Pakistan Tobacco Company Limited
Annual Report 1998

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

MICHAEL PAUL FENN
Chairman & Chief Executive

JOHN VICTOR RICHARDSON
Finance Director

MARCO ANTONIO NOVOA
Production Director

TIMOTHY CHARLES LACY DAY
Leaf Director

ASLAM KHALIQ
Consumer & Regulatory
Affairs Director

ANTHONY CAMERON JOHNSTON
(Non-Executive Director)

FATEHALI WALlMUHAMMAD VELLANI
(Non-Executive Director)

RAZI-UR-RAHMAN KHAN
(Non-Executive Director)

NAVEED AFTAB AHMAD
Secretary & Corporate
Affairs Manager

AUDITORS
A.F. FERGUSON & CO.
Chartered Accountants

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Saudi Pak Tower, 61/A,
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CHAIRMAN'S MESSAGE

It gives me great pleasure to present my report to all the PTC stakeholders for 1998. Last year was a difficult year for Pakistan and also for Pakistan Tobacco Company. Although I remain firmly of the belief that PTC's Business Renewal Plan is on track and is the right strategy to secure our long-term future, which is demonstrated by the significant improvement in operating profit, I am disappointed to report another after tax loss. The fundamentals of our business have strengthened. Sales volume shows an increase of 7% on 1997, ahead of both the overall market (+ 4%) and our competition. All our Brands have improved; in particular, John Player Gold Leaf had another excellent year. I also continue to be impressed by the ability of our employees to develop new skills and respond effectively to the ever-challenging business environment.

The reported loss is predominantly due to the continued decline in real cigarette prices over the last few years. Although we were pleased to obtain an 8% price increase in the June 1998 budget, this was still below the underlying rate of inflation. We have however made good progress in outlining to Government the need for a partnership with the legitimate Industry to gradually return prices to realistic levels and work to reduce the tax evaded and smuggled market segments. The objective of this partnership is to deliver increased duty revenue to Government, enable us to continually improve our products' quality to fully satisfy our consumers and allow the legitimate industry to return to sustainable profitability. I am convinced that together with the Government we can return realistic pricing to the Pakistan cigarette market and am therefore determined to continue focusing on building our Brands and People to ensure we obtain the maximum benefit as this occurs. We also support the Government's intent towards deregulation for the economy, to improve the tax structure to enable industrial growth and we urge them to speedily resolve the anomalies in the tobacco industry excise structure.

In November, I was delighted to participate in the 100 year celebrations of one of our key distributors, Allied Marketing of Lahore, which, given the numerous crises during that period, underlined the importance of a long-term vision and maintenance of corporate values. We have a similar long and successful history in Pakistan based on our ability to build Brands that meet our consumers' needs. So our strategy continues to focus on building and delivering long-term value and we are prepared to accept the short-term losses, although painful. I am pleased to confirm that British American Tobacco. our major shareholder, fully supports the strategy outlined and have committed significant funding in support of our objectives.

Turning to our Brands, 1998 was another good year. Our established portfolio continues to offer consumers a well-segmented choice, catering to their every requirement.

Benson & Hedges continues to perform its role as the destination brand in PTC's portfolio and is well perceived by its consumers. Volume grew by a healthy 12%. The brand is firmly established as the foremost premium segment offer and has played a key role in setting high benchmark price for smuggled brands, thereby reducing pressure on the locally manufactured cigarettes
.

For the fourth year in succession, **John Player Gold Leaf** has grown strongly, showing an increase of 14% on 1997. equivalent to almost four times the growth of the overall market. The brand dominates the premium category, contributing significantly to our overall value share leadership. The brand's dynamic performance can be attributed to its established image and our continuous work to improve brand quality and the total brand offer. The brand was helped by two world class promotions developed and implemented here in Pakistan. **John Player Gold Leaf Lights** performed extremely well. growing volume by some 50% albeit from a very small base. **John Player Gold Leaf** is now firmly established as the benchmark cigarette brand in Pakistan.

Wills Kings was the focus of significant effort during the year as we worked to consolidate the brands position following its re-launch in 1997. We are encouraged to see continued signs of success as the brand showed a small increase in share whilst overall the Medium segment declined slightly. Due to the positive Consumer response to the new blend. we are confident of the brands long term potential.

Embassy also continued its strong growth. increasing by 8% ahead of both the overall market and the Low Price segment (+ 6%). The brand remains the outright volume leader in Pakistan. continues to support our distribution network and together with Wills Kings will provide a solid platform for future market share growth.

Of course the good brand performance cannot be achieved without an ongoing focus on quality. We continue to invest in delivering the best quality and value for money available. During the year we completed the first phase of a leaf processing improvement program and committed to the purchase of further new machinery. Our Quality Management Program launched in 1997 under the banner of BEST 2000 **- Building Excellence and Success Together** continues at a fast pace. All employees have now received training and all understand that they have an important role in making Pakistan Tobacco Company the BEST This is reflected in a new level of understanding between workers and management. and due to this improvement we maintained excellent industrial relations during 1998 with no significant disputes. Within our entire operation we also continue to invest in developing a safe, supportive and environmentally friendly work place. Our safety standards show continuous improvement. Personally, I am very proud of the progress made in these areas and wish to thank everyone in the Company for their efforts and commitment.

An important area in which we are a leading company is in achieving Millennium compliance. I am pleased to confirm that we are now internally fully compliant and have agreed action plans in place with all our major suppliers. Our success in this area follows the launch of a wide ranging program in 1996 which was aimed at first identifying all the potential applications that could be impacted by the year 2000 bug. Following this analysis, we commenced numerous projects to achieve compliance and our performance to date is a great credit to all involved. In particular, it is an honor for PTC as a leading representative of the private sector to be asked to join the Government's Task Force 2000 Group.

The Millennium program in PTC is sponsored by myself and I am charged with ensuring business continuity as we enter the next century. We see this issue as a major threat to business and our progress to date gives me absolute confidence that we will be fully prepared.

Our Edible Oil division has had another good year, growing by almost 9% and selling over 5000 tonnes of our premium brand. **Sundrop**. We have successfully leveraged our brand building expertise to develop **Sundrop**, which now has a 39% share of the branded sunflower oil segment. This year, four years following **Sundrop's** launch. the Edible Oil division broke even at the operating level. Our challenge now is to continue this excellent growth and deliver added value to PTC. Our effort with Edible Oil is evidence of our broader corporate contribution to Pakistan, first in lowering the edible oil import bill and second through extending our agricultural expertise. We have continued our major contribution towards improving the environment through our Afforestation Programme planting over 3 million tree saplings in 1998.

Throughout my short statement I stressed that the fundamentals of our business are strengthening. Of course I am disappointed that these improvements are not yet reflected in PTC's financial performance. However. our strategy, fully supported by our major shareholder is the right strategy to deliver a long-term and sustainable recovery. So I remain confident that PTC will in the future provide shareholders with attractive returns and hope that you will continue the valuable support of recent years.

