

# **Gatron (Industries) Limited**

## **Annual Report 1998**

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(Subsidiary Company)

### **COMPANY INFORMATION**

#### **BOARD OF DIRECTORS**

Peer Mohammad Diwan  
Haji Sharif Tayub  
Haji Haroon Tayub  
Abdul Razak Diwan  
Zakaria Bilwani  
Usman  
Habib  
Iqbal Abdul Shakoor  
Shabbir Diwan  
Muhammad Afzalullah Siddiqui  
Z.I. Saifi - BEL Nominee

**Chief Executive**

#### **COMPANY SECRETARY**

Mohammad Yasin Bilwani

#### **BANKERS**

ABN" AMRO Bank N.V.  
Allied Bank of Pakistan Limited  
American Express Bank Limited  
Bank of America NT & SA  
Citibank N.A.  
Credit Agricole Indosuez  
Deutsche Bank  
Faysal Bank Limited

Habib Bank AG Zurich  
Habib Bank Limited  
Metropolitan Bank Limited  
Muslim Commercial Bank Limited  
National Bank of Pakistan  
Societe Generale, The French and International Bank  
Standard Chartered Bank  
The HongKong and Shanghai Banking Corporation Limited  
United Bank Limited

**AUDITORS**

Hyder Bhimji & Co.  
Chartered Accountants  
Karachi.

**PLANT**

Plot No. M-2, Sec. M, H.I.T.E.  
Main R.C.D. High Way  
Hub Chowki, Lasbela Distt.  
Balochistan- Pakistan

**REGISTERED OFFICE**

Room No. 7, 1st Floor  
Saleem Plaza, Jinnah Road  
Quetta - Pakistan.

**LIAISON OFFICE**

8th Floor, Textile Plaza  
M.A. Jinnah / Dunolly Road  
Karachi - 74000 - Pakistan

**FINANCIAL HIGHLIGHTS**

**YEAR AT A GLANCE**

Turnover  
Profit before tax  
Profit after tax  
Taxation  
Gross assets employed (excluding capital work-in-progress)  
Issued share capital  
Net shareholders equity  
Earning per share before tax - Rupees

**DIRECTORS' REPORT TO THE SHAREHOLDERS**

The directors of your Company feel pleasure in presenting report on the performance of the Company for the year ended June 30, 1998.

#### **YEAR UNDER REVIEW**

By the Grace of Allah, the overall performance of the Company remained good. Profit before tax stood at Rs. 320.619 million as compared to Rs. 294.474 million of the previous year, showing an improvement of 8.88%. Similarly net sales reflected 13.17% growth over the previous year.

The rates of basic inputs i.e. Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG) in international markets continued a downward trend but since the presentation of last Directors' Report in February 1998, the fall in PTA/MEG prices have been marginal. The benefits of lower prices were negated by continued depreciation in the value of Pak Rupee increasing the actual cost of all imported material. However prices of polyester chips being purchased locally decreased significantly until October 1998 despite continuous depreciation of the rupee.

The local filament yarn market reflected the usual pattern of being good in the months of October to January. Overall, during the financial year the market was healthy. However in the end of the financial year, the market became very weak and continues to remain weak at this point of time, whereas normally these months are considered to be good seasonal months. The major reason being that the Far East economic crisis has finally affected the international polyester filament yarn prices and in turn has affected the local market. The local market is further dragged down by the uncertain economic situation which has affected the economic activity in the country.

With the blessings of Almighty Allah, the Bottle Grade Polyester Chips (PET Resin) project started production in February 1998. Majority of local bottle producers have started consuming our PET

Resin. Vigorous efforts for the export of the same are continuously being made. As indicated in the previous Directors' Report since PET Resin is being produced for the first time in Pakistan (and also being exported for the first time) some inventory build up was expected. As such at the end of the current financial year on June 30, 1998 sales were low and inventory of PET Resin had accumulated. With the depreciation and interest expenses being charged fully for the first 5 months of operation upto June 1998 against corresponding low volume, the financial effects of this project were not positive. Unluckily at this juncture the cold summer in Europe and the Russian crisis (also affecting East Europe) resulted in a sharp decline of the international market and prices of PET Resin to an abnormal low level. This not only depleted the value of the PET Resin inventory but significantly affected the export efforts. The continuous polycondensation plant converted to produce bottle grade polymer faced some mechanical difficulties resulting in an unusual number of shutdowns and consequently affecting the output of bottle grade polyester chips (PET Resin). However the same is now running smoothly.

The project for production of 5000 tons per year filament yarn also went into production as scheduled in August 1998 smoothly and is running satisfactorily.

#### **FUTURE OUTLOOK**

As stated above the rates of PTA and MEG continued a downward trend in international market and at present both of them are being quoted at around US\$ 370. Since these prices have reached at bottom level, now it appears that these rates would take an upward trend. Moreover the affect of further rupee devaluation may compound the cost increase.

Pakistan was forced to test its nuclear device, which brought in unjust economic sanctions. To conserve the precious foreign exchange, the

Government introduced composite rate of exchange from July 1998 and also enforced 30% margin for opening of Letter of Credits. The composite rate mechanism has resulted in the cost of US\$ for import rising from Rs. 46.46 to a figure above Rs. 51/-. These measures coupled with persisting economic recessionary trend prevailing in the country and adverse political situations in the province of Sindh are major negative factors likely to affect the profitability of the Company. The key factor in the future outlook remains the market situation. As mentioned above the Far East economic crises and local economic activity (being affected by the country's economic scenario) has kept the market of filament yarn depressed even in the current winter months. Hopefully the inventories in the Far East being depleted (since the countries like Korea and Thailand are now improving from their adverse economic situation which surfaced in end 1997) and the economic activity in the country likely to pick up (after positive and successful conclusion of IMF-Pakistan talks) the situation would improve. This would lead to a recovery of the market (since local filament yarn production capacity in 1998 is only 10% higher than what it was in 1994 of which basic demand is to set to increase). However the effects of this possible recovery may be seen in the year 1999-2000 and not in the year 1998-99.

