

BATA PAKISTAN LIMITED
ANNUAL REPORT 1997

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BOARD OF DIRECTORS

1. MR. M. OLDROYD	Chairman
2. MR. D. BARTON	Managing Director
3. MR. A. KELLY	Director
4. MR. J.P. LEE	Director
5. MR. KHALID M. HAS SAN	Director
6. SYED MOHAMMAD MOHSIN	Director
7. MALIK MANZOOR HAYAT NOON	Director
8. MR. RAZI-UR-RAHMAN KHAN	Director
9. MR. S. SIBTEY ALI	Director

Company Secretary

Salahuddin Niazi

Auditors

Gardezi & Company
Chartered Accountants
65, Shahrah-e-Quaid-e-Azam, Lahore.

Registered Office & Factory

Batapur, G. T. Road
P.O. Batapur, Lahore

Bankers

Habib Bank Limited
Citibank N. A.
Bank of America
National Bank of Pakistan
ANZ Grindlays Bank
American Express Bank Limited

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 46th Annual General Meeting of Bata Pakistan Limited will be held at the Registered Office of the Company at Batapur, District Lahore on 05th May, 1998 at 10.00 a.m. to transact the following business.

1. To confirm the minutes of 45th Annual General Meeting held on 9th April, 1997.
2. To receive, consider, and adopt the Directors' Report, Audited Accounts of the Company and Auditors' Reports thereon, for the year ended 31st December, 1997.
3. To declare dividend as recommended by the Directors.
4. To appoint Auditors and fix their remuneration.

NOTES:

1. A member entitled to attend and vote at the meeting may appoint any person as his proxy to attend the meeting and vote instead of him. The proxy shall have the right to attend, speak and vote in place of the member appointing him at the meeting. A proxy need not be a member of the Company. Proxy form must be deposited at the Company's Registered Office not less than 48 hours before the time for holding the meeting.
2. The shareholders are requested to promptly notify the Company of any change in their addresses.
3. The Share Transfer Books of the Company will remain closed from 28th April to 05th May, 1998 (both days inclusive). The transfer received in order at the Registered Office of the Company upto 27th April, 1998 will be entitled for payment of the dividend.

COMPANY'S FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31,	(RUPEES IN THOUSAND)		% INCREASE/ (DECREASE)
	1997	1996	
NET SALES	1,849,328	2,001,702	(8)
RESULT			
PROFIT BEFORE TAX	12,970	49,721	(74)
PROFIT AFTER TAX	686	29,434	(98)
NET RETURN ON TURNOVER %	0.04	1.47	-
CURRENT ASSETS	882,367	810,095	9
CURRENT LIABILITIES	678,492	605,668	12
CURRENT RATIO ASSETS: LIABILITIES	1.3:1	1.3:1	-
DISTRIBUTABLE RESERVES	328,856	352,923	(7)
SHAREHOLDERS EQUITY	404,939	429,006	(6)

NUMBER OF SHARES	7,560	7,560	-
EARNING PER SHARE OF RS. 10 EACH	0.09	3.89	(98)

DISTRIBUTION OF REVENUE 1997

	Rs. '000s	%
REVENUE PAID TO THE GOVERNMENT	340,547	15.91
COST OF SALES EXCLUDING WAGES AND GOVERNMENT TAXES	1,081,421	50.52
SALARIES, WAGES, BENEFITS AND WELFARE EXPENSES	382,554	17.87
OVERHEADS	335,224	15.66
TRANSFER TO APPROPRIATION ACCOUNT	686.00	0.04
GROSS SALES	2,140,432	100.00

CHAIRMAN'S REVIEW

On behalf of the Board of Directors, it gives me great pleasure to welcome you to the Company's 46th Annual General Meeting and present the Company's Annual Report and financial statements for the year ended 31st December, 1997.

During 1997, the performance of your Company was adversely impacted by the unfavourable business environment created by political events which greatly affected consumer buying patterns and was directly reflected in reduced business in our Retail and Wholesale business.

Despite the difficult operational environment, we were able to remain profitable by exercising strict internal controls, economizing in all areas of our activities and concentrating our efforts on improving our shoeline with more innovative and attractive footwear. The Company's total sales were Rs.1,849 Million as compared with Rs.2,002 Million in 1996.

For the year 1997, the profit before tax amounted to Rs.12.97 Million as against the previous year's profit of Rs.49.72 Million. After making provision for current and deferred taxation of Rs. 12.28 Million, the net profit was Rs.0.69 Million. By adding Rs.1.92 Million of unappropriated profit brought forward from last year, Rs.2.61 Million were available for appropriation. The gross amount of appropriation available as at 31st December, 1997 is required to cover not only the dividend as now proposed by the Directors of Rs.7.56

Million but also an amount of Rs.17.19 Million representing the diminution of the value of the Company's investment in its wholly owned subsidiary ITI. These two outflows (Rs.7.56 Million + Rs.17.19 Million = Rs.24.75 Million) are proposed to be covered by the appropriation of Rs.2.61 Million already referred to plus a transfer of Rs.24.0 Million from General Reserve.

Due to the transfer of the aforementioned amount from the General Reserve, equity has declined from Rs.429.01 Million to Rs.404.94 Million and the return on the equity has decreased from 6.86% in 1996 to 0.17%. The Company's shares of Rs.10.- each were quoted at Rs.48.- on the 31st December, 1997.

Your Company in 1997 contributed over Rs.340.05 Million to the National Exchequer in the form of corporate tax, custom duty, sales tax, excise duty and other taxes.

Your Company continues to monitor and control its internal costs vigorously to optimise profitability from operations. Nevertheless, the Company is not immune to the inflationary pressures prevailing in the country and the costs of the goods and services we receive have increased.

The devaluation of the Pak Rupee during the year, by 10% against the U.S. Dollar, increased the cost of our imports especially rubber, PVC, dyes and chemicals. Higher productivity and better management will be needed to counteract these increases, particularly since margins continue to be under intense pressure due to the declining purchasing power of the majority of the people.

The depressed trading conditions persisted throughout most of the year. As compared with 1996, the retail business in 1997 was lower by 10% in pairs and 8% in turnover. There was a decline in the Wholesale commission's sales which fell by 12% in pairs and 16% in turnover as compared with the achievements of the previous year.

The decline in the domestic sales can be attributed to the economic and political uncertainty which prevailed in the country coupled with a disturbed law and order situation, forced closure of sales outlets for 510 shop days on account of various reasons during the year under review.

Another reason for the shortfall in our Wholesale business was the reduction of stock levels by the wholesale trade generally, due to political conditions during the year, and the Company's campaign to reduce receivables from customers. As a result, the Company was successful in its efforts and the overdue amount receivable from customers, which was Rs. 103.59 Million

in the month of July, 1997, was brought down to Rs.61.47 Million at the close of the year.

On the other hand, throughout 1997, good progress was made in the Company's export business. Although export sales normally generate low margins, they are required to ensure greater capacity utilization. Efforts were made to develop a shoeline in harmony with the latest trends in different markets. As a result of the successful implementation of this strategy, the Company received substantial orders and increased its exports-by 147% over the previous year. The export turnover of Rs.125.19 Million in 1997 is another landmark in the history of the Company.

After the success of Bata Bazar stores at Township and Batapur, Lahore the Company opened another mega store at Bahawalpur. A sum of Rs.1.3 Million was spent on its renovation. I am pleased to report that this concept of sophisticated presentation of mass merchandise in the mega stores, with an exciting and comfortable shopping environment and a self-service selling system, has proved successful. A very positive customer response to these stores has been sustained and indeed is increasing.

To increase the Company's participation in the domestic market, your Company continues to seek new avenues for expansion. During the year, 4 new retail stores were opened while 1 non-progressive store was closed. Similarly, 6 agencies were opened and 12 non-progressive agencies closed. At the end of the year, the Company had 217 retail stores, 128 agencies and 21 wholesale depots.

Your Company continued to make concerted efforts to consolidate its market position in regard to marketing of the existing international brands licensed to the Company such as POWER for sports shoes - BUBBLE GUMMERS for children - NORTH STAR for casual teenagers and SANDAK for PVC summer casuals.

The leading marketers have recognized that sponsorship is a major weapon to be deployed in creating and sustaining brand awareness and positive brand associations. Sports remain the leading vehicle for sponsorship around the world - largely as a result of the media coverage surrounding sports of all types.

The promotional programme of the Company was strongly pursued to project the international brands and our corporate image in the minds of the general public. Our enthusiastic sponsorship of sports activities continued unabated during the year.

In the year under review the 'Power' Division, besides organizing the 'Power Master Open Golf' Tournament also sponsored the 'Power Cup Natural Grass Court Tennis' tournament in which the Punjab Chief

Minister's Advisor Mr. Akhtar Rasool, was the Guest-of-Honour and presented prizes to the winners.