Finally, during 1998 there were a number of Board changes. outlined in the Report of the Directors. I would like to take this opportunity to welcome Mr Razi-Ur-Rahman Khan as a Non-Executive Director. Also. I would like to record a special vote of thanks to Mr Safdar Iqbal (PTC's Production Director) who has proceeded on leave prior to retirement. thanking him for his substantial contribution to his department and

PTC over his many years with the company.

Review Of Our Brands

Imported Benson & Hedges performed according to strategy in 1998, fulfilling its role as a destination brand in PTC's brand portfolio. The brand is well perceived by its consumers as the most prestigious premium offer. After its launch in 1996, Benson & Hedges has established itself as the foremost premium segment offer in the country and at the same time it has played a key role in reducing price pressure on the locally manufactured cigarettes by the smuggled brands.

The all new Benson & Hedges outlook on 1999
With Benson & Hedges' increasing growth. an initiative was undertaken to further strengthen the brand on a global basis. In 1999, we will be launching the new campaign for Benson & Hedges. The campaign is aimed to further improve the brand's position as the ultimate number one in the premium segment.

Explore the World with John Player Gold Leaf

Explore the World' consumer promotion proved to be the all time hit in the British American Tobacco world establishing a benchmark for all future promotional activities. The promotion generated an overall response rate of 21% which is the highest ever for any promotion in the British American Tobacco world The scheme generated a record breaking quantum of grand draw entries amounting to 1.27 million, clearly demonstrating the consumer confidence in John Player Gold Leaf.

WILLS KINGS

Wills Kings' new blend was launched in 1998 with a view to cater to the changing consumer needs. The new blend was well received by the consumers and the brand share grew in 1998. With further planned inputs to improve the total mix, we look forward to substantial volume improvements in 1999.

Millennium Challenge

The Millennium (Year 2000) Problem is the highest priority-for Pakistan Tobacco Company. In November 1996, ahead of most organisations in Pakistan, we launched a millennium programme covering all areas which could potentially be impacted by the Year 2000 Problem. As part of the programme, all our Information Technology systems and manufacturing equipment have been tested and fixed for compliance.

PTC was also the first company in the country to generate awareness within the organisation and amongst business partners. Noticing the lack of initiative, we organized seminars, briefing sessions and media coverage. As a member of the Government appointed Task Force 2000, we are also providing advice & guidance to organisations seeking help in countering this problem.

In short, Pakistan Tobacco Company is dedicated in ensuring a smooth transition into the new Millennium.

YEAR AT A GLANCE

		1998	1997	1996	1995	1994
Volumes	millions	22115	20599	21318	19311	16352
Turnover	Rs. millions	14250	12138	11832	10152	8788
(Loss)/Profits Before Tax	"	(281)	(246)	(39)	(8)	59
(Loss)/Profit After Tax	"	(308)	(268)	(59)	(24)	104
Shareholders' Equity	"	1002	1311	1579	590	615
Value Added	"	10301	8880	9045	8092	7252
Duties and Taxes	"	9403	8158	8356	7411	6556
Dividend Rate	%	Nil	Nil	Nil	Nil	10
(Loss)/Earnings Per Share Before Tax	Rs.	(8.8)	(7.7)	(1.2)	(0.2)	1.9

PROFIT OF THE DIRECTORS
FOR THE YEAR ENDED DECEMBER 31, 1998

The Directors hereby present their Report and the Audited Accounts for the year ended December 31, 1998 before the fifty second Annual General Meeting of the Company to be held on May 11, 1999.

	1998	1997

	(Rs. 000s)	
(Loss) for the Year	(308,361)	(268,097)
Unappropriated Profit Brought Forward	-	-
	----------	--------- -
Appropriation	(308,361)	(268.097)
Transfer from Revenue Reserve	308,361	268.10
	----------	--------- -
Unappropriated Profit Carried Forward	Nil	Nil
	==========	========= =

The Operating performance for 1998 shows a significant improvement increasing to Rs 92mn compared to Rs 8mn for 1997. However, the burden of high debt results in an interest charge of Rs 369mn, which, combined with tax of Rs 27mn and other expenses of Rs 4mn. generates a loss for the year of Rs 308mn. Our short term profits continue to suffer from the continued absence of realistic price increases in the market such that prices today are in real terms significantly below the levels of 1994. We were pleased to implement an 8% price increase following the June 1998 budget and congratulate the Government on their efforts to reduce the quantity of tax-evaded product enabling the legitimate industry to compete on a more 'level playing field'.

Efforts to level the playing field must continue as realistic but fair price increases are necessary to overcome inflation, fund product improvements, deliver increased tax revenue and improve shareholder returns.

Whereas the bottom line represents another poor result, our strategy over the long-term to re-establish Pakistan Tobacco Company as a strong company remains on track and is fully supported by our major shareholder. British American Tobacco. We continue to invest in building our brands, people and asset base and remain resolved to take the short-term losses in order to secure a healthy future, developing our competitive position to maximise the benefit once realistic prices return to the market.

Despite the significant impact of price on our profitability, we continue to focus on improving the effectiveness of our expenditure. The cost of goods sold (net of duties) grew by 21% on 1997 funding overall volume growth of 7.4%. the excellent performance of John Player Gold Leaf and the impact on material purchases of the economic crises, particularly devaluation and inflation. Overall production costs after accounting for volume reduced in real terms by 7%.

The major growth areas in expenses were depreciation (+22%) reflecting previous capital investment in high performance machinery and the purchase of spares (+7%), both to support these machines and to provide for improved maintenance. We maintained our training and development expenditure at 1997 levels, in line with our commitment to fully develop our employees.

Similarly, working capital increased by 12% to fund volume growth and inflation. although our stock durations improved significantly. The continued investments noted above resulted in an increase in borrowing of 30.7% to Rs 2.6bn. Of the increase. Rs 266mn was provided by British American Tobacco as unsecured debt. Our major shareholder has also approved further such funding during 1999, which will enable Pakistan Tobacco Company to continue its strategy and secure the long-term future.

We would like to record our appreciation of the significant contribution of all our employees during 1998 and for their commitment to delivering the long-term strategy.

Given the loss reported, continued high debt and need to retain cash in the business to fund our investments, the Board of Directors recommend that no dividend be paid for this financial year.

DIRECTORS

Mr. Philippe Adams and Mr. Francisco Garcia resigned from the Board with effect from March 19, 1998 and March 31, 1998. respectively, to take up other senior positions within British American Tobacco. Mr. A. K. M. Sayeed resigned from the Board with effect from 12th August 1998 and Mr. Safdar Iqbal, who plans to retire, resigned from the board on December 18, 1998. The Board would like to place on record their appreciation for their significant contribution to Pakistan Tobacco Company.

