

## **PAKISTAN STATE OIL**

**22ND ANNUAL REPORT 1997-98**

### **PAKISTAN STATE OIL COMPANY LIMITED**

Head Office: P.S.O. House, Khayaban-e-lqbal, Clifton, Karachi

#### **ANNUAL GENERAL MEETING JANUARY 27 1999**

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

### **COMPANY INFORMATION**

#### **MANAGING DIRECTOR**

Iftikhar Alam

#### **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

Askari Commercial Bank Ltd.

Bank of America

Citibank N.A.

Credit Agricole Indosuez

Deutsche Bank AG

Emirates Bank International Limited

Faysal Bank Limited

Habib Bank A.G. Zurich

Habib Bank Limited

Hongkong & Shanghai Banking Corporation Ltd.

Muslim Commercial Bank Limited

Mashreq Bank - PSC  
National Bank of Pakistan  
Standard Chartered Bank  
Societe Generale  
Union Bank Limited  
United Bank Limited

**REGISTERED OFFICE:**

PSO House, Khayaban-e-Iqbal, Clifton, Karachi.

**BOARD OF MANAGEMENT (OIL)**

**CHAIRMAN**

**CHAUDHRY NISAR ALI KHAN**

Minister for Petroleum & Natural Resources

**MEMBERS**

**MR. G. A. SABRI**

Director General (Oil)  
Ministry of Petroleum & Natural Resources

**MR. ABDUS SATTAR**

Financial Advisor  
Ministry of Petroleum & Natural Resources

**DR. SHAHID K. HAK**

Managing Director  
Pak Arab Refinery Limited

**MR. ASADULLAH KHAWAJA**

Managing Director  
Investment Corporation of Pakistan

**MR. IFTIKHAR ALAM**

Managing Director  
Pakistan State Oil Company Limited

**NOTICE OF THE MEETING**

Notice is hereby given that the 22nd Annual General Meeting of the Company will be held at Hotel Metropole, Club Road, Karachi on Wednesday, 27th January, 1999, 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 21st Annual General Meeting held on 31st December, 1997.
2. To receive and adopt the audited accounts for the year ended 30th June, 1998 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 Maqbool & Company and Taseer Hadi Khalid & Company, Chartered Accountants, as Auditors of the Company, for the year ending 30th June, 1999.

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, 1998.

## II. Special Business

5. To consider and, if thought fit, pass the following Ordinary Resolution for the capitalisation of profits amounting to Rs. 198,517,250/-.

### Resolved that

(i) "a sum of Rs. 198,517,250/- from the Company's profit in the year ended 30th June, 1998, be capitalised for issuing 19,851,725 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 Thursday, 14th January, 1999, 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, 1998.

(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."

6. To consider and pass, with or without modification, the following resolution as a SPECIAL RESOLUTION.

"RESOLVED that the share capital of the Company be and is hereby increased from Rs. 1,00,000,000/- (Rupees One Thousand Million) divided into 100,000,000 (One Hundred Million) Ordinary Shares of Rs. 10/- (Rupees ten) each to Rs. 2,00,000,000/- (Rupees Two Thousand Million) divided into 200,000,000 (Two Hundred Million) Ordinary Shares of Rs. 10/- (Rupees ten) each by the creation of 100,000,000. (One Hundred Million) additional Ordinary Shares of Rs. 10/- (Rupees Ten) each and for this purpose.

(a) the figures and words "Rs. 1,000,000,000/- (Rupees One Thousand Million) divided into 100,000,000 (One Hundred Million) Ordinary Shares of Rs. 10/- (Rupees ten) each" appearing in Clause V of the Memorandum of Association of the Company be and are hereby substituted by the figures and words "Rs. 2,000,000,000/- (Rupees Two Thousand Million) divided into 200,000,000 (Two Hundred Million) Ordinary Shares of Rs. 10/- (Rupees ten) each" and

(b) the figures and words "Rs. 1,000,000,000/- (Rupees One Thousand Million) divided into 100,000,000 (One Hundred Million) Ordinary Shares of Rs. 10/- (Rupees ten) each" appearing in Article 5 of the Articles of Association of the Company be and are hereby substituted by the figures and words "Rs. 2,000,000,000/- (Rupees Two Thousand Million) divided into 200,000,000 (Two Hundred Million) Ordinary Shares of Rs. 10/- (Rupees ten) each."

**AND**

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

By Order of the Managing Director

**A. R. MITHANI**

Secretary

Karachi: 14th December, 1998.

**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 Friday, 15th January, 1999 to Wednesday, 27th January, 1999 (both days inclusive). Transfers received in order at the Registered Office of the Company upto the close of business on Thursday, 14th January, 1999, 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 notarially 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**

1. Bonus Shares: The Board has recommended the issue of Bonus Shares in the proportion of two shares for every ten shares held by members on 14th January, 1999. Upon issuance of the Bonus Shares, the paid-up capital of the Company shall stand increased to Rs. 1,191,103,480/-.
2. Increase of authorised share capital: The present authorised capital of the Company is Rs. 1,000,000,000/- The paid-up capital will increase beyond this amount upon issuance of Bonus Shares now proposed to be issued.

In order, therefore, to enable the Company to issue the said Bonus Shares and to cater for the further growth in the Company's capital and operations, it is necessary to increase the share capital from Rs. 1,000,000,000/- to Rs. 2,000,000,000/-.

**PSO AT A GLANCE**

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
<b>Earning and Dividend</b>										
	<b>Rs. Per Share of Rs. 10</b>									
Earning	18.60	24.73	23.54	21.27	18.49	13.63	12.19	10.20	9.64	10.57
Break-up value	66.35	66.89	65.21	62.5	59.91	55.70	56.49	56.41	55.78	55.16
Dividend	8.00	8.00	6.00	5.00	5.00	5.00	4.75	4.50	4.00	4.00
Bonus	2:10	2:10	3:10	3:10	3:10	2:10	2:10	3:20	1:10	1:10

**Statistical Summary**

	<b>Rs. in Million</b>									
Shareholders' equity	6,585.6	5,533.2	4,149.2	3,051.8	2,255.4	1,747.7	1,476.9	1,282.5	1,153.0	1,036.5
New capital exp.	408.0	820.5	920.7	461.9	321.8	364.9	207.4	138.9	216.4	374.3
Profit before tax	2,826.4	3,745.8	2,563.2	1,681.1	1,175.6	771.5	526.9	450.7	367.2	330.7
Profit after tax	1,846.4	2,045.8	1,498.2	1,041.1	696.0	427.6	318.7	231.8	199.2	198.7
Cash Dividend	794.1	661.7	381.8	244.7	188.2	156.9	124.2	102.3	82.7	75.2

**Financial Ratio**

	<b>Ratios</b>									
Current assets:										
Current liabilities	1.2:1	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

Long term debt: equity	4:96	5:95	5:95	7:93	8:92	12:88	17:83	24:76	28:72	33:67
Total Debt: equity	25:75	28:72	29:71	29:71	23:77	33:67	24:76	51:49	49:51	51:49

**MANAGING DIRECTOR'S REVIEW**

I consider it an honour to welcome you to the 22nd Annual General Meeting of your Company and to present the Annual Report and Financial Statements for the year ended June 30, 1998.

Despite the difficult economic scenario of 1997/98, your Company sold 12.749 million tonnes of petroleum products during the year as against 11.861 million tonnes sold during the previous year. Net profit for the year was Rs. 1.846 billion, as against Rs. 2.046 billion for the previous year. The Shareholders will be pleased to note that the return for the year under review is 80% Cash Dividend and 20% Bonus shares which is same as last year despite increase in the capital base.

Industry	" P.S.O.
13.1-1	
a5	
10.23	

You are well aware that inter corporate debt problem, created by WAPDA and KESC's inability to settle PSO's bills against supplies, persisted throughout the year. Average outstanding receivables remained in the range of Rs. 14.5 billion . Consequently, the liquidity pressure compelled us to place increased reliance on short term borrowing. However, I am glad to report that due to astute financial management, financial charges were contained. As a result of efforts made by your Company, Government is fully cognizant of the matter and is contemplating certain measures to redeem the situation. In the meantime, advance payments received from WAPDA and KESC are partly being adjusted against previous receivables.

Allow me to go back in time for a moment. Your Company emerged in its present form on 30th December, 1976. By the grace of God, for 22 years it has continued to successfully perform the functions for which it was created. PSO has matured. God willing, it will continue to do so in future as well. You are no stranger to the track record of your Company which shows that it has not only increased its participation in the marketing of petroleum products from year to year but it has also successfully developed vital petroleum products infrastructure over the years, which constitute important national assets. This reflects favourably towards your Company's commitment to the economic self sufficiency of the Country.

One of the key corporate objectives of PSO is to ensure availability of the required quantities of all petroleum products to all sectors of the economy, which is in consonance with national objective; providing the energy source to maintain the pace of economic activity. PSO handled 76.8% of the

petroleum trade during 1997/98. Better appreciation of this role of PSO, by all of us, will go a long way in valuing its contribution to socio economic welfare of the country.

A brief of your Company's infrastructure and development activity would not be out of place. During the year under review, we have completed the following projects .

24,000 tonnes furnace oil storage at Lalpir was completed and commissioned alongwith 12" dia, 2.5 km long pipeline for supply of fuel oil to AES Power Plants at Lalpir. Dedicated fuel oil receipt facility through railway tank wagons was also accomplished as part of this project.

PSO signed an agreement with Pakistan Railways for transportation of additional 500,000 tonnes per annum of furnace oil from Keamari Terminal. To achieve the required loading capacity, additional railway tank wagons loading infrastructure and pumping capacity was completed and commissioned.

And, at present the following projects are underway:

PSO also signed an agreement with Pakistan Railways for transportation of 500,000 tonnes per annum of furnace oil from Pipri Marshaling Yard. Under construction infrastructure includes 10,000 tonnes storage, tank wagon loading facilities and 24" dia, 6.5 km long receipt pipeline from Port Qasim-Pipri Oil Terminal. Furnace oil loaded at this terminal will be supplied to Independent Private Power Projects with whom PSO has signed long term Fuel Supply Agreements. This arrangement will substantially reduce road traffic congestion on highways, at Karachi and in particular Keamari area, and railway tank wagons turn-around time. This Project is expected to be completed by March 1999.

