

Al-Ghazi Tractors Limited

Producers of Fiat Tractors in Pakistan
(Annual Report 1995-96)

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COMPANY INFORMATION

Board of Directors

KUNWAR IDRIS - CHAIRMAN
PARVEZ ALI - CHIEF EXECUTIVE
KEITH S. STACK
SHAH JALIL ALAM
HASAN IRSHAD
A.K.M. SAYEED
NAZIR A. SHAIKH
MARLO CHESSA

Company Secretary

SALEEM ADIL

Auditors

A.E FERGUSON & CO.

Legal Advisors

SURRIDGE & BEECHENO

Tax Advisors

FORD, RHODES, ROBSON,
MORROW

Bankers

HABIB BANK LTD.
SOCIETE GENERALE
STANDARD CHARTERED BANK

KARACHI:

Registered Office - 11th Floor, NIC Building, Abbasi Shaheed Road, Karachi 74400.
Telephone: (92.021) 5660881-5. Telefax: (92.021) 5689387.

LAHORE

Delivery Centre - 10 km Sheikhpura Road, Lahore.
Telephone: (92.042) 270081, 271059, 272226, 7924676-7. Telefax: (92.042) 272257.

ISLAMABAD

Flat No. 8, 2nd Floor, Malik Complex, Shahrahe Quaid-e-Azam,
Blue Area, Sector F-7 & G-7, Islamabad.
Telephone: (92.051) 829895, 272866. Telefax: (92.051) 272377.

PESHAWAR

Suite No. 205 A, City Tower, University Road, Peshawar.
Telephone: (92.0521) 842315, 841823.

MULTAN

Delivery Centre - 20 Industrial Estate, Multan.
Telephone: (92.061) 539557-9. Telefax: (92.061) 539241.

DERA GHAZI KHAN

Factory - P.O. Box 38, Sakhi Sarwar Road, Dera Ghazi Khan.
Telephone: (92.0641) 63159, 63805, 63750. Telefax: (92.0641) 62117.

SUKKUR

C/631/3, Minara Road, Sukkur

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirteenth Annual General Meeting of Al-Ghazi Tractors Limited will be held at Hotel Pearl Continental, Karachi on Wednesday, December 04, 1996 at 03.00 p.m. to transact the following business:

Ordinary Business

1. To receive and consider the audited Accounts, the Directors' report and the Auditors' report for the year ended June 30, 1996.

2. To declare the final cash dividend. (The Directors have recommended a final dividend of 35% i.e. Rs. 1.75 per share issued, in addition to 15% i.e. Rs. 0.75 per share already paid as interim dividend, making a total cash dividend of 50% i.e. Rs. 2.50 per share).
3. To elect 8 Directors of the company in accordance with the provisions of Section 178 of the Companies Ordinance 1984 for a period of 3 years commencing from December 5, 1996 in place of the present Directors namely, Mr. Kunwar Idris, Mr. Keith S. Stack, Mr. Parvez Ali, Mr. Hasan Irshad, Mr. Mario Chessa, Mr. Shah Jalil Alam, Mr. A.K.M.Sayeed and Mr. Nazir A. Shaikh.
4. To appoint Auditors for the year ending June 30, 1997 and to fix their remuneration. The retiring Auditors M/s. A. E Ferguson & Co., being eligible, offer themselves for re-appointment.

Special Business

5. To approve issue of bonus shares and in this regard to pass the following special resolutions.

"RESOLVED THAT a sum of Rs. 7,373,435 out of the Free Reserves of the company be capitalised and applied to the issue of 1,474,687 ordinary shares of Rs. 5 each and allocated as fully paid up bonus shares to the members whose names appear in the register of the members at the close of business on November 19, 1996 in the proportion of one share for every ten existing shares held and that such new shares shall rank pari passu with the existing ordinary shares of the company but shall not be eligible for dividend in respect of the year ended June 30, 1996.

FURTHER RESOLVED THAT in the event of any member holding shares which are not an exact multiple of 10, the Directors be and are hereby authorised to sell in the stock market such fractional entitlement and to pay the proceeds of sale when realized to a charitable institution."