The Board is pleased to welcome Mr. Razi-Ur-Rahman Khan as Non-Executive Director plus Mr. John Richardson. Mr. Tim Day and Mr. Marco Novoa as Finance, Leaf and Production Directors respectively.

AUDITORS

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

HOLDING COMPANY

British American Tobacco (Investments} Limited is the Holding Company and is incorporated in the United Kingdom.

PATTERN OF SHAREHOLDING

The pattern of holding of shares of the company as at 31st December 1998 is shown on page 36.

On behalf of the Board

M.P. FENN
Chairman & Chief Executive

F.W. VELLANI
Director

Islamabad: March 17, 1999

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Tobacco Company Limited as at December

31, 1998 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 the accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 1998 and of the loss and cash flows for the year then ended; and

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

A.F FERGUSON & CO.
Chartered
Accountants

Islamabad: March 18, 1999

Total Quality Management

BEST 2000 -A Total Quality Management Programme is the most ambitious Change Management Programme ever initiated by our company.

Total quality is more than just Product Quality; it is quality of everything we do in our Business. It means understanding our Consumers, Customers, Stakeholders and Suppliers, agreeing with them what they want and empowering our employees to organize their own work to deliver the required Products and Services to the agreed performance levels.

BEST 2000 is serving as the fundamental building block in directing our

energies to achieve our Mission Statement
"Together we will be the best in everything we do".
Since it's launch in 1997, **BEST** is helping us improve our team building, is providing the means to continuously improve and break the vicious cycles, which inhibit improvement activities and is assisting employees to participate in driving the company forward.

Evidence of the positive change in the **Attitude**, the **Will** and **Skill** to improve is visible. Although we still have a long way to go with these positive changes, we can **WIN.**

The end objective is to ensure that PTC team is fully aligned to meet future challenges and well prepared to drive PTC into the next millennium.

PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1998

	Note	1998	1997
		(Rs. 000s)	
TURNOVER		14,249,644	12,138,290
Less: Cost Of sales	3	13,414,222	11,467,010
GROSS PROFIT		835,422	671,280
Less: Marketing expenses	4	547,493	504,178
Administration expenses	5	195,620	159,003
		743,113	663,181
OPERATING PROFIT		92,309	8,099
Other income	6	7,938	13,189
Other expenses	7	12,342	7,836
		87,905	13,452
Less: Financial charges	8	369,249	259,372
(LOSS) BEFORE TAXATION		(281,344)	(245,920)

TAXATION			
Current-For the year		27,017	22,177
		(308,361)	(268,097)
APPROPRIATION			
Transfer from revenue reserve	25	308,361	268,097
UNAPPROPRIATED PROFIT CARRIED FORWARD		-	-
(Loss) Per Share		(Rs. 9.66)	(Rs. 8.39)

The annexed notes form an integral part of these accounts.

M.P. FENN	**F.W. VELLANI**
Chairman & Chief Executive	Director

BALANCE SHEET AS AT DECEMBER 31, 1998

	Note	1998	1997
		(Rs. 000s)	
TANGIBLE FIXED ASSETS	10	1,468,203	1,328,772
LONG TERM INVESTMENT	12	5,000	5,000
LONG TERM LOANS	13	6,567	5,609
LONG TERM DEPOSITS AND PREPAYMENTS	14	2,141	3,740
CURRENT ASSETS			
Stores and spares	15	188,961	161,596
Stocks	16	2,508,748	2,309,154
Trade debts	17	12,210	27,516
Loans and advances	18	21,966	16,209
Deposits, Prepayments and Other receivables	19	304,528	201,442
Cash and bank balances	20	33,965	16,281
		3,070,378	2,732,198

LESS: CURRENT LIABILITIES			
Current potion of long term loans and lease obligations		436,782	235.27
Short term finances and loans	21	1,785,252	1,415,570
Creditors, accrued and other liabilities	22	915,762	714,843
		----------	----------
		3,137,796	2,365,683
		----------	----------
NET CURRENT (LIABILITIES)/ASSETS		(67,418)	366,515
		----------	----------
		1,414,493	1,709,636
		==========	==========
FINANCED BY:			
SHARE CAPITAL			
Authorised capital	23	320,000	320,000
		==========	==========
Issued, subscribed and paid-up capital	24	319,367	319,367
RESERVES	25	683,126	991,487
		----------	----------
SHAREHOLDERS' EQUITY		1,002,493	1,310,854
LONG TERM LOANS	26	400,000	360,000
OBLIGATIONS UNDER FINANCE LEASES	27	-	16,782
DEFERRED TAXATION	28	12,000	12,000
COMMITMENTS AND CONTINGENCIES	29		
		----------	----------
		1,414,493	1,709,636
		==========	==========

The annexed notes form an integral part of these accounts.

M.P. FENN
Chairman & Chief Executive

F.W. VELLANI
Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 1998

	1998	1997
	(Rs. 000s)	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	14,262,628	12,121,756
Cash paid to Government for cigarette and tobacco excise duty, sales tax and other levies	(9,317,128)	(8,139,413)
Cash paid to suppliers	(4,174,750)	(3,574,289)
Cash paid to employees and provident and retirement funds	(656,437)	(599,557)
Income taxes paid	(77,525)	(48,705)
Other cash payments	1,526	2,661
	----------	----------
	38,314	(237,547)
	----------	----------
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of tangible fixed assets	(292,491)	(444,269)
Proceeds from sale of fixed assets and immovable property	7,099	14,690
	----------	----------
	(285,392)	(429,579)
	----------	----------
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of lease obligations	(27,770)	(29,686)
Long term loans	242,500	319,667
Short term loans	101,898	49,683
Long term deposits, prepayments and loans	498	(23)
Cash paid to Phoenix (Private) Limited	2,964	-
Financial charges paid	(323,094)	(218,898)
Dividend paid	(18)	(29)
	----------	----------
	(3,022)	120,714
	----------	----------
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(250,100)	(546,412)
CASH AND CASH EQUIVALENTS AS AT JANUARY 1,	(805,387)	(258,975)

CASH AND CASH EQUIVALENTS AS AT DECEMBER 31,	(1,055,487)	(805,387)
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	33,965	16,281
Short term finances	(1,089,452)	(821,668)
	(1,055,487)	(805,387)

M.P. FENN
Chairman & Chief Executive

F.W. VELLANI
Director

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. THE COMPANY AND ITS OPERATIONS

Pakistan Tobacco Company Limited is incorporated in Pakistan and is listed on the three stock exchanges of Pakistan. It is engaged in the manufacture and sale of cigarettes and edible oil.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under historical cost convention without any adjustment for the effect of inflation.

2.2 Taxation

Provision for current taxation is based on taxable income on current rates of taxation after taking into account tax rebates and tax credits available or based on 0.5% of turnover less related excise duty and sales tax, whichever is higher.

