

## **SHELL PAKISTAN LIMITED**

**ANNUAL REPORT 1997**

### **The Shell brand**

*For a century, the word 'Shell', the emblem and its colours have symbolised the quality and professionalism inherent in all our products and services.*

*The strength of the Shell brand has been built up over a century, through a fusion of countless business decisions and satisfactory consumer experiences, backed by heavy investment in quality, advertising and packaging.*

*The Shell core brand values - summarised by the words 'caring', 'leadership', 'desire for improvement', and 'professionalism' - underpin our unique style of operation, world-wide. They are the absolute essence of what consumers perceive the brand to stand for and, are reflected in the ways we relate to our customers, our staff and our shareholders, making the Shell pecten, one of the most recognised symbols around the world.*

*Our international brand positioning is that "You can be sure of Shell because it is the caring and helpful company that thrives on long-term customer relationships, and is dedicated to delivering quality products and friendly service in imaginative ways."*

### **ALL WORK AND PLAY TOO**

*Leading marketers have recognised that sponsorship is no longer simply a matter of benevolent patronage or corporate hospitality, but rather a major weapon to be deployed in creating and sustaining brand awareness and positive brand associations. By associating a brand with events or activities in which target customers are already interested, the brand can achieve a closer relationship and more effective dialogue with those customers. Sports remain the leading vehicle for sponsorship around the world - largely as a result of the media coverage surrounding sports of all types.*

*Internationally Shell sponsors Formula I, having an exclusive relationship with Ferrari. Shell's choice of Ferrari as an association is based on a partnership with a brand that represents the world's most desirable high performance road cars. Together we have won over fifty Grand Prix races - more than any team ever - the ultimate combination of power and speed that's virtually unbeatable.*

*In Pakistan people are not familiar with the Ferrari name on a mass scale and are not very interested in Formula I. But what the people of Pakistan are passionate about is the game of cricket - at all levels. SPL has recently started major sponsorship of the game in Pakistan. We strongly believe that cricket sponsorship is not only a means of communicating with our customers but also of giving something back to the game which evokes such strong emotions in all of us, and means so much to the people of Pakistan.*

### **AHEAD OF THE TIMES**

*Shell's success in Pakistan and its strong and improving market position are hardly a coincidence. It is the result of diligently serving our customers through technologically advanced products, quality control, innovative retailing concepts and the sheer hard*

*work of our employees - attributes which make Shell a household name the world over.*

*Our modern and highly efficient service stations have set new standards for others to follow. Leveraging its strength as the biggest retailer in the world, Shell has introduced the concept of 24 hours convenience shopping in Pakistan.*

*Shell takes pride in the quality of its products and services. We are constantly working towards providing the highest quality products to our customers, which are free from adulteration, a major problem in our market. Our superior packaging and Quality Control Units (QCUs) are proof of that. Shell is the only company in Pakistan which has the revolutionary technology of QCUs, which enables onsite testing of quality and quantity of fuels.*

*All these efforts enable us to say to our customer, "You can be sure of Shell."*

#### **SHARING AND CARING**

*Shell contributes to the communities in which it operates through social investment programmes. These programmes aim to support development within local communities and, at the same time help Shell to be an integral part of the societies that it serves.*

*Most of the projects, whether in the form of sponsorships or donations, fall into the categories of education, development, cultural activities, youth, conservation or welfare.*

*Projects that aim to deliver long-term benefits to communities need the assurance of continuing commitment from sponsors. Shell companies have considerable experience of long-running social programmes, some of which have been in place for more than 25 years.*

*The 'caring' aspect of our core brand values is reflected in Shell's role as a member of the community. Shell is actively involved in several activities across Pakistan. They include: preservation and renovation of one of the most beautiful landmarks of Karachi, the Mohatta Palace; a long-time supporter of the Layton-Rahmatulla Benevolent Trust in Karachi; association with the SOS Villages in Pakistan where it has constructed a dormitory and is actively involved in the welfare of its residents; consistent financial support to The Kidney Centre right from its inception in 1985; sustained support of the Special Olympics for handicapped youngsters.*

#### **VISION**

**TO BE THE TOP PERFORMER OF FIRST CHOICE**

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## NOTICE OF MEETING

Notice is hereby given that the Twenty Eighth Annual General Meeting of Shell Pakistan Limited will be held on Thursday, December 4, 1997 at 10:30 a.m. at Karachi Sheraton Hotel, Karachi to transact the following business:

### ORDINARY BUSINESS

1. To receive and adopt the Report of Directors and Auditors together with Audited Accounts for the year ended June 30, 1997.
2. To approve the payment of final dividend of Rs.5.00 per share (50%) and also the interim dividend of Rs.3.50 per share (35%) declared on February 23, 1997 making a total of Rs.8.50 per share for the year ended June 30, 1997.
3. To appoint Auditors and fix their remuneration for the year 1997-98.

### SPECIAL BUSINESS

4. To authorise the Directors to appoint as Directors and Alternates incumbents of certain offices in the Company and to authorise such incumbents to hold their respective offices of profit as full-time employees of the Company.

### NOTES:

#### STATEMENT OF MATERIAL FACTS UNDER SECTION 160(1) (b) OF THE COMPANIES ORDINANCE 1984

##### ITEM 4:

From time to time Directors of the Company who intend to be absent from Pakistan for more than three months at a time desire to appoint one of the Senior Executives of the Company as their alternate to act in their place during the period when they are absent from Pakistan. Also in the case of a casual vacancy on the Board, the Directors have from time to time felt the need to appoint one of the Senior Executives as a Director of the Company to fill such casual vacancy.

However, a Senior Executive of the Company requires the approval of the Members to hold his office of profit as a full-time employee of the Company. Accordingly, the Board has proposed that the Members authorise the Directors to appoint as Directors and Alternates incumbents of certain offices in the Company and to authorize such incumbents to hold their respective offices of profit as full-time employees of the Company. In this connection the Board recommends that Senior Executives of the Company holding offices of Marketing Manager, Finance Manager, Human Resources & Public Affairs Manager and Operations Manager may be considered for such appointments.

For this purpose, it is proposed that the following resolution be passed as an ordinary resolution:

##### RESOLVED

that the Directors be and are hereby authorised to appoint as directors for filling casual vacancies or to appoint and approve appointments as alternates for absent directors persons from amongst the incumbents from time to time of the offices of Marketing Manager, Finance Manager, Human Resources & Public Affairs Manager and Operations Manager each of whom be and is hereby authorised to continue holding his or her respective office of profit under the Company and to avail of the remuneration, allowances and other benefits thereof while simultaneously holding the office of director or alternate director as the case may be.

(i) The register of members will remain closed from November 22, 1997 to December 4, 1997 (both days inclusive).

(ii) A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his/her behalf. Proxies must be received at the registered office of the Company not less than 48 hours before the meeting.

(iii) Shareholders are requested to notify any change in their address immediately.

## COMPANY INFORMATION

BOARD OF DIRECTORS	Mr. T. V. Higgins	Chairman
	Mr. A. Aziz	
	Mr. F. K. Captain	
	Mr. A. Khawaja	
	Mr. F. D. de Koning	
	Mr. G. Lezaun	
	Mr. S. Qureshi	
	Mr. S.N.A. Razvi	

Mr. M. Soomro  
 Mr. F.W. Vellani  
 Mr. D. Weston

MANAGEMENT

Mr. T. V. Higgins  
*Managing Director & Chief Executive*

Dr. A.M. Devine  
*Marketing Manager*

Mr. H. van Roest  
*Operations Manager*

Ms. T. Taylor  
*Finance Manager*

Mr. H. Madani  
*Human Resources & Public Affairs Manager*

COMPANY SECRETARY

Ms. F. B. Kazmi

REGISTERED OFFICE

Shell House  
 6, Ch. Khaliqzaman Road  
 Karachi- 75530

AUDITORS

A.F. Ferguson & Co.

LEGAL ADVISERS

Fatehali W. Vellani & Co.  
*Advocates & Solicitors*

**REPORT OF THE DIRECTORS**

The Directors of your Company are pleased to present their Report and Audited Accounts for the Twenty-seventh year of the Company's operations ended June 30, 1997.

(Rupees '000)

The profit of the Company for the year ended June 30, 1997 after providing for administrative, marketing, financial and other charges amounts to 983,316

Less: Provision for Workers' Profits Participation Fund	49,166	
Workers' Welfare Fund	21,500	70,666
	-----	-----
		912,650

Less: Taxation For the year	355,230	
Deferred tax	9,770	365,000
	-----	-----
Profit after taxation		547,650

To this must be added  
 Amount of unappropriated profit brought forward from the previous year 366,177

Making available for appropriation 913,827

APPROPRIATIONS:

An interim dividend of Rs 3.50 per share of Rs 10 each (equivalent to 35%) was declared on 23rd February 1997 absorbing		81,820
and the Directors now recommend the payment of a final dividend of Rs 5.00 per share of Rs 10 each (equivalent to 50%) amounting to		116,886

Making a total appropriation of	----- 198,706 -----
Leaving for carry over to next year an unappropriated profit of	715, 121 =====
Earning per share	Rs 23.43

1. You will recall that Company margins were last increased in February 1995, despite the Government's stated policy of revising these margins on an annual basis. Your Company continuously emphasises to the Government that these margin increases are essential to promote the necessary investment required within the industry.

2. The Company has filed a petition with the High Court of Sindh for the amalgamation of the wholly owned lubricant manufacturing subsidiaries into Shell Pakistan Limited. We hope that the scheme of amalgamation would be approved by the High Court and that these subsidiaries will be amalgamated effective July 1, 1997.

3. In line with the Company's objective to provide quality products and customer service and to improve operational safety, an amount of Rs 949.9 million was spent on various capital investment programmes. The most visible impact of this capital expenditure is in the form of the branded Shell retail outlets. Up to June 30, 1997, the number of such sites was 101 compared to 59 at June 30, 1996.

4. During the year under review, income tax has been provided at the normal rates and not on the basis of minimum income tax as stated under section 80D of the Income Tax Ordinance 1979. Your Company continues to emphasise on the Government that tax on turnover should be net of duties, taxes and levies thereby removing the "tax on tax" effect.

5. The consolidated balance sheet and profit and loss account of the Company and its subsidiaries as at June 30, 1997 are also attached.

6. Since the last review, the following changes have taken place on the Board of Directors: Mr. Aitzaz Shahbaz resigned and in his place Mr. F. W. Vellani was co-opted as director; Ms. Moira Bowie and Mr. Leif S. Soeften resigned from the Board and in their place Mr. Georges Lezaun and Mr. D. Weston were co-opted as directors; Mr. A. S. A. Islahi who was co-opted in place of Mr. M. B. Abbasi who had resigned earlier, also resigned and Mohammad Mian Soomro has been co-opted as director. The Board places on record its appreciation and gratitude to all the outgoing directors for the services they have rendered for the Company.

7. The Auditors M/s A.F. Ferguson & Co., retire and being eligible offer themselves for re-appointment.

8. The pattern of share holding is given on page 44. The Shell Petroleum Company Limited, London continues to hold 51.03% of the Company's shares.

## HIGHLIGHTS

		Eighteen	
		Year ended	months ended
		June 30,	June 30,
		1997	1996
Sales volume	Tonnes	2,973,118	4,517,586
Sales revenue	Rs / mn	37,500	41,214
Profit before tax	Rs / mn	913	517
Profit after tax	Rs / mn	548	316
New capital expenditure	Rs / mn	950	739
Shareholders' equity	Rs/ mn	1,820	1,471
Dividend	Rs /mn	199	150
Earning per share	Rs	23.43	13.53
Foreign exchange earnings	Rs /mn	642	514

## CHAIRMAN'S REVIEW

It gives me great pleasure to welcome you to the 28th Annual General meeting of the Company and to present the Annual Report for the financial year ending 30th June 1997. When comparing the figures of the last 12 months with the previous annual report please remember that the latter covered a period of 18 months. On a comparable 12 months basis, the performance continues to show an upward trend.

The slow down in economic activity which became apparent in October 1996 continued for the rest of the financial year. This slow down impacted on demand for oil products in Pakistan, with the exception of furnace oil where demand was strongly driven by the commissioning of private sector power plants. In contrast to the industry Shell Pakistan Limited registered higher growth in white oils, thereby improving unit gross margin.

Your Company has undertaken a number of initiatives to improve the operational infrastructure. Distribution efficiency has been enhanced by commissioning the new Machike installation to receive products through the PARCO pipeline system. Continued emphasis on safety standards in our operations includes increasing the size of tank-lorries, thus reducing road exposure. The safety standards of contractor tank-lorries have been improved significantly and every effort is being made to bring them in line with international standards.

Your Company believes in customer satisfaction. We have a vision "to be the top performer of first choice" in our business in Pakistan. To achieve this vision we have invested in upgrading our retail network and have continued to improve customer service and product quality. A total of 42 retail outlets have been upgraded through substantial capital expenditure on the retail development programme over the past 12 months, compared to 44 outlets developed in the 18 month period ended June 30, 1996. These new service stations provide international quality service to our customers whilst bringing new standards of safety and environmental care to Pakistan. I am delighted to be able to report that the very positive customer response to these sites has been sustained and indeed is increasing.

The finances to meet the above investment and other new projects are generated from the Company's operations by reinvesting more than 50% of its profits and through short-term borrowing. Your Company's financial performance in the last twelve months has been encouraging despite adverse conditions. Gross margins increased from Rs. 1.3bn to Rs 2.1 bn, although sales volumes registered lower growth. This was achieved through better product portfolio management. Profit before taxation increased from Rs. 380mn (pro rata for 12 months) in 1995-96 to Rs. 913mn, an increase of 140%. Profit after tax rose from Rs. 240mn (pro rata for 12 months) in 1995-96 to Rs. 547mn, an increase of 128%.

Lubricants remain a key profit contributor following the successful launch of Shell Helix Plus, and with Rimula engine oils and the industrial Sea Shell portfolio firmly in place. Our lubricants manufacturing and logistics have been rationalised and Operations have been centralised at Keamari. However, the market place will come under increasing competitive pressure due to the recent entry of Mobil. Currently 30% of the Company's gross margin is earned from lubricants.

Your Company continues to monitor and control its internal costs vigorously to optimise profitability from operations. Nevertheless, the Company is not immune to the inflationary pressures that prevail in the country and the costs of the goods and services we receive have increased. In order to attract and maintain the high calibre staff necessary to meet the demands of an increasing level of activity, the Board has approved salary increases in order to keep the Company competitive with other comparable blue-chip corporations. As a result administrative and marketing expenses excluding depreciation have increased in these 12 months from Rs. 703.8mn to Rs. 884.3mn, an effective increase of 25.6% on an annualised basis.

The Company has moved from minimum income tax at 0.5% of turnover net of custom & excise duties, under Section 80D of the Income Tax Ordinance 1979, to Conventional Tax, which amounts to Rs. 365 mn for the period under review - an increase of 160% over the preceding 12 months.

Profit available for appropriation for the twelve months ended 30th June 1997 was Rs. 547.6mn. Interim dividend of Rs. 3.50 per share was declared on February 23, 1997. At their meeting on September 23, 1997, the Board of Directors recommended a final dividend of Rs. 5 per share, making a total distribution of Rs. 8.5 per share for the twelve months ended June 30, 1997.

The Company has continued to pursue its strategy of investment in infrastructure, information technology and human resources development that was reported last year. It is determined to remain the industry leader in customer service, product quality and in health, safety and environmental protection matters. We look to the Government to help the Company fund the investment needed to achieve these goals by increasing dealer and distributor margins as envisaged in the 1994 Petroleum Policy. Regretfully I have to inform you that the Government has not allowed any margin increase since the last announced on February 13, 1995. Efforts are continuing to persuade the Government to increase the margin percentages to sustain the development programme of your Company.

The initiatives the Company has taken towards its goal of improving safety performance in all areas continue to show positive results. Truck drivers are regularly being given defensive driving training. Safety belts have been fitted on all our contracted vehicles fleet. All employees are encouraged to wear seat belts while driving or helmets if on motorcycles. These have been provided by the Company to meet our objective of safer road travel. Fire-fighting and electrical systems have been upgraded at depots and installations.

The customers have given recognition to your Company as being the preferred company for customer service, product quality and integrity of supply. In the job market the Company is seen as one of the preferred employers. These preferences are the result of initiatives taken in the key areas of health, safety and environment, human resources, information technology, customer service and product quality. I firmly believe that we have laid a sound foundation and that your Company will continue to grow in excellence and contribute to the development of the country.

These results have been achieved through the combined efforts of the Management Team, company staff, agency and dealer networks and above all by the continuing loyalty of our customers. On behalf of the Board I would like to thank each and every one for their contributions.