4706.00

~~~2.~

PSO is poised to meet the challenges of the future. We look forward to an era of growth. And, in this respect our efforts will be concentrated, interalia, on Retail business in order to further improve our profitability. We are going ahead with a program for modernizing Retail Outlets equipped with the latest state-of-the-art technology equipment and facilities, with back -up control measures to safeguard the qualitative and quantitative aspects. As far as development projects are concerned PSO is planning to participate in the White Oil Pipeline Project, which envisages construction of a White Oil pipeline, parallel to the existing PARCO pipeline.

1994

Customer satisfaction and confidence has always remained the guiding principle in formulating your Company's market strategy. For ensuring supply of quality products consistent with standard quantity to

our valued customers, efforts are continuing. We have recently acquired three mobile vans fully equipped to conduct various quantity and quality tests together with smoke emission guage. These mobile laboratories will provide thrust to PSO's ongoing campaign to achieve above objective.

Your Company has acquired necessary software/hardware equipment to face the millenium challenge. We shall be Y2K compliant in due course.

I wish to share with you my deep appreciation for the untiring efforts of PSO's workforce which has enabled the Company to meet its objectives.

I also want to share with you my sincere appreciation for the painstaking efforts of the chairman of the Board of Management and Members of the Board for their keen participation and guidance in the affairs of your Company.

I conclude with a word about you, our esteemed shareholders. It is heartening to know that we continue to receive your support and confidence and trust that the same will continue in the future as well.

**IFTIKHAR ALAM**  
Managing Director

14th December 1998

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

We have audited the annexed balance sheet of PAKISTAN STATE OIL COMPANY LIMITED as at 30 June 1998 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 1998 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.

Without qualifying our opinion, we draw attention to note 20.1 to the accounts. Efforts need to be intensified to address the issue stated therein.

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

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

Karachi: 14th December, 1998

### BALANCE SHEET AS AT 30 JUNE 1998

|                                                                        | Notes | Rs. 000    |            |
|------------------------------------------------------------------------|-------|------------|------------|
|                                                                        |       | 1998       | 1997       |
| <b>CAPITAL AND RESERVES</b>                                            |       |            |            |
| Authorised capital                                                     |       |            |            |
| 100,000,000 (1997: 100,000,000) ordinary shares of Rs. 10/- each       |       | 1,000,000  | 1,000,000  |
|                                                                        |       | =====      | =====      |
| Issued, subscribed and paid-up capital                                 | 3     | 992,587    | 827,156    |
| Reserves                                                               | 4     | 5,592,987  | 4,706,042  |
|                                                                        |       | -----      | -----      |
|                                                                        |       | 6,585,574  | 5,533,198  |
| <b>LONG-TERM LOANS</b>                                                 | 5     | 28,503     | 54,753     |
| <b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>             |       |            |            |
| <b>LONG-TERM DEPOSITS</b>                                              | 6     | 1,924      | 1,274      |
| <b>DEFERRED LIABILITY FOR STAFF GRATUITY</b>                           | 7     | 269,810    | 255,278    |
| <b>CURRENT LIABILITIES</b>                                             | 8     | 457,333    | 441,372    |
| Short-term Loans-Secured                                               | 9     | 1,878,393  | 1,879,675  |
| Current portion of long-term loans and liabilities under finance lease | 5 & 6 | 27,921     | 57,564     |
| Creditors, accrued expenses and other liabilities                      | 10    | 19,193,408 | 14,998,087 |
| Taxation - net                                                         |       | -          | 1,055,268  |
| Dividends                                                              | 11    | 722,326    | 447,717    |
|                                                                        |       | -----      | -----      |
|                                                                        |       | 21,822,048 | 18,438,311 |
| <b>CONTINGENCIES AND COMMITMENTS</b>                                   | 12    | -----      | -----      |
|                                                                        |       | 29,165,192 | 24,724,186 |
|                                                                        |       | =====      | =====      |
| <b>FIXED ASSETS</b>                                                    |       |            |            |
| Operating fixed assets                                                 | 13    | 2,497,610  | 1,863,495  |
| Assets subject to finance lease                                        | 14    | 10,754     | 24,667     |
| Capital work-in-progress                                               | 15    | 462,484    | 1,057,715  |
| Inventory held for capital expenditure                                 |       | 395,983    | 391,690    |
|                                                                        |       | -----      | -----      |
|                                                                        |       | 3,366,831  | 3,337,567  |
| <b>LONG-TERM INVESTMENTS</b>                                           | 16    | 483,660    | 483,660    |
| <b>LONG-TERM DEPOSITS, LOANS, ADVANCES AND PREPAYMENTS</b>             | 17    | 128,669    | 125,052    |
| <b>CURRENT ASSETS</b>                                                  |       |            |            |

|                                                                 |    |            |            |
|-----------------------------------------------------------------|----|------------|------------|
| Stores and spares                                               | 18 | 84,888     | 108,425    |
| Stock-in-trade                                                  | 19 | 4,103,270  | 5,017,672  |
| Trade debts                                                     | 20 | 17,299,952 | 10,853,332 |
| Loans, advances, deposits, prepayments<br>and other receivables | 21 | 2,652,234  | 3,595,020  |
| Cash and bank balances                                          | 22 | 1,045,688  | 1,203,458  |
|                                                                 |    | -----      | -----      |
|                                                                 |    | 25,186,032 | 20,777,907 |
| <b>NET ASSETS IN BANGLADESH</b>                                 | 23 | -          | -          |
|                                                                 |    | -----      | -----      |
|                                                                 |    | 29,165,192 | 24,724,186 |
|                                                                 |    | =====      | =====      |

The annexed notes form an integral part of these accounts.

**A. R. Mithani**  
Secretary

**Iftikhar Alam**  
Managing Director

#### PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1998

|                                                                     | Notes | Rs. 000     |             |
|---------------------------------------------------------------------|-------|-------------|-------------|
|                                                                     |       | 1998        | 1997        |
| <b>REVENUES</b>                                                     |       |             |             |
| Sales                                                               |       | 121,344,507 | 109,508,018 |
| Less: Government levies                                             | 24    | 43,625,031  | 30,056,339  |
|                                                                     |       | -----       | -----       |
|                                                                     |       | 77,719,476  | 79,451,679  |
| Cost of products sold                                               | 25    | 72,885,832  | 73,906,214  |
|                                                                     |       | -----       | -----       |
|                                                                     |       | 4,833,644   | 5,545,465   |
| Other income                                                        | 26    | 138,974     | 171,156     |
|                                                                     |       | -----       | -----       |
|                                                                     |       | 4,972,618   | 5,716,621   |
| <b>EXPENDITURE AND CHARGES</b>                                      |       |             |             |
| Transportation                                                      | 27    | 181,492     | 140,613     |
| Administrative and marketing                                        | 28    | 1,154,654   | 1,142,832   |
| Depreciation                                                        |       | 378,819     | 293,489     |
| Financial                                                           | 29    | 282,448     | 196,781     |
| Workers' profit participation fund                                  |       | 148,760     | 197,145     |
|                                                                     |       | -----       | -----       |
|                                                                     |       | 2,146,173   | 1,970,860   |
| <b>PROFIT BEFORE TAXATION</b>                                       |       | 2,826,445   | 3,745,761   |
| <b>Provision for taxation</b>                                       | 30    | 980,000     | 1,700,000   |
|                                                                     |       | -----       | -----       |
| <b>PROFIT AFTER TAXATION</b>                                        |       | 1,846,445   | 2,045,761   |
| <b>Unappropriated profit brought forward</b>                        |       | 1,270       | 1,665       |
|                                                                     |       | -----       | -----       |
| <b>PROFIT AVAILABLE FOR APPROPRIATION</b>                           |       | 1,847,715   | 2,047,426   |
| <b>APPROPRIATIONS:</b>                                              |       |             |             |
| Transfer to general reserve                                         |       | 854,000     | 1,219,000   |
| Proposed issue of bonus shares in the ratio<br>of 2:10 (1997: 2:10) |       | 198,517     | 165,431     |
| Interim dividend 30% (1997: 30%)                                    |       | 297,776     | 248,147     |
| Final dividend 50% (1997: 50%)                                      |       | 496,293     | 413,578     |

|                                              |           |           |
|----------------------------------------------|-----------|-----------|
|                                              | 1,846,586 | 2,046,156 |
| <b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b> | 1,129     | 1,270     |
|                                              | =====     | =====     |

The annexed notes form an integral part of these accounts.

**A. R. Mithani**  
Secretary

**Iftikhar Alam**  
Managing Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**(CASH FLOW STATEMENT)**  
**FOR THE YEAR ENDED 30 JUNE 1998**

|                                                                 | Rs. 000     |             |
|-----------------------------------------------------------------|-------------|-------------|
|                                                                 | 1998        | 1997        |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                      |             |             |
| Profit before taxation                                          | 2,826,445   | 3,745,761   |
| Adjusting for non cash charges and other items:                 |             |             |
| Depreciation                                                    | 378,819     | 293,489     |
| Retirement benefits accrued                                     | 50,312      | 83,759      |
| Profit on sale of fixed assets                                  | (3,543)     | (3,807)     |
| Provision for long term loans and advances                      | 74,669      | 29,330      |
| Dividend received                                               | (17,282)    | (19,413)    |
| Financial charges                                               | 282,448     | 196,781     |
|                                                                 | -----       | -----       |
|                                                                 | 3,591,868   | 4,325,900   |
| Changes in operating assets and liabilities (Increase)/Decrease |             |             |
| in long-term loans, deposits, advances and other receivabl      | (3,617)     | (34,860)    |
| in stores and spares                                            | 23,537      | (37,480)    |
| in stock-in-trade                                               | 914,402     | (1,498,568) |
| in trade debts                                                  | (6,506,620) | (7,776,627) |
| in loans, advances, deposits and prepayments                    | 2,304,700   | 678,779     |
| in creditors, accrued expenses and other liabilities            | 4,183,249   | 7,023,694   |
|                                                                 | -----       | -----       |
| Cash generated from operations                                  | 4,507,519   | 2,680,838   |
| Taxes paid                                                      | (3,411,851) | (1,278,862) |
| Retirement benefits paid                                        | (34,351)    | (21,370)    |
| Financial charges paid                                          | (287,700)   | (165,704)   |
|                                                                 | -----       | -----       |
| Net cash (used in) operating activities                         | 773,617     | 1,214,902   |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                      |             |             |
| Fixed capital expenditure                                       | (408,010)   | (820,503)   |
| Sale proceeds of fixed assets                                   | 6,142       | 5,547       |
| Long-term investment                                            | -           | 93,866      |
| Short-term loan provided                                        | -           | (544,200)   |
| Dividend received                                               | 17,282      | 19,413      |
|                                                                 | -----       | -----       |
| Net cash flow from investing activities                         | (384,586)   | (1,245,877) |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                      |             |             |
| Repayment of long-term loans                                    | (47,751)    | (71,751)    |

|                                                     |           |           |
|-----------------------------------------------------|-----------|-----------|
| Payment made for assets subject to finance lease    | (10,164)  | (17,569)  |
| Proceeds from long-term deposits                    | 14,532    | 15,457    |
| Short-term loans                                    | (1,282)   | 430,975   |
| Dividend Paid                                       | (519,460) | (447,670) |
|                                                     | -----     | -----     |
| Net cash (used in) financing activities             | (564,125) | (90,558)  |
|                                                     | -----     | -----     |
| Net (decrease)/Increase in cash and bank balances   | (175,094) | (121,533) |
| Net effect of exchange differences                  | 17,324    | 1,632     |
| Cash and bank balances at the beginning of the year | 1,203,458 | 1,323,359 |
|                                                     | -----     | -----     |
| Cash and bank balances at the end of the year       | 1,045,688 | 1,203,458 |
|                                                     | =====     | =====     |

**A. R. Mithani**  
Secretary

**Iftikhar Alam**  
Managing Director

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 30 JUNE 1998  
(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°/0 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 1998 amounted to approximately Rs. 38.367 million (1997-Rs. 59.542 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 monthly average rates. 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 when the right to receive is established.
- Return on Deposits is recognised on an accrual basis.

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

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

| 1998<br>(No. of shares) | 1997       |                            | 1998    | 1997    |
|-------------------------|------------|----------------------------|---------|---------|
| 3,000,000               | 3,000,000  | Issued for cash            | 30,000  | 30,000  |
|                         |            | Issued for consideration   |         |         |
| 7,694,469               | 7,694,469  | other than cash            | 76,945  | 76,945  |
|                         |            | Issued as bonus shares:    |         |         |
| 72,021,050              | 52,932,853 | - at beginning of the year | 720,211 | 529,329 |
| 16,543,104              | 19,088,197 | - during the year          | 165,431 | 190,882 |
| -----                   | -----      |                            | -----   | -----   |
| 88,564,154              | 72,021,050 |                            | 885,642 | 720,211 |
| -----                   | -----      |                            | -----   | -----   |
| 99,258,623              | 82,715,519 |                            | 992,587 | 827,156 |
| =====                   | =====      |                            | =====   | =====   |

|                                |     | 1998      | 1997      |
|--------------------------------|-----|-----------|-----------|
| <b>4. RESERVES</b>             |     |           |           |
| Capital                        | 4.1 | 3,373     | 3,373     |
| Revenue- General               | 4.2 | 5,336,496 | 4,482,496 |
| - Dividend equalization        |     | 53,472    | 53,472    |
|                                |     | -----     | -----     |
|                                |     | 5,389,968 | 4,535,968 |
| Proposed issue of bonus shares | 4.3 | 198,517   | 165,431   |
| Unappropriated profit          |     | 1,129     | 1,270     |
|                                |     | -----     | -----     |
|                                |     | 5,592,987 | 4,706,042 |
|                                |     | =====     | =====     |

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                  |  | 4,482,496 | 3,263,496 |
| Add: Transferred from Profit and Loss account |  | 854,000   | 1,219,000 |
|                                               |  | -----     | -----     |

|                                               |           |           |
|-----------------------------------------------|-----------|-----------|
|                                               | 5,336,496 | 4,482,496 |
|                                               | =====     | =====     |
| 4.3 At beginning of the year                  | 165,431   | 190,882   |
| Add: Transferred from Profit and Loss account | 198,517   | 165,431   |
|                                               | -----     | -----     |
|                                               | 363,948   | 356,313   |
| Less: Transferred to Share Capital            | 165,431   | 190,882   |
|                                               | -----     | -----     |
|                                               | 198,517   | 165,431   |
|                                               | =====     | =====     |

**5. LONG-TERM LOANS**

| Note                  | Financing Rate                                | Repayable<br>By | Sanctioned<br>Amount | Balance | Outstanding |
|-----------------------|-----------------------------------------------|-----------------|----------------------|---------|-------------|
|                       | Secured                                       |                 |                      |         |             |
| 5.1                   | 1% over bank rate                             | 1998            | 215,000              | 21,500  | 64,500      |
|                       | Unsecured                                     |                 |                      |         |             |