In the light of the above mentioned facts and news of possible increase in sales tax rate to 15%, it is necessary that the Government eliminate the Rs. 2.50 kg. excise duty on filament yarn, since the importers of filament yarn are not liable to pay excise duty and particularly when there is no excise duty on all types of yarn (i.e. synthetic, blended, acetate) as well as polyester staple fibre since 1996. Moreover in July 1998 Government also removed the excise duty on other man made fibres citing the dual impact of sales tax and excise duty on these items as an anomaly.

As discussed above, the international market of Bottle Grade Polyester Chips (PET Resin) remains in a terrible shape affecting the prices as well as

the efforts of the Company to export volumes of this product. Hopefully with the advent of the summer demand (generated by Beverage and Fluids Packing demand) the market may improve by February 1999.

The Company, to promote the growth of PET packaging in Pakistan will go into the state of the art production of PET performs (made from PET Resin) used for blowing PET bottles to enable users to blow quality PET bottles. The total cost of this project is estimated at Rs. 86 million. The company is also promoting advent of state of the art PET blowing facility, which can consequently be done in an economical set up by the users/ producers of PET bottles.

The other major capital expenditure in the next months include purchase of generators to replace 15 years old furnace oil generators whose cost of operation is becoming high.

#### **RESULTS, DIVIDEND AND FINANCE**

The financial results of your Company in the year under review were an improvement over last year.

The appropriation of profits is proposed as under:

Profit before taxation

Taxation

Profit after taxation

Unappropriated profit brought forward

Profit available for appropriation

Appropriation:

Proposed cash dividend @ 20%

Transfer to general reserve

Unappropriated profit carried forward

#### **CONTRIBUTION TO NATIONAL EXCHEQUER**

During the year, the Company's contribution to the national exchequer amounted to Rs. 757.648 million (1997 - Rs. 664.322 million) in respect of payments towards sales tax, income tax, excise duty, import duties and other statutory levies. This does not include the withholding tax deducted by the Company from employees, suppliers and contractors and deposited with the Government Treasury.

#### **INFORMATION TECHNOLOGY**

The Company is in the process of upgrading its computer hardware and software applications to enhance its information management capabilities. The company is taking necessary measures to ensure that all its computer applications and hardware systems are free of millennium bug and year 2000 complaint before the turn of the century.

#### **SUBSIDIARY COMPANY**

The audited accounts of the wholly owned subsidiary, Gatro Power (Pvt)Limited for the year ended June 30, 1998 are attached.

#### **BOARD CHANGES**

During the year Mr. Muhammad Murtaza (elected nominee of NIT) has resigned from the Directorship of the Company, Mr. Muhammad Murtaza was elected in the 16th Annual General Meeting of the Company held on December 14, 1996 for the term of 3 years commencing from December 24, 1996. The Board of Directors has co-opted Mr. Muhammad Afzalullah Siddiqui nominated by NIT in place of Mr. Muhammad Murtaza for the remainder term of the office of the Director.

The Board acknowledges with appreciation the valuable submissions made by Mr. Muhammad Murtaza during his tenure as a Director of the Company.

**AUDITORS**

The present Auditors, M/s. Hyder Bhimji & Company, Chartered Accountants retire and being eligible offer themselves for reappointment.

**PATTERN OF SHAREHOLDING**

Pattern of shareholding as on dune 30, 1998 is annexed to this report.

**MANAGEMENT-EMPLOYEES RELATIONS**

The Management-Employees relations remained cordial throughout the year. The Board wishes to express its gratitude for the valuable services rendered by the employees of the Company.

**GENERAL**

The Company has applied for the remittances of the recently due installments of foreign currency loans. However, still these could not be remitted for the want of permissions from State Bank of Pakistan who is closely monitoring the exchange control restrictions and remittances as a result of the economic sanctions imposed on Pakistan.

The Board wishes to place on record the appreciation and confidence reposed by the TFC subscribers which not only resulted the successful financial close of the TFC despite very weak stock market conditions, but also enabled the Company to exercise green shoe option which by the Grace of Almighty Allah is a compliment/achievement for your Company.

**ACKNOWLEDGEMENTS**

Before concluding, the Board wishes to place on record the appreciation to all banks, financial institutions and the Government functionaries in general for continued support to the Company with zeal and dedication.

November 19, 1998

On behalf of the  
Board

**PEER MOHAMMAD  
DIWAN**

Chief Executive



## **NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Eighteenth Annual General Meeting of Gatron (Industries) Limited will be held on Friday, December 18, 1998 at 10:30 a.m. at Serena Hotel, Quetta to transact the following business:

### **ORDINARY BUSINESS**

1. To confirm the minutes of the Seventeenth Annual General Meeting held on December 22, 1997.
2. To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 1998 together with the Auditors' report thereon and Directors' report for the year then ended.
3. To approve, as recommended by the Directors for payment of cash dividend at Rs. 2/= per share (20%) for the year ended June 30, 1998.
4. To appoint Auditors for the next financial year and to fix their remuneration.
5. To transact any other business with the permission of the Chair.

By Order of the  
Board

**Mohammad Yasin  
Bilwani**

Company Secretary

November 19, 1998

### **Notes:**

1. The Share Transfer Books of the Company will remain closed from December 12, 1998 to December 18, 1998 (both days inclusive). The shareholders are advised to notify to the company of any change in their addresses.
2. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend, speak and vote on his/her behalf. Proxies in order to be effective must be received at the office of the Company not less than 48 hours before the time of holding the meeting. Proxy form is enclosed.