#### FINANCIAL STATISTICAL SUMMARY

		1997	*1996	1994	1993	1992	1991	1990	1989	1988	1987
<b>Investment Measures</b>											
Share capital	Rs/mn	233.77	233.77	135.52	123.20	123.20	123.20	107.80	107.80	98.00	98.00
Reserves	Rs/ran	1,586.51	1,237.57	468.11	339.36	274.15	196.56	285.90	284.36	252.60	234.26
Shareholders' equity	Rs/mn	1,820.29	1,471.34	603.63	462.56	397.35	319.76	393.70	356.16	350.60	332.26
Break-up value	Rs	77.87	62.94	44.54	37.55	32.25	25.91	36.52	33.04	35.78	33.90
Dividend per share	Rs	8.5	8.25	4.00	4.00	2.00	-	4.50	6.00	4.50	6.00
Bonus		--	-	3:20	1:10	-	-	1:7	-	1:10	-
Profit before tax	Rs/mn	912.65	517.04	311.78	177.26	42.44	24.66	150.06	121.58	95.99	150.18
Profit/(Ioss) after tax	Rs/mn	547.65	316.39	195.28	114.49	102.23	(73.94)	86.06	70.24	62.44	95.84
Earning/(Ioss) per share of Rs. 10~	Rs	23.43	1,353	14.40	9.30	8.30	(6.00)	798	6.52	6.37	9.78
Price earning ratio		10.03	11.90	19.43	22.80	9.50	-	6.70	900	9.90	6.20
<b>Measures of financial status</b>											
Current assets to current liabilities		0.92	1.2	1.1	1.1	1.0	1.0	1.0	1.1	1.2	1.2
Number of days stocks		18	19	14	19	15	18	21	19	20	17
Number of days trade debts		7	8	8	7	7	8	9	9	6	7
<b>Measures of performance</b>											
Profit/(Ioss) after tax as % of average capital employed		23.15	24.24	31.68	17.36	12.70	(6.40)	9.30	11.80	1,280	25.00
profit/(loss) after tax as % of average shareholders' equity		33.28	30.50	36.63	26.60	28.50	(20.70)	23.00	19.90	18.30	30.60
Cost of sales as % of sales		94.4	95.61	96.13	96.31	97.23	97.50	96.30	96.70	97.00	96.70
Profit/(Ioss) after tax as % of sales		2.43	1.25	1.43	0.94	0.24	0.15	1.10	1.10	0.90	1.50
Profit after tax as % of sales		1.46	0.77	0.89	0.61	0.60	(0.40)	0.60	0.60	0.60	1.00

**ACCOUNTS**  
**YEAR ENDED JUNE 30, 1997**

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Shell Pakistan Limited as at June 30, 1997 and the related Profit and Loss Account and Cash Flow Statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the 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 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 June 30, 1997 and of the profit and cash flows for the year then ended; and

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

**A.F. FERGUSON & CO.**

Karachi: Oct 8, 1997

CHARTERED ACCOUNTANTS

**BALANCE SHEET**  
**AS AT JUNE 30, 1997**

	Note	1997 (Rupees '000)	1996
<b>Tangible fixed assets</b>	3	2,088,553	1,263,895
<b>Long-term investments</b>	4	38,312	44,401
<b>Long-term loans and advances</b>	5	5,418	3,956
<b>Long-term deposits and prepayments</b>	6	21,583	15,341
<b>Deferred taxation</b>	7	12,806	22,576
		-----	-----
<b>Total long-term assets</b>		2,166,672	1,350,169
<b>Current assets</b>			
Stores and spares	8	8,580	7,768
Stock-in-trade	9	1,775,661	1,418,655
Trade debts	10	557,370	556,234
Loans and advances	11	34,126	66,073
Trade deposits and short-term prepayments	12	78,717	89,532



Other receivables	13	608,457	656,228
Cash and bank balances	14	488,234	292,847
		-----	-----
<b>Total current assets</b>		<b>3,551,145</b>	<b>3,087,337</b>
<b>Current liabilities</b>			
Current maturity of redeemable capital	15	236,667	181,111
Short-term finances utilised under mark-up arrangements	16	461,887	303,578
Creditors, accrued and other liabilities	17	2,866,340	2,165,640
Taxation		193,530	17,660
Proposed dividend		116,886	64,287
<b>Total current liabilities</b>		<b>3,875,310</b>	<b>2,732,276</b>
		-----	-----
<b>Net current (liabilities) / assets</b>		<b>(324,165)</b>	<b>355,061</b>
		-----	-----
<b>Total assets less current liabilities</b>		<b>1,842,507</b>	<b>1,705,230</b>
<b>Long-term liability</b>			
Redeemable capital	15	22,222	233,889
<b>Contingent liabilities and commitments</b>	18		
		-----	-----
<b>Net assets</b>		<b>1,820,285</b>	<b>1,471,341</b>
		=====	=====
<b>Represented by:</b>			
<b>Share Capital</b>	19	233,772	233,772
<b>Reserves</b>	20	871,392	871,392
<b>Unappropriated Profit</b>		715,121	366,177
		-----	-----
<b>Shareholders Equity</b>		<b>1,820,285</b>	<b>1,471,341</b>
		=====	=====

The annexed notes form an integral part of these accounts.

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

	Note	Year ended June 30, 1997 (Rupees ' 000)	Eighteen months ended June 30, 1996
Sales		37,500,322	41,214,175
Less: Duties, taxes and levies	21	13,050,080	15,063,352
		-----	-----
<b>Net sales</b>		<b>24,450,242</b>	<b>26,150,823</b>
Cost of products sold	22	22,349,173	24,343,342
		-----	-----
<b>Gross profit</b>		<b>2,101,069</b>	<b>1,807,481</b>
Transportation expenses	23	115,609	117,450
Administrative and marketing expenses	24	1,005,460	1,064,585
		-----	-----
		<b>1,121,069</b>	<b>1,182,035</b>
		-----	-----
<b>Operating profit</b>		<b>980,000</b>	<b>625,446</b>
Other income	25	91,980	140,652
		-----	-----
		<b>1,071,980</b>	<b>766,098</b>
Financial charges	26	83,805	198,516
Other charges	27	75,525	50,545
		-----	-----
		<b>159,330</b>	<b>249,061</b>
		-----	-----
<b>Profit before taxation</b>		<b>912,650</b>	<b>517,037</b>
Taxation	28	365,000	200,643
		-----	-----

Profit after taxation	547,650	316,394
Unappropriated profit brought forward	366,177	199,786
	-----	-----
Profit available for appropriation	913,827	516,180
Appropriations:		
First interim dividend Rs 3.50 (1996: Rs 2.50) per share	81,820	38,962
Second interim dividend Rs Nil (1996: Rs 3.00) per share	-	46,754
Final dividend Rs 5.00 (1996: Rs 2.75) per share	116,886	64,287
	-----	-----
	198,706	150,003
	-----	-----
Unappropriated profit carried forward	715,121	366,177
	=====	=====

The annexed notes form an integral part of these accounts.

#### CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 1997

	Note	Year ended June 30, 1997 ' (Rupees ' 000 )	Eighteen months ended June 30, 1996
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	32	1,511,505	156,323
Mark-up on short-term finances paid		(26,664)	(66,184)
Taxes paid		(179,360)	(223,091)
Long-term loans and advances		(1,462)	(2,523)
Long-term deposits and prepayments		(6,242)	(1,985)
		-----	-----
Net cash inflow/(outflow) from operating activities		1,297,777	(137,460)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(949,870)	(738,826)
Investments made		-	(30,000)
Sale proceeds of fixed assets	3.3	5,626	3,401
Dividends received	25	36,700	72,136
		-----	-----
Net cash outflow from investing activities		(907,544)	(693,289)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Repayment of long-term finances		(156,111)	180,000
Dividends paid		(141,768)	(104,660)
Mark-up on long-term finances paid		(55,276)	(82,047)
Proceeds from issue of shares		-	701,316
		-----	-----
Net cash (outflow) / inflow from financing activities		(353,155)	694,609
		-----	-----
Net increase / (decrease) in cash and cash equivalents		37,078	(136,140)
Cash and cash equivalents at July 1 / January 1		(10,731 )	125,409
		-----	-----
Cash and cash equivalents at June 30	33	26,347	(10,731)
		=====	=====

The annexed notes form an integral part of these accounts.

#### NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 1997

##### 1. THE COMPANY AND ITS OPERATIONS

Shell Pakistan Limited is incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. The company markets petroleum and petrochemical products. It also blends and markets various kinds of lubricating oils and has a controlling interest in six companies engaged in this business.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Accounting convention

These accounts have been prepared under the historical cost convention.

### (b) Staff retirement benefits

Except for certain expatriates for whom benefits are provided by membership of the Shell Overseas Contributory Pension Fund, the company operates:

i) approved funded pension and gratuity schemes for both management and unionised staff. Contributions for management staff are made on the basis of actuarial recommendation at the rate of 16.2% per annum and 4.45% per annum of basic salaries for pension and gratuity respectively. No contributions are made for unionised staff on the basis of actuarial recommendation. The actuarial valuation is carried out once in every three years or earlier. The latest valuation for management and unionised staff was carried out as at December 31, 1995. The fair value of the schemes' assets and liabilities for part services of the employees at the latest valuation date were Rs 258.109 million and Rs 246.984 million respectively for the pension scheme and Rs 43.231 million and Rs 33.096 million respectively for the gratuity scheme. The future contribution rates of these schemes include allowance for surplus and deficit. The Attained Age Normal Method, using the following significant assumptions, is used for valuation of these schemes:

- Expected rate of increase in salary level at 6% per annum
- Expected rate of interest at 8% per annum; and

ii) approved contributory provident funds for all employees. During the current year Rs 27.225 million was charged as an expense in respect of the above benefits (1996: Rs 28.140 million).

Benefits under the pension and gratuity schemes are payable to staff on completion of prescribed qualifying period of service.

## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED JUNE 30, 1997

#### (c) Taxation

##### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, or half percent of turnover, whichever is higher.

##### Deferred

Provision for deferred taxation is made on all significant timing differences using the liability method.

#### (d) Investments

Long-term investments are stated at cost less provision in respect of any diminution due to permanent impairment in value of the investment. Short-term investments are valued at lower of cost and market value. Dividends are reflected in the profit and loss account on receipt basis.

#### (e) Stores and spares

Stores are valued at average cost whereas spares are valued at cost worked out on a first-in first-out basis. Items in transit are stated at cost incurred to date.

#### (f) Fixed assets and depreciation

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

Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life.

From this year depreciation on additions to fixed assets is being charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which an asset is disposed of. Until last year depreciation on additions to fixed assets during a year was charged from the quarter in which the asset was acquired or capitalised while no depreciation was charged for the quarter in which the asset was disposed of. This change has been made with a view to determine the charge for depreciation on a more appropriate basis and does not materially affect the profit for the year.

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

Profit and loss arising on disposal of fixed assets is included in income in the year of disposal.

#### (g) Stock-in-trade

Stock-in-trade is valued at the lower of cost, calculated on a first-in first-out basis, and net realisable value. Charges such as excise and customs duties and similar levies incurred on unsold stock of products are added to the value of the stock and carried forward.

Net realisable value signifies the selling price in the ordinary course of business less costs necessarily to be incurred to make the sale.

#### (h) Foreign currencies

Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange which approximate those prevailing at the balance sheet date except for the liabilities covered under forward exchange contracts which are translated at the contracted rates. Exchange gains and losses are taken to income currently.

#### (i) Revenue recognition

Sales are recorded on despatch of goods to customers. Commission income is recognised on shipment of goods by the principals.

### 3. TANGIBLE FIXED ASSETS

	1997 (Rupees '000)	1996
Operating fixed assets- Note 3.1	92,394.80	670,353
Capital work-in-progress - Note 3.4	1,164,605	593,542
	-----	-----
	2,088,553	1,263,895
	=====	=====

#### 3.1 Operating fixed assets

The following is a statement of operating fixed assets:

	Cost at July 1, 1996	Additions/ (disposals)	Transfers in/(out)	Cost at June 30, 1997	Accumulated depreciation at July 1, 1996	Charge for the year/period (depreciation on disposals)	Transfers in/(out)	Accumulated depreciation at June 30, 1997	Book value at June 30, 1997	Annual rate on cost %
(Rupees '000)										
Freehold land	28,700	15,717	-	44,417	-	-	-	-	44,417	-
Leasehold land	38,868	1,395	-	40,263	4,713	1,903	-	6,616	33,647	5

Buildings on freehold land	26,630	2,147	-	28,777	4,338	1,349	-	5,687	23,090	5
Buildings on leasehold land	255,189	177,131	-	432,320	74,460	19,538	-	93,998	338,322	5 to 10
Tanks and pipelines	235,998	19,295 (1,260)	-	254,033	128,440	19,609 (1,260)	-	146,789	107,244	10
Plant and machinery	124,200	11,227	-	135,427	62,094	10,668	-	72,762	62,665	10
Airconditioning plant	12,330	-	-	12,330	10,523	571	-	11094	1,236	10
Lifts	4,481	-	-	4,481	2,301	246	-	2,547	1,934	10
Dispensing pumps	177,048	35,234 (606)	-	211,676	116,429	19,226 (606)	-	135,049	76627	15
Rolling stock and vehicles	53,657	7,665 (2,645)	-	58,677	26,764	8,516 (1,472)	-	33,808	24,869	10 to 25
Electrical, mechanical and fire fighting equipment	112,725	44,143 (32)	-	156,836	41,275	13,408 (7)	-	54,676	102,160	10
Furniture, office equipment and other assets	87,331	23,700 (899)	(70)	110,062	37,971	10,171 (634)	-	47,508	62,554	10 to 15
Personal computers	23,783	23,779 (533)	2,341	49,370	6,395	13,522 (526)	-	19,391	29,979	33.33
Main frame	6,987	17,374 (3,716)	(2,271)	18,374	1,871	2,901 (1,602}	-	3,170	15,204	25
1997	1,187,927	378,807 (9,691)	-	1,557,043	517,574	121,628 (6,107)	-	633,095	923,948	
1996	843233	349,743 (5,049)	-	1,187,927	400,081	122,254 (4,76)	-	517,574	670,353	

**3.2 The depreciation charge for the year / period has been allocated as follows:**

Year ended June 30, 1997	Eighteen months ended June 30, 1996
--------------------------------	---

(Rupees '000)

Cost of products sold	437	778
Administrative and marketing expenses - Note 24	121,191	121,476
	-----	-----
	121,628	122,254
	=====	=====

**3.3 The following assets were disposed of during the year:**

Cost	Accumulated	Book	Sale	Mode of	Particulars of
------	-------------	------	------	---------	----------------

	depreciation	value	proceeds	disposal	buyers
	(Rupees '000)				
<b>Tanks and pipelines</b> (Items with written down value below Rs 5,000 each)	1,260	1,260	-	269	Various
<b>Dispensing pumps</b> (Items with written down value below Rs 5,000 each)	606	606	-	107	Various
<b>Rolling stock and vehicles</b>  (Items with written down value below Rs 5,000 each)	1,172	-	1,172	1,250	Negotiation S. Hashim Ishaque (Ex-employee)
	1,473	1,472	1	1,634	Various
	2,645	1,472	1,173	2,884	
<b>Electrical, Mechanical and Fire fighting equipment</b>	32	7	25	25	Negotiation S. Hashim Ishaque (Ex-employee)
Balance carried forward	4,543	3,345	1,198	3,285	

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyers
	( Rupees '000)					
Balance brought forward	4,543	3,345	1,198	3,285		
<b>Furniture, office equipment and other assets</b>	22	4	18	22	Negotiation	Mary Corrie (Ex-employee)
	85	72	13	40	Trade-in	Jaffer Brothers
	20	5	15	15	Negotiation	Mr. A. Samad (Ex employee)
	55	20	35	39	Negotiation	Mr. M.H. Shah (Ex-employee}
	188	82	106	123	Negotiation	Mr. S..Hashim Ishaque (Ex-employee)
	35	9	26	27	Negotiation	Mr S.A.H. Qadri (Ex-employee)
	35	9	26	27	Negotiation	Mr Ayaz Fahim (Ex-employee)
	14	9	-	9	Negotiation	Mr Ahmed Hasan (Ex employee)
	15	9	-	10	Negotiation	Mr Zia Mahmood (Ex employee)
	2	2	-	1	Negotiation	Mr Abdul Rehman (Employee)
	2	2	-	1	Negotiation	Mr All Asghar (Employee)
	1	1	-	1	Negotiation	Mr M Ali (employee}
	5	5	-	3	Negotiation	Ma. (Retd) Muneer Ahmed Employee)
	1	1	-	1	Negotiation	Mr Babar Hasan (Employee)

(Items with written down value

below Rs 5,000 each)	419	411	8	109	Various
	-----	-----	-----	-----	
	899	634	265	428	
<b>Main Frame</b>	3,716	1,602	2,114	1,795	Trade-in IBM SEMEA
<b>Personal Computers</b> (Items with written down value below Rs 5,000 each)	533	526	7	118	Various
	-----	-----	-----	-----	
1997	9,691	6,107	3,584	5,626	
	=====	=====	=====	=====	
1996	5,049	4,761	288	3,401	
	=====	=====	=====	=====	

**3.4 Capital work-in-progress**

	1997	1996
	'(Rupees '000)	
Freehold land	-	14,692
Leasehold land	642	269
Buildings on freehold land	9,263	6,225
Buildings on leasehold land	193,368	170,491
Tanks and pipelines	449,842	63,798
Plant and machinery	16,808	11,442
Airconditioning plant	4,603	141
Lifts	24	422
Dispensing pumps	71,960	49,750
Rolling stock and vehicles	28,099	6,307
Electrical, mechanical and fire fighting equipment	60,084	36,604
Furniture, office equipment and other assets	96,058	81,447
Personal computers	17,630	3,715
Capital stores and spares	210,456	142,590
Advances to suppliers	5,768	5,649
	-----	-----
	1,164,605	593,542
	=====	=====

**4. LONG-TERM INVESTMENTS**

	1997	1996
	Percent- (Rs '000)	Percent- (Rs '000)
	age	age
	holding	holding
Investments in unquoted subsidiaries		
TRADING		
Pak People Products Corporation (Private) Limited 200 fully paid ordinary shares of Rs 12,500 each [Value based on net assets as at June 30, 1997: Rs 4.684 million (1996: Rs 2.602 million) ]	100	100
	1,500	1,500
Jamia Industries (Private) Limited 38,400 fully paid ordinary shares of Rs 100 each [Value based on net assets as at June 30, 1997: Rs 20.878 million (1996: Rs 4.500 million)]	100	100
	18,000	18,000
International Lubricants (Private) Limited 30,000 fully paid ordinary shares of Rs 100 each [Value based on net assets as at June 30, 1997: Rs 2.330 million (1996: Rs 3.654 million)]	100	100
	11,800	11,800

Petroleum Industries of Pakistan (Private) Limited  
 2,000 fully paid ordinary shares of Rs 1,000 each  
 [Value based on net assets as at June 30, 1997:  
 Rs 2.232 million (1996: Rs 2.027 million)]

	100	9,328	100	9,328
--	-----	-------	-----	-------

Arif Petroleum (Private) Limited  
 30,000 fully paid ordinary shares of Rs 100 each  
 [Value based on net assets as at June 30, 1997:  
 Rs 3.243 million (1996: Rs 3.438 million)]

	100	11,530	100	11,530
--	-----	--------	-----	--------

Lahore Lubricants (Private) Limited  
 80,004 fully paid ordinary shares of Rs 100 each  
 [Value based on net assets as at June 30, 1997:  
 Rs 8.000 million (1996: Rs 8.000 million)]

	100	13,580	100	13,580
--	-----	--------	-----	--------

NON-TRADING

	100	1	100	1
--	-----	---	-----	---

	65,739	65,739
--	--------	--------

Less: Provision for permanent  
 impairment in value of investments

	27,427	21,338
	-----	-----

	38,312	44,401
	=====	=====

Investment in non-trading subsidiaries consists of:

Shell Pakistan Provident Trust (Private) Limited  
 2 fully paid ordinary shares of Rs 100 each

Shell Pakistan Pensions Trust (Private) Limited  
 2 fully paid ordinary shares of Rs 100 each

**5. LONG-TERM LOANS AND ADVANCES -  
 CONSIDERED GOOD**

<b>1997</b>	<b>1996</b>
<b>'(Rupees '000)</b>	<b>'(Rupees '000)</b>

Due from executives	7,551	5,230
Less: Receivable within one year - Note 11	2,803	1,790
	-----	-----
	4,748	3,440

Due from employees	740	602
Less: Receivable within one year	70	86
	-----	-----
	670	516
	-----	-----
	5,418	3,956
	=====	=====

Outstanding for periods		
-less than three years	5,351	3,915
- three years and more	67	41
	-----	-----
	5,418	3,956
	=====	=====

Loans to executives and employees are given for housing and for purchase of motor cars and motorcycles in accordance with the company's policy and are repayable over a period of two to five years.

The maximum aggregate amount due from executives at the end of any month during the year was Rs 7.551 million (1996: Rs 5.230 million).

