

## **BERGER PAINTS PAKISTAN LIMITED**

**1996-97 REPORT & ACCOUNTS**

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#### **BOARD OF DIRECTORS**

KASSIM DADA, Chairman

DR. MAHMOOD AHMAD, Managing Director

SIKANDER DADA

SHEIKH AZHAR-UL-HAQ (N.I.T. Nominee)

V. K. CHADDA

C.H. CLOVER

MUHAMMAD ILYAS (Alternate Syed Mohammad)

#### **SECRETARY**

Syed Mohammad

#### **BANKERS**

American Express Bank Ltd.

Credit Agricole Indosuez

Faysal Bank Limited

Habib Bank Limited

Habib Credit & Exchange Bank Ltd.

Hong Kong and Shanghai Banking Corporation Ltd.

National Development Finance Corporation

Oman International Bank S.A.O.G.

Schon Bank Limited

**AUDITORS**

A.F. Ferguson & Co.

**SOLICITORS**

Surridge & Beecheno

**REGISTERED OFFICE**

D-31, South Avenue,

S.I.T.E.,

Karachi.,

Telephone: 2573711-22 (12 Lines)

2560896-8

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**Notice of Meeting**

NOTICE IS HEREBY GIVEN that the forty-seventh Annual General Meeting of Berger Paints Pakistan Limited will be held on Wednesday, November 12, 1997 at 10:00 a.m. at the Overseas Investors Chamber of Commerce & Industry, Chamber of Commerce Building, Talpur Road, Karachi to transact the following business.

**ORDINARY BUSINESS**

1. To receive and consider the Audited Accounts of the Company for the year ended June 30, 1997 and the Directors' and Auditors' Reports thereon.
2. To approve dividend at Re. 1/- per share (10%) for the year ended June 30, 1997.
3. To appoint Auditors and fix their remuneration.

**SPECIAL BUSINESS:**

1. To approve the remuneration of the Chief Executive.
2. To consider .making investment in the share capital of a Private Limited Company to be formed.
3. To approve the issue of bonus shares in the ratio of 1:10.  
Statement under Section 160 of the Companies Ordinance, 1984, and Resolutions as required under Section 164(1) of the Companies Ordinance, 1984, pertaining to the Special Business referred to above are annexed.

September 30, 1997

Registered Office:  
D-31, South Avenue  
S.I.T.E.,  
Karachi

BY ORDER OF THE BOARD  
SYED MOHAMMAD  
Secretary

**NOTES:**

1. The Share Transfer Books of the Company will remain closed from November 04, 1997 to November 12, 1997 (both days inclusive).

2. A member of the Company entitled to attend, speak and vote at the meeting may appoint another member as his/her proxy to attend, speak and vote on his/her behalf. The completed proxy form must be received at the Registered Office of the Company not less than 48 hours before the meeting.

### **Statement Under Section 160 of The Companies Ordinance, 1984**

#### **1. Remuneration of Chief Executive**

The Board of Directors in their meeting held on April 02, 1996, appointed Dr. Mahmood Ahmad as the Chief Executive of the Company on the terms and conditions as specified in the Company's letter dated April 03, 1996 issued to the members in accordance with section 218 of the Companies Ordinance 1984.

The Board has at its meeting held on September 30, 1997 resolved to revise the annual remuneration of Dr. Mahmood Ahmad effective from April 27, 1997 from Rs. 720,000 to Rs. 840,000 and thereafter 15% increase for next year. This was advised to the members through Company's letter dated October 06, 1997 as required by section 218 of the Companies Ordinance, 1984.

Other benefits as set out in the Company's letter dated October 06, 1997 referred to above will remain unchanged.

Approval of above is sought from the General body of the Shareholders.

#### **Resolution as per Section 164(1) of the Companies Ordinance 1984**

"Resolved that the revision in annual remuneration of Dr. Mahmood Ahmad, Chief Executive as specified in the Company's letter dated October 06, 1997 issued to the members in accordance with section 218 of the Companies Ordinance, 1984 be and is hereby approved".

#### **2. Investment in Associated Company**

Berger Paints Pakistan Limited in order to acquire latest technology for production and application of road marking paints and allied products signed a Memorandum of Understanding with DPI Sendirian Berhad of Malaysia to form a Private Limited Company to undertake manufacturing, selling and contracts for application of road marking paints, traffic signs and traffic safety products.

The initial capital of the Company will be Rs. 10 million in the following ratio:

Berger : 51%  
DPI : 49%

According to SRO No. 634(I)/96 dated July 30, 1996 the following information is required to be annexed with the resolution for approval of the investment for the purpose of Section 208 of the Companies Ordinance, 1984.

a) In Case of Equity Investment:

- |  |  |
|--|--|
| i) Name of Investee Company:   | Berger- DPI (Private) Limited<br>(Proposed Name)   |
| ii) Nature, amount and extent of investment:   | Equity participation as<br>long-term investment of upto<br>Rs. 5.10 million or 51% of the<br>equity                |
| iii) Price at which shares to be purchased:  | At par value of Rs. 10 per share   |
| iv) Source of Funds from where:<br>shares will be purchased  | From own funds   |
| v) Period for which investment:<br>will be made  | Long-term investment   |
| vi) Purpose of Investment  | Expansion of business  |
| vii) Benefits likely to accrue to company and:<br>the shareholders from the proposed<br>investment | Dividend on profitability and<br>the gain on market capitalization<br>of its shares, acquisition of<br>technology. |

**RESOLUTIONS AS PER SECTION 164(1)  
OF THE COMPANIES ORDINANCE 1984**

"RESOLVED that this body approves the action taken by the Board of Directors of BERGER for obtaining technology in road marking paints and in allied products, formation and incorporation of a Private Limited Company".

"FURTHER RESOLVED that the Board of Directors be and are hereby authorised to make investment in the said Company not exceeding Rs. 5.1 million".

"FURTHER RESOLVED that the Directors be and are hereby authorised to take all steps necessary for implementing these RESOLUTIONS".

**3. Issuance of Bonus Shares**

The Board of Directors in their meeting held on September 30, 1997 has recommended issuance of bonus shares in the ratio of 1:10 which is required to be approved by the general body of shareholders.

**Resolution as per Section 164(1)  
of the Companies Ordinance 1984**

"RESOLVED that a sum of Rs. 2,803,086 out of the profits available for appropriation be capitalised for issuing fully paid shares of Rs. 10 each as bonus shares to be allotted to those share-holders whose names appear in the register on November 03, 1997 in the proportion of one share for every ten shares held. The said bonus shares shall rank

pari-passu with the existing shares of the Company".

"FURTHER, RESOLVED that bonus shares entitlement in fractions be sold by the Directors on the Karachi Stock Exchange and the proceeds be distributed to Shareholders in accordance with their entitlements".

"FURTHER, RESOLVED that for the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to give such directions as they deem fit to settle any question or any difficulty that may arise in the distribution of the said bonus shares or in payment of the sale proceeds of fractions".

### **Chairman's Review**

I am pleased in presenting my report on the Company's performance for the year ended June 30, 1997.

#### **Trading Results:**

The market remained uncertain and static during the year 1996-97 because of the changes in the Government and the general election held in February, 1997. The economic reform policies and incentives to stimulate the economy by the new Government were announced towards the last quarter. We hopefully look forward to the upturn in the market in the coming years. However, despite the adverse market conditions your Company has achieved a growth of 7% in turnover compared to last year, primarily by improving the product mix and concentrating on profitable segments of the trade. The profit after tax for the year was Rs. 22.41 million and your Board is pleased to recommend a dividend of Re. 1/- per share in cash and bonus shares in the ratio of one share for every ten shares (10%).

J&N Pakistan Limited, wholly owned subsidiary company at Mirpur, performed satisfactorily and contributed in the profit by way of dividend to the Company.

#### **Excise Duty:**

In view of delay in the refund of Rs. 18 million from Excise Department on account of excise duty paid on thinners, the Company has filed during the year an execution application with the High Court of Sindh.

#### **General:**

Re-instatement of fixed capacity tax system on unorganised sector for levy of Excise duty and Sales tax has again adversely affected the organised sector as they are paying these taxes on actual basis. We expect the Government will take action to ensure uniformity in this sector.

Industrial relations remained satisfactory during the year.

#### **Future Outlook:**

The construction of highways and road development programmes undertaken by the Government have created an opportunity for developing road marking paints and their

application. Your Company has signed a Memorandum of Understanding with DPI Sendirian Berhad of Malaysia for acquiring the technology and technique of its application. For this purpose a Joint Venture Company is being established in which your Company will be holding 51% shares. This is in keeping with our objectives of improving and acquiring latest technology to enhance our share in the market.

I take this opportunity to record my deep sense of appreciation for the efforts put in by the staff at all levels during the year.

### Directors' Report

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

	Rupees (in thousands)	Rupees
Net Profit for the period before providing for taxation but after provision has been made for depreciation, is		29,330
Less: Taxation		
Current	3,531	
Deferred	3,389	6,920
	-----	-----
Profit After Tax		22,410
Add: Unappropriated Profit Brought Forward		2,113
		-----
Amount available for appropriation		24,523
Proposed Dividend @ Re. 1/- per share (10%)	2,803	
Transfer to Reserve for issue of Bonus Shares	2,803	
Transfer to General Reserve	15,000	20,606
	-----	-----
Unappropriated Profit Carried Forward		3,917
		=====

A statement showing the pattern of holding of the shares held by the Shareholders of Berger Paints Pakistan Limited as at June 30, 1997 appears on page No. 33.

