

## Frontier Ceramics Limited

ANNUAL REPORT 1998

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### COMPANY INFORMATION

#### BOARD OF DIRECTORS

Mr. S.U. Durrani	Chairman
Mr. Iqbal Hussain Khattak	
Mrs. A. Matloob	
Mr. M. Akram Khan (N.B.P.)	
Mr. Z.I. Saifi (B.E.L.)	
Mr. M. Sharif Shafique (NDFC.)	
Mr. Ansarullah Khan	Managing Director & Chief Executive
Mr. Shamsul Hassan	
Ms Zainab Ibrahim	
Lt. Col. (R) Saadat Hussain	Company Secretary

#### BANKERS

National Bank of Pakistan  
United Bank Limited  
The Bank of Khyber  
Banker's Equity Limited  
Pakistan Industrial Credit & Investment Corporation Limited  
National Development Finance Corporation

#### AUDITORS

Messrs. Rahim Jan & Co. Chartered Accountants.

#### LEGAL ADVISOR

Col ( R ) Qazi Nazirullah Advocate

#### REGISTRARS AND SHARE TRANSFER OFFICE:

Ghafoor & Company Chartered Accountants, Rehmat Lane, Saddar Road,

#### HEAD OFFICE / REGISTERED OFFICE:

Jamrud Industrial Estate, Jamrud Road, Peshawar, N.W.F.P  
Tel: 812360, 812746, Tlx: 52456 FCL PR PK Fax: 92-91-812757

#### ZONAL OFFICES:

**LAHORE:** 61, Shah Jamal, Ferozepur Road, Lahore.

Tel: 7573090 Fax: 92-42-7574179

**PESHAWAR:** Industrial Estate, Jamrod Road, Peshawar

Tel: 812360, 812746

**RAWALPINDI:** 78-A, Satellite Town, Rawalpindi

Tel: 410998 Fax: 92-51-425523

## **NOTICE OF THE MEETING**

Notice is hereby given that the sixteenth Annual General Meeting of FRONTIER CERAMICS LIMITED will be held at Industrial Estate, Jamrud Road, Peshawar on Saturday, December 26, 1998 at 9:00 A.M. to transact the following business:

1. To confirm the minutes of the Fifteenth Annual General meeting of the company held on December 27, 1997.
2. To receive, consider and adopt the Audited Accounts together with the Directors and Auditors Reports for the year ended June 30, 1998.
3. To appoint Auditors for the year ending June 30, 1998 and fix their remuneration. The present Auditors, M/s Kahim Jan & Co Chartered Accountants, being eligible have offer themselves for reappointment.
4. To elect Directors of the Company ,including the chief Executive, for a period of three years, under section 178 (1) of the Companies Ordinance 1984. All directors of the company retire and the following Directors being eligible, have notified their intention to offer themselves for election:

- |                              |                               |
|------------------------------|-------------------------------|
| 1. Mr. S.U. Durrani          | 5. Lt. Col (R) Saadat Hussain |
| 2. Mr. Iqbal Hussain Khattak | 6. Ms. Zainab Ibrahim         |
| 3. Mrs. A. Matloob           | 7. Mr. Shamsul Hassan         |
| 4. Mr. Ansarullah            |                               |

5. To transact any other business with the permission of the Chair.

### **BY ORDER OF THE BOARD**

December 4, 1998

**Lt. Col. (R) Saadat Hussain**  
Company Secretary

### **NOTES:**

1. The Register of Members of the Company will be closed from Deembet 19, 1998 to December 26, 1998 (both days inclusive).
2. A member entitled to attend and vote at the General Meeting is entitled to appoint a proxy to attend and vote on his/her behalf. Proxy forms must be deposited at the company's Registered Office atleast 48 hours before the meeting.
3. Members are requested to notify the Company or the Registrar of the Company any change in their address.

## **DIRECTORS REPORT**

Your Director's are pleased to present hereunder the 16th Annual Report together with audited accounts for the year ended June 30, 1998.

APPROPRIATIONS	(Rs. in Million)	
	1998	1997
Sales	151.35	204.83
	-----	-----
Gross Profit	23.464	58.791
Less: Admin, selling & Distribution Expenses	26.385	24.899
	-----	-----
Operating (Loss) / Profit	(2.921)	33.892
Add: other Income	1.061	1.561
	-----	-----
	(1.860)	35.45
Financial Expenses	15.913	31.920
Worker Participation Fund	-	0.119
Provision for Taxation	1.147	1.024
Net (Loss) Profit carried forward to Balance Sheet	(18.920)	2.390
	=====	=====

**REVIEW OF OPERATIONS**

The year under review was a difficult one for the national Economy and specifically for the industrial sector. The profitability of a number of companies was eroded and the viability of some was threatened due to circumstances beyond control. Your company could not be an exception to this general phenomena.

The deteriorating law and order situation in Karachi (which is the nation's commercial and industrial hub) coupled with the credit squeeze and the recession in the market increased the prevailing uncertainty and dealt a serious blow to the economy. This crisis in the economy was further accentuated by the declining value of the Pak rupee. The general spiral of price level and continuing inflation pushed the cost of input which increased the cost of goods produced.