NOTICE OF ANNUAL GENERAL MEETING

6. To approve increase in the company's authorised capital from Rs. 100 million to Rs. 200 million and to pass the following special resolution in this respect:
"RESOLVED THAT the figures and words "Rs. 100,000,000 divided into 20,000,000 shares of Rs. 5 each" appearing in Clause V of the Memorandum of Association and in Article 5 (a) of the Articles of Association of the company be and are hereby substituted by the figures and words "Rs. 200,000,000 divided into 40,000,000 shares of Rs. 5 each."

Karachi,
November 10, 1996

By Order of the Board
Saleem Adil
Company Secretary

Statement under Section 160 of the Companies Ordinance 1984

1. The Directors consider it advisable to capitalise a sum of Rs. 7,373,435 which they have set aside in a special Reserve for issue of bonus shares.
2. The company's authorised capital of Rs. 100 million needs to be increased to keep pace with future requirements of capitalization. It is, therefore, proposed to increase the authorised capital from Rs.100 million to Rs.200 million.

Notes:

1. Members who intend to offer themselves for election as Directors shall file with the company at its registered office not later than fourteen days before the date of the meeting, notice of their intention to offer themselves for election as Director.
2. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf. No person shall act as a proxy (except for a corporation) unless he is entitled to be present and vote in his own right. Proxies, in order to be effective, must be received at the registered office of the company duly stamped and signed nor less than 48 hours before the time of the meeting.
3. The Share Transfer Books of the company will remain closed from November 20 to December 04, 1996 (both days inclusive).
4. Members are requested to promptly communicate to the company any change in their addresses.

CHAIRMAN'S REVIEW

I welcome you to the Thirteenth Annual General Meeting of Al-Ghazi Tractors Limited, and present the Annual Report of your Company for the year ended June 30, 1996.

Operating Results

The Company recorded a pre-tax profit of Rs. 171.9 million - a decline from the record profit of Rs. 259.9 million - achieved in 1994-95, but the latter included exceptional credits.

A larger number of tractors - 6,617 units - was delivered than 6,420 units delivered in the previous year, but the gross profit margin declined from 14.7% to 10.0% reflecting the impact of a raft of unavoidable cost increases, especially the sudden imposition in October 1995 of 10% regulatory duty coupled with a 7% devaluation of the rupee, which was followed by further creeping devaluation. It was not possible to pass on all these costs by way of immediate increase in selling prices, although the Company ultimately had to increase prices in the range of 5 to 8% in addition to price adjustments to absorb the impact of regulatory duty and devaluation. The Company also had to absorb inevitable price increases, imposed for the same reasons, by local vendors. Margins would have been further squeezed but for management's successful efforts in increasing productivity, exercising tight control on manufacturing overheads and lean inventory management, which ensured a strong positive cash flow, thus minimizing financial charges. Following major cost savings in local inputs by bringing in house the assembly of engines and steering gear in previous years, the Company this year set up in house assembly of the high value hydraulic lift at minimum set up cost, which resulted in substantial cost savings.

During the year, the Company completed repayment of its long term loan, obtained from NDFC in 1985 and is, thus, now totally debt free. As noted above, lean management of current assets resulted in the accrual of cash balance at the year end totalling Rs. 578 million.

Sales and Production

The market share of the Company in terms of bookings remained steady at 40.5%. In terms of deliveries share increased from 37.1% last year to 40.6% this year.

Having been consistently available for financing of customers' purchases over recent years, loans from ADBP suffered various interruptions during the year. Bookings via ADBP for the whole industry reached only 7,059 units compared with over 20,000 in the previous year. Of the 5,843 tractors booked with the Company during 1995-96, only 3,074 units were booked through ADBP. Fortunately, the Company was able to secure cash bookings for 2,769 units so that, whereas, ADBP financing used to account for almost 100% of the industry's support, in the year under review it declined to less than 50%. The emergence of this cash market enabled the Company's net sales to reach Rs. 2,265 million - an increase of 11.6% over last year. Even better results could have been achieved had not the Company faced the frustration of short supply of local components and slow issue of bank drafts from ADBP. As a result, no less than 2,491 orders remained pending for delivery at the close of the financial year.