| 5.2                   | 14% per annum<br>(including<br>exchange risk) | 2005            | 73,982               | 33,253  | 38,004      |
|                       |                                               |                 |                      | -----   | -----       |
|                       |                                               |                 |                      | 54,753  | 102,504     |
| Less: Current portion |                                               |                 |                      | 26,250  | 47,751      |
|                       |                                               |                 |                      | -----   | -----       |
|                       |                                               |                 |                      | 28,503  | 54,753      |
|                       |                                               |                 |                      | =====   | =====       |

5.1 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 installments which commenced from July 1994. The loan is secured against the hypothecation of stocks of petroleum products at different storage points in the country.

5.2 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 installments which commenced from December 1990.

**1998**                      **1997**

**6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

|                                 |        |        |
|---------------------------------|--------|--------|
| Balance as on 1 July            | 11,087 | 28,656 |
| Assets acquired during the year | 2,672  | -      |
|                                 | -----  | -----  |
|                                 | 13,759 | 28,656 |
|                                 | -----  | -----  |
| Less: Payments/adjustments      | 10,164 | 17,569 |
| Current portion                 | 1,671  | 9,813  |
|                                 | -----  | -----  |
|                                 | 11,835 | 27,382 |
|                                 | -----  | -----  |
|                                 | 1,924  | 1,274  |

=====

6.1 The total lease rentals due under the lease agreements aggregate Rs. 4.3 million (1997: Rs. 11.7 million) and are payable in equal monthly and quarterly installments under various lease agreements latest by 2002. 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 leased amount.

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 1998                             | -     | 10,423 |
| Year ended 30 June 1999                             | 2,005 | 1,321  |
| Year ended 30 June 2000                             | 831   | -      |
| Year ended 30 June 2001                             | 831   | -      |
| Year ended 30 June 2002                             | 623   | -      |
|                                                     | ----- | -----  |
|                                                     | 4,290 | 11,744 |
| Less: Financial charges allocated to future periods | 695   | 657    |
|                                                     | ----- | -----  |
|                                                     | 3,595 | 11,087 |
|                                                     | ===== | =====  |

**7. LONG-TERM DEPOSITS**

|                              |     |         |         |
|------------------------------|-----|---------|---------|
| Special deposits             | 7.1 | 23,617  | 18,822  |
| Equipment deposits           | 7.2 | 138,475 | 136,555 |
| Cartage contractors deposits | 7.3 | 107,718 | 99,901  |
|                              |     | -----   | -----   |
|                              |     | 269,810 | 255,278 |
|                              |     | =====   | =====   |

7.1 The special deposits are against dealership for an initial period of 10 years at interest rates 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**

|                                  | 1998    | 1997    |
|----------------------------------|---------|---------|
| At beginning of the year         | 441,372 | 378,983 |
| Provision during the year        | 50,312  | 83,759  |
| Less: Payments to outgoing staff | 34,351  | 21,370  |
|                                  | -----   | -----   |
|                                  | 15,961  | 62,389  |
|                                  | -----   | -----   |
|                                  | 457,333 | 441,372 |
|                                  | =====   | =====   |

**9. SHORT TERM LOANS - Secured**

|                                       |     |           |           |
|---------------------------------------|-----|-----------|-----------|
| Bank finance under markup arrangement | 9.1 | 1,528,393 | 1,879,675 |
| Morabaha arrangement                  | 9.2 | 350,000   | -         |
|                                       |     | -----     | -----     |
|                                       |     | 1,878,393 | 1,879,675 |
|                                       |     | =====     | =====     |

9.1 The Company has short-term financing facilities of Rs. 2,281.3 million (1997 Rs. 1,881 million) from various banks at mark-up ranging from 38 - 43 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.

9.2 The Company has entered into Marabaha arrangement with a bank. The Marabaha facility is for working capital requirements and is for a period of six months. This arrangement is secured by way of hypothecation of stock and carrying mark-up @ 14.5% per annum.

**10. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES**

|                                                        |      |            |            |
|--------------------------------------------------------|------|------------|------------|
| Creditors                                              | 10.1 | 14,527,524 | 12,299,650 |
| Accrued liabilities                                    |      | 227,636    | 176,511    |
| Workers' profit participation fund                     | 10.2 | 148,760    | 197,145    |
| Pension fund                                           | 10.3 | 22,274     | 101,349    |
|                                                        |      | -----      | -----      |
| Financial charges accrued on:                          |      |            |            |
| - Short-term finances                                  |      | 74,680     | 40,398     |
| - Long-term finances                                   |      | -          | 22,210     |
|                                                        |      | -----      | -----      |
|                                                        |      | 74,680     | 62,608     |
| Deposits - interest free,<br>from customers and others |      | 156,865    | 143,441    |
| Advance from customers                                 |      | 822,064    | 451,099    |
| Payable to contractors/suppliers                       |      | 122,543    | 135,508    |
| Railway/pipeline charges                               |      | 2,840,613  | 1,211,955  |
| Insurance payable on imports                           |      | 176,952    | 111,343    |
| Other liabilities                                      |      | 73,497     | 107,478    |
|                                                        |      | -----      | -----      |
|                                                        |      | 19,193,408 | 14,998,087 |
|                                                        |      | =====      | =====      |

10.1 Includes Rs. 1,850 million (1997: Rs. 2,530 million) payable to suppliers on account of oil imports and others.

**10.2 Workers' profit participation fund**

|                               |  |         |         |
|-------------------------------|--|---------|---------|
| At beginning of the year      |  | 197,145 | 134,904 |
| Contribution for the year     |  | 148,760 | 197,145 |
|                               |  | -----   | -----   |
|                               |  | 345,905 | 332,049 |
| Less: Payment during the year |  | 197,145 | 134,904 |
|                               |  | -----   | -----   |
|                               |  | 148,760 | 197,145 |
|                               |  | =====   | =====   |

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.

|                                    | 1998    | 1997    |
|------------------------------------|---------|---------|
| <b>10.3 Pension fund</b>           |         |         |
| Provision at beginning of the year | 101,349 | 16,178  |
| Provision during the year          | 29,695  | 103,341 |
|                                    | -----   | -----   |
|                                    | 131,044 | 119,519 |
| Less: Payments to the fund         | 108,770 | 18,170  |
|                                    | -----   | -----   |
|                                    | 22,274  | 101,349 |
|                                    | =====   | =====   |
| <b>11. DIVIDENDS</b>               |         |         |
| Unclaimed                          |         |         |
| Minimum guaranteed return          | 374     | 448     |
| Dividends                          | 225,659 | 33,691  |
|                                    | -----   | -----   |
|                                    | 226,033 | 34,139  |
| Proposed dividend                  | 496,293 | 413,578 |
|                                    | -----   | -----   |
|                                    | 722,326 | 447,717 |
|                                    | =====   | =====   |

## 12. CONTINGENCIES AND COMMITMENTS

The Company has syndicated revolving letter of credit facilities guaranteed by and on behalf of the Government of Pakistan for payment to suppliers against import of oil.

These facilities have been arranged from ANZ Grindlays Bank, Standard Chartered Bank, Citibank International and others which amounted to US\$ 167 million (1997: US\$ 85 million). The repayment obligations against these facilities in rupee terms have been fulfilled.

12.2 At 30 June 1998 there existed claims against the Company not acknowledged as debts pending litigation and settlement Rs. 2,249.2 million approximately (1997: Rs. 608.7 million).

12.3 Duties leviable on ex-bonding of stocks at 30 June 1998 Rs. 1,322 million (1997: Rs. 792 million)

12.4 Aggregate commitments for capital expenditure contracted for, but remaining to be executed at 30 June 1998 amounted to Rs. 70.3 million (1997: Rs. 58.9 million).

12.5 Letters of credit and bank guarantees Rs. 8,728 million (1997: Rs. 581.8 million).

12.6 While finalising the Company's assessment for the assessment years 1996-97 and 1997-98 the Deputy Commissioner of Income Tax (DCIT) has made additional demands on the ground that certain petroleum products imported by the Company fall under the presumptive tax regime.

The Company has disagreed with the view of the DCIT on the grounds that these products were imported on behalf of GOP and the Company was acting as a handling agent appointed by the Government of Pakistan.

As oil industry margins on these products are controlled by the Ministry of petroleum and Natural Resources, the Company has taken this matter up with it and the Ministry of Finance and the Central Board of Revenue, and accordingly these products have

been granted exemption from withholding tax with effect from 01 July 1997.

The Company has filed appeal against the orders of the DCIT with the Commissioner of Income Tax (Appeals) (CITA). As the CITA has upheld the decision of the DCIT, the Company has preferred an appeal before the Income Tax Appellate Tribunal (ITAT).

Pending the outcome of the appeals and because the management is confident that on the merits of the case the ultimate decision will be in the Company's favour, no provision has been made in these accounts for the tax demand of Rs. 479 million.

### 13. OPERATING FIXED ASSETS

#### 13.1 The following is a statement of operating fixed assets:

|                                      | COST            |           |                             |                 | DEPRECIATION       |                 |                             |                    | Book Value<br>at 30 June<br>1998 | Dep.<br>Rate % |
|--------------------------------------|-----------------|-----------|-----------------------------|-----------------|--------------------|-----------------|-----------------------------|--------------------|----------------------------------|----------------|
|                                      | 01 July<br>1997 | Additions | (Disposals)/<br>Adjustment* | 30 June<br>1998 | at 01<br>July 1997 | for the<br>year | (Disposals)/<br>adjustment* | at 30<br>June 1998 |                                  |                |
| Land - freehold                      | 105,015         | 21,778    | -                           | 126,793         | -                  | -               | -                           | -                  | 126,793                          | -              |
| - leasehold                          | 6,168           | -         | -                           | 6,168           | 2,966              | 222             | -                           | 3,188              | 2,980                            | -              |
| Building- on freehold land           | 388,429         | 91,900    | -                           | 480,329         | 63,274             | 23,972          | -                           | 87,246             | 393,083                          | 5              |
| - on leasehold land                  | 180,031         | 47,760    | -                           | 227,791         | 65,202             | 11,269          | -                           | 76,471             | 151,320                          | 5 - 10         |
| Leasehold improvements               | 1,071           | -         | -                           | 1,071           | 1,071              | -               | -                           | 1,071              | -                                | 20             |
| Tanks and pipelines                  | 1,216,512       | 615,651   | (552)                       | 1,831,611       | 615,304            | 169,412         | (552)                       | 784,164            | 1,047,447                        | 10             |
| Service and filling stations         | 405,917         | 112,262   | (99)                        | 518,080         | 198,955            | 40,876          | (99)                        | 239,732            | 278,348                          | 10             |
| Vehicles and other<br>rolling stock  | 345,099         | 4,427     | (6,336)<br>21,891*          | 365,081         | 215,525            | 46,895          | (6,174)<br>11,272*          | 267,518            | 97,563                           | 15 - 20        |
| Furniture, fittings and<br>equipment | 145,424         | 8,881     | (553)                       | 153,752         | 58,129             | 18,242          | (239)                       | 76,132             | 77,620                           | 10             |
| Plant machinery and<br>equipment     | 549,679         | 96,289    | (222)                       | 645,746         | 268,311            | 57,823          | (73)                        | 326,061            | 319,685                          | 10 - 15        |
| Railway sidings                      | 13,078          | -         | -                           | 13,078          | 11,369             | 917             | -                           | 12,286             | 792                              | 10             |
| Gas cylinders/regulators             | 113,905         | -         | -                           | 113,905         | 106,727            | 5,199           | -                           | 111,926            | 1,979                            | 10             |
| 1998                                 | 3,470,328       | 998,948   | (7,762)<br>21,891*          | 4,483,405       | 1,606,833          | 374,827         | (7,137)<br>11,272*          | 1,985,795          | 2,497,610                        |                |
| 1997                                 | 2,484,387       | 980,979   | (3,622)<br>8,584*           | 3,470,328       | 1,321,319          | 284,580         | (3,091)<br>4,025*           | 1,606,833          | 1,863,495                        |                |

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

13.3 The above include one LPG plant situated at Dhodak having an aggregate book value, as at 30 June 1998 of Rs. 8 million which is not in the possession of the Company and no depreciation has been charged.

13.4 Disposal of fixed assets including assets subject to finance lease;

|                             | Original<br>Cost | Accumulated<br>Depreciation | Book<br>Value | Sale<br>Proceeds |
|-----------------------------|------------------|-----------------------------|---------------|------------------|
| <b>By Tender</b>            |                  |                             |               |                  |
| Tanks & Pipeline            | 552              | 552                         | -             | 1,230            |
| Plant & Machinery           | 9                | 9                           | -             | 20               |
| Service and filling station | 99               | 99                          | -             | 103              |

|                       |        |       |       |       |
|-----------------------|--------|-------|-------|-------|
| Vehicles              | 8,026  | 6,879 | 1,147 | 3,262 |
|                       | -----  |       |       |       |
|                       | 8,686  | 7,539 | 1,147 | 4,615 |
|                       | -----  |       |       |       |
| <b>By Negotiation</b> |        |       |       |       |
| Furniture & fittings  | 490    | 239   | 251   | 299   |
| Plant & Machinery     | 213    | 64    | 149   | 149   |
| Motor Vehicles        | 2,826  | 1,774 | 1,052 | 1,079 |
|                       | -----  |       |       |       |
|                       | 3,529  | 2,077 | 1,452 | 1,527 |
|                       | -----  |       |       |       |
| 1998                  | 12,215 | 9,616 | 2,599 | 6,142 |
|                       | =====  |       |       |       |
| 1997                  | 5,729  | 3,989 | 1,740 | 5,547 |
|                       | =====  |       |       |       |

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            |           |                             |                 | DEPRECIATION       |                 |                             |                    | Book Value<br>at 30 June<br>1998 | Dep.<br>Rate % |
|----------|-----------------|-----------|-----------------------------|-----------------|--------------------|-----------------|-----------------------------|--------------------|----------------------------------|----------------|
|          | 01 July<br>1997 | Additions | (Disposals)/<br>Adjustment* | 30 June<br>1998 | at 01<br>July 1997 | for the<br>year | (Disposals)/<br>adjustment* | at 30<br>June 1998 |                                  |                |
| Vehicles | 43,189          | 2,672     | (4,451)<br>(21,891)*        | 19,519          | 18,522             | 3,993           | (2,478)<br>(11,272)*        | 8,765              | 10,754                           | 20             |
|          | -----           |           |                             |                 |                    |                 |                             |                    |                                  |                |
| 1998     | 43,189          | 2,672     | (4,451)<br>(21,891)*        | 19,519          | 18,522             | 3,993           | (2,478)<br>(11,272)*        | 8,765              | 10,754                           |                |
|          | =====           |           |                             |                 |                    |                 |                             |                    |                                  |                |
| 1997     | 53,881          | -         | (2,108)<br>(8,584)*         | 43,189          | 14,536             | 8,909           | (898)<br>(4,025)*           | 18,522             | 24,667                           |                |
|          | =====           |           |                             |                 |                    |                 |                             |                    |                                  |                |

**15. CAPITAL WORK-IN-PROGRESS**

|                                                                                                  | 1998    | 1997      |
|--------------------------------------------------------------------------------------------------|---------|-----------|
| PSO House Building                                                                               | 5,218   | -         |
| Advances to suppliers and contractors                                                            | 14,673  | 18,682    |
| Less: Provision for doubtful receivables                                                         | 9,620   | 9,620     |
|                                                                                                  | -----   | -----     |
|                                                                                                  | 5,053   | 9,062     |
| Tanks and pipelines                                                                              | 361,439 | 783,261   |
| Storage development projects                                                                     | 35,363  | 203,812   |