Deferred taxation is provided on timing differences using the liability method excluding the tax effects of those timing differences which are considered not likely to reverse in the future (see Note 28).

2.3 Retirement benefits

The Company operates:

i) approved funded Pension scheme for management and superintending staff and gratuity scheme for all employees.

Actuarial valuation of these Schemes is carried out each year and the latest valuation was carried out as at December 31, 1997. The fair value of the Schemes' assets and liabilities at the latest actuarial valuation date were Rs. 436.355 million and Rs. 529.960 million respectively. The projected accrual method using expected interest @ 12% per annum, salary increase @ 12% per annum and post retirement pension increase @ 6% per annum was used for valuation of theses schemes. The contributions during the year inclusive of special contribution to cover the deficit are charged to profit and loss account.

ii) approved contributory Provident Fund for all employees.

2.4 Tangible fixed assets

a) Company owned fixed assets

These are stated at cost less accumulated depreciation except freehold land, capital work-in-progress and items in transit which are stated at cost. Depreciation is charged to profit and loss account using the straight line method at the following rates:

Freehold buildings, leasehold land and buildings and private railway sidings	3%
Plant and machinery	7%
Airconditioners included in plant and machinery	25%
Office and household machinery and equipment	20% to 25%
Furniture and fittings	10% to 20%
Vehicles	25%

Repairs and maintenance costs are charged to profit and loss account in the year in which they are incurred. Major renewals and improvements are capitalised.

Profits and losses on disposal of fixed assets are taken to profit and loss account.

b) Leased assets

Assets held under finance leases are stated at cost less depreciation, either at the same rates applicable to Company owned assets or over the lease period as appropriate. The outstanding obligations under the lease less financial charges allocated to future periods are shown as a liability. The financial charge is calculated at the interest rate implicit in the lease and is charged to the profit and loss account.

2.5 Investments

These are valued at cost.

2.6 Stocks

These are stated at the lower of net realisable value or cost determined on the moving average method. Items in transit are valued at cost comprising invoice values plus other charges paid thereon.

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

2.7 Stores and spares

These are valued at moving average cost. Items in transit are valued at cost comprising invoice value and other charges paid thereon.

2.8 Foreign currency transactions

Assets and liabilities in foreign currencies are stated in rupees at the rates of exchange ruling on the balance sheet date or at rates of exchange fixed under contractual arrangements, where lower. All exchange differences are included in the profit and loss account.

2.9 Revenue recognition

Sales are recorded on despatch of goods to customers.

	1998	**1997**
	(Rs. 000s)	
3. COST OF SALES		
Opening stock of raw materials and work in progress	1,917,668	1,655,042
Raw material purchases and expenses (Note 3.1)	3,401,938	2,830,612
Closing stock of raw materials and work in progress	(2,096,378)	(1,917,668)
Government taxes and levies		
Cigarette and tobacco excise duty and sales tax	9,012,722	7,813,749
Customs duty and surcharges	343,598	295,998
Tobacco cess	15,712	9,326
Provincial and municipal taxes and other excise duties	31,020	39,072
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		-
	9,403,052	8,158,145
	----------	----------
	12,626,280	10,726,131
Production overheads		
Salaries, wages and benefits	400,831	357,245
Stores, spares and machine repairs	178,193	156,196
Fuel and power	82,012	66,086
Property and vehicle rentals	76	1,084
Insurance	15,353	14,704
Repairs and maintenance	24,395	20,906
Postage, telephone and stationery	8,651	7,795
Depreciation	92,791	78,568
Sundries	6,524	6,671
	----------	----------
	808,826	709,255
	----------	----------
Cost of goods manufactured	13,435,106	11,435,386
Cost of finished goods		
Opening stock	391,486	423,110
Closing stock	(412,370)	(391,486)
	----------	----------
	(20,884)	31,624
	----------	----------
	13,414,222	11,467,010
	==========	==========

	1998	1997
	(Rs. 000s)	
3.1 RAW MATERIAL PURCHASES AND EXPENSES		
Materials	3,136,241	2,590,949
Salaries, wages and benefits	119,323	110,608
Stores, spares and machine repairs	45,897	42,377
Fuel and power	42,461	35,800
Property and vehicle rentals	14,577	10,012

Insurance	5,075	3,396
Repairs and maintenance	4,035	5,480
Postage, telephone and stationery	4,037	3,168
Depreciation	22,536	15,187
Sundries	7,756	13,635
	3,401,938	2,830,612

4. MARKETING EXPENSES

Salaries, wages and benefits	59,920	53,410
Selling expenses	332,346	315,721
Freight	88,823	70,468
Property and vehicle rentals	4,146	3,527
Insurance	5,584	5,581
Repairs and maintenance	23,350	20,808
Postage, telephone and stationery	5,206	5,931
Travelling	15,854	18,332
Depreciation	12,264	10,400
	547,493	504,178

5. ADMINISTRATION EXPENSES

Salaries, wages and benefits	81,340	74,422
Fuel and power	1,622	1,527
Property and vehicle rentals	8,061	7,458
Insurance	764	361
Repairs and maintenance	17,512	6,457
Postage, telephone and stationery	10,880	10,903
Legal and professional charges	16,295	8,722
Provincial and municipal taxes	543	544
Donations (Note 5.1)	50	77
Travelling	7,512	6,997
Depreciation	20,045	16,950
Sundries	29,761	23,029
Auditors' remuneration		
Statutory audit	360	300
Half annual audit, Special certifications, audit of funds, tax and other services	782	1,060

Out-of-pocket expenses	93	121
Excise duty	-	75
	1,235	1,556
	195,620	159,003

5.1 Recipients of donations do not include any body in whom a director or his spouse had any interest.

	1998	**1997**
	(Rs. 000s)	
6. OTHER INCOME		
Profit on sale of fixed assets	1,675	7,712
Insurance commission	3,251	3,683
Income on short term deposits	-	142
Exchange gain	2,497	668
Miscellaneous	515	984
	7,938	13,189
7. OTHER EXPENSES		
Severance payments	10,020	7,836
Miscellaneous	2,322	-
	12,342	7,836
8. FINANCIAL CHARGES		
On short term finances and loans	273,726	147,732
On long term loans	58,186	79,536
On musharika arrangement	21,652	13,340
On leasing finance	5,330	10,716
Bank charges and fees	10,355	8,048
	369,249	259,372

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9. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

(Rs. 000s)

	Chief Executive		Directors		Executives		Total	
	1998	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**
Managerial remuneration	1,267	1,179	5,364	5,605	74,259	59,988	80,890	66,772
Retirement benefit	-	-	1,125	1,796	22,954	18,087	24,079	19,883
Housing and utilities	1,080	1,008	3,190	3,343	32,183	26,029	36,453	30,380
Medical expenses	-	1	231	398	12,099	5,830	12,330	6,229
	2,347	2,188	9,910	11,142	141,495	109,934	153,752	123,264
Number of persons	1	1	5	6	210	212	216	219

9.1 The Company also, in certain cases, provides individuals with the use of company accommodation, cars and household items, in accordance with their entitlements.