The audited accounts of the wholly-owned subsidiary, J&N Pakistan Limited for the year ended June 30, 1997 are attached.

The earning per share is Rs. 7.99 for the year (1996: Rs. 6.83 for eighteen months).

The Company's holding company is Slotrapid Limited which is incorporated in the United Kingdom.

The present auditors, A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

**Auditors' Report to the Members**

We have audited the annexed balance sheet of Berger Paints Pakistan Limited as at June 30, 1997 and the related profit and loss account and cash flow statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

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

(ii) the expenditure incurred during the year was for the purposes 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 the cash flow statement together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 1997 and of the profit and the cash flows for the year then ended; and

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

**A.F. Ferguson & Co.**

Chartered Accountants

Karachi: October 14, 1997

**Balance Sheet as at June 30, 1997**

	Note	June 30, 1997	June 30, 1996
(Rupees in thousand)			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital			
Authorised			
5,000,000 ordinary shares of Rs. 10 each		50,000	50,000
		=====	=====
Issued, subscribed and paid-up	3	28,031	25,483
Reserves	4	88,058	72,803
Unappropriated profit		3,917	2,113

		120,006	100,399
SURPLUS ON REVALUATION OF FIXED ASSETS	5	43,779	43,779
<b>LONG-TERM FINANCE</b>	6	37,500	9,700
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES</b>	7	16,021	8,953
<b>DEFERRED TAXATION</b>	8	282	-
<b>CURRENT LIABILITIES</b>			
Current maturity of long-term finance	6	3,200	2,900
Current maturity of liabilities against assets subject to finance leases	7	6,836	5,499
Short-term finances	9	35,000	43,670
Running finance under mark-up arrangements	10	48,801	32,065
Creditors, accrued expenses and other liabilities	11	280,498	271,721
Unclaimed dividends		206	166
Proposed dividend		2,803	6,371
		-----	-----
		377,344	362,392
		-----	-----
<b>CONTINGENCIES AND COMMITMENTS</b>	12	594,932	525,223
		=====	=====
<b>TANGIBLE FIXED ASSETS</b>			
Operating fixed assets	13	81,337	69,250
Capital work-in-progress	14	2,111	1,338
		-----	-----
		83,448	70,588
LONG-TERM INVESTMENTS	15	950	950
LONG-TERM LOANS AND ADVANCES	16	4,140	3,097
LONG-TERM DEPOSITS		1,875	1,938
<b>DEFERRED TAXATION</b>	6	-	3,107
<b>CURRENT ASSETS</b>			
Stores		2,581	3,614
Stocks	17	161,861	147,516
Trade debts	18	174,891	165,004
Loans and advances	19	4,135	5,510
Trade deposits and short-term prepayments	20	5,374	3,202
Other receivables	21	96,323	68,855
Short-term investments	22	5,000	5,000
Income tax refundable		31,308	17,310
Cash and bank balances	23	23,046	29,532
		-----	-----
		504,519	445,543
		-----	-----
		594,932	525,223
		=====	=====

The annexed notes form an integral part of these accounts.



**Profit and Loss Account**  
**for the year ended June 30, 1997**

		Year ended June 30, 1997	Eighteen months ended June 30, 1996
	Note		
		(Rupees in thousand)	
Sales	24	715,862	944,244
Cost of goods sold	25	598,120	823,318
		-----	-----
		117,742	120,926
Selling and administration expenses	26	105,702	117,454
		-----	-----
		12,040	3,472
Other income	27	56,596	86,996
		-----	-----
		68,636	90.47
		-----	-----
Financial charges	28	37,431	48,554
Other charges	29	1,875	22,167
		-----	-----
		39,306	70,721
		-----	-----
Profit before taxation		29,330	19,747
		-----	-----
Taxation			
Current - for the year		3,531	4,622
- for prior year		-	(172)
Deferred - for the year		2,275	(2,112)
- for prior years		1,114	-
		-----	-----
		6,920	2,338
		-----	-----
Profit after taxation		22,410	17,409
Unappropriated profit brought forward		2,113	5,878
		-----	-----
		24,523	23,287
		-----	-----
Appropriations			
Transfer to general reserve		15,000	12,000
		-----	-----
Transfer to reserve for issue of bonus shares		28,031	2,548
Tax thereon @ 10%		-	255
		-----	-----
		2,803	2,803

Proposed final dividend Re. 1.00 per share

(1996: Rs. 2.50 per share)	2,803	6,371
	-----	-----
	20,606	21,174
	-----	-----
Unappropriated profit carried forward	3,917	2,113
	=====	=====

The annexed notes form an integral part of these accounts.

**Cash Flow Statement  
for the year ended June 30, 1997**

	Note	Year ended June 30, 1997	Eighteen months ended June 30, 1996
(Rupees in thousand)			
<b>Cash flow from operating activities</b>			
Cash (utilised for)/generated from operations	33	(1,073)	8,583
Financial charges paid		(35,546)	(48,830)
Taxes paid		(17,529)	(14,517)
Long-term loans and advances (net)		(1,043)	(958)
Long-term deposits (net)		63	203
		-----	-----
Net cash (outflow) from operating activities		(55,128)	(55,519)
		-----	-----
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		(19,204)	(15,893)
Sale proceeds on disposal of fixed assets		10,874	7,060
Income from investments received		125	187
Dividends received		31,000	72,500
		-----	-----
Net cash inflow from investing activities		22,795	63,854
		-----	-----
<b>Cash flow from financing activities</b>			
Long-term finance less repayments		28,100	11,100
Repayments of liabilities under finance leases (net)		(3,988)	(4,388)
Repayment of short-term finances (net)		(8,670)	3,000
Dividends paid		(6,331)	(3)
		-----	-----
Net cash inflow from financing activities		9,111	9,709
		-----	-----
Net (decrease)/increase in cash and cash equivalents		(23,222)	18,044
Cash and cash equivalents at the beginning of the year		(2,533)	(20,577)
		-----	-----
Cash and cash equivalents at the end of the year	34	(25,755)	(2,533)
		=====	=====

The annexed notes form an integral part of these accounts.

## **Notes to and forming part of the Accounts for the year ended June 30, 1997**

### **1. INTRODUCTION**

1.1 The Company was incorporated in Pakistan on March 25, 1950 as a limited company and was subsequently converted into a public limited company. The Company's shares are quoted on the Karachi and Islamabad stock exchanges. The Company is engaged in manufacturing of paints, varnishes and other related items.

1.2 The option available to Companies to adopt a calendar year as income year under the provisions of the Income Tax Ordinance, 1979 was withdrawn through the Finance Act, 1995. Consequently, the Company is now required to adopt the financial year (i.e. July to June) as its income year for tax purposes. In view of the above the Company has changed its accounting year end from December to June effective June 30, 1996. As a consequence of this change these accounts have been prepared for the year ended June 30, 1997, whereas the corresponding figures are for the eighteen months period ended June 30, 1996.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention except that certain fixed assets have been included at a revaluation as referred to in note 2.4 below.

#### **2.2 Staff retirement benefits**

##### **(a) Gratuity**

The Company operates a funded gratuity scheme in respect of all permanent employees and payments to the fund are made in accordance with the Income Tax Rules, 1982. The last actuarial valuation was carried out as of December 31, 1996 on the basis of the 'Attained Age Method'. As of December 31, 1996, the liability for past services was Rs. 6.492 million against which the market value of the fund's assets was Rs. 5.963 million. The International Accounting Standard No. 19 'Retirement Benefit Costs' requires that the deficit should be spread over the working lives of existing members. Accordingly, the actuary has recommended that contributions at the current rate of 5.25% of the annual basic payroll should be made in the future which will be sufficient to absorb the deficit. The principal actuarial assumptions used in the valuation of the scheme as of December 31, 1996 by the actuary are:

- Expected rate of growth in future salaries: 8% per annum
- Expected rate of return on fund: 10% per annum

##### **(b) Pension**

The Company has established a pension fund scheme for all executives. Contributions are payable to the fund on a monthly basis by the company and employees respectively at rates of 5% and 2% of basic salaries of the employees which rates are in excess of the minimum contribution rates recommended by the actuary of 1% and 2.5% respectively. The last actuarial valuation of this fund was carried out as of December 31,

1994 on the basis of the 'aggregate method'. As of December 31, 1994 the liability for past services was Rs. 2.749 million against which the market value of the fund's assets was Rs. 7.679 million. The principal actuarial assumptions used in the valuation of the scheme as of December 31, 1994 by the actuary are:

- Expected rate of growth in future salaries: 8% per annum
- Expected rate of return on fund: 10% per annum

### **2.3 Taxation**

#### **Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credit and tax rebates available, if any, or minimum tax at 0.5% of turnover, whichever is higher.

#### **Deferred**

The Company accounts for-deferred taxation on all material timing differences using the liability method.