| Advances to suppliers and contractors for tanks, pipelines and storage development projects 15.1 | 55,411  | 61,580    |
|                                                                                                  | -----   | -----     |
|                                                                                                  | 462,484 | 1,057,715 |
|                                                                                                  | =====   | =====     |

15.1 This 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, in 1997, the Company had placed the bank guarantee with National Bank of Pakistan (NBP) for encashment. The TOCL had filed a suit against the Company and NBP in the Court of District Judge, Quetta and had obtained a stay order in this respect. The decision of the Court of District Judge, Quetta and High Court of Balochistan was in favour of the Company. Against the decision of the High Court of Balochistan, TOCL has filed an appeal with the Supreme Court of Pakistan which is pending. The management, based on the decision of the High Court of Balochistan is confident of recovery of this advance hence no provision has been made in these accounts.

|                                                                      | 1998    | 1997    |
|----------------------------------------------------------------------|---------|---------|
| <b>16. LONG TERM INVESTMENTS - at cost</b>                           |         |         |
| Quoted companies                                                     |         |         |
| <b>Pakistan Refinery Limited</b>                                     |         |         |
| 1,080,000 (1997: 1,080,000) fully paid ordinary shares               |         |         |
| of Rs. 10/- each 2,520,000 (1997: 1,620,000) fully paid              |         |         |
| bonus shares of Rs. 10/- each market value                           |         |         |
| Rs. 79,200 (1997: Rs. 106,650) equity held 18% (1997: 18%)           | 15,098  | 15,098  |
| Unquoted companies                                                   |         |         |
| <b>Pak Grease Manufacturing Company (Private) Limited</b>            |         |         |
| 74,800 (1997: 74,800) fully paid ordinary shares of Rs. 10           | 16.1    |         |
| 549,011 (1997: 549,011) fully paid bonus shares of Rs. 10/- each     |         |         |
| equity held 22% (1997: 22%) value based on net assets as at 30 June, |         |         |
| 1997 Rs. 10,425 (1996: Rs. 8,724)                                    |         |         |
| Chief Executive Mr. M. Shahrukh Qaisar                               | 1,346   | 1,346   |
| <b>Asia Petroleum Limited</b>                                        |         |         |
| 46,058,600 (1997: 46,058,600) fully paid ordinary shares             | 16.2    |         |
| of Rs. 10/- each equity held 49% (1997: 49%)                         | &       |         |
| value based on net assets as at 30 June 1998                         | 16.3    |         |
| Rs. 647,775 (1997: Rs. 661,853)                                      |         |         |
| Chief Executive Mr. K. Izz Hamid                                     | 460,586 | 460,586 |
| <b>Petro Chemical (Private) Limited</b>                              |         |         |
| 160,000 (1997: 160,000) fully paid ordinary shares                   |         |         |
| of Rs. 10/- each equity held 40% (1997: 40%)                         |         |         |
| Chief Executive Mr. Nasir Munir                                      | 1,600   | 1,600   |
|                                                                      | -----   | -----   |
|                                                                      | 463,532 | 463,532 |
| In subsidiary undertakings                                           |         |         |
| <b>Aremai Petroleum (Private) Limited</b>                            |         |         |
| 81,600 (1997: 81,600) fully paid ordinary shares of Rs. 10/- each    |         |         |
| 173,389 (1997: 173,389) fully paid bonus shares of Rs. 10/- each     |         |         |
| equity held 51% (1997: 51%) value based on net assets as at          |         |         |
| 30 June 1998 Rs. 7,404 (1997: Rs. 6,391)                             |         |         |
| Chief Executive Mian Riaz Samee                                      | 816     | 816     |
| <b>Auto Oils (Private) Limited</b>                                   |         |         |
| 41 (1997: 41) fully paid ordinary shares of Rs. 12,500/- each        |         |         |
| 101 (1997: 101) fully paid bonus shares of Rs. 12,500/- each         |         |         |
| equity held 51% (1997: 51%) value based on net assets as at          |         |         |
| 30 June 1998 Rs. 1,446 (1997: Rs. 5,097)                             |         |         |
| Chief Executive Begum Tahira Harold                                  | 513     | 513     |
|                                                                      | -----   | -----   |
|                                                                      | 1,329   | 1,329   |
| In associated undertakings                                           |         |         |

**Gizri Lubricants (Private) Limited**

60,000 (1997: 60,000) fully paid ordinary shares of Rs. 10 each  
 Bonus shares 34,380 (1997: 34,380) fully paid of Rs. 10/- each  
 equity held 40% (1997: 40%) value based on net assets as  
 at 30 June 1998 Rs. 4,255 (1997: Rs. 3,895) 600 600  
 Chief Executive Mr. Waheed Qadir

**Mid East Oil and Grease Corporation (Private) Limited**

8,350 (1997: 8,350) fully paid ordinary shares of Rs. 100/- each  
 Bonus shares 11,620 (1997: 11,620) fully paid of Rs. 100/- each  
 equity held 40% (1997: 40%) value based on net assets as at  
 30 June 1998 Rs. 3,795 (1997: Rs. 4,137)  
 Chief Executive Syed Muhammad Rafi 835 835

**Salsons Lubricants (Private) Limited**

13,320 (1997: 13,320) fully paid ordinary shares of face value of  
 Rs. 100/- each. Purchased @ Rs. 50/- each.  
 Bonus shares 1,998 (1997: 1,998)  
 equity held 40% (1997: 40%) value based on net assets  
 as at 30 June 1998 Rs. 3,998 (1997: Rs. 4,032)  
 Chief Executive Mr. M.M. Salim 666 666

**Petro Lube (Private) Limited**

160,000 (1997: 160,000) fully paid ordinary shares  
 of Rs. 10/- each equity held 40% (1997: 40%)  
 Chief Executive Mrs. Shaukat Zafar Niazi 1,600 1,600  
 -----  
 3,701 3,701  
 -----  
 483,660 483,660  
 =====

16.1 The financial statements of Pak Grease Manufacturing Company (Private) Limited, for the year ended 30 June 1998, have not yet been finalised. Therefore, the net assets value of the investment is based on the financial statements for the year ended 30 June 1997.

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

16.3 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, the ultimate shareholding of the Company in APL would be 49 percent.

1998 1997

**17. LONG -TERM DEPOSITS, LOANS, ADVANCES AND PREPAYMENTS**

|                                              |            |       |
|----------------------------------------------|------------|-------|
| Long-term deposits- Trade                    | 5,680      | 5,677 |
| - Leased assets                              | 2,170      | 4,070 |
|                                              | -----      | ----- |
|                                              | 7,850      | 9,747 |
| Long-term loans and advances considered good |            |       |
| Due from employees                           | 17.1 4,123 | 5,079 |

|                                    |         |         |
|------------------------------------|---------|---------|
| Prepayments                        |         |         |
| - Rentals                          | 67,332  | 70,345  |
| - Others                           | 49,364  | 39,881  |
|                                    | -----   | -----   |
|                                    | 116,696 | 110,226 |
|                                    | -----   | -----   |
|                                    | 128,669 | 125,052 |
|                                    | =====   | =====   |
| 17.1 Recoverable after three years | 911     | 1,366   |
| Others                             | 3,212   | 3,713   |
|                                    | -----   | -----   |
|                                    | 4,123   | 5,079   |
|                                    | =====   | =====   |

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 and are recoverable in monthly equal installment..

**18. STORES AND SPARES**

|                                                                   |         |         |
|-------------------------------------------------------------------|---------|---------|
| Stores                                                            | 95,871  | 118,461 |
| Spares and loose tools                                            | 9,017   | 9,964   |
|                                                                   | -----   | -----   |
|                                                                   | 104,888 | 128,425 |
| Less: Provision for slow moving<br>and obsolete stores and spares | 20,000  | 20,000  |
|                                                                   | -----   | -----   |
|                                                                   | 84,888  | 108,425 |
|                                                                   | =====   | =====   |

**19. STOCK-IN-TRADE**

|                                                                                                       |      |           |           |
|-------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| Petroleum and other products in hand<br>(including stock-in-transit Rs. 386 million<br>1997: Rs. Nil) | 19.1 | 2,894,947 | 3,209,061 |
| Less: Held in trust                                                                                   | 19.2 | 283,000   | 277,812   |
|                                                                                                       |      | -----     | -----     |
|                                                                                                       |      | 2,611,947 | 2,931,249 |
|                                                                                                       |      | -----     | -----     |
| In PARCO Pipeline System                                                                              | 19.3 | 656,522   | 1,650,687 |
| Less: Held in trust                                                                                   | 19.4 | 197,200   | 197,200   |
|                                                                                                       |      | -----     | -----     |
|                                                                                                       |      | 459,322   | 1,453,487 |
|                                                                                                       |      | -----     | -----     |
|                                                                                                       |      | 3,071,269 | 4,384,736 |
| Charges incurred on stock                                                                             |      | 1,047,001 | 647,936   |
|                                                                                                       |      | -----     | -----     |
|                                                                                                       |      | 4,118,270 | 5,032,672 |
| Less: Provision for stock losses                                                                      |      | 15,000    | 15,000    |
|                                                                                                       |      | -----     | -----     |
|                                                                                                       |      | 4,103,270 | 5,017,672 |
|                                                                                                       |      | =====     | =====     |

19.1 Includes reserve stock at 30 June 1998 equivalent to Rs. 100.0 million (1997: Rs. 105.2 million) held as a bailee in trust for the Government of Pakistan (GOP) under an agreement (Note 5.2).

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

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.

## 20. TRADE DEBTS - UNSECURED

|                                                    | 1998            | 1997       |
|----------------------------------------------------|-----------------|------------|
| Considered good                                    |                 |            |
| Due from Government agencies and autonomous bodies | 20.1 16,470,935 | 9,782,623  |
| Due from other customers                           | 829,017         | 1,070,709  |
|                                                    | -----           | -----      |
|                                                    | 17,299,952      | 10,853,332 |
| Considered doubtful                                |                 |            |
| Due from other customers                           | 181,437         | 121,437    |
| Less: Provision for doubtful debts                 | 181,437         | 121,437    |
|                                                    | -----           | -----      |
|                                                    | -               | -          |
|                                                    | -----           | -----      |
|                                                    | 17,299,952      | 10,853,332 |
|                                                    | =====           | =====      |

20.1 Included in above are Rs. 7,142.5 million (1997: Rs. 5,365.6 million) and Rs. 8,654.7 million (1997: Rs. 3,911.3 million) from Water and Power Development Authority (WAPDA) and Karachi Electric Supply Corporation (KESC) respectively are considerably overdue due to the difficulties being faced in the recovery of circular debts from concerned entities in the energy sector.

## 21. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

|                                                |           |           |
|------------------------------------------------|-----------|-----------|
| Loans and advances                             |           |           |
| Unsecured considered good                      |           |           |
| Employees                                      | 49,205    | 25,081    |
| Advances to suppliers                          |           |           |
| Taxation - net                                 | 1,376,583 | -         |
| Others                                         | -         | 564,875   |
|                                                | -----     | -----     |
|                                                | 1,469,880 | 651,854   |
| Deposits                                       |           |           |
| Duty and development surcharge                 | 9,020     | 1,096,284 |
| Trade deposits                                 | 1,293     | 1,274     |
|                                                | -----     | -----     |
|                                                | 10,313    | 1,097,558 |
| Prepayments                                    | 24,922    | 35,470    |
| Other receivables - unsecured, considered good |           |           |
| Claims and refunds                             |           |           |
| Price differential on imports                  | 6,449     | 845,442   |

|                                          |             |           |           |
|------------------------------------------|-------------|-----------|-----------|
| Storage development claims               |             | 41,266    | 37,887    |
| Freight equalization                     |             | 670,999   | 476,028   |
| Excise and customs duty                  |             | 144,007   | 153,893   |
| Financial charges on reserve stock loan  |             | 19,827    | 15,736    |
|                                          |             | -----     | -----     |
|                                          |             | 882,548   | 1,528,986 |
| Accrued return on bank deposits          |             | 2,138     | 6,062     |
| Accrued markup on short term loan        |             | -         | 88,802    |
| Due from                                 |             |           |           |
| Subsidiaries                             | 21.1 & 21.2 | 35,076    | 79,515    |
| Associated undertakings                  | 21.1 & 21.2 | 87,884    | 51,947    |
| Others                                   |             | 91,270    | -         |
|                                          |             | -----     | -----     |
|                                          |             | 214,230   | 131,462   |
| Others - Considered good                 |             | 48,203    | 54,826    |
|                                          |             | -----     | -----     |
| - Considered doubtful                    |             | 34,379    | 19,710    |
| Less: Provision for doubtful receivables |             | 34,379    | 19,710    |
|                                          |             | -----     | -----     |
|                                          |             | -         | -         |
|                                          |             | -----     | -----     |
|                                          |             | 1,147,119 | 1,810,138 |
|                                          |             | -----     | -----     |
|                                          |             | 2,652,234 | 3,595,020 |
|                                          |             | =====     | =====     |

21.1 Due from subsidiaries and associated companies carries an interest at the rate of 15% (1997: 15%) per annum calculated on daily product basis.

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

|                                                      | 1998   | 1997   |
|------------------------------------------------------|--------|--------|
| Aremai Petroleum (Private) Limited                   | 56,578 | 39,802 |
| Auto Oils (Private) Limited                          | 49,800 | 39,712 |
| Gizri Lubricants (Private)Limited                    | 33,890 | 23,956 |
| Mid East Oil and Grease Corporation (Private)Limited | 38,031 | 41,348 |
| Salsons Lubricants (Private) Limited                 | 19,103 | 9,646  |

## 22. CASH AND BANK BALANCES

|                     |      |           |           |
|---------------------|------|-----------|-----------|
| Cash in hand        |      | 3,449     | 3,616     |
| Cash in transit     |      | 305,992   | 280,622   |
| Cash at bank        |      |           |           |
| on current accounts |      | 676,768   | 692,798   |
| on deposit accounts | 22.1 | 59,479    | 226,422   |
|                     |      | -----     | -----     |
|                     |      | 736,247   | 919,220   |
|                     |      | -----     | -----     |
|                     |      | 1,045,688 | 1,203,458 |
|                     |      | =====     | =====     |

22.1 This includes PLS Term Deposit of Rs. 50 million with National Bank of Pakistan (formerly Mehran Bank Limited). In accordance with the Notification of the State Bank of Pakistan (SBP), the MBL suspended its operation 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 the SBP. The management considers the said deposit to be realisable in full. Accordingly,

no provision in this respect has been made in these accounts.

### 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      |
| 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

|                                    |            |            |
|------------------------------------|------------|------------|
| Development surcharge              | 34,059,864 | 21,059,851 |
| Inland freight equalization margin | 6,655,185  | 6,045,375  |
| Other statutory levies             | 2,909,982  | 2,951,113  |
|                                    | -----      | -----      |
|                                    | 43,625,031 | 30,056,339 |
|                                    | =====      | =====      |

1998

1997

### 25. COST OF PRODUCTS SOLD

|                     |            |            |
|---------------------|------------|------------|
| Opening stock       | 4,852,487  | 3,447,590  |
| Purchases           | 71,191,526 | 75,311,111 |
|                     | -----      | -----      |
|                     | 76,044,013 | 78,758,701 |
| Less: Closing Stock | 3,158,181  | 4,852,487  |
|                     | -----      | -----      |
|                     | 72,885,832 | 73,906,214 |
|                     | =====      | =====      |

### 26. OTHER INCOME

|                                    |      |         |         |
|------------------------------------|------|---------|---------|
| Profit on disposal of fixed assets |      | 3,543   | 3,807   |
| Dividends                          | 26.1 | 17,282  | 19,413  |
| Commission and handling charges    |      | 40,177  | 50,170  |
| Income from funds management       |      | 30,531  | 81,212  |
| Miscellaneous                      |      | 47,441  | 16,554  |
|                                    |      | -----   | -----   |