9.2 REMUNERATION TO OTHER DIRECTORS

Fees totalling Rs. 1,500 (1997: Rs. 1,500) were paid to one (1997: one) non-executive director for attending Board Meetings during the year.

10. TANGIBLE FIXED ASSETS

10.1 OWNED FIXED ASSETS

(Rs. 000s)

Cost **Depreciation**

	At 01-01-98	Additions	Transfers/ withdrawals	At 31-12-98	At 01-01-98	Charge for the year	Transfers/ withdrawals	At 31-12-98	Cost less depreciation at 31-12-98
Freehold:									
land	1,843	-	-	1,843	-	-	-	-	1,843
buildings	162,293	235	23,759	185,854	42,253	4,594	-	46,659	139,195
			433				188		
Leasehold:									
buildings	9,064	4,063	-	13,127	5,961	883	-	6,844	6,283
			-				-		
Private railway sidings	354	-	-	354	303	4	-	307	47
			-				-		
Plant and machinery	1,211,924	7,371	352,261	1,563,004	348,980	88,521	19,313	450,959	1,112,045
			8,552				5,855		
Office and house-hold machinery and equipment	84,219	23,802	-	103,357	40,770	14,369	-	51,357	52,000
			4,664				3,782		
Furniture and fittings	25,586	905	-	26,432	13,689	3,048	-	16,695	9,737
			59				42		
Vehicles	131,891	22,120	-	145,923	58,724	26,321	-	78,540	67,383
			8,088				6,505		
	1,627,174	58,496	376,020	2,039,894	510,680	137,740	19,313	651,361	1,388,533
			21,796				16,372		
Capital work-in-progress (Note 10.3)	34,196	110,145	(142,425)	1,916	-	-	-	-	1,916
Machinery and fixtures in transit and in storage	62,084	123,850	(180,156)	5,778	-	-	-	-	5,778

31.12.98	1,723,454	292,491	53,439	2,047,588	510,680	137,740	19,313	651,361	1,396,227
			21,796				16,372		
31.12.97	1,269,776	444,269	28,434	1,723,454	401,519	109,258	11,950	510,680	1,212,774
			19,025				12,047		

10.2 LEASED ASSETS

Plant and machinery	154,737	-	(53,439)	101,298	38,739	9,896	(19,313)	29,322	71,976
31.12.98	154,737	-	(53,439)	101,298	38,739	9,896	(19,313)	29,322	71,976
			-				-		
31.12.97	183,171	-	(28,434)	154,737	38,842	11,847	(11,950)	38,739	115,998
			-				-		

TOTAL TANGIBLE FIXED ASSETS

31.12.98	1,878,191	292,491	-	2,148,886	549,419	147,636	-	680,683	1,468,203
			21,796				16,372		
31.12.97	1,452,947	444,269	-	1,878,191	440,361	121,105	-	549,419	1,328,772
		19,025					12,047		

	1998	1997
	(Rs. 000s)	
10.3 CAPITAL WORK-IN-PROGRESS		
Civil works and buildings	-	9,306
Plant and machinery	1,147	5,429
Advances to suppliers	769	19,461
	1,916	34,196

11. SALE OF TANGIBLE FIXED ASSETS

BY NEGOTIATION

	Original Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Particulars of buyers
Building Freehold	31	28	3	36	Mian Qaid Jan, Akora Khattak
Plant & Machinery	10	9	1	4	M. Rafiq, Jhelum
Furniture & Fittings	14	2	12	2	Mirza Yousuf Ali, Lahore
Office & Computer Equipment	924	751	173	297	Computer Super Market, Islamabad
Office & Computer Equipment	62	39	23	71*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	57	33	24	71*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	150	42	108	149*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	27	16	11	32*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	17	8	9	16*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	21	4	17	16*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	33	29	4	16*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	48	39	9	71*	Commercial Union Assurance Co. plc. Karachi
Office & Computer Equipment	90	81	9	18	M. Rafiq, Jhelum
Household Furniture & Equipment	5	4	1	2	Muhammad Akram, Jhelum
Household Furniture & Equipment	16	15	1	1	Amjad Saeed, Akora Khattak
Household Furniture & Equipment	7	6	1	1	Salim Khan, Akora Khattak
Household Furniture & Equipment	5	4	1	1	Azam Shah, Akora Khattak
Household Furniture & Equipment	15	13	2	4	Sardar, Akora Khattak
Vehicle	42	38	4	50*	Commercial Union Assurance Co. plc. Karachi
Vehicle	42	37	5	42*	Commercial Union Assurance Co. plc. Karachi
Vehicle	40	36	4	42*	Commercial Union Assurance Co. plc. Karachi
Vehicle	41	37	4	47*	Commercial Union Assurance Co. plc. Karachi
Vehicle	57	40	17	46*	Commercial Union Assurance Co: plc. Karachi
Vehicle	63	25	38	62*	Commercial Union Assurance Co. plc.

					Karachi
Vehicle	63	25	38	62*	Commercial Union Assurance Co. plc. Karachi
Vehicle	63	25	38	53*	Commercial Union Assurance Co. plc. Karachi
Vehicle	63	25	38	62*	Commercial Union Assurance Co. plc. Karachi
Vehicle	63	27	36	62*	Commercial Union Assurance Co. plc. Karachi
Vehicle	60	6	54	59*	Commercial Union Assurance Co. plc. Karachi
Vehicle	60	9	51	59*	Commercial Union Assurance Co. plc. Karachi
Vehicle	447	402	45	390*	Commercial Union Assurance Co. plc. Karachi
Vehicle	283	118	165	240*	Commercial Union Assurance Co. plc. Karachi
Vehicle	283	118	165	287*	Commercial Union Assurance Co. plc. Karachi
Vehicle	491	442	49	119	Riffat Ali Bokhari, (Ex-employee)
Vehicle	40	36	4	4	Khalid Nasir (Employee)
Vehicle	36	32	4	4	S. Tariq Bokhari (Employee)
Vehicle	57	31	26	36	Muhammad Akram, (Ex-employee)
Vehicle	72	33	39	51	Shahid Hameed (Employee)
Vehicle	66	46	20	32	Junaid Najmi (Employee)
Vehicle	40	36	4	17	Athar Sultan (Employee)
Vehicle	43	38	5	4	Kafeel ur Rehman (Employee)
Vehicle	43	39	4	4	Abdul Rahim Mirza (Employee)
Vehicle	45	40	5	4	Ajmal Lodhi (Employee)
Vehicle	47	43	4	12	S. Ali Yawar (Employee)
Vehicle	43	39	4	4	Muhammad Ayaz (Employee)

· Insurance claim

12. LONG TERM INVESTMENT

This represents 500,001 (1997: 500,001) fully paid up ordinary shares of Rs. 10 each in Phoenix (Private) Limited. The break up value of shares calculated by reference to net asset works out to be Rs. 10 per share based on audited accounts for the year ended December 31, 1998 (1997: Rs. 10 per share).