### **2.4 Tangible fixed assets and depreciation**

Leasehold land, buildings thereon and plant and machinery as at March 31, 1988 have been revalued by an independent valuer as of that date and are shown at net revalued amounts, additions subsequent to that date are stated at cost. All other assets including capital work-in-progress are stated at cost.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. A full year's depreciation is charged on additions, while no depreciation is charged on items disposed off during the year.

Freehold land is stated at cost. Leasehold land is amortised over the period of the lease. Maintenance and normal repairs are charged to income as and when incurred.

Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Profit or loss on disposal of assets is recognised in income currently.

### **2.5 Fixed assets acquired on finance leases**

Consistent with prior periods the company accounts for fixed assets acquired under finance leases by recording the asset and the related liability. These amounts are determined on the basis of discounted value of minimum lease payments. Financial charges are allocated to the accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged to income applying the straight line method at the rates stated in note 13(a) below.

### **2.6 Stores**

Stores are valued at actual cost.

### **2.7 Stocks**

Stocks of raw and packing materials, except those in transit, and semi-processed and finished goods are valued at the lower of average cost and net realisable value. Average cost in relation to finished goods represents prime cost and appropriate portion of manufacturing expenses, and excise duty paid thereon. Semi-processed goods are valued at direct materials cost only.

Items in transit are stated at cost comprising invoice values plus other charges paid thereon.

Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less costs necessarily to be incurred for its sale.

:~'

**2.8 Trade debts**

Debts considered irrecoverable are written off and provision is made against those considered doubtful of recovery.

**2.9 Investments**

Investments are stated at cost.

**2.10 Foreign currency translations**

Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange which approximate to those prevailing at the balance sheet date. Exchange gains and losses are included in income currently.

**2.11 Revenue recognition**

Sales are recorded when goods are despatched and invoiced.

Income from investments is accounted for in accordance with the rules under which such investments are made.

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

	June 30, 1997	June 30, 1996
(Rupees in thousand)		
Ordinary shares of Rs. 10 each		
887,028 shares fully paid in cash	8,870	8,870
1,916,058 shares issued as fully paid bonus shares	19,161	16,613
-----	-----	-----
2,803,086 (1996: 2,548,260)	28,031	25,483
=====	=====	=====

At June 30, 1997 Slotrapid Limited U.K. and their nominees held 1,406,933 (1996: 1,279,030) ordinary shares.

**4. RESERVES**

	June 30, 1997	June 30, 1996
(Rupees in thousand)		
General reserve		
At the beginning of the year/period	70,000	58,000
Transfer from profit and loss account	15,000	12,000
	-----	-----
	85,000	70,000
Reserve for issue of bonus shares		
At the beginning of the year/period	2,803	2,317
	-----	-----
Transfer from profit and loss account	28,031	25,481
Tax @ 10% thereon	-	255
	-----	-----
	2,803	2,803
	-----	-----
	5,606	5,120
Bonus shares issued during the year/period	(2,548)	(2,317)
	-----	-----
	3,058	2,803
	-----	-----

88,058                      72,803  
 =====                      =====

#### 5. SURPLUS ON REVALUATION OF FIXED ASSETS

This represents surplus over book values resulting from the revaluation of fixed assets at March 31, 1988, adjusted by surplus realised on disposal of revalued assets transferred to General Reserve.

#### 6. LONG-TERM FINANCES

	Note	June 30, 1997	June 30, 1996
(Rupees in thousand)			
Secured			
From a bank	6.1	2,200	4,600
From a bank	6.2	7,500	8,000
From a development financial institution	6.3	21,000	-
From a non-banking financial institution	6.4	10,000	-
		-----	-----
		40,700	12,600
Current maturity shown under current liabilities			
Secured		3,200	2,900
		-----	-----
		37,500	9,700
		=====	=====

6.1 The Company has arranged a term finance facility from a bank of Rs. 6 million. The facility is secured by a joint hypothecation/pledge' of raw materials and plant and machinery. The rate of mark up on the facility is 17.52% per annum and the amount is to be repaid by May 30, 1998 in thirty equal monthly installments commencing December 31, 1995.

6.2 The Company has arranged a term finance facility from a bank of Rs. 8 million. The facility is secured by a mortgage over the company's leasehold lands. The rate of mark-up on the facility is 12% per annum and amount is to be repaid by the year 2004 in sixteen semi-annual installments commencing March 31, 1997.

6.3 The Company has arranged a term finance facility from a development financial institution of Rs. 25 million. The facility is secured by hypothecation of stocks of raw material, work-in-process (semi-processed goods), finished goods, stores and spares and book debts and pledge on short term investments. The rate of mark-up on the facility is 21% per annum and amount is to be repaid by August 30, 1998.

6.4 The Company has arranged a term finance facility from a non-banking financial institution of Rs. 10 million. The facility is secured by a first charge on stocks and book debts, ranking pari passu with other creditors. The rate of mark-up on the facility is 20% per annum upto March 22, 1998 and 21% for the remaining period of the facility and the amount is to be repaid by March 22, 1999.

#### 7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

	June 30, 1997	June 30, 1996
(Rupees in thousand)		

Minimum lease payments outstanding	28,824	17,940
Less: Finance charge not due	5,967	3,488
	-----	-----
	22,857	14,452
Less: Current maturity shown under current liabilities	6,836	5,499
	-----	-----
	16,021	8,953
	=====	=====

This represents finance leases entered into with leasing companies and modarabas for building on leasehold land, plant and machinery, laboratory equipment, electric fittings, computers, office machines and motor cars. The balance of the liability is payable over a period from July 1997 to May 2001 in periodic installments.

The periodic lease payments include built in rates of mark-up ranging between 19.83 to 25.52 per cent per annum which are used as discounting factors.

**8. DEFERRED TAXATION**

	Note	June 30, 1997	June 30, 1996
(Rupees in thousand)			
Credit/(debit) balance arising in respect of:			
- Provision for doubtful debts		(2,035)	(2,219)
- Accelerated tax depreciation		1,129	(1,425)
- Others		1,188	537
		-----	-----
		282	(3,107)
		=====	=====

**9. SHORT-TERM FINANCES**

From a bank	9.1	35,000	20,000
From a development financial institution (DFI)	9.2	-	23,670
		-----	-----
		35,000	43,670
		=====	=====

9.1 The Company has arranged short term finance of Rs. 35 million under Morahaba LPO (Local Purchase Order) facility with a bank. The rate of mark-up on the facility is 17% per annum. The facility is secured by pari passu charge by way of hypothecation of stocks and trade debts.

9.2 The Company had arranged a short-term finance facility aggregating Rs. 24 million under a mark-up arrangement with a DFI. The rate of mark-up on this facility was Rs. 0.60 per Rs. 1,000 per diem. The facility was secured by way of a second charge on the Company's assets, pledge on short term investments and a guarantee given by a bank. During the year the Company has repaid the amount outstanding against this short term finance facility.

**10. RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS**

	June 30, 1997	June 30, 1996
(Rupees in thousand)		

From banks	48,801	32,065
	=====	=====

The Company has arranged short term running finance facilities from various banks on mark-up basis to the extent of Rs. 63.6 million (1996: Rs. 48.6 million). Mark-up on such arrangements ranges from 16% to 19% per annum and is payable between July 1, 1997 to March 31, 1998.

The arrangements are secured by joint hypothecation of the Company's stocks, trade debts, and movable assets.

The facility for opening letters of credits and guarantees as at June 30, 1997 amounts to Rs. 128.580 million (1996: Rs. 100.871 million) of which the amount remaining un-utilised at the period end was Rs. 83.070 million (1996: Rs. 23.963 million).

11. CREDITORS, ACC	Note	June 30, 1997	June 30, 1996
<b>OTHER LIABILITIES</b>			
(Rupees in thousand)			
Creditors	11.1	219,070	192,697
Accrued liabilities		17,943	13,444
Payable to a modaraba		-	83
Bills payable		25,761	37,037
		-----	-----
Mark-up on long-term finances		1,612	858
Mark-up on short-term finances		1,859	377
Mark-up on running finance		2,091	2,554
		-----	-----
		5,562	3,789
Advances from customers		2,802	17,558
Sales tax payable		-	2,114
Workers' profits participation fund	11.2	2,767	1,974
Workers' welfare fund		1,240	941
Others		5,353	2,084
		-----	-----
		280,498	271,721
		=====	=====

11.1 Included in the above are amounts due to an associated undertaking aggregating Rs. 177.253 million (1996: Rs. 139.185 million).

11.2 WORKERS' PROFITS PARTICIPATION FUND	June 30, 1997	June 30, 1996
(Rupees in thousand)		
Balance at July 1, 1996/January 1, 1995	1,974	1,495
Allocation for the year/period	1,576	1,080
	-----	-----
	3,550	2,575
Interest on fund utilised in the Company's business	318	206



	-----	-----
	3,868	2,781
Less: Amount paid to:		
- Workers on behalf of the fund	811	425
- The government (workers' welfare fund)	290	382
	-----	-----
	1,101	807
	-----	-----
Balance as at June 30	2,767	1,974
	=====	=====

**12. CONTINGENCIES AND COMMITMENTS**

(a) Guarantees aggregating Rs. 24.653 million (1996: Rs. 11.123 million) have been given to three banks for securing a lease finance and a running finance of an associated undertaking of the company.