|                                    |      | 138,974 | 171,156 |
|                                    |      | =====   | =====   |

#### 26.1 Dividends

|                                                       |  |        |        |
|-------------------------------------------------------|--|--------|--------|
| Dividend received from:                               |  |        |        |
| Pakistan Refinery Limited                             |  | 10,800 | 10,800 |
| Pak Grease Manufacturing Company<br>(Private) Limited |  | 3,306  | 5,614  |

|                                                         |        |        |
|---------------------------------------------------------|--------|--------|
| Subsidiary Companies                                    |        |        |
| Aremai Petroleum (Private) Limited                      | 892    | 765    |
| Auto Oils (Private) Limited                             | 533    | 564    |
|                                                         | -----  | -----  |
|                                                         | 1,425  | 1,329  |
| Other Companies                                         |        |        |
| Gizri Lubricants (Private) Limited                      | 566    | 614    |
| Mideast Oil and Grease Corporation<br>(Private) Limited | 649    | 590    |
| Salsons Lubricants (Private) Ltd.                       | 536    | 466    |
|                                                         | -----  | -----  |
|                                                         | 1,751  | 1,670  |
|                                                         | -----  | -----  |
|                                                         | 17,282 | 19,413 |
|                                                         | =====  | =====  |

**27. TRANSPORTATION CHARGES**

|                                                                                  |              |             |
|----------------------------------------------------------------------------------|--------------|-------------|
| Cost                                                                             | 10,447,024   | 9,376,604   |
| Realized against Inland Freight                                                  |              |             |
| Equalization Margin (IFEM)                                                       | (6,655,185)  | (6,045,375) |
| Receivable/Receipts from Government of Pakistan<br>on account of deficit on IFEM | (3,610,347)  | (3,190,616) |
|                                                                                  | -----        | -----       |
|                                                                                  | (10,265,532) | (9,235,991) |
|                                                                                  | -----        | -----       |
|                                                                                  | 181,492      | 140,613     |
|                                                                                  | =====        | =====       |

**1998****1997****28. ADMINISTRATIVE AND MARKETING EXPENSES**

|                                                               |      |           |           |
|---------------------------------------------------------------|------|-----------|-----------|
| Salaries, wages and benefits                                  | 28.1 | 788,055   | 889,872   |
| Rent, rates and taxes                                         |      | 71,524    | 95,083    |
| Repairs and maintenance                                       |      | 84,958    | 95,939    |
| Insurance                                                     |      | 60,425    | 27,841    |
| Travelling and office transport                               |      | 36,316    | 33,270    |
| Printing and stationery                                       |      | 14,473    | 15,586    |
| Communication                                                 |      | 27,454    | 31,275    |
| Electricity and gas                                           |      | 72,556    | 50,191    |
| Storage and technical services                                |      | 46,039    | 42,566    |
| Legal and professional                                        |      | 14,644    | 16,214    |
| Advertising and publicity                                     |      | 6,794     | 8,143     |
| Auditors' remuneration                                        | 28.2 | 3,077     | 1,432     |
| Contribution towards expenses of Board<br>of Management (Oil) |      | 1,500     | 1,900     |
| Provision for doubtful receivables                            |      | 14,669    | 29,330    |
| Provision for doubtful debts                                  |      | 60,000    | -         |
| Donations                                                     | 28.3 | 210       | 229       |
|                                                               |      | -----     | -----     |
|                                                               |      | 1,302,694 | 1,338,871 |
| Less: Handling, storage and other<br>recoveries - net         | 28.4 | 148,040   | 196,039   |
|                                                               |      | -----     | -----     |
|                                                               |      | 1,154,654 | 1,142,832 |
|                                                               |      | =====     | =====     |

**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:

|                                                                       | 1998              |            | 1997              |            |
|-----------------------------------------------------------------------|-------------------|------------|-------------------|------------|
|                                                                       | Managing Director | Executives | Managing Director | Executives |
| Managerial remuneration                                               | 952               | 143,748    | 1,231             | 145,741    |
| Company's contribution towards provident fund and retirement benefits | 877               | 31,469     | 416               | 50,145     |
| Housing                                                               | 947               | 23,585     | 624               | 15,059     |
| Leave fare                                                            | 271               | 10,563     | 60                | 10,968     |
|                                                                       | -----             | -----      | -----             | -----      |
|                                                                       | 3,047             | 209,365    | 2,331             | 221,913    |
|                                                                       | =====             | =====      | =====             | =====      |
| Number                                                                | 1                 | 455        | 1                 | 468        |
|                                                                       | =====             | =====      | =====             | =====      |

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:

|                                      | 1998                     |                                 | 1997                     |                                 |
|--------------------------------------|--------------------------|---------------------------------|--------------------------|---------------------------------|
|                                      | Taseer Hadi Khalid & Co. | Sidat Hyder Qamar Maqbool & Co. | Taseer Hadi Khalid & Co. | Sidat Hyder Qamar Maqbool & Co. |
| Audit Fee - Statutory audit          | 137                      | 137                             | 137                      | 137                             |
| Taxation                             | -                        | 1,233                           | -                        | 317                             |
| Certification of claims, and others. | 548                      | 769                             | 208                      | 435                             |
| Out of pocket expenses               | 94                       | 159                             | 87                       | 111                             |
|                                      | -----                    | -----                           | -----                    | -----                           |
|                                      | 779                      | 2,298                           | 432                      | 1,000                           |
|                                      | =====                    | =====                           | =====                    | =====                           |

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

28.4 Includes a recovery of Rs. Nil (1997: Rs. 42.9 million) on account of Storage Development.

|                                | 1998    | 1997    |
|--------------------------------|---------|---------|
| <b>29. FINANCIAL CHARGES</b>   |         |         |
| Bank financing                 | 244,969 | 146,452 |
| Financing charges under leases | 639     | 2,346   |
| Bank charges                   | 53,410  | 48,850  |
| Others                         | 754     | 765     |
|                                | -----   | -----   |
|                                | 299,772 | 198,413 |
| Less: Exchange difference      | 17,324  | 1,632   |
|                                | -----   | -----   |
|                                | 282,448 | 196,781 |
|                                | =====   | =====   |

|                                                                                                       |       |       |
|-------------------------------------------------------------------------------------------------------|-------|-------|
| 29.1 Financial charges for the year capitalized under capital work-in-progress, not included in above | 2,502 | 5,900 |
|                                                                                                       | ===== | ===== |

**30. PROVISION FOR TAXATION**

|                         |         |           |
|-------------------------|---------|-----------|
| Taxation - Current year | 980,000 | 1,531,487 |
| - Prior year's          | -       | 168,513   |
|                         | -----   | -----     |
|                         | 980,000 | 1,700,000 |
|                         | =====   | =====     |

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

|                                    |         |         |
|------------------------------------|---------|---------|
| Sales volume (in '000 tones)       | 12.0    | 13.3    |
|                                    | =====   | =====   |
| Sales                              | 183,335 | 185,089 |
| Less: Government levies            | 913     | 1,012   |
|                                    | -----   | -----   |
|                                    | 182,422 | 184,077 |
| Cost of product sold               | 130,373 | 102,512 |
|                                    | -----   | -----   |
| Gross profit                       | 52,049  | 81,565  |
| Expenditure and charges            |         |         |
| Transportation                     | 15,440  | 18,735  |
| Administrative and marketing       | 28,014  | 37,214  |
| Workers' Profit Participation Fund | 430     | 1,281   |
|                                    | -----   | -----   |
|                                    | 43,884  | 57,230  |
|                                    | -----   | -----   |
| Profit for the year                | 8,165   | 24,335  |
|                                    | =====   | =====   |

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 subsidiaries/associated companies.

|                                      |         |         |
|--------------------------------------|---------|---------|
| Purchases                            | 547,826 | 735,033 |
| Sales                                | 237,535 | 367,636 |
| Financial charges on current account | 18,233  | 14,830  |
| Dividend income                      | 3,176   | 2,999   |

**33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

**33.1 Interest rate risk exposure**

The Company's exposure to interest rate risk and the effective rates on its financial assets and liabilities as of 30 June 1998 are summarized as follows:

| 1998 | Less than<br>one month | One month<br>to three<br>month | Three months<br>to one year | Non<br>Interest<br>bearing | Total |
|------|------------------------|--------------------------------|-----------------------------|----------------------------|-------|
|------|------------------------|--------------------------------|-----------------------------|----------------------------|-------|

**Financial assets**

|                          |        |   |         |            |            |
|--------------------------|--------|---|---------|------------|------------|
| Long term investments    | -      | - | -       | 483,660    | 483,660    |
| Cash & bank balances     | 59,479 | - | -       | 986,209    | 1,045,688  |
| Trade debts              | -      | - | -       | 17,299,952 | 17,299,952 |
| Loans                    | -      | - | -       | 49,205     | 49,205     |
| Deposits                 | -      | - | -       | 10,313     | 10,313     |
| Other receivables        | -      | - | -       | 64,292     | 64,292     |
| Subsidiaries             | -      | - | 35,076  | -          | 35,076     |
| Others                   | -      | - | 179,154 | -          | 179,154    |
|                          | -----  |   |         |            |            |
|                          | 59,479 | - | 214,230 | 18,893,631 | 19,167,340 |
|                          | =====  |   |         |            |            |
| Effective interest rates | 12%    | - | 15%     | -          | -          |

**Financial liabilities**

|                                                                          |           |         |       |            |            |
|--------------------------------------------------------------------------|-----------|---------|-------|------------|------------|
| Dividend payable                                                         | -         | -       | -     | 722,326    | 722,326    |
| Creditors, accrued expenses and other liabilities                        | -         | -       | -     | 19,193,408 | 19,193,408 |
| Bank finance under markup arrangements                                   | 1,528,393 | -       | -     | -          | 1,528,393  |
| Morabaha arrangement                                                     | -         | 350,000 | -     | -          | 350,000    |
| Current portion of long term loans and liabilities against finance lease | 26,251    | 556     | 1,114 | -          | 27,921     |
|                                                                          | -----     |         |       |            |            |
|                                                                          | 1,554,644 | 350,556 | 1,114 | 19,915,734 | 21,822,048 |
|                                                                          | =====     |         |       |            |            |
| Effective interest rates                                                 | 14.42%    | 14.50%  | 19%   |            |            |

**33.2 Concentration of credit risk**

The company is endeavoring to cover the credit risks on government sector trade debts by restricting current supplies on cash basis with an adjustment of a proportion of previous dues. Credit risk on private sector other than retail sales is covered to the maximum extent possible through legally binding contracts. Further the company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific customers and continuing assessment of credit worthiness of customers.

The financial assets of the company includes trade debts amounting to Rs. 17,299.9 million which are exposed to credit risk. The amounts receivable from KESC and WAPDA as of 30 June 1998 are as follows:

**Million**

|                                                   |          |
|---------------------------------------------------|----------|
| Trade debts - Karachi Electric Supply Corporation | 8,654.7  |
| - Water and Power Development Authority           | 7,142.5  |
|                                                   | -----    |
|                                                   | 15,797.2 |
|                                                   | =====    |

**33.3 Fair value of financial instruments**

The carrying value of all the financial instruments reflected in the financial statements approximate their fair values.

**34. YEAR 2000 COMPLIANCE OF COMPUTER SYSTEM**

The Company is seized with the year 2000 issue on its computer systems and applications and is in the process of developing a remedial plan to be implemented in due course.

**GENERAL**

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

35.2 Figures have been rounded off to nearest thousand rupees.

**A. R. Mithani**  
Secretary

**Iftikhar Alam**  
Managing Director

**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:

|                                                                                                                                                                       | 1998                                                       |                                      | 1997                                                       |                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------|------------------------------------------------------------|--------------------------------------|
|                                                                                                                                                                       | Aremai<br>Petroleum<br>(Private)<br>Limited<br>51% Holding | Auto<br>Oils<br>(Private)<br>Limited | Aremai<br>Petroleum<br>(Private)<br>Limited<br>51% Holding | Auto<br>Oils<br>(Private)<br>Limited |
| Proportionate profits after tax of subsidiary dealt within the accounts by way of dividends/bonus shares - for the year ended 30th June 1997 received during the year |                                                            |                                      |                                                            |                                      |
| Dividend                                                                                                                                                              | 892                                                        | 533                                  | 765                                                        | 564                                  |
| Bonus Shares                                                                                                                                                          | -                                                          | -                                    | -                                                          | 163                                  |
|                                                                                                                                                                       | -----                                                      | -----                                | -----                                                      | -----                                |
|                                                                                                                                                                       | 892                                                        | 533                                  | 765                                                        | 727                                  |
| <br>                                                                                                                                                                  |                                                            |                                      |                                                            |                                      |
| - for previous years from the date the Company is a subsidiary                                                                                                        |                                                            |                                      |                                                            |                                      |
| Dividend                                                                                                                                                              | 5,023                                                      | 2,059                                | 4,258                                                      | 1,495                                |
| Bonus Shares                                                                                                                                                          | 1,733                                                      | 1,262                                | 1,733                                                      | 1,262                                |
