

**Crescent Steel
and
Allied Products
Limited**

**Annual
Report
1986**

CRESCENT GROUP



شركة الصلب والمنتجات الحديدية
القابضة

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Board of Directors

Mr. Mazhar Karim	Chairman
Mr. Ahsan M. Saleem	Chief Executive
Mr. Muhammad Anwar	
Mr. Muhammad Javed Amin	
Mr. M. Jalil Khan	(Nominee SAPICO)
Mr. Nasir Ahmad	(Nominee NDFC)
Mr. Nasir Shafi	
Mr. Shaukat Shafi	
Mr. Zahid Bashir	

Corporate Secretary

Mr. Sardar Anwar Ali Khan

Auditors

A.F. Ferguson & Company,
Chartered Accountants

Legal Advisers

Hassan & Hassan
Advocates

Bankers

Citibank N.A.
Standard Chartered Bank

Registered office

45, Shahrah-e-Quaid-e-Azam,
Lahore

Principal Office

9th Floor, Sidco Avenue Centre,
264, R.A. Lines,
Karachi

Factory

A/25, S.I.T.E. Nooriabad,
Dist. Dadu.

Notice of Meeting

Notice is hereby given that the 3rd Annual General Meeting of Crescent Steel & Allied Products Limited will be held at Registered Office, 45, Shahrah-e-Quaid-e-Azam, Lahore, on 24th June 1987 at 11.30 A.M. to transact the following business:

1. To confirm the Minutes of the last Annual General Meeting.
2. To receive and adopt the Audited Accounts and Balance Sheet for the year ended 31st December, 1986 together with the Directors' and Auditors' Report thereon.
3. To appoint Auditors for the year 1987 and to fix their remuneration. The present Auditors M/S. A.F. FERGUSON & CO., Chartered Accountants, being eligible, offer themselves for re-appointment.
4. To consider any other business which may be placed before the Meeting with the permission of the Chair.

The Register of Members of the Company will remain closed from 11th June 1987 to 24th June 1987 (both days inclusive).

By Order of the Board

Corporate Secretary

45-Shahrah-e-Quaid-e-Azam,
Lahore.

Dated 2nd June 1987.

Note:

1. A member eligible to attend and vote at this Meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the Registered Office not less than 48 hours before the time for holding the Meeting.
2. Shareholders are requested to immediately notify the change in address, if any.

Directors' Report

Your Directors have pleasure in presenting their Third Annual Report together with audited accounts of the Company and the Auditors' Report thereon for the period January 1986 to December 1986.

The Project

The project setup as a downstream industry of Pakistan Steel is designed to produce submerged arc welded spiral pipes in the range of 8" to 60" dia based on a fully continuous process. Free choice of pipe diameter and strip width is available allowing flexibility in producing pipes of different sizes operating on strip widths of varying sizes.

Nominal capacity of the plant is 24,000 tons of pipes per annum of 30" dia on the basis of one shift operation. This capacity will automatically increase or decrease depending on the average dia of pipes produced during the year and the number of shifts operated.

The Plant is located at the Industrial Trading Estate in Nooriabad, approximately 100 kilometers from Karachi on the Karachi/Hyderabad Super Highway.

By end of July 1986, the installation and commissioning of all machinery and equipment was completed. The commissioning and trial runs were powered by our own auxiliary power unit of 1000 KVA for want of power connection which was eventually obtained from WAPDA on 21.3.87. As such, the commercial production which was envisaged to start by the end of January 1987 was eventually started on 31st March 1987.

During trial runs pipes of almost the entire range were produced and the product quality was established to be better than the internationally accepted standard specified for such pipes. Capacity Tests were also carried out on three nominated pipes sizes and guaranteed output was exceeded both in quality and quantity.

Since the project had not gone into commercial production till 31.12.86 the Company has not prepared a profit and loss account. Total expenditure incurred towards project cost till 31st December 1986 was Rs. 202,233,095/-.