**6. LONG-TERM DEPOSITS AND PREPAYMENTS**

<b>1997</b>	<b>1996</b>
<b>'(Rupees '000)</b>	<b>'(Rupees '000)</b>

Deposits	1,593	5,121
Prepayments	19,990	10,220
	-----	-----



21,583	15,341
=====	=====

**7. DEFERRED TAXATION**

<b>1997</b>	<b>1996</b>
<b>(Rupees '000)</b>	

This is composed of the following:

Deferred liability arising in respect of tax depreciation allowances	(23,654)	(18,946)
--	----------	----------

Deferred asset in respect of short-term provisions	36,460	41,522
	-----	-----
	12,806	22,576
	=====	=====

**8. STORES AND SPARES**

Stores	13,452	5,917
Spares	1,111	1,851
Less: Provision for obsolete stores and spare	(5,983)	-
	-----	-----
	8,580	7,768
	=====	=====

**9. STOCK-IN-TRADE**

Raw and packing materials	149,941	149,260
Finished products		
In hand and in PARCO pipeline system	1,402,925	1,044,198
Less: Held in trust on behalf of the Government of Pakistan	78,164	78,164
	-----	-----
	1,324,761	966,034

In exchange account with Pakistan State Oil Company Limited and Caltex Oil (Pakistan) Limited	11,828	14,817
	-----	-----
	1,336,589	980,851
	-----	-----

Charges incurred thereon	1,486,530	1,130,111
	294,777	294,190
	-----	-----

Less: Provision for stock losses	1,781,307	1,424,301
	5,646	5,646
	-----	-----
	1,775,661	1,418,655
	=====	=====

**10. TRADE DEBTS**

<b>1997</b>	<b>1996</b>
<b>(Rupees '000)</b>	

Considered good		
- Secured	19,569	2,900
Unsecured	537,801	553,334
Considered doubtful	176,937	67,144
	-----	-----

	734,307	623,378
Less: Provision for doubtful debts	176,937	67,144
	-----	-----

	557,370	556,234
	=====	=====

Amount due from associated undertakings at June 30, 1997 aggregated to Rs 129.736 million (1996: Rs 57.966 million).

The maximum aggregate amount due from associated undertakings at the end of any month

during the year was Rs 129.736 million (1996: Rs 75.749 million).

#### 11. LOANS AND ADVANCES - CONSIDERED GOOD

	1997 (Rupees '000)	1996
Loans due from		
- Executives	2,803	1,790
- Employees	674	2,022
	-----	-----
	3,477	3,812
Advances to		
- Director	-	5
- Executives	2,621	461
- Employees	951	18
- Subsidiary companies	27,077	61,777
	-----	-----
	30,649	62,261
	-----	-----
	34,126	66,073
	=====	=====

The maximum aggregate amounts of advances to the Chief Executive, Director and Executives at the end of any month during the year were Rs 93 thousand, Rs 41 thousand and Rs 1,230 thousand respectively (1996: Chief Executive Rs Nil, Director Rs 23 thousand and Executives Rs 987 thousand).

The maximum aggregate amount of advances to subsidiary companies at the end of any month during the year was Rs 106.638 million (1996: Rs 91.635 million).

#### 12. TRADE DEPOSITS AND SHORT-TERM

PREPAYMENTS	1997 (Rupees '000)	1996
Balances with statutory authorities		
- Customs duty	34,792	5,575
- Excise duty	5,246	43,393
- Development surcharge	16,044	22,213
	-----	-----
	56,082	71,181
Trade deposits	3,110	390
Short-term prepayments	19,525	17,961
	-----	-----
	78,717	89,532
	=====	=====

#### 13. OTHER RECEIVABLES

Claim for inland freight equalization deficit	309,736	398,976
Claim for refund of customs and excise duties	13,570	6,494
Claim for refund of price differential on imported purchases	222,757	202,045
Railway claims	6,646	7,140
Recoverable from oil companies	6,381	11,671
Advances to suppliers	37,522	22,149
Workers Profit Participation Fund - Note 17.1	1,507	-
Others	49,666	38,841
	-----	-----
	647,785	687,316
Less: Provision for doubtful claims	39,328	31,088
	-----	-----
	608,457	656,228
	=====	=====

Amount due from associated undertakings at the year-end aggregated to Rs 5.193 million (1996: Rs 2.823 million).

The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs 5.193 million (1996: Rs 411.229 million).

#### 14. CASH AND BANK BALANCES

	1997	1996
	(Rupees '000)	
With banks		
- on current accounts	193,693	188,835
Remittances in transit	3,881	3,412
In hand		
- cheques	290,136	96,507
- cash	524	4,093
	-----	-----
	488,234	292,847
	=====	=====

#### 15. REDEEMABLE CAPITAL - Secured (Non-participatory)

Lender	Mark-up Rate (%)	Repayment period	1997 (Rupees '000)	1996
ABN Amro Bank	- Note 15.1	1995-98	120,000	120,000
Bank Indosuez	- Note 15.2	1996-97	25,000	25,000
Bank of Tokyo	- Note 15.3	1995-98	25,000	25,000
ANZ Grindlays Bank Limited	- Note 15.4	1995-98	88,889	150,000
Citibank N.A.	-	-	-	20,000
Muslim Commercial Bank Limited	-	-	-	45,000
Citicorp Investment Bank Ltd	-	-	-	30,000
			-----	-----
			258,889	415,000
Less: Current portion - shown under current liabilities			236,667	181,111
			-----	-----
			22,222	233,889
			=====	=====

##### 15.1 ABN Amro Bank

The finance is secured by a first charge by way of hypothecation on all present and future dispensing pumps of the company wherever situated.

##### 15.2 Bank Indosuez

The finance is secured by a pari passu charge by way of hypothecation on all present and future tanks and pipelines of the company wherever situated.

##### 15.3 Bank of Tokyo

The finance is secured by a pari passu charge by way of hypothecation on all present and future tanks and pipelines of the company wherever situated.

##### 15.4 ANZ Grindlays Bank

The finance is secured by a first charge over all present and future immovable properties of the company including all buildings.

#### 16. SHORT-TERM FINANCES UTILISED UNDER MARK-UP ARRANGEMENTS - SECURED

1997                      1996

(Rupees '000)

Running finance	461,887	211,926
Others	-	91,652
	-----	-----
	461,887	303,578
	=====	=====

The facility for short-term running finance available from various banks amounts to Rs 686.70 million (1996: Rs 544.40 million) The rates of mark-up range from Re 0.38 to Re 0.4167 per Rs 1,000 per day (1996: Re 0.356 to Re 0.444 per Rs 1,000 per day). The purchase prices are payable on various dates by February 28, 1998. These arrangements are secured by way of pari passu charges against hypothecation of the company's stock-in-trade, trade debts and other receivables.

The unutilised facility for guarantees and opening letters of credit as at June 30, 1997 amounted to Rs 1,080 million (1996: Rs 1,067 million) approximately.

#### 17. CREDITORS, ACCRUED AND OTHER LIABILITIES

	1997	1996
	(Rupees '000)	
Creditors	1,652,186	1,092,496
Accrued liabilities	632,457	453,369
Mark-up accrued on secured		
- short-term finances	4,424	10,360
- long-term finances	6,818	13,300
Excise and customs duties and development surcharge	114,986	76,870
Sales tax	32,536	15,518
Dealers' security deposits - refundable on termination of dealership	84,068	78,750
Retention money	15,499	9,589
Advances from customers	258,640	351,265
Workers' welfare fund	22,819	11,751
Workers' profit participation fund - Note 17.1	-	13,864
Unclaimed dividends	11,169	6,830
Other liabilities	30,738	31,678
	-----	-----
	2,866,340	2,165,640
	=====	=====

Amounts due to associated undertakings at the year-end aggregated to Rs 343.465 million (1996: Rs 557.460 million).

#### 17.1 Workers' profit participation fund

	1997	1996
	(Rupees '000)	
Balance at July 1 / January 1	13,864	1,232
Allocation for the year / period - Note 27	49,166	27,869
Interest on funds utilised in company's business - Note 26	1,338	462
	-----	-----
	64,368	29,563
Less: Amount paid	65,875	15,699
	-----	-----
Balance (receivable) / Payable at June 30	(1,507)	13,864
	=====	=====

#### 18. CONTINGENT LIABILITIES AND COMMITMENTS

##### 18.1 Contingent liabilities

(a) Octroi levies amounting to approximately Rs 396.464 million (1996: Rs 367.485 million).

Certain municipal authorities have demanded octroi on the total quantity of petroleum products stored within their municipal limits whereas the company maintains that octroi is payable only on the quantities sold within the municipal limits, and not on the products temporarily stored there. The company has filed appeals before the High Court against the above octroi levies. Pending outcome of the appeals and because the management is confident that the decisions will be in favour of the company, no provision has been made in these accounts for the aforesaid octroi levies.

(b) Claims against the company not acknowledged as debts were approximately Rs 138.393 million (1996: Rs 112.810 million)

#### 18.2 Commitments

(a) Capital expenditure contracted for but not incurred amounted to approximately Rs 62.277 million (1996: Rs 148.454 million).

(b) Commitments for rentals under operating lease agreements in respect of assets were payable as Follows:

Year	(Rupees '000)
1997-98	9,226
1998-99	12,393
1999-2000	8,651
2000-2001	4,350
2001-2002	626
	-----
	35,246
	=====

#### 19. SHARE CAPITAL

	1997 (Rupees '000)	1996
<b>Authorised capital</b>		
50,000,000 ordinary shares of Rs 10 each	500,000	500,000
	=====	=====
<b>Issued, subscribed and paid-up capital</b>		
11,792,400 ordinary shares of Rs 10 each fully paid in cash	117,924	117,924
11,584,800 ordinary shares of Rs 10 each issued as fully paid bonus share	115,848	115,848
	-----	-----
23,377,200	233,772	233,772
	=====	=====

The Shell Petroleum Company Limited, London held 11,929,203 (1996: 11,929,203) ordinary shares of Rs 10 each at June 30, 1997.

#### 20. RESERVES

	CAPITAL (Share premium)	REVENUE (General)	TOTAL 1997	1996
			(Rupees '000)	
At July 1 /January 1	623,392	248,000	871,392	268,328
Utilized for issue of bonus shares	-	-	-	(20,328)
Share premium	-	-	-	623,392
	-----	-----	-----	-----
	623,392	248,000	871,392	871,392
	=====	=====	=====	=====

**21. DUTIES, TAXES AND LEVIES**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees '000)	
Excise duty	785,340	1,027,088
Customs duty	663,025	912,637
Development surcharge	9,398,213	10,538,144
Inland freight equalisation margin	1,743,748	2,180,101
Local duties, octroi and other levies	458,534	365,606
Wharfage	1,220	39,776
	-----	-----
	13,050,080	15,063,352
	=====	=====

**22. COST OF PRODUCTS SOLD**

Opening stock of raw and packing material	149,260	81,440
Raw and packing material purchased	866,131	1,054,805
Less: Closing stock of raw and packing material	149,941	149,260
	-----	-----
Raw and packing material consumed	865,450	986,985
Add: Manufacturing expenses	23,496	23,824
	-----	-----
Cost of products manufactured	888,946	1,010,809
Opening stock of finished products	975,205	618,582
Finished products purchased	21,815,965	23,689,156
Less: Closing stock of finished products	1,330,943	975,205
	-----	-----
Cost of products sold	22,349,173	24,343,342
	=====	=====

**23. TRANSPORTATION EXPENSES**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees '000)	
Gross expenditure	2,827,455	3,429,415
Less: Recoverable against inland freight equalization margin	2,711,846	3,311,965
	-----	-----
	115,609	117,450
	=====	=====

**24. ADMINISTRATIVE AND  
MARKETING EXPENSES**

Salaries, wages and benefits	310,366	397,961
Staff training	22,788	17,793
Stores and materials	14,519	21,119
Fuel and power	22,180	29,271
Rent, taxes and utilities	63,127	64,289
Lease rentals and charges	19,714	30,045
Repairs and maintenance	42,541	58,234
Insurance	29,832	37,958
Commission and allowances	11,083	14,602
Travelling	56,199	60,811
Advertising and publicity	81,029	113,620
Technical service fee	26,846	19,225
Legal and professional charges	14,254	9,505
Communication and stationery	43,274	51,880
Computer expenses	5,080	6,070
Depreciation - Note 3.2	121,191	121,476
Bad debts written off	-	113

Provision for permanent impairment in value of investments	6,089	21,338
Provision for doubtful debts -trade	109,793	4,834
- others	17,555	11,597
Others	21,954	14,310
	-----	-----
	1,039,414	1,106,051
Less: Handling and storage charges recovered	33,954	41466
	-----	-----
	1,005,460	1,064,585
	=====	=====

**25. OTHER INCOME**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
--	--------------------------------	---

(Rupees '000)

Dividends from subsidiary companies	36,700	72,136
Technical service fee	644	2,161
Marketing service fee	6,442	21,611
Profit on disposal of fixed assets	2,042	3,113
Licence / franchise fee recovered from dealers	15,524	8,589
Income from formulation services	6,253	6,925
Refund of development surcharge	-	4,995
Insurance commission	381	3,888
Liability no longer payable written back	9,053	160
Commission and agency fee	3,035	6,117
Exchange gain	521	-
Commission income - Select Stores	1,200	210
Scrap sales	3,005	1,090
Sundries	7,180	9,657
	-----	-----
	91,980	140,652
	=====	=====

**26. FINANCIAL CHARGES**

Mark-up on short-term finances	20,728	71,163
Mark-up on long-term finances	48,794	89,609
Excise duty on short-term finances	4,649	11,525
Interest on payments beyond agreed credit terms	1,071	9,210
Bank charges	18,309	27,851
Interest on workers' profit participation fund - Note 17.1	1,338	462
	-----	-----
	94,889	209,820
Less: Recoveries on current accounts with subsidiary companies	2,996	6,618
Interest from cartage contractors	131	72
Interest on securities	29	326
Interest on short-term deposits	7,869	4,288
Others	59	-
	-----	-----
	11,084	11,304
	-----	-----
	83,805	198,516
	=====	=====

**27. OTHER CHARGES**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
--	--------------------------------	---

(Rupees '000)

Exchange loss	-	3,117
Auditors' remuneration - Note 29	2,363	2,866

Workers' welfare fund	21,500	12,004
Workers' profit participation fund - Note 17.1	49,166	27,869
Donations	2,218	1,859
Others	278	2,830
	-----	-----
	75,525	50,545
	=====	=====

Donations include Rs 750,000 paid to Layton Rehmatullah Benevolent Trust and Rs 500,000 paid to Pakistan Special Olympics. Mr Farrokh K. Captain, Director is a Trustee and a Director respectively in these organisations.

#### 28. TAXATION

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees '000)	
Current- for the year	355,230	205,091
Deferred	9,770	(4,448)
	-----	-----
	365,000	200,643
	=====	=====

#### 29. AUDITORS' REMUNERATION

Audit fee	600	600
Fee for substantiating inland freight equalisation margin and octroi to the government	180	124
Audit of provident, pension, gratuity and workers' profits participation funds	89	112
Tax services	827	457
Special certifications and sundry advisory services	462	1,173
Central excise duty	87	83
Out of pocket expenses	118	317
	-----	-----
	2,363	2,866
	=====	=====

#### 30. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Year ended June 30, 1997	Directors	Executives	Chief Executive	Director	Executives
	Eighteen months ended June 30, 1996					
	(Rupees '000)					
Managerial remuneration	12,488	739	121,513	14,689	216	118,149
Company's contribution to pension, gratuity and provident funds	1,204	43	24,938	1,487	-	16,427
Housing						
- Rent	600	286	36,835	720	324	28,176
- Utilities allowance	464	71	3,416	395	18	3,774
- Other items	344	27	5,846	296	35	5,505
Leave passage	-	-	10,038	-	22	11,267
Leave encashment	-	11	-	-	-	138



Medical expenses	5	806	774	41	143	1,453
	-----	-----	-----	-----	-----	-----
	15,105	1,983	203,360	17,628	758	184,889
	=====	=====	=====	=====	=====	=====
Number of persons	1	2	428	1	1	227

Aggregate amount charged in the accounts for the year for fee to 3 directors was Rs 5,000 (1996:9 directors Rs 14,000).

In addition, the Chief Executive, Directors and some of the Executives were also provided with free use of company cars and 6 of the Executives were also provided with free use of company-owned apartments.

### 31. TRANSACTIONS WITH ASSOCIATED

#### UNDERTAKINGS

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees '000)	
(i) Purchases	7,324,111	9,083,956
(ii) Sales	489,059	839,468
(iii) Other items		
Technical service fee charged	26,846	1 9,225
Technical service fee earned	644	2,1 61
Interest income	2,996	6,61 8
Insurance expenses	-	7,834
Dividend income	36,700	72, 136
Handling and storage charges recovered	5,460	24,843
- Marketing service fee earned	6,442	21,611
- Commission income	2,960	4,582

### 32. CASH GENERATED FROM

#### OPERATIONS

		Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Note	(Rupees '000)	
Profit before taxation		912,650	517,037
Adjustment for non cash charges and other items:			
Depreciation	3.2	121,628	122,254
Provision for permanent impairment in value of investments	24	6,089	21,338
Profit on disposal of fixed assets	25	(2,042)	(3,113)
Dividend income	25	(36,700)	(72, 136)
Markup on short-term finances	26	20,728	71,163
Mark-up on long-term finances	26	48,794	89,609
Amortisation of deferred cost		-	3,153
Working capital changes	32.1	440,358	(592,982)
		-----	-----
		1,511,505	156,323
		=====	=====

#### 32.1 Working capital changes

##### (Increase) / decrease in current assets

Stores and spares	(812)	(2,042)
Stock-in-trade	(357,006)	(566,829)
Trade debts	(1,136)	(162,863)
Loans and advances	31,947	(27,213)
Trade deposits and short-term prepayments	10,815	(61,458)
Other receivables	47,771	(234,333)

	(268,421)	(1,054,738)
<b>Increase / (decrease) in current liabilities</b>		
Creditors, accrued and other liabilities excluding unclaimed dividends and accrued financial charges	708,779	461,756
	-----	-----
	440,358	(592,982)
	=====	=====

**33. CASH AND CASH EQUIVALENTS**

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

	<b>1997</b>	<b>1996</b>
	<b>'(Rupees '000)</b>	
Cash and bank balances - Note 14	488,234	292,847
Short-term running finances utilised under mark-up arrangements - Note 16	(461,887)	(303,578)
	-----	-----
	26,347	(10,731)
	=====	=====

**34. COMPARATIVES**

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

**STATEMENT UNDER SECTION 237 OF THE COMPANIES ORDINANCE, 1984**

**SUBSIDIARIES**

<b>Shell Pakistan Provident Trust (Pvt.) Limited</b>	<b>Shell Pakistan Pensions Trust (Pvt.) Limited</b>	<b>Pak People Products Corporation (Pvt.) Limited</b>	<b>Jamia Industries (Pvt.) Limited</b>	<b>Petroleum Industries of Pakistan (Pvt.) Limited</b>	<b>International Lubricants (Pvt.) Limited</b>	<b>Arnif Petroleum (Pvt.) Limited</b>	<b>Lahore Lubricants (Pvt.) Limited</b>
--	---	---	--	--	--	---------------------------------------	---