During the year under review the Company spent Rs.40.02 Million on advertising and sales promotional activities.

Your Company continues to benefit from its association with many other footwear manufacturing and distributing companies of the worldwide Bata Shoe Organization and in particular from the valuable technical, commercial and other assistance and services from Bata Limited of Toronto, Canada.

We kept our designers abreast of new ideas and developments by putting to good use the constant flow of fashion-trend reports from Bata Limited, Canada, and by monitoring developments in design, fashion and materials from the international media and through visits to international fairs and exhibitions. The most rewarding of these visits was to the Bata Shoe Organization's Shoecon in Padova, Italy held in May, 1997 to disseminate effectively the latest information on new trends in all aspects of footwear design and development. The Shoecon in Padova, Italy was attended by a team of four from Bata Pakistan Limited, led by the Managing Director.

BSO 2000 Manufacturing Team, reviewed various operations of the Company. To improve the Company's competitiveness, many areas were identified by them and programmes initiated to bring about reduction in the costs which are necessary to enable the Company to succeed in an even more competitive market.

An investment of Rs.6.80 Million was made in new machinery and equipment. It was done only in essential areas. The new machinery enabled us to considerably enhance the quality and appearance of our products thereby generating continued customer confidence. A sum of Rs.15.36 Million was spent on maintaining and uplifting sales outlets. In addition, capital expenditure of Rs.4.35 Million was incurred on the renovation of retail outlets. 17 stores were renovated and 7 uplifted to create a better shopping environment and to improve our service to customers.

Manufacturers continued to fight for their share in a market of reduced purchasing power. The resulting keen competition made it impossible to pass on higher production costs to consumers.

The total production of shoes during the year from the factories at Batapur and Maraka was 13.64 Million pairs in 1997 as against 12.75 Million pairs in 1996. To complement our domestic collection, 0.151 Million pairs of fashionable footwear were imported from Far Eastern countries. Due to reduced domestic sales, purchases of contracted footwear were curtailed from

1.67 Million pairs in 1996 to 1.42 Million pairs in 1997.

Despite the restraints which we had to place on expenditure, we continued the training of personnel generally in accordance with the priority needs of marketing, technology and other vital areas of the Company's activities. In 1997, 411 employees benefited from in-Company courses, 24 attended overseas training courses and 14 participated in locally organized courses such as those arranged by the Pakistan Institute of Management and other specialized agencies.

At the beginning of the year, we employed 3606 persons in all departments of the Company. To reduce overheads, a Voluntary-Retirement Scheme was introduced by the Company. Many employees opted for early retirement. They were paid a total of Rs.31.7 Million as retiring benefits. At the close of the year, we had 3387 employees.

A referendum was held on 19th December, 1997, to elect a Collective Bargaining Agent for the following two years. Bata Mazdoor League was elected as a C.B.A. in place of Pakistan Bata Employees Union. Relations between the employees and the management remained cordial, which is important for efficient and productive working conditions. I expect that the management and the C.B.A. will maintain the existing satisfactory relationship for the benefit of all concerned.

During December, 1997, Mr. T. J. Bata, together with Mrs. Bata, visited Pakistan. He reviewed various operations of the factories and shops and discussed with the management the future plans of the Company. He also presented 25-year Long Service Awards to 80 employees of the Company and gave an Achievement Award to M/s Shahid Brothers, Multan in recognition of his excellent performance by achieving business of over Rs.37 Million which was the highest ever achieved by any Registered Dealer. He also paid courtesy calls on the Prime Minister of Pakistan and the Governor of Punjab.

Mr. S. Sibtey Ali, a nominee of the Investment Corporation of Pakistan was appointed a member of the Board of Directors. His appointment filled the vacancy created by the resignation of Mr. Asadullah Khawaja.

The present Government has introduced a number of economic reforms to boost the economy. The rate of tariff was reduced on many items to encourage the revival of weak businesses but so far this does not appear to have produced the desired results. The domestic market continues to be in a deep recession. It is an uphill task to operate successfully in the prevalent difficult trading conditions. The challenges ahead are enormous, but I am confident that by

working together we will be able to overcome these challenges.

In conclusion, on behalf of the Board of Directors, we would like to express appreciation and thanks to our employees, customers, dealers, distributors, suppliers and union representatives for the contribution they each made and the assistance they each provided during the year 1997 and finally to you, our shareholders, for your continued interest in and -support for the well-being of the Company.

DIRECTORS' REPORT TO THE MEMBERS

1. Your Directors have pleasure in submitting their Report and Statement of Accounts for the year ended December 31, 1997.
2. The Chairman's Review on page 7 to 9 deals with the year's activities and the Directors of the Company endorse the contents of the Statement.
3. The financial results of the company are as under:

	Rs. '000s
Profit before taxation	12,970
Less:-Provision for taxation	-----
Current	14,686
Prior years	(1,461)
Deferred	(941)

	12,284

Profit after tax	686
to this must be added Unappropriated profit brought forward from last year	1,923

Making available for appropriation	2,609
Out of which the Directors recommend the following appropriation:-	
Transfer from General Reserve	(24,000)
Provision for diminution in the value of investment	17,193
Proposed final dividend @ 10% (1996 @ 10%)	7,560

	753

Leaving an unappropriated profit to be carried forward to next year	1,856
	=====

4. The pattern of shareholding is provided on page 33
5. Earning per share of Rs.10 each is Rs 0.09.
6. The consolidated financial information as required by SSAP-2 is provided on page 34 to 37
7. Messrs Gardezi and Company retire and being eligible, offer themselves for reappointment as Auditors of the Company.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Bata 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, 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 purpose of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account and cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 1997 and of the profit and cash flows for the year then ended; and

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

GARDEZI AND COMPANY
CHARTERED ACCOUNTANTS

LAHORE: MARCH 5, 1998

BALANCE SHEET AS AT DECEMBER 31, 1997

	Note	1997 Rs. '000s	1996 Rs. '000s
CAPITAL AND RESERVES			
Authorised capital 10,000,000 ordinary shares of Rs. 10 each		100,000	100,000
		=====	=====
Issued, subscribed and paid up capital	3	75,600	75,600
Reserves and surplus			
Capital reserve	4	483	483
General reserve	5	327,000	351,000
Unappropriated profit		1,856	1,923
		-----	-----
		329,339	353,740
		-----	-----
		404,939	429,006
DEFERRED LIABILITIES			
		-----	-----
Provision for gratuity		51,190	49,720
Deferred taxation		6,123	7,064
		-----	-----
		57,313	56,784
LONG TERM DEPOSITS	6	12,120	11,426
OBLIGATION UNDER FINANCE LEASE	7	8,478	16,741
CURRENT LIABILITIES AND PROVISIONS			

Short term running finances	8	258,530	229,313
Current portion of obligation under finance lease	7	8,263	9,286
Creditors, accrued and other liabilities	9	404,139	359,509
Proposed dividend		7,560	7,560
		-----	-----
		678,492	605,668

CONTINGENT LIABILITIES AND CAPITAL

COMMITMENTS	11	-----	-----
		1,161,342	1,119,625
		=====	=====

The annexed notes form an integral part of these accounts.

	Note	1997 Rs. '000s	1996 Rs. '000s
FIXED CAPITAL EXPENDITURE			
Operating fixed assets	12	232,861	248,394
Capital work in progress	13	1,617	-
		-----	-----
		234,478	248,394
LONG TERM INVESTMENTS			
LONG TERM LOAN	14	13,150	30,343
LONG TERM DEPOSITS AND PREPAYMENTS	15	25,000	25,000
CURRENT ASSETS			
Stores and spares	17	57,175	56,459
Stock in trade	18	563,111	513,362
Trade debts	19	174,359	159,571
Loans and advances	20	50,210	50,009
Deposits, short term prepayments and other receivables	21	16,656	14,090
Cash and bank balances	22	20,856	16,604
		-----	-----
		882,367	810,095
		-----	-----
		1,161,342	1,119,625
		=====	=====

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1997

	Note	1997 Rs. '000s	1996 Rs. '000s
NET SALES	23	1,849,328	2,001,702
COST OF SALES	24	1,383,569	1,517,583
		-----	-----
GROSS PROFIT		465,759	484,119
OPERATING EXPENSES			
Administrative	25	155,228	151,993
Selling and distribution	26	255,330	242,291
		-----	-----
		410,558	394,284

OPERATING PROFIT		55,201	89,835
OTHER INCOME	27	2,360	3,857
		57,561	93,692
FINANCIAL AND OTHER CHARGES			
Financial charges	28	39,202	40,477
Workers' profit participation fund	29	759	2,680
Workers' welfare fund		1,247	1,015
Loss/(Profit) on fixed assets sold/scrapped	12.2	3,383	(201)
		44,591	43,971
PROFIT BEFORE TAXATION		12,970	49,721
PROVISION FOR TAXATION			
Current		14,686	18,861
Prior years		(1,461)	2,260
Deferred		(941)	(834)
		12,284	20,287
PROFIT AFTER TAXATION		686	29,434
UNAPPROPRIATED PROFIT FROM PREVIOUS YEAR		1,923	2,585
PROFIT AVAILABLE FOR APPROPRIATION		2,609	32,019
APPROPRIATIONS			
Transfer (from)/to general reserve		(24,000)	10,000
Provision for diminution in the value of investmen	14	17,193	12,536
Proposed final dividend @ 10% (1996 @ 10%)		7,560	7,560
		753	30,096
UNAPPROPRIATED PROFIT CARRIED FORWARD		1,856	1,923

The annexed notes form an integral part of these accounts.