(A) During the year under review the factory produced 454, 642 Sq. Metres of Tiles against 526, 378 Sq. Metre Tiles in the previous year and 1,171 ton sanitary ware against 1,645 tons in the previous year.

Sales decreased by 26.11 percent to 151.349 million from 204.825 million in the previous year. Gross profit margin declined to 15.5 percent (1997:28.7 percent) owing to increase in the cost of goods sold. The decrease in production and sales and the substantial increase in cost of goods were mainly due to:

1. Lower production resulting from disconnection of Gas during winter.
2. Heavily adulterated and low quality Furnace oil supply not suitable for plant operations.
3. The increasing quantity of smuggled tiles and sanitaryware freely available in the Peshawar and Quetta markets.
4. Severe competition from substandard goods being produced by our cottage industry.

(B) This affected the company's market and resulted in accumulation of stocks resulting in adverse financial consequences. Smuggled goods are sold below our cost of production. In order to match our competitors there is need that we start producing various sizes of tiles.

(c) Decreased in production volume, coupled with increased cost of electricity and gas contributed to increase in cost of sale and pushed up administration and selling expenses.

on Markup charges being levied. With the announcement of the State Bank of Pakistan Scheme for stuck up loans in June 1997, it was hoped that a resolution of issues was possible but this was not the case and it was in this back drop that the company's Advisers and Lawyers recommended that the company seek legal remedies. In September 1997, suits were filed for recovery against DFI's in the Sind High Court.

**(D) FUTURE OUTLOOK**

The company's viability/survival now rests on the resolution of the disagreements with DFI's, either through courts of law or by agreeing a settlement with them. The ministry of petroleum and natural resources will be requested again to

solve. The long pending issue of natural gas supply to the company on twelve month basis instead of nine months of the year so that heavy revenue losses are avoided.

(E) Balancing and modernisation of the plant is essential, in view of the technology advances made in the Industry. There is a pressing demand from customers for a variety of sizes in tiles.

#### **SALES TAX**

It is also hoped that the sale Tax refund will be awarded in favour of the company so that the necessary changes / improvements in the plant and machinery can be brought about to enable essential balancing and modernisation. The matter is now subjudice in the High Court.

It is also necessary to state that the collectorate of Sale Tax Peshawar has raised a demand of Rs. 18,092,402 against your company as more fully described in note no. 10 to these financial statements. The management is hopeful that this demand will be set side in appeal which has already been filed.

#### **DIVIDEND**

In view of the current financial condition of your company, the Directors are not recommending a dividend for the year 1997-98.

#### **ACKNOWLEDGMENT**

The Board acknowledges the devotion and hard work of the staff and employees of the Company during the year.

#### **PATTERN OF SHAREHOLDING**

The pattern of shareholding is given on page no. 25.

#### **AUDITORS**

The present Auditors, M/s Rahim Jan & Co. Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors

#### **S.U. DURRANI**

CHAIRMAN

#### **AUDITOR'S REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of FRONTIER CERAMICS LIMITED as at June 30, 1998 and the related profit and loss account and the cash flow statement, together with the notes forming pan thereof, for the year then ended and we state that we have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit and, after due verification thereof, we report that:

(a) In our opinion, proper books of account have been kept by the company as required by 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 continuity 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 company's business; and

(iii) The business conducted, investments made and 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 respectively give a true and fair view of the company's affairs as at June 30, 1998 and the Loss and cash flow for the year then ended, and

(d) No Zakat was deductible at source under Zakat and Ushar Ordinance 1980.

Karachi  
02nd November, 1998.

**RAHIM JAN & COMPANY**  
**Chartered Accountants.**

### BALANCE SHEET AS AT JUNE 30, 1998

	NOTES	1998 (Rs.)	1997 (Rs.)
<b>PROPERTY AND ASSETS</b>			
Fixed Assets - at cost less depreciation	11	397,231,145	427,371,145
Long Term deposits and deferred cost	12	742,700	742,700
<b>CURRENT ASSETS:</b>			
Stores, spares and loose tools - at cost	13	29,677,339	25,685,612
Stock in Trade - at cost	14	146,842,040	142,751,213
Trade Debtors	15	70,241,570	64,356,607
Advances, Deposits, Pre payments & Other receivables	16	36,373,319	35,888,712
Cash and Bank Balances	17	12,672,493	12,806,816
		295,806,761	281,488,960
<b>CURRENT LIABILITIES:</b>			
Finance under Mark-up Arrangements	7	86,322,156	79,820,395
Current Portion of Long term Loan Liabilities	8	73,307,208	73,307,208
Creditors, Accruals and other Liabilities	9	46,788,130	50,192,118
		-----	-----
		206,417,494	203,319,721
		-----	-----
Working Capital		89,389,267	78,169,239
		-----	-----
Total Assets		487,363,112	506,283,084
Long Term Loans	6	(107,095,109)	(107,095,109)
		-----	-----
Net Assets		380,268,003	399,187,975
<b>REPRESENTED BY:</b>			
Issued, subscribed and paid up capital	3	77,412,000	77,412,000
Profit & Loss - debit balance		(52,296,595)	(33,376,623)
Redeemable Capital	5	71,226,822	71,226,822
Surplus on Revaluation of fixed assets	4	283,925,776	283,925,776
		-----	-----
		380,268,003	399,187,975
Contingencies and Commitments	10	=====	=====

ANSARULLAH KHAN  
CHIEF EXECUTIVE

Lt. Col. (R) SAADAT HUSSAN  
DIRECTOR

The Annexed Notes Form an integral part of these accounts.

