

## **PAKISTAN STATE OIL COMPANY LIMITED**

**(Annual Report 1996-97)**

### **CONTENTS**

Notice of the Meeting  
PSO at a Glance  
Managing Director's Review  
Auditors' Report  
Balance Sheet  
Profit and Loss Account  
Statement of Changes in Financial  
Position (Cash Flow Statement)  
Notes to the Accounts  
Statement Pursuant to Section 237  
of the Companies Ordinance, 1984  
Pattern of Holding of the Shares  
Accounts of Subsidiary Companies

### **Managing Director**

M.M. Farid

### **Secretary**

A.R. Mithani

### **Auditors**

Sidat Hyder Qamar Maqbool & Co.  
Taseer Hadi Khalid & Co.

### **Solicitors**

Orr Dignam & Co.

### **Bankers**

ABN Amro Bank  
Allied Bank of Pakistan Limited  
American Express Bank Limited  
ANZ Grindlays Bank  
Bank of America  
Banque Indosuez  
Citibank N.A.  
Deutsche Bank  
Emirates Bank International Limited  
Habib Bank A. G. Zurich  
Habib Bank Limited  
Muslim Commercial Bank Limited  
Mashreq Bank  
National Bank of Pakistan  
Standard Chartered Bank  
Societe Generale  
Union Bank Limited  
United Bank Limited

### **Registered Office:**

P.S.O. House, Khayaban-e-Iqbal, Clifton, Karachi.

## **BOARD OF MANAGEMENT (OIL)**

### **CHAIRMAN**

CHAUDHRY NISAR ALI KHAN  
Minister for Petroleum & Natural Resources  
Government of Pakistan

### **MEMBERS**

MR. G. A. SABRI Director General (Oil) Ministry of Petroleum & Natural Resources, Government of Pakistan	MR. ABDUS SATTAR Financial Advisor Ministry of Petroleum & Natural Resources, Government of Pakistan
---	---

DR. SHAHID K. HAK

MR. ASADULLAH KHAWAJA

Managing Director  
Pak Arab Refinery Limited

Managing Director  
Investment Corporation of Pakistan

MIAN MOHAMMAD FARID  
Managing Director  
Pakistan State Oil Company Limited

#### **NOTICE OF THE MEETING**

Notice is hereby given that the 21st Annual General Meeting of the Company will be held at Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi on Wednesday, 31st December, 1997, at 11:00 A.M. under the Chairmanship of the Managing Director to transact the following business:

##### **I. Ordinary Business**

1. To confirm the minutes of the 20th Annual General Meeting held on 29th December 1996.
2. To receive and adopt the audited accounts for the year ended 30th June, 1997 together with Auditors' report and the Managing Director's review thereon.
3. To lay information before the members of the Company of the appointment of Messrs Sidat Hyder Qamar Magbool & Company and Taseer Hadi Khalid & Company, Chartered Accountants, as Auditors of the Company, for the year ending 30th June, 1998.
4. To declare a final dividend of 50% in addition to the interim dividend of 30% already paid, thereby making a total dividend of 80% for the year ended 30th June, 1997.

##### **II. Special Business**

5. To consider and, if thought fit, pass the following Ordinary Resolution for the capitalisation of profits amounting to Rs. 165,431,038/-.

##### **Resolved that**

(i) "a sum of Rs. 165,431,038/- from the Company's profit in the year ended 30th June, 1997 be capitalised for issuing 16,543,104 fully paid-up Ordinary Shares of Rs.10/- each as Bonus Shares to be allotted to those members whose names appear in the Register of Members on Tuesday, 23rd December, 1997, in the proportion of two shares for every ten shares held and that the Bonus Shares when issued shall rank pari passu in all respects with the existing Ordinary Shares of the Company except that the said Bonus Shares shall not be eligible for the dividend declared for the year ended 30th June, 1997.

(ii) the members entitled to fractions of shares as a result of their holdings either being less or in excess of an exact multiple of proportion (referred in 5(i) above) shall be given the sale proceeds of their fractional entitlements for which purpose the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange; and

(iii) for the purpose of giving effect to the above, the Managing Director be and is hereby authorised to take all necessary actions and to settle any question or difficulty that may arise in regard to the distribution of the said Bonus Shares or in the payment of the sale proceeds of the fractional entitlements (referred above), as he deems fit."

AND

6. To transact any other Ordinary Business of the Company with the permission of the Chairman.

##### **NOTES:**

1. A member entitled to attend and vote at this meeting may appoint any other member as his/her proxy to attend and vote. A proxy form is enclosed.
2. The Share Transfer Books of the Company will remain closed from Wednesday, 24th December, 1997 to Wednesday, 31st December, 1997 (both days inclusive). Transfers received in order at the Registered Office of the Company upto the close of business on Tuesday, 23rd December, 1997 will be considered in time to be eligible for payment of Final Dividend and issue of Bonus Shares to the transferees.
3. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notorially attested copy of the power of attorney must be deposited at the registered office of the Company at least 48 hours before the time of the meeting.

**STATEMENT UNDER SECTION 160 (1) (B)  
OF THE COMPANIES ORDINANCE, 1984**

The Reserves of the Company as on 30th June, 1997 represent accretion on its existing share capital, it has been thought expedient to capitalise a part of the said reserves by way of issue of Bonus Shares to the members. The Company has no direct interest in the event the capital is increased as proposed. Upon issuance of the Bonus Shares, the paid-up capital of the Company shall stand increased to Rs. 992,586,230/-.

**PSO AT A GLANCE**

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1998
<b>Earning and Dividend</b>										
	Rs. Per Share of Rs. 10									
Earning	24.73	23.54	21.27	18.49	13.63	12.19	10.20	9.64	10.57	11.42
Break-up value	66.89	65.21	62.35	59.91	55.70	56.49	56.41	55.78	55.16	53.45
Dividend	8.00	6.00	5.00	5.00	5.00	4.75	4.50	4.00	4.00	4.00
Bonus	2:10	3:10	3:10	3:10	2:10	2:10	3:20	1:10	1:10	1:10

**Statistical Summary**

	Rs. in Millions									
Shareholders' equity	5,533.20	4,149.20	3,051.80	2,255.40	1,747.70	1,476.90	1,281}.5	1,153.00	1,036.50	913.00
New capital exp.	820.50	920.70	461.90	321.80	364.90	207.40	138.90	216.40	374.30	424.70
Profit before tax	3,745.80	2,563.20	1,681.10	1,175.60	771.50	526.90	450.70	367.20	330.70	344.00
Profit after tax	2,045.80	1,498.20	1,041.1	696.00	427.60	318.70	231.80	199.20	198.70	195.10
Dividends	661.70	381.80	244.70	188.20	156.90	124.20	102.30	82.70	75.20	68.30

**Financial Ratio**

	Ratios									
Current assets: Current liabilities	1.1:1	1.1:1	1.1:1	1.1:1	1.1:1	1.2:1	1.1:1	1.4:1	1.4:1	1.3:1
Long term debt: equity	5:95	5:95	7:93	8:92	12:88	17:83	24:76	28:72	33:67	29:71
Total Debt: equity	28:72	29:71	29:71	23:77	33:67	24:76	51:49	49:51	51:49	49:51

**MANAGING DIRECTOR'S REVIEW**

I welcome you all to the 2 SALES STATISTICS of your Company and present the Annual Report and Financial Statements for the year ended 30th June 1997.

Your Company has set itself very high standards of performance and despite heavy odds has managed to maintain these standards. The Company has maintained the tempo of achievements. We have not only exceeded the sales volumes but have also surpassed our profitability after tax as compared to last year. Your accounts therefore, show Rs. 3,745.8 Million Profit Before Tax and Rs. 2,045:8 Million Profit After Tax. This gives an earning per share of Rs. 24.73. This achievement has been made possible with the dedication, cooperation, hardwork and devotion of the staff members, dealers, distributors and our valued customers.

I am pleased to inform you that we have shifted all our offices to PSO House which has further improved the working conditions and efficiency of the Company. To mark this achievement the cover of your Annual Report portrays photograph of this elegant building. The Paid Up Capital of the Company was increased by 30% last year and I am pleased to inform you

that return to the shareholders for the year under review has been maintained on increased capital by giving 80% Cash Dividend and 20% Bonus Shares. The capitalization by issue of 20% Bonus Shares will further strengthen your company and will enable to meet the fund requirements for the development of on-going projects. As highlighted in Note 20.1, an amount of Rs. 4.13 Billion is receivable from WAPDA and Rs. 3.91 Billion is receivable from KESC. All efforts are being made to recover this amount.

Now, a word about your Company's on-going and completed projects:-

An 82 Km long underground Pipeline from Zulfiqarabad Oil Terminal (ZOT) to HUBCO was successfully commissioned during the year which has initial capacity to supply 2.5 million metric tonnes/ annum. To feed this Pipeline, additional Furnace Oil Storage Tankage of 1,60,000 metric tonnes has also been developed and commissioned. PSO's Equity in this project is 49%.

AES Power Complex at Lalpir is nearing completion and PSO will supply the fuel requirement of one million metric tonnes/annum to this project through pipeline which has already been laid and completed from our Lalpir Depot. Additional 24,000 tonnes Furnace Oil storage is being constructed at our Lalpir Depot which will be completed by June 1998.

58,300 tonnes Machike Depot has been completed during the year, linked with PARCO System and has been commissioned.

As reported last year, Agreement with M/s. Bakri Gas Inc., Saudi Arabia was signed to develop an LPG Storage Terminal at Port Qasim. This project is environment friendly and the fuel is also economical as compared to other petroleum products. Initially, it was decided to have 20% Equity in this project which now has been increased to 30%. A Feasibility Study is under preparation and speedy progress on this project is expected during the year 1997-98.

At present PARCO is having 864 KM long underground Pipeline from Keamari to Mahmood Kot for transporting HSD and SKO. More than 75% of the product transported through this Pipeline is on behalf of PSO. Another parallel pipeline is to be laid and the Feasibility Study is under progress which is being carried out by M/s. Bechtel International. This Pipeline is expected to be, completed before the end of year 2000 with an initial capacity of 7 million tonnes/annum. There are six partners in this project, PSO having the highest equity participation of 30%. Previously equity participation by PSO was agreed for 10% only which after negotiations with the other partners has now been revised upward to 30%.

Various new Private Power Projects have come on line and Fuel Supply Agreements have been signed with these new power projects. Fuel Oil will be supplied to these power projects by rail and construction work has started at Pipri Marshalling Yard from where Fuel Oil will be despatched through rail up-north which shall greatly reduce the heavy traffic congestion in the city of Karachi as the present

road despatches are being made Ex-Keamari Installations.

It will be pertinent to emphasize that the above significant achievements have been possible because of your Company's constant endeavours to improve the quality of its Human Resources through training and various other measures.

My sincere thanks to the Staff and Workers of Pakistan State Oil who have contributed to the profitability and growth of the Company.

Acknowledgments are particularly due to the Chairman, Board of Management (Oil) for his active participation and guidance in the affairs of the

Company and to the members of the Board for their invaluable contributions. Acknowledgments are also in order for continued support of the Ministry of Petroleum and Natural Resources. Lastly, I wish to record my sincere appreciation for the support and confidence of our esteemed shareholders.