**STATEMENT UNDER SECTION 1 (e)**

a) Extent of the interest of Shell Pakistan Limited (the holding company) in the equity of its subsidiaries at the end of the last of the financial years of the subsidiaries

100%	100%	100%	100%	100%	100%	100%	100%
------	------	------	------	------	------	------	------

b) The net aggregate amount of revenue profits less losses of the subsidiary companies so far as these concern members of the holding company and has not been dealt with in the accounts of the holding company for the year ended June 30. 1997 are:

(Rupees '000)

(i) for the last of the financial years of the subsidiaries

(3,918)	3,178	(2,295)	(1,323)	(195)
---------	-------	---------	---------	-------

(ii) for the previous years but subsequent to the acquisition of the controlling interest by the holding company

7966	12,552	1,618	542	422
------	--------	-------	-----	-----

	-----	-----	-----	-----	-----
	4,048	15,730	(677)	(781)	227
c) The net aggregate amount of profits less losses of the subsidiary companies so far as these have been dealt with or provision made for losses in the account of the holding company for the year ended June 30. 1997 are:					
(i) for the last of the financial year of the subsidiaries	6,000	28,200	2,500	-	-
(ii) for the previous years but subsequent to the acquisition of the controlling interest by the holding company	87,700	63,230	28,500	8,040	6,962
	-----	-----	-----	-----	-----
	93,700	91,430	31,000	8,040	6,962

**SHAREHOLDERS' STATISTICS AS AT JUNE 30, 1997**

No. of Shareholders	Shareholding		Total Shares	
1140	1	TO	50	20704
521	51	TO	100	42375
2292	101	TO	500	585772
668	501	TO	1000	472366
590	1001	TO	5000	1276947
54	5001	TO	10000	377338
13	10001	TO	15000	163586
7	15001	TO	20000	121244
8	20001	TO	25000	178133
4	25001	TO	30000	108062
2	30001	TO	35000	63714
5	40001	TO	45000	217080
2	45001	TO	50000	95443
1	55001	TO	60000	59000
1	65001	TO	70000	67609
1	75001	TO	80000	80000
1	85001	TO	90000	87823
2	90001	TO	95000	184371
1	100001	TO	105000	104405
1	120001	TO	125000	122893
1	130001	TO	135000	131900
1	135001	TO	140000	136459
1	190001	TO	195000	193009
1	210001	TO	215000	210300
1	710001	TO	715000	710229
1	1235001	TO	1240000	1239359
1	4395001	TO	4400000	4397876
1	11925001	TO	11930000	11929203
-----			-----	-----
<b>5322</b>			<b>23377200</b>	
=====			=====	

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	5248	3299609	14.12%
Investment Companies	12	314738	1.35%
Insurance Companies	9	959444	4.10%
Banks	9	275137	1.18%
Modaraba Companies	4	12567	0.05%
Public Limited	2	201	-

Private Limited Companies	22	45501	0.19%
Financial Institutions	6	5838252	24.98%
Associated Companies*	1	11929203	51.03%
Abandoned Properties **	1	136459	0.58%
Corporate Law Authority	1	1	-
Joint Stock Companies	1	18975	0.08%
Foreign Investment Companies	6	547113	2.34%
	-----	-----	-----
	5322	23377200	100.00%
	=====	=====	=====

\* This category represents the foreign shareholding (The Shell Petroleum Company Ltd., London)

\*\* This category represents shareholders of Bangladesh, whose dividend is paid to the Administrator, Abandoned Properties Organisation, Government of Pakistan.

**BREAK-UP OF SELLING PRICES OF MAIN FUEL PRODUCTS  
AS AT JUNE 30, 1997**

Motor Gasoline Regular	Kerosene High Speed Diesel Oil		Furnace OII	
	Rs/Litre	Rs/Litre	Rs/Litre	Rs/Tonne
Cost of Product	6.226	7.6816	6.9169	4,347.65
Customs/excise duty	0.8800	-	0.2500	35.20
Development surcharge	9.0400	1.03	1.5100	1,434.94
Inland. freight equalisation margin	0.4900	0.6000	0.6500	375.00
Distributors' margin	0.3736	0.1284	0.1854	103.91
Fixed selling price	17.01	9.44	9.51	6,296.70
Dealer's commission	0.2204		0.1477	
Ex-pump selling price	17.23		9.66	

**CONSOLIDATED ACCOUNTS**

**AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

We have examined the annexed consolidated financial statements comprising consolidated Balance Sheet of Shell Pakistan Limited and its subsidiary companies as at June 30, 1997 and the related consolidated Profit and Loss Account together with the notes forming part thereof, for the year ended June 30, 1997. We have also expressed separate opinions on the financial statements of Shell Pakistan Limited and its subsidiary companies except for Jamia Industries (Private) Limited and Lahore Lubricants (Private) Limited which were audited by another firm of Chartered Accountants, which have formed the basis of compilation of the annexed financial statements. Our examination was made in accordance with generally accepted auditing guidelines and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements examined by us present fairly the financial position of Shell Pakistan Limited and its subsidiary companies as at June 30, 1997 and the results of their operations for the year then ended.

**A.F. FERGUSON & CO.**  
CHARTERED ACCOUNTANTS

KARACHI: OCTOBER 8, 1997

**CONSOLIDATED BALANCE SHEET**  
**AS AT JUNE 30, 1997**

	1997	1996
	(Rupees '000)	
<b>TANGIBLE FIXED ASSETS</b>		
Operating fixed assets- Note 6	942,921	690,380
Capital work-in-progress	1,188,175	610,915
	-----	-----
	2,131,096	1,301,295
<b>PRELIMINARY EXPENSES</b>	10	10
<b>LONG-TERM LOANS AND ADVANCES</b>	5,418	3,956
<b>LONG-TERM DEPOSITS AND PREPAYMENTS</b>	21,763	15,458
<b>DEFERRED TAXATION</b>	12,557	22,413
<b>CURRENT ASSETS</b>		
Stores and spares	8,580	7,768
Stock-in-trade	1,785,426	1,442,052
Trade debts	553,682	557,027
Loans and advances	7,049	6,936
Short-term investments	-	10,000
Trade deposits and short-term prepayments	79,690	91,394
Other receivables	614,594	671,679
Cash and bank balances	500,188	352,121
	-----	-----
	3,549,209	3,138,977
<b>CURRENT LIABILITIES</b>		
Current maturity of redeemable capital	236,667	181,111
Short-term finances utilised under mark-up arrangements	461,887	305,114
Creditors, accrued and other liabilities	2,877,800	2,187,941
Taxation	192,664	48,253
Proposed dividend	116,886	64,287
	-----	-----
	3,885,904	2,786,706
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		
	-----	-----
	(336,695)	352,271
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		
	-----	-----
	1,834,149	1,695,403
<b>REDEEMABLE CAPITAL</b>	22,222	233,889
<b>STAFF RETIREMENT GRATUITY</b>	-	67
	-----	-----
<b>NET ASSETS</b>	1,811,927	1,461,447
	=====	=====

**1997**                      **1996**  
**(Rupees '000)**

Represented by:		
<b>AUTHORISED SHARE CAPITAL</b>	500,000	500,000
	=====	=====
Issued, subscribed and paid-up capital	233,772	233,772
<b>RESERVES ATTRIBUTABLE TO PARENT COMPANY:</b>		
Capital reserve - share premium	623,392	623,392
Revenue reserve - Note 3	252,455	252,455
Unappropriated profit	716,609	372,218
Less: Goodwill arising on consolidation	(17,247)	(23,336)
	-----	-----
	1,575,209	1,224,729

**SURPLUS ON REVALUATION**

OF FIXED ASSETS - Note 4	2,946	2,946
CONTINGENT LIABILITIES AND COMMITMENTS - Note 5	----- 1,811,927 =====	----- 1,461,447 =====

The annexed notes form an integral part of these accounts.

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

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees '000)	
Sales	37,694,737	42,085,153
Less: Duties, taxes and levies	13,182,035	15,385,064
	-----	-----
	24,512,702	26,700,089
Cost of products sold	22,336,880	24,707,562
	-----	-----
	2,175,822	1,992,527
Transportation expenses	120,759	123,271
Administrative and marketing expenses	1,015,282	1,078,969
	-----	-----
	1,136,041	1,202,240
	-----	-----
<b>OPERATING PROFIT</b>	1,039,781	790,287
Other income	54,074	63,069
	-----	-----
	1,093,855	853,356
	-----	-----
Financial charges	86,962	207,981
Other charges	79,752	61,446
	-----	-----
	166,714	269,427
<b>CONSOLIDATED NET PROFIT BEFORE TAXATION - Note 7</b>	927,141	583,929
Taxation	384,044	268,477
	-----	-----
<b>CONSOLIDATED NET PROFIT AFTER TAXATION - carried forward</b>	543,097	315,452

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees '000)	

<b>CONSOLIDATED NET PROFIT AFTER TAXATION - brought forward</b>	543,097	315,452
<b>MINORITY INTEREST</b>	-	(4,088)
	-----	-----
<b>NET PROFIT ATTRIBUTABLE TO PARENT COMPANY</b>	543,097	311,364
	=====	=====

**STATEMENT OF RETAINED EARNINGS**

Retained earnings at July 1/January 1	372,218	209,597
Profit for the year/period	543,097	311,364
Transfer from revenue reserve	-	1,260
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>	915,315	522,221

**APPROPRIATIONS**

First interim dividend Rs 3.50 (1990: Rs 2.50) per share	81,820	38,962
Second interim dividend Rs Nil (1996: Rs 3.00) per share	-	46,754
Proposed final dividend Rs 5.00 (1996: Rs 2.75) per share	116,886	64,287
	-----	-----
	198,706	150,003
	-----	-----
Retained earnings at June 30	716,609	372,218
	=====	=====

The annexed notes form an integral part of these accounts.

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

**1. THE GROUP AND ITS OPERATIONS**

Shell Pakistan Limited and its subsidiary companies are incorporated in Pakistan. Shell Pakistan Limited is also listed on the Karachi and Lahore Stock Exchanges. The Group markets petroleum and petrochemical products and they also blend and market various kinds of lubricating oils.

**2. SUMMARY OF SIGNIFICANT POLICIES**

**(a) Basis of Consolidation**

(i) The consolidated financial statements include the accounts of Shell Pakistan Limited and its subsidiary companies.

(ii) Material inter company transactions are eliminated. Cost in excess of face value of shares acquired in the subsidiary companies is shown as deduction from reserves as goodwill.

(iii) This is an abbreviated version of consolidated accounts. As detailed audited accounts of the parent company and its subsidiaries are annexed it has not been considered necessary to provide details.

**(b) Accounting Convention**

These accounts have been prepared under the historical cost convention except that certain fixed assets have been included at revaluation.

**3. REVENUE RESERVE**

Revenue reserves include an amount of Rs 3,555 thousand (1996: Rs 3,555 thousand) representing bonus shares issued by two of the subsidiary companies out of post acquisition reserves, which is not available for distribution.

**4. SURPLUS ON REVALUATION OF FIXED ASSETS**

This represents surplus over book value arising from a revaluation of fixed assets of one of the subsidi Pak People Products Corporation (Private) Limited on September 30, 1977.

**5. CONTINGENT LIABILITIES AND COMMITMENTS**

**5.1 Contingent liabilities**

(a) Octroi levies amounting to approximately Rs 396.464 million (1996:

Rs 367 485 million).

Certain municipal authorities have demanded octroi on the total quantity of petroleum products stored within their municipal limits whereas the Group maintains that octroi is payable only on the quantities sold within the municipal limits, and not on the products temporarily stored there. The Group has filed appeals before the High Court against the above octroi levies. Pending outcome of the appeals and because the management is confident that the decisions will be in favour of the Group, no provision has been made in these accounts for the aforesaid octroi levies.

(b) Claims against the Group not acknowledged as debts were approximately Rs138.393 million (1996: Rs 112.8!0 million).

(c) Guarantee provided by a bank in respect of bills under discount amounted to Rs 2.500 million (1996: Rs 0.569 million)

**5.2 Commitments**

(a) Capital expenditure contracted for but not incurred amounted to approximately Rs 62.277 million (1996: Rs 148454 million).

(b) Commitments for rentals under operating lease agreements in respect of assets are payable as follows:

Year	(Rupees '000)
1997-98	9,226
1998-99	12,393
1999-2000	8,651
2000-2001	4,350
2001-2002	626
	-----
	35,246
	=====

**6. DEPRECIATION ON FIXED ASSETS**

In the books of the parent company depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life whereas the subsidiary companies charge depreciation to income applying the reducing balance method in accordance with their respective accounting policies. The monetary effect of charging depreciation on fixed assets to income applying different methods has not been considered material for adjustment in the consolidated financial statements.

**7. PROFIT BEFORE TAXATION**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees '000)	
Parent company	912,650	517,037
Subsidiary companies	51,191	143,985
	-----	-----
	963,841	661,022
Less: Intra-group dividends	36,700	72,136
Unrealised profit	-	4,957
	-----	-----
	36,700	77,093
	-----	-----
	927,141	583,929
	=====	=====

**8. COMPARATIVES**

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



**ACCOUNTS OF SUBSIDIARY COMPANIES**

- Shell Pakistan Provident Trust (Private) Limited
- Shell Pakistan Pensions Trust (Private) Limited
- Pak People Products Corporation (Private) Limited
- Jamia Industries (Private) Limited
- Petroleum Industries of Pakistan (Private) Limited
- International Lubricants (Private) Limited
- Arnif Petroleum (Private) Limited
- Lahore Lubricants (Private) Limited

**SUBSIDIARY COMPANIES**

DIRECTORS                      **Shell Pakistan Provident Trust (Private) Limited**  
MR. T.V. HIGGINS  
MS. T. TAYLOR  
MR. H. MADANI

DIRECTORS                      **Shell Pakistan Pension Trust (Private) Limited**  
MR. T.V. HIGGINS  
MS. T. TAYLOR  
MR. A. SAID

DIRECTORS                      **Pak People Products Corporation (Private) Limited**  
MR. T.V. HIGGINS  
DR. A.M. DEVINE  
MR. A. BRINK

DIRECTORS                      **Jamia Industries (Private) Limited**  
MR. T.V. HIGGINS  
MS. T. TAYLOR  
DR. A.M. DEVINE  
MR. A. BRINK

DIRECTORS                      **Petroleum Industries of Pakistan (Private) Limited**  
MR. T. V. HIGGINS  
DR. A.M. DEVINE  
MR. A. BRINK

DIRECTORS                      **International Lubricants (Private) Limited**  
MR. T.V. HIGGINS  
MR. A. SAID  
MS. T. TAYLOR  
DR. A.M. DEVINE  
MR. A. BRINK

DIRECTORS                      **Arnif Petroleum (Private) Limited**  
MR. T.V. HIGGINS  
MR. A. SAID  
MS. T. TAYLOR  
DR. A.M. DEVINE  
MR. A. BRINK

DIRECTORS                      **Lahore Lubricants (Private) Limited**  
MR. T.V. HIGGINS  
MR. A. SAID  
MS. T. TAYLOR  
DR. A.M. DEVINE

## Shell Pakistan Provident Trust (Pvt) Ltd

**BALANCE SHEET****AS AT DECEMBER 31, 1996**

	<b>1996</b>	<b>1995</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>AUTHORISED CAPITAL</b>		
10 ordinary shares of Rs 100 each	1,000	1,000
	=====	=====
<b>ISSUED AND SUBSCRIBED CAPITAL</b>		
2 ordinary shares of Rs 100 each fully paid i	200	200
	=====	=====
<b>ASSETS</b>		
Balance with bank on current account	200	200
	=====	=====

Note: As there were no revenue transactions during the year, no Profit and Loss Account has been prepared.

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Shell Pakistan Provident Trust (Private) Limited as at December 31, 1996 and 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 has been drawn up in conformity with the Companies Ordinance, 1984 and is in agreement with the books of account;

(ii) there was no expenditure incurred and no investment was made during the year; and

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet gives the information required by the Companies Ordinance, 1984 in the manner so required and gives a true and fair view of the state of the Company's affairs as at December 31, 1996; and

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

## Shell Pakistan Pensions Trust (Pvt) Ltd

<b>Balance sheet as at December 31, 1996</b>	<b>1996</b>	<b>1995</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>AUTHORISED CAPITAL</b>		
10 ordinary shares of Rs 100 each	1,000	1,000
	=====	=====
<b>ISSUED AND SUBSCRIBED CAPITAL</b>		
2 ordinary shares of Rs 100 each fully paid in cash	200	200
	=====	=====
<b>ASSETS</b>		
Balance with bank on current account	200	200
	=====	=====

Note: As there were no revenue transactions during the year, no Profit and Loss Account has been prepared.

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Shell Pakistan Pensions Trust (Private) Limited as at December 31, 1996 and 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 has been drawn up in conformity with the Companies Ordinance, 1984 and is in agreement with the books of account;

(ii) there was no expenditure incurred and no investment was made during the year; and

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet gives the information required by the Companies Ordinance, 1984 in the manner so required and gives a true and fair view of the state of the Company's affairs as at December 31, 1996; and

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

**Pak People Products Corp (Pvt) Ltd**

**REPORT OF THE DIRECTORS**

The Directors of your Company have pleasure in presenting their Report and Audited Accounts of the Company for the year ended June 30, 1997.

	<b>Rupees</b>
The profit of the Company for the year ended June 30, 1997 after providing for administrative, marketing, financial and other charges amounts to	193,511
Less: Provision for Workers' welfare fund	3,500
	190,011
Less: Taxation	(1,891,932)
Profit after taxation	2,081,943
Unappropriated profit brought forward from the previous year	102,212
Leaving for carry over to next year an unappropriated profit of	----- 2,184,155 =====

As stated in the previous year's report, the company had wound up its operations as part of the rationalisation of lubricants business of Shell Pakistan Limited. As a result, there was no production during the year.

The Company has filed a petition with the High Court of Sindh for the amalgamation into Shell Pakistan Limited. We hope that the scheme of amalgamation would be approved by the High Court and that it would be effective July 1, 1997.

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

**SHAREHOLDERS' STATISTICS AS AT JUNE 30, 1997**

No. of Shareholders		Shareholding			Total Shares held
3	holding from	1	to	100	shares 3
1	holding from	101	to	200	shares 197
-----					-----
4					200

Categories of Shareholders	Number	Shares held	Percentage
Individuals	3	3	1.5
Investment Companies	-	-	-
Insurance Companies	-	-	-
Joint Stock Companies	1	197	98.5
Financial Institutions	-	-	-
Modaraba Companies	-	-	-
Others (to be specified)	-	-	-
	-----	-----	-----
	4	200	100.0

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Pak People Products Corporation (Private) Limited as at June 30, 1997 and the related Profit and Loss Account and Cash Flow Statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the 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 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 June 30, 1997 and of the profit and cash flows for the year then ended;

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

(e) without qualifying our opinion we draw attention to note 1 to the accounts which states that the company has discontinued its operations from June 26, 1996. However, these accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company that may be necessary under the circumstances.