Awami Tractor Scheme

The Awami Tractor Scheme continued to be a disturbing feature in the tractor market throughout the year. I reported last year that the Company had received a letter of intent for the supply of 5,000 tractors under the scheme, along with other local manufacturers. However, the local manufacturers have not yet been inducted into the scheme, leaving the ATS importers of built-up units to enjoy the fruits of 100% exemption from customs duty and sales tax whilst the Company continued to bear customs and regulatory duty and sales tax on all imports.

The second phase of the scheme is now being launched by the Ministry of Food & Agriculture, which has placed an order on the Company for the supply of 5,000 tractors under the scheme. With constant changes to the scheme, the outcome of this order remains unclear. Management is tracking events minutely and will ensure that the Company makes use of whatever opportunities may arise.

Fiat-Ford Merger - New Holland

Following the acquisition of the Ford tractor business by the Fiat Group, in 1995 our joint venture partners - Fiatgeotech - now renamed "New Holland" - introduced 22 new or renewed products in 70 different models across 78 countries. This uniquely broad range presents new opportunities for the Company which are under active discussion with our principals.

Dera Ghazi Khan

Massive public development works in Dera Ghazi Khan continue. Communications with our plant were greatly eased by the opening in June 1996 of the new Dera Ghazi Khan Airport located around 5 kms. from the AGTL Plant. This will give a further boost to economic activity in the area which is witnessing a boom of infrastructural development

including a network of roads, bridges, sewerage installation, parks and schemes to combat the menace of hill torrents in the region. All these developments will go to enhance the value of AGTL's real estate holdings.

At the Plant, for the welfare of the Company staff and their families, a 200 kilowatt generator set is being added to meet the increased power load in the residential colony and UV filters are being installed to ensure a constant supply of clean drinking water. A waste water treatment plant is also planned to recycle the sewerage from the colony. The sewerage water would be utilized for plantation in the colony.

Management Development and Training

The Company's commitment to constant management development through training continued during the year with numerous courses conducted at the Company's training centre at Dera Ghazi Khan. The Company's management information systems are being re-engineered with state-of-the-art computer systems to provide optimum information for corporate decision making.

Appropriation

Reflecting the stability of profit generation, the Board had declared, for the first time in the history of the Company, an interim dividend of 15% in June 1996. The Board is now pleased to recommend a final dividend of 35%, making a total of 50% on the equity enhanced by last year's bonus issue.

Continuing the policy of enlarging the equity base, the Board is also pleased to recommend a bonus issue of one share for every ten shares held.

Future Outlook

At the time of writing, there has again been a hiatus in provision of financing by ADBP which has adversely affected sales in the first few months of the new financial year. Production levels have been maintained, however, and sufficient stocks built to take advantage of renewed ADBP financing and the re-emergence of cash buyers in the coming months. The Company still has substantial firm orders in hand and, given availability of financing and the possibility of supply under the Awami Tractor Scheme, we remain optimistic about the results of the current year.

Directors

Messrs S. M. Ehtishamullah and Enrico Ferrero resigned from the Board during the year, and Messrs Nazir A. Shaikh and Mario Chessa were appointed in their stead. I take this opportunity to thank Mr. Ehtishamullah and Mr. E. Ferrero for their contribution during their tenure.

Appreciation

I conclude by recording the Board's appreciation to the Government and the ADBP for their patronage of the tractor industry and would urge them to reinforce it by discouraging the import of built up tractors under special schemes. I also thank our partners and principals, New Holland, for their continued support. Thanks are also due to AGTL's dealers and vendors for their efforts. I especially thank our customers for their continued patronage to ensure our success in the market place. The management and staff deserve special commendation for it is their dedication and effort which made possible the results achieved.

Kunwar Idris

Chairman

October 22, 1996

Financial Highlights

	1995	1994
	(in millions of U.S. dollars)	
NET SALES	5,003	4,715
GROSS PROFIT	1,120	1,163
INCOME FROM OPERATIONS	390	485
NET INCOME	235	356
CAPITAL EXPENDITURES AND R&D EXPENSES	245	183
BORROWINGS	624	648
EMPLOYEES AT YEAR END	18,820	19,661

DIRECTORS' REPORT

The Directors of Al-Ghazi Tractors Limited take pleasure in presenting their Annual Report together with the company's audited accounts for the year ended June 30, 1996.