Raw Materials

The main raw material for production of steel pipes is hot rolled steel coils for which we have to predominantly depend on Pakistan Steel. Efforts are being made by Pakistan Steel to manufacture raw materials to our required specifications and we are confident that the supply of raw material will be constant during fiscal 1987. For grades higher than X 52 and wall thickness higher than 10 mm the raw material will have to be imported.

Utilities and Housing

Power connection from WAPDA was obtained towards the end of March 1987 and the activities during the current period have been covered by our auxiliary power unit of 1000 KVA. This unit is capable of meeting the requirements of the plant during power break-downs. Adequate supply of water has been made available by SITE. However, the lack of housing facility for workers is a cause for concern. SITE does not allow building of workers accommodation inside the Plant premises as they have their own plans to either allocate land for workers colony or build workers accommodation in the vicinity of the Industrial Estate. This not having materialised so far is having adverse effect on the morale of the workers due to inadequate facilities available in the make shift accommodation provided to them. We are seeking permission to build some accommodation within the plant premises and some capital expenditure in this connection will be involved.

Market

Spiral welded steel pipes are used mainly for oil and gas transmission, water supply mains, piling, mechanical structures and in industrial plants. The Company has already succeeded in securing orders while in trial production for gas transmission, water supply and industrial applications. The orders so far executed include 16 km of 18" diameter pipes for natural gas transmission. Future prospects for securing orders appear bright as the forthcoming projects for oil and gas transmission alone will use about 50,000 tons steel pipes, a major portion of which is in our production range. Orders are also expected for water transmission projects during fiscal 1987. Meanwhile, vigorous efforts are being made to have a sizeable order book at the end of fiscal 1987.

Auditors

The present Auditors — A.F. Ferguson & Co., Chartered Accountants — retire and being eligible, offer themselves for re-appointment as Auditors of the Company for the year ending December 31, 1987.

The Plant is now being run by our own team of Engineers who have been trained in West Germany and Yugoslavia and are capable to run the Plant on their own. I would like to put on record my appreciation for the efforts put in by our team to complete the project under very trying conditions.

On Behalf of the Board

Ahsan M. Saleem
Chief Executive

Auditors' Report to the Members

We have audited the annexed balance sheet of Crescent Steel and Allied Products Limited as at December 31, 1986 and statement of changes in financial position, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet and the statement of changes in financial position, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 1986 and the changes in financial position for the year then ended; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

A.F. Ferguson & Co.
Chartered Accountants

Karachi, 5th May, 1987

Balance Sheet as at December 31, 1986

	Note	1986 Rupees	1985 Rupees
Share Capital			
Authorised			
10,000,000 (1985: 5,000,000) ordinary shares of Rs 10 each		<u>100,000,000</u>	<u>50,000,000</u>
Issued, subscribed and paid-up			
3,075,000 (1985: 2,050,000) ordinary shares of Rs 10 each fully paid in cash		30,750,000	20,500,000
Debtentures, Long-Term Loans and Financial Assistance	4	115,133,224	87,535,822
Current Liabilities			
Current maturity of debtentures, long-term loans and financial assistance	4	11,584,468	-
Finances under mark-up arrangements	5	37,663,931	14,565,894
Creditors and accrued liabilities	6	25,330,291	18,463,638
		74,578,690	33,029,532
Capital Commitments	7		
		<u>220,461,914</u>	<u>141,065,354</u>

	Note	1986 Rupees	1985 Rupees
Fixed Assets - Tangible			
Operating assets	8	5,488,840	4,448,938
Capital work-in-progress - at cost	9	184,262,722	129,959,861
		<u>189,751,562</u>	<u>134,408,799</u>
Deferred Cost	10	228,729	46,130
Long-Term Deposits		44,810	3,750
Current Assets			
Stores, spares and loose tools	11	9,845,001	-
Stock-in-trade	12	7,798,440	-
Trade debts - unsecured, considered good		793,938	-
Advances due for repayment within one year	13	145,920	-
Prepayments		332,758	-
Other receivables	14	542,995	987,492
Cash and bank balances	15	10,977,761	5,619,183
		<u>30,436,813</u>	<u>6,606,675</u>
		<u><u>220,461,914</u></u>	<u><u>141,065,354</u></u>

The annexed notes form an integral part of these accounts.