|                                                                                                                                                                       | -----                                                      | -----                                | -----                                                      | -----                                |
|                                                                                                                                                                       | 6,756                                                      | 3,321                                | 5,991                                                      | 2,757                                |
|                                                                                                                                                                       | -----                                                      | -----                                | -----                                                      | -----                                |
|                                                                                                                                                                       | 7,648                                                      | 3,854                                | 6,756                                                      | 3,484                                |
| <br>                                                                                                                                                                  |                                                            |                                      |                                                            |                                      |
| Proportionate profits/(loss) after tax of subsidiary not dealt within the accounts                                                                                    |                                                            |                                      |                                                            |                                      |
| - for the year                                                                                                                                                        | 1,013                                                      | 474                                  | 1,220                                                      | 922                                  |
| - for previous years from the date the Company is a subsidiary                                                                                                        | 3,842                                                      | 3,312                                | 3,514                                                      | 2,923                                |
|                                                                                                                                                                       | -----                                                      | -----                                | -----                                                      | -----                                |
|                                                                                                                                                                       | 4,855                                                      | 3,786                                | 4,734                                                      | 3,845                                |
|                                                                                                                                                                       | -----                                                      | -----                                | -----                                                      | -----                                |
|                                                                                                                                                                       | 12,503                                                     | 7,640                                | 11,490                                                     | 7,329                                |
|                                                                                                                                                                       | =====                                                      | =====                                | =====                                                      | =====                                |

**A.R. Mithani**  
Secretary

**Iftikhar Alam**  
Managing Director

**PATTERN OF HOLDINGS OF THE SHARES HELD  
BY THE SHARE HOLDERS AS AT JUNE 30, 1998**

| No. Of<br>Shareholders | Shareholdings |            |    |         | Total  |           |      |
|------------------------|---------------|------------|----|---------|--------|-----------|------|
|                        | Shares Held   | Percentage |    |         |        |           |      |
| 4508                   | From          | 1          | to | 100     | Shares | 119,660   | 0.12 |
| 3274                   | From          | 101        | to | 500     | Shares | 905,564   | 0.91 |
| 1464                   | From          | 501        | to | 1,000   | Shares | 1,066,550 | 1.07 |
| 2062                   | From          | 1,001      | to | 5,000   | Shares | 4,476,023 | 4.52 |
| 368                    | From          | 5,001      | to | 10,000  | Shares | 2,503,672 | 2.52 |
| 137                    | From          | 10,001     | to | 15,000  | Shares | 1,575,311 | 1.59 |
| 38                     | From          | 15,001     | to | 20,000  | Shares | 650,146   | 0.66 |
| 22                     | From          | 20,001     | to | 25,000  | Shares | 485,139   | 0.49 |
| 15                     | From          | 25,001     | to | 30,000  | Shares | 409,372   | 0.41 |
| 12                     | From          | 30,001     | to | 35,000  | Shares | 400,646   | 0.40 |
| 14                     | From          | 35,001     | to | 40,000  | Shares | 531,355   | 0.54 |
| 7                      | From          | 40,001     | to | 45,000  | Shares | 293,171   | 0.30 |
| 4                      | From          | 45,001     | to | 50,000  | Shares | 190,971   | 0.19 |
| 5                      | From          | 50,001     | to | 55,000  | Shares | 254,392   | 0.26 |
| 5                      | From          | 55,001     | to | 60,000  | Shares | 291,114   | 0.29 |
| 3                      | From          | 60,001     | to | 65,000  | Shares | 187,116   | 0.19 |
| 2                      | From          | 65,001     | to | 70,000  | Shares | 134,407   | 0.14 |
| 2                      | From          | 75,001     | to | 80,000  | Shares | 151,776   | 0.15 |
| 2                      | From          | 80,001     | to | 85,000  | Shares | 164,138   | 0.17 |
| 4                      | From          | 85,001     | to | 90,000  | Shares | 351,716   | 0.35 |
| 1                      | From          | 90,001     | to | 95,000  | Shares | 93,460    | 0.09 |
| 4                      | From          | 95,001     | to | 100,000 | Shares | 389,369   | 0.39 |
| 1                      | From          | 110,001    | to | 115,000 | Shares | 114,046   | 0.11 |
| 2                      | From          | 120,001    | to | 125,000 | Shares | 239,454   | 0.24 |
| 1                      | From          | 130,001    | to | 135,000 | Shares | 133,342   | 0.13 |
| 1                      | From          | 135,001    | to | 140,000 | Shares | 138,464   | 0.14 |
| 1                      | From          | 155,001    | to | 160,000 | Shares | 156,702   | 0.16 |
| 2                      | From          | 160,001    | to | 165,000 | Shares | 326,701   | 0.33 |
| 1                      | From          | 175,001    | to | 180,000 | Shares | 179,902   | 0.18 |
| 1                      | From          | 195,001    | to | 200,000 | Shares | 199,000   | 0.20 |
| 1                      | From          | 200,001    | to | 205,000 | Shares | 201,100   | 0.20 |
| 1                      | From          | 205,001    | to | 210,000 | Shares | 206,970   | 0.21 |
| 2                      | From          | 210,001    | to | 215,000 | Shares | 423,988   | 0.43 |
| 3                      | From          | 220,001    | to | 225,000 | Shares | 665,626   | 0.67 |
| 1                      | From          | 240,001    | to | 245,000 | Shares | 240,050   | 0.24 |
| 1                      | From          | 245,001    | to | 250,000 | Shares | 248,313   | 0.25 |
| 1                      | From          | 255,001    | to | 260,000 | Shares | 259,396   | 0.26 |
| 1                      | From          | 260,001    | to | 265,000 | Shares | 260,326   | 0.26 |
| 1                      | From          | 275,001    | to | 280,000 | Shares | 278,895   | 0.28 |
| 1                      | From          | 305,001    | to | 310,000 | Shares | 305,122   | 0.31 |
| 2                      | From          | 315,001    | to | 320,000 | Shares | 633,212   | 0.64 |
| 1                      | From          | 355,001    | to | 360,000 | Shares | 356,500   | 0.36 |
| 1                      | From          | 360,001    | to | 365,000 | Shares | 361,580   | 0.36 |
| 1                      | From          | 445,001    | to | 450,000 | Shares | 445,577   | 0.45 |
| 1                      | From          | 455,001    | to | 460,000 | Shares | 457,720   | 0.46 |
| 1                      | From          | 470,001    | to | 475,000 | Shares | 472,574   | 0.48 |
| 1                      | From          | 490,001    | to | 495,000 | Shares | 493,522   | 0.50 |
| 1                      | From          | 550,001    | to | 555,000 | Shares | 550,124   | 0.55 |
| 2                      | From          | 655,001    | to | 660,000 | Shares | 1,315,236 | 1.33 |
| 1                      | From          | 805,001    | to | 810,000 | Shares | 806,218   | 0.81 |

|       |      |            |    |            |        |            |        |
|-------|------|------------|----|------------|--------|------------|--------|
| 1     | From | 945,001    | to | 950,000    | Shares | 949,104    | 0.96   |
| 1     | From | 1,150,001  | to | 1,155,000  | Shares | 1,150,616  | 1.16   |
| 1     | From | 1,230,001  | to | 1,235,000  | Shares | 1,232,024  | 1.24   |
| 1     | From | 1,405,001  | to | 1,410,000  | Shares | 1,405,702  | 1.42   |
| 1     | From | 1,550,001  | to | 1,555,000  | Shares | 1,554,800  | 1.57   |
| 1     | From | 1,935,001  | to | 1,940,000  | Shares | 1,936,455  | 1.95   |
| 1     | From | 3,015,001  | to | 3,020,000  | Shares | 3,018,771  | 3.04   |
| 1     | From | 3,465,001  | to | 3,470,000  | Shares | 3,468,304  | 3.49   |
| 1     | From | 6,315,001  | to | 6,320,000  | Shares | 6,315,761  | 6.36   |
| 1     | From | 10,915,001 | to | 10,920,000 | Shares | 10,915,337 | 11.00  |
| 1     | From | 15,895,001 | to | 15,900,000 | Shares | 15,895,070 | 16.01  |
| 1     | From | 25,320,001 | to | 25,325,000 | Shares | 25,321,951 | 25.51  |
| ----- |      |            |    |            |        | -----      | -----  |
| 12000 |      |            |    |            |        | 99258623   | 100.00 |
| ===== |      |            |    |            |        | =====      | =====  |

| Categories of Shareholders        | Numbers | Shares Held | Percentage |
|-----------------------------------|---------|-------------|------------|
| Individuals                       | 11,789  | 13,127,911  | 13.22      |
| Investment Companies              | 15      | 518,639     | 0.52       |
| Insurance Companies               | 10      | 3,238,523   | 3.26       |
| Joint Stock Companies             | 53      | 853,233     | 0.86       |
| Financial Institutions and Banks  | 17      | 28,156,288  | 28.37      |
| Modaraba Companies                | 10      | 15,323      | 0.02       |
| Federal Government                | 1       | 25,321,951  | 25.51      |
| Corporate Law Authority           | 1       | 2           | 0.00       |
| Abandoned Properties Organisation | 1       | 472,574     | 0.48       |
| Charitable Institutions           | 2       | 262,438     | 0.26       |
| Foreign Investors                 | 101     | 27,291,741  | 27.50      |
| -----                             |         |             |            |
| TOTAL                             | 12,000  | 99,258,623  | 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 1998.

Your Directors are pleased to report that your Company has earned a net profit before taxation of Rs. 3,985,37,5 at against Rs. 4,368,742) for the year 1997-98 after meeting all operational, administrative, financial and other expenses.

The Board recommends for approval payment of 35% cash dividend and other appropriation for the year as presented below:

|                                                                                                       | Rupees    |
|-------------------------------------------------------------------------------------------------------|-----------|
| Profit for the year after providing for all operational, administrative, financial and other expenses | 3,985,375 |
| Less: Provision for Taxation                                                                          | 2,000,000 |
|                                                                                                       | -----     |

|                                            |           |
|--------------------------------------------|-----------|
|                                            | 1,985,375 |
| Add: Unappropriated profit brought forward | 532,320   |
|                                            | -----     |
| Profit available for appropriation         | 2,517,695 |
| <br><b>APPROPRIATIONS</b>                  |           |
| Proposed dividend @ 35% in cash            | 1,749,923 |
| Transfer to General Reserves               | 700,000   |
|                                            | -----     |
|                                            | 2,449,923 |
|                                            | -----     |
| Unappropriated profit carried forward      | 67,772    |
|                                            | =====     |

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

i.~  
i

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

On Behalf of the Board of Directors  
**Mrs. Nusrat Riaz Samee**  
 Chief Executive

December 21, 1998.

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of AREMAI PETROLEUM (PRIVATE) LIMITED as at 30 June 1998 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:

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and 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 1998 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.

**Riaz Ahmad Saqib Gohar & Co.**  
Chartered Accountants

Karachi: December 21, 1998.

**BALANCE SHEET AS AT 30 JUNE 1998**

|                                                                                 | NOTE | 1998<br>Rupees | 1997<br>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 (1997: 160,000)<br>Ordinary shares of Rs. 10 each<br>fully paid in cash |      | 1,600,000      | 1,600,000      |
| 339,978 (1997: 339,978) issued as<br>fully paid bonus shares                    |      | 3,399,780      | 3,399,780      |
|                                                                                 |      | -----          | -----          |
|                                                                                 |      | 4,999,780      | 4,999,780      |
| Reserves                                                                        | 3    | 7,700,000      | 7,000,000      |
| Unappropriated profit                                                           |      | 67,772         | 532,320        |
|                                                                                 |      | -----          | -----          |
|                                                                                 |      | 12,767,552     | 12,532,100     |
| <b>CURRENT LIABILITIES</b>                                                      |      |                |                |
| Due to holding company                                                          | 4    | 16,973,988     | 22,394,277     |
| Creditors, accrued and other liabilities                                        | 5    | 8,186,793      | 4,449,717      |
| Proposed dividend                                                               |      | 1,749,923      | 1,749,923      |
|                                                                                 |      | -----          | -----          |
|                                                                                 |      | 26,910,704     | 28,593,917     |
| <b>CONTINGENT LIABILITIES AND COMMITMENTS</b>                                   |      |                |                |
|                                                                                 | 6    | -              | -              |
|                                                                                 |      | -----          | -----          |
|                                                                                 |      | 39,678,256     | 41,126,017     |
|                                                                                 |      | =====          | =====          |
| <b>FIXED ASSETS</b>                                                             |      |                |                |
| At cost less accumulated depreciation                                           | 7    | 2,493,680      | 2,817,160      |
| Capital work in progress                                                        |      | -              | 147,575        |
|                                                                                 |      | -----          | -----          |
|                                                                                 |      | 2,493,680      | 2,964,735      |
|                                                                                 |      | =====          | =====          |
| <b>CURRENT ASSETS</b>                                                           |      |                |                |
| Stocks                                                                          | 8    | 21,076,897     | 32,537,977     |
| Advances, deposits, prepayments and other rece                                  | 9    | 15,650,771     | 4,834,087      |
| Cash and bank balances                                                          | 10   | 456,908        | 789,218        |
|                                                                                 |      | -----          | -----          |
|                                                                                 |      | 37,184,576     | 38,161,282     |
|                                                                                 |      | -----          | -----          |
|                                                                                 |      | 39,678,256     | 41,126,017     |
|                                                                                 |      | =====          | =====          |

Mrs. Nusrat Riaz Samee  
Chief Executive

Raja Naveedullah Khan  
Director

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 JUNE 1998**

|                                                             | NOTE | 1998<br>Rupees | 1997<br>Rupees |
|-------------------------------------------------------------|------|----------------|----------------|
| Sales                                                       |      | 139,919,383    | 171,692,265    |
| Less: Cost of products sold                                 | 11   | 131,268,862    | 161,534,432    |
| <b>Gross profit</b>                                         |      | 8,650,521      | 10,157,833     |
| Other income                                                |      | 288,527        | 85,165         |
|                                                             |      | 8,939,048      | 10,242,998     |
| Less: Administrative expenses                               | 12   | 1,393,931      | 1,334,290      |
| Financial expenses                                          | 13   | 3,349,985      | 3,783,716      |
| Workers profit participation fund                           |      | 209,757        | 256,250        |
|                                                             |      | 4,953,673      | 5,374,256      |
|                                                             |      | 3,985,375      | 4,868,742      |
| Contribution in Prime Minister debt<br>retirement Programme |      | -              | 500,000        |
| <b>Profit before taxation</b>                               |      | 3,985,375      | 4,368,742      |
| Less: Provision for taxation                                | 14   | 2,000,000      | 1,976,000      |
| <b>Profit after taxation</b>                                |      | 1,985,375      | 2,392,742      |
| Add: Unappropriated profit brought forward                  |      | 532,320        | 889,501        |
|                                                             |      | 2,517,695      | 3,282,243      |