PERFORMANCE OF PSO'S SHARE OF RS 10/-  
AT KARACHI STOCK EXCHANGE

YEAR	HIGHEST	LOWEST	30TH JUNE
1997	445	261	395
1996	424	258	345
1995	470	250	355
1994	450	315	144
1993	392	132	184

**MIAN MOHAMMAD FAIRD**

9th December 1997

Managing Director

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

We have audited the annexed balance sheet of PAKISTAN STATE OIL COMPANY LIMITED as at 30 June 1997 and the related profit and loss account and statement of changes in financial position, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

b) in our opinion:

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

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and statement of changes in financial position, 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 30 June 1997 and of the profit and changes in financial position 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.

**Taseer Hadi Khalid & Co.**  
Chartered Accountants

**Sidat Hyder Qamar Maqbool & Co.**  
Chartered Accountants

**BALANCE SHEET AS AT 30 JUNE 1997**

	Notes	1997 Rupees	1996 Rupees
<b>CAPITAL AND RESERVES</b>			
Authorised capital			
100,000,000 (1996: 100,000,000) ordinary shares of Rs. 10/- each		1,000,000	1,000,000
		=====	=====
Issued, subscribed and paid-up capital	3	827,156	636,274
Reserves	4	4,704,772	3,511,223
Unappropriated profit		1,270	1,665
		-----	-----
		5,533,198	4,149,162
<b>LONG-TERM LOANS</b>	5	54,753	102,504
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>			
<b>LONG-TERM DEPOSITS</b>	6	1,274	13,152
<b>DEFERRED LIABILITY FOR STAFF GRATUITY</b>	7	255,278	239,821
<b>CURRENT LIABILITIES</b>	8	441,372	378,983
		-----	-----
Bank finance under mark-up arrangements	9	1,879,675	1,448,700
Current portion of long-term loans and liabilities under finance lease	5 & 6	57,564	87,255
Creditors, accrued expenses and other liabilities	10	14,998,087	7,941,684
Taxation - net		1,055,268	634,130
Dividends	11	447,717	233,662
		-----	-----
		18,438,311	10,345,431
<b>CONTINGENCIES AND COMMITMENTS</b>	12	24,724,186	15,229,053
		=====	=====
<b>FIXED ASSETS - TANGIBLE</b>			
Operating fixed assets	13	1,863,495	1,163,068
Assets subject to finance lease	14	24,667	39,345
Capital work-in-progress	15	1,057,715	1,265,198
Inventory held for capital expenditure		391,690	354,302
		-----	-----
		3,337,567	2,821,913
<b>LONG-TERM INVESTMENTS</b>	16	483,660	577,526
<b>LONG-TERM DEPOSITS, LOANS, ADVANCES AND PREPAYMENTS</b>	17	125,052	109,902
<b>CURRENT ASSETS</b>			
		-----	-----
Stores and spares	18	108,425	70,945
Stock-in-trade	19	5,017,672	3,519,104
Trade debts	20	10,853,332	3,076,705
Loans, advances, deposits, prepayments and other receivables	21	3,595,020	3,729,599
Cash and bank balances	22	1,203,458	1,323,359
		-----	-----
		20,777,907	11,719,712
<b>NET ASSETS IN BANGLADESH</b>	23	-	-
		-----	-----
		24,724,186	15,229,053
		=====	=====

The annexed notes form an integral part of these accounts.

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1997**

Notes Rs. 000

<b>REVENUES</b>		<b>1997</b>	<b>1996</b>
Sales		109,508,018	80,562,712
Less: Government levies	24	30,056,339	27,630,386
		-----	-----
		79,451,679	52,932,326
Cost of products sold	25	73,906,214	48,854,513
		-----	-----
		5,545,465	4,077,813
Other income	26	172,788	145,488
		-----	-----
		5,718,253	4,223,301
		-----	-----
<b>EXPENDITURE AND CHARGES</b>			
Transportation	27	140,613	178,305
Administrative and marketing	28	1,436,321	1,208,792
Financial	29	198,413	138,128
Workers' profit participation fund		197,145	134,904
		-----	-----
		1,972,492	1,660,129
		-----	-----
<b>PROFIT BEFORE TAXATION</b>		3,745,761	2,563,172
<b>PROVISION FOR TAXATION</b>	30	1,700,000	1,065,000
		-----	-----
<b>PROFIT AFTER TAXATION</b>		2,045,761	1,498,172
<b>UNAPPROPRIATED PROFIT BROUGHT FORWARD</b>		1,665	1,227
		-----	-----
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>		2,047,426	1,499,399
<b>APPROPRIATIONS:</b>			
Transfer to general reserve		1,219,000	906,000
Proposed issue of bonus shares in the ratio of 2:10 (1996: 3:10)		165,431	190,882
Interim dividend 30% (1996: 30%)		248,147	190,882
Final dividend 50% (1996: 30%)		413,578	190,882
Tax on proposed issue of bonus shares		-	19,088
		-----	-----
		2,046,156	1,497,734
		-----	-----
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>		1,270	1,665
		=====	=====

The annexed notes form an integral part of these accounts.

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
(CASH FLOW STATEMENT)  
FOR THE YEAR ENDED 30 JUNE 1997**

	<b>Rs. 000</b>	
	<b>1997</b>	<b>1996</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	-----	-----
Profit before taxation	3,745,761	2,563,172
Adjusting for non cash charges and other items:		
Depreciation	293,489	208,646
Retirement benefits accrued	83,759	121,718
Profit on sale of fixed assets	(3,807)	(2,566)
Provision for slow moving and obsolete stores and spares	-	20,000
Provision for stock losses	-	15,000
Provision for doubtful receivables	29,330	17,000
Dividend received	(19,413)	(5,148)
Financial charges	198,413	138,128
	-----	-----
	4,327,532	3,075,950
	-----	-----
Changes in operating assets and liabilities		
(Increase) in stores and spares	(37,480)	(41,508)
(Increase) in stock-in-trade	(1,498,568)	(1,567,330)
(Increase) in trade debts	(7,776,627)	(1,458,863)
Decrease in loans, advances, deposits and prepayments	678,779	492,496
	-----	-----
	(8,633,896)	(2,575,205)

Increase in bank finance under mark-up arrangement	430,975	456,710
Increase in creditors, accrued expenses and other liabilities	7,023,694	2,062,966
-----		
Cash generated from operations	7,454,669	2,519,676
-----		
Taxes paid	(1,278,862)	(747,184)
Retirement benefits paid	(21,370)	(12,977)
-----		
	(1,300,232)	(760,161)
-----		
Net cash flow from operating activities	1,848,073	2,260,260
-----		
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditure	(820,503)	(920,708)
Sale proceeds of fixed assets	5,547	3,867
(Increase) in long-term loans, deposits advances and other receivables	(34,860)	(28,359)
Long-term investment	93,866	(83,357)
Short-term loan provided	(544,200)	-
Dividend received	19,413	5,148
-----		
Net cash flow from investing activities	(1,280,737)	(1,023,409)
-----		
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayment of long-term loans	(71,751)	(72,179)
Liabilities against assets subject to finance lease	-	19,928
Payment made for assets subject to finance lease	(17,569)	(19,599)
Proceeds from long-term deposits	15,457	36,616
Financial charges paid	(165,704)	(138,128)
Dividend Paid	(447,670)	(285,437)
-----		
Net cash flow from financing activities	(687,237)	(458,799)
-----		
Net (decrease)/Increase in cash and bank balances	(119,901)	778,052
Cash and bank balances at the beginning of the year	1,323,359	545,307
-----		
Cash and bank balances at the end of the year	1,203,458	1,323,359
=====		

**NOTES TO THE ACCOUNTS****FOR THE YEAR ENDED 30 JUNE 1997**

(Amount in Thousand Rupees)

**1. STATUS AND NATURE OF BUSINESS**

Pakistan State Oil Company Limited is a public quoted company incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984). The principal activity of the Company is the storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.1 Accounting convention**

These accounts have been prepared on the basis of 'historical cost' convention.

**2.2 Staff retirement benefits****2.2.1 Gratuity**

The Company operates an unfunded gratuity scheme for all its employees which provides for a graduated scale of benefits dependent on the length of service of the employee on terminal date subject to the completion of minimum qualifying period of service. Obligations under the scheme are provided annually.

**2.2.2 Pension**

The Company operates a defined benefit pension scheme for both management and non-management employees. Contributions are made annually to the fund on the basis of actuarial recommendations at the rate of 20% and 14.9% of basic salary respectively. An actuarial valuation is performed once every three years and the most recent actuarial valuation of the scheme for management and non-management employees was carried



out at 01 January 1996 and 01 July 1997 respectively. The fair value of the funds' assets and liabilities for the past services of the employees at the latest valuation date were Rs. 234.5 million and Rs. 336.5 million respectively. The actuarial valuation was carried out using "Entry Age Normal Actuarial Cost Method". Main valuation assumptions used for actuarial valuation were as under :

- Expected rate of increase in salaries is 14% per annum for management and 10% per annum for non-management.
- Expected rate of interest on investment is 14% per annum for management and 13% per annum for non-management.

#### 2.2.3 Provident Fund

The Company also operates an approved contributory provident fund scheme for all its employees and contributions are made in accordance with the fund rules.

#### 2.3 Taxation

##### Current

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

##### Deferred

Deferred liability for taxation, if any, is accounted for by using the liability method on all major timing differences. However, deferred tax debits are not accounted for in the accounts which at 30 June 1997 amounted to approximately Rs. 22.946 million (1996: Rs. 64.503 million).

#### 2.4 Fixed assets, capital work in progress and depreciation

##### Owned

These are stated at cost less accumulated depreciation except freehold land and capital work-in-progress which are stated at cost.

Cost in relation to certain fixed assets, including capital work-in-progress, signifies historical cost and financial charges on borrowings for financing the projects until such projects are completed or become operational.

Depreciation is charged to income applying the straight line method. Full year's depreciation is charged on additions during the year but no depreciation is charged on deletions.

##### Leased

Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets. The related obligations under the lease are accounted for as liabilities. Assets acquired under finance lease are amortised over the useful life of the assets and such amortization included in depreciation is computed commencing from the month in which the leased assets are put into operation.

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

Gains and losses on disposal of assets are included in income currently.

#### 2.5 Long-term investments

The Company follows the 'cost method' of accounting for long-term investments. The carrying amount is reduced to recognise a decline, other than temporary, in the value of investments.

#### 2.6 Stores and spares

These are valued at moving average cost except items in transit which are stated at cost. Obsolete and used items are recorded at nil value.

#### 2.7 Stock-in-trade

These are valued at the lower of average cost or cost on first-in first-out (FIFO) basis depending upon the categories and net realisable value. Charges like excise, custom duties and other similar levies incurred on unsold stock of products are added to the value of stock.

Stock-in-transit are valued at cost comprising invoice value plus other charges incurred thereon. Net realisable value signifies the selling price in the ordinary course of business less cost necessarily to be incurred in order to make the sale.

#### 2.8 Trade debts

Known bad debts, if any, are written off and provision is made against debts considered doubtful.

#### 2.9 Foreign currency translation

Transactions in foreign currency are accounted for in rupees at the rates prevailing on the date of transactions. Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange which approximate those ruling at the balance sheet date except in

the case of a foreign currency loan which is covered under Exchange Risk Scheme. Exchange gains and losses are included in income currently.