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

	NOTES	1998 (Rs.)	1997 (Rs.)
Sales - Net	18	151,349,789	204,825,312
Cost of Sales	19	127,885,687	146,033,998
		-----	-----
Gross Profit		23,464,102	58,791,314
<b>OPERATING EXPENSES</b>			
Administrative expenses	20	14,756,979	13,360,777
Selling and Distribution expenses	21	11,628,548	11,538,639
		-----	-----
Operating (loss)/Profit		26,385,527	24,899,416
Profit on Sale of fixed Assets	22	(2,921,425)	33,891,898
Profit on PLS Saving Account		475,612	
Other Income		550,300	548,685
		35,453	1,012,758
		-----	-----
Financial Expenses	23	1,061,365	1,561,443
Taxation: Current- Turnover Tax	24	(1,860,060)	35,453,341
Worker's Profit Participation Fund		15,913,355	31,919,785
		1,146,557	1,024,126
		-	119,496
		-----	-----
(Loss) / Profit for the year		(18,919,972)	2,389,934
Accumulated Loss Brought Forward		(33,376,623)	(35,766,557)
Accumulated Loss Carried to balance Sheet		(52,296,595)	(33,376,623)
		=====	=====

ANSARULLAH KHAN  
CHIEF EXECUTIVE

Lt. Col. (R) SAADAT HUSSAN  
DIRECTOR

The Annexed Notes Form an integral part of these accounts.

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

Cash collected from customers	145,464,826	199,745,843
Cash paid to suppliers	(98,410,825)	(116,256,590)
Administrative Expenses paid	(13,880,193)	(12,339,986)
Selling & Distribution expenses paid	(11,628,548)	(11,538,639)
Bank charges paid	(323,111)	(311,389)
Other Income received	1,061,365	1,561,443
Decrease/(increase) in prepayments and other receivable	(484,607)	8,601,766
Increase/(Decrease) in accruals and other liabilities	(4,550,545)	6,137,864

(Decrease)/Increase in finance under mark-up arrangement	6,501,761	(234,389)
Increase in inventory	(8,082,554)	(275,933)
	-----	-----
Cash generated from operation	15,667,569	75,089,990

**CASH (OUTFLOWS) INFLOWS FROM  
INVESTING ACTIVITIES**

Addition in fixed assets	(463,836)	(1,753,662)
Change due to sale of fixed assets	252,188	-
Long term deposits	-	500,000
	-----	-----
	(211,648)	(1,253,662)

**CASH (OUTFLOWS) INFLOWS FROM  
FINANCE ACTIVITIES**

Long Term Loans - Net	-	(15,818,515)
Redeemable Capital - Net	-	(16,596,959)
Dividend paid	-	(5,805,900)
Interest Expenses	(15,590,244)	(31,608,396)
	-----	-----
	(15,590,244)	(69,829,770)
Net-Increase/(Decrease) in cash & cash equivalent	(134,323)	4,006,558
Cash and Cash equivalent as at July 1 st.	12,806,816	8,800,258
	-----	-----
Cash and Cash equivalent as at June 30th.	12,672,493	12,806,816
	=====	=====

ANSARULLAH KHAN  
CHIEF EXECUTIVE

Lt.COL. (R) SAADAT HUSSAN  
DIRECTOR

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

**1. THE COMPANY AND ITS OPERATIONS**

Frontier Ceramics Limited was incorporated in Pakistan in July 1982 as a Public Limited Company, and was listed on the Karachi and Lahore Stock Exchanges in March 1992.

The principal activity of the company is the manufacture and sale of tiles, sanitary wares and allied accessories.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.01 ACCOUNTING CONVENTION**

The accounts of the Company have been prepared under the historical cost convention as modified by capitalisation of certain exchange differences in the cost of relevant assets without any adjustments for the effects of inflation except plant & machinery which has been re-valued (Note No. 4)

**2.02 STAFF RETIREMENT BENEFITS**

The Company operates a provident fund scheme for all its employees, contributions in respect thereof are made in accordance with the terms of the scheme.

**2.03 TAXATION**

Charge for current Taxation in the accounts is based on taxable income of the company after taking in to account rebate, if any allowable to the company. The company accounts for deferred taxation using liability method arising on all major timing differences.

**2.04 FIXED ASSETS**

Fixed assets are stated at cost less accumulated depreciation except leasehold land and capital work in progress which are stated at cost.