| <b>APPROPRIATIONS:</b>                                      |      |                |                |
| Transfer to general reserve                                 |      | 700,000        | 1,000,000      |
| Proposed cash dividend 35% (1997: 35%)                      |      | 1,749,923      | 1,749,923      |
|                                                             |      | 2,449,923      | 2,749,923      |
| Unappropriated profit carried over to balance sheet         |      | 67,772         | 532,320        |
|                                                             |      | =====          | =====          |

Mrs. Nusrat Riaz Samee  
Chief Executive

Raja Naveedullah Khan  
Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
(CASH FLOW STATEMENT)  
FOR THE YEAR ENDED 30 JUNE 1998**

1998  
Rupees

1997  
Rupees

**Cash flow from operating activities**

|                                                       |              |             |
|-------------------------------------------------------|--------------|-------------|
| Net profit before taxation                            | 3,985,375    | 4,368,742   |
| Adjustment for:                                       |              |             |
| Depreciation                                          | 535,355      | 541,040     |
| Financial charges                                     | 3,349,985    | 3,783,716   |
|                                                       | -----        | -----       |
|                                                       | 3,885,340    | 4,324,756   |
|                                                       | -----        | -----       |
| Operating profit before working capital changes       | 7,870,715    | 8,693,498   |
| (Increase)/decrease in current assets                 |              |             |
| Stocks                                                | 11,461,080   | (2,098,524) |
| Advances, deposits, prepayments and other receivables | (10,816,684) | 8,276,492   |
|                                                       | -----        | -----       |
|                                                       | 644,396      | 6,177,968   |
|                                                       | -----        | -----       |
| Increase/(decrease) in current liabilities            | 8,515,111    | 14,871,466  |
|                                                       | -----        | -----       |
| Creditors, Accrued & other liabilities                | (5,420,289)  | (5,408,878) |
| Due to holding company                                | 1,884,651    | (3,812,803) |
|                                                       | -----        | -----       |
|                                                       | (3,535,638)  | (9,221,681) |
|                                                       | -----        | -----       |
|                                                       | 4,979,473    | 5,649,785   |
|                                                       | -----        | -----       |
| Financial charges paid                                | (3,349,985)  | (3,783,716) |
| Taxation paid                                         | -            | (227,956)   |
|                                                       | -----        | -----       |
|                                                       | (3,349,985)  | (4,011,672) |
|                                                       | -----        | -----       |
| Net cash used in operating activities                 | 1,629,488    | 1,638,113   |
|                                                       |              |             |
| <b>Cash flow from investing activities</b>            |              |             |
| Capital expenditure                                   | (211,875)    | (192,075)   |
|                                                       | -----        | -----       |
| Net cash used in investing activities                 | 1,417,613    | 1,446,038   |
|                                                       |              |             |
| <b>Cash flow from financing activities</b>            |              |             |
| Dividend paid                                         | (1,749,923)  | (1,499,934) |
|                                                       | -----        | -----       |
| Net cash used in financing activities                 | (1,749,923)  | (1,499,934) |
|                                                       | -----        | -----       |
| Net decrease in cash & cash equivalents               | (332,310)    | (53,896)    |
| Cash & cash equivalent at the beginning of the year   | 789,218      | 843,114     |
|                                                       | -----        | -----       |
| Cash and cash equivalent at the end of the year       | 456,908      | 789,218     |
|                                                       | =====        | =====       |

**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 30 JUNE 1998**

**1. STATUS AND NATURE OF BUSINESS**

Aremai 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.

**3. RESERVE - General**

Movement in and composition of reserve is as follows:

|                                               | 1998<br>Rupees     | 1997<br>Rupees     |
|-----------------------------------------------|--------------------|--------------------|
| Opening balance                               | 7,000,000          | 6,000,000          |
| Add: Transfer from<br>Profit and Loss Account | 700,000            | 1,000,000          |
|                                               | -----<br>7,700,000 | -----<br>7,000,000 |
|                                               | =====              | =====              |

**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.

|                                                    | 1998<br>Rupees     | 1997<br>Rupees     |
|----------------------------------------------------|--------------------|--------------------|
| <b>5. CREDITORS, ACCRUED AND OTHER LIABILITIES</b> |                    |                    |
| Creditors                                          | -                  | 66,500             |
| Accrued expenses                                   | 199,948            | 380,693            |
| Provision for taxation                             | 3,895,618          | 1,895,618          |
| Other liabilities                                  | 4,091,227          | 2,106,906          |
|                                                    | -----<br>8,186,793 | -----<br>4,449,717 |
|                                                    | =====              | =====              |

**6. CONTINGENT LIABILITIES AND COMMITMENTS**

There were no contingent liabilities and commitments as at 30 June 1998 (1997' Nil).

## 7. FIXED ASSETS

|                                  | COST                    |                                |                  | As at<br>30 June<br>1998 | Rate<br>% | DEPRECIATION            |                 |                  | As at<br>30 June<br>1998 | Written<br>Down<br>Value<br>As at<br>30 June<br>1998 |
|----------------------------------|-------------------------|--------------------------------|------------------|--------------------------|-----------|-------------------------|-----------------|------------------|--------------------------|------------------------------------------------------|
|                                  | As at<br>1 July<br>1997 | Addition<br>during the<br>year | Deletion         |                          |           | As at<br>1 July<br>1997 | For the<br>year | Deletion         |                          |                                                      |
| Buildings                        | 2,707,607               | 211,875                        | -                | 2,919,482                | 5         | 1,427,235               | 113,305         | -                | 1,540,540                | 1,378,942                                            |
| Tanks, Kettles & Pipe Lines      | 2,699,319               | -                              | -                | 2,699,319                | 10        | 2,624,861               | 18,607          | -                | 2,643,468                | 55,851                                               |
| Plant & machinery                | 2,139,346               | -                              | (121,880)        | 2,017,466                | 10        | 1,571,213               | 81,359          | (121,880)        | 1,530,692                | 486,774                                              |
| Electric Fittings                | 234,494                 | -                              | -                | 234,494                  | 10        | 229,090                 | 1,350           | -                | 230,440                  | 4,054                                                |
| Furniture & Fixture              | 321,897                 | -                              | -                | 321,897                  | 10        | 179,707                 | 23,417          | -                | 203,124                  | 118,773                                              |
| Laboratory & Office Equipments   | 594,124                 | -                              | -                | 594,124                  | 10        | 503,361                 | 39,643          | -                | 543,004                  | 51,120                                               |
| Pumps, Fitting & F.F. Equipments | 384,494                 | -                              | -                | 384,494                  | 10        | 370,515                 | 4,459           | -                | 374,974                  | 9,520                                                |
| Vehicles                         | 1,658,000               | -                              | -                | 1,658,000                | 20        | 1,141,799               | 221,800         | -                | 1,363,599                | 294,401                                              |
| Computer                         | 157,075                 | -                              | -                | 157,075                  | 20        | 31,415                  | 31,415          | -                | 62,830                   | 94,245                                               |
| <b>Total 1998</b>                | <b>10,896,356</b>       | <b>211,875</b>                 | <b>(121,880)</b> | <b>10,986,351</b>        |           | <b>8,079,196</b>        | <b>535,355</b>  | <b>(121,880)</b> | <b>8,492,671</b>         | <b>2,493,680</b>                                     |
| <b>Total 1997</b>                | <b>10,842,529</b>       | <b>192,075</b>                 | <b>(138,248)</b> | <b>10,896,356</b>        |           | <b>7,676,403</b>        | <b>541,040</b>  | <b>(138,247)</b> | <b>8,079,196</b>         | <b>2,817,160</b>                                     |

### 7.1 Depreciation for the year has been allocated as follows:

|                               | 1998<br>Rupees | 1997<br>Rupees |
|-------------------------------|----------------|----------------|
| Cost of Products Manufactured | 219,080        | 224,765        |
| Administrative Expenses       | 316,275        | 316,275        |
|                               | -----          | -----          |
|                               | 535,355        | 541,040        |
|                               | =====          | =====          |

## 8. STOCKS

|                       |            |            |
|-----------------------|------------|------------|
| Lubricants Base Oil   | 3,789,584  | 8,570,890  |
| Additives & Chemicals | 15,479,029 | 21,823,681 |
| Finished Goods        | 1,808,284  | 2,143,406  |
|                       | -----      | -----      |
|                       | 21,076,897 | 32,537,977 |
|                       | =====      | =====      |

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

|                                     |            |           |
|-------------------------------------|------------|-----------|
| Advances - considered good          |            |           |
| National Refinery Limited           | 481,500    | 2,650,250 |
| Others                              | 14,156,176 | 255,894   |
|                                     | -----      | -----     |
|                                     | 14,637,676 | 2,906,144 |
| Deposits                            | 313,297    | 443,909   |
| Prepayments                         | 657,131    | 666,632   |
| Other receivables - considered good | 42,667     | 817,402   |
|                                     | -----      | -----     |
|                                     | 15,650,771 | 4,834,087 |
|                                     | =====      | =====     |

|                                            | 1998         | 1997         |
|--------------------------------------------|--------------|--------------|
|                                            | Rupees       | Rupees       |
| <b>10. CASH AND BANK BALANCE</b>           |              |              |
| Cash with banks in current accounts        | 456,908      | 789,218      |
|                                            | =====        | =====        |
| <b>11. COST OF PRODUCTS SOLD</b>           |              |              |
| Opening stocks of finished goods           | 2,143,406    | 1,068,423    |
| Cost of products manufactured (note 11.1)  | 94,753,128   | 116,842,666  |
| Excise duty                                | 36,180,612   | 45,766,749   |
|                                            | -----        | -----        |
|                                            | 133,077,146  | 163,677,838  |
| Closing stock of finished goods            | (1,808,284)  | (2,143,406)  |
|                                            | -----        | -----        |
|                                            | 131,268,862  | 161,534,432  |
|                                            | =====        | =====        |
| <b>11.1 COST OF PRODUCTS MANUFACTURED</b>  |              |              |
| Lubricants base oil consumed (note 11.1.1) | 61,420,017   | 73,329,273   |
| Additives/Chemicals consumed (note 11.1.2) | 29,521,235   | 40,362,929   |
| Salaries and wages                         | 2,355,186    | 2,138,804    |
| Factory rent                               | 14,400       | 14,400       |
| Fuel and power                             | 422,343      | 511,214      |
| Repairs and maintenance                    | 139,120      | 164,898      |
| Loading and handling                       | 596,671      | 60,409       |
| Depreciation                               | 219,080      | 224,765      |
| Lab. testing charges                       | 65,076       | 35,974       |
|                                            | -----        | -----        |
|                                            | 94,753,128   | 116,842,666  |
|                                            | =====        | =====        |
| <b>11.1.1 Lubricants Base Oil Consumed</b> |              |              |
| Opening stock                              | 8,570,890    | 8,885,961    |
| Less: Stock disposed off                   | -            | (1,015,961)  |
| Purchases                                  | 54,384,958   | 70,529,556   |
| Freight and cartage                        | 2,253,753    | 3,500,607    |
|                                            | -----        | -----        |
|                                            | 65,209,601   | 81,900,163   |
| Closing Stock                              | (3,789,584)  | (8,570,890)  |
|                                            | -----        | -----        |
|                                            | 61,420,017   | 73,329,273   |
|                                            | =====        | =====        |
| <b>11.1.2 Additives/Chemicals Consumed</b> |              |              |
| Opening stock                              | 21,823,681   | 20,485,069   |
| Purchases                                  | 23,176,583   | 41,701,541   |
|                                            | -----        | -----        |
|                                            | 45,000,264   | 62,186,610   |
| Closing stock                              | (15,479,029) | (21,823,681) |
|                                            | -----        | -----        |
|                                            | 29,521,235   | 40,362,929   |
|                                            | =====        | =====        |
|                                            | 1998         | 1997         |
|                                            | Rupees       | Rupees       |

**12. ADMINISTRATIVE EXPENSES**

|                               |           |           |
|-------------------------------|-----------|-----------|
| Head office expenses          | 480,000   | 390,000   |
| Printing and stationery       | 15,674    | 25,289    |
| Travelling expenses           | 92,345    | 96,140    |
| Transport and conveyance      | 69,913    | 70,101    |
| Insurance                     | 89,056    | 106,053   |
| Telephone, postage & telegram | 99,214    | 128,083   |
| Subscription                  | 3,150     | 23,750    |
| Directors' fee                | 5,000     | 2,500     |
| Audit fee                     | 40,812    | 34,375    |
| Depreciation                  | 316,275   | 316,275   |
| Welfare                       | 65,568    | 63,569    |
| Legal & professional charges  | 60,555    | 7,980     |
| Rent, rates and taxes         | 20,000    | 30,010    |
| Others                        | 36,369    | 40,165    |
|                               | -----     | -----     |
|                               | 1,393,931 | 1,334,290 |
|                               | =====     | =====     |

**13. FINANCIAL EXPENSES**

|                                          |           |           |
|------------------------------------------|-----------|-----------|
| Markup on balance due to holding company | 3,347,324 | 3,778,841 |
| Bank charges                             | 2,661     | 4,875     |
|                                          | -----     | -----     |
|                                          | 3,349,985 | 3,783,716 |
|                                          | =====     | =====     |

14. The Company's income tax assessment for the assessment years 1996-97 & 1997-98 are pending for finalization.

**15. GENERAL**

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

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

**Mrs. Nusrat Riaz Samee**  
Chief Executive

**Raja Naveedullah Khan**  
Director

**ACCOUNTS 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 1998.

Your Directors are pleased to report that your Company has earned a net profit before taxation of Rs. 2,628,566 (1997: Rs. 3,417,577) after meeting all operational, administrative, financial and other expenses.

The Board recommends for approval payment of 30% cash dividend and appropriation for the year as under:

**Rupees**

|                                                                                                       |           |
|-------------------------------------------------------------------------------------------------------|-----------|
| Profit for the year after providing for all operational, administrative, financial and other expenses | 2,628,566 |
| Less: Provision for Taxation - Current                                                                | 1,300,000 |
| - Prior                                                                                               | 400,000   |
|                                                                                                       | -----     |
|                                                                                                       | 1,700,000 |
|                                                                                                       | -----     |
|                                                                                                       | 928,566   |
| Add: Unappropriated profit brought forward                                                            | 802,818   |
|                                                                                                       | -----     |
| Profit available for appropriation                                                                    | 1,731,384 |
| <br><b>APPROPRIATIONS</b>                                                                             |           |
| Proposed dividend @ 30% in cash                                                                       | 1,042,500 |
| Transfer to General Reserves                                                                          | 600,000   |
|                                                                                                       | -----     |
|                                                                                                       | 1,642,500 |
|                                                                                                       | -----     |
| Unappropriated profit carried forward                                                                 | 88,884    |
|                                                                                                       | =====     |

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

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