#### 2.10 Revenue recognition

- Sales are recorded on despatch of products to customers.
- Dividend income on equity investment is recognised on receipt basis.
- Return on Deposits is recognised on an accrual basis:

### 3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Fully paid Ordinary shares of Rs. 10/- each.

1997 (No. of shares)	1996		1997	1996
3,000,000	3,000,000	Issued for cash	30,000	30,000
7,694,469	7,694,469	Issued for consideration other than cash	76,945	76,945
-----	-----	Issued as bonus shares:	-----	-----
52,932,853	38,249,625	- at beginning of the year	529,329	382,497
19,088,197	14,683,228	- during the year	190,882	146,832
-----	-----		-----	-----
72,021,050	52,932,853		720,211	529,329
-----	-----		-----	-----
82,715,519	63,627,322		827,156	636,274
=====	=====		=====	=====

		1997	1996
<b>4. RESERVES</b>			
Capital		3,373	3,373
		-----	-----
Revenue - General	4.2	4,482,496	3,263,496
- Dividend equalization		53,472	53,472
		-----	-----
		4,535,968	3,316,968
Proposed issue of bonus shares	4.3	165,431	190,882
		-----	-----
		4,704,772	3,511,223
		=====	=====

4.1 Capital reserve represents surplus arising on vesting of net assets of Esso Oil Marketing business in Pakistan under the "Esso Undertakings; (Vesting) Act, 1976"

4.2 At beginning of the year		3,263,496	2,357,496
Add: Transferred from Profit and Loss account		1,219,000	906,000
		-----	-----
		4,482,496	3,263,496
		=====	=====
4.3 At beginning of the year		190,882	146,833
Add: Transferred from Profit and Loss account		165,431	190,882
		-----	-----
		356,313	337,715
Less: Transferred to Share Capital		190,882	146,833
		-----	-----
		165,431	190,882
		=====	=====

### 5. LONG-TERM LOANS

Note	Financing Rate	Repayable By	Sanctioned Amount	Balance Outstanding
<b>Secured</b>				
5.1	1½ over bank rate	1996	265,000	- 11,500
5.2	1½ over bank rate	1998	215,000	64,500 120,000
<b>Unsecured</b>				
5.3	14% per annum (including exchange risk)	2005	73,982	38,004 42,755
			-----	-----
			102,504	174,255

Less: Over due instalment	-	16,000
Current portion	47,751	55,751
	-----	-----
	47,751	71,751
	-----	-----
	54,753	102,504
	=====	=====

5.1 Represents loan obtained from banks for storage development projects. The loan is secured against mortgage of specified project assets.

5.2 Represents loan obtained from banks to hold reserve stocks of petroleum products for the Government of Pakistan (GOP). The loan is repayable in nine equal half yearly instalments which commenced from July 1994. The loan is secured against the hypothecation of stocks of petroleum products at different storage points in the country.

5.3 Represents a loan obtained from the GOP out of the proceeds of a loan from the International Bank for Reconstruction and Development (IBRD) for Energy Sector to the GOP. The sanctioned amount of US\$ 4.25 million (1996: US\$ 4.25 million), disbursed in 1986, is for development of storage and pipeline facilities. The loan is unsecured and is repayable in local currency in twenty eight equal half yearly instalments which commenced from December 1990.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	1997	1996
Balance as on 1 July	28,656	28-326
Assets acquired during the year	-	19,928
	-----	-----
	28,656	48,254
Less: Payments made	17,569	19,598
	-----	-----
	11,087	28,656
6.2 Less: Current r5ortion of liability	9,813	15.50
	-----	-----
	1,274	13,152
	=====	=====

6.1 The total lease rentals due under the lease agreements aggregate Rs. 11.7 million (1996: Rs. 31.4 million) and are payable in equal monthly and quarterly instalments under various lease agreements latest by 1999. Overdue rental payments are subject to an additional charge of 2 to 3 percent per month. Taxes, repairs, replacements and insurance costs are to be borne by the lessee. In case of termination of agreement the lessee is to pay entire rent for unexpired period. Financing rates of approximately 18 to 21 percent per annum have been used as discounting factor.

Purchase options can be exercised by the lessee paying 5 to 10 percent of the security deposits at the expiry of lease period.

6.2 The future minimum lease payments to which the Company is committed under the lease agreements and the years in which they will become due are as follows:

Year ended 30 June 1997	-	19,521
Year ended 30 June 1998	10,423	10,536
	-----	-----
Year ended 30 June 1999	1,321	1,321
	11,744	31,378
Financial charges allocated to future periods	(657)	(2,722)
	-----	-----
	11,087	28,656
	=====	=====
<b>LONG-TERM DEPOSITS</b>		
7.1	18,822	17,567
7.2	136,555	133,604
7.3	99,901	88,650
	-----	-----
	255,278	239,821
	=====	=====

7.1 The special deposits are against dealership for an initial period of 10 years at interest rate of 7 to 13 percent per annum and are expected to be renewed on maturity.

7.2 These are interest-free deposits from customers against LPG equipment and are refundable on return of equipment.

7.3 These are interest-free deposits from contractors against the transportation of petroleum products and are refundable on the cancellation of cartage contract.

#### 8. DEFERRED LIABILITY FOR STAFF GRATUITY

At beginning of the year	378,983	270,242
	-----	-----
Provision during the year	83,759	121,718
Payments to outgoing staff	(21,370)	(12,977)
	-----	-----
	62,389	108,741
	-----	-----
	441,372	378,983
	=====	=====

#### 9. BANK FINANCE UNDER MARK-UP ARRANGEMENTS - Secured

The Company has short-term financing facilities of Rs. 1,881.0 million (1996: Rs. 825.7 million) from various banks at mark-up ranging from 38 - 42 paisas per Rs. 1,000 per day, net of prompt payment rebates. These arrangements are generally for a period of twelve months and are renewable subject to payment of repurchase price by specified dates. The facilities under mark-up arrangements are secured by way of charge against hypothecation of Company's stock of petroleum products.

		1997	1996
<b>10. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Creditors	10.1	12,299,650	6,433.08
Accrued expenses		176,511	187,105
Workers' profit participation fund	10.2	197,145	134,904
Pension fund	10.3	101,349	16,178
Financial charges accrued on:		-----	-----
- Short-term finance		40,398	7,689
- Long-term finance		22,210	22,210
		-----	-----
		62,608	29,899
Deposits - interest free, from customers and others		143,441	203,440
Advance from customers		451,099	282,895
Payable to contractors/suppliers		135,508	258,862
Railway/pipeline charges		1,211,955	260,267
Insurance payable on imports		111,343	56,746
Other liabilities		107,478	78,306
		-----	-----
		14,998,087	7,941,684
		=====	=====

10.1 Includes Rs. 2,530 million (1996: Rs. 1,348 million) payable to suppliers and others on account of oil imports.

10.2 Workers' profit participation fund

At beginning of the year	134,904	88,480
Contribution for the year	197,145	134,904
	-----	-----
	332,049	223,384
Payment during the year	(134,904)	(88,480)
	-----	-----
	197,145	134,904
	=====	=====

Full provision has been made for contribution to the fund. The contribution is paid annually to the fund in advance and hence no interest is payable thereon.

10.3 Pension fund

Provision at beginning of the year	16,178	31,853
Provision during the year	103,341	16,178

	119,519	48,031
Payments to the fund	(18,170)	(31,853)
	101,349	16,178
	=====	=====

1997 1996

**11. DIVIDENDS**

Unclaimed		
Minimum guaranteed return	448	448
Dividends	33,691	42,332
	-----	-----
	34,139	42,780
	413,578	190,882
	-----	-----
	447,717	233,662
	=====	=====

**12. CONTINGENCIES AND COMMITMENTS**

10.1 At 30 June 1997 there existed claims against the Company not acknowledged as debts pending litigations and settlement Rs. 608.7 million approximately (1996: Rs. 286.6 million).

10.2 Duties leviable on ex-bonding of stocks at 30 June 1997 Rs. 792.0 million (1996: Rs. 813.7 million).

10.3 Aggregate commitments for capital expenditure contracted for but remaining to be executed at 30 June 1997 amounted to Rs. 58.9 million (1996: Rs. 318.1 million).

12.4 Letters of credit and bank guarantees Rs. 581.8 million (1996: Rs. 2,200.0 million).

12.5 According to a memorandum of understanding, the Company has committed for investment in setting up of refinery in collaboration with Hyundai Corporation - South Korea, amounting to approximately Rs. 1,750 million/US\$ 40 million (1996: US 40 million).

**13. OPERATING FIXED ASSETS**

13.1 The following is a statement of operating fixed assets:

	Cost at 01 July 1996	Additions	(Disposals)/ adjustment*	Cost at 30 June 1997	Accumulated depreciation at 01 July 1996	Depreciation for the year	(Disposals)/ adjustment*	Accumulated depreciation at 30 June 1997	Book at 30 June 1997	Dep. Rate % per annum
Land										
- freehold	71,464	33,551	-	105,015	-	-	-	-	105,015	-
- leasehold	6,168	-	-	6,168	2,744	222	-	2,966	3,202	5
Building- on freehold land	167,914	220,515	-	388,429	43,815	19,459	-	63,274	325,155	5
- on leasehold land	142,774	37,332	(75)	180,031	57,407	7,868	(75)	65,200	114,831	5 - 10
Leasehold improvements	1,071	-	-	1,071	1,071	-	-	1,071	-	20
Tanks and pipelines	951,575	266,620	(1,749)	1,216,512	510,749	106,239	(1,720)	615,268	601,244	10
Service and filling stations	309,317	96,667	66*	405,917	168,361	30,567	-	198,928	206,989	10
			(67)*							
Vehicles and other rolling stock	217,399	119,887	(771)	345,099	164,702	47,466	(665)	215,528	129,571	15 - 20
			8,584*					4,025*		
Furniture, fittings and equipments	72,222	73,722	(609)	145,424	39,928	18,521	(339)	58,110	87,314	10
			89*							
Plant machinery and equipments	417,500	132,685	(418)	549,679	220,244	48,442	(292)	268,394	281,285	10 - 15
			(88)*							
Railways sidings	13,078	-	-	13,078	10,451	916	-	11,367	1,711	10
Gas cylinders/regulators	113,905	-	-	113,905	101,847	4,880	-	106,727	7,178	10
<b>1997</b>	<b>2,484,387</b>	<b>980,979</b>	<b>(3,622)</b>	<b>3,470,328</b>	<b>1,321,319</b>	<b>284,580</b>	<b>(3,091)</b>	<b>1,606,833</b>	<b>1,863,495</b>	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
1996	2,215,883	258,266	(3,525)	2,484,387	1,118,867	199,198	(3,154)	1,321,319	1,163,068	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

13.2 The above include storages and other facilities developed under Storage Development Programme.

13.2 The above include one LPG blending plant situated at Dhodak having an aggregate book value, as at 30 June 1997 of Rs. 8 million which is not in the possession of the Company.

