

PHILIPS Electrical Industries of Pakistan Ltd

ANNUAL REPORT 1997

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Key Data

	1997	1996
	Rupees in million	Rupees in million
Sales	3,218	3,365
Operating Profit	194	224
Profit before Taxation	69	103
Taxation	31	28
Profit after Taxation	38	76
Dividend - Cash %	25	40
Bonus Issue %	10	10
Paid-up Capital	91	119
Shareholders' Equity	306	420
Earning per share	3.9	6.4
Number of Employees	972	1,045

Board of Directors

Syed Naseem Ahmad
 Rafiq M. Habib
 Nizam A. Shah
 Hakimullah Siddiqui
 S.W. Plokker
 Razi-ur-Rehman Khan
 Javed Iqbal

Management Team

Syed Naseem Ahmad
 Javed Iqbal
 M. Kamil Shahbazkar
 M. Farooq Farooqi
 Jalees A. Siddiqui

Bankers

ABN Amro Bank
 American Express Bank Ltd.
 ANZ Grindlays Bank
 Bank of America

Citibank N.A.
Emirates Bank International Ltd.
Habib Bank Ltd.
Hong Kong and Shanghai Banking Corp.
Muslim Commercial Bank
National Bank of Pakistan
Standard Chartered Bank

Auditors

A.F. Ferguson & Co.
Chartered Accountants

Chairman's Review

The year under review experienced unstable and fluctuating business conditions mainly due to two factors. Firstly, the carry over impact of frequent and upward revision of tariff implemented through fiscal and mini budgets and heavy devaluation of Pak Rupee (average 17%) coupled with a double digit inflation during the previous year, the effects of which could not be passed on to the consumers. Secondly, smuggling of electronic items which continued unabated under the guise of "Afghan Transit Trade" and "Baggage Trade". These irregular imports adversely affected the sales and profitability, specially of televisions and products of small domestic appliances, and continues to hamper the growth of the local legitimate industry competing in the market "on level playing field" basis.

Inspite of the Government's efforts to implement some very fundamental economic reforms covering fiscal, financial, tariff and public sector fields in order to place the country on a more sustainable macro economic footing, the economy continues to remain sluggish owing to a number of internal and external factors including provisions of WTO/IMF agreements, and massive currency devaluation in the Far Eastern countries. The prerequisites for maintaining viable local manufacturing operations are operational efficiencies, reasonable protection in tariff structure and effective control of the parallel trade. Keeping the above in view, the matter is being pursued with the Government at all levels and we have received positive response to our problems.

Demerger of the MDA Business

In regard to the above, we wish to announce that the order sanctioning the Scheme of Arrangement dated December 19, 1997, duly approved by the

shareholders in the extra ordinary meeting held on March 6, 1998 for the demerger of the MDA Business from Philips Electrical Industries Pakistan Limited and vesting it in a newly formed company, Refrigerators Manufacturing Company of Pakistan Limited was passed by the Honorable High Court of Sind on March 19, 1998. The same court order was filed with the Registrar of Joint Stock Companies, Karachi on March 24, 1998 in order to put the Scheme of Arrangement into legal effect. Accordingly, the share transfer between Philips and the newly formed company will take effect as mentioned in the Scheme of Arrangement.

As the effective date for the transfer of the MDA activity to the new company as per approved Scheme of Arrangement is being implemented with effect from the close of business on June 30, 1997, accordingly all figures set out in this report and audited accounts for the MDA activity include the first 6 months only i.e. the period Jan-Jun 1997. After that date (June 30, 1997) MDA accounts have been segregated from Philips Electrical Industries of Pakistan Limited. Comparative figures and ratios have been adjusted as per audited accounts wherever deemed appropriate.

Sales and Profits

Inspite of the above-mentioned adverse conditions, the company

managed to achieve sales to the tune of Rs.3,218 million against Rs.3,365 million of previous year (4.4% lower over 1996). Operating profit was Rs. 194 million as compared to Rs.224 million of last year, and profit before tax was Rs.69 million as compared to Rs. 103 million of 1996. The drop in the profit is mainly attributed owing to negative results in the Consumer Electronics sector and the marginal profits in the MDA sector during the first six months in the year under review.

Lighting

During the year of review, this major sector of the company continued its excellent performance being the market leader and continued the policy of providing excellent products to consumers at competitive prices. In this sector, improvement of customer service level and offerings of total lighting emphasis and special projects were given due attention.

In this division, sales increased from Rs. 1,594 million to Rs. 1,869 million, which represents an increase of 17% over 1996. The operating profit registered a significant increase over previous year and jumped from Rs. 151 million to Rs. 190 million which shows 26% increase. This improved result was possible through alternate sourcing of goods, effective marketing strategies,

better sales
mix, operating
efficiencies in
the factory and
the overall cost
savings.

Consumer Electronics

Sales in this division registered a dip of 5.6% over 1996 which is mainly on account of colour televisions, although other products of this division such as Portable Audio Systems, VCR etc. proved to be good fillers. The PC Monitors which were introduced in the market in 1996, continued to enjoy the confidence of the consumers due to its quality and price and sales shot up approx. by 50% in terms of volume.

Operating result was a loss of Rs. 8 million against operating profit of Rs.36 million of last year. This was mainly due to the television market, which, especially during the first six months of the year, remained stagnant and as mentioned earlier, the imports through irregular channels adversely affected the local industry. Price increases in colour televisions to offset the imposition of high sales tax and custom duty severely eroded the profits. The March 1997 package of the government provided some relief to the industry, and a part of the relief was passed on to the consumers. The impact of these measures was not felt completely during the year under

review as finished goods
selling at higher prices
remained in the pipeline
and inventories of raw
materials and components
cleared under higher duty
had to be consumed.

It is our apprehension that
unless and until
irregular trade is
controlled by the
government, the
very survival of
our television
industry will become
doubtful.

**Major Domestic
Appliances**

Figures for this activity are
for the period of first six
months only i.e. Jan-Jun
1997 whereas 1996 is for
the whole year for the
reasons stated earlier in
this report. For the
purpose of comparison, if
compared with the figures
of Jan-Jun 1996, sales
registered a decline of 28%,
whereas operating profit
was Rs.2 million against
Rs.62 million in the same
period.

The major reasons for the
shortfall in the sales and
profits were depressed
market conditions and
demand for white goods in
the first half of the year. As
total market was
depressed, lucrative
matching incentives with
the trade were offered to
keep the sales going and
keep the
losses due
to inventory
pile up at
the minimal.
Although the
March 1997
package
offered some

relief, but the benefits could not be reaped as the peak-selling season of refrigerators was over by the middle of the year.

Other Activities

This sector covers the activities of Small Domestic Appliances & Personal Care (DAP) products, Professional Systems, Medical Systems and After Sales Service.

The activities of Domestic Appliances & Personal Care are currently facing difficult situation in the market place due to imports through smuggling and irregular channels. Despite this difficult situation, the activity has shown overall improvements in sales and profitability through stringent, dedicated and innovative efforts in Marketing and Sales.

As stated earlier, unless smuggling/parallel trade is effectively controlled by the Govt., DAP activity will remain threatened.

The Professional Systems deals in trading of high-tech products and equipment. This activity is primarily project based and requires advanced professional know-how and is dependent on availability of development funds/budgets. As a policy, the company focuses on major projects. It is a

pleasure to inform you that the company was awarded a substantial order for the installation of weighbridges on the Lahore-Islamabad Motorway including lighting of 3 interchanges for which work is at hand.

Restructuring of the Medical Division was completed during the year under review, and the activity has now been harried over to a locally appointed agent, who is now responsible for all medical activities of Philips International in Pakistan.