(b) Commitments in respect of ,capital expenditure contracted for as at June 30, 1997 amounted to Rs. 0.043 million (1996: Rs. 4.08 million)

(c) Commitments for rentals under operating lease agreements as at June 30, 1997 amounted to Rs. 0.449 million (1996: Rs. 1.357 million) payable over the next two years as follows:

Year	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
June 30, 1997	-	895
June 30, 1998	381	394
June 30, 1999	68	68
	-----	-----
	449	1,357
	=====	=====

**13. OPERATING FIXED ASSETS**

(a) The following is a statement of operating fixed assets:

	Cost and revalua- tion to July 1, 1996	-	Additions/ (disposal)/ *re-classic- fications **(adjust- ments)	-	Cost and revalua- tion to June 30, 1997	-	Accumu- lated depre- ciation as at July 1, 1996	-	Depreciation charge for the year (depreciation on dele- tions)/ *re-classi- fications	-	Accumu- lated depre- ciation as at June 30, 1997	-	Net Book value at June 30, 1997	-	Annual rate of depre- ciation
	(Rupees in thousands)														
Freehold land	2,405	-		-	2,405	-	-	-	-	-	-	-	2,405	-	-
Leasehold lands	18,657	-		-	18,657	-	2,334	-	264	-	2,598	-	16,059	-	1.40 & 1.45
Building on freehold land	4,157	-		-	4,157	-	156	-	104	-	260	-	3,897	-	2.50

Buildings on leasehold land	32,165	3,687	35,852	13,124	896	14,020	21,832	2.50
Plant and machinery	28,556	10,907	32,126	21,438	2,045	23,732	8,394	10
		(7,890)						
		*553			*249			
Laboratory equipment	1,026	1,313	1,396	933	50	983	413	10
		(943)						
Electric fittings	4,559	487	4,983	2,084	384	2,455	2,528	10
		(63)			(13)			
Computers	3,506	1,290	4,097	3,316	245	3,561	536	25
		(699)						
Office machines	868	412	950	573	62	635	315	10
		(330)						
Furniture and fixtures	4,099	321	4,420	2,859	348	3,207	1,213	10
Delivery vans	489	-	489	439	36	475	14	20
Motor cars	1,922	14	1,281	1,046	256	778	503	20
		(655)			(524)			
Assets held under finance leases:								
Building on								
leasehold land	4,000	-	4,000	450	100	550	3,450	2.50
Plant and machinery	9,184	7,442	16,073	3,335	1,670	4,756	11,317	10-20
		*(553)			*(249)			
Laboratory equipment	3,126	943	4,069	893	407	1,300	2,769	10
Electric fittings	520	47	567	148	57	205	362	10
Computers	1,416	699	2,115	963	434	1,397	718	25
Office machines	250	698	948	113	95	208	740	10
Motor cars	3,641	2,564	6,205	1,092	1,241	2,333	3,872	20
-----	-----	-----	-----	-----	-----	-----	-----	-----
1997	124,546	30,824	144,790	55,296	8,694	63,453	81,337	
		(10,580)			(537)			
=====	=====	=====	=====	=====	=====	=====	=====	=====
1996	111,012	21,022	124,546	45,195	11,598	55,296	69,250	
		(7,139)			(1,497)			
		** (349)						
=====	=====	=====	=====	=====	=====	=====	=====	=====

(b) The above represents values of fixed assets arising from revaluation on March 31, 1988 with additions thereafter stated at cost. Had there been no revaluation on that date the figures of fixed assets, after considering the reassessed useful lives of the revalued assets, would have been as follows:

**Cost to      Accumulated      Net Book**  
**June 30,      Depreciation value as at**  
**1997      as at June      June 30, 1997**  
**30, 1997**  
**(Rupees in thousand)**

Freehold land	2,405	-	2,405
Leasehold lands	1,261	310	951
Building on freehold land	4,157	260	3,897
Buildings on leasehold lands	15,487	9,169	6,318
Plant and machinery	26,110	14,481	11,629

Laboratory equipment	1,396	983	413
Electric fittings	4,983	2,455	2,528
Computers	4,095	3,561	534
Office machines	950	635	315
Furniture and fixtures	4,420	3,207	1,213
Delivery vans	489	475	14
Motor cars	1,281	778	503
Assets held under finance leases:			
Building on leasehold land	4,000	550	3,450
Plant and machinery	16,073	4,756	11,317
Laboratory equipment	4,069	1,300	2,769
Electrical fittings	567	205	362
Computers	2,115	1,397	718
Office machines	948	208	740
Motor cars	6,205	2,333	3,872
	-----	-----	-----
	101,011	47,063	53,948
	=====	=====	=====

(c) Following are the details of fixed assets disposed off:

	Cost or revaluation	Accumulated depreciation	Net Book value	Sale proceeds	Mode of sale	Particulars of buyers
(Rupees in thousand)						
Plant and machinery	1,442	-	1,442	1,442	Sale and leaseback	First UDL Modaraba 1st Floor, NIC Building, Abbasi Shaheed Road, Karachi.
	6,448	-	6,448	6,000	do	National Development Leasing Corporation (NDLC), 10th Floor, NIC Building, Abbasi Shaheed Road, Karachi.
Laboratory equipment	943	-	943	943	do	Pak Gulf Leasing Company Limited, Unibro House, 114, 9th Street, Defence Housing Society, Phase I, Karachi.
	-----	-----	-----	-----		
Balance c/f	8,833	-	8,833	8,385		

	Cost or revaluation	Accumulated depreciation	Net Book value	Sale proceeds	Mode of sale	Particulars of buyers
(Rupees in thousands)						
Balance b/f	8,833	-	8,833	8,385		
Electric fittings	16	13	3		2 Negotiation	Mr. M. Shahid Iqbal, B-88, Block-5, Gulshan-e-Iqbal,

	47	-	47	47	Sale and leaseback	Karachi (Former company executive) Pak Gulf Leasing Company Limited, Unibro House, 114, 9th Street, Defence Housing Society, Phase I, Karachi.
Computers	699	-	699	699	do	Pak Gulf Leasing Company Limited, Unibro House, 114, 9th Street, Defence Housing Society, Phase I, Karachi.
Office machines	330	-	330	330	do	Pak Gulf Leasing Company Limited, Unibro House, 114, 9th Street, Defence Housing Society, Phase I, Karachi.
Motor cars	75	53	22	55	Negotiation	Mr. Tariq A. Siddique 293/19, AI-Noor Society F.B. Area, Karachi
	84	26	88	92	Tender	Mr. S.M. Ishaque House No. 279, Street No.14, Punjab Colony, Karachi
	15	8	7	276	Tender	Mr. Shahid Iqbal, 306, Abid Town, Gulshan-e-Iqbal, Karachi.
	16	-	16	143	Tender	Mr. Amir Azeem, Qureshi, III D-28/32, Nazimabad No. 3, Karachi
	56	28	28	400	Tender	Mr. Tariq Saeed, 306, Abid Town, Gulshan-e-Iqbal, Karachi.
	209	209	-	217	Tender	Mr. Syed Kazim Raza, B-245, Block 'C', North Nazimabad, Karachi.
	200	200	-	228	Tender	Mr. Sajjad Kalwar, 12 Block 6, PECHS, Karachi.
	----- 10,580 =====	----- 537 =====	----- 10,043 =====	----- 10,874 =====		

**Note**                      **June 30,**                      **June 30,**  
    **1997**                                      **1996**  
**(Rupees in thousand)**

Plant and machinery	18	1,338
Motor vehicles	2,093	-
	-----	-----
	2,111	1,338
	=====	=====

**15. LONG-TERM INVESTMENTS**

- Unquoted, in a wholly owned subsidiary company  
95,000 (1996: 95,000) fully paid ordinary shares of  
Rs. 10 each in J & N Pakistan Limited.

Break up value of the share at June 30, 1997  
is Rs. 221.96 (1996: Rs. 207.29). The name of the  
company's chief executive is Mr. Syed Mohammed

15.1	950	950
------	-----	-----

- Unquoted, in an associated company 46,550  
(1996: 46,550) fully paid ordinary shares in Candian  
Metal Containers (Private) Limited.

Break up value of the share at June 30, 1997 is  
Rs. Nil. The company holds 49% of the investee's  
total equity. The name of the company's chief executive  
is Mr. Iqbal Surti

15.2	-	-
	-----	-----
	950	950
	=====	=====

15.1 The accounts of the subsidiary company for the year ended June 30, 1997 are annexed.

15.2 The value of the company's holding in Candian Metal Containers (Private) Limited has been fully  
written off as the company has ceased to operate since August 23, 1993.

	<b>June 30,</b>	<b>June 30,</b>
	<b>1997</b>	<b>1996</b>
	<b>(Rupees in thousand)</b>	

**16. LONG-TERM LOANS AND ADVANCES**

Considered good

- due from executives	1,625	1,379
- due from employees	2,515	1,718
	-----	-----
	4,140	3,097
	=====	=====

Outstanding for more than three years	904	707
Others	3,236	2,390
	-----	-----
	4,140	3,097
	=====	=====

Loans have been provided to employees of the company under a scheme to facilitate purchase of  
motor vehicles and are repayable over a period of three to five years.

The maximum amount of loans and advances due from executives of the company at the end of

any month during the period was Rs. 2.208 million (1996: Rs. 1.916 million).