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

We have audited the annexed Balance Sheet of GATRON (INDUSTRIES) LIMITED as at June 30, 1998 and the related Profit and Loss Account and Cash Flow Statement, together with the notes thereto forming part thereof, for the year then ended and we state that we have obtained all the information

explanations which to the best of our knowledge and belief were necessary for the purposes of 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;

(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, 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 required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 1998 and of the profit and the changes in cash position for the year then ended;

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

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**HYDER BHIMJI & CO**  
Chartered  
Accountants

November 19, 1998

## **BALANCE SHEET AS AT JUNE 30, 1998**

**Note**

### **SHARE CAPITAL AND RESERVES**

Authorised capital  
44,000,000 Ordinary shares of Rs. 10/- each

Issued, subscribed and paid up capital	3
Capital reserve	4

General reserve  
Unappropriated profit

<b>REDEEMABLE CAPITAL</b>	5
<b>LONG TERM LOANS</b>	6
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>	7
<b>DEFERRED LIABILITIES</b>	8
<b>CURRENT LIABILITIES AND PROVISIONS</b>	
Current maturity of redeemable capital	5
Current maturity of long term loans	6
Current maturity of liabilities against assets subject to finance lease	7
Short term financing under mark-up arrangement	9
Creditors, accrued and other liabilities	10
Taxation	
Proposed dividend	
<b>CONTINGENCIES AND COMMITMENTS</b>	11
<b>TANGIBLE FIXED ASSETS</b>	
Operating fixed assets	12
Capital work-in-progress	13
<b>LONG TERM INVESTMENT</b>	14
<b>LONG TERM DEPOSITS AND DEFERRED COST</b>	15
<b>LONG TERM LOANS</b>	16
<b>CURRENT ASSETS</b>	
Stores, spares and loose tools	17
Stock in trade	18
Trade	19

debts	
Loans and advances	20
Trade deposits and short term prepayments	21
Other receivables	22
Short term investment	23
Cash and bank balances	24

The annexed notes form an integral part of these accounts.

**PEER MOHAMMAD DIWAN**  
Chief Executive

**SHABBIR DIWAN**  
Director

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

	<b>Note</b>
<b>NET SALES</b>	25
<b>Cost of Sales</b>	
Cost of goods sold	26
Administration and marketing expenses	27
<b>Operating Profit</b>	
Other income	28
Financial charges	29
Other charges	30

**Profit before taxation**

Taxation

31

**Profit after taxation**

**Unappropriated profit brought forward**

Profit available for appropriation

**Appropriations:**

Proposed cash dividend @ 20% (1997: @ 25%)

Transfer to general reserve

Unappropriated profit carried forward

The annexed notes form an integral part of these accounts.

**PEER MOHAMMAD DIWAN**

Chief Executive

**SHABBIR DIWAN**

Director

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED JUNE 30, 1998**

**Note**

**Cash Flow from Operating Activities**

Profit before taxation

Adjustments for:

Depreciation and amortization

Profit on sale of fixed assets

Provision for gratuity

Financial charges

Movement in:  
Working capital  
Long term deposits  
Long term loans

32

Cash generated from operations  
Payments for:  
Gratuity  
Financial charges  
Taxes  
paid

Net cash from operating activities

**Cash Flow from Investing Activities**

Capital expenditure  
Sale proceeds of fixed assets  
Investment

Net cash used in investing activities

**Cash Flow from Financing Activities**

Increase in paid-up capital  
Increase in shares premium  
Redeemable capital less repayments  
Long term loans less repayments  
Finance lease availed less repayments  
Dividend paid

Net cash (used in)/from financing activities

**Net increase in cash and cash equivalents**

**Cash and cash equivalents at 1st July**

**Cash and cash equivalents at 30th June**

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**PEER MOHAMMAD DIWAN**

Chief Executive

**SHABBIR DIWAN**

Director

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

**1. STATUS AND NATURE OF BUSINESS**

The Company is a Public Limited Company and its shares are quoted on Karachi, Lahore and I Stock Exchanges. The principal activity of the Company is manufacturing of polyester filament texturised yarn and bottle grade polyester chips (PET Resin).

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

**2.2 Staff retirement benefits**

a) The Company operated an unfunded gratuity scheme under the law upto December, 1991 for workers and upto June 1993 for staff. Necessary provision has been made to cover this obligation. Thereafter in place of this gratuity scheme, a scheme of contributory provident funds under the law was introduced separately for workers from January 1992 and for staff from July 1993. In addition to the scheme of contributory provident fund, a special gratuity scheme (not mandatory under the law) was introduced from 1st January, 1993 for workers and from 1st July, 1994 for staff. This special gratuity scheme is not funded. Provision for this obligation has also been made in these accounts.

b) The Company also operates unfunded gratuity schemes for its paid directors and provision has been made to cover the obligation.

**2.3 Taxation**

Provision for current taxation is based on current rates of taxation after taking into account tax credits available, if any.

The Company accounts for deferred taxation on all material timing differences using the liability method. However, deferred tax is not provided if it can be established with reasonable probability that these timing differences will not reverse in the foreseeable future.

**2.4 Tangible fixed assets and depreciation**

**Company owned assets**

Operating fixed assets (except lease hold/free hold land, property and capital work-in-

progress) are stated at cost less accumulated depreciation. Maintenance and normal repairs are charged to income as and when incurred.

Depreciation is charged at normal tax rates on diminishing balance method.

Full year's depreciation is charged on additions during the year except in case of significant additions or expansions where the charge for depreciation is made with reference to the date of commencement of operation of such assets. No depreciation is charged on assets deleted or retired during the year.

Gains and losses on disposal of fixed assets, if any, are included in income currently.