~~~~~

On Behalf of the Board of Directors

**Begum Tahira Hamid**

Chief Executive

December 22, 1998

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of AUTO OILS (PRIVATE) LIMITED as at 30 June 1998 and the related profit and loss account and statement of cash flow, 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 cash flow 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 1998 and of the profit and the cash flow 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.**  
Chartered Accountants

Rawalpindi: December 22, 1998

**BALANCE SHEET AS AT 30 JUNE 1998**

	Notes	1998 (Rupees)	1997 (Rupees)
<b>CAPITAL AND RESERVES</b>			
Share capital	3	3,475,000	3,475,000
Reserves			
General reserve		6,300,000	5,700,000
		-----	-----
Unappropriated profit		88,884	802,818
		9,863,884	9,977,818
<b>OBLIGATION UNDER FINANCE LEASE</b>	4	390,396	-
<b>CURRENT LIABILITIES</b>			
Balance due to holding company	5	18,102,350	39,521,278
Current portion of obligations under finance lease		133,451	-
Creditors, accrued and other liabilities	6	8,111,303	4,134,329
Proposed dividend		1,042,500	1,042,500
		-----	-----
		27,389,604	44,698,107
<b>CONTINGENCIES AND COMMITMENTS</b>	7	-	-
		-----	-----
		37,643,884	54,675,925
		=====	=====
<b>FIXED CAPITAL EXPENDITURE</b>			
Operating assets	8	1,990,225	2,296,485
Assets subject to finance lease	9	465,581	-
Capital work-in-progress		151,888	145,996
		-----	-----
		2,607,694	2,442,481
<b>LONG TERM SECURITY DEPOSITS</b>	10	75,300	1,400
<b>CURRENT ASSETS</b>			
Stock-in-trade	11	19,477,141	37,764,250
Advances, deposits, pre-payments and other receivables	12	13,034,080	10,762,791
Cash and bank balances	13	2,449,669	3,705,003
		-----	-----
		34,960,890	52,232,044
		-----	-----
		37,643,884	54,675,925
		=====	=====

The annexed notes form an integral part of these accounts.

Begum Tahira Hamid  
Chief Executive

K.P. Abbasi  
Director

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 JUNE 1998**

	Notes	1998 (Rupees)	1997 (Rupees)
SALES		112,375,544	138,460,054
COST OF PRODUCTS SOLD		104,385,346	130,194,202
		-----	-----
GROSS PROFIT		7,990,198	8,265,852
OPERATING EXPENSES			
Administrative	15	1,532,699	1,369,059
Financial	16	4,252,115	3,369,729
Workers' profit participation fund		138,346	179,873
		-----	-----
		5,923,160	4,918,661
		-----	-----
OPERATING PROFIT		2,067,038	3,347,191
Other Income	17	561,528	70,386
		-----	-----
PROFIT FOR THE YEAR		2,628,566	3,417,577
TAXATION			
- Current		1,300,000	1,500,000
- Prior		400,000	110,263
		-----	-----
		1,700,000	1,610,263
		-----	-----
PROFIT AFTER TAXATION		928,566	1,807,314
UNAPPROPRIATED PROFIT BROUGHT FORWARD		802,818	638,004
		-----	-----
PROFIT AVAILABLE FOR APPROPRIATION		1,731,384	2,445,318
APPROPRIATIONS			
Transfer to general reserve		600,000	600,000
Proposed dividend @ 30% (1997: 30%)		1,042,500	1,042,500
		-----	-----
		1,642,500	1,642,500
		-----	-----
UNAPPROPRIATED PROFIT CARRIED FORWARD		88,884	802,818
		=====	=====

The annexed notes form an integral part of these accounts.

Begum Tahira Hamid  
Chief Executive

K.P. Abbasi  
Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
(CASH FLOW STATEMENT)  
FOR THE YEAR ENDED 30 JUNE 1998**

1998

1997

	(Rupees)	(Rupees)
<b>Cash flow from operating activities</b>		
Cash receipts from customers	112,907,073	138,466,728
Cash paid to suppliers and employees	80,995,629	135,201,973
	-----	-----
Cash generated from operations	31,911,444	3,264,755
Interest paid	(4,250,664)	(3,367,018)
Income Tax paid	(6,335,519)	(5,652,882)
	-----	-----
Cash flow from operating activities	21,325,261	(5,755,145)
	=====	=====
<b>Cash flow from investing activities</b>		
Purchase of fixed assets	(151,888)	(198,446)
Payment for long term deposits	(73,900)	-
Sale proceeds of fixed assets	30,000	63,712
	-----	-----
Net cash used in investing activities	(195,788)	(134,734)
	=====	=====
<b>Cash flow from financing activities</b>		
Payment to holding company	(21,418,928)	10,305,618
Payments of obligations under finance lease	(58,129)	-
Dividend paid	(907,750)	(957,500)
	-----	-----
Net cash used in financing activities	(22,384,807)	9,348,118
	-----	-----
Net increase in cash and cash equivalents	(1,255,334)	3,458,239
Cash and cash equivalents at beginning of period	3,705,003	246,764
	-----	-----
Cash and cash equivalent of end of period	2,449,669	3,705,003
	=====	=====

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 30 JUNE 1998**

**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.

Assets subject to finance lease are stated at the lower of present value of minimum lease payment under the lease agreements and the fair value of such assets. The related obligation under the lease are accounted for at net present value of liabilities. The assets so acquired are amortised over their expected useful life. Full years amortisation is charged on additions.

#### 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.

	1998 (Rupees)	1997 (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 (1997-172) Ordinary shares of Rs. 12,500 each, issued as bonus shares	2,475,000	2,475,000
	-----	-----
	3,475,000	3,475,000
	=====	=====
<b>4. OBLIGATION UNDER FINANCE LEASE-</b>		
Total outstanding commitments	689,425	-
Financial charges not due	(165,578)	-
	-----	-----
Current portion	523,847	-
	(133,451)	-
	-----	-----
	390,396	-
	=====	=====

The total lease rentals due under the lease agreement amounts to Rs. 1,081,950 (1997 - Rs. Nil) and are payable in equal quarterly installments latest by October 01, 2000. Overdue rental payments are subject to an additional charge of 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 rate of approximately 19 percent have been used as discounting factor.

The lease is partly secured against the security deposits amounting to Rs. 73,900 grouped in long term deposits.

#### 5. 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.

	1998 (Rupees)	1997 (Rupees)
<b>6. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>		
Accrued expenses	561,076	453,532
Provision for taxation	3,200,000	1,500,000
Other liabilities	3,785,664	1,750,984
Dividend payable	564,563	429,813
	-----	-----
	8,111,303	4,134,329
	-----	=====

**7. 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.

**8. FIXED ASSETS**

Particulars	COST			Rate %	DEPRECIATION			Written Down Value As on 30 June 1998	
	As on 01 July 1997	Additions	As on 30 June 1998		As on 01 July 1997	Adjustment	For the year		As on 30 June 1998
Land-Lease hold	475,097	-	475,097	5	308,815	-	23,755	332,570	142,527
Building on lease hold land	3,415,749	145,996	3,561,745	5	1,801,418	-	178,087	1,979,505	1,582,240
Tank, kettle, pipeline & machinery	3,601,201	-	3,601,201	10	3,470,380	-	37,851	3,508,231	92,970
Electric fittings	537,939	-	537,939	10	537,618	-	319	537,937	2
Laboratory equipment	785,239	-	785,239	10	785,235	-	-	785,235	4
Office furniture	63,030	-	63,030	10	57,016	-	2,085	59,101	3,929
Office equipments	88,939	-	88,939	10	54,882	-	4,025	58,907	30,032
Vehicles	1,161,128	(130,450)	1,030,678	20	816,473	(130,449)	206,133	892,157	138,521
	-----								
1998- Rupees	10,128,322	145,996 (130,450)	10,143,868		7,831,837	(130,449)	452,255	8,153,643	1,990,225
	-----								
1997 - Rupees	10,457,952	52,450 (382,080)	10,128,322		7,780,974	(382,079)	432,942	7,831,837	2,296,485
	=====								

8.1 Depreciation has been apportioned as under:

	1998 (Rupees)	1997 (Rupees)
Cost of Products Manufactured	240,012	217,398
Administrative Expenses	212,243	215,544
	-----	-----
	452,255	432,942
	-----	-----

**9. ASSETS SUBJECT TO FINANCE LEASE**

Particulars	COST			Rate	DEPRECIATION			Written Down Value As on
	As on 01	Additions	As on 30		As on 01	Adjustment	For the	

	July 1997	June 1998	%	July 1997	year	June 1998	30 June 1998
Vehicles	-	581,976	20	-	-	116,395	465,581
1998- Rupees	-	581,976		-	-	116,395	465,581
1997-Rupees	-	-		-	-	-	-

	1998 (Rupees)	1997 (Rupees)
<b>10. LONG TERM SECURITY DEPOSITS</b>		
Utilities	1,400	1,400
Finance lease	73,900	-
	75,300	1,400

	1998 (Rupees)	1997 (Rupees)
<b>11. STOCK-IN-TRADE</b>		
Lubricating base oil		
Cost	5,157,216	6,474,871
Charges incurred	296,827	367,904
	5,454,043	6,842,775
Additives	12,697,966	27,031,084
Finished products	1,325,132	3,890,391
	19,477,141	37,764,250

	1998 (Rupees)	1997 (Rupees)
<b>12. ADVANCES, DEPOSITS, PREPAYMENTS, AND OTHER RECEIVABLES</b>		
Advances - Un-secured - considered good		
National Refinery Limited	18,780	3,017,942
Income tax	10,359,610	4,024,091
Others	548,079	575,579
Deposits	1,767,180	1,467,432
Prepayments	-	40,000
Receivables		
Income Tax	282,894	282,894
Other receivables - Un-secured	57,537	1,354,853
	13,034,080	10,762,791

	1998 (Rupees)	1997 (Rupees)
<b>13. CASH AND BANK BALANCE</b>		
Cash in hand	8,287	6,500
Cash in transit	50,000	-
Cash at banks in current accounts	2,391,382	3,698,503
	2,449,669	3,705,003

	1998 (Rupees)	1997 (Rupees)
<b>14. COST OF PRODUCTS SOLD</b>		
Opening stock of finished products	3,890,391	1,865,456
Cost of products manufactured	14.1 71,619,835	94,249,942

Excise duty	30,200,252	37,969,195
	-----	-----
	105,710,478	134,084,593
Closing stock finished products	(1,325,132)	(3,890,391)
	-----	-----
	104,385,346	130,194,202
	=====	=====
	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>

**14.1 COST OF PRODUCTS MANUFACTURED**

Base oil consumed	14.1.1	51,303,828	64,110,984
Additives/Chemicals consumed	14.1.2	17,522,319	27,472,445
Salaries and wages		2,067,950	1,829,231
Fuel and power		259,085	349,685
Loading and un-loading		169,560	216,309
Laboratory testing charges		30,654	-
Factory rent		5,247	5,247
Plant and building maintenance		21,180	48,643
Depreciation		240,012	217,398
		-----	-----
		71,619,835	94,249,942
		=====	=====

**14.1.1 Base oil consumed**

Opening stock	6,842,775	7,882,209
Purchases	47,152,226	59,460,847
Freight and cartage	2,762,870	3,610,703
	-----	-----
	56,757,871	70,953,759
Closing Stock	(5,454,043)	(6,842,775)
	-----	-----
	51,303,828	64,110,984
	=====	=====

**14.1.2 Additives and chemicals consumed**

Opening stock	27,031,084	23,595,522
Purchases	3,189,201	30,908,007
	-----	-----
	30,220,285	54,503,529
Closing stock	(12,697,966)	(27,031,084)
	-----	-----
	17,522,319	27,472,445
	=====	=====

**15. ADMINISTRATIVE EXPENSES**

Head office expenses	480,000	480,000
Directors' fee	2,000	2,500
Communication	74,375	110,882
Printing and stationery	22,024	27,010
Transport and conveyance	74,889	66,200
Travelling	9,924	132,647
Staff welfare	41,282	34,435
Software development charges	25,000	-
Auditors' remuneration	43,000	87,520

Legal and professional	315,000	45,000
Rent, rates and taxes	20,000	20,000
Insurance	63,056	91,761
Fee and subscription	-	20,000
Other expenses	33,511	35,560
Depreciation and amortisation	328,638	215,544
	-----	-----
	1,532,699	1,369,059
	=====	=====

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>

**16. FINANCIAL EXPENSES**

Interest on:

Current account with holding company (Pakistan State Oil Company Limited)	4,196,643	3,367,018
Finance charges of lease	54,021	-
Bank charges	1,451	2,711
	-----	-----
	4,252,115	3,369,729
	=====	=====

**17. OTHER INCOME**

Miscellaneous income	531,529	6,674
Gain on sale of fixed assets	29,999	63,712
	-----	-----
	561,528	70,386
	=====	=====

**18. 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.

**Begum Tahira Hamid**  
Chief Executive

**K.P. Abbasi**  
Director