Depreciation is charged on reducing balance method at the rates specified in Note 11. Full years depreciation is charged on fixed assets purchased during the first half of the accounting year but no depreciation is charged on fixed assets acquired during the second half of the accounting year. No depreciation is charged if the assets are disposed off/deleted in the first half of the accounting year but charged if disposal/deletion is made in the second half of the accounting year.

Normal repairs and maintenance are charged to expenses as and when incurred while major renewals and replacements are capitalized. Gains and losses on disposal of fixed assets are taken to profit and loss account currently.

**2.05 STOCK IN TRADE, STORES, SPARES & LOOSE TOOLS**

These are stated as follows:

Stores, Spares & Loose Tools	At Average Cost
Raw & Packing Material	At Average Cost, except in transit, which are stated at actual cost.
Work in process	At Cost
Finished Goods	At Lower of Cost or Market Value

**2.06 RATE OF EXCHANGE**

Foreign currency loans and other foreign currency transactions are recorded at the rate prevailing on the date of transaction. Repayment of foreign currency loans are made at the rate at which the same were disbursed because of exchange risk having been covered.

**2.07 REVENUE RECOGNITION**

Sales are recorded on dispatch of goods to customers.

<b>SHARE CAPITAL</b>	<b>NOTES</b>	<b>1998 (Rs.)</b>	<b>1997 (Rs.)</b>
AUTHORIZED:			
8,000,000 Ordinary Share of Rs. 10/- each	3	80,000,000	80,000,000
Issued Subscribed and paid-up Capital 7,741,200 ordinary shares of Rs.10/- each issued for cash		77,412,000 =====	77,412,000 =====
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>	4	283,925,776 =====	283,925,776 =====

Revaluation of plant & machinery has been carried out as on June 30, 1996 by an independent valuer. M/s Global Engineers (Pvt) Ltd. Faisalabad, and duly certified by R.H. & Co. Cheered Accounts a firm approved by the State Bank of Pakistan for the purpose of revaluation of fixed assets. Revaluation has been carried out on a basis of depreciated replacement value.

(Refer to note no. 11)

<b>REDEEMABLE CAPITAL (SECURED)</b>	5		
Participation Term Certificates (PTCs)			
Term Finance Certificates (TFCs)	5.01	3,174,781	3,174,781



Accrued Markup and overdues converted into term finance certificate capitalized dues	5.02	90,145,041	90,145,041
		-----	-----
		93,319,822	93,319,822
Less: Transferred to current maturity		22,093,000	22,093,000
		-----	-----
		71,226,822	71,226,822
		=====	=====
<b>TERM FINANCE CERTIFICATE</b>	5.01	3,174,781	3,174,781
		=====	=====

Banker Equity Limited Syndicate sanctioned and Investment of Rs. 77.196 million for the purchase of fixed assets. The total redemption value (Purchase value) of These TFC's amount to Rs. 148.182 million.

In view of the substance of the transaction, sale and re-purchase of assets referred to above has been taken at the sales price.

The TFC's are secured by a first charge on the fixed assets both movable and immovable including uncalled capital, book debts, investment and property of the company ranking pari passu with National Development Finance Corporation, Pakistan Industrial Credit & Investment Corporation Bankers Equity Limited Syndicate.

ACCRUED MARKUP AND OVERDUES CONVERTED INTO TERM FINANCE CERTIFICATE CAPITALIZED DUES	5.02	90,145,041	90,145,041
		=====	=====

The capitalized dues were repayable in ten semi-annual installments commencing from 01-10-97 and carry markup at the rate of 21.535% per annum. The existing loan installments falling due after 31-03-95 to be paid as per the original repayment schedule.

The agreement in this respect could not be signed as the company desired not to include markup on markup as per S.B.P. loan scheme circular no. 19 dt. 05-06-97 under which the company claims remission in markup etc. However, after the failure of the negotiations the company has filed a suit in the court of law.

	NOTES	1998 (Rs.)	1997 (Rs.)
<b>LONG TERM LOANS (SECURED)</b>	6		
<b>Foreign Currency</b>			
Pakistan Industrial Credit & Investment Corporation	6.01	128,449,183	128,449,183
National Development Finance Corporation.	6.02	29,860,134	29,860,134
		-----	-----
		158,309,317	158,309,317
<b>LESS: TRANSFERRED TO CURRENT MATURITY</b>		51,214,208	51,214,208
		-----	-----
		107,095,109	107,095,109
		=====	=====

**INTEREST RATE AND REPAYMENTS:**

PICIC Loan	6.01
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Pakistan Industrial Credit and Investment Corporation has rescheduled the outstanding loan of Rs. 64.907 million and capitalised the balance amount of

financial charges outstanding as at Dec. 31, 1995 amounting to Rs. 87.103 million, thus raising the amount of loan to Rs. 152.009 million.

Out of the capitalized financial charges Rs. 38.494 million was already capitalised in Dec. 1989, Rs. 19.952 million on 30th June 1993, and Rs. 28.657 million in Dec. 1995.

Out of balance over dues as on Dec. 31, 1995 Rs. 59.212 million shall be treated as a separate loan carrying interest at the rate of 18% per annum. This loan shall be repaid in 36 monthly installment which commenced from 20th Jan. 1996.