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
	Rs. '000s	Rs. '000s
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before taxation	12,970	49,721
Adjustment for:		
Depreciation	24,138	25,935
Provision for gratuity	1,470	4,944
Provision for doubtful debts	(101)	481
Loss / (Profit) on fixed assets sold and scrapped	3,383	(201)
Interest income	-	(82)
Financial charges	39,202	40,477
	68,092	71,554

Operating profit before working capital change and financial charges	81,062	121,275
Net changes in operating assets and liabilities (Schedule attached)	(25,664)	(30,887)
Interest / mark up paid	(36,699)	(41,096)
Income taxes paid	(13,264)	(32,346)
	-----	-----
Net cash provided by operating activities	5,435	16,946
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(14,427)	(19,022)
Proceeds of fixed assets sold	822	6,530
Interest received on investments	-	82
Long term investment	-	(22,976)
	-----	-----
Net cash used in investing activities	(13,605)	(35,386)
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in obligation under finance lease	-	2,064
Repayment of obligation under finance lease	(9,286)	(10,725)
Short term running finances	29,217	8,073
Dividend paid	(7,509)	(7,518)
Long term loan	-	23,755
	-----	-----
Net cash provided by financing activities	12,422	15,649
	-----	-----
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	4,252	(2,791)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,604	19,395
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note - 22)	20,856	16,604
	=====	=====

**NET CHANGES IN OPERATING ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 1997**

	1997	1996
	Rs. '000s	Rs. '000s
Stores and spares	(716)	8,491
Stock in trade	(49,749)	37,293
Trade debts	(14,687)	(36,438)
Loans and advances	(201)	(48,343)
Deposits, short term prepayments and other receivables	(1,058)	(665)
Creditors, accrued and other liabilities	40,607	8,397
Long term deposits-employees securities	694	(738)
Long term deposits and prepayments	(554)	1,116
	-----	-----
	(25,664)	(30,887)
	=====	=====

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31,1997

1. THE COMPANY AND ITS OPERATION

Bata Pakistan Limited is a public limited company quoted on Stock Exchanges in Pakistan. The Company

is engaged mainly in the manufacturing and sale of footwear of all kinds.

2. ACCOUNTING POLICIES

2.1 Accounting Convention

The accounts have been prepared in accordance with the historical cost convention without any adjustment for the effect of inflation or current values.

2.2 Gratuity

The company has an unfunded gratuity scheme covering all employees excluding managerial staff. Provision is made annually to cover obligation under the scheme on the basis as mentioned below:

(a) For employees who are member of provident fund scheme, the provision is calculated with reference to 3 weeks' basic salary for each completed year of service, irrespective of completion of their qualifying period of service.

(b) For employees who are not member of provident fund scheme, provision is based on 30 days gross highest salary / wages drawn during the year for each completed year of service.

2.3 Taxation

The charge for current taxation is provided on taxable income at current rate of tax after recognizing tax credit and rebates available, if any or minimum tax under Section 80D of the Income Tax Ordinance, 1979 whichever is higher. Deferred taxation is provided on all major timing differences by using liability method. The net debit balance, if any, is however not recognized in the accounts.

2.4 Fixed Capital Expenditure and Depreciation

(a) Fixed assets are stated at cost less accumulated depreciation except land and capital work in progress which are stated at actual cost.

(b) Depreciation is charged to income applying the reducing balance method without considering extra shifts worked, at the rates as prescribed in note-12.

(c) Minor renewals, replacements, maintenance and repairs are expensed. Major renewals and betterments are capitalized. Gains and losses on deleted assets are reflected in the accounts.

(d) No depreciation is provided on assets in the year in which these are sold while charge for the full year is made in the year in which these are purchased.

2.5 Accounting for Leased Assets

Assets under finance lease are stated at lower of present value of minimum lease payments under the lease agreement and the fair value of assets. Depreciation on these assets is charged according to company's policy for similar assets.

The aggregate amount of obligation relating to assets subject to finance lease are accounted for at the net principal liability under the lease agreement.

Finance charges are allocated over the lease term so as to produce constant periodic rate of return on the outstanding principal liability for each period.

2.6 Investments

These are stated at cost. Dividend received and interest accrued are reflected in the profit and loss account accordingly.

2.7 Stocks, Stores and Spares

These have been valued on the basis mentioned below which are consistent with that of previous years:

BASIS

Stores and spares

Own production	At production cost
Purchased	At moving average cost
In transit	At actual cost
Raw material	
Own production	At average production cost
Purchased	At lower of moving average cost or market value
In transit	At actual cost
	At average production cost
Finished goods	
Own production	At lower of average production cost or net realizable value
Purchased products	At lower of actual cost or net realizable value

2.8 Trade Debts

Debts considered bad by the management are provided for or written off but no general provision is made for doubtful debts.

2.9 Commitments and Contingencies

Capital commitments and contingencies, unless those are actual liabilities, are not incorporated in the accounts.

2.10 Foreign Currencies

Assets and liabilities in foreign currencies are translated into Pak. rupees at the rate of exchange ruling on the balance sheet date. Exchange gains and losses are included in the income currently.

2.11 Revenue Recognition

Revenue from sale is recognized on delivery of goods to customers.

	1997 Rs. '000s	1996 Rs. '000s
3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
Issued for cash		
1,890,000 ordinary shares of Rs. 10 each	18,900	18,900
Issued for consideration other than cash		
300,000 ordinary shares of Rs. 10 each	3,000	3,000
Issued as bonus shares		
5,370,000 ordinary shares of Rs. 10 each	53,700	53,700
	-----	-----
	75,600	75,600
	=====	=====
	1997	1996
	Rs. '000s	Rs. '000s
4. CAPITAL RESERVE	483	483
	=====	=====

This represents the balance of foreign shareholders' equity in Globe Commercial Enterprises Limited (an associated undertaking) gifted to the company on its winding up.

	1997 Rs. '000s	1996 Rs. '000s
5. GENERAL RESERVE		
Balance at January 1,	351,000	341,000

Transferred (to) / from profit and loss account	(24,000)	10,000
	-----	-----
	327,000	351,000
	=====	=====

6. LONG TERM DEPOSITS

Employees' securities and personal accounts	12,120	11,426
	=====	=====

6.1 This represents the securities deposited by the employees in accordance with the terms of employment and the amounts credited on account of commission etc. to the sales staff. Interest at the rate of 12.70% per annum is being paid on the monthly outstanding balances.

6.2 In accordance with provisions of Section 227 of the Companies Ordinance, 1984 this amount has been invested in PLS saving bank account and is shown separately as long term investment (Note - 14).

	1997	1996
	Rs. '000s	Rs. '000s

7. OBLIGATION UNDER FINANCE LEASE

Total commitments under finance lease	23,027	36,880
Less: Finance charges not due	6,286	10,853
Net principal liability	16,741	26,027
Less: Current portion shown under current liabilities	8,263	9,286
	-----	-----
	8,478	16,741
	=====	=====

7.1 Present value of minimum lease payments has been discounted at an interest rate implicit in lease which equates to an interest rate of approximately 15 to 18% per annum. Detail of future rental charges is as under:

Name of Leasing Company	Amount due Rs.'000s	No. of install	Repayable by	Salvage Value
National Development Leasing Corporation	1,702	11	November, 1998	5 %
Orix Leasing Pakistan Ltd.	21,325	35	November, 2000	10 %

	23,027			
	=====			

7.2 Repairs and insurance cost shall be borne by the lessee. The lease agreement may be terminated by the lessee prior to expiration of maximum term. In case' lease agreement is terminated the unpaid principal amount alongwith salvage value shall immediately become due and payable by the lessee to lessor. The lease agreement is renewable at the option of lessee.

7.3 The lease liability is partly secured against deposit of Rs. '000s 3,290 grouped in long and short term deposits and prepayments (Note-16 and 21).