17. STOCKS	Note	June 30, 1997	June 30, 1996
(Rupees in thousand)			
Raw and packing materials [including items in transit Rs. 18.787 million; (1996:29.238 million)]		84,348	68,241
Semi-processed goods		12,697	11,295
Finished goods		64,816	67,980
		-----	-----
		161,861	147,516
		=====	=====
<b>18. TRADE DEBTS</b>			
<b>unsecured</b>			
Considered good			
- due from associated undertakings	18.1	76,530	61,404
- due from others	18.2	98,361	103,600
		-----	-----
		174,891	165,004
Considered doubtful			
-- due from others		6,167	6,167
		-----	-----
		181,058	171,171
Provision for doubtful debts		6,167	6,167
		-----	-----
		174,891	165,004
		=====	=====

18.1 The maximum amount due from associated undertakings at the end of any month amounted to Rs. 78.762 million (1996:Rs.72.548 million).

18.2 On termination of distribution agreement, a suit against an ex-distributor for recovery of Rs. 8.8 million is pending with the High Court of Sindh. The distributor has also filed a counter claim of Rs. 78.2 million against the Company in the High Court of Sindh on account of damages/compensation.

No provision has been made in respect of the above as the company and its lawyers are confident that the ultimate decision will be in favour of the company.

19. LOANS AND ADVANCES	Note	June 30, 1997	June 30, 1996
(Rupees in thousand)			
Considered good			
Loans to:			
- Executives		583	533
- Other employees		721	439
		-----	-----
		1,304	972

Advances to:

- Executives	394	374
- Employees	533	941
- Suppliers	1,904	3,223
	-----	-----
	2,831	4,538
	-----	-----
	4,135	5,510
	=====	=====

19.1 The maximum amount of advances due from executives of the Company at the end of any month during the year was Rs. 0.588 million (1996: Rs. 0.475 million).

**20. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS**

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
Security deposits	2,365	1,286
Prepayments	3,009	1,916
	-----	-----
	5,374	3,202
	=====	=====

**21. OTHER RECEIVABLES**

Considered good

Income accrued on investments		6,000	4,680
Claims receivable		3,235	255
Dividend receivable		35,000	20,000
Sales tax receivable		2,123	--
Others	21.1	49,965	43,920
		-----	-----
		96,323	68,855
		=====	=====

21.1 'Others' includes an amount due from an associated undertaking of Rs. 31.129 million (1996: Rs. 29.477 million).

21.2 The maximum amount due from an associated undertaking at the end of any month during the year was Rs. 41.151 million (1996: Rs. 34.291 million).

**22. SHORT-TERM INVESTMENTS**

	Note	June 30, 1997	June 30, 1996
		(Rupees in thousand)	
Defence Saving Certificates		4,000	4,000
Wapda Bonds		1,000	1,000
		-----	-----
		5,000	5,000
		=====	=====

22.1 These short term investments are, as stated in note 6.3 above, under lien with a development financial institution.

**23. CASH AND BANK BALANCES**

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
With banks		
- on foreign currency deposit account	23.1 1,306	1,091
- on current and collection accounts	14,038	26,277
Cash and cheques in hand	4,328	1,638
Remittances in-transit	3,374	526
	-----	-----
	23,046	29,532
	=====	=====

23.1 This balance is under lien with a bank.

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees in thousand)	

**24. SALES**

Local -- Paints	1,717,593	935,547
Less: Discounts allowed	41,315	43,764
	-----	-----
	676,278	891,783
Resin	33,459	40,541
Containers	6,125	11,920
	-----	-----
	715,862	944,244
	=====	=====

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees in thousand)	

**25. COST OF GOODS SOLD**

Opening stock of semi-processed goods	11,295	8,085
Raw and packing materials		
Opening stock	68,241	68,249
Purchases	302,138	390,535
Closing stock	(84,348)	(68,241)
	-----	-----
	286,031	390,543
Production expenses		
Consumable stores	4,439	4,543
Salaries, wages and benefits	20,421	25,027



Gratuity	592	838
Provident fund	466	673
Pension	95	175
Travelling and conveyance	2,120	899
Fuel, water and power	5,122	6,014
Operating lease rentals	-	293
Legal and professional	22	69
Rent, rates and taxes	230	159
Insurance	623	1,156
Repairs and maintenance	2,092	3,874
Depreciation	6,012	7,619
Printing and stationery	142	85
Communication	318	413
Other expenses	786	1,514
	-----	-----
	43,480	53,351
Closing stock of semi-processed goods	(12,697)	(11,295)
	-----	-----
Cost of goods manufactured	328,109	440,684
Opening stock of finished goods	67,980	41,534
Purchase of finished goods	215,318	345,098
Excise duty	50,893	63,543
Sales tax	636	439
	-----	-----
	662,936	891,298
Closing stock of finished goods	(64,816)	(67,980)
	-----	-----
	598,120	823,318
	=====	=====

		<b>Year</b>	<b>Eighteen</b>
		<b>ended</b>	<b>months</b>
		<b>ended</b>	<b>ended</b>
		<b>June 30,</b>	<b>June 30,</b>
		<b>1997</b>	<b>1996</b>
<b>26. SELLING AND ADMINISTRATION EXPENSES</b>	<b>Note</b>	<b>(Rupees in thousand)</b>	
Salaries, wages and benefits		32,616	34,597
Gratuity		592	838
Provident fund		897	1,193
Pension		223	374
Travelling and conveyance		9,569	11,967
Operating lease rentals		1,012	1,933
Rent, rates and taxes		2,058	3,035
Insurance		1,658	2,459
Auditor's remuneration	26.1	624	790
Fuel, water and power		1,414	1,466
Advertising and sales promotion		22,458	26,329
Technical services fee		3,377	4,128
Freight and handling		14,294	14,280
Repairs and maintenance		1,762	1,681
Depreciation		2,682	3,978

Provision for doubtful debts		918	549
Printing and stationery		996	1,095
Legal and professional		1,216	327
Communication		2,405	3,108
Other expenses	26.2	4,931	3,327
		-----	-----
		105,702	117,454
		=====	=====

**26.1. AUDITOR'S REMUNERATION**

Audit fee		200	140
Taxation services		204	330
Special reports, certifications for various government agencies and sundry advisory services		86	249
Central and provincial excise duty		56	15
Out of pocket expenses		78	56
		-----	-----
		624	790
		=====	=====

26.2 Donations of Rs. Nil (1996: Rs. 19 thousand) are included in other expenses.

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

**27. OTHER INCOME**

(Rupees in thousand)

Sale of scrap	3,471	6,479
Profit on disposal of fixed assets	831	1,418
Insurance commission	614	978
Income from investments	1,445	2,587
Exchange gains/(Loss) (net)	223	(29)
Sundries	4,012	5,563
	-----	-----
	10,596	16,996
-Dividend from a subsidiary company	46,000	70,000
	-----	-----
	56,596	86,996
	=====	=====

**28. FINANCIAL CHARGES**

Interest on workers' profits participation fund	318	206
Mark-up on long-term finances	3,220	1,078
Mark-up on short-term finances	7,637	6,853
Mark-up on running finances	7,941	15,276
Mark-up on finance leases	3,464	4,471
Mark-up charged by an associated undertaking	9,278	10,905
Discounting charges	1,984	3,153
Bank charges	2,297	2,155
Excise duty	1,282	1,462

Others	10	3,367
	-----	-----
	37,431	48,926
Less: Other financial income	-	372
	-----	-----
	37,431	48,554
	=====	=====

**29. OTHER CHARGES**

Workers profits' participation fund	1,576	1,080
Workers welfare fund	299	576
Losses incurred on shipments (imports) of improper materials		
- Import cost	-	17,661
- legal and professional charges	-	2,241
- financial charges	-	609
	-----	-----
	-	20,511
	-----	-----
	1,875	22,167
	=====	=====

**30. EXCISE DUTY REFUND**

Pursuant to a decision dated March 19, 1991 of the Supreme Court of Pakistan holding thinners exempt from excise duty, the Company has lodged a claim for approximately Rs. 18 million with the excise department for refund of excise duty paid on thinners during the period 1983 to 1986. This refund will be accounted for in the books when settlement is reached with the excise authorities. During the year ended June 30, 1997 the Company has filed an 'execution application' with the High Court of Sindh.