As part of the company policy to ensure excellent "after sales service" to the customers, the company is maintaining an efficient set up for all products and equipment sold and supplied by the company. This service setup which provides competitive edge over the competitors, has already been established in all major cities and further expansion is at hand.

The Company and the Shareholders

It is a pleasure to announce that the company has been awarded the best presented Annual Accounts for the year 1996 in the Non Financial sector of the SAARC region by the South Asian Federation of Accountants (SAFA). The award in the form of a shield was presented to the company at an impressive ceremony held by SAFA in Lahore in

November, 1997.

During the year 1997, your company earned operating profit amounting to Rs. 194 million versus Rs.224 million of 1996. Profit after tax was lower at Rs.38 million against Rs.76 million of previous year. The low profitability, as mentioned earlier, was mainly on account of the Consumer Electronics and Major Domestic Appliances division which did not perform well during the year. Earning per share (EPS) amounted to Rs.3.90 (1996 Rs.6.40).

Although profits are meager, nevertheless, maintaining the tradition of a reasonable return to the shareholders, the Board of Directors propose for your approval a Final Dividend of 25% for the year under review, and the issuance of one Bonus Share for every ten shares held, out of the share premium account. The Board also recommends transfer of Rs. 12.5 million to the General Reserve.

Profit and proposed appropriation for the year is as follows:

Profit Before Taxation		69,425
Taxation:		
Current		
For the year	39,297	
For prior year	1,621	
Deferred		
For the year	(9,516)	31,402
	-----	-----
Profit after Tax		38,023
Add:		
Unappropriated B/F		
	803	
Less:		

Transfer to		
RMCPPL	(2,441)	(16,38)
Profit available	-----	-----
for appropriation		36,385
Appropriation		
recommended:		
General Reserve	12,500	
Proposed Final		
Dividend	22,867	35,367
Unappropriated	-----	-----
Profit C/F		1,018
		=====

Human Resources

Technology, technique or formulation - irrespective of the three, it is our human resources that give us a competitive edge. For it is them who combine the three components of production to bring you your desired product.

The year 1997 ushered in a new employees' union for the next 2 years, and as in the past is likely to continue to work with the management on grounds of cordial and mutual respect.

Management at every level is accountable for recognizing and developing the skills and talents of its employees. With this, we believe that a company is only as good as the people working for it; therefore, we apply a structured approach to individual career development and succession planning for the benefit of both the company and the individual. Philips is operating in the world's most challenging and turbulent industry. In order to prepare our workforce to come up to these challenges we continue to train and develop our employees at all levels, through mediums both within and outside

the organization.

Since success in business heavily depends on the timely availability of high-caliber, motivated people, Philips substantiates its efforts to maintain a conducive work environment.

Social Responsibilities

Your company being a good corporate citizen continues to fulfil its social responsibilities largely by supporting institutions like the Layton Rehmatullah Benevolent Trust and Child Aid amongst others.

Environment

Philips green drive to make things better, scooped Royal Philips Electronics N.V., Eindhoven, The Netherlands and international gold medal award. The green ALTOTM lamp, the green TV concept and Philips global environmental opportunity programme, which includes action to cut the energy needed for production, helped the company secure the award from the World Environment Centre based in New York.

This award is proposed to be presented to the company at a formal event in Washington DC before the World Environment day.

Philips Quality Programme

Quality is not just confined to the products and services available to you in the market, but we at Philips have taken measures to ensure that even our everyday dealings are

qualitative and can be judged at the highest standards of precision and satisfaction for both our internal and external customers. In the previous years our Lighting Factories have already been ISO 9002 certified and in this regard work in the Lighting Factories' Human Resources Development & Commercial Department and the Consumer Electronics Factory for ISO 9002 Certification is currently at hand.

Moving on with the quality drive, your company aims for the Philips Quality Award (PQA 90) within a specified time period so as to make it the Winning Company.

Through our quality drives we aim to satisfy our much aware consumer that we are constantly trying to make things better.

Director

The Board welcomes Mr. Razi-ur-Rehman Khan in place of Mr. Asadullah Sheikh who resigned in 1996.

Auditors

The retiring auditors A.E Ferguson & Co., being eligible, offer themselves for reappointment.

Pattern of Shareholding

A statement of the pattern of shareholding as at December, 1997 is shown on page 54 of this report. Royal Philips Electronics N.V. (formerly Philips Electronics N.V.) Eindhoven, The Netherlands, continues to hold 60% of the company's shares.

Future Outlook

The company intends to follow the policy of selective diversification to ensure profitable growth in the years to come and intends to fully utilize its workforce, product quality and customer goodwill. This can also be re-emphasized by the fact that the company intends to install a most modern I.T. software in order to modernize and improve its data communications.

The above expectations are based on the following assumptions recommended to the government directly or indirectly through various forums:-

- a) Rationalization of tariff structure and adequate protection to local industry whilst lowering tariffs.
- b) Effective control on irregular trade either through Afghan Transit or Baggage Trade.

Auditors' Report to the Members

We have audited the annexed balance sheet of Philips Electrical Industries of Pakistan Limited as at December 31, 1997 and the related profit and loss account and cash flow statement, together with the notes forming part thereof, 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 notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 13, 1997 and of the profit and cash flows for the year then ended; and

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

Balance Sheet as at December 31, 1997

	Note	1997 (Rupees in thousands)	1996
SHARE CAPITAL AND RESERVES			
Authorized capital			
16,000,000 ordinary shares of Rs. 10 each		160,000	160,000
		=====	=====
Issued, subscribed and paid-up capital	3	91,470	118,792
		-----	-----
Reserves	4	213,616	300,885
Unappropriated profit		1,018	803
		-----	-----
		214,634	301,688
		-----	-----
		306,104	420,480
SURPLUS ON REVALUATION OF FIXED ASSETS			
REDEEMABLE CAPITAL	5	65,935	65,935
	6	-	150,000
DEFERRED LIABILITIES			
Provision for staff retirement benefits		20,482	19,762
OBLIGATIONS UNDER FINANCE LEASE	7	-	1,637
CURRENT LIABILITIES AND PROVISIONS			
Short -term finances under mark-up arrangements	8	278,325	265,563
Short-term loans	9	174,730	157,200
Current maturity of -redeemable capital -obligations under finance lease	6	102,799	83,334
	7.2	-	1,680
Creditors, accrued and other liabilities	10	346,542	338,290
Provision for turnaround expenses	11	27,000	5,400
Proposed dividend		22,867	17,819
		-----	-----
		952,263	869,286
CONTINGENCIES AND COMMITMENTS			
	12	-----	-----
		1,344,784	1,527,100
		=====	=====

TANGIBLE FIXED ASSETS

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

(Rupees in thousands)

Operating assets	13	142,317	184,271
Capital work-in -progress	14	3,090	25,206
		145,407	209,477
		-----	-----
LONG-TERM INVESTMENTS	15	9,680	9,680
LONG-TERM LOANS AND ADVANCES	16	13,937	16,441
LONG-TERM DEPOSITS		7,003	8,325
DEFERRED TAXATION	17	14,887	5,371
CURRENT ASSETS		-----	-----
Stores and spares	18	25,664	30,229
Stock-in -trade	19	530,363	742,126
Trade debts	20	253,081	265,459
Deposits and short-term prepayments	21	45,874	81,451
Other receivables	22	152,641	85,687
Taxation		79,982	21,944
Cash and bank balances	23	66,265	50,910
		-----	-----
		1,153,870	1,277,806
		-----	-----
		1,344,784	1,527,100
		=====	=====