	1997	1996
	Rs. '000s	Rs. '000s

8. SHORT TERM RUNNING FINANCES

Cash finance		
Secured against hypothecation of stock in trade, stores and spares and receivables of the Company	223,530	204,313
Export refinance		
Secured against hypothecation of stock of finished goods	35,000	25,000

-----	-----
258,530	229,313
=====	=====

8.1 The cash finance and export refinance from total credit facilities available to the company aggregating to Rs. 341.7 Million (1996 Rs. 352.7 Million) are provided in consortium by Habib Bank Limited, Citibank N.A., Bank of America, American Express Bank Limited, ANZ Grindlays Bank and Emirates Bank International.

8.2 Mark up on cash finance and export refinance has been charged at the rate of 16 to 19.71% and 11 to 13% per annum respectively.

	1997	1996
	Rs. '000s	Rs. '000s

9. CREDITORS, ACCRUED AND OTHER LIABILITIES

Deposits (Note - 9.1)	22,648	21,498
Creditors	251,833	206,986
Due to associated undertakings (Note -9.2)	2,588	2,697
Accrued liabilities	84,577	90,286
Interest accrued on secured loans	11,217	8,714
Workers' profit participation fund (Note - 9.3)	759	2,680
Due to provident fund trust (Note - 9.4)	4,569	4,136
Advances from customers	444	967
Sales tax payable	13,856	12,810
Taxes deducted at source payable	8,342	5,983
Unclaimed dividend	790	739
Other liabilities	2,516	2,013
	-----	-----
	404,139	359,509
	=====	=====

9.1 Deposits

These represent the security money received from the registered wholesale dealers, agency holders and other customers in accordance with the terms of the contract with them. Deposits from agency holders carry interest at the rate of 12.7% per annum. These are repayable on termination / completion of the contract and on returning the company's property already provided to them.

	1996	1997
	Rs. '000s	Rs. '000s

9.2 Due to associated undertakings

Bata Limited, Canada	1,149	1,045
Essex Commercial Enterprises, U.K.	1,251	1,545
Bata Shoe Company of Australia	119	107
Bata Singapore	69	-
	-----	-----
	2,588	2,697
	=====	=====

No interest has been charged on the amounts due to associated undertakings.

9.3 Workers' profit participation fund

Balance at January 1,	2,680	2,428
Contribution for the year	759	2,680
Interest paid on fund utilized in company's business	213	186
	-----	-----

	3,652	5,294
Less: Amount-paid to fund's trustees	2,893	2,614
	-----	-----
	759	2,680
	=====	=====

9.4 The balance due to provident fund trust has been paid on January 10, 1998.

10. PROVISION FOR TAXATION

Income tax

Balance at January 1,	(6,018)	5,207
Income tax paid for prior years	(1,559)	(9,068)
Provision (written back) / made for prior years	(1,461)	2,260
	-----	-----
Provision for the year	(9,038)	(1,601)
	14,686	18,861
	-----	-----
Advance tax paid and tax deducted at source	5,648	17,260
	(11,705)	(23,278)
	-----	-----
Other taxes	(6,057)	(6,018)
Workers' welfare fund	1,469	1,527
Balance at January 1,		
Payments made during the year	(2,716)	(1,073)
	-----	-----
Provision for the year	(1,247)	454
	1,247	1,015
	-----	-----
	-	1,469
	-----	-----
	(6,057)	(4,549)
	=====	=====

	1997	1996
	Rs. '000s	Rs. '000s

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

11.1 The Company is contingently liable for:

Counter Guarantees given to banks	3,346	2,609
Indemnity Bond given to Custom Authorities	4,436	728
Acquirer charges claimed by WASA- under appeal	1,179	-
	-----	-----
	8,961	3,337
	=====	=====

Besides the above, the sales tax department, Lahore has demanded sales tax amounting to Rs. 334 million on certain internal processing of materials used within the company's factories and on contracted footwear for the past years, through a show cause notice issued during the year. The company however maintains that sales tax is not leviable on these items. Accordingly the company has filed a writ petition in Lahore High Court against this levy and stay has been granted. The management and legal advisor of the company are confident that decision will be made in favour of the company as this demand is arbitrary, thus no provision has been made in the accounts for the above said levy.

1997	1996
-------------	-------------

	53	26	27	27		Negotiation Employee - Adil Karim
	17	11	6	3	(3)	Negotiation Employee - M. Safdar
	18	5	13	4	(9)	Negotiation Employee - Sarfaraz Khan
	11	9	2	3	1	Negotiation Employee - Various
	422	289	133		(133)	Scrapped
	-----	-----	-----	-----	-----	
	9,282	5926	3,356	662	(2,734)	
Boiler	416	225	191	50	(141)	Auction M. Ashiq, Manawan, Lahore.
Gas installations	1	1				Negotiation Employee - Sher Ali Khan
Office equipment	300	223	77	-	(77)	Scrapped
Furniture fixtures and fittings	38	12	26	25	(1)	Negotiation Employee - Sher Ali Khan
	6	5	1	1		Employee Karamat All
	3	2	1	3	2	Negotiation M. Akhtar, Sadiqabad
	2	2		1	1	Negotiation Employee - Various
	1,232	698	534		(534)	Scrapped
	-----	-----	-----	-----	-----	
	1,281	719	562	30	(532)	
Vehicles	218	203	15	70	55	Negotiation Employee - Abdul Qayyum
	180	176	4	50	46	Negotiation Employee - Z.R. Kallue
	-----	-----	-----	-----	-----	
	398	379	19	120	101	
	-----	-----	-----	-----	-----	
Rs. '000' 1997	11,678	7,473	4205	822	(3,383)	
	=====	=====	=====	=====	=====	
Rs. '000s 1996	14,953	8,624	6,329	6530	201	
	=====	=====	=====	=====	=====	

1997 1996
Rs. '000s Rs. '000s

13. CAPITAL WORK IN PROGRESS

Machinery in transit	1,617	-
	=====	=====

1997 1996
Rs. '000s Rs. '000s

14. LONG TERM INVESTMENTS

In wholly owned subsidiary		
At cost	75,000	75,000
Less: Provision for diminution in value of shares of I.T.I. (Pvt) Limited to the extent of its accumulated loss	(72,852)	(55,659)
	-----	-----
	2,148	19,341
In PLS saving bank account (Note - 14.1)	11,002	11,002
	-----	-----
	13,150	30,343
	=====	=====

14.1 The investment in PLS saving bank account is earmarked against the balances due to employees securities and personal accounts (Note - 6)

1997 1996
Rs. '000s Rs. '000s

15. LONG TERM LOAN

To wholly owned subsidiary - I.T.I. (Pvt) Limited	25,000	25,000
	=====	=====

15.1 This represents long term investment made in wholly owned subsidiary, International Tanners & Industries (Pvt) Limited. It is a part of the total investment not exceeding Rs.150 million which may be made by the company in its subsidiary, as approved in the Extraordinary General Meeting held on August 22, 1990.

15.2 The loan carries interest at the rate of 16.5% per annum which is equivalent to mark up at the rate of paisas 45.21 per thousand rupees per day.

	1997	1996
	Rs. '000s	Rs. '000s

16. LONG TERM DEPOSITS AND PREPAYMENTS

Deposits	3,290	4,625
Prepayments - advance rent	5,158	4,359
	-----	-----
	8,448	8,984
Less: Adjustable within one year (Note - 21)	-----	-----
Deposits	260	1,335
Prepayments - advance rent	1,841	1,856
	-----	-----
	2,101	3,191
	-----	-----
	6,347	5,793
	=====	=====

	1997	1996
	Rs. '000s	Rs. '000s

17. STORES AND SPARES

Stores	5,522	4,890
Spares	50,960	51,128
	-----	-----
	56,482	56,018
Spares in transit	693	441
	-----	-----
	57,175	56,459
	=====	=====

17.1 The company does not hold any stores and spares for specific capitalization.

18. STOCK IN TRADE

Raw material	99,966	79,308
Goods in process	38,790	31,138
Finished goods	-----	-----
Own production	2,906,231	262,303
Purchased product	95,101	101,628
	-----	-----
	385,724	363,931
	-----	-----

	524,480	474,377
Raw material in transit	38,631	38,985
	-----	-----
	563,111	513,362
	=====	=====

19. TRADE DEBTS - UNSECURED

Considered good		
Due from customers	174,038	155,116
Due from associated undertakings (Note - 19.1)	321	4,455
	-----	-----
	174,359	159,571
Considered doubtful		
Due from customers	2,553	2,654
	-----	-----
	176,912	162,225
Less: Provision for doubtful debts	2,553	2,654
	-----	-----
	174,359	159,571
	=====	=====

19.1 The highest aggregate amount due from associated undertakings at the end of any month in 1997 was Rs. '000s 7,084 (1996 Rs. '000s 16,731). No interest has been charged on the amounts due from associated undertakings.