13.4 Disposal of fixed assets including assets subject to finance lease

	Original Cost	Accumulated Depreciation	Book Value	Sale Proceeds
<b>By Tender</b>				
Bldg On Leasehold Land	75	75	-	133
Tanks & Pipeline	1,749	1,720	29	2,884
Plant & Machinery	278	278	-	448
Furniture, fittings and equipments	11	11	-	27
	=====	=====	=====	=====
	2,113	2,084	29	3,492
	=====	=====	=====	=====
<b>By Negotiation</b>				
Furniture & fittings	597	327	270	308
Plant & Machinery	140	14	126	126
Motor Vehicles	2,879	1,564	1,315	1,621
	-----	-----	-----	-----
	3,616	1,905	1,711	2,055
	-----	-----	-----	-----
	5,729	3,989	1,740	5,547
	=====	=====	=====	=====
1996	5,380	4,079	1,301	3,867
	=====	=====	=====	=====

In view of large number of purchasers, the management considers it impracticable to disclose particulars required under the Companies Ordinance, 1984.

14. ASSETS SUBJECT TO FINANCE LEASE

	Cost at 01 July 1996	Additions	(Disposals)/ adjustment'	Cost at 30 June 1997	Accumulated amortization at 01 July 1996	Amortisation for the year 30 June 1997	(Disposals)/ adjustment*	Accumulated amortization at 30 June 1997	Book Value at 30 June 1997	Dep. Rate% per annum
Vehicles	53,881		(2,108) *(8,584)	43,189	14,536	8,909	(898) (4,025)*	18,522	24,667	20
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	53,881		(2,108) *(8,584)	43,189	14,536	8,909	(898) (4,025)*	18,522	24,667	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
1996	49,524	19,972	-1,855 *(13,760)	53,881	12,421	9,448 (6,408)	(925)	14,536	39,345	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
				1997	1996					

15. CAPITAL WORK-IN-PROGRESS

PSO House Building	-	273,287			273,287
Advances to suppliers and contractors	18,682	29,655			
Less: Provision for doubtful receivables	9,620	-			
	-----	-----			-----
	9,062	29,655			29,655
Tanks and pipelines	783,261	733,391			733,391
Storage development projects	203,812	95,041			95,041
Advances to suppliers and contractors for tanks, pipelines and storage development projects 15.1	61,580	133,824			133,824
	-----	-----			-----
	1,057,715	1,265,198			1,265,198
	=====	=====			=====

15.1 Includes mobilization advance of Rs. 50 million given to Tartan Oil Company (Pvt.) Limited (TOCL) for development of storage facility under an agreement. The said advance is secured against a bank guarantee. As a consequence of breach of terms and conditions of the above agreement, during the year the Company had placed the bank guarantee with National Bank of Pakistan (NBP) for encashment. The TOCL has filed a suit against the Company and NBP in the Court of District Judge, Quetta and obtained a stay order in this respect. Pending outcome of the Court's decision and because of the management's opinion that the amount of advance is realizable, no provision is considered necessary in these accounts.

	1997	1996
<b>16. LONG TERM INVESTMENTS o at cost</b>		
Quoted companies		
<b>Pakistan Refinery Limited</b>		
1,080,000 (1996: 1,080,000) fully paid ordinary shares		
of Rs. 10/- each 1,620,000 (1996: 1,620,000) fully paid		
bonus shares of Rs. 10/- each market value		
Rs. 106,650 (1996: Rs. 224,100) equity held 18% (1996: 18%)	15,098	15,098
Unquoted companies		
<b>Pak Grease Manufacturing Company (Private) Limited</b>		
74,800 (1996: 74,800) fully paid ordinary shares of Rs. 10/- each		
549,011 (1996: 549,011) fully paid bonus shares of Rs. 10/- each		
equity held 22% (1996: 22%) value based on net assets as at 30 June, 1997	-----	-----
Rs. 10,425 (1996: Rs. 8,724)	1,346	1,346
Chief Executive Mr. M. Shahrukh Qaisar		
<b>Asia Petroleum Limited</b>		
46,058,600 (1996: Advance against equity)	16.10	
fully paid ordinary shares of Rs. 10/- each equity held 49%	&	
Chief Executive Mr. K. Izz Hamid	16.20	460,586
		554,452
<b>Petro Chemical (Private) Limited</b>		
160,000 (1996: Advance against equity) fully paid ordinary shares		
of Rs. 10/- each equity held 40 % (1996: 40%)		
Chief Executive Mr. Nasir Munir	1,600	1,600
	-----	-----
	463,532	557,398
In subsidiary undertakings		
<b>Aremal Petroleum (Private) Limited</b>		
81,600 (1996: 81,600) fully paid ordinary shares of Rs. 10/- each		
173,389 (1996: 173,389) fully paid bonus shares of Rs. 10/- each		
equity held 51% (1996: 51%) value based on net assets as at		
30 June 1997 Rs. 6,391 (1996: Rs. 6,063)	-----	-----
Chief Executive Mian Riaz Samee	816	816
<b>Auto Oils (Private) Limited</b>		
41 (1996: 41) fully paid ordinary shares of Rs. 12,500/- each		
101 (1996: 71) fully paid bonus shares of Rs. 12,500/- each		
equity held 51% (1996: 51%) value based on net assets as at		
30 June 1997 Rs. 5,097 (1996: Rs. 4,716)		
Chairperson Mrs. Tahira Hamid	513	513
	-----	-----
	1,329	1,329
In associated undertakings		
<b>Gizri Lubricants (Private) Limited</b>		
60,000 (1996: 60,000) fully paid ordinary shares of Rs. 10 each		
Bonus shares 34,380 (1996: 34,380) fully paid of Rs. 10/- each		
equity held 40% (1996: 40%) value based on net assets as		
at 30 June 1997 Rs. 3,895 (1996: Rs. 3,636)	-----	-----
Chief Executive Mr. Waheed Qadir	600	600
<b>Mid East Oil and Grease Corporation (Private) Limited</b>		
8,350 (1996: 8,350) fully paid ordinary shares of Rs. 100/- each		
Bonus shares 11,620 (1996: 9,795) fully paid of Rs. 100/- each		
equity held 40% (1996: 40%) value based on net assets as at		
30 June 1997 Rs. 4,242 (1996: Rs. 4,117)		
Chief Executive Syed Muhammad Rafi	835	835
<b>Salsons Lubricants (Private) Limited</b>		
13,320 (1996: 13,320) fully paid ordinary shares of face value of		
Rs., 100/- each. Purchased @ Rs. 50/- each.		
Bonus Shares 1998 (1996: Nil).		
Equity held 40% (1996: 40%) value based on net assets		
as at 30 June 1997 Rs. 4,032 (1996: Rs. 3,667)		
Chief Executive Mr. M.M. Salim	666	666
<b>Petro Lube (Private) Limited</b>		
160,000 (1996: 160,000) fully paid ordinary shares		
of Rs. 10/- each equity held 40% (1996: 40%)		
Chairperson Mrs. Shaukat Zafar Niazi	1,600	1,600

-----	-----
3,701	3,701
-----	-----
483,660	577,526
=====	=====

16.1 At 30 June 1997, 82,238,696 shares had been issued by Asia Petroleum Limited (APL) out of which 46,058,600 shares were issued to the Company. Pending subscription by a shareholder in the right issue of APL, PSO's holding works out to 56 percent as opposed to 49 percent agreed under the Shareholders' Agreement (the Agreement) dated 03 November 1994. According to the terms of the Agreement, ultimate shareholding of the Company in APL would be 49 percent

16.2 The shares of Asia Petroleum Limited (APL) are in the process of being pledged with National Development Finance Corporation (NDFC) as security against the financing facility provided to APL by NDFC.

	1997	1996
<b>17. LONG -TERM DEPOSITS, LOANS, ADVANCES AND PREPAYMENTS</b>		
Long-term deposits - Trade	5,677	2,903
- Leased assets	4,070	4,902
	-----	-----
	7,805	9,747
Long-term loans and advances considered good		
Due from employees	17.10 5,079	4,917
Prepayments	-----	-----
- Rentals	70,345	68,408
- Others	39,881	28,772
	-----	-----
	110,226	97,180
	-----	-----
	125,052	109,902
	=====	=====
17.1 Recoverable after three year	1,366	1,573
Others	3,713	3,344
	-----	-----
	5,079	4,917
	=====	=====

The loans and advances represent interest-free advances in accordance with the Company's policy and do not include any advance to the Managing Director of the Company. The loans are secured, where relevant, against the respective assets for which the loans have been granted.

#### 18. STORES AND SPARES

Stores	118,461	89,764
Spares and loose tools	9,964	1,181
	-----	-----
	128,425	90,945
Less: Provision for slow moving and obsolete stores and spares	20,000	20,000
	-----	-----
	108,425	70,945
	=====	=====

#### 19. STOCK-IN-TRADE

Petroleum and other products in hand (including stock-in-transit Rs. Nil 1996: Rs. 4.6 million)	19.1	3,209,061	2,347,238
Less: Held in trust	19.2	277,812	236,332
		-----	-----
		2,931,249	2,110,906
		-----	-----
In PARCO Pipeline System	19.3	1,650,687	1,107,613
Less: Held in trust	19.4	197,200	197,200
		-----	-----
		1,453,487	910,413
		-----	-----
		4,384,736	3,021,319



Charges incurred on stock	647,936	512,785
	-----	-----
	5,032,672	3,534,104
Less: Provision for stock losses	15,000	15,000
	-----	-----
	5,017,672	3,519,104
	=====	=====

19.1 Includes reserve stock at 30 June 1997 equivalent to Rs. 120.2 million (1996: Rs. 161.7 million) held as a bailee in trust for the Government of Pakistan under an agreement (Note 5.2).

19.2 Represents stock held in trust on behalf of the Government of Pakistan under an arrangement.

19.3 The stock in the Pak-Arab Refinery Limited (PARCO) Pipelines System has been determined on the basis of quantities supplied to PARCO for transportation and the quantities received at the destination. PARCO has claimed stock losses stated to be incurred in the course of transportation or otherwise while in their custody. The company has disputed such claim and maintains that it is technically not possible to have losses of any significance in the stock transported through the Pipelines. The matter is being pursued by the company alongwith other marketing companies concerned to resolve the issue with PARCO.

19.4 Represents stock held in trust on behalf of the Government of Pakistan under an agreement.

<b>20. TRADE DEBTS - UNSECURED</b>		<b>1997</b>	<b>1996</b>
Considered good			
Due from Government agencies and autonomous bodies	20.1	8,549,823	2,584,732
Due from other customers		2,303,509	491,973
		-----	-----
		10,853,332	3,076,705
Considered doubtful			
Due from other customers		121,437	121,437
Less: Provision for doubtful debts		121,437	121,437
		-----	-----
		-	-
		-----	-----
		10,853,332	3,076,705
		=====	=====

20.1 This includes receivables of Rs. 4,133.2 million (1996: Rs. 519.6 million) and Rs. 3,911.3 million (1996: Rs. 1,786 million) from WAPDA and KESC respectively.