The annexed notes form an integral part of these accounts

Profit and Loss Account for the year ended December 31, 1997

	Note	1997	1996
		(Rupees in thousands)	
Sales	24	3,218,353	3,364,680
Cost of sales	25	2,569,609	2,699,954
		-----	-----
Gross profit		648,744	664,726
Selling and administrative expenses	26	455,115	440,781
		-----	-----
Operating profit		193,629	223,945
Other income	27	5,660	6,608
		-----	-----
		199,289	230,553
		-----	-----
Financial charges	28	118,021	109,626
Other charges	29	11,843	17,817
		-----	-----
		129,864	127,443
		-----	-----
Profit before taxation		69,425	103,110
Taxation	31	31,402	27,571
		-----	-----
Profit after taxation		38,023	75,539
Unappropriated profit brought forward		803	969
		-----	-----
		38,826	76,508

Transfer to Refrigerators Manufacturing Company Pak Ltd	(2,441)	-
	-----	-----
Available for appropriation	36,385	76,508
Appropriation:		
Interim dividend Nil	-----	-----
(1996:Rs.2.50) per share	-	29,698
Proposed final dividend Rs. 2.50		
(1996: Rs. 1.50) per share	22,867	17,819
Transfer to -general reserve	12,500	27,000
-capital reserve for tax on issue of bonus shares	-	1,188
	-----	-----
	35,367	75,705
	-----	-----
Unappropriated profit carried forward	1,018	803
	=====	=====

The annexed notes form an integral part of these accounts.

Cash Flow Statement for the year ended December 31, 1997

	Note	1997	1996
		(Rupees in thousands)	
Cash flow from operating activities			
Cash generated from operations	32	96,308	110,816
Staff retirement benefits paid		(689)	(787)
Financial charges paid		(113,918)	(101,757)
Taxes Paid		(99,369)	(101,747)
		-----	-----
Net cash (out flow) from operating activities		(117,668)	(93,475)
Cash flow from investing activities			
		-----	-----
Fixed capital expenditure		(22,345)	(40,814)
Sale proceeds of fixed assets		1,809	1,330
Long-term deposits-net		527	900
Long -term loans and advances-net		205	(1,248)
		-----	-----
Net cash (out flow) from investing activities		(19,804)	(39,832)
Cash flow from financing activities			
		-----	-----
Proceeds from redeemable capital less repayments		(65,170)	166,667
Repayment of obligation under finance lease		(799)	(11,999)
Short-term loans less repayments		93,246	56,190
Dividends paid		(17,819)	(88,998)
Taxes on bonus shares paid		(1,188)	-
		-----	-----
Net cash inflow from financing activities		8,270	121,860
		-----	-----
Net (decrease) in cash and cash equivalents		(129,202)	(11,447)
Cash and cash equivalents at the beginning of the year		(214,653)	(203,206)
Cash and cash equivalents transferred to Refrigerators Manufacturing Company Pakistan Limited		131,795	-

Cash and cash equivalents at the end of year	33	(212,060)	(214,653)
		=====	=====

The annexed notes from an integral part of these accounts.

Notes to the Accounts for the year Ended December 31,1997

1. Legal status and operations

1.1 The Company is a public company incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984). Its shares are quoted on the Karachi and Islamabad Stock Exchanges and it is principally engaged in the production and sale of electrical and electronic goods.

The Company under a Scheme of Arrangement for the reconstruction of its operations and as sanctioned by the High Court of Sindh transferred, with effect from July I, 1997, its Major Domestic Appliances (MDA) undertaking inclusive of the MDA business and all assets, rights, liabilities and obligations pertaining thereto to Refrigerators Manufacturing Company Pakistan Limited (RMCPL), a newly incorporated entity, with the consequent reduction in the issued and paid up share capital of the Company. Accordingly, these accounts have been prepared in the light of the above referred Scheme of Arrangement.

2. Significant accounting policies

2.1 Accounting convention

These accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

2.2 Staff retirement benefits

The Company operates defined benefit funded pension and gratuity schemes for its management employees. The pension scheme provides life pension to employees and thereafter to their spouse or dependent children. Contributions are made annually to these funds on the basis of actuarial recommendations at the rate of 14.7% of basic salary for pension and at the rate of 8.33% of basic salary for gratuity. Based on the latest actuarial valuation of the pension scheme and gratuity scheme as at December 3 I, 1996, carried out once in every three years, the fair value of the pension fund's assets and abilities were Rs. 50.395 million and Rs. 84.227 million whereas the fair value of the gratuity fund's assets and liabilities were Rs. 46.593 million and Rs. 84.768 million respectively. The future contribution rates of these schemes include allowances for deficit and surplus. Further, an additional provision at the rate of 3.5% of basic salary is also being made in respect of gratuity.

Pending finalisation of actuarial valuation, which is in progress, the above mentioned funds' assets and liabilities have not been adjusted for amounts related to RMCPL.

The Company also operates an unfunded supplemental gratuity scheme for unionised staff. Provisions are made in the accounts to cover obligations on the basis of actuarial recommendations. Based on the latest actuarial valuation as at December 3 I, 1996, carried out once in every three years, the actuarial liability

amounted to Rs. 12.281 million (inclusive of MDA undertaking).

The projected unit credit method, using the following significant assumptions, is used for the valuation of the above mentioned funded as well as unfunded schemes:

- Expected rate of increase in salaries I I% per annum plus merit increases.
- Expected rate of interest on investment 12% per annum.

The Company also operates a defined contribution provident fund for its employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% of basic pay.

2.3 Taxation

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account tax credits and tax rebates available, if any.

The Company accounts for deferred taxation on all major timing differences using the liability method. However, as a matter of prudence, the Company only recognises those deferred tax debit balances for which there is a reasonable expectation of realisation. Deferred tax debit balances not recognised in the accounts as at December 31, 1997 amounted to Rs. 12.018 million (1996: Nil)

2.4 Tangible fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation except leasehold land and buildings thereon which are stated at revalued amounts and subsequent additions thereto at cost less accumulated depreciation. Capital work-in-progress is stated at cost.

Items of fixed assets costing Rs. 10,000 or less individually are not capitalised and are charged off in the year of purchase.

Depreciation is charged to income applying the straight-line method whereby the asset is written off over its estimated service life. Depreciation on additions is charged from the month in which they are put to use and on deletions upto the month of deletion.

Gains and losses on disposals are taken to income currently.

Maintenance and repairs are charged to income as and when incurred. However, as the furnace used for glass production is required to be shut down for renewal, overhaul and replacement of parts after varying periods of use, the cost of such turnaround including overhead expenses are accrued over such periods.

2.5 Long term investments

These are stated at cost except where a permanent diminution in value is deemed to have occurred in which case their cost is appropriately reduced.

2.6 Stores and spares

These are valued at weighted average cost with the exception of stores relating to consumer electronics activities which are valued on first-in-first-out basis. The

value of slow moving items is appropriately reduced. In addition adequate provision is made for items which are likely to become obsolete.

2.7 Stock-in-trade

Stock-in-trade is valued at the lower of cost and net realisable value. Cost has been arrived at on first-in-first-out basis. Cost in relation to work-in-process and manufactured goods includes direct material, wages and applicable manufacturing overheads. Cost of goods-in-transit reflects the purchase price only.

Net realisable value is determined by considering the prevailing selling prices in the ordinary course of business less costs necessarily to be incurred to make the sale.

2.8 Foreign currencies

Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange approximating to those ruling at the balance sheet date except where forward exchange contracts have been entered into for repayment of loans in which case the rate contracted for is used and where the repayment of a foreign currency loan will be made in rupees at a rate of exchange guaranteed by the State Bank of Pakistan in which case the guaranteed rate of exchange is used. Any foreign currency bank balances arising out of the proceeds of a foreign currency loan whose repayment is to be made at a rate of exchange guaranteed by the State Bank of Pakistan are also translated at the guaranteed rate of exchange.

Exchange gains and losses are included in income currently except those arising on translation of liabilities for goods in transit which are reflected in the value of the underlying items.