**31. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES**

31.1 The aggregate amounts charged in the accounts of the year for remuneration including certain benefits to the Chief Executive and other Executives of the Company were as follows:

	Chief Executive		Executives	
	Year	Eighteen	Year	Eighteen
	ended	months	ended	months
	June 30,	ended	June 30,	ended
	1997	June 30,	1997	June 30,
		1996		1996

(Rupees in thousand)

Managerial remuneration	720	879	8,097	9,023
Pension, gratuity and provident fund	138	294	1,892	2,173
Housing	414	556	3,644	4,061
Utilities	54	91	810	902

Medical expenses	11	23	795	783
Leave passage	135	139	1,330	1,480
Conservancy	18	12	-	-
	-----	-----	-----	-----
	1,490	1,994	16,568	18,422
	=====	=====	=====	=====
Number of persons	1	1	37	32
	=====	=====	=====	=====

31.2 Two (1996: three) non-executive Directors were paid fees aggregating to Rs.1,500 (1996: Rs. 6,000).

31.3 The Chief Executive and certain Executives of the Company are also provided with free use of cars.

32. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS	Note	Year	Eighteen
		ended June 30, 1997	months ended June 30, 1996
(Rupees in thousand)			
Purchase of goods and services		201,574	290,373
Sale of goods		96,815	158,376
Discounts allowed on sales		5,651	8,040
Mark-up charged by an associated undertaking		9,278	10,905
Miscellaneous income charged to an associated undertaking		751	1,140
		=====	=====
<b>33. CASH GENERATED FROM OPERATIONS</b>			
Profit before taxation		29,330	19,747
Adjustments for non cash charges and other items:			
Depreciation		8,694	11,598
Profit on disposal of fixed assets		(831)	(1,418)
Dividend income		(46,000)	(70,000)
Income from investments		(1,445)	(2,587)
Financial charges		37,431	49,163
Working capital changes	33.1	(28,252)	2,080
		-----	-----
		(1,073)	8,583
		=====	=====
33.1 Working capital changes			
(Increase)/decrease in current assets			
Stores		1,033	(553)
Stocks		(14,345)	(29,648)
Trade debts		(9,887)	(58,701)
Loans and advances		1,375	(1,406)
Trade deposits and short-term prepayments		(2,172)	(1,166)
Other receivables		(11,148)	(36,409)
		-----	-----
		(35,144)	(127,883)

Increase in current liabilities		
Creditors, accrued expenses and other liabilities	6,892	129,963
	-----	-----
	(28,252)	2,080
	=====	=====

#### 34. CASH AND CASH EQUIVALENTS

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

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
Cash and bank balances	23,046	29,532
Running finance under mark-up arrangements	(48,801)	(32,065)
	-----	-----
	(25,755)	(2,533)
	=====	=====
		<b>Eighteen</b>
	<b>Year</b>	<b>months</b>
	<b>ended</b>	<b>ended</b>
	<b>June 30,</b>	<b>June 30,</b>
	<b>1997</b>	<b>1996</b>
	<b>(Litres in thousand)</b>	

#### 35. PRODUCTION CAPACITY

Actual production	3,797	5,344
	=====	=====

The capacity of the plant is indeterminable because it is a multi-product plant involving varying processes of manufacturing.

#### 36. CORRESPONDING FIGURES

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

#### Statement Under Section 237(1) (e), (f) & (g) of The Companies Ordinance, 1984

#### STATEMENT UNDER SUB-SECTION (1) (e)

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

a) Extent of the interest of the holding company (Berger Paints Pakistan Limited) in the equity of its subsidiary company (J & N Pakistan Ltd.) as at June 30, 1997	100%	100%
	<b>Rupees</b> (ooo)	
b) The net aggregate amount of revenue profits less losses, of the subsidiary company so far as it concern members of the holding company and has not been dealt within the accounts of the holding company, for the year ended June 30, 1997 are:		
(i) for the year ended June 30, 1997	1,393	4,376
(ii) for the previous years, but subsequent to the acquisition of the controlling interest by the holding company.	10,743	6,367
c) The net aggregate amount of profits less losses, of the subsidiary company so far as it has been dealt with or provision made for losses in the accounts of the holding company for the year ended June 30, 1997 are:		
(i) for the year ended June 30~ 1997	46,000	70,000
(ii) for the previous years, but subsequent to the acquisition of the controlling interest of the holding company.	117,913	47,913
d) Change in the interest of the holding company in the equity of its subsidiary company between the last financial year of the subsidiary and the end of the holding company's financial year.	Nil	Nil
<b>STATEMENT UNDER SUB-SECTION (1) (f) &amp; (g)</b>	N/A	N/A

**Pattern of Shareholdings  
as at June 30, 1997**

No. of Shareholders		Shareholding		Total shares held	
186	Holding from	1	to	100	Shares 6,951
263	" "	101	to	500	" 60,106
55	" "	501	to	1000	" 35,520
77	" "	1001	to	5000	" 149,302
9	" "	5001	to	10000	" 61,118
1	" "	10001	to	15000	" 13,915
2	" "	15001	to	20000	" 33,343

1	"	"	25001	to	30000	"	29,593
5	"	"	60001	to	70000	"	321,802
2	"	"	70001	to	80000	"	150,257
1	"	"	80001	to	90000	"	86,867
2	"	"	100001	to	500000	"	447,385
1	"	"	1000001	to	2000000	"	1,406,927
-----							-----
605							2,803,086
=====							=====

Categories of Shareholding	Number of Shareholders	Shares held	Percentage
Individuals	592	834,411	29.77%
Investment Companies	1	29,593	1.05%
Insurance Companies	1	70,978	2.53%
Modaraba Companies	1	6,050	0.22%
Joint Stock Companies	1	13,915	0.50%
Others:			
a) Slotrapid Limited U.K.	1	1,406,927	50.19%
b) National Bank of Pakistan	2	354,288	12.64%
c) Companies	6	86,924	3.10%
-----			-----
	605	2,803,086	100.00
=====			=====

### Ten Years at a Glance

	(Rupees in thousand)									
	Year Ended	1/1/95		Year Ended December 31,						
	June 30, 1997	To 30/6/96	1994	1993	1992	1991	1990	1989	1988	1987
<b>NET ASSETS</b>										
Fixed Assets (Net)	83,448	70,588	65,915	64,892	63,771	58,407	58,554	56,029	57,526	12,457
Long Term Investment	950	950	950	950	466	0	0	0	0	0
Net Current Assets	133,190	91,293	75,130	61,824	58,367	52,052	36,350	35,495	33,307	34,719
Total	217,588	162,831	141,995	127,666	122,604	110,459	94,904	91,524	90,833	47,176
<b>FINANCED BY</b>										
Share Capital	28,031	25,483	23,166	23,166	23,166	23,166	23,166	23,166	23,166	23,166
Reserves	91,975	74,916	66,195	53,219	44,944	36,316	16,147	14,470	15,307	16,619
Surplus on Revaluation of Fixed Assets	43,779	43,779	43,779	43,874	43,909	43,960	43,960	43,960	45,642	0
Long-Term & Deferred Liabilities	53,803	18,653	8,855	7,407	10,585	7,017	11,631	9,928	6,718	7,391
Total	217,588	162,831	141,995	127,666	122,604	110,459	94,904	91,524	90,833	47,176

	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
<b>TURNOVER &amp; PROFITS</b>										
Turnover	715,862	944,244	446,261	346,862	385,034	344,292	319,662	299,804	282,116	247,298
Operating Profit	12,040	3,472	4,191	17,159	34,166	33,634	18,683	15,718	4,462	3,102
Profit/(Loss) before tax	29,330	19,747	14,764	17,491	24,947	27,236	10,781	8,621	(682)	327
Taxation	6,920	2,338	1,883	2,301	10,579	12,589	5,629	8,823	630	367
Profit/(Loss) after tax	22,410	17,409	12,881	15,190	14,368	14,647	5,152	(202)	(1,312)	(40)
Dividend	2,803	6,371	0	6,950	5,791	5,791	3,475	2,317	0	0
Transfer to General Reserve	15,000	12,000	4,905	8,465	8,449	20,000	1,564	0	0	0
<b>Earning &amp; Dividend</b>										
Earning per Rs. 10 share Rs.	7.99	6.83	5.56	6.56	6.20	6.32	2.22	(0.09)	(0.57)	(0.02)
Dividend Per Share - Cash Rs	1.00	2.50	0.00	3.00	2.50	2.50	1.50		0.00	0.00
- Bonus	1:10	1:10	1:10	-	-	-	-	-	-	-

**J & N PAKISTAN LIMITED**  
**1996-97 Report And Accounts**

**BOARD OF DIRECTORS**

KASSIM DADA, Chairman  
 DR. MAHMOOD AHMAD  
 SIKANDER DADA  
 MOHAMMAD SHABBIR  
 MUHAMMAD ILYAS  
 SAEED M. SHEIKH  
 SYED MOHAMMAD

**CHIEF EXECUTIVE**

SYED MOHAMMAD

**COMPANY SECRETARY**

M. ABDUL WAHAB

**BANKERS**

Habib Bank Limited  
 I-long Kong & Shanghai Banking Corporation Ltd.  
 Faysal Bank Ltd.  
 Schon Bank Limited

**AUDITORS**

A.F. Ferguson & Co.

**REGISTERED OFFICE**

D-31, South Avenue,  
 S.I.T.E.,  
 Karachi 75700

**FACTORY**

90B-92B, Industrial Estate



Mirpur  
Azad Jammu & Kashmir

## Directors' Report

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

**Rupees**  
**(in thousands)**

Net Profit for the period before providing for taxation but after provision has been made for depreciation, is		48,403	
Less: Taxation		1,010	
		-----	
Profit After Tax		47,393	
Add: Unappropriated Profit Brought Forward		10,743	
		-----	
Amount available for appropriations		58,136	
1st Interim Dividend @ Rs. 115.78 per share	11,000		
2nd Interim Dividend @ Rs. 368.42 per share	35,000	46,000	
	-----	-----	
		12,136	
		=====	

The Company's holding company is Berger Paints Pakistan Limited which alongwith its nominees hold 95,000 Ordinary Shares of Rs. 10/- each.