The remaining outstanding loan which was 84.711 million as at Dec. 31, 1995 shall carry usual interest ~ of 14% per annum. This portion alongwith accrued interest thereon shall be repaid in 72 monthly installments commencing Jan. 1st 1999. The loan is secured by a first charge on the fixed assets of the company, floating charges and hypothecation on all assets of the company present and future ranking pari passu with each other, with PTC/TFC's of Banker equity limited syndicate and Bel Investment. Total amount of foreign currency disbursed has since been fixed in Pak Rupees.

The proposal for rescheduling of PICIC loan was not acceptable to the company since markup on markup and penal markup had been incorporated by PICIC. The company made several attempts to settle the loan under the S.B.P. Loans scheme circular No. 19 dr. 05-06-97 under which the company claims for remission in markup etc. The company expected an amicable settlement. However after the failure of the negotiations it has filed a suit in courts of law. Markup on markup has been deferred by the company till the final decision of the courts. (See note 10). However PICIC vide their letter no. LAS-F-30/150 Dated January 6, 1998 has refused the restructuring package earlier offered by them vide their letter no. PD-11CCC/123/96 dated July 18, 1996.

**NDFC Loan:** 6.02  
The rate of interest is 11% and foreign exchange risk is 3% per annum, payable on the 15th day of March and 15th day of September each year. Total amount of foreign currency disbursed has since been fixed in Pak Rupees.

The above loan is repayable is sixteen half yearly installments commencing from 1st March, 1993. Against this loan, the company has regularly paid Rs. 0.5 million p.m. till March 1997 which NDFC has set-off against their markup dues.

The company made several attempts to settle the loan under the S.B.P. Loans scheme circular no. 19 dt. 05-06-97 under which the company claims for remission in markup etc. The Company expected an amicable settlement. However after the failure of the negotiations it has filed a suit in court of Law. Markup on markup has been deferred by the company till the final decision of the courts. (See note 10)

	<b>1998</b>	<b>1997</b>
NOTES	(Rs.)	(Rs.)

**FINANCES UNDER MARK UP  
ARRANGEMENTS - (SECURED)**

For Banks

Cash Finance - hypothecation	7.01	60,000,000	60,000,000
Cash Finance - Pledge	7.02	6,712,632	---
Running Finance	7.03	19,609,524	19,820,395
		-----	-----
		86,322,156	79,820,395
		=====	=====

7.01 National Bank of Pakistan has sanctioned credit facility of Rs. 60.00 million for cash finance Rs. 10.00 million for import L/C limit, Rs. 5.00 million for inland L/C limit and Rs. 5.00 million for guarantee limit.

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The above finance is secured by first charge against hypothecation of stock in trade, spares, book debts, current assets and personal guarantees of the directors of the company and risk sharing guarantee of BEL and NCB's.

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The validity of the facility has expired on 30.06.98 however since then it has been renewed for a full period of one year.

The rate of mark up is Rs. 0.54 (1997 Rs. 0.51) per 1000 per day on daily product basis payable half yearly. A rebate of paisa 2 per 1000 per day on product basis will be admissible if mark up is paid on due date.

7.02 National Bank of Pakistan has granted cash finance facility of Rs. 10 million against pledge of stock of finished goods. The above finance is secured against 50% margin of finished goods as at June 30, 1998. The rate of markup is 54 paisa per Rs. 1000 per day on daily product basis payable half yearly. A rebate of 2 paisa per Rs. 1000 per day on daily product basis is admissible if markup is paid on due date. The validity of this facility has expired on June 30, 1999.

7.03 The Bank of Khyber has sanctioned credit facility of Rs. 20 Million for cash finance Rs. 10 million for import L/C Limit and Rs. 5 million for guarantee limit.

The above finance is secured by hypothecation of stocks, stores and spares of the Company. The rate of mark up is Rs. 0.52 (1997 Rs. 0.50) per 1000 per day on daily product basis payable quarterly. A rebate in mark up @ 2% will be allowed on timely repayment.

The validity of the facility has expired on 30.04.98 however since then it has been renewed for a full period of one year.

<b>CURRENT PORTION OF LONG TERM LIABILITIES</b>	<b>8</b>		
Redeemable Capital (Note No. 5)		22,093,000	22,093,000
Long Term Loans. (Note No. 6)	8.1	51,214,208	51,214,208
		-----	-----
		73,307,208	73,307,208

8.1 As stated in notes no. 5 & 6 the company has filed suits in court of law and therefore the current maturity of these loans has not been calculated and transferred to this account.

**CREDITORS, ACCRUALS AND**

9

**OTHER LIABILITIES:**

Creditors	461,602	885,217
Accrued Liabilities	2,397,186	2,457,186
Other Liabilities	5,550,231	8,804,800
Interest Accrued on secured Loans	36,924,206	35,243,709
Workers Profit Participation fund	680,836	592,031
Taxation	774,069	2,209,175
	-----	-----
	46,788,130	50,192,118
	=====	=====
	<b>1998</b>	<b>1997</b>
<b>NOTES</b>	<b>(Rs.)</b>	<b>(Rs.)</b>

**CONTINGENCIES AND**

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**COMMITMENTS**

Bank Guarantee to SUI Northern Gas security against Bill	1,915,000	1,915,000
Letters of Credit for import of Raw Materials and Spare Parts.	13,526,244	16,032,678

**SALES TAX**

During the year under review Collectorate of Sales Tax Peshawar has raised a demand of Rs. 18,092,403 against the company alleging that this represents Sales Tax less paid by the company to the department comparing the sales as shown by it in audited account for the year ended June 30, 1997. The company has gone into appeal against this demand with the relevant Court of law.