**BALANCE SHEET****AS AT JUNE 30, 1997**

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

**SHARE CAPITAL**

Authorised capital 400 (1996: 400) ordinary shares of Rs, 12,500 each		5,000,000	5,000,000
Issued, subscribed and paid-	3	2,500,000	2,500,000
Unappropriated profit		2,184,155	102,212
		4,684,155	2,602,212
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>	4	2,945,647	2,945,647

**CURRENT LIABILITIES**

Short-term running finance utilised under mark-up arrangements- secured	-		1,535,691
Creditors, accrued and other	5	302,592	4,291,922
Taxation		-	21,579,457
Due to Shell Pakistan Limited		-	15,931,454
Proposed dividend		-	6,000,000
		302,592	49,338,524
		-----	-----
		7,932,394	54,886,383
		=====	=====

	Note	1997 Rupees	1996 Rupees
<b>TANGIBLE FIXED ASSETS</b>			
Operating fixed assets	6	1,952,236	2,052,532
<b>LONG-TERM DEPOSITS</b>		47,000	47,000
<b>CURRENT ASSETS</b>			
Stock-in-trade		-	108,924
Trade deposits and short-term prepayments		60,000	238,498
Due from Shell Pakistan Limited		5,134,540	-
Other receivables - consider	7	335,376	5,394,270
Taxation recoverable		92,663	-
Cash and bank balances	8	310,579	47,045,159
		5,933,158	52,786,851
		-----	-----
		7,932,394	54,886,383
		=====	=====

The annexed notes form an integral part of these accounts.

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

	Note	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
<b>REVENUES</b>			
Net sales		111,618	441,756,626
Less: Duties, taxes and levi	9	41,208	142,083,024
		70,410	299,673,602
Cost of products sold	10	50,475	214,791,328
		19,935	84,882,274
Transportation expenses		31,846	1,201,933
Administration and marketing	11	1,497,046	14,969,407

		1,528,892	16,171,340
Operating (Loss)/profit		(1,508,957)	68,710,934
Other income	12	1,734,406	7,450,656
		225,449,766	161,590
Financial charges	13	8,373	4,943,636
Other charges	14	27,065	4,955,906
		35,438	9,899,542
Profit before taxation		190,011	66,262,048
Taxation	15	(1,891,932)	31,983,255
Profit after taxation		2,081,943	34,278,793
Unappropriated profit brought forward		102,212	123,419
Available for appropriation		2,184,155	34,402,212

## Appropriations:

First interim dividend Rs Nil (1996: Rs 41,500)per share		-	8,300,000
Second interim dividend Rs Nil (1996: Rs 100,000) per share		-	20,000,000
Proposed dividend Rs Nil (1996: Rs 30,000)per share		-	6,000,000
		-	34,300,000
		-----	-----
Unappropriated profit carried forward		2,184,155	102,212
		=====	=====

The annexed notes form an integral part of these accounts.

**CASH FLOW STATEMENT****FOR THE YEAR ENDED JUNE 30, 1997**

	Note	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
<b>Cash flow from operating activities</b>			
Cash (outflow) / generated f	16	(22,000,637)	95,883,714
Long-term deposits		-	24,948
Staff gratuity paid		(215,373)	(951,648)
Mark-up / interest paid		(34,609)	(4,874,774)
Taxes paid		(19,780,188)	(24,776,727)
Net cash (outflow) / inflow from operating ac		(42,030,807)	65,305,513
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		-	(77,294)
Interest received		2,831,918	2,551,421
Net cash inflow from investing activities		2,831,918	2,474,127
<b>Cash flow from financing activities</b>			
Dividends paid		(6,000,000)	(34,700,000)
Net (decrease) / increase in cash and cash equivalents		(45,198,889)	33,079,640
Cash and cash equivalents at beginning of the year / period		45,509,468	12,429,828
Cash and cash equivalents at end of the year / period	17	----- 310,579 =====	----- 45,509,468 =====

The annexed notes form an integral part of these accounts.

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

**1. NATURE OF BUSINESS**

The company is a wholly owned subsidiary of Shell Pakistan Limited. Its principal activity involved the production, blending and marketing of various kinds of lubricating oils. The company has discontinued its operations from June 26, 1996. However, these accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention except that certain fixed assets have been included at revaluation.

**2.2 Taxation**

**Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, or half percent of turnover, whichever is higher.

**Deferred**

The company accounts for deferred taxation on significant timing differences using the liability method. However, deferred tax credit / charge has not been accounted for in these accounts on the assumption that the current timing differences would not reverse in the foreseeable future due to discontinuance of operations.

**2.3 Fixed assets and depreciation**

Operating fixed assets are stated at cost or revalued amounts less accumulated depreciation.

Depreciation is charged to income applying the reducing balance method. Depreciation on additions to fixed assets during a year is charged for the whole year while no depreciation is charged on fixed assets disposed of during a year.

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

Profit and loss on disposal of fixed assets is included in income currently.

**2.4 Revenue recognition**

Sales are recorded on despatch of products to customers.

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

	<b>1997</b>	<b>1996</b>
	<b>Rupees</b>	<b>Rupees</b>
50 ordinary shares of Rs 12,500 each fully paid in cash	625,000	625,000
150 ordinary shares of Rs 12,500 each issued as fully paid bonus sha	1,875,000	1,875,000
-----	-----	-----
200	2,500,000	2,500,000
=====	=====	=====

At June 30, 1997 all the shares were held by

Shell Pakistan Limited and its nominees.

**4. SURPLUS ON REVALUATION OF FIXED ASSETS**

This represents surplus over book value arising from a revaluation of fixed assets on September 30, 1977.

**5. CREDITORS, ACCRUED AND OTHER LIABILITIES**

	1997 Rupees	1996 Rupees
Creditors	230,274	1,078,995
Accrued liabilities	65,253	1,353,073
Due to associated companies	-	76,015
Gratuity payable	-	215,373
Mark-up accrued on running finance - secured	-	34,345
Sales tax payable	-	343,763
Workers' welfare fund	3,500	1,148,097
Other liabilities	3,565	42,261
	-----	-----
	302,592	4,291,922
	=====	=====

**6. OPERATING FIXED ASSETS**

6.1 The following is a statement of operating fixed assets:

	Cost and revaluation at July 1, 1996	Additions / (deletions)	Cost and revaluation at June 30, 1997	Accumulated depreciation at June 30, 1997	Book value at June 30, 1997	Depreciation charge for the year	Depreciation rate %age per annum
	Rupees						
Building and installations on leasehold land	2,135,276	-	2,135,276	1,622,934	512,342	56,927	10
Tanks and pipelines	2,331,571	-	2,331,571	1,956,680	374,891	-	10
Plant and machinery	1,804,562	-	1,804,562	1,172,375	632,187	-	10
Furniture, office equipment & other assets	671,528	-	671,528	374,222	297,306	41,723	10 & 15
Electrical fittings	65,235	-	65,235	50,424	14,811	1,646	10
Laboratory equipment	488,212	-	488,212	367,513	120,699	-	20
	-----	-----	-----	-----	-----	-----	
1997	7,496,384	-	7,496,384	5,544,148	1,952,236	100,296	
	=====	=====	=====	=====	=====	=====	
1996	7,419,090	77,294	7,496,384	5,443,852	2,052,532	390,557	
	=====	=====	=====	=====	=====	=====	

As the company has discontinued its operations, depreciation has not been charged on operating fixed assets related to production as they remained idle during the year.

6.2 The above represents the values of fixed assets subsequent to revaluation on



September 30, 1977 which had resulted in a surplus of Rs 2,945,647 and additions thereafter at cost. Of the revaluation surplus Rs 444,464 remains undepreciated and is included in the book value of fixed assets.

#### 7. OTHER RECEIVABLES - Considered good

	1997 Rupees	1996 Rupees
Claims recoverable	334,876	2,924,951
Due from associated companies	-	964,346
Receivable from workers' profit participation fund - note 7.1	-	241,802
Income receivable from Portfolio Management Scheme	-	1,262,671
Others	500	500
	-----	-----
	335,376	5,394,270
	=====	=====

#### 7.1 Workers' Profit Participation Fund

Balance at July 1/January 1	241,802	316,831
Allocation for the year / period	-	3,558,198
Received from Trustees during the year / peri	(241,802)	(316,831)
	-	3,558,198
Less: Payments to Trustees	-	3,800,000
	-----	-----
Balance at June 30	-	241,802
	=====	=====

#### 8. CASH AND BANK BALANCES

With banks in		
- Current accounts	310,414	1,316,712
- Portfolio Management Scheme	-	45,000,000
In hand		
- Cheques	-	728,447
- Cash	165	-
	-----	-----
	310,579	47,045,159
	=====	=====

#### 9. DUTIES, TAXES AND LEVIES

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Excise duty	26,080	82,167,913
Development surchar9e	-	103,826
Sales tax	12,742	59,620,119
Octroi and other levies	2,386	191,166
	-----	-----
	41,208	142,083,024
	=====	=====

#### 10. COST OF PRODUCTS SOLD

Raw and packing materials consumed		
Opening stock	19,627	9,078,030
Purchases	-	189,002,972
Closing stock	-	(19,627)
Transferred to Shell Pakistan Limited	(19,627)	-
	-----	-----
	-	198,061,375
Salaries, wages and benefits	-	5,537,839

Rent, rates and taxes	-	77 589
Communication and stationery	-	251 771
Insurance	-	489 996
Fuel, power and electricity	-	921 893
Handling and storage charges	-	1,031 486
Laboratory expenses	-	78 407
Travelling, conveyance and entertainment	-	323 924
Depreciation - note 6.1	-	390,557
Repairs and maintenance	-	319,289
Other expenses	-	6,495
Cost of products manufactured	-	207,490,621
Opening stock of finished products	50,475	7,351,182
Closing stock of finished products	-	(50,475)
	50,475	214,791,328
	=====	=====

**11. ADMINISTRATION AND MARKETING EXPENSES**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Salaries, wages and benefits	456,931	2,066,136
Handling and storage charges	-	1,156,566
Technical service fee	-	1,013,761
Marketing service charges	-	10, 137,609
Rent, rates and taxes	67,032	87,531
Communication and stationery	46,734	49,743
Fuel, power and electricity	137,753	11,208
Travelling, conveyance and entertainment	104,741	164,025
Legal and professional charges	226,314	221,898
Advertisement and subscriptions	26,250	25,940
Repairs and maintenance	13,680	34,368
Contract security	160,000	-
Insurance	156,997	-
Depreciation	100,296	-
Others	318	622
	-----	-----
	1,497,046	14,969,407
	=====	=====

**12. OTHER INCOME**

Scrap sales	15,585	527,960
Income from Portfolio Management Scheme	1,569,247	3,419,750
Provision no longer required written back	149,574	3,149,978
Others	-	352,968
	-----	-----
	1,734,406	7,450,656
	=====	=====

**13. FINANCIAL CHARGES**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Interest on current account with Shell	-	3,887,825
Markup on running finance	264	836,712
Central excise duty on running finance	-	65,504
Bank charges	8,109	153,595
	-----	-----
	8,373	4,943,636
	=====	=====

**14. OTHER CHARGES**

Audit fee	20,000	54,000
Workers' profit participation fund	-	3,558,198
Workers' welfare fund	3,500	1,343,708
Others	3,565	-
	-----	-----
	27,065	4,955,906
	=====	=====

**15. TAXATION**

Current		
For the year / period	12,000	32,200,000
For prior years	(1,903,932)	(663,145)
Deferred		
For the year / period	-	446,400
	-----	-----
	(1,891,932)	31,983,255
	=====	=====

**16. CASH GENERATED FORM OPERATIONS**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Profit before taxation	190,011	66,262,048
Adjustment for non cash charges and other items:		
Depreciation	100,296	390,557
Provision for staff gratuity	-	129,464
Interest income	(1,569,247)	(3,419,750)
Mark-up / interest expense	264	4,724,537
Working capital changes- note 16.1	(20,721,961)	27,796,858
	-----	-----
	(22,000,637)	95,883,714
	=====	=====

**16.1 Working capital changes**

**(Increase) / decrease in  
current assets**

Stock-in-trade	108,924	20,806,546
Trade debts	-	70,405
Loans and advances	-	6,700
Trade deposits and short-term prepayments	178,498	(21,615)
Other receivables (net)	3,796,223	(1,089,435)
Due from Shell Pakistan Limited	(5,134,540)	-
	-----	-----
	(1,050,895)	19,772,601

**Increase / (decrease)in  
current liabilities**

Creditors, accrued and other liabilities (net)	(3,739,612)	(8,222,292)
Due to Shell Pakistan Limited	(15,931,454)	16,246,549
	-----	-----
	(20,721,961)	27,796,858
	=====	=====

**17. CASH AND CASH EQUIVALENTS**

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

<b>1997</b>	<b>1996</b>
<b>Rupees</b>	<b>Rupees</b>

Cash and bank balances	310,579	47,045,159
Short-term running finance utilised under mark-up arrangements	-	(1,535,691)
	-----	-----
	310,579	45,509,468
	=====	=====

**Jamia Industries (Pvt.) Limited**

**REPORT OF THE DIRECTORS**

The Directors of your Company have pleasure in presenting their Report and Audited Accounts of the Company for the year ended June 30, 1997.

The profit of the Company for the year ended June 30, 1997 after providing for administrative, marketing, financial and other charges amounts to	<b>Rupees</b>	58,593,215
Less: Provision for Workers' profit participation fund		2,929,661
Workers' welfare fund		1,100,000
		4,029,661
		54,563,554
Less: Taxation		23,185,762
Profit after taxation		31,377,792
Unappropriated profit brought forward from the previous year		660,021
<b>APPROPRIATIONS</b>		<b>32,037,813</b>
Interim dividend - Rs 390.62 per share		15,000,000
Leaving for carry over to next year an unappropriated profit of		----- 17,037,813 =====

With the closure of other associated plants during the previous period, the demand for products was again met through increased production from your company. This resulted in the company generating excellent profits during the year under review. The gross margin to net proceeds ratio was 31.37% compared to 30.3% during the preceding 18-month period.

The Company has filed a petition with the High Court of Sindh for the amalgamation into Shell Pakistan Limited. We hope that the scheme of amalgamation would be approved by the High Court and that it would be effective July 1, 1997.

The present Auditors Messrs. Ford, Rhodes, Robson, Morrow retire and being eligible offer themselves for re-appointment.

For and on behalf of the Board

**SHAREHOLDERS' STATISTICS AS AT JUNE 30, 1997**

No. of Shareholders		Shareholding		Total Shares held
4	holding from	1	to	100 4
1	holding from	100	to	40 000 38 396
5				38 400

Categories of Shareholders	Number	Shares held	Percentage
Individuals	4	4	0.01
Investment Companies	-	-	-
Insurance Companies	-	-	-
Joint Stock Companies	1	38 396	99.99
Financial Institutions	-	-	-
Modaraba Companies	-	-	-
Others (to be specified)	-	-	-
	-----	-----	-----
	5	38 400	100.0
	=====	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of Jamia Industries (Private) Limited as at June 30, 1997 and the related profit and loss account and the cash flow statement, together with

the notes forming part thereof, for the year then ended, and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit 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 and profit and loss account and the 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 June 30, 1997 and of the profit and the cash flows for the year then ended;

(d) without qualifying our opinion we draw your attention to note 22 regarding the merger of the company with the holding company. No adjustments that may be required in this respect have been made in these accounts; and

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

#### **BALANCE SHEET**

#### **AS AT JUNE 30, 1997**

	Note	1997 Rupees	1996 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital			
Authorised capital			
100,000 ordinary shares of Rs. 100 each		10,000,000	10,000,000
		=====	=====
Issued, subscribed and paid-Reserves	3	3,840,000	3,840,000
Unappropriated profit		17,037,813	660,021
		20,877,813	4,500,021
<b>DEFERRED LIABILITIES</b>			
Staff retirement gratuity	4	-	67,230
Deferred taxation		248,951	163,189
		248,951	230,419
<b>CURRENT LIABILITIES</b>			
Creditors, accrued and other	5	12,920,062	18,557,805
Due to Shell Pakistan Limite	6	-	6,905,840
Taxation - net		2,418,873	9,936,436
Proposed dividend		-	13,200,000
		15,338,935	48,600,081
<b>CONTINGENCIES</b>	7	-----	-----
		36,465,699	53,330,521
		=====	=====
<b>TANGIBLE FIXED ASSETS</b>			
Operating assets	8	4,255,269	4,567,410

<b>LONG TERM DEPOSITS</b>		67,074	67,074
<b>CURRENT ASSETS</b>			
Stock-in-trade	9	9,765,348	22,902,507
Trade debts	10	5,900	168,024
Advances to suppliers		-	2,632,116
Trade deposits and short term prepayments	11	751,058	1,371,374
Due from Shell Pakistan	6	8,050,060	-
Other receivables	12	4,867,129	4,379,216
Short term placements		-	10,000,000
Cash and bank balances	13	8,703,861	7,242,800
		32,143,356	48,696,037
		-----	-----
		36,465,699	53,330,521
		=====	=====

The annexed notes form integral part of these accounts.

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

	Note	June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
<b>REVENUE</b>			
Net Sales	14	360,856,541	416,982,710
Less: Duties, taxes and other levies	15	124,046,762	134,966,566
		236,809,779	282,016,144
Cost of sales	16	162,648,638	196,468,520
		74,201,141	85,547,624
Transportation expenses		5,118,014	4,262,598
Administrative and marketing expenses	17	10,944,497	12,977,981
		16,062,511	17,240,579
<b>OPERATING PROFIT</b>		58,138,630	68,307,045
Other income	18	3,630,250	7,623,679
		61,768,880	75,930,724
Financial charges	19	3,140,665	392,207
Other charges	20	4,064,661	5,168,155
		7,205,326	5,560,362
<b>PROFIT BEFORE TAXATION</b>		54,563,554	70,370,362
TAXATION	21	23,185,762	32,474,456
<b>PROFIT AFTER TAXATION</b>		31,377,792	37,895,906
Unappropriated profit brought forward		660,021	765,643
Transferred from revenue reserve		-	780,000
Profit available for appropriation		32,037,813	39,441,549
<b>APPROPRIATIONS</b>			
Interim dividend Rs 390.625 (1996: Rs 666.186) per share		15,000,000	25,581,528
Proposed dividend Rs Nil (1996: Rs 343.75) per share		-	13,200,000
		15,000,000	38,781,528
		-----	-----
Unappropriated profit carried forward		17,037,813	660,021
		=====	=====

The annexed notes form an integral part of these accounts.