Earning per share is Rs. 498.87 for the year (1996: Rs. 782.90 for eighteen months).

The present Auditors, M/s. A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

## Auditors' Report to the Members

We have audited the annexed balance sheet of J & N Pakistan Limited as at June 30, 1997 and the related profit and loss account and cash flow statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

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

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

business; and

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the cash flow statement together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 1997 and of the profit and the cash flows for the year then ended; and

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

**A.F. Ferguson & Co.**

Karachi: October 14, 1997

Chartered Accountants

### Balance Sheet as at June 30, 1997

	Note	June 30, 1997	June 30, 1996
(Rupees in thousand)			
<b>SHARE CAPITAL</b>			
Authorised			
500,000 ordinary shares of Rs. 10 each		5,000	5,000
		=====	=====
Issued, subscribed and paid-up	3	950	950
General reserves		8,000	8,000
Unappropriated profit		12,136	10,743
		-----	-----
		21,086	19,693
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES</b>			
	4	157	1,624
<b>DEFERRED INCOME</b>			
	5	-	75
<b>CURRENT LIABILITIES</b>			
Current maturity of liabilities against assets subject to finance leases	4	1,467	3,143
Short term finance	6	14,750	10,000
Running finances under mark-up arrangements	7	5,513	5,084
Creditors, accrued and other liabilities	8	126,248	111,208
Unpaid dividend		35,000	20,000
		-----	-----
		182,978	149,435
<b>CONTINGENT LIABILITY</b>			
	9		

		-----	-----
		204,221	170,827
		=====	=====
<b>TANGIBLE FIXED ASSETS</b>			
Operating fixed assets	10	2,584	5,836
<b>LONG TERM DEPOSITS</b>		160	660
<b>CURRENT ASSETS</b>			
Stores		28	60
Stocks	11	19,456	22,432
Trade debts	12	177,253	139,185
Loans and advances	13	-	39
Tax refundable		2,249	245
Advances, deposits, short term prepayments and other receivables	14	1,943	2,048
Cash and bank balances	15	548	322
		-----	-----
		201,477	164,331
		-----	-----
		204,221	170,827
		=====	=====

The annexed notes form an integral part of these accounts.

**Profit and Loss Account  
for the year ended June 30, 1997**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
Note	(Rupees in thousand)	
Sales	201,915	317,722
Cost of goods sold	16 156,520	242,114
	-----	-----
Gross profit	45,395	75,608
Selling and administration expenses	17 4,156	6,595
	-----	-----
Operating profit	41,239	69,013
Other income	18 9,875	11,379
	-----	-----
Financial charges	19 51,114	80,392
	2,711	4,427
	-----	-----
Profit before taxation	48,403	75,965
Taxation - current for the year	20 1,010	1,589
	-----	-----
Profit after taxation	47,393	74,376

Unappropriated profit brought forward	10,743	6,367
	-----	-----
Profit available for appropriation	58,136	80,743
<b>APPROPRIATION</b>		
Interim dividends	46,000	70,000
	-----	-----
Unappropriated profit carried forward	12,136	10,743
	=====	=====

The annexed notes form an integral part of these accounts.

**Cash Flow Statement  
for the year ended June 30, 1997**

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees in thousand)	
<b>Cash flow from operating activities</b>		
Cash generated from operations	21	26,025
Taxes paid		(3,014)
Financial charges paid		(3,249)
Long-term advance		-
Long-term deposits		500
		-----
Net cash inflow from operating activities		20,262
<b>Cash flow from investing activities</b>		
Sale proceeds on disposal of a fixed asset		-
Fixed capital expenditure		(350)
Mark-up received		9,278
		-----
Net cash inflow from investing activities		8,928
<b>Cash flow from financing activities</b>		
Repayment of liabilities under finance leases		(3,143)
Short-term finance		4,750
Dividends paid		(31,000)
		-----
Net cash (outflow) from financing activities		(29,393)
		-----
Net (decrease) in cash and cash equivalents		(203)
Cash and cash equivalents at the beginning of the year		(4,762)
		-----
Cash and cash equivalents at the end of the year	22	(4,965)
		=====

The annexed notes form an integral part of these accounts.

**Notes to and forming part of the Accounts**

## **for the year ended June 30, 1997**

### **1. INTRODUCTION**

1.1 The Company is incorporated in Pakistan as a public limited company. The Company is principally engaged in the manufacture and sale of decorative paints. The Company's manufacturing facilities are located in Mirpur, Azad Kashmir.

1.2 The option available to Companies to adopt a calendar year as income year under the provisions of the Income Tax Ordinance, 1979 was withdrawn through the Finance Act, 1995. Consequently, the Company is now required to adopt the financial year (i.e. July to June) as its income year for tax purposes. In view of the above the Company has changed its accounting year end from December to June effective June 30, 1996. As a consequence of this change these accounts have been prepared for the year ended June 30, 1997, whereas the corresponding figures are for the eighteen months period ended June 30, 1996.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

#### **2.2 Taxation**

The Company is exempt from tax under clause 118(c) of the second schedule to the Income Tax Ordinance, 1979 for a period of eight years from February 4, 1993 i.e. the date of commencement of its business. The Company, however, makes provisions for minimum tax at 0.5% of turnover, as required under section 80D of the Income Tax Ordinance, 1979.

#### **2.3 Tangible fixed assets and depreciation**

Operating fixed assets are stated at cost less accumulated depreciation except for capital work in progress which is stated at cost.

Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life considering the circumstances in which the company is operating. A full year's depreciation is charged on additions, while no depreciation is charged on items disposed of during the year.

Maintenance and normal repairs are charged to income. as and when incurred.

Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Profit or loss on disposal of assets, except that arising on sale and leaseback transactions which result in finance leases, is recognised in income currently.

#### **2.4 Fixed assets acquired on finance leases**

Consistent with prior periods the Company accounts for fixed assets acquired under finance leases by recording the asset and the related liability. These amounts are determined on the basis of discounted value of minimum lease payments. Financial charges are allocated to the accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged to income applying the straight line method at the rates stated in note 10 below.

## 2.5 Stores

Stores are valued at actual cost.

## 2.6 Stocks

Raw and packing materials, except for goods in transit, semi-processed items and finished goods are valued at the lower of average cost and net realisable value. Average cost in relation to finished goods represents prime cost and appropriate proportion of manufacturing expenses. Semi-processed goods are valued at direct materials cost only.

Goods in transit are stated at cost comprising invoice values plus other charges paid thereon.

Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less costs necessarily to be incurred for its sale.

## 2.7 Foreign currency translations

Assets and liabilities in foreign currencies are either translated into rupees at the rates of exchange which approximate to those prevailing at the balance sheet date or at the forward contract rate. Exchange gains and losses are included in income currently.

## 2.8 Revenue recognition

Sales are recorded when goods are despatched and invoiced.

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

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
95,000 ordinary shares of Rs. 10/- each fully paid in cash	950	950
	=====	=====

At June 30, 1997 Berger Paints Pakistan Limited (BPPL) and its nominees held 95,000 (1996: 95,000) ordinary shares.

### 4. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
Minimum lease payments outstanding	1,657	5,189
Less: Finance charge not due	33	422
	-----	-----
Aggregate liability under finance leases	1,624	4,767
Less: Current maturity shown under current liabilities	1,467	3,143
	-----	-----
	157	1,624
	=====	=====

This represents liabilities under finance leases arranged with a bank and a leasing company for plant and machinery and laboratory equipment. The liabilities are payable over the terms of the respective lease agreements i.e. from December 1993 to March 1999 in quarterly installments.

The periodical lease payments include built in rates of mark-up of 20.84 and 20.85 per cent per annum which are used as discounting factors.

#### 5. DEFERRED INCOME

Deferred income represents gain on the sale and leaseback of operating fixed assets in 1993 which, because that arrangement had resulted in a finance lease, was being recognised over the term of that lease agreement.

During the year deferred income aggregating Rs. 0.075 million was credited to the profit and loss account.

#### 6. SHORT TERM FINANCE

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
Secured		
From a bank	14,750	10,000
	=====	=====

During the period the Company has arranged a short term finance of Rs. 14.75 million under Morahaba LPO (Local Purchase Order) facility with a bank. The rate of mark-up on the facility upto March 31, 1997 was 16% and thereafter is 17% per annum and the amount is payable by November 30, 1997. The facility is secured by joint hypothecation of stocks and trade debts.

#### 7. RUNNING FINANCES UNDER MARK-UP ARRANGEMENTS

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
Secured		
From banks	5,513	5,084
	=====	=====

The Company has arranged short term running finances from two banks on mark-up basis to the extent of Rs. 4.9 million (1996: Rs. 4.9 million). The rates of mark-up on these facilities are 45 paisas and 57.5 paisas per. Rs. 1,000 per day, subject to prompt payment bonus. The facilities are repayable by March 31, 1998. These facilities are secured by a joint hypothecation of stocks and trade debts and guarantee of the holding company (BPPL) given to one of the banks. The balance at banks on June 30, 1997 aggregated Rs. 4.72 million. (1996: Rs. 4.802 million).

7.1 The facility for opening letters of credit and guarantees as at June 30, 1997 amounts to Rs. 29.50 million (1996: Rs. 20.5 million) of which the amount remaining unutilised at June 30, 1997 was Rs. 0.9 million (1996: Rs. 17.143 million).