#### **Leased assets**

Assets subject to finance lease are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. The related obligations of the company are accounted for as liabilities. Assets acquired under the finance lease are depreciated over the useful life of the assets at the rate applicable to the company own assets.

#### **2.5 Deferred costs**

Deferred costs, if any, are charged to Profit and Loss Account over a period of three years.

#### **2.6 Stock, stores and spares**

Stores, spares, tools, raw and packing materials are recorded at cost (computed on the basis of moving average) and work-in-process is also recorded at cost. Finished goods are valued at lower of cost and net realizable value. Goods-in-transit are valued at actual.

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

#### **2.7 Trade debts**

Debts considered irrecoverable if any, are written off and provision is made for debts considered doubtful.

#### **2.8 Foreign currency translation**

Un-booked short term foreign currency liabilities for goods supplied, if any, are translated into Pak Rupees at the rates prevailing on the date of bill of lading or date of relative letter of credit balance sheet date whichever is higher. Exchange differences if any, on account of goods supplied are charged to profit and loss account.

#### **2.9 Revenue recognition**

Sales are recorded on despatch of goods to the customers.



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

30,136,08  
0 Ordinary shares of Rs. 10/- each  
fully paid in cash  
(1997:26,648,400 Ordinary shares  
Rs. 10/- each)

8,228,400 Ordinary shares of Rs. 10/- each  
issued as fully paid bonus shares

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-  
38,364,48  
0  
=====

### 4. CAPITAL RESERVE

Share premium  
Reserve for contingencies

(4.1

(4.1) This represents outstanding balances on time barred long term foreign debts.

### 5. REDEEMABLE CAPITAL- SECURED

#### Term Finance Certificates

1. Bankers Equity Ltd.- Syndicate  
(Original Financing: Rs. 112.570 million)

Less: Current Maturity

i) Term Finance Certificates (TFCs) have been issued to the consortium, led by Bankers Equity Limited in March, 1992.

ii) The committed amount on TFCs of Rs. 112.570 million represents the sales price. The corresponding purchase price is Rs. 187.880 million provided the Company redeems

the TFCs on or before the due dates under the TFC agreement. In the event, the Company fails to redeem TFCs on due dates it shall pay to TFCs holders an additional amount of Rs. 12.953 million by way of liquidated damages.

iii) These TFCs are redeemable in 14 equal semi annual installments. The first installment fell due in January, 1994.

iv) These TFCs are secured by first mortgage on all assets of the company and charge by way of hypothecation of the entire plant, machinery, equipment and book debts of the Company ranking pari passu with other principal creditors of the Company.

## 2. Term Finance Certificates

Less: Current Maturity

The Company issued Term Finance Certificates in June, 1998 to raise funds for its expansion projects. The certificates are issued in sets of 10 each with a face value of Rs. 5,000/- Rs. 100,000/- and accompanied by a certificate of holding. The TFCs are redeemable in 10 half yearly installments commencing from December 1998. The indicated rate of profit is 18%. The TFCs have been secured by a pari passu charge on immovable property of the Company.

## 6. LONG TERM LOANS- SECURED

Notes	Particulars	Original Amount  in Thousands
6.1	Kreditanstalt Fur Wiederaufbau, Germany	
6.1	Loan No. F-1949	DM 20,948
6.1	Loan No.F-2109	DM 11,424
6.1	Loan No.F-2156	DM 10,812

		-----
		DM 43,184
	Bank of Credit and Commerce International S.A. Luxembourg Frankfurt	DM 2,721 DM 2,505
		-----
		DM 5,226
		-----
		DM 48,410
		=====
6.2	AI-Faysal Investment Bank Limited	Rs. 40,000
6.2	Saudi Pak Industrial & Agricultural Investment Company (Pvt) Limited	Rs. 60,000
6.2	American Express Bank Ltd.	Rs. 29,500

Less: Amount Payable within  
twelve months shown as  
current maturity

Note: The outstanding loans for acquisition of fixed assets in foreign currency are translated at the prevailing exchange rates registered with the State Bank of Pakistan

6.1 50% of these loans are secured against three guarantees issued by Habib Bank Limited under syndicate led by Bankers Equity Limited. The said guarantees are secured by way of creation of mortgages on all the borrowers land, building, plants and other immovable assets of the Company, floating charges on all other respective assets both present and future and charges by way of hypothecation in respect of all machineries both present and future ranking pari passu with other principal creditors of the Company.

Balance 50% of these loans are secured by way of creation of mortgages on all borrowers land, building, plants and other immovable assets of the Company and floating charge on all other respective assets both present and future and charges by way of hypothecation in respect of all machineries both present and future, directly in favour of the lender Kreditanstalt fur Wiederaufbau, Germany ranking pari passu with other principal creditors of the Company.

6.2 These loans are secured by equitable mortgages on all present and future fixed assets company ranking pari passu with other principal creditors of the Company.

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

Total gross obligation  
Less: Financial charges not due

Less: Current Maturity

The Company has entered into various sale and leaseback agreements for machineries. Rates financial charges range between 17.10% to 22.00% per annum. The balance principal liabilities are payable latest by December 28, 2002.

The Company intends to exercise its option to acquire the leased machineries upon completion of the lease periods.

**8. DEFERRED LIABILITIES**

Gratuity  
Taxation

**9. SHORT TERM FINANCING UNDER MARK-UP  
ARRANGEMENTS**

**SECURED**

**Running Financing**

American Express Bank Limited  
Bank of America NT&SA

(9.1

(9.1

Credit Agricole Indosuez	(9.1)
Habib Bank Limited	(9.2)
Metropolitan Bank Limited	(9.2)
Societe Generale, The French and International Bank	(9.1)
Standard Chartered Bank	(9.1)

**Term Financing**

Al-Faysal Investment Bank Limited	
Unsecured	
Temporary overdraft	(9.3)

(9.1) Secured against hypothecation of stocks and book debts.