	1997	1996
	Rs. '000s	Rs. '000s

20. LOANS AND ADVANCES

Considered good		
Advances to employees	-	344
Advances to suppliers	1,884	323
Due from wholly owned subsidiary (Note - 20.1)	48,326	49,342
	-----	-----
	50,210	50,009
	=====	=====

20.1 This represents current account with Wholly owned subsidiary International Tanners & Industries (Pvt) Limited and carries interest at the rate of 16.5% per annum (Note - 15.1 and 15.2). The highest aggregate amount due from the wholly owned subsidiary at the end of any month in 1997 was Rs.'000s 49,068 (1996 Rs. '000s 52,831).

	1997	1996
	Rs. '000s	Rs. '000s

DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES

Deposits		
Considered good		
Custom duty and taxes	101	68
Security deposits against finance lease (Note - 16)	260	1,335
Others	5,621	4,024
	-----	-----
	5,982	5,427
Short term prepayments		
Advance rent (Note - 16)	1,841	1,856
Prepaid insurance	2,147	1,475
	-----	-----

	3,988	3,331
Other receivables		
Considered good		
Advance tax paid (Note - 10)	6,057	4,549
Others	629	783
	-----	-----
	6,686	5,332
	-----	-----
	16,656	14,090
	=====	=====

22. CASH AND BANK BALANCES

Cash in hand	29	14
Bank balances - in current accounts	1,186	2,419
Cash in transit	19,641	14,171
	-----	-----
	20,856	16,604
	=====	=====

	1997	1996
	Rs. '000s	Rs. '000s

23. NET SALES

Shoes and accessories		
Export	125,186	50,777
Local	2,010,216	2,147,242
	-----	-----
	2,135,402	2,198,019
Sundry articles and scrap material	5,030	5,306
	-----	-----
	2,140,432	2,203,325
	-----	-----
Less: Sales tax paid	192,639	195,475
Commission to agents / business associates	98,465	106,148
	-----	-----
	291,104	201,623
	-----	-----
	1,849,328	2,001,702
	=====	=====

24. COST OF SALES

Cost of goods-manufactured (Note -'24.1)	1,177,859	1,224,529
Finished goods purchased	227,503	270,502
Add: Opening stock of finished goods	363,931	386,483
	-----	-----
	1,769,293	1,881,514
Less: Closing stock of finished goods	385,724	363,931
	-----	-----
	1,383,569	1,517,583
	=====	=====

24.1 Cost of goods manufactured

Raw material consumed		
Opening stock	118,293	126,916
Add: Purchases	921,176	932,699
	-----	-----

	1,039,469	1,059,615
Less: Closing stock	138,597	118,293
	-----	-----
	900,872	941,322
Spares consumed	10,236	9,774
Fuel and power	43,407	40,888
Salaries, wages and benefits	187,568	177,863
Repairs and maintenance	22,079	26,079
Insurance	3,820	4,481
Depreciation	17,529	187004
	-----	-----
	1,185,511	1,218,411
Add: Opening goods in process	31,138	37,256
	-----	-----
	1,216,649	1,255,667
Less: Closing goods in process	38,790	31,138
	-----	-----
	1,177,859	1,224,529
	=====	=====
	1997	1996
	Rs. '000s	Rs. '000s

25. ADMINISTRATIVE EXPENSES

Salaries and benefits	92,286	90,652
Employees' welfare	7,120	8,138
Fuel and power	6,590	4,150
Telephone and postage	9,824	10,034
Insurance	493	755
Travelling	15,523	13,634
Repairs and maintenance	4,578	3,572
Printing and stationery	9,944	10,319
Donations and subscription (Note - 25.1)	561	485
Legal and professional charges	1,944	2,035
Auditors' remuneration (Note - 25.2)	1,070	966
Miscellaneous	3,142	4,892
Depreciation	2,153	2,361
	-----	-----
	155,228	151,993
	=====	=====

25.1 None of the directors or his spouse is interested in the funds of donees.

25.2 Auditors' remuneration

Statutory audit	500	400
Audit of workers' profit participation fund, Bata club fund, Share transfers etc.	51	56
Physical verification of stocks at sale outlets and plant and machinery	184	200
Consulting, accounting and tax services	260	250
Out of pocket expenses	75	60
	-----	-----
	1,070	966
	=====	=====

26. SELLING AND DISTRIBUTION EXPENSES

Salaries and benefits	94,821	97,430
Freight and octroi	42,737	34,138
Advertising and sales promotion	40,015	40,150

Rent	26,463	24,211
Insurance	3,403	2,775
Royalty	2,335	909
Fuel and power	18,333	16,507
Repairs and maintenance	15,357	14,284
Entertainment	6,101	3,731
Provision for doubtful debts	-	1,336
Miscellaneous	1,309	1,250
Depreciation	4,456	5,570
	-----	-----
	255,330	242,291
	=====	=====

	1997	1996
	Rs. '000s	Rs. '000s

27. OTHER INCOME

Rent received (Note - 27.1)	2,259	3,775
Provision for bad debts written back	101	-
Interest received	-	82
	-----	-----
	2,360	3,857
	=====	=====

27.1 Rent received during the year includes Rs.'000s 1,697 (1996 Rs. '000s 3,155) being rental of plant at Attari leased to wholly owned subsidiary - International Tanners & Industries (Pvt) Limited.

	1997	1996
	Rs. '000s	Rs. '000s

28. FINANCIAL CHARGES

Interest / mark-up on:		
Short term running finances (15I_ote - 28.1)	25,924	27,687
Finance lease	4,567	4,792
Workers' profit participation fund	213	186
Provident fund trust	1,689	699
Employees / agents' securities and personal accounts	3,525	3,351
	-----	-----
	35,918	36,715
Bank charges and commission	3,284	3,762
	-----	-----
	39,202	40,477
	=====	=====

28.1 The interest amounting to Rs. '000s 13,100 (1996 Rs. '000s 11,097) charged to International Tanners & Industries (Pvt) Limited, wholly owned subsidiary, on long term loan and current account is set off against interest expense on short term loans / finances of the company.

	1997	1996
	Rs. '000s	Rs. '000s

29. WORKERS' PROFIT PARTICIPATION FUND

Contribution for the year	759	2,680
	=====	=====

29.1 This represents the amount allocated during the year and will be paid to the trustees of the fund after accounts will be approved by the members. Interest at the rate of 2.5% above the bank rate or

75% of the rate at which dividend is declared, whichever is higher, is being charged on the fund available for the period the company has utilized for its operations.

30. REMUNERATION OF DIRECTORS AND EXECUTIVES

Aggregated amounts charged in the accounts for the year for remuneration, including all benefits to Chief Executive, Directors and Executives of the company are as follows:

	Chief Executive		Directors		Executives		Total	
	1997	1996	1997	1996	1997	1996	1997	1996
	Rs. '000s		Rs. '000s		Rs. '000s		Rs. '000s	
Directors' fee	-	-	4	7	-	-	4	7
Managerial remuneration	2,556	2,556	-	-	21,141	22,215	23,697	24,771
Company's contribution to provident fund	256	256	-	-	2,114	2,221	2,370	2,477
Perquisites and allowances								
Housing	180	180	-	-	4,313	4,988	4,493	5,168
Leave passage		215	-	-	174	385	174	600
Conveyance	256	256	-	-	2,153	2,231	2,409	2,487
Medical	6	2	-	-	1,470	1,412	1,476	1,414
Utilities	-	-	-	-	986	1,141	986	1,141
Special	-	-	-	-	179	222	179	222
Voluntary retirement benefits	-	-	-	-	6,884	-	6,884	-
	-----	-----	-----	-----	-----	-----	-----	-----
	3,254	3,465	4	7	39,414	34,815	42,672	38,287
	-----	-----	-----	-----	-----	-----	-----	-----
Number of persons	1	1	4	5	59	65	64	71
	=====	=====	=====	=====	=====	=====	=====	=====

31. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS / WHOLLY OWNED SUBSIDIARY

Aggregated transactions with associated undertakings / wholly owned subsidiary during the year were as under:

	1997	1996
	Rs. '000s	Rs. '000s
31.1 Associated undertakings		
Purchases	24,188	17,672
Sales	9,125	28,338
Royalty-Bata Limited, Canada	2,335	909
31.2 Wholly owned subsidiary		
Purchases	124,786	107,559
Processing charges paid	11,926	24,018
Interest received	13,100	11,097
Rent received	1,697	3,155

32. CAPACITY AND ACTUAL PRODUCTION

No. of shifts worked		Installed capacity based on actual shifts worked		Actual production	
1997	1996	Fig. in '000s 1997	1996	Fig. in '000s 1997	1996

Footwear in pairs						
Rubber and canvas	1 to 2	1 to 2	4,100	4,100	2,520	2,081
Thongs	1 to 2	1 to 2	3,000	3,000	2,494	2,727
Leather	1	1	6,700	6,700	5,671	5,359
Plastic	3	3	4,200	4,200	2,951	2,582

32.1 The deviation in actual production from installed capacity is due to rapidly growing trend of fashion and also less / more demand of certain articles, inter-alia, the company has to change the major shoeline in accordance with the market trends. All this involves change in manufacturing operations which causes variances not only between the installed capacity and actual production but also between the actual production of any two years.