#### 8. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	
Creditors	101,128	99,271
Bills payable	20,375	3,915
Accrued liabilities	4,476	2,465
Accrued financial charges	223	761

Due to an associated undertaking	-	4,700
Security deposit	35	75
Others	11	21
	-----	-----
	126,248	111,208
	=====	=====

#### 9. CONTINGENT LIABILITY

The Company has given a corporate guarantee to a bank for Rs. 27.5 million (1996:Rs.27.5 million) on behalf of an associated undertaking for a running finance facility.

#### 10. OPERATING FIXED ASSETS

The following is a statement of operating fixed assets:

	Cost as at July 1, 1996	Additions/ (disposal)	Cost as at June 30, 1997	Accumu- lated depre- ciation as at June 30, 1997	Net Book value as at June 30, 1997	Depreciation charge for the year	Annual rate of depre- ciation %
(Rupees in thousands)							
Leasehold land	1,147	-	1,147	1,032	115	229	20
Buildings On leasehold land	4,872	-	4,872	4,087	785	974	20
Plant and machinery	418	350	768	335	433	154	20
Electric fittings	149	-	149	119	30	30	20
Computers	29	-	29	22	7	6	20
Furniture and fittings	101	-	101	87	14	20	20
Office equipment	113	-	113	97	16	22	20
Motor cars	336	-	336	302	34	67	20
Assets held under finance leases:							
Plant and machinery	10,299	-	10,299	9,169	1,130	2,060	20
Laboratory equipment	201	-	201	181	20	40	20
	-----	-----	-----	-----	-----	-----	
1997	17,665	350	18,015	15,431	2,584	3,602	
	=====	=====	=====	=====	=====	=====	
1996	17,092	904 (331)	17,665	11,829	5,836	5,299	
	=====	=====	=====	=====	=====	=====	

10.1 The depreciation charge for the year has been allocated as follows

	June 30, 1997	June 30, 1996
	(Rupees in thousand)	



Cost of goods sold	3,520	5,176
Selling and .administration expenses	82	123
	-----	-----
	3,602	5,299
	=====	=====

**11. STOCKS**

**June 30,                  June 30,**  
**1997                          1996**  
**(Rupees in thousand)**

Raw and packing materials [including items in transit Rs. 7.416 million; 1996: Rs. 4.540 million]	17,811	18,112
Semi processed goods	-	721
Finished goods	1,645	3,599
	-----	-----
	19,456	22,432
	=====	=====

**12. TRADE DEBTS**

Unsecured and considered good - from an associated undertaking	177,253	139,185
	=====	=====

**13. LOANS AND ADVANCES**

Considered good		
Loan to the chief executive	-	21
Advance to an associated undertaking	-	18
	-----	-----
	-	39
	=====	=====

**14. ADVANCES, DEPOSITS, SHORT TERM  
PREPAYMENTS AND OTHER RECEIVABLES**

Advances to suppliers	245	788
Security deposits	568	93
Short term prepayments	220	255
Others	910	912
	-----	-----
	1,943	2,048
	=====	=====

**15. CASH AND BANK BALANCES**

With banks on current and collection accounts	461	124
Cash and cheques in hand	87	21
Cash in transit	-	177
	-----	-----
	548	322
	=====	=====

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

(Rupees in thousand)

**16. COST OF GOODS SOLD**

Opening stock of semi processed goods	721	5
Raw and packing materials		
Opening stock	18,112	20,849
Purchases	145,942	214,366
Closing stock	(17,811)	(18,112)
	-----	-----
	146,243	217,103
Production expenses		
Stores consumed	91	86
Salaries, wages and benefits-note 16.1	1,675	4,319
Fuel, water and power	1,029	1,466
Printing and stationery	22	-
Rent, rates and taxes	92	29
Insurance	143	260
Repairs and maintenance	347	430
Depreciation	3,520	5,176
Communication	138	141
Travelling and conveyance	107	640
Other expenses	438	431
	-----	-----
	7,602	12,978
Closing stock of semi processed goods	-	(721)
	-----	-----
Cost of goods manufactured	154,566	229,365
	-----	-----
Opening stock of finished goods	3,599	10,043
Finished goods purchased	-	6,305
Closing stock of finished goods	(1,645)	(3,599)
	-----	-----
	1,954	12,749
	-----	-----
	156,520	242,114
	=====	=====

**16.1 Remuneration to a Director**

Included in salaries, wages and benefits is an aggregate amount of Rs. 0.504 million (1996: Rs. 0.724 million) paid to the Chief Executive.

**17. SELLING AND ADMINISTRATION EXPENSES**

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

(Rupees in thousand)

Salaries, wages and benefits	1,335	2,544
Travelling and conveyance	154	213
Rent, rates and taxes	30	247
Audit fee	110	75

Fuel, water and power	2	23
Freight and handling	937	2,335
Repairs and maintenance	5	6
Depreciation	82	123
Printing and stationery	12	67
Legal and professional	462	391
Communication	114	171
Other expenses	913	400
	-----	-----
	4,156	6,595
	=====	=====

**18. OTHER INCOME**

Sale of scrap	501	218
Deferred income credited during the year - note 5	75	224
Profit on disposal of a fixed asset	-	21
Mark-up charged to an associated undertaking	9,278	10,905
Miscellaneous income	21	11
	-----	-----
	9,875	11,379
	=====	=====

**19. FINANCIAL CHARGES**

Mark-up on short term finance	1,206	861
Mark-up on running finances	925	1,384
Mark-up on finance leases	540	2,124
Bank charges	40	58
	-----	-----
	2,711	4,427
	=====	=====

**20. TAXATION**

The Company having its registered office in Pakistan has been allowed exemption from income tax under clauses 118C of Part-1 of the Second Schedule to the Income Tax Ordinance, 1979 (Ordinance) by the Pakistan income tax authorities. However the Company has discharged its liability under section 80D of the Ordinance in Pakistan for the assessment years 1994-95, 1995-96 and 1996-97. The Supreme Court of Pakistan in its decision dated June 4, 1997 has interalia held that the provisions of section 80D of the Ordinance should not be applicable where the 'Protection of Economic Reforms Act, 1992' is applicable. The aforementioned clause 115C was inserted through SRO 1283(1) dated December 31, 1990 which is protected under the provisions of the 'Protection of Economic Reforms Act, 1992'. Accordingly the Company has now requested the Pakistan income tax authorities to rectify the assessment orders passed for the assessment years 1994-95, 1995-96 and 1996-97 by granting exemption from the provisions of section 80D of the Ordinance and thereby allowing refunds for the income tax paid for those assessment years.

As the production facilities of the Company are situated in Mirpur, Azad Jammu and Kashmir (AJK), the Company has also filed its returns of income for the assessment years 1994-95, 1995-96 and 1996-97 with the AJK income tax authorities claiming exemption under clause 115C of Part 1 of the Second Schedule to the Income Tax Ordinance, 1979 as a non-resident and therefore minimum tax @ 0.5% of turnover

under section 80D of the Ordinance was not paid in AJK. The Deputy Commissioner of Income Tax (DCIT) of Mirpur Circle, AJK has allowed exemption under the aforementioned clause 118C but has treated the Company as a resident in AJK and levied minimum tax @ 0.5% of turnover amounting to Rs. 0.540 million for the assessment year 1994-95 which has been paid by the Company. The assessment proceedings for the assessment years 1995-96 and 1996-97 are, at present, in process.

The Company contends that it is not liable to pay any income tax to the Pakistan assessing authorities in view of the exemption available under section 118C of the Ordinance and because the Supreme Court of Pakistan has now ruled through its decision of June 4, 1997 that the provisions of section 80D of the Ordinance are not applicable where the manufacturing entity is established under the concessions granted through the 'Protection of Economic Reforms Act, 1992'.

However the Company continues to make a provision for tax @ 0.5% of its turnover under section 80D of the Ordinance.

## 21. CASH GENERATED FROM OPERATIONS

	Year ended June 30, 1997	Eighteen months ended June 30, 1996
	(Rupees in thousand)	
Profit before taxation	48,403	75,965
Adjustment for non cash charges and other items:		
Depreciation	3,602	5,299
Deferred income credited to profit and loss account	(75)	(224)
Mark-up charged to an associated undertaking	(9,278)	(10,905)
Financial charges	2,711	4,427
Profit/(loss) on disposal of a fixed asset	-	(21)
Working capital changes- note 21.1	(19,338)	(8,533)
	-----	-----
	26,025	66,008
	=====	=====

### 21.1 Working capital changes

(Increase)/decrease in current assets

Stores	32	40
Stocks	2,976	8,465
Trade debts	(38,068)	(87,069)
Loans and advances	39	101
Advances, deposits, short-term prepayments and other receivables	105	4,404
	-----	-----
	(34,916)	(74,059)

Increase in current liabilities

Creditors, accrued expenses and other liabilities	15,578	65,526
	-----	-----
	(19,338)	(8,533)
	=====	=====

## 22. CASH AND CASH EQUIVALENTS

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

Cash and bank balances	548	322
Running finances under mark-up arrangements	(5,513)	(5,084)
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	(4,965)	(4,762)
	=====	=====

**23. CORRESPONDING FIGURES**

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