estimated manufacturing capacity of 20,219 (1999: 20,940) million cigarettes, actual production was 20,892 (1999: 18,444) million cigarettes which included 1,887 million cigarettes (1999: 1,112 million) produced through outside manufacturing sources. Actual production was sufficient to meet market demand.

30.3 Number of employees

Number of employees at December 31	2,105	3,169
------------------------------------	-------	-------

30.4 Corresponding figures

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison.

**GOTTFRIED
THOMA
Chairman &
Chief Executive**

**F.W. VELLANI
Director**