Ahsan M. Saleem
Chief Executive

M. Jalil Khan
Director

Statement of Changes in Financial Position for the year ended December 31, 1986

	1986 Rupees	1985 Rupees
Funds Provided		
From non-operating source		
Issue of share	10,250,000	2,500,000
Debentures, long-term loans and financial assistance	39,181,870	87,535,822
	<u>49,431,870</u>	<u>90,035,822</u>
Application of Funds		
Fixed capital expenditure	55,342,763	120,663,723
Deferred cost	182,599	-
Long-term deposits	41,060	1,250
	<u>55,566,422</u>	<u>120,664,973</u>
Decrease in Working Capital	<u>6,134,552</u>	<u>30,629,151</u>
Analysis of Decrease in Working Capital		
Increase/(Decrease) in Current Assets		
Stores, spares and loose tools	9,845,001	-
Stock-in-trade	7,798,440	-
Trade debts	793,938	-
Advances	145,920	(200)
Prepayments	332,758	-
Other receivables	(444,497)	987,492
Cash and bank balances	5,358,578	(122,659)
Due from associated companies	-	(323,651)
	<u>23,830,138</u>	<u>540,982</u>
(Increase)/Decrease in Current Liabilities		
Finances under mark-up arrangements	(23,098,037)	(12,878,367)
Creditors and accrued liabilities	(6,866,653)	(18,291,766)
	<u>(29,964,690)</u>	<u>(31,170,133)</u>
	<u>6,134,552</u>	<u>30,629,151</u>

Ahsan M. Saleem
Chief Executive

M. Jalil Khan
Director

Notes to the Accounts for the year ended December 31, 1986

1. The Company and its operation

The Company, which was incorporated on August 1, 1983 as a public limited company, has been established for manufacturing of large diameter spiral welded pipes at Nooriabad (District Dadu). The Company has started trial production from August 1986.

2. Significant Accounting Policies

2.1 Overall valuation policy

These accounts have been prepared under the historical cost convention.

2.2 Fixed Capital Expenditure

These are stated at cost less accumulated depreciation except capital work-in-progress which is stated at cost. Leasehold land is amortized over the period of lease. The cost of capital work-in-progress includes organisation and development expenditure incurred which will be capitalised with the project cost.

Depreciation on fixed assets is charged applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions during the year, depreciation is charged for full year; however, no depreciation is charged on an asset in the year of disposal.

2.3 Stores and Spares

These are valued at average cost.

2.4 Stock-in-Trade

All stocks are stated at the lower of cost and estimated net realisable value. Cost is determined by average method. Cost of work-in-process and finished goods includes cost of materials and appropriate portion of production overheads. Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale.

2.5 Rate of Exchange

Liabilities in foreign currencies are translated into Pakistan rupees at the rate of exchange approximating to those prevalent on the balance sheet date except where foreign exchange risk has been covered.

3. Issued, Subscribed and Paid-up Capital

As partial consideration for the foreign currency loan from National Development Finance Corporation referred to in Note 4.2, the lender has the option to convert an aggregate maximum of twenty per cent of the loan sanctioned into fully paid ordinary shares of the Company at any time or from time to time during the subsistence of the credit.