**CASH FLOW STATEMENT**

## FOR THE YEAR ENDED JUNE 30, 1997

	June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Cash flows from operating activities:		
Cash generated from operations:		
Profit before taxation	54,563,554	70,370,362
Adjustment for non-cash charges and other items:		
Depreciation	311,918	531,817
Provision for staff gratuity	-	162,305
Interest income	(1,065,870)	(3,661,378)
Interest expense	108,900	353,133
Profit on disposal of fixed assets	(21,777)	-
	(666,829)	(2,614,123)
Working capital changes		
(Increase)/decrease in current assets		
Stock-in-trade	13,137,159	(8,983,604)
Trade debts	162,123	637,305
Loans and advances	2,632,116	(2,632,116)
Trade deposits and prepayments	620,316	(248,373)
Due from Shell Pakistan Limited	(8,050,060)	-
Other receivables	(642,435)	(3,646,105)
	7,859,219	(14,872,893)
Increase/(decrease) in current liabilities:		
Creditors, accrued and other liabilities	(5,547,510)	2,704,705
Due to Shell Pakistan Limited	(6,905,840)	11,852,330
	49,302,594	67,440,381
Interest paid	(199,131)	(353,133)
Taxes paid	(30,617,563)	(28,497,395)
Gratuity paid	(67,230)	(1,710,140)
Net cash in flows from operating activities	18,418,670	36,879,713
Cash flows from investing activities:		
Fixed capital expenditure	-	(197,760)
Proceeds from sale of fixed assets	22,000	352,800
Interest received	1,220,391	3,661,378
Long term deposit encashed	-	1,000
	-----	-----
Net cash in flows from investing activities	1,242,391	3,817,418

	June 30, 1997 Rupees	Eighteen months ended June 30 1996 Rupees
Cash flows from financing activities:		
Dividends paid	(28,200,000)	(39,381,528)
Net increase/(decrease) in cash and cash equivalents	(8,538,939)	1,315,603
Cash and cash equivalents at beginning of the year	17,242,800	15,927,197
	-----	-----
Cash and cash equivalents at the end of the year	8,703,861	17,242,800
Cash and cash equivalents at end of the year	=====	=====
represented by:		
Cash and bank balances	8,703,861	7,242,800
Short term placements	-	10,000,000
	-----	-----
	8,703,861	17,242,800

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

**1. NATURE OF BUSINESS**

Jamia Industries (Private) Limited is a wholly owned subsidiary of Shell Pakistan Limited. The principal activity of the company is the production, blending and marketing of various kinds of lubricating oils.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

**2.2 Taxation**

Current -

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, or half percent of turnover, whichever is higher.

Deferred -

The company accounts for deferred taxation on significant timing differences using the liability method, except for tax effects of those timing differences which are not likely to reverse in the foreseeable future.

**2.3 Fixed assets and depreciation**

These are stated at cost less accumulated depreciation. Depreciation is charged to income applying the reducing balance method. The rates used are stated in note 8 to the accounts.

Depreciation in addition to fixed assets during a year is charged for the whole year whilst no depreciation is provided in the year of disposal.

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

Profit and loss on disposal of fixed assets is taken to income currently.

**2.4 Stock-in-trade**

Stock-in-trade is valued at the lower of cost calculated on a first-in-first-out basis and net realisable value. Cost of finished goods include appropriate overheads. Charges such as development surcharge, excise duties and sales tax incurred on unsold stock of products are added to the value of stock and carried forward.

Net realisable value signifies the selling price in the ordinary course of business less costs necessary to make the sale.

**2.5 Revenue recognition**

Sales are recorded on dispatch of products to customers. Return on short term placements is recognised on an accrual basis.

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

	1997 Rupees	1996 Rupees
16,000 ordinary shares of Rs 100 each fully paid in cash	1,600,000	1,600,000
22,400 ordinary shares of Rs 100 each fully Paid bonus shares	2,240,000	2,240,000



----- 38,400 -----	----- 3,840,000 -----	----- 3,840,000 =====
--------------------------	-----------------------------	-----------------------------

At June 30, 1997 Shell Pakistan Limited and its nominees held all the issued, subscribed and paid up capital of the company.

**4. STAFF RETIREMENT GRATUITY**

No provision for Staff Retirement Gratuity has been made in these accounts as at existing employees are on contract basis and on secondment from other companies.

	Note	1997 Rupees	1996 Rupees
<b>5. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Creditors		344,511	4,463,531
Refunds against sales		4,965,168	4,965,168
Accrued expenses		661,808	1,533,896
Due to associated companies		-	355,047
Mark-up on secured short term running finance		-	90,231
Sales tax payable		361,250	2,889,884
Advances from customers		1,807,148	2,128,100
Security deposits		415,000	165,000
Workers' welfare fund		1,114,408	1,046,943
Workers' profit participation fund	5.1	2,929,661	772,899
Other liabilities		321,108	147,106
		-----	-----
		12,920,062	18,557,805
		=====	=====

**5.1 Workers' profit participation fund**

Balance at July 1	772,899	(55,638)
Allocation for the year	29,296.61	3,773,851
	3,702,560	3,718,213
Less: Amount paid	(772,899)	(2,945,314)
	-----	-----
Balance as at June 30	2,929,661	772,899
	=====	=====

**6. DUE TO AND FROM SHELL PAKISTAN LIMITED**

Current account with Shell Pakistan Limited carries interest at 16.5 percent per annum calculated on average month end outstanding balances.

**7. CONTINGENCIES**

Guarantee provided by a bank in respect of bills under discount amounting to Rs 2,500,000 (1996: Rs 569,291).

**8. OPERATING ASSETS**

Description	COST			DEPRECIATION					
	Cost as at July 1, 1996	Additions/ (disposals)	Cost as at June 30, 1997	Accumulated depreciation as at July 1, 1996	Charge for the year	Accumulated depreciation on disposals	Accumulated depreciation as at June 30, 1997	Written down value as at June 30, 1997	Rate of Depreciation
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	%



	1997 Rupees	1996 Rupees
<b>12. OTHER RECEIVABLES - considered good</b>		
Due from associated companies	-	195,568
Claims recoverable	-	8,611
Accrued interest on short term placements	-	154,521
Receivable from JIL Staff Provident Fund	4,459,815	3,819,561
Others	407,314	200,955
	-----	-----
	4,867,129	4,379,216
	=====	=====

**13. CASH AND BANK BALANCES**

At banks - on current accounts	8,631,157	6,140,427
Cheques in hand	53,475	1,091,482
Cash in hand	19,229	10,891
	-----	-----
	8,703,861	7,242,800
	=====	=====

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
--	--	--

**14. NET SALES**

Gross sales	361,015,940	417,093,935
Less: Discounts allowed	159,399	111,225
	-----	-----
	360,856,541	416,982,710
	=====	=====

**15. DUTIES, TAXES AND OTHER LEVIES**

Excise duty	69,358,342	79,336,843
Development surcharge	18,306	
Sales tax	54,651,492	55,582,929
Octroi and other levies	18,622	46,794
	-----	-----
	124,046,762	134,966,566
	=====	=====

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
--	--	--

**16. COST OF SALES**

Raw and packing material consumed

Opening stock	10,693,398	4,775,708
Purchases	148,480,514	193,338,496
	-----	-----
	159,173,912	198,114,204
Closing stock	9 (5,760,324)	(10,693,398)
	-----	-----
	153,413,588	187,420,806
Salaries, wages and benefits	1,954,883	6,684,095
Rent, rates and taxes	859,459	993,975
Communication and stationery	116,267	149,125
Insurance	507,585	527,536

Fuel, power and electricity	478,046	583,715
Handling and storage charges	229,889	199,830
Laboratory expenses	85,499	102,078
Travelling conveyance and entertainment	58,494	189,665
Depreciation	311,918	531,817
Repairs and maintenance	334,472	354,125
Other expenses	108,487	129,493

	5,044,999	10,445,454
Cost of goods manufactured	158,458,587	197,866,260
Opening stock of finished goods	7,618,629	6,220,889
	166,077,216	204,087,149
Closing stock of finished go	9 (3,468,578)	(7,618,629)
	-----	-----
	162,608,638	196,468,520
	=====	=====

	<b>Year ended</b>	<b>Eighteen</b>
	<b>June 30,</b>	<b>months</b>
	<b>1997</b>	<b>ended June</b>
	<b>Rupees</b>	<b>30, 1996</b>
		<b>Rupees</b>

#### 17. ADMINISTRATIVE AND MARKETING EXPENSES

Salaries and benefits [including directors' fee Rs Nil (1996: Rs 500)]	1,370,656	2,336,274
Handling and storage charges	448,018	474,710
Technical service fee	644,187	827,623
Marketing service charges	6,441,870	8,276,226
Rent, rates and taxes	223,683	77,903
Communication and stationary	91,775	61,581
Fuel, power and electricity	176,257	40,264
Travelling, conveyance and entertainment	168,308	115,493
Legal and professional charges	146,476	298,301
Advertisement and subscription	20,000	43,910
Repairs and maintenance	103,119	32,218
Stock written off	406,855	-
Other receivables written off	200,955	-
Bad debts written off	284,842	384,639
Other expenses	217,496	8,839
	-----	-----
	10,944,497	12,977,981
	=====	=====

#### 18. OTHER INCOME

Sale of scrap material	60,457	533,760
Interest on current account - with Shell Pakistan Limited	-	2,227,302
Interest on short term placements	1,065,870	1,434,076
Reversal of provision for doubtful debts	-	2,457,141
Development surcharges	-	917,000
Gain on sale of fixed assets	21,777	-
Liabilities written back	2,100,447	-
Others	381,699	54,400
	-----	-----
	3,630,250	7,623,679
	=====	=====

#### 19. FINANCIAL CHARGES

Mark-up on short term running finance	108,900	353,133
Excise duty on running finance	5,723	25,989
Bank charges	29,725	13,085
Interest on current account - with Shell Pakistan Limited	2,996,317	-
	-----	-----
	3,140,665	392,207
	=====	=====

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
<b>20. OTHER CHARGES</b>		
Audit fee - annual	35,000	35,000
- six monthly	-	26,500
Workers' profit participation fund	2,929,661	3,773,851
Workers' welfare fund	1,100,000	1,332,804
	-----	-----
	4,064,661	5,168,155
	=====	=====

**21. TAXATION**

Current	23,100,000	30,654,482
Deferred	85,762	1,819,974
	-----	-----
	23,185,762	32,474,456
	=====	=====

**22. MERGER WITH THE HOLDING COMPANY**

Necessary legal proceedings are underway to merge the company with the holding company. The merger is anticipated to conclude by June 30, 1998 with retroactive effect from July 1, 1997. No adjustments that may be required in this respect have been made in these accounts.

**23. GENERAL**

23.1 Figures have been rounded off to the nearest rupee.

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

**Petroleum Industries of Pakistan (Pvt.) Limited**

**REPORT OF THE DIRECTORS**

The Directors of your Company have pleasure in presenting their Report and Audited Accounts of the Company for the year ended June 30, 1997.

The loss of th Rupees June 30, 1997 after providing for administrative, marketing, financial and other charges amounts to	(702,343)
Less: Taxation	(907,772)
Profit after taxation	205,429
Unappropriated profit brought forward from the previous year	26,661
Leaving for carry over to next year an unappropriated profit of	----- 232,090 =====

As stated in the previous year's report, the company had wound up its operations as part of the rationalisation of lubricants business of Shell Pakistan Limited. As a result, there was no production during the year.

The Company has filed a petition with the High Court of Sindh for the amalgamation into Shell Pakistan Limited. We hope that the scheme of amalgamation would be approved by the High Court and that it would be effective July 1, 1997.

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

**SHAREHOLDERS' STATISTICS AS AT JUNE 30, 1997**

No. of Shareholders	Shareholding					Total Shares held
3	holding from	1	to	100	shares	3
1	holding from	1001	to	5 000	shares	1 997
4						2 000

Categories of Shareholders	Number	Shares held	Percentage
Individuals	3	3	0.15
Investment Companies	-	-	-
Insurance Companies	-	-	-
Joint Stock Companies	1	1997	99.85
Financial Institutions	-	-	-
Modaraba Companies	-	-	-
Others (to be specified)	-	-	-
	-----	-----	-----
	4	2 000	100.00
	=====	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Petroleum Industries of Pakistan (Private) Limited as at June 30, 1997 and the related Profit and Loss Account and Cash Flow Statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the 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 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 June 30, 1997 and of the profit and cash flows for the year then ended;

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

(e) without qualifying our opinion we draw attention to note 1 to the accounts which states that the company has discontinued its operations from August 31, 1995. However, these accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company that may be necessary under the circumstances.

**BALANCE SHEET  
AS AT JUNE 30, 1997**

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

**SHARE CAPITAL**

Authorised capital 10,000 (1996:10,000) ordinary shares of Rs 1,000 each		10,000,000	10,000,000
		=====	=====
Issued, subscribed and paid- Unappropriated profit	3	2,000,000 232,090	2,000,000 26,661
		2,232,090	2,026,661
<b>CURRENT LIABILITIES</b>			
Creditors, accrued and other	4	148,695	599,238
Due to Shell Pakistan Limited		2,989,894	1,718,352
Proposed dividend		-	2,500,000
		3,138,589	4,817,590
		-----	-----
		5,370,679	6,844,251
		=====	=====
<b>TANGIBLE FIXED ASSETS</b>			
Operating fixed assets	5	1,883,862	1,941,649
<b>CURRENT ASSETS</b>			
Stock-in-trade		-	13,084
Trade deposits and short-term prepayments		27,282	28,410
Other receivables - consider	6	327,255	690,803
Taxation recoverable		2,066,102	1,154,010
Cash and bank balances	7	1,066,178	3,016,295
		3,486,817	4,902,602
		-----	-----
		5,370,679	6,844,251
		=====	=====

The annexed notes form an integral part of these accounts.

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

	Note	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
<b>REVENUES</b>			
Net sales		20,910	68,108,835
Less: Duties and levies	8	4,879	21,804,579
			46,304,256
Cost of products sold	9		39,095,570
		7,826	7,208,686
Transportation expenses		-	179,515
Administration and marketing expenses	10	961,553	2,762,761
		961,553	2,942,276
Operating (loss) / profit		(953,727)	4,266,410
Other income	11	273,971	3,357,537
		(679,756)	7,623,947
Financial charges	12	2,587	80,935
Other charges	13	20,000	559,025
		22,587	639,960
(Loss) / profit before taxation		(702,343)	6,983,987

Taxation	14	(907,772)	3,358,815
Profit after taxation		205,429	3,625,172
Unappropriated profit brought forward		26,661	101,489
Transfer from revenue reserve		-	2,400,000
Available for appropriation		232,090	6,126,661
Appropriations:			
Interim dividend Rs Nil (1996: Rs 1,800) per share		-	3,600,000
Proposed dividend Rs Nil (1996: Rs 1,250) per share		-	2,500,000
		-	6,100,000
		-----	-----
Unappropriated profit carried forward		232,090	26,661
		=====	=====

The annexed notes form an integral part of these accounts

#### CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 1997

		Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Note	Rupees	Rupees
<b>Cash flow from operating activities</b>			
Cash generated from operations	15	464,450	1 0, 103,168
Interest paid		-	(72,454)
Taxes paid		(4,320)	(7,219,404)
Net cash inflow from operating activities		460,130	2,811,310
<b>Cash flow from investing activities</b>			
Sale proceeds of fixed assets		-	48,400
Interest received		89,753	1,103,795
Net cash inflow from investing activities		89,753	1,152,195
<b>Cash flow from financing activities</b>			
Dividends paid		(2,500,000)	(5,400,000)
Net decrease in cash and cash equivalents		(1,950,117)	(1,436,495)
Cash and cash equivalents at beginning of the year / period		3,016,295	4,452,790
Cash and cash equivalents at end of the year / period	16	1,066,178	3,016,295
		=====	=====

The annexed notes form an integral part of these accounts.

#### NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 1997

##### 1. NATURE OF BUSINESS

The company is a wholly owned subsidiary of Shell Pakistan Limited. Its principal activity involved the production, blending and marketing of various kinds of lubricating oils. The company has discontinued its operations from August 31, 1995. However, these accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company.

##### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

###### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

###### 2.2 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation



after taking into account tax credits and rebates available, if any, or half percent of turnover, whichever is higher.

#### Deferred

The company accounts for deferred taxation on significant timing differences using the liability method. However, deferred tax credit / charge has not been made in these accounts on the assumption that the current timing differences would not reverse in the foreseeable future due to discontinuance of operations.

#### Fixed assets and depreciation

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

Depreciation is charged to income applying the reducing balance method. Depreciation on additions to fixed assets during a year is charged for the whole year while no depreciation is charged on fixed assets disposed of during a year.

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

Profit and loss on disposal of fixed assets are taken to income currently.

#### 2.4 Revenue recognition

Sales are recorded on despatch of products to customers.

#### NOTES TO THE ACCOUNTS

#### FOR THE YEAR ENDED JUNE 30, 1997

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

	1997 Rupees	1996 Rupees
2,000 ordinary shares o~ Rs 1,000 each fully paid in cash	2,000,000 =====	2,000,000 =====

At June 30, 1997 all the shares were held by Shell Pakistan Limited and its nominees.

#### 4. CREDITORS, ACCRUED AND OTHER LIABILITIES

	1997 Rupees	1996 Rupees
Creditors	48,891	51,398
Accrued liabilities	97,702	382,350
Due to associated company	-	56,362
Advances from customers	-	4,020
Workers' welfare fund	1,827	1,827
Other liabilities	275	103,281
	----- 148,695 =====	----- 599,238 =====

#### 5. OPERATING FIXED ASSETS

5.1 The following is a statement of operating fixed assets:

Cost at July 1, 1996	Additions / (deletions)	Cost at June 30, 1997	Accumulated depreciation at June 30, 1997	Book value at June 30, 1997	Depreciation charge for the year	Depreciation rate %age per annum
----------------------------	----------------------------	--------------------------	--	-----------------------------------	--	--

Rupees

Freehold land	494,640	-	494,640	-	494,640	-	-
Buildings on freehold land	1,433,328	-	1,433,328	1,073,946	359,382	39,931	10
Plant and machinery	2,592,612	-	2,592,612	1,902,080	690,532	-	10
Electrical, mechanical and fire fighting equipment	70,624	-	70,624	30,827	39,797	4,422	10
Furniture, office equipment and other assets	331,944	-	331,944	211,045	120,899	13,434	10
Laboratory equipment	771,587	-	771,587	592,975	178,612	-	20
	-----	-----	-----	-----	-----	-----	
1997	5,694,735	-	5,694,735	3,810,873	1,883,862	57,787	
	=====	=====	=====	=====	=====	=====	
1996	5,803,235	(108,500)	5,694,735	3,753,086	1,941,649	88,424	
	=====	=====	=====	=====	=====	=====	

As the company has discontinued its operations, depreciation has not been charged on operating fixed assets related to production as they remained idle during the year.