#### **2.1 LOANS, ADVANCES DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

Loans and advances			
- Unsecured considered good			
Employees		25,081	19,967
Advances to suppliers		61,898	38,785
Others	21.1	564,875	-
		-----	-----
		651,854	58,752
Deposits			
Duty and development surcharge			
Trade deposits		1,274	1,205
		-----	-----
		1,097,558	977,151
Prepayments			
Other receivables - unsecured, considered good		35,470	22,687
Claims and refunds			
Price differential on imports		845,442	800,663I
Storage development claims		37,887	390,431
Freight equalization		476,028	1,441,549]
Excise and customs duty		153,893	126,758
Financial charges on reserve stock loan		15,736	22,827
		-----	-----
		1,528,986	2,430,840
Accrued return on bank deposits			
Accrued markup on short term loan		6,062	7,854
Receivable from oil marketing		88,802	-

companies on account of oil imports	-	95,250	
Due from			
Subsidiaries	21.2	79,515	55,411
Associated undertakings	21.3	51,947	53,323
		131,462	108,734
Others - Considered good		54,826	28,331
- Considered doubtful		19,710	-
Less: Provision for doubtful other receivables		19,710	-
		-	-
		1,810,138	2,671,009
		3,595,020	3,729,599
		=====	=====

21.1 Includes short-term loan to Asia Petroleum Limited amounting to Rs. 544.2 million. The arrangement is subject to interest @ 21 percent per annum and is repayable within one year.

21.2 Due from subsidiaries and associated companies carries an interest at the rate of 15% (1996: 15%) per annum calculated on daily product basis.

21.3 The maximum aggregate amount due from subsidiaries/associated companies at the end of any month during the year was as follows:

	1997	1996
Aremai Petroleum (Private) Limited	39,802	26,195
Auto Oils (Private) Limited	39,712	29,216
Gizri Lubricants (Private) Limited	23,956	16,242
Mid East Oil and Grease Corporation (Private) Limited	41,348	18,700
Salsons Lubricants (Private) Limited	9,646	18,291

## 22. CASH AND BANK BALANCES

Cash in hand		3,616	3,072
Cash in transit		280,422	188,838
Cash at bank		-----	-----
- on current accounts		692,798	977,616
- on deposit accounts	22.1	226,422	153,833
		-----	-----
		919,220	1,131,449
		-----	-----
		1,203,458	1,323,359
		=====	=====

22.1 Includes PLS Term Deposit of Rs. 50 million with former Mehran Bank Limited (MBL). In accordance with the Notification of the State Bank of Pakistan (SBP), the MBL suspended its operations effective from 24 March 1994. As the matter is being dealt directly by the SBP, the operation of the account is dependent upon the decision of SBP. The management considers the said deposit to be realizable in full. Accordingly, no provision in this respect has been made in these accounts.

22.2 In addition to the above, the Company is also maintaining a deposit account on behalf of the Government of Pakistan (GOP) for payment to suppliers against import credit facilities. The Company has been advised by GOP to maintain a separate deposit account on behalf of GOP which will be utilised to discharge liabilities of GOP on account of purchase of petroleum products on due dates.

The payment is made from the account on behalf of GOP on completion of usance period of respective letters of credit. At the year end; the balance in deposit account was held in trust in the account representing amount payable to suppliers on behalf of GOP.

## 23. NET ASSETS IN BANGLADESH

Fixed assets at cost		46,968	46,968
Accumulated depreciation		(16,056)	(16,056)
		-----	-----

	30,912	30,912
Capital work-in-progress	809	809
Debtors	869	869
	-----	-----
	32,590	32,590
Long-term loans relating to assets in Bangladesh	(4,001)	(4,001)
	-----	-----
	28,589	28,589
Less: Provision	28,589	28,589
	-----	-----
	-	-
	=====	=====

The Company has no control over the assets in Bangladesh and has maintained in its record the position as it was in 1971. However, full provision has been made against these net assets.

**24. GOVERNMENT LEVIES**

	<b>1997</b>	<b>1996</b>
Development surcharge	21,059,851	19,733,000
Inland freight equalization margin	6,045,375	4,792,906
Other statutory levies	2,951,113	3,104,480
	-----	-----
	30,056,339	27,630,386

**25. COST OF PRODUCTS SOLD**

	-----	-----
Opening stock	3,447,590	2,063,123
Purchases	75,311,111	50,238,980
	-----	-----
	78,758,701	52,302,103
Closing Stock	(4,852,487)	(3,447,590)
	-----	-----
	73,906,214	48,854,513
	=====	=====

**OTHER INCOME**

Profit on disposal of fixed assets		3,807	2,566
Dividends	25.1	19,413	5,148
Commission and handling charges		50,170	45,643
Income from funds management		81,212	49,232
Miscellaneous		18,186	42,899
		-----	-----
		172,788	145,488
		=====	=====

**26.1 Dividends**

Dividend received from:		
Pakistan Refinery Limited	10,800	-
Pak Grease Manufacturing Company (Private) Limited	5,614	2,807
Subsidiary Companies		
Aremal Petroleum (Private) Limited	765	637
Auto Oil (Private) Limited	564	420
Associated undertakings		
Gizri Lubricants (Private) Limited	614	472
Mideast Oil and Grease Corporation (Private) Limited	590	412
Salsons Lubricants (Private) Ltd.	466	400
	-----	-----
	19,413	5,148
	=====	=====

**27. TRANSPORTATION CHARGES**

Cost	9,376,604	8,583,484
Realized against Inland Freight Equalization Margin (IFEM)	(6,045,375)	(4,792,906)
Receivable/Receipts from Government of Pakistan on account of deficit on IFEM	(3,190,616)	(3,612,273)
	-----	-----
	(9,235,991)	-8,405,179
	-----	-----
	140,613	178,305
	=====	=====

**28. ADMINISTRATIVE AND MARKETING EXPENSES**

Salaries, wages and benefits	28.1	865,606	663,680
Rent, rates and taxes		95,083	122,125
Repairs and maintenance		95,939	84,918
Insurance		27,841	25,459
Travelling and office transport		33,270	37,893
Printing and stationery		15,586	19,275
Communication		31,275	32,269
Electricity and gas		50,191	49,952
Advertising and publicity		8,143	19,295
Auditors' remuneration	28.2	1,432	1,147
Contribution towards expenses of Board of Management (Oil)		1,900	2,000
Provision for doubtful receivables		29,330	17,000
Provision for slow moving and obsolete stores and spares		-	20,000
Provision for stock losses		-	15,000
Depreciation	28.3	293,489	208,646
Donations	28.4	229	<b>12,910</b>
		-----	-----
		1,549,314	1,331,569
Less: Handling, storage and other recoveries - net	28.5	112,993	122,777
		-----	-----
		1,436,321	1,208,792
		=====	=====

**28.1 Remuneration of Managing Director and Executives**

The aggregate amount charged in the accounts of the year for remuneration and benefits to the Managing Director and Executives were as follows:

	1997		1996	
	Managing Director	Executives	Managing Director	Executives
Managerial remuneration	1,231	145,741	596	49,324
Company's contribution towards provident fund and retirement benefits	416	50,145	352	20,098
Housing	624	15,059	436	16,282
Leave fare	60	10,968	-	2,308
	-----	-----	-----	-----
	2,331	221,913	1,384	88,012
	=====	=====	=====	=====
Number	1	468	1	196
	=====	=====	=====	=====

In addition, the Managing Director and some of the Executives were also provided with free use of Company maintained cars. No value is attributed to medicines provided at dispensary level.

**28.2 Auditors' remuneration comprises of:**

	1997		1996	
	Taseer Hadi Khalid & Co.	Sidaq Hyder Qamar Maqbool & Co.	Taseer Hadi Khalid & Co.	Sidat Hyder Qamat Maqbool & Co.
Audit Fee - Statutory audit	137	137	125	125
Certification of claims, octroi and other services etc.	208	752	11	559
Out of pocket expenses	87	111	156	171
	-----	-----	-----	-----
	432	1,000	292	855
	=====	=====	=====	=====

28.3 Includes amortization finance lease (Note 15).

28.4 The Managing Director and his spouse do not have any interest in any donee's fund to which donations were made.

28.5 Includes a recovery of Rs. 42.9 million (1996: Rs. 63.9 million) on account of Storage Development.

**29. FINANCIAL CHARGES**

Bank financing	146,452	99,064
Financing charges under leases	2,346	3,837
Bank charges	48,850	34,449
Others	765	778
	-----	-----
	198,413	138,128
	=====	=====

29.1 Financial charges for the year capitalized under capital work-in-progress, not included in above

	5,900	6,900
--	-------	-------

**30. PROVISION FOR TAXATION**

Taxation - Current year	1,531,487	1,050,317
Prior year's	168,513	-
Tax on Bonus share issued during the year 1995	-	14,683
	-----	-----
	1,700,000	1,065,000
	=====	=====

**31. Following is a statement of net results from Liquid Petroleum Gas (LPG) activity:**

Sales volume (in '000 tones)	13.3	15.0
	=====	=====
Sales	185,089	159,649
Less: Government levies	1,012	1,130
	-----	-----
	184,077	158,519
Cost of product sold	102,512	82,426
	-----	-----
Gross profit	81,565	76,093
Expenditure and charges	-----	-----
Transportation	18,735	20,579
Administrative and marketing	37,214	32,426
Workers' Profit Participation Fund	1,281	1,154
	-----	-----
	57,230	54,159
	-----	-----
Profit for the year	24,335	21,934
	=====	=====

31.1 Expenditure and charges have been allocated to LPG activity on such basis as the management deemed appropriate.

**32. SUBSIDIARY/ASSOCIATED UNDERTAKINGS**

32.1 The term "associated undertakings" has been deemed not to include those companies in which the Federal Government holds directly or indirectly over 20 percent of shares.

**32.2 Transactions with subsidiary/associated companies**

Purchases	735.00	880.60
Sales	367.60	447.50
Financial charges on current account	14.80	13.10
Dividend income	3.00	2.30

**33. GENERAL**

33.1 Prior year's figures have been re-arranged, wherever necessary to facilitate comparison.

33.2 Figures have been rounded off to nearest thousand rupee.

**STATEMENT PURSUANT TO SECTION 237 OF THE COMPANIES ORDINANCE, 1984**

The audited accounts alongwith Auditors' Report and Directors' Report of the Company's subsidiaries Aremai Petroleum (Private) Limited and Auto Oils (Private) Limited for the year ended June 30, 1997 are annexed to these accounts:

	1997		1996
	<b>Aremai</b>	<b>Auto</b>	<b>Aremai</b>
	<b>Petroleum</b>	<b>Oils</b>	<b>Petroleum</b>
			<b>Auto</b>
			<b>Oils</b>

	(Private) Limited	(Private) Limited	(Private) Limited	(Private) Limited
	51% Holding		51% Holding	
Proportionate profits after tax of subsidiary dealt within the accounts by way of dividends/bonus shares -for the year ended 30th June 1996 received during the year	----- 765	----- 564	----- 637	----- 420
Bonus Shares	----- -	----- 163	----- -	----- 210
	----- 765	----- 727	----- 637	----- 630
- for previous years from the date the Company is a subsidiary	4,258	1,495	3,621	1,075
Dividend	1,733	1,096	1,733	886
Bonus Shares	-----	-----	-----	-----
	----- 5,991	----- 2,591	----- 5,354	----- 1,961
	----- 6,756	----- 3,318	----- 5,991	----- 2,591
Proportionate profits/(loss) after tax of subsidiary not dealt within the accounts --for the year	----- 1,220	----- 922	----- 1,971	----- 1,366
--for previous years from the date the Company is a subsidiary	3,514	2,923	2,308	2,287
	----- 4,734	----- 3,845	----- 4,279	----- 3,653
	----- 11,490	----- 7,163	----- 10,270	----- 6,244
	=====	=====	=====	=====