(9.2) Secured against hypothecation of stocks.

(9.3) This represents temporary bank financing due to issuance of cheques in excess of the  
and all the cheques were presented and cleared subsequently.

The facility for short term running financing available from various banks amounts to Rs.  
(1 997: Rs. 385 million). The mark-up rates of running financing range between Rs. 0.4109  
0.5000 per Rs. 1000/- per day.

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

Creditors - Goods	
- Other finance	
- Due to subsidiary company	
Interest and financial charges on long term loans	
Mark-up on short term finance	
Workers' profit participation fund	(10.1)
Workers' welfare fund	
Others accrued expenses	
Unclaimed dividend	
Others	

**10.1 Workers' profit participation fund**

Opening balance

Add: Allocation for the year

Less: Paid during the year

**11. CONTINGENCIES AND COMMITMENTS**

**A) CONTINGENT**

Constitutional petitions with Honourable High Courts have been filed against the levy of custom duties and other levies on machineries amounting to Rs. 116.959 million. The Company has deposited Rs. 48.184 million as security deposits and has provided bank/insurance guarantees of the balance amount of Rs. 68.775 million against it. In case of adverse decision, the company has to account for Rs. 116.959 million in the fixed assets head.

**B) GUARANTEES**

Other bank guarantees issued on behalf of the Company outstanding as on June 30, 1998 amounted to Rs. 12.356 million (1997: Rs. 10.921 million).

**C) COMMITMENTS**

1) Commitments in respect of capital expenditure as at the balance sheet date are Rs. 5.481 million (1997: Rs. 290.279 million).

2) Commitments in respect of letters of credit as at the balance sheet date are Rs. 75.203 million (1997: Rs. 83.385 million).

**12. OPERATING FIXED ASSETS**

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**COST**  
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Particulars	As at July 01, 97	Additions	Transfers
Lease hold/tree held land and property	15923	905	
Factory building on Lease hold land	179,107	41,514	
Plant and Machinery on Lease holdland	2,126,729	124,071	254,481
Furniture, Fixtures and Equipment	50,856	5,091	
Vehicles	33,994	10,804	
TOTAL	2,406,609	182,385	254,481
Assets held under Finance Lease			
Plant and Machinery	392,331	305,000	(254,481)
TOTAL	2,798,940	487,385	
TOTAL 1997	2,779,768	31,959	

\*This represent matured leased assets which have been taken over by the Company.

**12.1 Depreciation for the year has been allocated as follows:**

Cost of goods sold  
Administration and marketing expenses

12.2 The following fixed assets were disposed off during the year

Description	Cost	Book Value	Sale Proceed
<b>VEHICLES</b>			
Suzuki Margalla Model 1993	347	114	13
Suzuki Swift Model 1990	22	7	8
Suzuki Pickup Model 1989	105	18	4
Suzuki Swift Model 1990	180	61	11
Suzuki Margalla Model 1993	337	114	13
Honda CD- 70 Model 1993	38	15	4
Suzuki Pickup Model 1991	95	16	5
Suzuki Khyber	220	58	11
Honda	889	711	2



Civic Model 1996			
Suzuki Khyber	201	43	11
Honda CD- 70 Model 1996	59	48	6
Toyota Corolla	280	73	19
Suzuki Sedan	380	155	18
Suzuki Khyder	219	71	12
Suzuki Swift	245	80	16
Suzuki Swift	304	100	12
TOTAL	3,921	1,684	2,49
1997	12,787	7,755	8,68

### 13. CAPITAL WORK-IN-PROGRESS

Civil works and building  
Plant and machinery  
Others

#### 14. LONG TERM INVESTMENT

##### UNQUOTED

##### In Wholly Owned Subsidiary Company

M/s. Gatro Power (Private) Limited

11,800,000 Ordinary shares of Rs. 10/- each

(1997: 9,000,000 Ordinary shares of Rs. 10/- each)

Share application money

In Associated Company

M/s. Novatex Limited

15,000,000 Ordinary shares of Rs. 10/- each

(1997: 11,927,000 Ordinary shares of Rs. 10/- each)

The value of the Company's investment on the basis of the net assets of the subsidiary and associated company as disclosed in its audited accounts for the year ended June 30, 1998 amounted to Rs. 141.537 million (1997: Rs. 110.554 million) and Rs. 138.450 million (1997: Rs. 119.270 million) respectively. Mr. Abdul Razak Diwan is the Chief Executive of associated company.

#### 15. LONG TERM DEPOSITS AND DEFERRED COST

Security Deposits

(15.1)

Deferred cost

(15.2)

(15.1) Security Deposit:

For assets acquired on lease

With banks in lieu of excise duty

With High Court in lieu of levies

on imported machineries

Others

(15.2) Deferred Cost:  
Term Finance Certificates and Right Shares issued  
Less: Amortization

## **16. LONG TERM LOANS**

### **Unsecured - Considered good**

Loan due from  
Executive  
s  
Staff

Less: Recoverable within one year  
Executive  
s  
Staff

All the loans are interest free and are recoverable within a period of 3 years.