33. GENERAL

33.1 Figures of previous year have been rearranged where necessary for the purpose of comparison and have been rounded off to the nearest thousand rupees.

STATEMENT UNDER SECTION 237 OF THE COMPANIES ORDINANCE, 1984 _

SUBSIDIARY

International Tanners & Industries (Pvt) Limited

1997	1996
Rs. '000s	Rs. '000

STATEMENT UNDER SUB - SECTION I (e)

(a) Extent of the interest of Bata Pakistan Limited (the holding company) in the equity of its subsidiary at the end of the last of the financial year of subsidiary	100%	100%
--	------	------

(b) The net aggregate amount of revenue profits less losses of the subsidiary company so far as these concern members of the holding company and has not been dealt with in the account of the holding company for the year ended December 31, are:

(i) for the last of the financial year of the subsidiary	-	-
(ii) for the previous years but subsequent to the acquisition of the controlling interest by the holding company	-----	-----

(c) The net aggregate amount of profits less losses of the subsidiary company so far as these have been dealt with or provision made for losses in the account of holding company for the year ended December 31, are:

(i) for the last of the financial year of the subsidiary	(17,193)	(12,536)
(ii) for the previous years but subsequent to the acquisition of the controlling interest by the holding company	(55,659)	(43,123)
	-----	-----
	(72,852)	(55,659)
	=====	=====

PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 1997

No. of	Shareholding	Total
---------------	---------------------	--------------

Shareholders	From	To	Shares held
670	1	100	36,267
684	100	500	171,139
108	501	1,000	77,171
66	1,001	5,000	116,156
5	5,001	10,000	31,366
1	10,001	15,000	11.39
1	15,001	20,000	15,168
1	20,001	25,000	21,785
1	40,001	45,000	41,000
1	50,001	55,000	50,600
1	55,001	60,000	57,884
1	65,001	70,000	65,305
1	195,001	200,000	200,000
1	210,001	215,000	211,040
1	1,915,001	1,920,000	1,917,727
1	4,535,001	4,540,000	4,536,000
-----			-----
1,544			7,560,000
=====			=====

CATEGORIES OF SHAREHOLDERS

	Number of Shareholders	Total Shares held	Percentage
FOREIGN SHAREHOLDERS			
Bata (BM) B.V. Netherlands	1	4,536,000	60.00
LOCAL SHAREHOLDERS			
Individuals	1,524	445,129	5.89
National Investment Trust	1	211,040	2.79
National Bank of Pakistan	1	1,917,727	25.37
Pakistan Industrial Credit and Investment Corporation	1	200,000	2.65
Investment Corporation of Pakistan	1	65,305	0.86
Insurance Companies	6	141,569	1.87
Joint Stock Companies	9	43,230	0.57
	-----	-----	-----
	1,544	7,560,000	100.00
	=====	=====	=====

**CONSOLIDATED FINANCIAL INFORMATION OF
BATA PAKISTAN LIMITED AND I.T.I. (PVT) LIMITED**

GENERAL INFORMATION**SUBSIDIARIES**

Name	International Tanners & Industries (Private) Limited
Accounting year end	December 31,
Percentage of holding	100%
Nature of business	Manufacturing and sale of Crust leather

Reserves attributable to members of the parent dealt with in the financial statements of the parent

- In the current year Rs. '000s (17,193)

- In the previous years Rs. '000s (55,659)

Reserves attributable to members of the parent not dealt with in the financial statements of the parent

- In the current year Nil
- In the previous years Nil

ASSOCIATES

Not applicable

TRANSACTIONS WITH SUBSIDIARIES / ASSOCIATED COMPANIES

Type of transactions	Value during the year Rs. '000s	Basis of determination of transaction value
Wholly owned subsidiary		
Purchases	124,786	Standard purchase policy
Processing charges paid	11,926	Standard purchase policy
Interest received	13,100	16.5% - Average bank rate available to Bata
Rent received	1,697	As per lease agreement

SUBSIDIARIES /ASSOCIATED COMPANIES BALANCES

	Year end balance		Nature of balance	Maximum balance at the end of any month during the year	
	Dr/(Cr)	Rs. '000s		Dr/(Cr)	Rs. '000s
Wholly owned subsidiary					
I.T.I. (Pvt) Limited	25,000		Long term loan	25,000	
I.T.I. (Pvt) Limited	48,326		Short term loan	49,068	

DETAIL OF GROUP BANKING ARRANGEMENTS

The company has obtained additional credit facilities from its bankers amounting to Rs. 75 million against long and short term loan given to wholly owned subsidiary - International Tanners & Industries (Pvt) Limited. The company has given corporate guarantee to its bankers against utilization of letter of credit facilities by its wholly owned subsidiary - I.T.I. (Pvt) Ltd.

**CONSOLIDATED BALANCE SHEET OF
BATA PAKISTAN LIMITED AND I.T.I. (PVT) LIMITED
AS AT DECEMBER 31, 1997**

	1997 Rs. '000s	1996 Rs. '000s
FIXED CAPITAL EXPENDITURE		
Operating Fixed Assets	310,594	289,346
Capital work in progress	1,617	-
	-----	-----
	310,594	290,963
LONG TERM INVESTMENT	11,002	11,002
LONG TERM DEPOSITS AND PREPAYMENTS	6,347	5,793

CURRENT ASSETS	-----	-----
Stores and spares	62,708	61,887
Stock in trade	599,055	548,392
Trade debts	181,716	168,077
Loans and advances	1,884	667
Deposits, short term prepayments and other receivables	23,449	26,921
Cash and bank balances	21,334	24,478
	-----	-----
	890,146	830,422
 CURRENT LIABILITIES AND PROVISIONS		
Short term running finances	258,530	229,313
Current portion of obligation under finance lease	8,263	9,286
Creditors, accrued and other liabilities	437,685	392,699
Proposed dividend	7,560	7,560
	-----	-----
	712,038	638,858
 NET CURRENT ASSETS	-----	-----
	178,108	191,564
 CAPITAL EMPLOYED	-----	-----
	486,420	518,953
 DEFERRED LIABILITIES		
Provision for gratuity	547,601	54,716
Deferred taxation	6,123	77064
	-----	-----
	60,883	61,780
 LONG TERM DEPOSITS	-----	-----
	12,120	11,426
OBLIGATION UNDER FINANCE LEASE	-----	-----
	8,478	16,741
	-----	-----
	81,481	89,947
 NET CAPITAL EMPLOYED	-----	-----
	404,939	429,006
	=====	=====
 REPRESENTED BY		
Issued, subscribed and paid up capital	75,600	75,600
Reserves and surplus	-----	-----
Capital reserve	483	483
General reserve	327,000	351,000
Unappropriated profit	1,856	1,923
	-----	-----
	329,339	353,406
	-----	-----
	404,939	429,006
	=====	=====

**CONSOLIDATED PROFIT AND LOSS ACCOUNT OF
BATA PAKISTAN LIMITED AND I.T.I. (PVT) LIMITED
FOR THE YEAR ENDED DECEMBER 31, 1997**

	1997	1996
	Rs. '000s	Rs. '000s
Consolidated sales	1,911,752	2,093,162
	=====	=====
Net (loss) / profit for the year		
Bata Pakistan Limited	12,970	49,721
International Tanners & Industries (Pvt) Limited	(15,945)	(10,738)

	-----	-----
	(2,975)	38,983
Less: Adjustment for unrealized profits and inter group dividends	-	-
	-----	-----
Consolidated (loss) / profit before tax	(2,975)	38,983
Provision for taxation	13,532	22,085
	-----	-----
Less: Minority interest	-	-
	-----	-----
Net (loss) / profit attributed to parent company	(16,507)	16,898
	=====	=====
STATEMENT OF RETAINED EARNINGS		
Retained earnings - beginning of the year	1,923	2,585
Net (loss) / profit for the year	(16,507)	16,898
	-----	-----
	(14,584)	19,483
APPROPRIATIONS		
Transfer (from) / to general reserve	(24,000)	10,000
Proposed final dividend @ 10% (1996 @ 10%)	7,560	7,560
	-----	-----
	(16,440)	17,560
	-----	-----
Retained earnings - end of the year	1,856	1,923
	=====	=====

**INTERNATIONAL
TANNERS & INDUSTRIES (PVT) LTD**

A SUBSIDIARY OF

BATA PAKISTAN LTD

BOARD OF DIRECTORS

1. MR. D. BARTON	Chairman / Managing Director
2. MR. M. OLDROYD	Director
3. MR. SALAHUDDIN NIAZI	Director

Company Secretary Salahuddin Niazi	Auditors Gardezi & Company Chartered Accountants 65, Shahrah-e-Quaid-e-Azam, Lahore.
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Registered Office: Batapur, G. T. Road P.O. Batapur, Lahore	Bankers Emirates Bank International American Express Bank Habib Bank Limited Citi Bank N.A.
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DIRECTORS' REPORT TO THE MEMBERS

The Directors of International Tanners & Industries (Private) Limited have pleasure in submitting their report

and Audited Accounts of the Company for the year ended 31st December, 1997.