**MARKUP**

The company is contingently liable for an amount of Rs. 83,493,925 in respect of deferred markup on markup and associated penalty uptill 30.06.98.

**FIXED CAPITAL EXPENDITURE AS ON 30-06-98**

PARTICULARS	Cost of Revaluation as at 1-7-97	Addition (Deletion) Adjustments	Cost of Revaluation Upto 30-6-98	Accumulated Depreciation as at 30-6-98	Net Book value at 30-6-98	depreciation for the year	Rate of Depreciation
Leasehold Land	3,419,658	98,587	3,518,245	---	3,518,245	---	---
<b>Building</b>							
Factory on Leasehold Land	62,641,108	---	62,641,108	(39,328,261)	23,312,847	2,590,316	10% on written down value
Office on Freehold Land	7,071,689	---	7,071,689	(1,984,427)	5,087,262	267,751	05% on written down value
Plant & Machinery	399,160,725	5,907,532	405,068,257	(52,689,216)	352,379,041	26,344,608	6% on original cost/revaluation

Electrification	12,055,064	---	12,055,064	(4,664,743)	7,390,321	388,96405% on written down value
Casting Benches	1,796,000		1,796,000	(1,169,773)	626,227	69,58110% on written down value
Furniture & Fixture	2,179,268	95,840	2,255,108	(1,242,267)	1,024,232	106,92110% on written down value
		(20,000)		11,391		
Vehicles	7,702,374	(839,4000)	6,862,974	(6,319,224)	1,179,618	294,90420% on written down value
				635,868		
Air-Conditioners & Coolers	992,477	36,510	992,987	(471,039)	532,967	55,16210% on written down value
		(36,000)		11,019		
Offices Equipment	2,423,987	137,363	2,526,350	(1,136,837)	1,409,447	147,74310% on written down value
		(35,000)		19,934		
Generators	430,000	---	430,000	(210,618)	219,382	24,37610% on written down value
Laboratory Ware	30,130	---	30,130	(22,709)	7,421	1,85520% on written down value
Other Assets	962,562	8,946	971,498	(427,363)	544,135	59,46710% on written down value
Capital Work in Progress	5,820,932	(5,820,932)	0	0	0	0
	-----		-----	-----	-----	-----
Total 1998	506,685,974	6,284,768	506,219,410	(109,666,477)	397,231,145	30,351,648
		(6,751,332)		678,212		
	=====	=====	=====	=====	=====	=====
Total 1997	504,932,312	3,188,474	506,685,974	79,314,829	427,371,145	30,798,199
		(1,434,812)				
	=====	=====	=====	=====	=====	=====

**ALLOCATION OF DEPRECIATION**

1,998	1,997
Rs.	Rs.
-----	-----
29,474,862	29,777,408
876,786	1,020,791
-----	-----
30,351,648	30,798,199
=====	=====

**NOTES****1998 (Rs.)****1997 (Rs.)****LONG TERM DEPOSITS****12**

Security Deposits	742,700	742,700
	=====	=====

**STORES, SPARES AND LOOSE TOOLS - AT COST****13**

Stores	10,375,221	9,217,690
Spares	19,302,118	16,467,922
	-----	-----
	29,677,339	25,685,612
	=====	=====

**STOCK IN TRADE -AT COST****14**

Local Raw Material	3,189,713	2,253,904
Imported Raw Material	31,754,459	26,493,954
Material in Transit	3,417,927	6,988,364
Packing Material	5,601,513	5,545,764
Fitting and Accessories	7,617,660	7,752,051
Work in Process	32,186,035	31,109,703
Finished Goods	63,074,733	62,607,473
	-----	-----
	146,842,040	142,751,213
	=====	=====

TRADE DEBTORS:-	15		
Considered Good		70,241,570	64,356,607
Considered Doubtful		4,739,876	4,685,231
		74,981,446	69,041,838
Less: Provision for Doubtful Debts		4,739,876	4,685,231
		-----	-----
		70,241,570	64,356,607
		=====	=====

<b>ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES:-</b>	16		
Suppliers		1,417,580	1,799,968
Contractors & Consultants		328,750	328,750
Due from Employees :- For expenses		395,956	408,606
Advance against salaries		204,370	253,715
Sales Tax paid in Advance		7,981,405	9,227,008
Excise Duty paid in Advance		595,452	521,475
Insurance Claim	16.01	7,718,189	7,718,189
Duty & Taxes Refundable		3,095,769	3,095,769
Deposits and Advances		4,131,397	57,700
L/G Margin Deposits		605,250	1,327,882
Prepayments		4,024,661	6,276,709
Tax Deduction U/S 50		5,874,540	4,872,941
		-----	-----
		36,373,319	35,888,712
		=====	=====

16.01 Claim has been lodged with the insurance company for the loss caused by damage to stock and loss of production due to industrial dispute and compulsory closure of the kiln.