## **17. STORES, SPARES AND LOOSE TOOLS**

Stores  
Spares  
Tools  
Spares in transit

**18. STOCK IN TRADE**

Work in process  
Raw and packing material  
Raw material in transit  
Stock of finished goods

**19. TRADE DEBTS - UNSECURED**

Considered good

**20. LOANS AND ADVANCES**

**Unsecured - Considered good**

**Loans recoverable within one year from:**

Executive  
s  
Staff

**Advances to:**

Staff  
Suppliers/Contractors  
Advance Income Tax  
Others

**21. TRADE DEPOSITS AND**

**SHORTTERM PREPAYMENTS**

Trade deposits  
Short term prepayments  
L/G. margin held by banks  
Others

**22. OTHER RECEIVABLES - Considered good**

Export rebate receivable  
Others

**23. SHORT TERM INVESTMENT**

Investment in foreign currency certificates

**24. CASH AND BANK BALANCES**

Cash in hand  
Balance with banks in current accounts

**25. NET SALES**

Gross  
sales  
Less' Sales tax

**26. COST OF GOODS SOLD**

Raw and packing material consumed  
Stores and spares consumed  
Salaries, wages, allowances and other benefits  
Rent and taxes  
Power, gas and chemicals

Insurance  
Vehicles repairs and maintenance  
Repairs and maintenance  
Staff and workers welfare  
Depreciation  
Excise  
duty  
Other manufacturing expenses

Opening stock of work-in-process  
Closing stock of work-in-process

**Cost of goods manufactured**

Opening stock of finished goods  
Closing stock of finished goods

**27. ADMINISTRATION AND MARKETING EXPENSES**

Salaries, allowances and other benefits  
Printing and stationery  
Postage, telegram, telex and telephone  
Rent, rates and taxes  
Insurance  
Advertisement  
Vehicles repairs and maintenance  
Repairs and maintenance  
Legal and professional fees  
Donation  
Travelling  
Material handling charges  
Octroi  
Directors meeting fees  
Depreciation  
Sundry

(27.1

(27.1) None of the directors or their spouses have any interest in any donee fund except a of Rs.1.140 million (1997: Rs. 0.98 million) which has been donated to Gatron Foundation i which Chief Executive and Seven Directors of the Company are trustees/governors.

## **28. OTHER INCOME**

Dividend income  
Gain on disposal of fixed assets  
Rebate on export  
Scrap  
sales  
Miscellaneous income

## **29. FINANCIAL CHARGES**

Interest and financial charges on long term loans  
Mark-up on short term financing  
Exchange loss/(gain)  
Interest on workers' profit participation fund  
Bank charges

## **30. OTHER CHARGES**

Workers' profit participation fund  
Workers' welfare fund  
Amortization (Term finance certificates  
and right shares issued)  
Auditors' remuneration

(30.1

### **30.1 Auditors' remuneration**

Audit fee  
Audit fees of staff and workers provident fund  
and workers profit participation fund  
Central and provincial excise duties  
Out of pocket expenses

### **31. TAXATION**

Current  
Deferred

### **32. MOVEMENTS IN WORKING CAPITAL**

(Increase)/Decrease in current assets

Stores, spares and loose tools  
Stock in trade  
Trade  
debts  
Loans and advances  
Trade deposits and short term prepayments  
Other receivables  
Short term investment

Increase/(Decrease) in current liabilities  
Creditors, accrued and other liabilities



### 33. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:

Short term financing under mark up arrangement  
Cash and bank balances

### 34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for remuneration, including all benefits to the Chief Executive, Directors and Executives of the Company are as follows:

	Chief Executive		Directors
	1998	1997	1998
Meeting Fee	-	-	-
Managerial remuneration	1,475	1,283	2,550
Retirement benefits	312	194	480
Utilities	227	228	400
Other benefits	-	-	340
	-----	-----	-----
	2,014	1,705	3,420
	=====	=====	=====
Number of persons			
For remuneration	1	1	1
For meeting fee	-	-	-

In addition, the Chief Executive is provided with company maintained car and certain directors and executives are provided with household furnitures and cars under Company policies. The mon

impact of which is not quantifiable.

### **35. PLANT CAPACITY AND ACTUAL PRODUCTION**

#### **Polyester yarn**

Annual capacity  
Actual production

#### **Bottle grade polyester chips (PET Resin)**

Annual capacity  
Actual production (Five months production approximately)

### **36. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS**

Purchase of power  
Purchase of goods  
Dividend received  
Sale of fixed assets  
Rent received  
Services

### **37. GENERAL**

37.1 Comparative figures have been re-arranged for comparison, where necessary.

37.2 Figures have been rounded off to the nearest thousand of rupees.

**PEER MOHAMMAD DIWAN**  
Chief Executive

**SHABBIR DIWAN**  
Director

### **CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1998**

#### **Fixed Assets**

Operating assets  
Capital work-in-progress

Long term investment  
Long term deposits  
Long term loans

**Current Assets**

Stores, spares and loose tools  
Stock in trade  
Trade  
debts  
Loans and advances  
Trade deposits and short term prepayments  
Other receivables  
Short term investment  
Cash and bank balances

**Current Liabilities and provisions**

Current maturity of redeemable capital, long term loans  
and liability against assets subject to finance lease  
Short term financing under mark-up arrangement  
Creditors, accrued and other liabilities  
Taxation  
Proposed dividend

Net current assets

**Less: Long term debts**

Redeemable capital  
Long term loans  
Liabilities against assets subject to finance lease  
Deferred liabilities

**Representing:**

Issued, subscribed and paid up capital  
Capital reserve  
General reserve  
Unappropriated profit

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

Consolidated Turnover

Net Profit for the year

Company  
Subsidiary - Gatro Power (Pvt) Limited

Less: Provision for taxation

Consolidated net profit after taxation  
attributed to Company

Retained earnings, beginning of the year

Proposed dividend  
Transfer to general reserve

Retained earnings, end of the year

**STATEMENT UNDER SECTION 237 (1) (e)  
OF THE COMPANIES ORDINANCE, 1984**

a) Subsidiary

Name of subsidiary  
Accounting year end  
Percentage holding  
Nature of Business

b) The net aggregate amount of profits after deducting losses, if any, of the subsidiary company so far as these concern members of the holding company and have not been dealt with in the accounts of the holding company for the year ended June 30, 1998 are:

(i) for the financial year of the subsidiary;

(ii) for the previous years of the subsidiary since it became the holding company's subsidiary;

c) The net aggregate amount of profits after deducting losses, if any, of the subsidiary company so far as these have been dealt with or provision made for losses in the accounts of the holding company for the year ended June 30, 1998 are:

(i) for the financial year of the subsidiary;

(ii) for the previous years of the subsidiary since it became the holding company's subsidiary.