2.9 Revenue recognition

Sales are recorded on despatch of goods.

2.10 Mark-up on long-term finance and finance charges under lease agreements

Markup on long-term finance and finance charges under lease agreements are allocated to the deferred payment period so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

3. Issued, subscribed and paid-up capital

	Ordinary shares of Rs. 10 each fully paid in cash	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	Total
Number of shares	5,691,521	3,453,338	2,100	9,146,959
	=====	=====	=====	=====
	(Rupees in thousands)			

Balance as at

1-Jan-97	81,307	37,455	30	118,792
Bonus shares issued during the year		11,879		11,879
Reduction in share capital (note 3.2)	(24,392)	(14,800)	(9)	(39,201)
	-----	-----	-----	-----
	56,915	34,534	21	91,470
	=====	=====	=====	=====

3.1 At December 31, 1997 5,488,175 (1996: 7,127,505) ordinary shares of the Company were held by Royal Philips Electronics N.V. (formerly Philips Electronics N.V.), Eindhoven, The Netherlands.

3.2 This represents the consequent reduction in issued and paid up capital, referred to in note 1, by 30%. As per Scheme of Arrangement, RMCPL will allot three fully paid up ordinary shares of Rs. 10 each for every ten fully paid up ordinary shares held by each shareholder in the Company.

4. Reserves

	1997	1996
	(Rupees in thousands)	
Capital		
Share Premium		
At January 1	31,318	43,197
Transfer to - reserve for issue of bonus shares -RMCPL	(9,147)	(11,879)
	(9,752)	-
	-----	-----
At December 31	12,419	31,318
Reserve for issue of bonus shares	-----	-----
At January 1	13,067	-
Transfer from:		
- Share premium	9,147	11,879
- Profit and loss account for tax on issue of bonus shares	-	1,188
	-----	-----
	22,214	13,067
	-----	-----
Bonus shares issued during the year	(11,879)	-
Tax paid on bonus shares issued	(1,188)	-
	-----	-----
	(13,067)	-
	-----	-----
At December 31	9,147	13,067
	-----	-----
	21,566	44,385
Revenue		
General reserve		
At January 1	254,000	227,000
Transfer from profit and loss account	12,500	27,000
Transfer to RMCPL	(76,200)	-
	-----	-----

At December 31	190,300	254,000
Self insurance reserve	-----	-----
At January 1	2,500	2,500
Transfer to RMCPL	(750)	-
	-----	-----
	1,750	2,500
	-----	-----
At December 31	192,050	256,500
	-----	-----
	213,616	300,885
	=====	=====

1997 1996
(Rupees in thousands)

5. Surplus on revaluation of fixed assets		
At the beginning and end of the year	65,935	65,935
	=====	=====

The above represents surplus over book value produced by revaluations of certain fixed assets referred to in note 13.2.

6. Redeemable Capital - Secured
(Non-participatory)

Long-term finance utilised under mark-up arrangements

Emirates Bank International PJSC (EBI)- I	-	33,334
- II	-	50,000
 The Hongkong and Shanghai Banking Corporation Limited (HSBC)	34,266	50,000
 ANZ Grindlay - I	34,266	50,000
- II	34,267	50,000
	-----	-----
	102,799	233,334
 Less: Current maturity shown under current liabilities	102,799	83,334
	-----	-----
	-	150,000
	=====	=====

6.1 The particulars of the above long-term finance are as follows:

	Sale Price	Purchase Price	Prompt payment Rebate	Rate of Mark-up per annum	Number	Repayment	Commencing from
	(Rupees in thousand)						
EBI	100,000	134,964	6,993	16%	Six half yearly		March 25, 1995
- II	50,000	64,795	2,959	16%	Lumpsum		December 2, 1997
	-----	-----	-----				(repaid during the year)
HSBC	50,000	66,500	11,800	16%	Lumpsum		January 15, 1998

note 6.4	(15,734)	(20,927)	(3,713)			
	-----	-----	-----			
	34,266	45,573	8,087			
	-----	-----	-----			
ANZ-I	50,000	65,000	7,250	15.50%	Lumpsum	February 20,1998
note 6.4	(15,734)	(20,455)	(2,281)			
	-----	-----	-----			
	34,266	44,545	4,969			
	-----	-----	-----			
-II	50,000	65,000	7,000	16%	Lumpsum	May20, 1998
	(15,733)	(20,455)	(2,203)			
	-----	-----	-----			
	34,267	44,545	4,797			

6.2 The above finance is secured by mortgage, ranking pari passu, by deposit of title deeds on the Company's immovable property at F-54, SITE including machinery installed therein.

6.3 In view of the substance of the transaction, the sale and repurchase of assets referred to above and in note 8.1 has not been recorded as such in the books.

6.4 This represents the sale price, purchase price and prompt payment rebate transferred to RMCPL, the necessary agreements for which are in the process of being finalised.

7. Obligations under finance lease

1997 1996
(Rupees in thousands)

Atlas BOT Lease Company Limited (note 7.1)	-	1,637
	=====	=====

7.1 The Company entered into a lease agreement with Atlas BOT Lease Company Limited in 1994, for a period of four years, in the amount of Rs. 6.629 million for financing moulds and dies of refrigerators. Quarterly lease payments include a finance charge of 20.39 percent per annum, which is used as a discounting factor.

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

Year to December 31, 1997	-	2,233
Year to December 31, 1998	1,779	1,779
	-----	-----
	1,779	4,012
Less: Finance charges not due	142	695
	-----	-----
	1,637	3,317
Less :Transferred to RMCPL (note 7.3)	1,637	-
	-----	-----
Current maturity shown under current liabilities	-	1,680
	-----	-----
	-	1,637
	=====	=====

7.3 The remaining obligation of the lease being related to the MDA undertaking has been transferred to RMCPL as referred to in note I.

8. Short-Term Finances under mark-up arrangements - Secured

	1997	1996
	(Rupees in thousands)	
Finances utilised under mark-up arrangements from banks (note 8.1)	278,325	265,563
	=====	=====

8.1 The facility for short term running finances available from various banks, which represents the aggregate 'sale price' of all mark-up agreements, amounts to Rs. 638 million (1996: Rs. 503 million). The corresponding purchase prices are payable on various dates between January 1, 1998 to August 7, 1998. The rates of mark-up, net of prompt payment bonus, range from Re.0.38. to Re. 0.41. per Rs. 1,000 per day. The arrangements are secured by way of pari passu charge against hypothecation of stock-in-trade and trade debts.

8.2 The facility for opening letters of credit and guarantees as at December 31, 1997 amounted to Rs. 1,182 million (1996: Rs. 1,176 million) of which the amount remaining unutilised at year end was Rs. 772.8 million (1996: Rs. 734.6 million).

8.3 The agreements necessary to transfer the share of the MDA undertaking in the facilities mentioned in note 8.1 and 8.2 above are in the process of being finalised.

9. Short-term loans

Lender	Rate of Interest	Repayment	1997 (US Dollars in thousands)	1996	1997 (Rupees equivalent in thousands)	1996
The Sakura Bank Limited, Dusseldorf	1% above 6 months LIBOR	February 29, 1998	3,000		125,700	-
-do-	-do-	January 30, 1998	2,000		83,660	-
-do-	-do-	April 22, 1998	1,000		45,600	-
-do-	0.5% above 6 months LIBOR	March 4, 1997	-	1,000	-	39,290
-do-	-do-	-do-	-	2,000	-	75,640
-do-	1% above 6 months LIBOR	January 30, 1997	-	1,000	-	42,270
			-----	-----	-----	-----
			6,000	4,000	254,960	157,200
Transferred to RMCPL			(1,888)	-	(80,230)	-
			-----	-----	-----	-----
			4,112	4,000	174,730	157,200
			=====	=====	=====	=====

9.1 The Company has entered into an arrangement for the above loans with a bank which is secured by way of a pari passu charge against hypothecation of stock-in-trade and trade debts.