#### 6. OTHER RECEIVABLES - Considered good

	1997 Rupees	1996 Rupees
Claims recoverable	297,000	719,509
Sales tax refundable	1,192	1,192
Due from associated companies	-	108,292
Receivable from workers' profit participation fund - note 6.1	-	226,852
Interest receivable	-	56,507
Receivable from the provident fund	28,103	-
Others	960	960
	327,255	1,113,312
Less: Provision for doubtful claims	-	422,509
	327,255	690,803
<b>6.1 Workers' profit participation fund</b>		
Balance at July 1 / January 1	226,852	178,000
Allocation for the year / period	-	(374,148)
Received from Trustees during the year / peri	(226,852)	(177,000)
	-	(373,148)
Less: Payments to Trustees	-	600,000
	-----	-----
Balance at June 30	-	226,852
	=====	=====

#### 7. CASH AND BANK BALANCES

	1997 Rupees	1996 Rupees
With banks		
in current accounts	1,011,016	1,967,565
under portfolio management scheme	-	1,000,000
In hand		
cheques	43,968	48,400
cash	11,194	330
	-----	-----

1,066,178      3,016,295  
 =====      =====

**8. DUTIES, TAXES AND LEVIES**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Rupees	Rupees
Excise duty	2,771	12,567,759
Development surcharge	-	22,206
Sales tax	-	9,199,343
Octroi and other levies	2,108	15,271
	-----	-----
	4,879	21,804,579
	=====	=====

**9. COST OF PRODUCTS SOLD**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Rupees	Rupees
Raw and packing materials consumed		
Opening stock	-	4,876,499
Purchases	-	25,702,944
Closing stock	-	-
	-	30,579,443
Salaries, wages and benefits	-	4,867,669
Rent, rates & taxes	-	35,278
Communication and stationery	-	107,19
Insurance	-	215,201
Fuel, power and electricity	-	231,750
Handling and storage charges	-	306,482
Laboratory expenses	-	29,858
Travelling, conveyance and entertainment	-	176,892
Depreciation	-	87,873
Repairs and maintenance	-	117,751
Other expenses	-	10,694
Cost of products manufactured	-	36,766,010
Opening stock of finished products	8,205	2,337,765
Closing stock of finished products	-	(8,205)
	-----	-----
	8,205	39,095,570
	=====	=====

**10. ADMINISTRATION AND****MARKETING EXPENSES**

Salaries, wages and benefits	196,706	352,695
Security charges	372,282	-
Handling and storage charges	-	100,554
Technical service fee	-	154,539
Marketing service charges	-	1,545,387
Rent, rates and taxes	3,820	24,269
Communication and stationery	29,741	44,284
Fuel, power and electricity	85,331	40,264
Travelling, conveyance and entertainment	20,540	40,311
Legal and professional charges	170,446	420,711
Advertisement and subscriptions	20,000	26,800
Repairs and maintenance	3,333	12,106
Depreciation	57,787	551
Other expenses	1,567	290

-----	-----
961,553	2,762,761
=====	=====

**11. OTHER INCOME**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Rupees	Rupees
Scrap sales	60,388	156,906
Profit on disposal of fixed assets	-	32,017
Godown rent	90,000	135,000
Income from short-term deposits / Portfolio Management Scheme	33,246	1,160,302
Provisions no longer required written back	90,337	1,575,463
Refund of Development Surcharge	-	297,000
Others	-	849
	-----	-----
	273,971	3,357,537
	=====	=====

**12. FINANCIAL CHARGES**

Mark-up on running finance	-	51,209
Excise duty on running finance	-	8,015
Bank charges	2,587	21,711
	-----	-----
	2,587	80,935
	=====	=====

**13. OTHER CHARGES**

Audit fee	20,000	54,000
Workers' profit participation fund	-	374,148
Workers' welfare fund	-	130,877
	-----	-----
	20,000	559,025
	=====	=====

**14. TAXATION**

Current		
For the year / period	1,500	3,032,716
- For prior years	(909,272)	15,299
Deferred	-	310,800
	-----	-----
	(907,772)	3,358,815
	=====	=====

Provision for current taxation for the year represents minimum tax at 0.5 percent on turnover of the company.

**15. CASH GENERATED FROM OPERATIONS**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Rupees	Rupees
(Loss) / profit before taxation	(702,343)	6,983,987
Adjustment for non cash charges and other items:		
Profit on disposal of fixed assets	-	(32,017)
Depreciation	57,787	88,424
Reversal of provision for staff gratuity	-	(465,860)
Interest income	(33,246)	(1,160,302)
	-	51,209
Interest expense	1,142,252	4,637,727
	-----	-----

	464,450	10,103,168
	=====	=====
<b>15.1 Working capital changes</b>		
<b>(Increase) / decrease in current assets</b>		
Stock-in-trade	13,084	8,168,675
Trade debts	-	132,459
Trade deposits and short-term prepayments	1,128	437,442
Other receivables (net)	307,041	(319,421)
	-----	-----
	321,253	8,419,155
	=====	=====
<b>Increase / (decrease) in current liabilities</b>		
Creditors, accrued and other liabilities (net)	(450,543)	(1,926,875)
Due to Shell Pakistan Limited	1,271,542	(1,854,553)
	-----	-----
	1,142,252	4,637,727
	=====	=====

**16. CASH AND CASH EQUIVALENTS**

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

	1997	1996
	Rupees	Rupees
Cash and bank balances	1,066,178	2,016,295
Short-term placements	-	1,000,000
	-----	-----
	1,066,178	3,016,295
	=====	=====

**International Lubricants (Pvt.) Limited**

**REPORT OF THE DIRECTORS**

The Directors of your Company have pleasure in presenting their Report and Audited Accounts of the Company for the year ended June 30, 1997.

	Rupees
The loss of the Company for the year ended June 30, 1997 after providing for administrative, marketing, financial and other charges amount	(1,319,703)
Less: Taxation	3,500
Loss after taxation	(1,323,203)
Unappropriated profit brought forward from the previous year	653,573
	-----
Accumulated loss carried forward	(669,630)
	=====

As stated in the previous year's report, the company had wound up its operations as part of the rationalisation of lubricants business of Shell Pakistan Limited. As a result, there was no production during the year.

The Company has filed a petition with the High Court of Sindh for the amalgamation into Shell Pakistan Limited. We hope that the scheme of amalgamation would be approved by the High Court and that it would be effective July 1, 1997.

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

**SHAREHOLDERS' STATISTICS AS AT JUNE 30, 1997**

No. of Shareholders	Shareholding	Total Shares held
5	holding from 1 to 100 shares	5

1 holding from 5001 to 30 000 shares 29 995  
 -----  
 6 30 000  
 =====

Categories of Shareholders	Number	Shares held	Percentage
Individuals	5	5	0.02
Investment Companies	-	-	-
Insurance Companies	-	-	-
Joint Stock Companies	1	29 995	99.98
Financial Institutions	-	-	-
Modaraba Companies	-	-	-
Others (to be specified)	-	-	-
	-----	-----	-----
	6	30 000	100.00
	=====	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of International Lubricants (Private) Limited as at June 30, 1997 and the related Profit and Loss Account and Cash Flow Statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the 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 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 June 30, 1997 and of the loss and cash flows for the year then ended;

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

(e) without qualifying our opinion we draw attention to note 1 to the accounts which states that the company has discontinued its operations from July 11, 1995. However, these accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company that may be necessary under the circumstances.

**BALANCE SHEET  
 AS AT JUNE 30, 1997**

	Note	1997 Rupees	1996 Rupees
<b>SHARE CAPITAL</b>			
Authorised capital			
100,000 (1996:100,000) ordinary shares of			
Rs 100 each		10,000,000	10,000,000

		=====	=====
Issued, subscribed and paid-up capital	3	3,000,000	3,000,000
(Accumulated loss) / unappropriated profit		(669,630)	653,573
		2,330,370	3,653,573

**CURRENT LIABILITIES**

Creditors, accrued and other liabilities	4	128,105	486,939
Due to Shell Pakistan Limited		4,384,548	4,552,756
		4,512,653	5,039,695
		-----	-----
		6,843,023	8,693,268
		=====	=====

	<b>Note</b>	<b>1997</b>	<b>1996</b>
		<b>Rupees</b>	<b>Rupees</b>

**TANGIBLE FIXED ASSETS**

Operating fixed assets	5	5,393,016	5,725,480
<b>LONG-TERM DEPOSITS</b>		2,700	2,700

**CURRENT ASSETS**

Stock-in-trade		-	362,606
Trade deposits and short-term prepayments		42,719	42,648
Other receivables - considered good	6	351,100	393,925
Taxation		870,047	863,467
Cash and bank balances	7	183,441	1,302,442
		1,447,307	2,965,088
		-----	-----
		6,843,023	8,693,268
		=====	=====

The annexed notes form an integral part of these accounts.

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED JUNE 30, 1997**

	<b>Note</b>	<b>Year ended June 30, 1997 Rupees</b>	<b>Eighteen months ended June 30, 1996 Rupees</b>
<b>REVENUES</b>			
Net sales		593,656	46,204,398
Less: Duties, taxes and levies	8	135,599	13,449,639
		458,057	32,754,759
Cost of products sold	9	227,006	30,224,445
		231,051	2,530,314
Transportation expenses		-	76,815
Administration and marketing expenses	10	1,572,308	2,536,634
		1,572,308	2,613,449
Operating loss		(1,341,257)	(83,135)
Other income	11	119,961	1,004,634
		(1,221,296)	921,499
Financial charges	12	3,048	681,236
Other charges	13	95,359	115,028
		98,407	796,264

(Loss)/profit before taxation		(1,319,703)	125,235
Taxation	14	3,500	394,454
Loss after taxation		(1,323,203)	(269,219)
Unappropriated profit brought forward		653,573	1,702,792
Transfer from revenue reserve		-	700,000
(Accumulated loss carried forward) / profit available for appropriation		(669,630)	2,133,573
Appropriations:			
Interim dividend Rs Nil (1996: Rs 123.33 per share on 12,000 shares held by minority shareholders)		-	1,480,000
(Accumulated loss) / unappropriated profit carried forward		----- (669,630) =====	----- 653,573 =====

The annexed notes form an integral part of these accounts.

#### CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 1997

	Note	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
<b>Cash flow from operating activities</b>			
Cash (outflow) / generated from operations	15	(1,066,905)	12,072,062
Staff gratuity paid		(42,016)	(193,356)
Interest paid		-	(823,676)
Taxes paid		(10,080)	(4,020,904)
Net cash (outflow) / inflow from operating activities		(1,119,001)	7,034,126
<b>Cash flow from investing activities</b>			
Interest received		-	63,835
Sale proceeds of fixed assets		-	834,622
Net cash inflow from investing activities		-	907,457
<b>Cash outflow from financing activities</b>			
Dividends paid		-	(1,480,000)
Net (decrease) / increase in cash and cash equivalents		(1,119,001)	6,461,583
Cash and cash equivalents at beginning of the year / period		1,302,442	(5,159,141)
Cash and cash equivalents at end of the year / period	16	----- 183,441 =====	----- 1,302,442 =====

The annexed notes form an integral part of these accounts.

#### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1997

##### 1. NATURE OF BUSINESS

The company is a wholly owned subsidiary of Shell Pakistan Limited. Its principal activity involved the production, blending and marketing of various kinds of lubricating oils. The company has discontinued its operations from July 11, 1995. However, these



accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

### 2.2 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, or half percent of turnover, whichever is higher.

Deferred

The company accounts for deferred taxation on significant timing differences using the liability method. However, deferred tax credit / charge has not been accounted for in these accounts on the assumption that the current timing differences would not reverse in the foreseeable future due to discontinuance of operations.

### 2.3 Fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation except freehold land which is stated at cost. Cost in relation to certain fixed assets signifies historical cost including financial and other expenditure incurred during the development stage.

Depreciation is charged to income applying the reducing balance method. Depreciation on additions to fixed assets during a year is charged for the whole year while no depreciation is charged on fixed assets disposed of during a year.

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

Profit and loss on disposal of fixed assets are taken to income currently.

### 2.4 Revenue recognition

Sales are recorded on despatch of products to the customers.

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

	1997 Rupees	1996 Rupees
30,000 ordinary shares of Rs 100 each fully paid in cash	3,000,000 =====	3,000,000 =====

At June 30, 1997 Shell Pakistan Limited and its nominees held 30,000 (1996: 30,000) ordinary shares.

## 4. CREDITORS, ACCRUED AND OTHER LIABILITIES

	1997 Rupees	1996 Rupees
Creditors	13,508	114,771
Accrued liabilities	105,116	304,335
Due to associated company	-	7,023
Gratuity payable	-	42,016
Workers' profit participation fund - note 4.t	-	9,313
Workers' welfare fund	9,481 -----	9,481 -----
	128,105 =====	486,939 =====

**4.1 Workers' profit participation fund**

Balance at July 1 /January 1	9,313	(136,491)
Allocation for the year / period	-	9,313
Payments to Trustees	(9,313)	-
Received from Trustees	-	136,491
	-----	-----
Balance at June 30	-	9,313
	=====	=====

**5. OPERATING FIXED ASSETS**

The following is a statement of operating fixed assets:

	Cost at July 1, 1996	Additions / (deletions)-	Cost at June 30, 1997	Accumulated depreciation at June 30, 1997	Book value at June 30, 1997	Depreciation charge for the year	Depreciation rate % age per annum
Rupees							
Freehold land	370,530	-	370,530	-	370,530	-	-
Buildings on freehold land	6,187,203	-	6,187,203	3,979,794	2,207,409	245,267	10
Tanks & pipelines	31,723,293	-	3,723,293	2,275,727	1,447,566	-	10
Plant and machinery	1,312,667	-	1,312,667	669,025	643,642	-	10
Vehicles	176,000	-	176,000	127,280	48,720	12,180	20
Electrical fittings	1,293,703	-	1,293,703	831,900	461,803	51,312	10
Furniture, office equipment and other assets	483,229	-	483,229	269,883	213,346	23,705	10
	-----	-----	-----	-----	-----	-----	
1997	13,546,625	-	13,546,625	8,153,609	5,393,016	332,464	
	=====	=====	=====	=====	=====	=====	
1996	14,683,151	(1,136,526)	13,546,625	7,821,145	5,725,480	311,365	
	=====	=====	=====	=====	=====	=====	

As the company has discontinued its operations, depreciation has not been charged on operating fixed assets related to production as they remained idle during the year.

	1997 Rupees	1996 Rupees
<b>6. OTHER RECEIVABLES</b>		
Claims recoverable	351,000	351,000
Due from associated companies	-	36,198
Others	100	6,727
	-----	-----
	351,100	393,925
	=====	=====
<b>7. CASH AND BANK BALANCES</b>		
With banks in current accounts	179,512	1,302,442
Cash in hand	3,929	-
	-----	-----
	183,441	1,302,442
	=====	=====

**8. DUTIES, TAXES AND LEVIES**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Excise duty	82,812	7,852,759
Development surcharge	52,787	54,558
Sales tax	-	5,530,784
Octroi and other levies	-	11,538
	-----	-----
	135,599	13,449,639
	=====	=====

**9. COST OF PRODUCTS SOLD**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Raw and packing materials consumed		
Opening stock	39,429	3,781,880
Purchases	-	13,787,122
Closing stock	-	(39,429)
	39,429	17,529,573
Salaries, wages and benefits	-	3,459,663
Rent, rates and taxes	-	35,000
Communication and stationery insurance	-	152,285
Fuel and power	-	250,899
Handling and storage charges	-	423,704
Laboratory expenses	-	327,012
Travelling, conveyance and entertainment	-	6,861
Depreciation	-	173,489
Repairs and maintenance	-	311,365
Other expenses	-	70,121
Cost of products manufactured	39,429	9,467
Opening stock of finished products	187,577	22,749,439
Closing stock of finished products	-	7,662,583
	-----	-----
	227,006	30,224,445
	=====	=====

**10. ADMINISTRATION AND MARKETING EXPENSES**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Salaries, wages and benefits [including Chairman's remuneration Rs Nil (1996: Rs 6301000)]	228,479	1,060,816
Security charges	403,200	-
Handling and storage charges	-	82,199
Technical service fee	-	96,467
Marketing service charges	-	847,097
Rent, rates and taxes	-	47,915
Communication and stationery	73,077	18,673
Fuel and power	191,167	11,208
Travelling, conveyance and entertainment	71,543	70,819
Legal and professional charges	173,375	263,748
Advertisement and publicity	20,000	25,000
Repairs and maintenance	4,237	12,402
Insurance	73,367	-
Depreciation	332,464	-

Other expenses	1,399	290
	-----	-----
	1,572,308	2,536,634
	=====	=====
<b>11. OTHER INCOME</b>		
Interest on short-term deposits	-	63,835
Scrap sales	-	90,112
Provisions no longer required written back	73,281	79,366
Profit on disposal of fixed assets	-	350,301
Refund of development surcharge	-	351,000
Others	46,680	70,020
	-----	-----
	119,961	1,004,634
	=====	=====

**12. FINANCIAL CHARGES**

	<b>Year ended June 30, 1997 Rupees</b>	<b>Eighteen months ended June 30, 1996 Rupees</b>
Mark-up on running finance	-	609,960
Excise duty on running finance	-	44,813
Bank charges	3,048	26,463
	-----	-----
	3,048	681,236
	=====	=====

**13. OTHER CHARGES**

Audit fee	20,000	54,000
Workers' profit participation fund	-	9,313
Workers' welfare fund	-	51,715
Penalty for late payment of taxes deducted at source	75,359	-
	-----	-----
	95,359	115,028
	=====	=====

**14. TAXATION**

Current - for the year / period	3,500	1,250,000
- for prior years	-	(285,647)
Deferred	-	(569,899)
	-----	-----
	3,500	394,454
	=====	=====

Provision for current taxation for the year represents minimum tax at 0.5 percent on turnover of the company.

**15. CASH GENERATED FROM OPERATIONS**

	<b>Year ended June 30, 1997 Rupees</b>	<b>Eighteen months ended June 30, 1996 Rupees</b>
(Loss) / profit before taxation	(1,319,703)	125,235
Adjustment for non cash charges and other items:		
Depreciation	332,464	311,365
Provision for staff gratuity	-	41,065
Interest income	-	(63,835)
	-	609,960
Interest expense		
Profit on disposal of fixed assets	-	(350,301)
Working capital changes- note 15.1	(79,666)	11,398,573
	-----	-----

(1,066,905)	12,072,062
=====	=====

**15.1 Working capital changes**  
**(Increase) / decrease in current assets**

Stock-in-trade	362,606	15,040,889
Trade debts	-	61,724
Loans and advances	-	493,795
Trade deposits and short-term prepayments	(71)	458,273
Other receivables (net)	42,825	542,273
	405,360	16,596,954

**Increase / (decrease) in current liabilities**

Creditors, accrued and other liabilities (net)	(316,818)	(1,560,262)
Due to Shell Pakistan Limited	(168,208)	(3,638,119)
	-----	-----
	(79,666)	11,398,573
	=====	=====

**16. CASH AND CASH EQUIVALENTS**

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

	1997 Rupees	1996 Rupees
Cash and bank balances	183,441	1,302,442
	=====	=====

**Arnif Petroleum (Pvt.) Limited**

**REPORT OF THE DIRECTORS**

The Directors of your Company have pleasure in presenting their Report and Audited Accounts of the Company for the year ended June 30- 1997.

	Rupees
The loss of the Company for the year ended June 30, 1997 after providing for administrative, marketing, financial and other charges amounts to	(1,540,777)
Less: Taxation	(1,345,738)
Loss after taxation	(195,039)
Unappropriated profit brought forward from the previous year	437,854
Leaving for carry over to next year an unappropriated profit of	----- 242,815 =====

As stated in the previous year's report, the company had wound up its operations as part of the rationalisation of lubricants business of Shell Pakistan Limited. As a result, there was no production during the year.