**PEER MOHAMMAD DIWAN**  
Chief Executive

**SHABBIR DIWAN**  
Director

**PATTERN OF SHAREHOLDING AS AT JUNE 30, 1998**

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
104	1	100	8,790
1,631	101	500	781,820
1,342	501	1,000	790,470
329	1,001	5,000	740,290
40	5,001	10,000	241,870
12	10,001	15,000	144,680
7	15,001	20,000	121,000
10	20,001	25,000	227,300
4	25,001	30,000	103,450
3	45,001	50,000	145,100
2	50,001	55,000	108,000
2	55,001	60,000	115,500
1	65,001	70,000	70,000
1	80,001	85,000	81,070
1	85,001	90,000	88,220
8	110,001	115,000	920,000
1	120,001	125,000	120,184
1	125,001	130,000	128,260
1	135,001	140,000	139,317
2	140,001	145,000	287,510
1	145,001	150,000	149,050
1	160,001	165,000	161,911
1	205,001	210,000	205,880
1	225,001	230,000	230,000
1	245,001	250,000	249,840
1	275,001	280,000	275,192
1	280,001	285,000	281,100
1	285,001	290,000	286,440
1	355,001	360,000	356,950
1	370,001	375,000	374,590
1	410,001	415,000	412,872
1	420,001	425,000	421,320
1	475,001	480,000	475,040
1	500,001	505,000	500,600
1	625,001	630,000	625,356
1	955,001	960,000	958,678
1	1,325,001	1,330,000	1,328,606
1	1,600,001	1,605,000	1,602,920
1	1,620,001	1,625,000	1,620,387
1	1,820,001	1,825,000	1,820,379
1	1,955,001	1,960,000	1,958,599
1	1,995,001	2,000,000	1,996,320

1	2,240,0012,245,000	2,240,195
1	2,795,0012,800,000	2,796,884
1	3,445,0013,450,000	3,445,400
1	3,460,0013,465,000	3,463,370
1	4,760,0014,765,000	4,763,770
-----		-----
-		
3,529		38,364,480
=====		=====
=		

<b>Categories of Shareholders</b>	<b>Number of Shareholders</b>	<b>Total Shares Held</b>
Individuals	3,496	24,456,31
Joint Stock Companies	10	3,310,31
Financial Institutions	5	5,918,07
Insurance Companies	5	484,05
Investment Companies	8	4,173,27
Modaraba Companies	5	22,46
	-----	-----
Total	3,529	38,364,48
	=====	=====

**SUBSIDIARY COMPANY  
GATRO POWER (PRIVATE)  
LIMITED  
ANNUAL REPORT 1998**

**CONTENTS**

Company Information  
Directors' Report to the Shareholders  
Auditors' Report to the Members  
Balance Sheet  
Profit and Loss Account  
Notes to the Accounts  
Pattern of Shareholding

**COMPANY INFORMATION**

**BOARD OF DIRECTORS**

Shabbir Diwan

Chief Executive

Zakaria Bilwani  
Usman  
Habib  
Iqbal Abdul Shakoor

**COMPANY SECRETARY**

Mohammad Yasin Bilwani

**BANKERS**

American Express Bank Limited  
Habib Bank Limited  
National Bank of Pakistan  
Societe Generale, The French and International Bank

**AUDITORS**

Hyder Bhimji & Co.  
Chartered Accountants  
Karachi.

**PLANT**

Plot No. M-2/1, Sec. M, H.I.T.E.  
Main R.C.D. High Way  
Hub Chowki, Lasbela Distt.  
Balochistan - Pakistan

**REGISTERED OFFICE**

Room No. 7, 1st Floor  
Saleem Plaza, Jinnah Road  
Quetta - Pakistan.

**LIAISON OFFICE**

8th Floor, Textile Plaza  
M.A. Jinnah/Dunolly Road  
Karachi - 74000 - Pakistan

**DIRECTORS' REPORT TO THE SHAREHOLDERS**

The directors take pleasure in presenting their Report together with the Audited Accounts of the Company for the year ended June 30, 1998.

During the year under review both generators produced 22.307 million units as compared to 22.292 million units produced in previous year. The revenue and net profit increased to Rs. 76.067 million and Rs. 26.583 million from Rs. 62 million and Rs. 19.888 million of previous year.

Due to certain unforeseen breakdowns and delay in arrival of replacement parts from Germany, the number of units generated in the last 2 years has still been below the maximum target set by the management. Hopefully with the corrective measure now taken the mechanical performance of the generator is expected to better this year, helping the company to generate more units this year.

The Company has paid 20% interim dividend and the directors recommend to treat the



same as final dividend for the year under consideration.

At the last Annual General Meeting of the Company held on December 20, 1997 the following four persons were re-elected as directors for further period of three years.

- 1) Mr. Shabbir Diwan
- 2) Mr. Zakaria Bilwani
- 3) Mr. Usman Habib
- 4) Mr. Iqbal Abdul Shakoor

External Auditors M/s. Hyder Bhimji & Company retire and offer themselves for re-appointment.

Statement showing pattern of shareholding in the Company as at June 30, 1998 appears on page 46.

The Company is a wholly owned subsidiary of Gatron (Industries) Limited.

On Behalf of the  
Board

**SHABBIR DIWAN**  
Chief Executive

November 16, 1998.