10. Creditors, accrued and other liabilities

1997 1996
(Rupees in thousands)

Creditors	162,368	117,180
Accrued Liabilities	104,458	127,253
Accrued Interest on short-term loans	4,164	2,948
Accrued mark-up on		
-Short-term finance	11,716	11,982
-Long -term finance	4,102	8,269
Accrued finance charge on obligations under finance lease	-	58
Worker's profits participation fund (note- 10.1)	3,804	5,682
Dealer's security deposits -non interest bearing	5,936	10,931
Advances from customers	32,335	38,417
Workers' welfare fund	3,076	6,170
payable to - provident fund	498	510
pension fund	1,159	-
gratuity fund	-	516
Retention money	20	22
Unclaimed dividends	816	829
Corporate assets tax	2,000	2,000
Others	10,090	5,523
	-----	-----
	346,542	338,290
	=====	=====

10.1 Workers' Profits Participation Fund

Balance at the beginning of the year	5,682	10,686
Interest on funds utilised in the Company's business	616	2,228
Allocation for the year	3,809	5,682
Less: Amount paid during the year	(6,303)	(12,914)
	-----	-----
Balance at the end of the year	3,804	5,682
	=====	=====

10.2 Amounts due to associated undertakings included in creditors above aggregated Rs. 120.391 million (1996:Rs.80.103 million).

11. Provision for turnaround expenses

1997 1996
(Rupees in thousands)

Movement in and composition of turnaround expenses is as follows:

Provision for standstill costs

Furnace		
At January 1	400	4,595
Provision during the year	1,600	502
Cost incurred	-	(4,697)
	-----	-----
	2,000	400

Provision for repairs and overhaul

Furnace	-----	-----
At January 1	5,000	6,340
Provision during the year	20,000	21,246
Cost incurred	-	(22,586)
	-----	-----
	25,000	5,000
	-----	-----
	27,000	5,400
	=====	=====

12. Contingencies and commitments

12.1 Commitments

(a) Capital expenditure contracted for but not incurred amounted to Rs.3.09 million (1996: Nil).

(b) Commitments for rentals under operating lease agreements in respect of vehicles and machinery are as follows:

Year	1997 (Rupees in thousands)	1996
1997	-	8,831
1998	10,854	7,152
1999	9,061	4,295
2000	6,910	1,255

13. Operating Assets

13.1 The following is a statement of operating assets:

	Cost or valuation at January 1, 1997	Additions/ (Deletions)	Transfer to RMCP	Cost or valuation at December 31, 1997	Accumulated depreciation at January 1, 1997	Depreciation charge for the year/ (deletions)	Depreciation on transfers to RMCP	Accumulated depreciation at December 31, 1997	Net book value at December 31, 1997	Annual rate of depreciation
(Rupees in thousands)										
Leasehold land (factory)	23,632	-	-	23,632	2,282	236	-	2,518	21,114	1
Building on leasehold land (factory)	78,964	-	-	78,964	45,148	3,593	-	48,741	30,223	2-10
Leasehold land and building Office & others	4,140	-	-	4,140	3,088	201	-	3,289	851	5-10
Factory	24,823	-	(24,823)	-	8,745	643	(9,388)	-	-	5
Electric installations	11,903	-	-	11,903	7,821	511	-	8,332	3,571	5-20
Plant and machinery	349,695	36,781 (37)	(112,579)	273,860	288,685	18,890 (30)	(89,334)	218,211	55,649	10-33
Factory equipment	13,791	2,079	-	15,870	8,858	1,393	-	10,251	5,619	10-25

Offence machines	79,137	5,386 (1,713)	(18,407)	64,403	41,724	10,159 (974)	(10,495)	40,414	23,989	7-20
Motor vehicles	4,746	215 (1,494)	-	3,467	2,275	601 (710)	-	2,166	1,301	20
Under finance lease										
- Plant and machinery	6,629	-	(6,629)	-	4,563	743	(5,306)	-	-	10-33
	597,460	44,461 (3,244)	(162,438)	476,239	413,189	36,970 (1,714)	(114,523)	333,922	142,317	
1996	573,535 (2,142)	26,067	-	597,460	374,010	40,929 (1,750)	-	413,189	184,271	

13.2 The date and amount of revaluation included in the net book value of certain fixed assets as at December 31, 1997 is given below:

	Leasehold land (factory)	Building-on leasehold land (factory)	Total
	(Rupees in thousand)		
(a) At December 31, 1980			
Revaluation increment	4,838	13,913	18,751
Less: Depreciation thereon	819	11,829	12,648
	4,019	2,084	6,103
(b) At January 1, 1990			
Revaluation increment 17,720	17,720	29,464	47,184
Less: Depreciation thereon	1,417	11,786	13,203
	16,303	17,678	33,981
	20,322	19,762	40,084
1996	20,547	21,931	42,478

13.30 Detail of assets deleted during the year including items sold by negotiation:

	Cost	Accumulated depreciation	Net Book value	Sale proceeds	Particulars of Buyers
	(Rupees in thousand)				
Office machines	23	5	18	19	Mr. Khurram Sajid Abbas (Ex. Executive)
	22	15	7	13	Mr. Zahid Umer (Ex. Executive)
	105	12	93	93	Royal Philips Electronics N.V.

				(formerly Philips Electronics N.v.), The Netherlands
126	13	113	113	-do-
19	2	17	17	-do-
38	3	35	35	-do-
14	1	13	13	-do-
81	16	65	65	-do-
32	2	30	30	Gestetner (Pvt) Limited I.I. Chundrigar Road, Karachi
19	3	16	16	Mr. S.Tariq Ali (Ex-Executive)
13	2	11	11	-do-
19	5	14	15	Mr. Shamim Qadir (Ex-Executive)
9	2	7	7	-do-
25	10	15	16	-do-
25	10	15	15	Mr. Sarfrazuddin Ahmed (Ex-Executive)
15	8	7	10	Mr. Noman Siddiqui (Ex-Executive)
25	10	15	18	-do-
15	9	6	9	Mr. Aftab Chaudhry (Ex-Executive)
19	4	15	16	Mr. Amir Khanzada (Ex-Executive)
13	3	10	11	-do-

Cost	Accumulated	Net Book	Sale	Particulars of	
		depreciation	Value	Proceeds	buyers
(Rupees in thousands)					
Office Machines	25	10	15	16	Mn Hassan Hamid (Ex-Executive)
	17	6	11	12	Mr. Khalid Zahid (Ex-Executive)
	11	4	7	8	-do-
	161	88	73	29	Vari-Eq Main Road, Gulberg, Lahore
	77	34	43	40	-do-
	11	5	6	6	-do-
	121	91	30	64	-do-
Items with book value below Rs.5,000	633	601	32	236	
	-----	-----	-----	-----	

	1,713	974	739	953	
Plant & Machinery	37	30	7	7	Royal Insurance Company M.R.Kayani Road, Karachi
Motor Vehicles	46	18	28	33	Royal Insurance Company M.R. Kayani Road, Karachi
	857	229	628	628	Royal Philips Electronics N.V. (formerly Philips Electronics N.v.) The Netherlands
	56	12	44	44	Mr. Sheikh Muhammad Ismail (Ex-Executive)
	56	12	44	44	Mr. Syed Ejaz (Ex-Executive)
	56	16	40	40	Mr. M. Ismail (Ex-Employee)
Items with book value below Rs.5,000	423	423	-	60	
	1,494	710	784	849	
	3,244	1,714	1,530	1,809	

	1997	1996
14. Capital work-in-progress	(Rupees in thousands)	
Plant and machinery	-	24,731
Advances to suppliers	3,090	475
	3,090	25,206

	1997	1996
15. Long-term investments		
Shifa International Hospitals Limited, quoted-at cost 2,200,000 (I 996:Rs.2,200,000) ordinary shares of Rs. 10 each.		
Market value Rs.7.7 million (J996:Rs.9.68 million)	22,000	22,000
Less: Provision for diminution in value of investment	12,320	12,320
	9,680	9,680

	Current portion		Long-term portion	
	1997	1996	1997	1996
	(Rupees in thousands)		(Rupees in thousands)	

Considered good, due from:				
-Executives	2,840	2,552	1,948	1,979
-Other employees	5,474	5,948	11,989	14,462
	-----	-----	-----	-----
	8,314	8,500	13,937	16,441
	=====	=====	=====	=====
		(note 22)		

Amounts outstanding for period exceeding three years, due from

-Executives		287	358
		=====	=====
- Other employees		66	185
		=====	=====

Loans and advances to executives and employees were given for house building and purchase of company products. These are repayable in equal monthly installments varying from 10 to 120.