(Rs '000)

Profit for the year before taxation	17,189.30	
Less: Provision for taxation	64,292	

Profit after taxation	107,601	
Unappropriated profit brought forward	1,220	

Profit available for appropriation	108,821	
Less: Appropriations		
Dividend		
Interim @ 15% already paid	11,060	
Final @ 35% now proposed	25,807	
Transfer to Reserve for issue of bonus shares	7,374	
Tax thereon	737	
Transfer to General Reserve	60,000	104,978
	-----	-----
Unappropriated profit carried forward		3,843
		=====

1. The retiring Auditors Messrs A.E Ferguson & Co., being eligible, offer themselves for re-appointment.

2. The pattern of shareholdings is included in this Annual Report.

On behalf of the Board

Karachi, **Kunwar Idris**
October 22, 1996 Chairman

DECADE AT A GLANCE

	1995-96	1994-95	1993-94	1992-93	1991-92
Production:					(Volume in units)
Model 480s	4,415	4,400	3,686	4,101	2,595
Model 640.	2,202	2,015	1,861	2,081	732
	-----	-----	-----	-----	-----
Total Production	6,617	6,415	5,547	6,182	3,327
	=====	=====	=====	=====	=====
Sales:					
Model 480s	4,415	4,401	3,906	3,905	2,566
Model 640	2,202	2,019	1,892	2,046	824
Model 300	-	-	-	4	12
	-----	-----	-----	-----	-----
Total Sales	6,617	6,420	5,798	5,955	3,402
	=====	=====	=====	=====	=====
Bookings:					
- Industry	14,419	21,739	17,522	13,464	14,527
- AGTL	5,843	8,693	6,839	3,944	5,509
- AGTL's share %	40.50	40.00	39.00	29.30	37.90

Sales Revenue

(Value in Rs. 000)

Model 480s	1,345,470	1,248,399	1,055,117	997,521	598,621
Model 640	902,779	764,385	672,460	679,452	250,506
Model 300	-	-	-	249	851
Spare Parts	16,499	17,153	21,678	23,423	19,612
	-----	-----	-----	-----	-----
	2,264,748	2,029,937	1,749,255	1,700,645	869,590
	=====	=====	=====	=====	=====

Deletion Achieved:

Model 480s	82%	82%	82%	81%	81%
Model 640	74%	74%	74%	74%	74%

Gross Margin:

Value	225,422	298,948	275,135	196,194	25,678
Percentage of Sales	10.00%	14.70%	15.70%	11.50%	2.90%
Profit/(Loss) before tax	171,893	259,859	166,191	102,521	(77,009)
Profit/(Loss) after tax	107,601	172,790	96,191	90,021	(82,291)
Capital Expenditure	25,528	9,050	17,919	5,551	5,122

Dividend (Cash & Stock)

Value	44,241	45,375	24,956	10,313	-
Percentage	60.00%	80.00%	55.00%	25.00%	-
Earning/(loss) per share	730	15.23	10.6	10.91	(9.97)
	1990-91	1989-90	1988-89	1987-88	1986-87
Production:					
Model 480s	4,226	4,722	6,383	4,615	5,703
Model 640.	1,438	1,885	1,787	1,917	1,472
	-----	-----	-----	-----	-----
Total Production	5,664	6,607	8,170	6,532	7,175
	=====	=====	=====	=====	=====
Sales:					
Model 480s	47	4,728	6,348	4,556	6,518
Model 640	18	1,872	1,820	1,863	1,698
Model 300	29	21	21	52	27
	-----	-----	-----	-----	-----
Total Sales	5,737	6,621	8,189	6,471	8,243
	=====	=====	=====	=====	=====
Bookings:					
- Industry	12,387	19,526	21,870	26,008	26,214
- AGTL	4,958	6,715	6,134	9,438	8,923
- AGTL's share %	40.00	34.40	28.00	36.30	34.00

Sales Revenue

(Value in Rs. 000)

Model 480s	948,083	886,055	1,006,719	656,210	826,842
Model 640	398,978	455,260	385,523	356,112	290,948
Model 300	2,138	1,533	1,529	3,636	1,752
Spare Parts	27,579	26,637	23,966	26,335	18,522
	-----	-----	-----	-----	-----
	1,376,778	1,369,485	1,417,737	1,042,293	1,138,064
	=====	=====	=====	=====	=====

Deletion Achieved:

Model 480s	81%	79%	77%	71%	58%
Model 640	71%	58%	56%	40%	30%

Gross Margin:

Value	82,541	11,404	97,144	88,063	86,917
Percentage of Sales	6.00%	8.10%	6.90%	8.40%	7.60%
Profit/(Loss) before tax	9,065	6,278	18,594	17,420	23,824
Profit/(Loss) after tax	2,116	6,278	17,949	17,420	23,824
Capital Expenditure	1,195	4,345	4,733	4,540	7,071

Dividend (Cash & Stock)

Value	-	6,187	10,313	8,250	12,375
Percentage	-	15.00%	25.00%	20.00%	30.00%
Earning/(loss) per share	-0.26	0.76	2.18	2.11	2.89

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Al-Ghazi Tractors Limited as at June 1996 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, 1996 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.

Karachi
October 24, 1996

A. E Ferguson & Co.
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 1996

	Note	1996 (Rs. '000)	1995 (Rs. '000)
Share Capital and Reserves			
Share capital			
Authorised			
20,000,000 ordinary shares of Rs 5 each		100,000	100,000
Issued, subscribed and paid-up	3	73,735	56,719
Reserves	4	307,374	257,016
Unappropriated profit		3,843	1,220
		-----	-----
		384,952	314,955
Liability Against Assets Subject to Finance Leases			
	5	995	3,961
Provision for Gratuity			
		22,549	20,151
Current Liabilities			
Current maturity of liability against assets subject to finance leases	5	2,927	3,064
Current maturity of long-term loan		-	2,863
Creditors, accrued and other liabilities	6	566,615	319,108
Taxation		-	47,333
Dividend	7	37,171	28,556
		-----	-----
		606,713	400,924
Commitments	8	-	-
		-----	-----
		1,015,209	739,991
		=====	=====
Fixed Assets			
Operating fixed assets	9	88,522	74,138
Capital work-in-progress - at cost		-	3,117
		-----	-----
		88,522	77,255
Long-Term Loans and Advances	10	1,043	759
Long-Term Deposits		1,013	1,491
Current Assets			
Spares and loose tools	11	3,548	3,318
Stock-in-trade	12	277,252	268,283
Trade debts	13	3,460	3,567
Loans and advances	14	19,806	19,238
Short-term deposits and prepayments	15	9,754	9,047
Other receivables	16	10,557	11,190
Taxation	17	1,980	-
Short term investments - at cost	18	20,000	10,000
Cash and bank balances	19	578,274	335,843
		-----	-----
		924,631	660,486
		-----	-----
		1,015,209	739,991
		=====	=====

The annexed notes form an integral part of these accounts.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 1996

	Note	1996 (Rs. '000)	1995 (Rs. '000)
Sales	20	2,264,748	2,029,937
Cost of goods sold	21	2,039,326	1,730,989
		-----	-----
Gross profit		225,422	298,948
Administration and general expenses	22	28,141	24,576
Selling and distribution expenses	23	29,711	31,405
Financial charges	24	7,674	8,157
		-----	-----
		65,526	64,138
		-----	-----
Operating profit		159,896	234,810
Other income	25	24,774	43,799
		-----	-----
		184,670	278,609
Workers' profits participation fund		9,269	13,980
Workers' welfare fund		3,508	4,770
		-----	-----
		12,777	18,750
		-----	-----
Profit before taxation		171,893	259,859
Taxation - current		63,500	88,875
- prior year		792	(1,806)
		-----	-----
		64,292	87,069
Profit after taxation		107,601	172,790
Unappropriated profit brought forward		1,220	805
		-----	-----
		108,821	173,595
Appropriations			
Transfer to - general reserve		60,000	127,000
- reserve for issue of bonus shares			
		7,374	17,016
-Tax thereon		737	-
		-----	-----
		8,111	17,016
Interim dividend @ 15% (1995: Nil)		11,060	-
Proposed dividend @ 35% (1995: 50%)		25,807	28,359
		-----	-----
		104,978	172,375
		-----	-----
		3,843	1,220
		=====	=====

The annexed notes form an integral part of these accounts.