CASH AND BANK BALANCES:	17		
Cash in hand		150,386	213,713
Cash in Transit		4,080,000	188,234
PLS. T.D.R. A/C		---	165,000
Cash at Bank in current account		8,442,107	12,239,869
		-----	-----
		12,672,493	12,806,816
		=====	=====

<b>SALES</b>			
Tiles		147,493,798	190,581,754
Sanitary ware		57,151,659	67,975,391
		204,645,457	258,557,145
Less: Discount		27,198,539	17,267,867
Sales Tax		17,600,354	21,639,887
Excise Duty		8,496,775	14,824,079
		-----	-----
		151,349,789	204,825,312
		=====	=====

<b>COST OF SALES</b>	19		
Raw Material Consumed	19.01	51,212,761	63,650,445
Mould Dyes & Consumable store		304,529	392,533
Gas & Electricity		20,806,107	20,220,344
Oil & Lubricants Consumed		3,093,945	3,654,395

Wages, Sallies & other benefits		11,512,948	10,733,659
Insurance		1,971,604	2,096,021
Repairs and Maintenance		4,702,642	4,968,885
Research & Development		89,601	11,316
Other production expenses		484,528	497,797
Packing charges	19.02	3,631,626	4,036,950
Depreciation		29,474,862	29,777,408
		-----	-----
		127,285,153	140,039,753
Beginning Stock W.I.P. July 1st		31,109,703	31,652,068
		-----	-----
		158,394,856	171,691,821
Less closing stock W.I.P. June 30		32,186,035	31,109,703
		126,208,821	140,582,118
Add: Stock of finished Goods July 1 st		62,607,473	65,311,981
Consumption of fitting and accessories		2,144,126	2,747,372
		190,960,420	208,641,471
Less stock of finished Goods June 30		63,074,733	62,607,473
		-----	-----
		127,885,687	146,033,998
<b>RAW MATERIAL CONSUMED</b>	19.01	-----	-----
<b>Opening</b>			
Local		2,253,903	2,913,338
Imported		26,493,954	24,864,020
		-----	-----
		28,747,857	27,777,358
<b>Purchases:</b>		-----	-----
Local		7,698,114	5,654,939
Imported		49,710,962	58,966,005
		-----	-----
		57,409,076	64,620,944
		-----	-----
		86,156,933	92,398,302
		-----	-----
<b>Closing Stock</b>			
Local		(3,189,713)	(2,253,903)
imported		(31,754,459)	(26,493,954)
		-----	-----
		(34,944,172)	(28,747,857)
		-----	-----
		51,212,761	63,650,445
		-----	-----
<b>Packing Material</b>	19.02		
Opening		5,545,764	4,962,159
Purchases		3,687,375	4,620,555
		-----	-----
		9,233,139	9,582,714
Closing Stock		(5,601,513)	(5,545,764)
		-----	-----
		3,631,626	4,036,950
		=====	=====
		<b>1998</b>	<b>1997</b>
		<b>(Rs.)</b>	<b>(Rs.)</b>
<b>NOTES</b>			

Salaries, Allowances & Benefits	4,355,548	3,994,920
Rent, Rates and Taxes	576,672	635,569
Printing and Stationery	392,434	395,059
Postage, Telegrams, Telephones & Telex	2,390,915	2,328,765
Fee and Subscriptions	192,084	197,321
Travelling and conveyance	397,044	391,044
Legal and Professional Charges	1,352,183	267,026
Electricity, Gas and Water Charges	675,662	698,836
Lease Rentals	228,785	219,636
Repairs & Maintenance	309,940	301,291
Motor Vehicle Expenses	1,455,189	1,406,523
General Expenses	475,642	430,289
Audit Fee	45,000	45,000
Provision for doubtful Debts	1,000,000	1,000,000
Charity & Donation (20.1)	33,095	28,701
Depreciation	876,786	1,020,791
	-----	-----
	14,756,979	13,360,777
	=====	=====

(20.1) Directors and their spouses have no interest in organisations who received donations.