**PATTERN OF HOLDINGS OF THE SHARES HELD BY THE SHARE HOLDERS AS AT 30 JUNE 1997**

No. Of Shareholders	Shareholdings	Total Shares Held	Percentage
4524	From 1 to	100 Shares	117,101 0.14
3440	From 101 to	500 Shares	922,774 1.12
1653	From 501 to	1,000 Shares	1,186,821 1.43
1870	From 1,001 to	5,000 Shares	4,183,556 5.06
376	From 5,001 to	10,000 Shares	2,719,600 3.29
63	From 10,001 to	15,000 Shares	790,282 0.96
25	From 15,001 to	20,000 Shares	436,046 0.53
19	From 20001 to	25,000 Shares	425,518 0.51
18	From 25,001 to	30,000 Shares	509,868 0.62
14	From 30,001 to	35,000 Shares	461,618 0.56
3	From 35,001 to	40,000 Shares	111,228 0.13
8	From 40,001 to	45,000 Shares	342,663 0.41
1	From 45,001 to	50,000 Shares	47,602 0.06
3	From 50,001 to	55,000 Shares	158,461 0.19
3	From 55,001 to	60,000 Shares	172,508 0.21
I	From 60,001 to	65,000 Shares	63,300 0.08
2	From 65,001 to	70,000 Shares	134,560 0.16
7	From 70,001 to	75,000 Shares	511,382 0.62
1	From 75,001 to	80,000 Shares	79,022 0.10
2	From 80,001 to	85,000 Shares	166,476 0.20
1	From 85,001 to	90,000 Shares	89,966 0.11
1	From 90,001 to	95,000 Shares	92,325 0.12
1	From 95,001 to	100,000 Shares	98,326 0.37
3	From 100,001 to	105,000 Shares	307,855 0.13
1	From 105,001 to	110,000 Shares	109,700 0.14
1	From 110,001 to	115,000 Shares	114,835 0.16
1	From 125,001 to	130,000 Shares	130,000 0.32
2	From 130001 to	135,000 Shares	264,745 0.32

1	From	135001	to	140,000 Shares	135,193	0.16
1	From	150001	to	155,000 Shares	151,210	0.18
2	From	155001	to	160,000 Shares	315,548	0.38
1	From	160001	to	165,000 Shares	164,600	0.20
1	From	175001	to	180,000 Shares	175,285	0.21
1	From	180001	to	185,000 Shares	183,664	0.22
1	From	190001	to	195,000 Shares	191,868	0.23
1	From	195001	to	200,000 Shares	199,574	0.24
2	From	205001	to	210,000 Shares	417,838	0.51
2	From	215 001	to	220,000 Shares	435,503	0.53
1	From	220 001	to	225,000 Shares	220,978	0.27
1	From	235 001	to	240,000 Shares	235,040	0.28
2	From	240001	to	245,000 Shares	484,133	0.58
1	From	250 001	to	255,000 Shares	254,769	0.31
1	From	255,001	to	260,000 Shares	256,011	0.30
1	From	260.00	to	265,000 Shares	260,061	0.31
2	From	265,001	to	270,000 Shares	535,477	0.65
1	From	295,001	to	300,000 Shares	300,000	0.36
1	From	380,001	to	385,000 Shares	380.164	0.46
2	From	390,001	to	395,000 Shares	784,958	0.95
1	From	400,001	to	405000 Shares	401,723	0.49
1	From	665,001	to	670,000 Shares	668,775	0.81
1	From	790,001	to	795,000 Shares	790,920	0.96
1	From	895.00	to	900,000 Shares	898,099	1.09
1	From	1,020,001	to	1,025,000 Shares	1,020,058	1.23
1	From	1,060,001	to	1,065,000 Shares	1,063,129	1.29
1	From	1,130,001	to	1,135,000 Shares	1,134,170	1.37
1	From	1,660,001	to	1,665,000 Shares	1,662,946	2.01
1	From	2,675,001	to	2,680,000 Shares	2,679,007	3.24
1	From	2,760,001	to	2,765,000 Shares	2,762,752	3.34
1	From	4,090,001	to	4,095,000 Shares	4,093,892	4.95
1	From	9,325,001	to	9,330,000 Shares	9,328,689	11.28
1	From	14,275,001	to	14,280,000 Shares	14,279,520	17.26
1	From	21,100.00	to	21,105.00 Shares	21,101,627	25.51

-----  
12084

-----  
82,715,519  
-----

-----  
100.00  
-----

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	11,883	11,921,022	14.41
Investment Companies	15	430,196	0.52
Insurance Companies	12	3,033,129	3.67
Joint Stock Companies	51	655,343	0.79
Financial Institutions and Banks	21	25,777,283	31.16
Modaraba Companies	12	13,008	0.02
Federal Government	1	21,101,627	25.51
Corporate Law Authority	1	2	0.00
Abadoned Properties Organisation	1	393.81	0.48
Charitable Institution	2	218,699	0.26
Foreign Investors	85	19,171,398	23.18
TOTAL	12,084	82,715,519	100.00

**ACCOUNTS OF  
AREMAI PETROLEUM  
(PRIVATE) LIMITED**

**REPORT OF THE DIRECTORS**

Your Directors have pleasure in presenting their report with the Audited Accounts of the Company for the year ended 30 June 1997.

Your Directors are pleased to report that your Company has earned a net profit before taxation of Rs. 4,368,742 (1996: Rs. 6,879,127) after meeting all operational, administrative, financial and other expenses.

The Board recommends for approval payment of 35% cash dividend.

**Rupees**

Profit for the year after providing for all operational, administrative, financial and other expenses	4,368,742
Less: Taxation	1,976,000
	-----
	2,392,742
Add: Unappropriated profit brought forward	889,501
	-----
Profit available for appropriation	3,282,243
<b>APPROPRIATIONS</b>	-----
Proposed dividend @ 35%/0 in cash (1996: 30%).	1,749,923
Transfer to General Reserves	1,000,000
	-----
	2,749,923
	-----
Unappropriated profit carried forward	532,320
	=====

The present auditors M/s. Riaz Ahmed Saqib Gohar & Company have retired and being eligible, offer themselves for reappointment.

Your Directors express their sincere appreciation to all categories of staff for their dedication and devotion to work.

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of AREMAI PETROLEUM (PRIVATE) LIMITED as at 30 June 1997 and the related profit and loss account and statement of changes in financial position (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:

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

b) in our opinion:

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

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and statement of changes in financial position (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 30 June 1997 and of the profit 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.

**BALANCE SHEET AS AT 30 JUNE 1997**

	NOTE	1997 Rupees	1996 Rupees
<b>CAPITAL AND RESERVES</b>			
Authorised:			
500,000 Ordinary Shares of Rs. 10 each		5,000,000	5,000,000
		=====	=====
Issued, Subscribed & Paid-up			
160,000 (1996: 160,000)			



Ordinary shares of Rs. 10 each fully paid in cash		<b>1,600,000</b>	1,600,000
339,978 (1996: 339,978) issued as fully paid bonus shares		3,399,780	3,399,780
		-----	-----
		4,999,780	4,999,780
Reserves	3	7,000,000	6,000,000
		532,320	889,501
Unappropriated profit		-----	-----
		12,532,100	11,889,281
<b>CURRENT LIABILITIES</b>		-----	-----
Due to holding company	4	22,394,277	26,207,080
Creditors, accrued and other liabilities	5	4,449,717	7,962,977
Proposed dividend		1,749,923	1,499,934
		-----	-----
		28,593,917	35,669,991
<b>CONTINGENT LIABILITIES AND COMMITMENTS</b>	6	-	-
		-----	-----
		41,126,017	47,559,272
<b>FIXED ASSETS</b>		=====	=====
At cost less accumulated depreciation	7	2,817,160	3,166,126
Capital work in progress		147,575	-
		-----	-----
		2,964,735	3,166,126
<b>CURRENT ASSETS</b>		-----	-----
Stocks	8	32,537,977	30,439,453
Advances, deposits, prepayments and other receivables	9	4,834,087	13,110,579
Cash and bank balances	10	789,218	843,114
		-----	-----
		38,161,282	44,393,146
		-----	-----
		41,126,017	47,559,272
		=====	=====

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 JUNE 1997**

	NOTE	1997 Rupees	1996 Rupees
<b>Sales</b>		171,692,265	218,782,113
Less: Cost of products sold	11	161,534,432	208,455,283
		-----	-----
<b>Gross profit</b>		10,157,833	10,326,832
Other income		85,165	1,891,378
		-----	-----
		10,242,998	12,218,210
		-----	-----
Less: Administrative expenses	13	1,334,290	1,452,593
Financial expenses	14	3,783,716	3,524,431
Workers profit participation fund		256,250	362,059
		-----	-----
		5,374,256	5,339,083
		-----	-----
		4,868,742	6,879,127
Contribution in Prime Minister debt retirement Programme		500,000	-
		-----	-----
Profit before taxation		4,368,742	6,879,127
Less: Provision for taxation	15	1,976,000	3,015,000
Profit after taxation		2,392,742	3,864,127
		-----	-----
Add: Unappropriated profit brought forward		889,501	25,308
		-----	-----
		3,282,243	3,889,435
		-----	-----
<b>APPROPRIATIONS:</b>		-----	-----

Transfer to general reserve	1,000,000	1,500,000
Proposed cash dividend 35% (1996: Rs. 3 per share)	1,749,923	1,499,934
	-----	-----
	2,749,923	2,999,934
	-----	-----
Unappropriated profit carried over to balance sheet	532,320	889,501
	=====	=====

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
(CASH FLOW STATEMENT)  
FOR THE YEAR ENDED 30 JUNE 1997**

	1997 Rupees	1996 Rupees
Cash flow fro activities		
Net profit before taxation	4,368,742	6,879,127
Adjustment for:	-----	-----
Depreciation	541,040	529,687
Financial charges	3,783,716	3,524,431
	-----	-----
	4,324,756	4,054,118
	-----	-----
Operating profit before working capital changes (Increase)/decrease in current assets	8,693,498	10,933,245
	-----	-----
Stocks	(2,098,524)	(6,203,555)
Advances, deposits, prepayments and other receivables	8,276,492	(6,410,224)
	-----	-----
	6,177,968	(12,613,779)
	-----	-----
Increase/(decrease) in current liabilities	14,871,466	(1,680,534)
	-----	-----
Creditors, Accrued & other liabilities	(5,408,878)	(4,810,582)
Due to holding company	(3,812,803)	11,193,532
	-----	-----
	(9,221,681)	6,382,950
	-----	-----
	5,649,785	4,702,416
	-----	-----
Financial charges paid	(3,783,716)	(3,524,431)
Taxation paid	(227,956)	(2,548,157)
	-----	-----
	(4,011,672)	(6,072,588)
	-----	-----
Net cash used in operating activities	1,638,113	(1,370,172)
Cash flow from investing activities		
Capital expenditure	(192,075)	(359,886)
	-----	-----
Net cash used in investing activities	1,446,038	(1,730,058)
Cash flow from financing activities		
Dividend paid	(1,499,934)	(1,249,945)
	-----	-----
Net cash used in financing activities	(1,499,934)	(1,249,945)
	-----	-----
Net decrease in cash & cash equivalents	(53,896)	(2,980,003)
Cash & cash equivalent at the beginning of the year	843,114	3,823,117
	-----	-----
Cash and cash equivalent at the end of the year	789,218	843,114
	=====	=====

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 30 JUNE 1997**

**1. STATUS AND NATURE OF BUSINESS**

Aremal Petroleum (Private) Limited is a Private Company incorporated in Pakistan under the Companies Act, 1913 (Now Companies Ordinance 1984). The principal activity of the Company is production, blending and marketing of all kinds of Lubricating oils.