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 1996

	Note	1996 (Rs. '000)	1995 (Rs. '000)
Cash flow from operating activities			
Cash generated from operations	30	401,502	498,582
Financial expenses paid		(1,325)	(7,105)
Taxes paid		(114,342)	(88,559)
Payment of gratuity		(1,001)	(121)
		-----	-----
		284,834	402,797
Net cash inflow from operating activities			
Cash flow from investing activities			

Fixed capital expenditure	(22,411)	(10,579)
Sale proceeds of fixed assets	1,425	1,562
Return/profit received	12,607	6,754
Decrease in long term loans, advances and deposits	194	477
	-----	-----
Net cash outflow from investing activities	(8,185)	(1,786)
Cash outflow from financing activities		
Payment of liability against finance leases	(3,103)	(2,522)
Repayment of long-term loan	(2,863)	(5,196)
Dividend paid	(28,252)	(13,568)
	(34,218)	(21,286)
	-----	-----
Net increase in cash and cash equivalents	242,431	379,725
Cash and cash equivalents at the beginning of the year	335,843	(43,882)
	-----	-----
Cash and cash equivalents at the end of the year	578,274	335,843
	=====	=====

The annexed notes form an integral part of these accounts.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 1996

1. The company and its operations

Al-Ghazi Tractors Limited is a public company quoted on Karachi and Lahore stock exchanges. The Company is engaged in the manufacture and sale of agricultural tractors, implements and spare parts.

2. Summary of significant accounting policies

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Staff retirement benefits

(i) Staff gratuity

The Company operates an unfunded gratuity scheme for all employees. Accrual is made annually to cover the period of service completed by the employees. However, gratuity is payable only on completion of the prescribed qualifying period of service.

(ii) Provident fund

The Company operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% of basic salary.

2.3 Taxation

Provision for current taxation is based on taxable income at the applicable rates of taxation.. The Company accounts for deferred taxation using liability method on all significant timing differences. However, as a matter of prudence, the Company does not recognise net deferred tax debit balance in the accounts which at June 30, 1996 amounted to Rs 17.29 million (1995: Rs 21.69 million).

2.4 Warranties

Warranty expenses are recorded as and when claims are received.

2.5 Fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation except freehold land and capital work-in-progress which are stated at cost. Leasehold land is amortized over the period of the lease. Depreciation on other assets is charged to income applying the reducing balance method. Full year's depreciation is charged in the year of acquisition and no depreciation is charged in the year of disposal. 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.

The Company accounts for fixed assets acquired under finance leases by recording the assets 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 reducing balance method.

Gain or loss on disposal or retirement of fixed assets is included in income currently.

2.6 Spares and loose tools

These are valued at the average cost. Items in transit are valued at invoice value plus other charges thereon.

2.7 Stock-in-trade

These are valued at lower of cost and net realisable value. Cost is determined on moving average method except for Completely Knocked Down (CKD) components, consumable stores and stock-in-transit.

Cost of CKD components and consumable stores is determined on first-in-first-out method. Cost of stock-in-transit comprises of invoice value plus other charges incurred thereon.

Cost of finished goods includes prime cost and appropriate portion of manufacturing expenses.

The trading stock of spare parts is valued on average cost basis.

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

2.8 Foreign currencies

Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange ruling on the balance sheet date except for liabilities covered under forward exchange contracts, which are translated at the contracted rates.

Exchange gains and losses are included in income currently.

2.9 Revenue recognition

Sale of goods is recognised on delivery of goods to customers.

		1996 (Rs. '000)	1995 (Rs. '000)
3. Issued, subscribed and paid up capital			
Ordinary shares of Rs 5 each			
1996	1995		
4,500,000	4,500,000 shares fully paid in cash	22,500	22,500
10,246,875	6,843,750 shares issued as fully paid bonus shares	51,235	34,219
-----	-----	-----	-----
14,746,875	11,343,750	73,735	56,719
=====	=====	=====	=====

4. Reserves

	Capital For issue of bonus shares	Revenue General	1996 (Rs. '000)	1995 (Rs. '000)
At the beginning of the year	17,016	240,000	257,016	124,344
Appropriated from profits	7,374	60,000	67,374	144,016
Issue of bonus shares	(17,016)	-	(17,016)	(11,344)
	-----	-----	-----	-----
	7,374	300,000	307,374	257,016
	=====	=====	=====	=====

5. Liability against assets subject to finance leases

		1996 (Rs. '000)	1995 (Rs. '000)
Payable during	1995-96	-	4,267
	1996-97	3,338	3,441
	1997-98	1,044	888
		4,382	8,596
Less: Finance charge not due		460	1,571
		3,922	7,025
Less: Current maturity shown under current liabilities		2,927	3,064
		-----	-----
		995	3,961
		=====	=====

This represents finance leases entered into with leasing companies for vehicles. The balance of liability is payable by April 09, 1998 in quarterly instalments.