This is a wholly owned subsidiary of Pakistan Tobacco Company Limited which has not yet commenced commercial production.

1998	1997
(Rs. 000s)	

13. LONG TERM LOANS

Secured and considered good		
Outstanding for periods exceeding three years	4,003	3,331
Others	3,846	3,417
	7,849	6,748
Less: Receivable within one year (Note 18)	1,282	1,139
	6,567	5,609

The above comprises of interest free loans amounting to Rs. 0.258 million (1997: Rs. 0.231 million) and Rs.7.591 million (1997: Rs. 6.517 million) given to the Directors and Executives respectively for purchase of household furniture and appliances. These are repayable over 7 to 10 years in equal installments.

The maximum amounts due from the Directors and Executives at the end of any month during the year were Rs. 0.262 and Rs. 7.619 million respectively (1997: Directors Rs. 0.290 and Executives Rs. 6.725 million).

14. LONG TERM DEPOSITS AND PREPAYMENTS

Security deposits	1,195	1,192
Prepayments	946	2,548
	2,141	3,740

15. STORES AND SPARES

Stores	5,998	5,669
Machine spares - Cigarette production	172,878	145,121
- Printing	2,231	2,394
- Leaf redrying	7,854	8,412
	188,961	161,596

	1998	1997
	(Rs. 000s)	

16. STOCKS

Raw materials	1,862,355	1,826,894
Raw materials in transit	217,112	70,386
Work in progress	16,911	20,388
Finished goods	412,370	391,486
	----------	----------
	2,508,748	2,309,154
	==========	==========

17. TRADE DEBTS

All trade debts are unsecured and considered good.

18. LOANS AND ADVANCES

Considered good		
Loans due from directors and executives (Note 13)	1,282	1,139
Advances due from employees (Note 18.1)	2,681	1,804
Advances due from others	18,003	13,266
	----------	----------
	21,966	16,209
	==========	==========

18.1 The above includes Rs. 1.776 million (1997: Rs. 1.016 million) due from Executives of the Company.

The maximum amount due from the Executives of the Company at the end of any month during the year was Rs. 5.018 million (1997: Rs. 4.791 million).

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Prepayments	16,699	26,406
Due from Phoenix (Private) Limited - a subsidiary	28,311	31,275
Customs duty/Sales tax	856	1,809
Corporate tax	152,522	102,014
Claims - considered good	25,721	13,370
Others	80,419	26,568
	----------	----------
	304,528	201,442
	==========	==========

20. CASH AND BANK BALANCES

On hand	3,093	2,763
In transit	7,304	4,426

	1998	1997
At banks on current accounts	21,492	7,151
	31,889	14,340
Security deposits - held in special account (Note 22)	2,076	1,941
	33,965	16,281

	1998	1997
	(Rs. 000s)	

21. SHORT TERM FINANCES AND LOANS

	1998	1997
Short term finances - Secured		
Under mark-up arrangements with banks (Note 21.1)	902,718	687,754
Under musharika arrangement with a bank (Notes 21.1 and 21.2)	186,734	133,914
	1,089,452	821,668
Short term loans - Secured		
Under mark-up arrangements with banks for deferred leaf purchase voucher scheme (Note 21.1)	430,000	417,878
Offshore loan from a bank	-	176,024
Short term loan from British American Tobacco (Investments) Limited, United Kingdom - Unsecured (Note 21.3)	265,800	-
	1,785,252	1,415,570

21.1 The daily rate of mark-up ranges between 38 and 43 paisa (1997:38 and 43 paisa) per thousand rupees and is payable currently.

21.2 Prior written consent of the bank is required in certain cases of acquisition of shares in, giving loans to or giving credit (other than trade credit) to any company or person and issue of shares by the Company or to any change in its capital structure.

21.3 A loan of US$ 6 million (1997: Nil) has been obtained from British American Tobacco (Investments) Limited, U.K carrying interest @ 1.0% above six months LIBOR.

21.4 Short term finances and loans from banks are secured by hypothecation of stocks of raw materials and finished goods.

21.5 Total facility available under mark-up and musharika arrangements amounts to Rs. 1,592 million (1997: Rs. 1,406 million) out of which the amount unavailed at the year end was Rs. 72.551 million (1997: Rs. 166.450 million).

22. CREDITORS, ACCRUED AND OTHER LIABILITIES

Excise duty	127,049	46,686
Sales tax	94,047	88,486
Creditors	497,399	441,256
Accrued expenses	66,958	54,378
Mark-up on - short term finances and loans	42,623	34,961
- long term loans	-	25,354
Interest on short term loans	82,020	18,025
Financial charges - lease finance	63	211
Security deposits (Note 20)	2,076	1,941
Unclaimed dividend	3,527	3,545
	915,762	714,843

23. AUTHORISED CAPITAL

Authorised capital comprises 32,000,000 (1997: 32,000,000) ordinary shares of Rs. 10 each.

24. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

	1998 (Rs. 000s)	1997
6,800,000 (1997: 6,800,000) ordinary shares of Rs. 10 each fully paid-up in cash	68,000	68,000
25,136,724 (1997: 25,136,724) ordinary shares of Rs. 10 each issued as fully paid bonus shares	251,367	251,367
	319,367	319,367

	==========	==========

British-American Tobacco (Investments) Limited held 20,240,875 (1997: 20,240,875) ordinary shares of Rs. 10 each as at December 31, 1998.

25. RESERVES

Revenue Reserve		
Balance as at January 1	991,487	1,259,584
Transfer (to) profit and loss account	(308,361)	(268,097)
	----------	----------
	683,126	991,487
	==========	==========

26. LONG TERM LOANS - SECURED

Term finance from banks (Note 26.1)	820,000	577,500
Less: shown under current liabilities	420,000	207,500
	----------	----------
	400,000	370,000
	==========	==========

26.1 Term finance facilities have been obtained from different banks on mark-up basis for purchase of plant & machinery and working capital requirements. The facilities are secured by hypothecation of plant & machinery and stocks and are repayable on various dates upto December 17, 2000. The facilities amounting to Rs. 200 million and Rs. 50 million carry mark-up @ 16% per annum and 15.5% per annum respectively. The remaining facilities carry floating mark-up @ last six months treasury bills auction rate plus 1.25% to 1.75% per annum. Amounts due within one year have been shown under current liabilities.