**2. SIGNIFICANT ACCOUNTING POLICIES****a) Accounting convention**

These accounts have been prepared on the basis of historical cost convention.

**b) Fixed assets**

These are stated at cost less accumulated depreciation except for capital work-in-process which is stated at cost. Depreciation on fixed assets is charged using the straight line method at the rates stipulated in Note 7. Full year's depreciation is charged on additions during the year and no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred while major renewal and improvements are capitalised and the asset so replaced is disposed off. Gains and losses on disposal of assets are Charged to income currently.

**c) Stocks**

The stocks of lubricants base oils, additives and chemicals have been valued at cost on the basis of first in first out method. Finished products have been valued at lower of cost and net realisable value.

**d) Revenue Recognition**

Sales are recorded on despatch of products.

**e) Taxation**

The charge for current taxation is based on taxable income after taking into account available tax credits and unabsorbed depreciation. The company accounts for deferred taxation using the liability method for those timing differences which are likely to reverse in the foreseeable future. However, no deferred tax debits are accounted for.

<b>3. RESERVE - General</b>		<b>1997</b>	<b>1996</b>
		<b>Rupees</b>	<b>Rupees</b>
Movement in and composition of reserve is as follows:			
Opening balance		6,000,000	4,500,000
Transfer to share capital		-	-
Add:	Transfer from		
	Profit and Loss Account	1,000,000	1,500,000
		-----	-----
		7,000,000	6,000,000
		=====	=====

**4. DUE TO HOLDING COMPANY**

This represents the balance with Pakistan State Oil Company Limited which is unsecured and return @ 15% per annum is charged on the outstanding balance.

<b>5. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>		<b>1997</b>	<b>1996</b>
		<b>Rupees</b>	<b>Rupees</b>
Creditors		66,500	66,500
Accrued expenses		380,693	405,559
Provision for taxation		1,895,618	3,663,492
Other liabilities		2,106,906	3,827,426
		-----	-----
		4,449,717	7,962,977
		=====	=====

**6. CONTINGENT LIABILITIES AND COMMITMENTS**

There were no contingent liabilities and commitments as at 30 June 1997 (1996: Nil).

**7. FIXED ASSETS**

<b>PARTICULARS</b>	<b>COST</b>				<b>RATE %</b>	<b>DEPRECIATION</b>			<b>WRITTEN DOWN VALUE AS AT 30 JUNE 1997</b>	
	<b>AS AT 1 JULY 1996</b>	<b>ADDITION DURING THE YEAR</b>	<b>DELETION</b>	<b>AS AT 30 JUNE 1997</b>		<b>AS AT 1 JULY 1996</b>	<b>FOR THE YEAR</b>	<b>DELETION</b>		<b>AS AT 30 JUNE 1997</b>
Buildings	2,707,607	-	-	2,707,607	5	1,307,744	119,491	-	1,427,235	1,280,372
Tanks, Kettles & Pipelines	2,699,319	-	-	2,699,319	10	2,606,254	18,607	-	2,624,861	74,458
Plant & machinery	2,123,346	16,000	-	2,139,346	10	1,489,854	81,359	-	1,571,213	568,133
Electric Fittings	234,494	-	-	234,494	10	227,740	1,350	-	229,090	5,404

Furniture & Fixture	321,897	-	-	321,897	10	156,290	23,417	-	179,707	142,190
Laboratory & Office Equipments	594,124	-	-	594,124	10	463,718	39,643	-	503,361	90,76
Pumps, Fitting & FF. Equipments	384,494	--	-	384,494	10	366,557	3,958	-	370,515	13,979
Vehicles	1,777,248	19,000	138248	1,658,000	20	1,058,246	22L800	138,247	1,141,799	516,201
Computer	-	157,075	-	157,075	20	-	31,415	-	31,415	125,660
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total 1997	10,842,529	192,075	158,218	10,896,356		7,676,403	541,040	138,247	8,079,196	2,817,160
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total 1996	10,482,643	359,886	-	10,842,529		7,146,716	529,687	-	7,676,403	3,166,126
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

7.1 Depreciat allocated as follows:

	1997	1996
	Rupees	Rupees
Cost of Products Manufactured	224,765	254,364
Administrative Expenses	316,275	275,323
	-----	-----
	541,040	529,687
	=====	=====

#### 8. STOCKS

Lubricants Base Oil	8,570,890	8,885,961
Additives & Chemicals	21,823,681	20,485,069
Finished Goods	2,143,406	1,068,423
	-----	-----
	32,537,977	30,439,453
	=====	=====

#### 9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advances - considered good	-----	-----
National Refinery Limited	2,650,250	873,605
Others	255,894	209,238
	-----	-----
	2,906,144	1,082,843
Deposits	443,909	706,669
Prepayments	666,632	38,124
Other receivables - considered good	817,402	11,282,943
	-----	-----
	4,834,087	13,110,579
	=====	=====

	1997	1996
	Rupees	Rupees
10. CASH AND BANK BALANCE		
Cash with banks in current accounts	789,218	843,114
11. COST OF PRODUCTS SOLD	=====	=====

Opening stocks of finished goods	1,068,423	1,205,143
Cost of products manufactured (note 12)	116,842,666	146,898,149
Excise duty & development surcharge	45,766,749	61,420,414
	-----	-----
	163,677,838	209,523,706
Closing stock of finished goods	(2,143,406)	(1,068,423)
	-----	-----
	161,534,432	208,455,283
	=====	=====

#### 12. COST OF PRODUCTS MANUFACTURED

Lubricants base oil consumed (note 12.1)	73,329,273	99,592,553
Additives/Chemicals consumed (note 12.2)	40,362,929	44,304,187
Salaries and wages	2,138,804	1,748,883
Factory rent	14,400	14,400
Fuel and power	511,214	537,985
Repairs and maintenance	164,898	133,547
Loading and handling	60,409	252,815
Depreciation	224,765	254,364
Lab. testing charges	35,974	59,415
	-----	-----
	116,842,666	146,898,149
	=====	=====
12.1 Lubricants Base Oil Consumed		
Opening stock	8,885,961	12,887,122

Less: Stock disposed off	(1,015,961)	-
Purchases	70,529,556	91,985,256
Freight and cartage	3,500,607	3,606,136
	-----	-----
	81,900,163	108,478,514
Closing Stock	(8,570,890)	(8,885,961)
	-----	-----
	73,329,273	99,592,553
	=====	=====
12.2 Additives/Chemicals Consumed		
Opening stock	20,485,069	10,143,633
Purchases	41,701,541	54,645,623
	-----	-----
	62,186,610	64,789,256
Closing stock	(21,823,681)	(20,485,069)
	-----	-----
	40,362,929	44,304,187
	=====	=====

	1997	1996
	Rupees	Rupees
<b>13. ADMINISTRATIVE EXPENSES</b>		
Head office expenses	390,000	300,000
Printing and stationery	25,289	25,313
Travelling expenses	96,140	154,724
Transport and conveyance	70,101	78,355
Insurance	106,053	102,597
Telephone, postage & telegram	128,083	119,594
Subscription	23,750	10,000
Advertisement & publicity	-	34,260
Directors' fee	2,500	2,500
Audit fee	34,375	25,000
Depreciation	316,275	275,323
Welfare	63,569	71,653
Legal & professional charges	7,980	100,270
Rent, rates and taxes	30,010	20,000
Others	40,165	33,004
Charity & Donation	13.1	-
	-----	-----
	1,334,290	1,452,593
	=====	=====

13.1 The Directors or their spouses did not have any interest in donee's fund.

#### 1.4 FINANCIAL EXPENSES

Markup on balance due to holding company	3,778,841	3,509,916
Bank charges	4,875	14,515
	-----	-----
	3,783,716	3,524,431
	=====	=====

15. The Company's income tax assessment for the assessment years 1995-96 & 1996-97 are pending for finalization.

#### 16. GENERAL

16.1 Prior year's figures have been rearranged wherever deemed necessary for the purpose of comparison.

16.2 Figures have been rounded off to the nearest of rupee.

**ACCOUNT OF  
AUTO OILS  
(PRIVATE) LIMITED**

#### REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting their report with the Audited Accounts of the Company

for the year ended 30 June 1997.

Your Directors are pleased to report that your Company has earned a net profit before taxation of Rs. 3,417,577/- (1996: Rs. 5,821,654) after meeting all operational, administrative, financial and other expenses. The Board recommends for approval payment of 30% cash dividend and bonus share in the ratio of 1.0431:10 for the year.

**Rupees**

Profit for the year after providing for all operational, administrative, financial and other expenses	3,417,577
Less: Taxation	1,610,263
	-----
	1,807,314
Add: Unappropriated profit brought forward	638,004
	-----
Profit available for appropriation	2,445,318
<b>APPROPRIATIONS</b>	-----
Proposed dividend @ 30c/o in cash (1996: 35%).	1,042,500
Transfer to General Reserves	600,000
	-----
	1,642,500
	-----
Unappropriated profit carried forward	802,818
	=====

The present auditors M/s. Amir Alam Khan & Company have retired and being eligible, offer themselves for reappointment.

Your Directors express their sincere appreciation to all categories of staff for their dedication and devotion to work.

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of AUTO OILS (PRIVATE) LIMITED as at 30 June 1997 and the related profit and loss account and statement of changes in financial position, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and statement of changes in financial position 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 30 June 1997 and of the profit and the changes in financial position 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.

**Amir Alam Khan & Co.**

Rawalpindi: November 3, 1997

Chartered Accountants

**BALANCE SHEET AS AT 30 JUNE 1997**

	Notes	1997 (Rupees)	1996 (Rupees)
<b>CAPITAL AND RESERVES</b>			
Share capital	3	3,475,000	3,150,000
Reserves			
General reserve		5,700,000	5,100,000
Proposed issue of bonus shares		-	325,000
Unappropriated profit		802,818	638,004
		-----	-----
		9,977,818	9,213,004
<b>CURRENT LIABILITIES</b>			
Balance due to holding company	4	39,521,278	29,215,660
Creditors, accrued and other liabilities	5	3,704,516	8,553,693
Dividend payable		429,813	284,813
Proposed dividend		1,042,500	1,102,500
		-----	-----
		44,698,107	39,156,666
<b>CONTINGENCIES AND COMMITMENTS</b>			
	6	-	-
		-----	-----
		<b>54,675,925</b>	<b>48,369,670</b>
<b>FIXED CAPITAL EXPENDITURE</b>			
Operating assets	7	2,676,978	
Capital work-in-progress		145,996	-
		-----	-----
		2,442,481	2,676,978
<b>CURRENT ASSETS</b>			
Stock-in-trade	8	37,764,250	33,343,187
Advances, deposits, pre-payments and other receivables	9	14,270,387	12,102,741
Cash and bank balances	10	198,807	246,764
		-----	-----
		52,233,444	45,692,692
		-----	-----
		54,675,925	48,369,670
		=====	=====

The annexed notes form an integral part of these accounts.