**SELLING & DISTRIBUTION EXPENSES:**

21

Salaries, Allowances & Benefits	3,502,837	3,207,169
Advertisements and Promotion	487,768	496,662
Travelling and conveyance	441,281	404,397
Postage, Telephone, Telegram & Telex	603,251	595,709
Motor Vehicle Expenses	948,124	904,678
Entertainment	203,574	168,232
Printing and Stationary	117,210	1 04,890
Rent, Rates and Taxes	747,414	763,406
Freight Cartage Etc.	4,182,264	4,520,988
Other Expenses	394,825	372,508
	-----	-----
	11,628,548	11,538,639

**DISPOSAL OF FIXED ASSETS****Note 22**

DESCRIPTION	Original cost	Accum. Duty	W.D.V	Sales Proceed	Profit (Loss)	Mode of Disposal	Particular of Buyer
Mazda Truck	300,000	249,669	50,331	288,750	238,419	Tender	Royal Classica Trader, 147-c KDA Scheme, Karachi
Suzuki Swit Car	160,000	133,157	26,843	136,500	109,657	-d0-	-d0-
Suzuki Pickup	202,500	98,820	103,680	127,050	23,370	-d0-	-d0-
Motorcyle (2 no)	54,400	40,139	14,261	50,400	36,139	-d0-	-d0-
Air conditioners (2 no.)	36,000	11,019	24,981	24,150	(831)	-d0-	-d0-
Fax Machine/							
Computer Equipment	35,000	19,934	15,066	29,400	14,334	-d0-	-d0-
Furniture	20,000	11,391	8,609	11,550	2,941	-d0-	-d0-
Nissan Pulsar	122,500	114,083	8,417	60,000	51,583	Employee	Mr. Fayaz Khan F.C.I. Peshawar
	-----	-----	-----	-----	-----		
	930,400	678,212	252188	727,800	475,612		

**NOTES**  
**(Rs.)**                      **(Rs.)**



<b>FINANCIAL CHARGES</b>	23		
Interest on long term loans	--	11,660,566	
Mark-up on Redeemable Capital	--	4,453,528	
Mark-Up on short Term Running Finance	15,590,244	15,494,302	
Bank Charges	323,111	311,389	
	-----	-----	
	15,913,355	31,919,785	
	=====	=====	

<b>TAXATION</b>	24
Income Tax is fully paid for assessed tax upto assessment year 1997-98	

<b>SALES TAX</b>	25
------------------	----

Sales Tax has been paid under protest to the sales tax and excise department since 1988. The Contention is that this should be exempted to the company vide SRO No. 529(1)/88 dated 26th June, 1988, wherein the units which were set up between 1st July, 1988 to 30th June, 1991 were exempted from payment of sales tax for a period of eight years. The company commenced its commercial production from 1st July, 1988, and therefore qualifies for exemption under the above SRO. The amount of sales tax paid by the company from 1st July, 1988 to 30th, June 1996 is Rs. 157.995 million. the wafaqi mohtasib has since decided the case in our favour. However the related government department has filed an appeal before the President of Pakistan against the said order.

<b>CAPACITY</b>	26
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The installed production capacities of the plant are 3,000 tons for Sanitary ware and 500,000 Sqm for Tiles. Actual capacities attained during the year in respect of Sanitaryware & Tiles were 1,171 tons & 454,642 Sqm respectively (1997 Sanitaryware 1645 tons and Tiles 526378 Sqm)

<b>REMUNERATION OF DIRECTORS AND EXECUTIVES</b>	27
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Managerial	Chief Executive	Directors	Other Executives	1998	1997
Remuneration	189,600	255,800	235,200	680,600	637,546
House Rent	85,320	115,110	105,840	306,270	280,828
Conveyance	3,600	6,300	7,200	17,100	14,250
Utilities	9,480	12,790	11,760	34,030	31,876
	-----	-----	-----	-----	-----
Total 1998	288,000	390,000	360,000	1,038,000	0
	-----	-----	-----	-----	-----
Total 1997	276,000	430,500	258,000	0	964,500
	-----	-----	-----	-----	-----

No of Persons

1998	1	2	2	5
1997	1	2	2	5

In addition to the above, all the directors and executives are provided free use of company cars as per their entitlement. Aggregate amount charged in the accounts for fee to directors was Nil, (1997: Rs. Nil) Previous year figures have been rearranged wherever necessary for the purpose of comparison.

Figures are rounded off to the nearest rupees.

ANSARULLAH KHAN                      Lt. Col. (R) SAADAT HUSSAN  
CHIEF EXECUTIVE                      DIRECTOR

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

Number of Share Holders	Share Holding	Total Shares Held	
58	1	100	5,800
4.65	101	500	2,019,900
88	501	1,000	90.10
76	1,001	5,000	186,200
10	5,001	10,000	74,200
2	10,001	15,000	27,100
1	15,001	20,000	20,000
3	40,001	45,000	135,000
1	45,001	50,000	47.50
1	75,001	80,000	77,000
3	95,001	100,000	300,000
1	135,001	140,000	135,900
1	145,001	150,000	147.50
1	460,001	465,000	464,000
1	470,001	475,000	471,805
1	960,001	965,000	960,400
1	1,205,001	1,210,000	1,208,195
1	1,370,001	1,375,000	1,370,600
-----			-----
4,896			7,741,200
=====			=====

CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARE HOLDERS	SHARE HELD	PERCENTAGE
Individuals	4,889	4,897,300	63.26
Investment Complies	1	135,900	1.75
Insurance Complies	2	200,000	2.59
Joint Stock Complies	1	1,370,600	17.70
Financial Institutions	3	1,137,400	14.70
Modaraba			
Foreign Investors			
Co-operative societies			
Charitable Trusts			
Others			
	-----	-----	-----
	4,896	7,741,200	100.00
	=====	=====	=====