Notes to the Accounts for the year ended December 31, 1986

4. Debentures, Long-Term Loan and Financial Assistance	1986 Rupees	1985 Rupees
Unsecured		
Custom debentures - note 4.1	3,159,842	2,707,342
Secured		
Foreign currency loan - note 4.2	93,502,340	78,776,248
Financial assistance under mark-up arrangements - note 4.3	16,858,510	6,052,232
Term finances under mark-up arrangements - note 4.4	13,197,000	-
	<u>126,717,692</u>	<u>87,535,822</u>
Less: Instalments due within one year shown as current maturity	11,584,468	-
	<u>115,133,224</u>	<u>87,535,822</u>

4.1 Unsecured Custom Debentures

These represent the liability for the deferred element of custom duties on import of plant and machinery and stores and spares bearing surcharge at the rate of 11% per annum, and are repayable in six half-yearly instalments commencing from May 1988.

4.2 Foreign Currency Loan - secured

This represents foreign currency loan obtained from the National Development Finance Corporation (NDFC) of US\$ 5.82 million under a loan agreement dated October 28, 1984 for the large diameter spiral welded pipe project.

Interest is payable on the amount of the credit drawn and remaining unpaid by the Company and on costs, charges and expenses at the rate of 11% per annum. A foreign exchange risk fee on the amount of credit drawn and remaining unpaid by the Company is chargeable at the rate of 3% per annum and commitment charges at the rate 3/8% per quarter on such amount of the loan not withdrawn from time to time are also payable.

The loan obtained is secured by a first fixed charge on all the Company's plant and machinery, spare parts, accessories and electrical and other equipment, and a first floating charge on all other movable property and assets (present and future) including receivables and inventory of raw materials, work-in-progress, finished goods and supplies ranking pari-passu with charges created to secure running finance, demand finance and bridge finance obtained from Citibank N.A. referred to in note 5. The loan is repayable in 14 consecutive semi-annual instalments commencing from March 15, 1987 and ending on September 15, 1993.

4.3 Financial Assistance under Mark-up Arrangements - secured

The financial assistance for purchase of locally manufactured machinery is obtained from NDFC under mark-up arrangements amounts to Rs. 16.859 million (1985: Rs 6.052 million) which represent the sale price of mark-up agreements entered into by the Company with a corresponding purchase price of Rs. 37.635 million (1985: Rs 18.76 million).

The purchase price is payable in 12 to 16 equal semi-annual instalments commencing from March 1, 1987 subject to a rebate, at the stipulated rate for prompt payment under the agreement.

Notes to the Accounts for the year ended December 31, 1986

The arrangement is secured by first mortgage and a first floating charge on all the present and future immovable and movable properties and assets of the Company ranking pari-passu with charges created to secure running finance, demand finance and bridge finance obtained from Citibank N.A. referred to in Note 5.

4.4 Term Finances under Mark-up Arrangements - Secured

The term finances for purchase of raw material, finished goods, other assets etc. were obtained from NDFC under mark-up arrangements amounts to Rs 13.197 million which represents the sale price of mark-up agreements entered into by the Company with a corresponding purchase price of Rs 31.402 million.

The purchase price is payable in 12 to 16 equal semi-annual instalments commencing from March 1, 1987 subject to a rebate, at the stipulated rate for prompt payment under the agreement.

The arrangement is secured by first mortgage and a first floating charge on all the present and future immovable and movable properties and assets of the Company ranking pari-passu with charges created to secure running finance, demand finance and bridge finance obtained from Citibank N.A. referred to in Note 5.

5. Finances Under Mark-up Arrangements

	1986 Rupees	1985 Rupees
Secured		
Running finance	954,856	-
Demand finance	3,897,528	-
Bridge finance from Citibank N.A.	12,000,000	-
National Development Finance Corporation	10,796,000	-
Associated undertakings - unsecured		
Crescent Jute Products Limited	7,937,315	6,814,205
Jubilee Spinning and Weaving Mills Limited	945,408	3,000,000
Crescent Group Services Limited	886,042	147,373
Shakarganj Mills Limited	246,782	4,604,316
	<u>10,015,547</u>	<u>14,565,894</u>
	<u>37,663,931</u>	<u>14,565,894</u>

The rate of mark-up on running finance is 14% per annum and the purchase price and mark-up are repayable by June 30 1987. The running finance, demand finance and bridge finance are secured by a first charge on all the present and future movable and immovable assets of the Company ranking pari-passu with the charges created to secure the foreign currency loan, financial assistance and term loans obtained from NDFC referred to in Note 4.