27. OBLIGATIONS UNDER FINANCE LEASES

The rates of financing used as the discounting factor range between 16% and 17% per annum. Certain leases are subject to additional charge of 2% for overdue rentals.

The amounts of future payments and the periods during which they will fall due are:

	1998	**1997**
	(Rs. 000s)	
Years ending December 31		
1998	-	33,248
1999	18,033	18,033
	----------	----------

	18,033	51,281
Less: Finance charges	1,251	6,729
	16,782	44,552
Less: Shown under current liabilities	16,782	27,770
	-	16,782

28. DEFERRED TAXATION

The deferred tax net debit balance arising from major timing differences, computed at the current rates of tax, amounts to approximately Rs. 106 million (1997: Rs. 19 million). The brought forward provision of Rs. 12 million (1997: Rs. 12 million) has, however, been retained in the accounts.

29. COMMITMENTS AND CONTINGENCIES

29.1 Capital expenditure commitments outstanding at December 31, 1998 amounted to Rs. 116.636 million (1997: Rs. 177.336 million).

29.2 Rents payable under lease agreements for motor vehicles are:

Payable in years ending December 31		
1998	-	7,124
1999	4,986	5,183
2000	2,006	2,168
	6,992	14,475

29.3 Commitments in respect of forward exchange contracts at December 31, 1998 amounted to Rs. 191.556 million (1997: Rs. 328.333 million).

29.4 Guarantees given by the Company to a bank for extending financial and banking facilities to its edible oil contractors aggregated Rs. 133.975 million (1997: Rs. 133.779).

29.5 Claims not acknowledged as debt amount to Rs. 89.003 million (1997: Rs. 18.082 million).

30. STATEMENT PURSUANT TO SECTION 237 OF COMPANIES ORDINANCE, 1984

a) The audited accounts of the Company's wholly owned subsidiary Phoenix (Private) Limited for the year ended December 31, 1998 are annexed to these accounts.

b) The extent of the interest of Pakistan Tobacco Company Limited as a holding company in its subsidiary Phoenix (Private) Limited, as at December 31, 1998 was 100% (1997: 100%).

c) The subsidiary of the Company has not yet started commercial production so other disclosures pursuant to section 237 are not applicable.

31. CAPACITY AND PRODUCTION

Against an estimated manufacturing capacity of 21,720 (1997: 20,550) million cigarettes, actual production was 21,509 (1997: 20,699) million cigarettes which included 4,391 million cigarettes (1997: 4,243 million) produced through outside manufacturing sources. Actual production was sufficient to meet market demand.

32. GENERAL

Previous year's figures have been rearranged wherever necessary for the purpose of comparison.

M.P. FENN	F.W. VELLANI
Chairman & Chief Executive	Director

FINANCIAL HIGHLIGHTS

(Rs. millions)

	1998	1997	1996	1995	1994
Turnover	14250	12138	11832	10152	8788
Excise and Sales Tax	8846	7703	7804	6973	6253
Net Turnover	5404	4435	4028	3179	2535
Operating Profit	92	8	139	155	225
(Loss)/Profit Before Tax	(281)	(246)	(39)	(8)	59
(Loss)/Profit for the year	(308)	(268)	989	(24)	104
Dividends Declared	-	-	-	-	32
Value Added	10301	8880	9045	8092	7252
Shareholders Funds	1002	1311	1579	590	615
Capital Employed	1414	1710	1843	734	836
Capital Expenditure	292	444	350	95	272

Duties and Taxes

Customs, Excise Duties and Sales Tax		9356	8110	8290	7364	6520
Local Taxes and Cess		47	48	46	31	23
Corporate Tax		27	22	20	16	13
Total		9430	8180	8356	7411	6556
Profit Before Tax vs Turnover	%	-	-	-	-	0.7
Return on Capital Employed						
- Before Tax	%	-	-	-	-	7.1
- Profit for the Year	%	-	-	53.7	-	12.4
(Loss)/Earnings Per Share						
- Before Tax	Rs.	(8.8)	(7.7)	(1.2)	(0.2)	1.9
- Profit for the Year	Rs.	(9.7)	(8.4)	31.0	(0.8)	3.2
Dividends Per Share	Rs.	-	-	-	-	1.0

PATTERN OF SHAREHOLDING
AS AT DECEMBER 31, 1998

No. of Shareholders	**Categories**				**Total Shares**
1,539	From	1	To	100	49,600
1,602	From	101	To	500	460,924
597	From	501	To	1,000	418,138
530	From	1,001	To	5,000	1,121,131
39	From	5,001	To	10,000	255,338
16	From	10,001	To	15,000	201,759
4	From	15,001	To	20,000	64,925
4	From	20,001	To	25,000	89,637
2	From	25,001	To	30,000	53,602
1	From	30,001	To	35,000	32,071
2	From	35,001	To	40,000	72,463
1	From	50,001	To	55,000	51,761
1	From	60,001	To	65,000	60,961
1	From	70,001	To	75,000	70,140
1	From	75,001	To	80,000	77,903
1	From	80,001	To	85,000	84,173
1	From	85,001	To	90,000	86,509
1	From	105,001	To	110,000	106,500

1	From	135,001	To	140,000	139,507
2	From	140,001	To	145,000	288,300
1	From	165,001	To	170,000	167,633
1	From	190,001	To	195,000	194,184
1	From	205,001	To	210,000	207,667
1	From	250,001	To	255,000	253,500
1	From	410,001	To	415,000	412,274
1	From	515,001	To	520,000	520,000
1	From	535,001	To	540,000	535,509
1	From	740,001	To	745,000	743,802
1	From	795,001	To	800,000	798,282
1	From	4,075,001	To	4,080,000	4,077,656
1	From	20,240,001	To	20,245,000	20,240,875
----------					----------
4,357					31,936,724
==========					==========

Categories of Shareholders	**Number**	**Shares Held**	**%**
Individuals	4,274	2,802,980	8.8
Investment Companies	7	4,172,246	13.0
Insurance Companies	11	1,506,387	4.7
Joint Stock Companies	19	59,202	0.2
Financial Institutions	13	379,581	1.2
Charitable Institutions	8	754,467	2.4
Government Organisations	4	139,548	0.5
Foreign Investors	17	22,115,725	69.2
Co-operative Societies	3	3,488	-
Modaraba Company	1	3,100	-
	----------	----------	----------
Total	4,357	31,936,724	100.0
	==========	==========	==========

NOTICE OF MEETING

Notice is hereby given that the Fifty-Second Annual General Meeting of Pakistan Tobacco Company Limited will be held in the Auditorium of the Saudi Pak Tower, 61/A Jinnah Avenue, Islamabad on Tuesday, 11th May, 1999 at 11.00 a.m. to transact the following business:-

ORDINARY BUSINESS:

1. To receive and consider the audited Accounts for the year ended 31st December 1998, and the Reports of the Directors and Auditors thereon.