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

We have audited the annexed Balance Sheet of GATRO POWER (PVT) LIMITED as at June 30, 1998 and the related Profit and Loss Account, together with the notes forming part thereof, for ended and we state that we have obtained all the information and explanations which to the knowledge and belief were necessary for the purposes of our audit and, after due verification 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

(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, the Balance Sheet and Profit and Loss Account 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, 1998 and of the results for the year then ended; and

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

November 16, 1998

**HYDER BHIMJI & CO**  
Chartered  
Accountants

## **BALANCE SHEET AS AT JUNE 30, 1998**

	<b>Note</b>
<b>SHARE CAPITAL AND RESERVES</b>	
Authorised capital 17,000,000 Ordinary shares of Rs. 10 each	
Issued, subscribed and paid up capital	3
Unappropriated Profit	
<b>SHARE APPLICATION MONEY</b>	
Gatron (Industries) Limited - Holding Company	
<b>CURRENT LIABILITIES</b>	
Creditors and accrued liabilities	4
Dividend	
<b>CONTINGENT LIABILITIES</b>	5

**TANGIBLE FIXED ASSETS**

Operating fixed assets 6

**CURRENT ASSETS**

Stock in trade 7

Trade debts - Unsecured considered good  
(due from holding Company)

Trade deposits and  
short term prepayments

Cash and bank balances 8

The annexed notes form an integral part of these accounts.

**SHABBIR DIWAN**  
Chief Executive

**ZAKARIA BILWANI**  
Director

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

Sales

Cost of sales

Cost of goods sold 9

**Note**

Administration expenses 10

Operating Profit

Financial charges

Other charges

11

Net  
Profit

Unappropriated profit brought forward

Profit available for appropriation

Appropriations

Final cash dividend -Nil- (1997: @ 20%)

Interim dividend @ 20% (1997: -Nil-)

Unappropriated Profit carried forward

The annexed notes form an integral part of these accounts.

**SHABBIR DIWAN**  
Chief Executive

**ZAKARIA BILWANI**  
Director

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

**1. STATUS AND PRINCIPAL ACTIVITY**

The Company was incorporated on 15th June, 1994. The exclusive object of the Company is to and operate electric power generating project for generating and supply of electric power and other consumers. The Company is wholly owned subsidiary of Gatron (Industries) Limited

**2. SIGNIFICANT ACCOUNTING POLICIES**

## **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

## **2.2 Tangible fixed assets and depreciation**

Operating fixed assets (except work-in-progress) are stated at cost less accumulated depreciation. Maintenance and normal repairs are charged to income as and when incurred.

Depreciation is computed at the rates mentioned in Note No. 6 whereby the cost of assets will be written off over its estimated useful life, by the diminishing balance method.

Full year's depreciation is charged on additions during the year except in case of significant additions or expansions where the charge for depreciation is made with reference to the date of commencement of operation of such assets. No depreciation is charged on assets deleted or retired during the year.

Gains and Losses on disposal of fixed assets, if any, are included in income currently.

## **2.3 Stock, stores and spares**

Stores, spares, tools and raw material are recorded at cost (computed on the basis of moving average) and work-in-process is also recorded at cost.

## **2.4 Trade debts**

Debts considered irrecoverable, if any, are written off and provision is made for debts considered doubtful.

## **2.5 Revenue recognition**

Revenue is recognised on transmission of electricity to customers.

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

11,800,00  
0 Ordinary shares of Rs. 10/- each  
fully paid in cash  
  
(1997:9,000,000 Ordinary shares  
of Rs. 10/- each)

## **4. CREDITORS AND ACCRUED LIABILITIES**

Creditors - Other finance  
Workers' profit participation fund

Other accrued expenses

**5. CONTINGENT LIABILITIES**

Bank guarantee issued on behalf of Company outstanding as on June 30, 1998 amounted to Rs. 1.564 million.

**6. OPERATING FIXED ASSETS**

Particulars	As at July 01, 1997	COST
		Additions
Plant and Machinery	152,403	1,14
Factory Building	4,301	
Fire Fighting Equipment	5	
Factory Equipment	4	9
Electric Installations	27	55
Furniture & Fixtures	1	2
TOTAL	156,741	1,81
1997	88,984	67,75

**7. STOCK IN TRADE**

Work-in-process  
Raw material

**8. CASH AND BANK BALANCES**

Cash in hand  
Balance with banks

**9. COST OF GOODS SOLD**

Raw material consumed  
Stores and spares consumed  
Salaries, wages, allowances & other benefits  
Rent & taxes  
Insurance  
Repair & maintenance  
Octroi  
Depreciation  
Other manufacturing expenses

Opening stock of work-in-process  
Closing stock of work-in-process

**10. ADMINISTRATION EXPENSES**

Printing & stationery  
Rent, rates & taxes  
Legal & professional fees  
Sundry

**11. OTHER CHARGES**

Workers' profit participation fund  
Audit  
fees  
Central and provincial duties

12.

**GENERAL**

12.1 The Company's profits are exempt from tax as provided in clause 176 of part 1 of 2nd of the Income Tax Ordinance, 1979. Therefore no provision for the same is required to be made.

12.2 Comparative figures have been re-arranged for comparison, where necessary.

12.3 Figures have been rounded off to the nearest thousand of rupees.

**PATTERN OF SHAREHOLDING AS AT JUNE 30, 1998**

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
4	1	100	4
		11,800,00	
1	11,795,001	0	11,799,996
-----			-----
-			
5			11,800,000
=====			=====
=			

Categories of Shareholders	Number of Share Holders	Total Shares Held	Holding Percentage
Individuals			
[Nominees of Gatron (Industries) Ltd.]	4	4	0.0000
Joint Stock Company	1	11,799,996	99.9999
	-----		-----
	-		
	5	11,800,000	100.0000
	=====		=====
	=		