Notes to the Accounts for the year ended December 31, 1986

6. Creditors and Accrued Liabilities

	1986 Rupees	1985 Rupees
Creditors	16,445,916	3,864,062
Accrued liabilities	763,273	1,745,231
Interest accrued on secured loan	3,981,427	2,865,834
Accrued mark-up	3,081,665	-
Surcharge accrued on unsecured custom debentures	50,431	29,162
Retention money	917,259	9,959,349
Deposits	10,000	-
Others	80,320	-
	<u>25,330,291</u>	<u>18,463,638</u>

7. Capital Commitments

Commitments for capital expenditure at December 31, 1986 on the basis of contracts executed aggregated to Rs Nil (1985: Rs 34 million).

8. Operating Assets

	Cost as at December 31,1985	Additions (deletions)	Cost as at December 31,1986	Accumulated deprecia- tion as at December 31,1986	Written down value as at December 31,1986	Depreciation Rate %	Charge for the year
Leasehold land	2,583,474	235,018	2,818,492	28,470	2,790,022		28,470
Office premises	1,371,649	11,308	1,382,957	409,640	973,317	10	138,296
Furniture and fixtures	171,299	377,586	548,885	72,539	476,346	10	54,889
Office equipment	73,495	78,315	151,810	46,082	105,728	20	30,362
Electrical and gas appliances	226,190	270,215	496,405	189,757	306,648	20	99,281
Diesel generating set	150,690	-	150,690	30,138	120,552	10	15,069
Workshop and laboratory equipment	-	29,034	29,034	5,807	23,227	20	5,807
Motor vehicles	450,000	625,750	1,075,750	382,750	693,000	20	215,150
Rupees	<u>5,026,797</u>	<u>1,627,226</u>	<u>6,654,023</u>	<u>1,165,183</u>	<u>5,488,840</u>		<u>587,324</u>
1985 Rupees		<u>518,404</u> <u>(2,599,820)</u>	<u>5,026,797</u>	<u>557,859</u>	<u>4,448,938</u>		<u>319,301</u>

Notes to the Accounts for the year ended December 31, 1986

9. Capital Work-in-Progress

	1986 Rupees	1985 Rupees
Building	37,342,309	13,112,690
Plant and machinery	111,876,879	104,733,872
Project examination fee	1,012,768	546,000
Project overhead exper.	2,762,457	1,586,345
Advances to suppliers and contractors	-	972,362
Advance for purchase of van	-	239,000
Interest and exchange risk on foreign currency loan	20,448,076	2,865,834
Commitment charges on foreign currency loan	3,359,925	2,961,147
Organisation and development expenditure		
- Staff salaries, allowances and benefits	3,107,347	1,263,522
- Medical	78,609	43,472
- Entertainment	82,726	27,588
- Travelling and conveyance	189,108	142,422
- Technical fee	18,200	18,200
- Audit fee	77,816	30,000
- Legal and professional charges	124,756	99,698
- Consultancy fee	216,344	-
- Motor vehicles	359,947	107,542
- Bank charges	47,268	10,269
- Interest	-	502,987
- Subscriptions and membership fee	13,576	10,340
- Books and periodicals	14,503	4,304
- Electricity and gas	297,026	50,169
- Rent	138,608	83,021
- Taxes	47,516	-
- Repairs and maintenance	48,509	12,036
- Postage, telegrams and telex	77,492	52,379
- Telephone	85,061	52,227
- Printing and stationery	122,640	57,797
- Octroi charges	139,516	80,000
- Advertisement	100,415	68,695
- Charity and donation	4,905	-
- Insurance	110,395	47,179
- Depreciation	1,136,713	577,859
- Amortisation of leasehold land	28,470	-
- Miscellaneous	127,670	15,593
Net cost of trial runs	6,795,136	3,357,299
	1,183,558	-
Less: Income from:		
- Tender fees	30,753	30,753
- Interest	487,633	383,935
	(518,386)	(414,688)
	<u>184,262,722</u>	<u>129,959,861</u>