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 JUNE 1997**

	Notes	1997 (Rupees)	1996 (Rupees)
SALES		138,460,054	193,582,930
COST OF PRODUCTS SOLD	11	130,194,202	185,010,119
		-----	-----
GROSS PROFIT		8,265,852	8,572,811
OPERATING EXPENSES		-----	-----
	12	1,369,059	1,317,772
	13	3,369,729	2,181,428
Workers' profit participation fund		179,873	306,403
		-----	-----
		4,918,661	3,805,603
OPERATING PROFIT		-----	-----
Other Income		3,347,191	4,767,208
		70,386	1,054,446
		-----	-----
PROFIT FOR THE YEAR		3,417,577	5,821,654
TAXATION		-----	-----
- Current		1,500,000	2,750,000
- Prior		110,263	392,625
		-----	-----
		1,610,263	3,142,625
PROFIT AFTER TAXATION		-----	-----
UNAPPROPRIATED PROFIT BROUGHT FORWARD		1,807,314	2,679,029
		638,004	886,475
		-----	-----

PROFIT AVAILABLE FOR APPROPRIATION	2,445,318	3,565,504
<b>APPROPRIATIONS</b>	-----	-----
Transfer to general reserve	600,000	1,500,000
Proposed dividend @ 30% (1996: 35%)	1,042,500	1,102,500
Proposed issue of bonus shares		
Nil (1996: 1.0317:10)	-	325,000
	-----	-----
	1,642,500	2,927,500
	-----	-----
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>	<b>802,818</b>	<b>638,004</b>
	=====	=====

The annexed notes form an integral part of these accounts.

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED 30 JUNE 1997**

	1997 (Rupees)	1996 (Rupees)
Cash flow from operating activities		
Cash receipts from customers	138,466,728	194,637,375
Cash paid to suppliers and employees	138,708,169	196,217,802
	-----	-----
Cash generated from operations	(241,441)	(1,580,427)
Interest paid	(3,367,018)	(2,181,428)
Income Tax paid	(5,652,882)	(2,058,465)
	-----	-----
Cash flow from operating activities	(9,261,341)	(5,820,320)
<b>Cash flows from investing activities</b>	-----	-----
Purchase of fixed assets	(198,446)	(402,295)
Sale proceeds of fixed assets	63,712	-
	-----	-----
Net cash used in investing activities	(134,734)	(402,295)
	-----	-----
<b>Cash flow from financing activities</b>		
Payment to holding company	10,305,618	5,770,697
Dividend paid	(957,500)	(714,063)
	-----	-----
Net cash used in financing activities	9,348,118	5,056,634
Net increase in cash and cash equivalents	(47,957)	(1,165,981)
Cash and cash equivalents at beginning of period	246,764	1,412,745
	-----	-----
Cash and cash equivalent of end of period	198,807	246,764
	=====	=====

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 30 JUNE 1997**

**1. STATUS AND NATURE OF BUSINESS**

AUTO OILS (PRIVATE) LIMITED is a private company incorporated in Pakistan under the Companies Act, 1913, (Now Companies, Ordinance 1984). The principal activity of the company is production, blending and marketing of all kinds of lubricating oils.

**2. SIGNIFICANT ACCOUNTING POLICIES**

a) ACCOUNTING CONVENTION

These accounts have been prepared on the basis of historical cost convention.

b) TAXATION

The charge for current taxation is based on taxable income.

c) FIXED CAPITAL EXPENDITURE

These are stated in the financial statements at cost less accumulated depreciation. Depreciation on fixed assets is charged to income applying the straight line method at the rates stipulated in Note 6. Full year's depreciation is charged on additions made during the year and no depreciation is charged on assets disposed off during the year.



Maintenance and normal repairs are charged to income as and when incurred while major renewal and improvements are capitalised. Gains and losses on disposal of assets are included in income of the year.

d) STOCK-IN-TRADE

The stocks of lubricants base oils additives have been valued at cost, arrived at on FIFO basis. Finished products have been valued at lower of cost and net realizable value.

e) REVENUE RECOGNITION

Sales are recorded on despatch of products.

	1997 (Rupees)	1996 (Rupees)
<b>3. SHARE CAPITAL</b>		
Authorised		
400 Ordinary shares of Rs. 12,500 each	5,000,000	5,000,000
	=====	=====
Issued, subscribed and paid-up		
80 Ordinary shares of Rs. 12,500 each, issued for cash	1,000,000	1,000,000
198 (1996-172) Ordinary shares of Rs. 12,500 each, issued as bonus shares	2,475,000	2,150,000
	-----	-----
	3,475,000	3,150,000
	=====	=====

4. BALANCE DUE TO HOLDING COMPANY

This represents the balance due to Pakistan State Oil Company Limited which is un-secured and return at the rate of 15 per cent per annum is charged on day to day balances.

5. CREDITORS, ACCRUED AND OTHER LIABILITIES

Accrued expenses	453,532	399,543
Provision for taxation	1,500,000	2,750,000
Other liabilities	1,750,984	5,404,150
	-----	-----
	3,704,516	8,553,693
	=====	=====

6. CONTINGENCIES AND COMMITMENTS

Presumptive tax liability amounting to Rupees 8,076,140 levied under section 80C of the Income Tax Ordinance 1979 has not been accounted for in these accounts against which appeals on meritorious grounds are pending before the Higher Courts.

7. FIXED ASSETS

PARTICULARS	COST			RATE %	DEPRECIATION			WRITTEN DOWN VALUE AS ON 30 JUNE 1997	
	AS ON 01 JULY 1996	ADDITIONS	AS ON 30 JUNE 1997		AS ON 01 JULY 1996	ADJUSTMENT	FOR THE YEAR		AS ON 30 JUNE 1997
Land-Lease hold	475,097	-	475,097	5	285,060	-	23,755	308,815	166,282
Building on lease hold land	3,415,749	-	3,415,749	5	1,648,578	-	152,840	1,801,418	1,614,331
Tank, kettle, pipeline & machinery	3,585,201	16,000	3,601,201	10	3,431,396	-	38,984	3,470,380	130,821
Electric equipment	537,939	-	537,939	10	537,298	-	320	537,618	321
Office furniture	785,239	-	785,239	10	783736	-	1,499	785,235	4
Office equipments	63,030	-	63,030	10	54,687	-	2,329	57,016	6,014
Vehicles	74,189	14,750	88,939	10	52,303	-	2,579	54,882	34,057
	1,521,508	21,700	1,161,128	20	987,916	(382,079)	210,636	816,473	344,655
		(382,080)							
1997 - Rupees	10,457,952	52,450	10,128,322		7,780,974	(382,079)	432,942	7,831,837	2,296,485
		(382,080)							
	9,751,501	706,451	10,457,952		7,338,498	-	442,476	7,780,974	2,676,976

=====

7.1 Depreciation has been apportioned as under:

	1997 (Rupees)	1996 (Rupees)
Cost of Products Manufactured	217,398	234,374
Administrative Expenses	215,544	208,102
	-----	-----
	432,942	442,476
	=====	=====

**8. STOCK-IN-TRADE**

Lubricating base oil		
Cost	6,474,871	7,462,422
Charges incurred	367,904	419,787
	-----	-----
	6,842,775	7,882,209
Additives	27,031,084	23,595,522
Finished products	3,890,391	1,865,456
	-----	-----
	37,764,250	33,343,187
	=====	=====

**9. ADVANCES, DEPOSITS, PREPAYMENTS,  
AND OTHER RECEIVABLES**

Advances - Un-secured - considered good		
National Refinery Limited	3,017,942	1,193,571
Income tax	4,024,091	1,075,092
Others	1,040,544	741,775
Deposits	4,510,063	5,301,790
Prepayments	40,000	40,000
Income Tax	282,894	439,274
Other receivables- Un-secured	1,354,853	3,311,239
	-----	-----
	14,270,387	12,102,741
	=====	=====

	1997 (Rupees)	1996 (Rupees)
<b>10. CASH AND BANK BALANCE</b>		
Cash in hand	-	14,879
Cash at banks in current accounts	198,807	231,885
	-----	-----
	198,807	246,764
	=====	=====

**11. COST OF PRODUCTS SOLD**

Opening stock of finished products		1,865,456	1,690,079
Cost of products manufactured	11.1	94,249,942	131,141,082
Excise duty		37,969,195	54,044,414
		-----	-----
		134,084,593	186,875,575
Closing stock finished products		(3,890,391)	(1,865,456)
		-----	-----
		130,194,202	185,010,119
		=====	=====

**11.1 COST OF PRODUCTS MANUFACTURED**

Base oil consumed	11.1.1	64,118,797	80,653,630
Additives/Chemicals consumed	11.1.2	27,472,445	48,444,077
Salaries and wages		1,829,231	1,191,690
Fuel and power		349,685	306,540
Loading and un-loading		208,496	264,444
Laboratory testing charges		-	7,465
Factory rent		5,247	5,247
Plant and building maintenance		48,643	33,615
Depreciation		217,398	234,374
		-----	-----
		94,249,942	131,141,082
		=====	=====

11.1.1 Base oil consumed		
Opening stock	7,882,209	6,114,495
Purchases	59,460,847	77,717,593
Freight and cartage	3,618,516	4,703,751
	-----	-----
	70,961,572	88,535,839
Closing Stock	(6,842,775)	(7,882,209)
	64,118,797	80,653,630
	=====	=====
11.1.2 Additives and chemicals consumed		
Opening stock	23,595,522	13,583,758
Purchases	30,908,007	58,455,841
	-----	-----
	54,503,529	72,039,599
Closing stock	(27,031,084)	(23,595,522)
	-----	-----
	27,472,445	48,444,077
	=====	=====

## 12. ADMINISTRATIVE EXPENSES

Head office expenses	480,000	480,000
Directors' fee	2,500	2,000
Communication	110,882	117,189
Printing and stationery	27,010	29,366
Advertisement & publicity	-	34,260
Transport and conveyance	66,200	59,182
Travelling	132,647	82,559
Staff welfare	34,435	25,613
Auditors' remuneration	87,520	56,000
Legal and professional	45,000	47,200
Rent, rates and taxes	20,000	20,000
Insurance	91,761	82,028
Fee and subscription	20,000	17,500
Other expenses	35.56	56,773
Depreciation	215 544	208,102
	-----	-----
	1,369,059	1,317,772
	=====	=====

## 13. FINANCIAL EXPENSES

Interest on:		
Current account with holding company (Pakistan State Oil Company Limited)	3,367,018	2,170,913
Bank charges	2,711	10,515
	-----	-----
	3,369,729	2,181,428
	=====	=====

## 16. GENERAL

(i) In these accounts have been rounded off to the nearest rupee.

(ii) In these accounts of corresponding year have been re-arranged and re-grouped wherever necessary to facilitate comparison.