The Company has filed a petition with the High Court of Sindh for the amalgamation into Shell Pakistan Limited. We hope that the scheme of-amalgamation would be approved by the High Court and that it would be effective July 1, 1997.

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

**SHAREHOLDERS' STATISTICS AS AT JUNE 30, 1997**

No. of Shareholders	Shareholding	Total Shares held
5	holding from 1 to 100 shares	5
1	holding from 1001 to 30 000 shares	29 995

Categories of Shareholders	Number	Shares held	Percentage
Individuals	5	5	0.02
Investment Companies	-	-	-
Insurance Companies	-	-	-
Joint Stock Companies	1	29 995	99.98
Financial Institutions	-	-	-
Modaraba Companies	-	-	-
Others (to be specified)	-	-	-
	6	30 000	100.00

#### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of Arnif Petroleum (Private) Limited as at June 30, 1997 and the related Profit and Loss Account and Cash Flow Statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the 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 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 June 30, 1997 and of the loss and cash flows for the year then ended;

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

(e) without qualifying our opinion we draw attention to note 1 to the accounts which states that the company has discontinued its operations from August 22, 1995. However, these accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company that may be necessary under the circumstances.

#### BALANCE SHEET

AS AT JUNE 30, 1997

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

#### SHARE CAPITAL

Authorised capital

100,000 (1996: 100,000) ordinary shares of

Rs 100 each		10,000,000	10,000,000
		=====	=====
Issued, subscribed and paid-	3	3,000,000	3,000,000
Unappropriated profit		242,815	437,854
		3,242,815	3,437,854
<b>CURRENT LIABILITIES</b>			
Creditors, accrued and other	4	341,667	1,666,020
Due to Shell Pakistan Limited		2,549,115	373,364
Taxation		-	1,094,539
		2,890,782	3,133,923
		-----	-----
		6,133,597	6,571,777
		=====	=====
<b>TANGIBLE FIXED ASSETS</b>			
Operating fixed assets	5	5,489,168	5,740,334
<b>CURRENT ASSETS</b>			
Stock-in-trade		-	8,805
Advances to suppliers - considered good		7,640	7,640
Trade deposits and short-term prepayments		44,126	48,692
Other receivables- considere	6	248,838	248,338
Taxation recoverable		255,520	-
Cash and bank balances	7	88,305	517,968
		644,429	831,443
		-----	-----
		6,133,597	6,571,777
		=====	=====

The annexed notes form an integral part of these accounts.

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

	Note	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
<b>REVENUES</b>			
Net sales		-	33,035,013
Less: Duties, taxes and levies		-	9,406,862
			-
Cost of products said		-	23,628,151
			-
			2,708,483
Transportation expenses		-	100,530
Administration and marketing	8	1,640,148	2,557,383
		1,640,148	2,657,913
Operating (Loss)/profit		(1,640,148)	50,570
Other income	9	122,663	934,316
		(1,517,485)	984,886
Financial charges	10	3,292	636,534
Other charges	11	20,000	102,836
		23,292	739,370
(Loss)/profit before taxation		(1,540,777)	245,516

Taxation	12	(1,345,738)	(375,582)
(Loss)/profit after taxation		(195,039)	621,098
Unappropriated profit brought forward		437,854	316,756
Transfer from revenue reserve		-	500,000
Available for appropriation		242,815	1,437,854
Appropriations:			
Interim dividend Rs Nil per share (1996: Rs 68.0272 per share on 14,700 shares held by minority shareholders)		-	1,000,000
		-----	-----
Unappropriated profit carried forward		242,815	437,854
		=====	=====

The annexed notes form an integral part of these accounts.

**CASH FLOW STATEMENT****FOR THE YEAR ENDED JUNE 30, 1997**

		Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Note	Rupees	Rupees
<b>Cash flow from operating activities</b>			
Cash (outflow)/generated fro	13	(390,950)	8,867,273
Staff gratuity paid		(34,392)	(121,930)
Mark-up paid		-	(826,390)
Taxes paid		(4,321)	(350,479)
		-----	-----
Net cash (outflow)/inflow from operating activities		(429,663)	7,568,474
<b>Cash flow from investing activities</b>			
Interest received		-	193,076
Sale proceeds from disposal of fixed assets		-	277,981
		-----	-----
Net cash inflow from investing activities		-	471,057
<b>Cash flow from financing activities</b>			
Dividend paid		-	(1,000,000)
		-----	-----
Net (decrease)/increase in cash and cash equivalents		(429,663)	7,029,531
Cash and cash equivalents at beginning of the year/period		517,968	(6,521,563)
		-----	-----
Cash and cash equivalents at end of the year/period	14	88,305	517,968
		=====	=====

The annexed notes form an integral part of these accounts.

**NOTES TO THE ACCOUNTS****FOR THE YEAR ENDED JUNE 30, 1997****1. NATURE OF BUSINESS**

The company is a wholly owned subsidiary of Shell Pakistan Limited. Its principal activity involved the production, blending and marketing of various kinds of lubricating oils. The company has discontinued its operations from August 22, 1995. However, these accounts do not include any adjustments relating to the recoverability of the book values of the fixed assets of the company.



**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

**2.2 Taxation**

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, or half percent of turnover, whichever is higher.

Deferred

The company accounts for deferred taxation on significant timing differences using the liability method. However, deferred tax credit/charge has not been accounted for in these accounts on the assumption that the current timing differences would not reverse in the foreseeable future due to discontinuance of operation.

**2.3 Fixed assets and depreciation**

Operating fixed assets are stated at cost less accumulated depreciation except freehold land which is stated at cost.

Cost in relation to certain fixed assets signifies historical cost including financial and other expenditure incurred during the development stage. Depreciation is charged to income applying the reducing balance method. Depreciation on additions to fixed assets during a year is charged for the whole year while no depreciation is charged on fixed assets disposed of during a year.

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

Profit and loss on disposal of fixed assets are taken to income currently.

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

	1997	1996
	Rupees	Rupees
30,000 ordinary shares of Rs 100 each fully		
Paid in cash	3,000,000	3,000,000
	=====	=====

At June 30, 1997 Shell Pakistan Limited and its nominees held 30,000 (1996: 30,000) ordinary shares.

**4. CREDITORS, ACCRUED AND OTHER LIABILITIES**

	1997	1996
	Rupees	Rupees
Creditors	31,881	57,483
Accrued liabilities	114,521	460,645
Due to associated companies	-	803,662
Gratuity payable	-	34,392
Sales tax payable	-	4,795
Advances from customers	-	56,161
Contractor's retention money	-	3,899
Contractor's security deposit	5,000	5,000
Workers' profit participation fund	-	12,718
Workers' welfare fund	181,990	181,990
Other liabilities	8,275	45,275
	-----	-----
	341,667	1,666,020
	=====	=====

**5. OPERATING FIXED ASSETS**

The following is a statement of operating fixed assets:

	Cost at July 1, 1996	Additions / (deletions)	Cost at June 30, 1997	Accumulated depreciation at June 30, 1997	Book value at June 30, 1997	Depreciation charge for the year	Depreciation rate %age per annum
Rupees							
Freehold land	552,326	-	552,326	-	552,326	-	-
<b>Buildings on freehold land</b>	6,454,060	-	6,454,060	2,535,311	3,918,749	206,250	5
<b>Tanks and pipelines</b>	231,025	-	231,025	141,273	89,752	-	10
Plant and <b>machinery</b>	606,086	-	606,086	268,033	338,053	-	10
Electrical, mechanical <b>and fire fighting</b> equipment	605,197	-	605,197	351,528	253,669	4,857	10
Furniture, office equipment and <b>other assets</b>	786,511	-	786,511	516,959	269,552	32,173	10 & 15
computer	108,882	-	108,882	64,194	44,688	7,886	15
Laboratory equipment	54,830	-	54,830	32,451	22,379	-	20
1997	9,398,917	-	9,398,917	3,909,749	5,489,168	251,166	
1996	9,519,086	(120,169)	9,398,917	3,658,583	5,740,334	169,685	

As the company has discontinued its operations, depreciation has not been charged on operating fixed assets related to production as they remained idle during the year.

**6. OTHER RECEIVABLES - Considered good**

	1997 Rupees	1996 Rupees
Claims recoverable	247,000	247,000
Receivable from WPPF	500	-
Others	1,338	1,338
	-----	-----
	248,838	248,338
	=====	=====
<b>Workers' Profit Participation Fund</b>		
Balance at July 1/January 1	(12,718)	65,953
Allocation for the year/period	-	(14,718)
Received from Trustees during the year/period	-	(63,953)
	(12,718)	(12,718)
Less: Payment made during the year	13,218	-
	-----	-----
Balance at June 30	500	(12,718)
	=====	=====

**7. CASH AND BANK BALANCES**

With banks:		
on current accounts	51,91 0	480,312
In hand		
Cash	36,395	7,656
Cash in transit	-	30,000
	-----	-----
	88,305	517,968
	=====	=====

**8. ADMINISTRATION AND MARKETING**

**EXPENSES**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
Salaries, wages and benefits [including Chairman's remuneration Rs Nil (1996: Rs 540,000) and directors' fee Rs Nil; (1996: Rs 500)]	400,520	841,962
Handling and storage charges	-	50,550
Technical service fee	-	68,942
Marketing service charges	-	624,348
Rent, rates and taxes	4,681	12,893
Communication and stationery	79,131	20,108
Fuel, power and electricity	114,370	40,264
Travelling, conveyance and entertainment	21,753	89,240
Legal and professional charges	256,923	757,397
Advertising and subscription	20,000	25,000
Repairs and maintenance	8,649	22, 125
Depreciation	251,166	4,263
Stock-in-trade written off	8,805	-
Contract security	396,000	-
insurance	67,992	-
Other expenses	10,158	291
	-----	-----
	1,640,148	2,557,383
	=====	=====

**9. OTHER INCOME**

	Year ended June 30, 1997 Rupees	Eighteen month? ended June 30 1996 Rupees
Scrap sales	-	95,090
Profit on disposal of fixed assets	-	201,499
Claim receivable	-	247,000
Income from short-term deposits/ Portfolio Management Scheme	-	193,076
Provisions no longer required written back	122,663	128,782
Others	-	68,869
	-----	-----
	122,663	934,316
	=====	=====

**10. FINANCIAL CHARGES**

Mark-up on running finance	-	583,406
Excise duty on running finance	-	41,609
Bank charges	3,292	11,519
	-----	-----
	3,292	636,534
	=====	=====

**11. OTHER CHARGES**

Audit fee	20,000	54,000
Workers' profit participation fund	-	14,718

Workers' welfare fund	-	34,118
	-----	-----
	20,000	102,836
	=====	=====
<b>12. TAXATION</b>		
Current- for the year/period	-	813,600
- for prior years	(1,345,738)	(267,182)
Deferred	-	(922,000)
	-----	-----
	(1,345,738)	(375,582)
	=====	=====

**13. CASH GENERATED FROM OPERATIONS**

	Year ended June 30, 1997 Rupees	Eighteen months ended June 30, 1996 Rupees
(Loss)/profit before taxation	(1,540,777)	245,516
Adjustment for non cash charges and other items:		
Depreciation	251,166	169,685
Provision for staff gratuity	-	12,197
Profit on disposal of fixed assets	-	(201,499)
Interest income	-	(193,076)
Mark-up expense	-	583,406
Working capital changes - note 13.1	898,661	8,251,044
	-----	-----
	(390,950)	8,867,273
	=====	=====

**13.1 Working capital changes**

**(Increase)/decrease in current assets**

Stock-in-trade	8,805	6,366,118
Trade debts	-	9,699
Advances to suppliers	-	839,665
Trade deposits and short-term prepayments	4,566	351,797
Other receivables (net)	(500)	(152,931)
	-----	-----
	12,871	7,414,348

**Increase/(decrease) in current liabilities**

Creditors, accrued and other liabilities (net)	(1,289,961)	549,657
Due to Shell Pakistan Limited	2,175,751	287,039
	-----	-----
	898,661	8,251,044
	=====	=====

**14. CASH AND CASH EQUIVALENTS**

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

	1997 Rupees	1996 Rupees
Cash and bank balances	88,305	517,968
	=====	=====

**REPORT OF THE DIRECTORS**

The Directors of your Company have pleasure in presenting their Report and Audited Accounts of the Company for the year ended June 30, 1997.

As part of the rationalisation of the lubricants business of Shell Pakistan Limited and its subsidiary companies, it was decided not to commence production. Accordingly, no profit and loss account has been prepared for the year under review.

The Company has filed a petition with the High Court of Sindh for the amalgamation into Shell Pakistan Limited. We hope that the scheme of amalgamation would be approved by the High Court and that it would be effective July 1, 1997.

The present Auditors Messrs. Ford, Rhodes, Robson, Morrow retire and being eligible offer themselves for re-appointment.

**SHAREHOLDERS' STATISTICS AS AT JUNE 30, 1997**

No. of Shareholders	Shareholding	Total Shares held
5	holding from 1 to 100 shares	5
1	holding from 101 to 80 000 shares	79 999
-----		-----
6		80 004
=====		=====

Categories of Shareholders	Number	Shares held	Percentage
Individuals	5	5	0.01
Investment Companies	-	-	-
Insurance Companies	-	-	-
Joint Stock Companies	1	79 999	99.99
Financial Institutions	-	-	-
Modaraba Companies	-	-	-
Others (to be specified)	-	-	-
	-----	-----	-----
	6	80 004	100.00
	=====	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of Lahore Lubricants (Private) Limited as at June 30, 1997 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 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 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 June 30, 1997;

(d) a profit and loss account has not been prepared as the company has not commenced commercial production;

(e) without qualifying our opinion we draw your attention to note 10 regarding the merger of the company with the holding company. No adjustments that may be required in this respect have been made in these accounts; and

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

## BALANCE SHEET

AS AT JUNE 30, 1997

	Note	June 30, 1997 Rupees	June 30, 1996 Rupees
<b>CAPITAL AND RESERVE</b>			
Authorised capital			
100,000 ordinary shares of Rs. 1 00 each		10,000,000 =====	10,000,000 =====
Issued, subscribed and paid- <b>LONG TERM LOAN</b>	3	8,000,400	8,000,400
Commercial loan	4	32,325,244	31,671,024
<b>CURRENT LIABILITIES</b>			
Accrued and other liabilities	5	46,761 -----	155,141 -----
		40,372,405 =====	39,826,565 =====
<b>TANGIBLE FIXED ASSETS</b>			
Capital work-in-progress	6	19,741,286	19,741,286
<b>UNALLOCATED CAPITAL EXPENDITURE</b>	7	20,341,016	19,793,314
<b>LONG TERM DEPOSITS</b>		62,100	62,100
<b>PRELIMINARY EXPENSES</b>		9,580	9,580
<b>CURRENT ASSETS</b>			
Prepayments	8	47,256	71,256
Cash and bank balances	9	171,167 218,423 -----	149,029 220,285 -----
		40,372,405 =====	39,826,565 =====

The annexed notes form an integral part of these accounts.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 1997

### 1. STATUS AND NATURE OF BUSINESS

Lahore Lubricants (Private) Limited was incorporated as a private company on September 1, 1990 under Companies Ordinance, 1984. The principal activity of the Company will be production, blending and marketing of various kinds of lubricating oils. The company has not yet commenced its operations. Consequently, a profit and loss account has not been prepared.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting convention

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

**2.2 Tangible fixed assets**

These are stated at cost. The term cost signifies the purchase price and directly attributable expenses of bringing the assets to their present condition. Depreciation has not been provided pending commencement of commercial production.

**2.3 Unallocated capital expenditure**

These will be capitalized after commencement of commercial production.

<b>3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>	<b>June 30, 1997 Rupees</b>	<b>June 30, 1996 Rupees</b>
80,004 ordinary shares of Rs. 100 each fully paid in cash	8,000,400 =====	8,000,400 =====

As at June 30, 1997, Shell P held all the issued subscribed and paid up capital of the company.

**4. COMMERCIAL LOAN - secured**

This represents loan from Shell Pakistan Limited (SPL) to continue the construction and completion of plant of Lahore Lubricants (Private) Limited and is secured by a demand promissory note and hypothecation of all present and future assets. Interest at 17.5% per annum is charged on month end outstanding balances. Interest for the current year has been waived by SPL.

<b>5. ACCRUED AND OTHER LIABILITIES</b>	<b>June 30, 1997 Rupees</b>	<b>June 30, 1996 Rupees</b>
Accrued expenses	24,167	148,846
Due to an associated company	-	6,295
Others	22,594	-
	-----	-----
	46,761	155,141
	=====	=====

**6. CAPITAL WORK-IN-PROGRESS**

	<b>June 30, 1997 Rupees</b>	<b>June 30, 1996 Rupees</b>
Civil works	5,958,521	5,958,521
Plant and machinery	13,782,765	13,782,765
	-----	-----
	19,741,286	19,741,286
	=====	=====

**7. UNALLOCATED CAPITAL EXPENDITURE**

	<b>As at July 1, 1996 Rupees</b>	<b>For the year Rupees</b>	<b>As at June 30, 1997 Rupees</b>
Salaries and allowances	619,453	-	619,453
Salaries - contract workers	403,626	114,950	518,576
Staff entertainment	26,876	-	26,876
Director's fee	9,000	-	9,000
Printing and stationery	32,024	-	32,024
Conveyance and travelling	272,129	1,2230	284,359
Communication	58,939	1,587	60,526
Electricity expenses	895,063	225,444	1,120,507
Repairs and maintenance	19,981	-	19,981
Laboratory expenses	7,500	-	7,500

Advertisement	10,160	-	10,160
Legal fee	46,979	14,600	61,579
Audit fee	97,500	15,000	112,500
Professional fee	108,465	38,368	146,828
Octroi/export tax	575	-	575
Interest during construction	16,685,957	-	16,685,957
Bank charges	2,170	591	2,761
Insurance	350,187	94,512	444,699
Rent, rates and taxes	125,877	26,887	152,764
Other expenses	20,853	3,538	24,391
	-----	-----	-----
	19,793,314	547,702	20,341,016
	=====	=====	=====
1996 (eighteen months)		8,136,651	
		=====	

	<b>June 30,</b>	<b>June 30,</b>
	<b>1997</b>	<b>1996</b>
	<b>Rupees</b>	<b>Rupees</b>

#### 8. PREPAYMENTS

Prepaid rent	--	24,000
Prepaid insurance	47,256	47,256
	-----	-----
	47,256	71,256
	=====	=====

#### 9. CASH AND BANK BALANCE

Cash in hand	--	300
Cash at bank - current account	171,167	148,729
	-----	-----
	171,167	149,029
	=====	=====

#### 10. MERGER WITH THE HOLDING COMPANY

Necessary legal proceedings are underway to merge the company with the holding company. The merger is anticipated to conclude by June 30, 1998 with retroactive effect from July 1, 1997. No adjustments that may be required in this respect have been made in these accounts.

#### 11. GENERAL

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

11.2 Figures have been rounded off to the nearest rupee.