2. To appoint Auditors and to fix their remuneration.

3. To elect nine directors as fixed by the Board for a period of three years to commence from 18th July, 1999. The names of the retiring Directors are Messrs: Michael Paul Fenn, John Victor Richardson, Aslam Khaliq, Timothy Charles Lacy Day, Marco Antonio Novoa, Fatheali Walimuhammad Vellani, Razi-ur-Rahman Khan and Charles Richard Green.

By Order of the Board

NAVEED AFTAB AHMAD
Secretary and Corporate Affairs Manager

Islamabad: 6th April 1999

N.B. (1) In accordance with Section 178(1) of the Companies Ordinance, 1984, the number of elected directors has been fixed at nine.

(2) A member entitled to attend and vote at this Meeting is entitled to appoint a proxy to attend instead of him and such proxy will have the right to attend, speak and vote in place of the member of the Company.

(3) Forms of proxy must be deposited at the office of the Company's Share Registrar not less than 48 hours before the time appointed for the Meeting and in default forms of proxy will not be treated as valid.

(4) The Share Transfer Books of the Company will be closed from 29th April, 1999 to 10th May, 1999 both days inclusive. Transfers received in order at the office of the Company's Share Registrar, Ferguson Associates (Pvt.) Ltd., State Life Building 1-A, I.I. Chundrigar Road, Karachi, by 28th April, 1999 will be in time to be entitled to vote.

(5) Shareholders are requested to notify the Company's Share Registrar promptly of changes in their address.

SUBSIDIARY COMPANY

Phoenix (Private) Limited

BOARD OF DIRECTORS

MASOOD AHMED
Chief Executive

MARCO ANTONIO NOVOA

SHAHID PARWAIZ

NAVEED AFTAB AHMAD
Director & Secretary

AUDITORS
A.F. FERGUSON & CO.
Chartered Accountants

REGISTERED OFFICE
Bun Khuma Chichian Road,
Mirpur, Azad Jammu & Kashmir.

REPORT OF THE DIRECTORS
For the Year Ended December 31, 1998

The Directors have pleasure in presenting report together with the Audited Accounts of the Company for the year ended December 31, 1998.

Due to restrictions imposed on manufacture of Pakistani brand cigarettes in Azad Kashmir, and non-existence of an opportunity for export. no cigarette production activity took place during the year.

The Company is a wholly-owned subsidiary of Pakistan Tobacco Company Limited.

On behalf of the Board

MASOOD AHMED	**MARCO NOVOA**
Chief Executive	Director

Islamabad: March 17, 1999

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Phoenix (Private) Limited as at December 31, 1998 and the related cash flow statement, together with the notes forming part thereof, 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 has been drawn up in conformity with the Companies Ordinance, 1984 and is in agreement with the books of account, and is further in accordance with the accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet and cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 1998 and of cash flows for the year then ended; and

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

A.F. FERGUSON & CO.
Chartered
Accountants

Islamabad: March 18, 1999

BALANCE SHEET As at December 31, 1998

	Note	1998	1997
		(Rs. 000s)	

FIXED ASSETS	3	33,245	32,742
PRELIMINARY EXPENSES	4	96	96
CURRENT ASSETS			
Account Receivable		-	3,462
Balance with a bank in current account		4	9
LESS: CURRENT LIABILITIES			
Creditors, accrued and other liabilities	5	28,345	31,309
NET CURRENT LIABILITIES		(28,341)	(27,838)
		5,000	5,000
FINANCED BY:			
SHARE CAPITAL			
Authorised capital			
5,000,000 ordinary shares of Rs. 10 each		50,000	50,000
Issued, subscribed and paid-up-capital	6	5,000	5,000
		5,000	5,000

The annexed notes form an integral part of these accounts.

MASOOD AHMED	**MARCO NOVOA**
Chief Executive	Director

CASH FLOW STATEMENT

For the Year Ended December 31, 1998

	1998	1997
	(Rs. 000s)	
CASH FLOW FROM INVESTING ACTIVITIES		
Capital Work-in-Progress	(503)	-

CASH FLOW FROM FINANCING ACTIVITIES		
Accounts Receivable	3,462	-
Cash paid to Pakistan Tobacco Company Limited Company Limited	(2,964)	-
	----------	---------
		-
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(5)	-
CASH AND CASH EQUIVALENTS AS AT JANUARY 1,	9	9

	----------	-
CASH AND CASH EQUIVALENTS AS AT DECEMBER 31	4	9
		=========
	==========	=

MASOOD AHMED	**MARCO NOVOA**
Chief Executive	Director

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the Year Ended December 31, 1998

1. THE COMPANY AND ITS OPERATIONS

Phoenix (Private) Limited was incorporated on March 9, 1992 in Azad Kashmir as a wholly owed, subsidiary of Pakistan Tobacco Company Limited. The object for which the Company has been incorporated is to operate and manage an industrial undertaking in Azad Kashmir to manage and deal in tobacco products. The Company has not yet commenced its commercial operation. Therefore, a Profit and Loss account has not been prepared.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under historical cost convention without any adjustment for the effect of inflation.

2.2 Tangible fixed assets

Capital work-in-progress and freehold land are stated at cost.

	1998	1997
	(Rs. 000s)	
3. FIXED ASSETS		
Operating fixed assets - freehold land	3,364	3,364
Capital work-in-progress:		
Civil and electrical works	12,561	12,561
Plant and machinery	9,121	9,121
Advances to suppliers	2	2
Pre-operating expenses	8,197	7,694
	29,378	29,378
	33,245	32,742

	1998	1997
4. PRELIMINARY EXPENSES		
Legal fees	15	15
Registration fees	81	81
	96	96

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the Year Ended December 31, 1998

	1998	1997
	(Rs. 000s)	
5. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Due to Pakistan Tobacco Company Limited-current account	28,311	31,275
Others	34	34
	28,345	31,309

6. ISSUED, SUBSCRIBED AND PAID-UP-CAPITAL

500,001 ordinary shares (1997: 500,001 ordinary shares) of Rs. 10 each. All the shares of the Company are held by Pakistan Tobacco Company Limited.

7. COMPARATIVE FIGURES

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

MASOOD AHMED	**MARCO NOVOA**
Chief Executive	Director

PATTERN OF SHAREHOLDING

As at December 31, 1998

No. of Shareholders	**Categories**				**Total Shares**
3	From	1	To	5,000	15,000
1	From	450,000	To	490,000	485,001
----------					----------
4					500,001
==========					==========

Categories of Shareholders	**Number**	**Shares Held**	**%**
Individuals-nominees of Pakistan Tobacco Company Ltd.	3	15,000	3.0
Joint Stock Company	1	485,001	97.0
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	4	500,001	100.0