The maximum amount due from executives at the end of any month during the year was Rs.7.26 million (1996: Rs. 3.85 million).

1997 1996
(Rupees in thousands)

7. Deferred Taxation

This is composed of the following:

Credit balance arising due to:

Accelerated depreciation allowance and finance lease rentals	(6,817)	(14,739)
--	---------	----------

Debit balances arising in respect of:

Provision for turnaround, spares obsolescence, staff retirement benefit and doubtful debts	21,704	20,110
	-----	-----
	14,887	5,371
	=====	=====

18. Stores and Spares

Stores	855	5,497
Spares, including items in transit		
Rs. 1.106 million (1996: Rs.2.211 million)	27,802	127,725
Less: Provision for obsolescence	2,993	2,993
	-----	-----
	24,809	24,732
	-----	-----
	25,664	30,229
	=====	=====

19. Stock-in-trade

Raw materials, including goods -in -transit		
Rs. 80.824 Million (1996: Rs.83.561 million)	197,335	322,132
Work -in -process	13,271	14,389
Others	289	1,085

	-----	-----
	210,895	337,606
Finished goods including goods-in-transit Rs.27.844 million (1996: Rs.29.818 million)	296,682	386,200
Service stocks including goods-in-transit Rs. 0.0807 million (1996: Rs.0.915 million).	22,786	18,320
	-----	-----
	319,468	404,520
	-----	-----
	530,363	742,126
	=====	=====

20. Trade Debts

	1997	1996
	(Rupees in thousands)	
Unsecured		
Considered good	253,081	265,459
Considered doubtful	23,389	14,497
	-----	-----
	276,470	279,956
Less: Provision thereagainst, net of amount written off 1.978 million (1996: 0.555 million)	23,389	14,497
	-----	-----
	253,081	265,459
	=====	=====

21. Deposits and short-term prepayments

Trade deposits	7,299	6,265
Margin against letters of credit	242	9,034
Short-term prepayments	15,317	22,070
Prepaid customs duty	10,249	15,047
Sales tax and excise duty prepayments	12,133	28,008
Current account balances with statutory authorities	485	960
Others	149	67
	-----	-----
	45,874	81,451
	=====	=====

22. Other Receivables, considered good

	1997	1996
	(Rupees in thousands)	
Current Portion of long-term loans and advances- note 16	8,314	8,500
Advances to suppliers	66,060	37,189
Advances for reimbursable expenses -executives	705	2,261
-employees	436	738
Due from government		
Customs duty refundable	1,066	3,369
Value regulatory duty and other claims	9,117	14,877
	-----	-----
	10,183	18,246

Provision thereagainst	(5,780)	(13,208)
	-----	-----
	4,403	5,038
Receivable from		
· Pension fund	-	4,905
· Gratuity fund	1,771	-
Receivable from associated undertakings	67,124	19,958
Receivable from a leasing modaraba	-	4,398
Retention money	-	56
Others	3,828	2,644
	-----	-----
	152,641	85,687
	=====	=====
23. Cash and bank balances		
With banks on current account	24,162	29,744
	-----	-----
In hand - cash	2,580	3,275
- cheques	29,948	1,524
	-----	-----
	32,528	4,799
Remittances in transit	9,575	16,367
	-----	-----
	66,265	50,910
	=====	=====

24. Operating Results

	Light		Consumer Electronics		Major Domestic Appliances (note-I)		Other Activities		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
	(Rupees in thousand)									
Sales	1,868,625	1,594,060	728,909	772,283	424,152	818,073	196,667	180,264	3,218,353	3,364,680
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Cost of Sales (note-25)	1,364,934	1,202,100	654,798	658,775	369,744	670,359	180,133	168,720	2,569,609	2,699,954
Selling & administrative expenses (note-26)	313,417	240,411	82,050	77,658	52,067	101,575	7,581	21,137	455,115	440,781
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1,678,351	1,442,511	736,848	736,433	421,811	771,934	187,714	189,857	3,024,724	3,140,735
Operating profit/(loss)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	190,274	151,549	(7,939)	35,850	2,341	46,139	8,953	(9,593)	193,629	223,945
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

24.1 Inter-segment pricing

Transfers between business segments are recorded at cost

24.2 Segment assets employed as at

December 31, 1997 (%)	48	31	36	29	-	29	16	11	100	100
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

25. Cost of Sales

Opening stock of finished goods	124,390	108,719	99,086	92,043	118,077	102,387	62,967	56,032	404,520	359,181
Cost of goods manufactured (note-25.1)	747,339	675,516	395,702	404,580	205,470	380,293	49,984	54,876	1,398,495	1,515,265
Purchased goods	481,275	370,526	152,843	199,948	158,828	249,607	143,317	108,250	936,263	928,331
Sales tax	186,225	171,729	66,075	61,290	45,255	56,149	10,130	12,529	307,685	301,697
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1,539,229	1,326,490	713,706	757,861	527,630	788,436	266,398	231,687	3,046,963	3,104,474
Less										
-Closing stock of finished goods	174,295	124,390	58,908	99,086	-	118,077	86,265	62,967	319,468	404,520
-Stock transferred to RMCPL	-	-	-	-	-	157,886	-	-	-	157,886
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1,364,934	1,202,100	654,798	658,775	369,744	670,359	180,133	168,720	2,569,609	2,699,954
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

25.1 Cost of goods manufactured

	Light		Consumer Electronics		Major Domestic Appliances (note-I)		Other Activities		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
	(Rupees in thousand)									
Opening stock	178,615	126,912	69,035	88,837	72,586	82,312	17,370	27,957	337,606	326,018
Purchased materials	443,352	463,437	329,966	321,915	167,925	247,482	41,587	39,160	982,830	1,071,994
Excise duty	2,542	2,377	7,204	25,781	26,630	60,894	-	-	36,376	89,052
Salaries, wages and welfare cost (note 26.1)	123,738	110,069	25,860	25,424	16,155	31,215	3,654	3,462	169,407	170,170
Repairs and maintenance Provision for turnaround expenses (note-I I)	12,631	10,470	2,500	2,431	3,701	5,272	1,431	457	20,263	18,630
	21,600	21,748	-	-	-	-	-	-	21,600	21,748
Stores and spares consumed	14,898	34,033	489	329	340	2,391	41	262	15,768	37,015
Technical assistance fee	-	-	-	-	-	814	188	135	188	949
Sales tax on own glass consumption	-	1,100	-	-	-	-	-	-	-	1,100
Fuel and power	50,071	45,904	2,304	436	2,984	5,548	72	53	55,431	51,941
Rent, rates and taxes	724	538	275	94	54	170	27	7	1,080	809