Quarterly lease payments include finance charge of 22.21% to 24.5% per annum, which is used as discounting factor.

6. Creditors, accrued and other liabilities

Creditors	94,271	96,770
Bills payable	239,347	93,347
Accrued liabilities	55,272	44,399
Royalty	40,162	31,782
Customers' credit balances	109,264	19,850
Deposits - others	5,522	5,440
Warranties	4,782	4,588
Workers' profits participation fund - note 6.1	10,341	15,050
Workers' welfare fund	3,508	4,770
Others	4,146	3,112
	-----	-----
	566,615	319,108
	=====	=====

6.1 Workers' profits participation fund

At the beginning of the year	15,050	10,608
Allocation for the year	9,269	13,980
	-----	-----
	24,319	24,588
Add: Interest on fund utilised in Company's business	718	988
	-----	-----
	25,037	25,576
Less: Amount paid to:		
The Trustees of the Fund	2,133	2,956
Deposited with the Government	12,563	7,570
	-----	-----
	14,696	10,526
	-----	-----
	10,341	15,050
	=====	=====

7. Dividend

Dividend payable	11,060	-
Unclaimed dividend	304	197
Proposed dividend	25,807	28,359
	-----	-----
	37,171	28,556
	=====	=====

8. Commitments

Capital expenditure outstanding at June 30, 1996, amounted to approximately Rs 257 thousand (1995:3.34 million).

9. Fixed Assets

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

	Cost as at July 1, 1995	Addi- tions/ (dele- tions)	Cost as at June 30, 1996	Accumu- lated depre- ciation as at July 1, 1995	Depreciation charge for the year	Depre- ciation on dele- tions	Accumu- lated depre- ciation as at June 1, 1996	Written down value as at June 30, 1996	Rate of depre- cia- tion %
(Rupees in thousand)									
Freehold land	3,854	-	3,854	-	-	-	-	3,854	-
Leasehold land	831	-	831	89	8	-	97	734	-
Factory buildings									
on freehold land	29,459	1,316	30,775	17,460	1,332	-	18,792	11,983	10
Other buildings									
on freehold land	22,463	2,575	25,038	7,819	861	-	8,680	16,358	5
on leasehold land	1,437	3,791	5,228	647	229	-	876	4,352	5
Plant and machinery	45,131	1,007	46,138	27,658	1,848	-	29,506	16,632	10
Furniture, fixtures and equipments	10,809	5,880 (331)	16,358	5,264	1,601	(170)	6,695	9,663	10-33

Vehicles	5,127	8,920 (322)	13,725	2,082	2,375	(232)	4,225	9,500	20
Electrical installations	10,413	670	11,083	5,601	548	-	6,149	4,934	10
Factory equipment and tools	8,564	1,369	9,933	4,631	530	-	5,161	4,772	10
Assets held under finance leases - vehicles	11,020	(197)	10,823	3,719	1,435	-71	5,083	5,740	20
1996	149,108	25,528 (850)	173,786	74,970	10,767	'(473)	85,264	88,522	
1995	141,338	9,050 (1,280)	149,108	66,971	8,771	'(772)	74,970	74,138	

An independent professional valuation of land and buildings carried out in April 1995 revealed an aggregate value of Rs 134.82 million. The surplus of Rs 102.79 million over the written down value as at June 30, 1995 has not been considered in these accounts.