Notes to the Accounts for the year ended December 31, 1986

10. Deferred Cost

	1986 Rupees	1985 Rupees
Registration fee and cost of common seal	102,535	26,575
Printing charges of memorandum and articles etc.	11,655	6,555
Registration expenses	13,000	13,000
Share issue expenses	101,539	-
	<u>228,729</u>	<u>46,130</u>

These will be written off over a period of five years from the date of commencement of commercial production.

11. Stores, Spares and Loose Tools

	1986 Rupees	1985 Rupees
Stores	207,114	-
Spare parts	9,424,762	-
Loose tools	213,125	-
	<u>9,845,001</u>	<u>-</u>

12. Stock-in-Trade

Raw materials	3,262,161	-
Work-in-process	368,313	-
Finished goods	4,167,966	-
	<u>7,798,440</u>	<u>-</u>

13. Advances due for repayment within one year

Employees	33,100	-
Suppliers for goods and services	112,820	-
	<u>145,920</u>	<u>-</u>

14. Other Receivables

Insurance claim receivable	-	123,500
Octroi refundable	16,472	857,597
Others	526,523	6,395
	<u>542,995</u>	<u>987,492</u>

15. Cash and Bank Balances

With banks - on current account	97,894	52,263
- on time deposit account	10,826,971	4,315,665
Cash and cheque-in-hand	52,896	1,251,255
	<u>10,977,761</u>	<u>5,619,183</u>

16. Comparative Figures

Prior year's figures have been rearranged, where necessary, for the purpose of comparison.

Form '34'.

The Companies Ordinance, 1984.

(Section 236)

Pattern of holdings of the shares held by the shareholders of Crescent Steel & Allied Products Limited as at 31st December 1986.

No. of Shareholders.	Shareholding		Total Shares Held.
	From	To	
14	1	100	1400
21	101	500	7800
4	501	1000	4000
51	1001	5000	175102
14	5001	10000	103701
7	10001	15000	95001
1	15001	20000	17501
1	20001	25000	24000
1	25001	30000	30000
1	30001	35000	31501
1	50001	55000	52501
1	295001	300000	300000
1	330001	335000	332493
2	445001	450000	900000
2	495001	500000	1000000
122			3075000

Categories of Shareholders.	Number	Shares Held	Percentage.
Individuals.	115	528507	17.18 %
Joint Stock Companies.	6	2532493	82.36 %
Private Companies.	1	14000	0.46 %
Total:	122	3075000	100.00 %

3rd Annual General Meeting

Form of Proxy

IMPORTANT

This Form of Proxy, in order to be effective, must be deposited duly completed, at the Company's Registered office at 45, Shahrah-e-Quaid-e-Azam, Lahore, not less than 48 hours before the time of holding the meeting.

A proxy must be a member of the Company Signature should agree with the specimen registered with the company.

Please quote Registered Folio Number

I/We
 of
 being a member of Crescent Steel & Allied Products Ltd. and holder
 ofordinary shares, hereby appoint
 of
 who is also a member of the Company, as my/our proxy in my/our absence to attend and
 vote for me/us and on my/our behalf at the 3rd Annual General Meeting of the Company
 to be held at the Registered Office, 45, Shahrah-e-Quaid-e-Azam, Lahore, on June 24,
 1987 at 11.30 a.m. or at any adjournment thereof.

As witness my/our hand this day of1987

Signed by the said in the presence of

(Member's Signature)

(Witness's Signature)

Date

Place

Affix Fifty Paisa
 Revenue Stamp which
 must be cancelled
 either by signature
 over it or by some
 other means