Insurance	1557	1,970	994	1,253	498	1,248	5	6	3,054	4,477
Depreciation	22,888	23,549	6,383	4,310	4,351	5,487	379	193	34,001	33,539
Other expenses	15,192	12,024	5,704	5,805	2,390	5,146	644	554	23,930	23,529
Provision for doubtful debts (written back)-others	-	-	-	(3,000)	-	4,900	-	-	-	1900
	887,808	854,131	450,714	473,615	297,614	452,879	65,398	72,246	1,701,534	1,852,871
Less:										
- Closing stock	140,469	178,615	55,012	69,035	-	72,586	15,414	17,370	210,895	337,606
- Stock transferred to RMCPL					92,144				92,144	
	747,339	675,516	395,702	404,580	205,470	380,293	49,984	54,876	1,398,495	1,515,265
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

26. Selling & Administrative Expenses

	Light		Consumer Electronics		Major Domestic Appliances (note-i)		Other Activities		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
	(Rupees in thousand)									
Salaries, wages and welfare cost (note-26.1)	53,440	44,106	20,811	20,354	5,136	11,077	33,993	34,929	113,380	110,466
Direct selling expenses	113,634	67,206	13,380	10,749	12,182	18,040	2,268	3,585	141,464	99,580
Repairs and maintenance	2,033	2,125	885	1,012	233	704	999	1,245	4,150	5,086
Fuel and power	1,534	1,308	908	626	244	460	2,171	1,934	4,857	4,328
Rent, rates and taxes	4,963	4,902	2,392	2,347	818	1,698	1,926	1,664	10,099	10,611
Insurance	229	20	113	30	9	26	196	349	547	425
Publicity	37,338	39,728	14,747	17,606	10,236	12,646	4,618	6,833	66,939	76,813
Depreciation	1,032	3,437	534	1,601	534	1,158	869	1,194	2,969	7,390
Outward freight	60,051	44,810	6,783	5,623	8,626	16,864	2,255	2,078	77,715	69,375
Other expenses	30,958	28,167	12,600	11,526	4,039	7,687	(3,992)	8,007	43,605	55,387
Provision for doubtful debt-trade	8,234	3,630	2,252	270	393	491	2,484	(4,043)	13,363	348
-Other	(29)	972	-	-	-	-	438	-	409	972
Services charged to other departments	-	-	6,645	5,914	9,617	30,724	(16,262)	(36,638)	-	-
Services charged to RMCPL							(24,382)	-	(24,382)	-
	313,417	240,411	82,050	77,658	52,067	101,575	7,581	21,137	455,115	440,781
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

26.1 Salarie cost, shown under cost of goods manufactured

(note-25.1) and selling and administrative expenses (note-26) includes staff retirement benefits amounting to Rs.25.545 million (I 996:Rs.23.727 million)

27. Other income

	1997	1996
	(Rupees in thousands)	
Interest on loans and advances	98	157
Profit on sale of fixed assets	279	938
Scrap sales	4,518	5,346
Others	765	167
	-----	-----
	5,660	6,608
	=====	=====

28. Financial charges

Interest on

Short-term loans	13,247	9,325
Workers' profits participation fund	616	2,228
Mark-up on		
Short-term finance	51,489	52,686
Long-term finance	28,732	19,747
Finance lease charges	303	2,443
Bank charges, excise duty and others	6,631	12,200
Forward contract charges net of exchange (gain)/Loss	17,003	10,997
	-----	-----
	118,021	109,626
	=====	=====

29. Other charges

	1997	1996
	(Rupees in thousands)	

Directors' fees	3	2
Auditors' remuneration (note 30)	1,627	1,401
Legal and professional charges	4,064	1,216
Workers' profits participation fund	3,809	5,682
Workers' welfare fund	2,335	2,615
Provision for diminution in value of investment	-	6,820
Others	5	81
	-----	-----
	11,843	17,817
	=====	=====

30. Auditors' Remuneration

Audit fee	375	375
Tax and other advisory services, special reports/certifications and audit of various funds	1,216	902
Out of pocket expenses	36	39
Excise duty	-	85
	-----	-----

	1,627	1,401
	=====	=====

31. Taxation

Current	- for the year	39,297	45,808
	- for prior years	1,621	(13,251)
Deferred		(9,516)	(4,986)
		-----	-----
		31,402	27,571
		=====	=====

32. Cash generated from operations

	1997	1996
	(Rupees in thousands)	
Profit before taxation	69,425	103,110
Adjustment for non cash charges and other items:		
Provision for diminution in value of investment	-	6,820
Depreciation	36,970	40,929
Profit on sale of fixed assets	(279)	(938)
Provision for staff retirement benefits	4,706	4,602
Financial charges	118,021	109,626
Working capital changes-note 32.1	(132,535)	(153,333)
	-----	-----
	96,308	110,816
	=====	=====

32.1 Working capital changes

(Increase)/decrease in current assets		
Stores and spares	(633)	(9,692)
Stock-in-trade	(38,267)	(56,927)
Trade debt	(135,298)	(33,817)
Deposits and short-term prepayments	11,848	2,009
Other receivables	(72,148)	9,076
	-----	-----
	(234,498)	(89,351)
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities (excluding accrued markup and interest)	80,363	(58,447)
Provision for turnaround expenses	21,600	(5,535)
	-----	-----
	(132,535)	(153,333)
	=====	=====

33. Cash and cash equivalents

Cash and cash equivalents comprise of the following items as included in the balance sheet:

Cash and bank balances	66,265	50,910
Short-term finances under mark-up arrangements	(278,325)	(265,563)
	-----	-----
	(212,060)	(214,653)
	=====	=====

34. Remuneration of directors and executives

The aggregate amounts charged in the accounts of the year for remuneration, including benefits, to chief executive, a director and executives of the Company were as follows:

	Chief Executive		Director		Executives		Total	
	1997	1996	1997	1996	1997	1996	1997	1996
	(Rupees in thousands)							
Managerial remuneration	2,398	1,694	1,248	1,059	40,459	30,166	44,105	32,919
Retirement benefits	547	387	285	242	9,237	6,887	10,069	7,516
Perquisites:								
Medical expenses	5	23	28	38	2,740	2,238	2,773	2,299
Housing	1,003	908	728	624	19,772	14,805	21,503	16,337
Conveyance	-	-	-	-	5,933	4,397	5,933	4,397
Leave fare assistance	-	327	-	-	-	-	-	327
Company's contribution to provident fund	240	169	125	106	4,046	3,017	4,411	3,292
	-----	-----	-----	-----	-----	-----	-----	-----
	4,193	3,508	2,414	2,069	82,187	61,510	88,794	67,087
	=====	=====	=====	=====	=====	=====	=====	=====
Number of persons (including those who worked part of the year)	1	1	1	1	196	156	198	158
	=====	=====	=====	=====	=====	=====	=====	=====

34.1 In addition, the chief executive, a director and certain executives are provided with free use of cars and certain household items in accordance with their entitlements. The aggregate amount charged in the accounts for fees to three directors was Rs. 3 thousand (1996: Three Directors Rs. 2 thousand)

34.2 Technical advisory fees paid during the year to a non-executive director amounted to Rs. 96 thousand (1996: Nil).

35. Donation

Recipients of donations do not include any donee in which a director or his spouse had any interest.

1997 1996
(Rupees in thousands)

36. Transactions with Associated Undertakings

Purchases (includes fixed assets amounting to Rs. 0.150 million; 1996: Rs. 0.471 million)	710,944	731,321
Sale of fixed assets	964	-

37. Capacity and Production

	1997		1996	
	Capacity	Production	Capacity	Production
Television sets	100,000	49,946	100,000	45,034
Lamps	59,500,000	56,916,393	59,500,000	51,696,221

Glass-soda lime/lead	1,200,000 kg	100%	1,200,000 kg	100%
Refrigerators	12,500	12,978	25,000	27,422
	(January 1 to June 30)			

The shortfall in production as compared to capacity in respect of television sets is due to low demand.