	Rs. '000s
Gross Profit	8,630
The Profit / (Loss) of the Company for the year ended 31st December, 1997 after providing administrative, selling and distribution expenses, financial and other charges amounts	(15,945)
Accumulated loss carried forward	(72,852)

Total turnover (net) for the year under review comes to Rs.199.1 Million, which is 10.72% less than that of previous year. Export of leather is 49.5 Million against 85.9 Million of last year. The shortfall is mainly due to severe competition in international market.

Out of total turnover, Rs.11.9 Million pertain to processing charges for the shoes processed at Atari Plant for the holding company. However the processing of shoes for holding company has been discontinued in the month of August, 1997 except stitching of uppers which are still done at Atari plant.

Rs. 138.7 Million represents the value of locally sold leather out of which leather of Rs. 124.7 Million was supplied to holding company.

The Company has suffered losses since its inception except for 1993. The main reason for the losses were high depreciation cost of tannery and financial charges, which could not be absorbed in the price structure of the leather.

From 1998, the company has decided to run the tannery operation only to meet the leather requirement of the holding company.

The Company is wholly owned subsidiary of Bata Pakistan Limited.

The Company is still reviewing its financial impact for installation of an effective effluent treatment plant at its tannery to meet the requirement of an Ordinance relating to "Environmental Protection".

The present Auditors Messrs Gardezi and Company, retire and offer themselves for reappointment.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of International Tanners & Industries (Private) Limited as at December 31, 1997 and the related profit and loss account and cash flow statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the

balance sheet, profit and loss account and cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 1997 and of the loss and cash flows for the year then ended; and

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

BALANCE SHEET AS AT DECEMBER 31, 1997

	Note	1997 Rs. '000s	1996 Rs. '000s
CAPITAL AND RESERVES			
Authorised capital			
7,500,000 ordinary shares of Rs.10 each		75,000	75,000
		=====	=====
Issued, subscribed and paid up capital	3	75,000	75,000
Accumulated loss		(72,852)	(55,659)
		-----	-----
		2,148	19,341
LONG TERM LOAN			
From holding company	4	25,000	25,000
DEFERRED LIABILITIES			
Provision for gratuity		3,570	4,996
CURRENT LIABILITIES AND PROVISIONS			
Due to holding company	5	48,326	49,342
Creditors, accrued and other liabilities	6	33,546	33,190
		-----	-----
		81,872	82,532
CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS			
	7	-----	-----
		112,590	131,869
		=====	=====

The annexed notes form an integral part of these accounts.

	Note	1997 Rs. '000s	1996 Rs. '000s
FIXED CAPITAL EXPENDITURE			
Operating fixed assets	8	56,485	62,200
CURRENT ASSETS			
Stores and spares	9	5,533	5,428
Stock in trade	10	35,944	35,030
Trade debts	11	7,357	8,506
Deposits, short term prepayments and other receivables	12	6,793	12,831
Cash and bank balances	13	478	7,874
		-----	-----

56,105	69,669
-----	-----
112,590	131,869
=====	=====

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1997

	Note	1997 Rs. '000s	1996 Rs. '000s
NET SALES		199,136	223,037
COST OF SALES		190,506	205,817
		-----	-----
GROSS PROFIT		8,630	17,220
OPERATING EXPENSES			
Administrative	16	6,412	6,173
Selling and distribution	17	4,381	5,025
		-----	-----
		10,793	11,198
		-----	-----
OPERATING (LOSS) / PROFIT		(2,163)	6,022
FINANCIAL AND OTHER CHARGES			
Financial charges	18	13,783	16,783
Profit on fixed assets sold / scrapped	8.2	(1)	(23)
		-----	-----
		13,782	16,760
		-----	-----
LOSS BEFORE TAXATION		(15,945)	(10,738)
PROVISION FOR TAXATION			
Current		(1,248)	(1,128)
Prior years		-	(670)
		-----	-----
		(1,248)	(1,798)
		-----	-----
LOSS AFTER TAXATION		(17,193)	(12,536)
LOSS BROUGHT FORWARD FROM PREVIOUS YEAR		(55,659)	(43,123)
		-----	-----
ACCUMULATED LOSS CARRIED FORWARD		(72,852)	(55,659)
		=====	=====

The annexed notes form an integral part of these accounts.

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

	1997 Rs. '000s	1996 Rs. '000s
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(15,945)	(10,738)
Adjustment for:	-----	-----
Depreciation	5,725	6,360
Provision for gratuity (net)	(1,426)	838
Profit on fixed assets sold and scrapped	(1)	(23)

Provision for doubtful debt made / (Written Back)	75	(243)
Capital work in progress written off	-	1,159
Financial charges	13,783	16,783
	-----	-----
	18,156	24,874
	-----	-----
Operating profit before working capital change and financial charges	2,211	14,136
Net changes in operating assets and liabilities (Schedule attached)	5,433	56,897
Interest / mark up paid	(13,783)	(18,581)
Income taxes paid	(1,248)	(2,372)
	-----	-----
Net cash (used in) / provided by operating activities	(7,387)	50,080
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(19)	(497)
Proceeds of fixed assets sold	10	80
Proceeds of shares issued	-	25,000
	-----	-----
Net cash (used in) / provided by investing activities	(9)	24,583
CASH FLOW FROM FINANCING ACTIVITIES		
Short term running finances	-	(44,620)
Repayment of long term loan from holding company	-	(23,755)
	-----	-----
Net cash provided by / (used in) financing activities	-	(68,375)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(7,396)	6,288
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,874	1,586
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	478	7,874
	=====	=====

(Note - 13)

**NET CHANGES IN OPERATING ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 1997**

	1997	1996
	Rs. '000s	Rs. '000s
Stores and spares	(105)	1,329
Stock in trade	(914)	12,150
Trade debts	1,074	4,528
Deposits, short term prepayments and other receivables	6,038	(6,015)
Due to holding company	(1,016)	49,342
Creditors, accrued and other liabilities	356	(4,437)
	-----	-----
	5,433	56,897
	=====	=====

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 1997

1. THE COMPANY AND ITS OPERATION

International Tanners & Industries (Pvt) Limited is a wholly owned subsidiary of Bata Pakistan Limited.

The company is engaged mainly in the manufacturing and sale of leather and footwear of all kinds.

2. ACCOUNTING POLICES

2.1 Accounting Convention

The accounts have been prepared in accordance with the historical cost convention without any adjustment for the effect of inflation or current values.

2.2 Gratuity

The company has an unfunded gratuity scheme covering all the employees other than managers and staff on deputation from the holding company. The accrual of gratuity is therefore made in the accounts for all such employees on the basis of 30 days gross highest salary/wages drawn during the year for each completed year of service, irrespective of completion of their qualifying period of service.

2.3 Taxation

The charge for current taxation is provided on taxable income at current rate of tax after recognizing tax credit and rebates available, if any, or minimum tax u/s 80CC and 80D of Income Tax Ordinance, 1979 whichever is higher. Deferred taxation is provided on all major timing differences by using liability method. The net debit balance, if any, is however not recognized in the accounts.

2.4 Fixed Capital Expenditure and Depreciation

(a) Fixed Assets are stated at cost less accumulated depreciation except land and capital work in progress which are valued at actual cost.

(b) Depreciation is charged to income by applying the reducing balance method without considering extra shifts worked, at the rates as prescribed in Note -8.

(c) Minor renewals, replacements, maintenance and repairs are expensed. Major renewals and betterments are capitalized. Gains and losses on deleted assets are reflected in the accounts.

(d) No depreciation is provided on assets in the year in which these are sold while charge for the full year is made in the year in which these are purchased.

2.5 Stocks, Stores and Spares

These have been valued on the basis mentioned below :-

	BASIS
Stores and Spares	At moving average cost
Raw material	At lower of moving average cost or market value
Goods in process	At lower of average production cost or net realizable value
Finished goods	
Own production	At lower of average production cost or net realizable value
Purchased product	At lower of actual cost or net realizable value

2.6 Trade Debts

Debts considered bad by the management are provided for or written off but no general provision is made for doubtful debts.