38. Corresponding Figures

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

Ten Years Review

PARTICULARS	(Rupees in Million)										
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	
INCOME & DIVIDEND											
Sales	730	725	953	1396	1774	2304	2409	2666	3365	3218	
Profit before tax	44	33	63	113	156	75	149	196	103	69	
As percentage of Sales	%	6.00	4.6	6.6	8.1	8.8	7.6	6.2	7.3	3.1	2.1
Profit after tax	26	18	43	49	88	6	93	121	76	39	
As percentage of Sales	%	3.6	2.5	4.5	3.5	5	4.6	3.9	4.6	2.3	1.2
Earning per share	Rs.	5.3	1.8	4.4	5	9	9.9	8.6	10.3	6.4	3.9
Dividend per share	Rs.	2.5	2	2.5	3.5	5.5	7	6	7.5	4	2.5
Bonus Issue					01:10		01:10		01:10		01:10
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	
ASSETS											
Tangible fixed assets	188	170	272	271	264	269	235	210	209	145	
Long term investments, loans advances & deposits	7	7	16	28	45	51	53	41	34	31	
Deferred taxation	2		4	3	2			0.4	5	15	
Stores, Spares & Stock in trade	168	186	231	285	323	488	441	706	772	556	
Trade debts & others receivables	235	353	306	249	175	275	334	326	351	406	
Deposits and short term prepayments	12	20	56	40	53	71	58	83	81	46	
Cash and Bank balances	6	2	6	27	36	45	57	54	51	66	
TOTAL-A	618	738	891	903	898	1199	1178	1420	1503	1265	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	
LIABILITIES											
Short term finances & borrowings	265	300	245	188	139	321	265	403	507	556	
Creditors, accrued & other liabilities	61	59	118	155	190	295	294	389	338	347	
Provision for turnaround expenses	19	24	21	27	36	23	6	11	5	27	
Provision for Sales tax & other contingencies	22	7	1								
Taxation	7	10	22	70	65	67	29	47	(22)	(80)	
Dividends	8	12	17	23	36	54	49	59	18	23	
TOTAL- B	382	412	424	463	466	760	643	909	846	873	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	

Net investment (A-B)	236	326	467	440	432	439	535	511	657	392
REPRESENTED BY:										
Share Capital	49	98	98	98	98	108	108	119	119	91
Reserves & Unappropriated profit	89	135	154	169	203	224	252	273	301	215
Surplus on revaluation of fixed assets	19	19	66	66	66	66	66	66	66	66
Shareholders' interest (net worth)	138	252	318	333	367	398	426	458	486	372
Debentures, long term loan, finance lease, redeemable capital & deferred liabilities	98	74	149	107	65	41	109	53	171	20
TOTAL	236	326	467	440	432	439	535	511	657	392
Number of employees at year end	828	649	848	903	973	1061	1040	1048	1045	972

Pattern of shareholding

No. of Shareholders	Shareholding From	To	Total Shares Held
499	1	100	17,114
326	101	500	81,857
88	501	1000	63,464
85	1001	5000	177,123
3	5001	10000	22,194
3	10001	15000	37,524
1	15001	20000	17,430
2	20001	25000	43,120
1	25001	30000	26,845
2	30001	35000	63,525
1	35001	40000	35,341
1	40001	45000	43,120
2	60001	65000	124,639
1	70001	75000	74,200
1	95001	100000	98,224
1	115001	120000	117,040
1	130001	135000	133,340
1	165001	170000	167,456
1	210001	215000	212,771
1	355001	360000	356,569
1	1745001	1750000	1,745,890
1	5485001	5490000	5,488,178
-----	-----	-----	-----
1023			9,146,964
=====	=====	=====	=====

Categories of Shareholders

Shareholders	Number	Shares Held	Percentage
Individuals	994	447,506	4.90%
Investment companies	12	2,231,164	24.39%
Insurance companies	5	657,042	7.18%

Joint stock companies	6	17,485	0.19%
Financial institutions	4	301,583	3.30%
Others	1	4,006	0.04%
*Associated companies	1	5,488,178	60.00%
	-----	-----	-----
	1023	9,146,964	100.00%
	=====	=====	=====

*Represents 60% Shareholding of Royal Philips Electronics N. V. (formerly Philips Electronics N. v.) Eindhoven, The Netherlands and includes their nominee shareholders.

Notice of the 44th Annual General Meeting

NOTICE is hereby given that the Forty-fourth Annual General Meeting of Philips Electrical Industries of Pakistan Limited will be held on Monday, June 29, 1998 at 11:00 a.m. at the Ballroom of Pearl Continental Hotel, Club Road, Karachi to transact the following business:

ORDINARY BUSINESS:

1. To confirm the minutes of the 43rd Annual General Meeting of the Company held on May 6, 1997.
2. To receive and adopt the audited accounts of the Company for the year ended December 31, 1997 and the Reports of the Directors and the Auditors thereon.
3. To declare dividend (Directors have recommended dividend @ 25% i.e., Rs. 2.50 per share for the year 1997).
4. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS:

5. To approve issue out of Share Premium Account of 914,696 Ordinary Shares of Rs. 10/= each as fully paid up Bonus Shares in the proportion of one Ordinary Share for every ten ordinary shares held.

A statement under Section 160 of the Companies Ordinance, 1984, pertaining to the Special Business is annexed to this Notice.

6. To transact such other ordinary business as may be placed before the meeting with the permission of the Chair

The Share Transfer Books of the Company will remain closed from Friday, June 19, 1998 to Monday, June 29, 1998 (both days inclusive).

Notes:

- (1). A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him/her at the meeting. Proxies must be deposited at the Company's Registered Office not less than 48 hours before the time for holding the meeting.
- (2) The dividend will be paid and Bonus shares issued to those members whose names appear on the Register of Members as at the close of business on June 18, 1998.
- (3) Shareholders are requested to immediately notify the change of their address, if any.

**STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE,
1984 IN SUPPORT OF THE SPECIAL BUSINESS TO BE TRANSACTED AT THE
44TH ANNUAL GENERAL MEETING OF THE COMPANY.**

Item \$ of the Agenda: Issue of Bonus Shares

Your Directors consider it advisable to apply a sum of Rs. 9,146,964/=, out of the Share Premium Account for the issue of Bonus Shares. This bonus issue will be in proportion of one ordinary share for every ten ordinary shares held by the members registered with the Company on June 29, 1998. It is accordingly proposed to pass the following resolutions as Ordinary Resolutions.

"It is hereby resolved:

(i) that, pursuant to Article I 17 of the Articles of Association of the Company, the Share Premium Account to the extent of Rs. 9,146,964/- be applied to the issue of 914,696 ordinary shares of Rs. 10/- each allotted as fully paid Bonus Shares to the members of the Company whose names appear on the Register of Members as at the close of business on June 29, 1998 in the proportion of one Bonus Share for every ten shares then held and that the shares so allotted shall be deemed for all purposes as an increase in the Paid-up Capital of the Company;

(ii) that the Bonus Shares so allotted shall rank pari passu in all respects with the existing shares of the Company except that they shall not qualify for the dividend declared in respect of the accounting year ended December 31, 1997;

(iii) that in the event of any member becoming entitled to a fraction of a share, the Directors be and they are hereby authorised to consolidate all such fractions and sell the shares so constituted in the stock market and to pay the proceeds thereof to a charitable institution;

(iv) that for the purpose of giving effect to this Resolution, the Directors be and they are hereby authorised to do and cause to be done all acts, deeds and things that may be necessary and to settle any questions for difficulties that may arise in regard to the allotment of the shares in such manner as they think fit".