2.7 Commitments and Contingencies

Capital commitments and contingencies, unless those are actual liabilities, are not incorporated in the accounts.

2.8 Foreign Currencies

Assets and liabilities in foreign currencies are translated into Pak. rupees at the rate of exchange ruling on the balance sheet date. Exchange gains and losses are included in the income currently.

2.9 Revenue Recognition

Revenue from sale is recognized on delivery of goods to customers.

	1997	1996
	Rs. '000s	Rs. '000s

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

7,500,000 ordinary shares of Rs. 10 each fully paid up in cash	75,000	75,000
	=====	=====

3.1 The entire share capital is subscribed for and paid by the holding company, Bata Pakistan Limited.

4. LONG TERM LOAN

From Bata Pakistan Limited - holding company	25,000	25,000
	=====	=====

4.1 This loan represents long term investment made by the holding company, Bata Pakistan Limited. It is a part of the total investment not exceeding Rs. 150 million which the holding company is authorised by its members to make in its wholly owned subsidiary, as and when required.

4.2 This loan carries interest at the rate of 16.5% per annum.

	1997	1996
	Rs. '000s	Rs. '000s

5. DUE TO HOLDING COMPANY

This represents current account with the holding company, Bate Pakistan Limited and carries interest at the rate of 16.5% per annum (Note - 4.1).

	48,326	49,342
	=====	=====

6. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	29,557	28,878
Accrued liabilities	1,619	3,349
Advances from customers	27	300
Taxes deducted at source payable	276	186
Other liabilities	2,067	477
	-----	-----
	33,546	33,190
	=====	=====

7. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The company is contingently liable for counter guarantees given to banks.

	1,270	1,270
	=====	=====

8. OPERATING FIXED ASSETS

DESCRIPTION	As at Jan. 1, 1997	COST Additions	Disposal/ Adjustment	As at Dec. 31, 1997	Rate %	DEPRECIATION		As at Dec. 31, 1997	as at Dec. 31, 1997	BOOK
						As at Jan. 1, 1997	Adjustment Charge for the year			VALUE

Land free hold	4,492	-	-	4,492	-	-	-	-	-	4,492
Buildings on free hold land										
Factory	22,145	-	-	22,145	10	11,278	-	1,087	12,365	9,780
Others	1,245	-	-	1,245	5	376	-	43	419	826
Plant and machinery	84,208	19	17	84,210	10	40,767	8	4,334	45,093	39,117
Gas installations	366	-	-	366	10	184	-	18	202	164
Boiler	3,265	-	-	3,265	10	1,684	-	158	1,842	1,423
Office equipment	412	-	-	412	10	168	-	24	192	220
Furniture, fixtures and fittings	860	-	-	860	10	411	-	45	456	404
Vehicles	192	-	-	192	20	117	-	15	132	60
Rs.'000s 1997	117,185	19	17	117,187		54,985	8	5,725	60,702	56,485
Rs.'000s 1996	116,786	497	98	117,185		48,666	41	6,360	54,985	62,200

1997 **1996**
Rs. '000s **Rs. '000s**

The depreciation charge for the year has been allocated to:

Cost of goods manufactured	5,686	6,333
Administrative expenses	39	27
	-----	-----
	5,725	6,360
	=====	=====

8.2 The disposal of fixed assets during the year was as under:

Particulars	Original cost	Accumulated depreciation	Written down value	Sale proceed	(Profit)/ Loss	Mode of sale	Particulars of purchasers
Plant and machinery	17	8	9	10	(1)	Negotiation	Mr. Mohammed Saeed, Qila Gujjar Singh Lahore.
Rs. '000s 1997	17	8	9	10	(1)		
Rs. '000.s 1996	98	41	57	80	(23)		

1997 **1996**
Rs. '000s **Rs. '000s**

9. STORES AND SPARES

Stores	614	396
Spares	4,919	5,032
	-----	-----
	5,533	5,428
	=====	=====

10. STOCK IN TRADE

Raw material	8,783	15,639
Goods in process	27,161	14,877
Finished goods	-	4,514
	-----	-----
	35,944	35,030
	=====	=====

11. TRADE DEBTS - UNSECURED

Due from customers		
Considered good	7,357	8,506
Considered doubtful	1,843	1,918
	-----	-----
	9,200	10,424
Less: Provision for doubtful debts	1,843	1,918
	-----	-----
	7,357	8,506
	=====	=====

	1997	1996
	Rs. '000s	Rs. '000s

12. DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES

Trade deposits	89	94
Short term prepayments	19	737
Other receivables	-----	-----
Export rebates	2,548	3,362
Advance tax paid (Note - 12.1)	2,610	731
Insurance claim	-	7,040
Others	1,527	867
	-----	-----
	6,685	12,000
	-----	-----
	6,793	12,831
	=====	=====

12.1 Advance tax paid

Income tax (Note - 12.1.1)		
Balance at Jan 01,	(731)	574
Add:	-----	-----
Provision for current year	1,248	1,128
Provision for prior years	-	125
	-----	-----
	1,248	1,253
	-----	-----
	517	1,827
Less:		
Tax deducted at source	(3,127)	(3,103)
	-----	-----
	(2,610)	(1,276)
Other taxes		
Provision for corporate assets tax	-	545
	-----	-----
	(2,610)	(731)
	=====	=====

12.1.1 Due to inclusion of Section 80CC and 80D in the Income Tax Ordinance, 1979, a provision @ 1.0 and 0.5% on gross export and domestic turnover respectively has been made.

13. CASH AND BANK BALANCES

Cash in hand	-	144
Bank balances - in current accounts	478	7,730
	-----	-----

	478	7,874
	=====	=====
14. NET SALES		
Leather		
Local	138,671	115,480
Export	49,540	85,853
	-----	-----
	188,211	201,333
Processing charges	11,926	24,018
Sundry articles and scrap material	216	242
	-----	-----
	200,353	225,593
Less: Commission to agents	1,217	2,556
	-----	-----
	199,136	223,037
	=====	=====

	1997	1996
	Rs. '000s	Rs. '000s

15. COST OF SALES

Cost of goods manufactured (Note - 15.1)	185,992	193,511
Add: Opening stock of finished goods	4,514	16,820
	190,506	210,331
Less: Closing stock of finished goods	-	4,514
	-----	-----
	190,506	205,817
	=====	=====

15.1 Cost of goods manufactured

Raw material consumed		
Opening stock	15,639	1,993
Add: Purchases	145,592	137,595
	-----	-----
	161,231	139,588
Less: Closing stock	8,783	15,639
	-----	-----
	152,448	123,949
Spares consumed	3,928	8,321
Fuel and power	7,751	8,707
Salaries, wages and benefits	20,991	22,523
Factory rental	1,697	3,155
Repairs and maintenance	4,950	6,123
Insurance	825	910
Depreciation	5,686	6,333
	-----	-----
	198,276	180,021
Add: Opening goods in process	14,877	28,367
	-----	-----
	213,153	208,388
Less: Closing goods in process	27,161	14,877
	-----	-----
	185,992	193,511
	=====	=====

16. ADMINISTRATIVE EXPENSES

Salaries and benefits	438	463
Employees' welfare	560	636
Fuel and power	-	88
Telephone and postage	1,292	1,309

Insurance	-	145
Travelling	2,752	2,366
Repairs and maintenance	-	1
Printing and stationery	183	279
Subscription	8	18
Legal and professional charges	168	262
Auditors' remuneration (Note - 16.1)	185	152
Provision for doubtful debts made / (written back)	158	(243)
Miscellaneous	629	670
Depreciation	39	27
	-----	-----
	6,412	6,173
	=====	=====

	1997	1996
	Rs. '000s	Rs. '000s

16.1 Auditors' remuneration

Statutory audit	120	95
Consulting, accounting and tax services	40	37
Out of pocket expenses	25	20
	-----	-----
	185	152
	=====	=====

17. SELLING AND DISTRIBUTION EXPENSES

Salaries and benefits	445	445
Freight and octroi	3,078	3,768
Advertising and sales promotion	690	518
Entertainment	168	236
Rent	-	58
	-----	-----
	4,381	5,025
	=====	=====

18. FINANCIAL CHARGES

Interest / mark up on:		
Long term loan from holding company	4,125	7,746
Due to holding company	8,975	3,351
Short term running finance	-	4,721
	-----	-----
	13,100	15,818
Bank charges and commission	683	965
	-----	-----
	13,783	16,783
	=====	=====

19. TRANSACTIONS WITH HOLDING COMPANY

Aggregated transactions with the holding company during the year were as under:

Sales	124,786	107,559
Processing charges received	11,926	24,018
Interest paid	13,100	11,097
Rent paid	1,697	3,155

20. GENERAL

20.1 Figures of previous year have been rearranged wherever necessary for the purpose of comparison and have been rounded off to the nearest thousand rupees.