(b) Following are the details of fixed assets disposed of:

Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of sale	Particulars of purchaser
(Rupees in thousands)					
Vehicles					
Car	13	6	7	38 Company Policy	Mr. Rumi Dossal Employee
Car	197	71	126	164 Insurance claim	EFU General Insurance Co., Ltd., Karachi
Car 4WD	23	11	12	68 Company policy	Mr. Taimor S. Mirza Employee
Car 4WD	35	18	17	303 Tender	Mr. Javed Masood R-45/18, EB. Area, Karachi
Car 4WD	37	18	19	314 -do-	Mr. Akbar Khan X-44, Lane No. 2 Azam Town, Karachi.
Car 4WD	19	9	10	157 -do-	Mr. Azbar Khan C/o Raza Motors Plot No. 1229, Ghousia Colony Karachi.
Pickup	195	169	26	226 -do-	Mr. Hakeem Khan House No. 2228 Lane No. 7 Azam Town, Karachi.
Furniture, Fixtures and Equipments					
Fax machine	48	5	43	48 Negotiation	Electronic Office Products 305, Clifton Centre Clifton, Block-5 Karachi.
Furniture	113	85	28	28 Company Policy	Mr. Juzar Y. Lakdawala Ex- Executive
Furniture	130	53	77	73 -do-	Mr. S. M. Ehtishamullah Ex-Director

	810	445	365	1,419
Items having written down value below Rs. 5,000 each	40	28	12	6
	850	473	377	1,425
	=====	=====	=====	=====

	1996	1995
	(Rs. '000)	(Rs. '000)

Long-term loans and advances - considered good

Loans to		
- Executives	72	161
- Employees	573	598
	-----	-----
	645	759
Advances to		
- Chief Executive	216	-
- Executives	182	-
	-----	-----
	398	-
	-----	-----
	1043	759
	=====	=====

The loans under the schemes have been provided to the executives and employees of the Company to facilitate purchase of vehicles and domestic appliances and are repayable over a period of three to five years.

The motor vehicle loans are secured by joint registration of vehicles in the name of employee and the Company. The loans for purchase of domestic appliances are secured against provident fund account balances.

Advances are made to the chief executive and executives of the Company in respect of house rent and these are payable over a period of two years.

Aggregate amount outstanding for period exceeding three years is Rs 51 thousand (1995: Rs 151 thousand).

The maximum amount of loans and advances to chief executive and executives of the Company at the end of any month during the year was Rs. 0.65 million and Rs. 1.011 million respectively.

	1996	1995
	(Rs. '000)	(Rs. '000)

11. Spares and loose tools

Spares	3,281	3,016
Loose tools	267	302
	-----	-----
	3,548	3,318

12. Stock-in-trade

Raw materials and components - including in transit Rs 82.63 million (1995: Rs 8 thousand)	271,645	259,119
Finished goods - tractors	320	563
Trading stock - spare parts and implements	5,287	8,601
	-----	-----
	277,252	268,283
	=====	=====

Raw materials, components and finished goods include stock amounting to Rs 18.14 million (1995: Rs 18.01 million) lying with suppliers and dealers.

13. Trade debts

Considered good		
Secured	964	1,193
Unsecured	2,496	2,374
Considered doubtful	-	1,187
	-----	-----
	3,460	4,754
Less: Provision there against	-	1,187
	-----	-----

	3,460	3,567
	=====	=====

14. Loans and advances

Considered good		
Chief executive	504	273
Director		126
Executives	1,759	1,304
Employees	3,456	3,320
Suppliers for goods and services	14,087	14,215
Considered doubtful	555	1,572
	-----	-----
	20,361	20,810
Less: Provision there against	555	1,572
	-----	-----
	19,806	19,238
	=====	=====

Maximum amount due from the chief executive, director and executives of the Company at the end of any month during the year was Rs 0.88 million, Rs 0.13 million, and Rs 2.24 million respectively (1995: Rs 0.15 million, Rs 0.13 million and Rs. 1.30 million respectively).

Short-term deposits and prepayments

Deposits	781	1,558
Prepayments	8,973	7,489
	-----	-----
	9,754	9,047
	=====	=====
Other receivables		
Octroi receivable	3,175	4,789
Accrued mark-up	3,469	2,866
Claims receivable	3,611	2,185
Warrantly claims receivable	-	929
Others	302	421
	-----	-----
	10,557	11,190
	=====	=====

17. Taxation

The income tax department has filed an appeal with the Lahore High Court against the order of Income Tax Appellate Tribunal allowing the company a tax holiday period of 5 years which expired on March 31, 1990. Pending the decision of the High Court in this matter the department has finalised the assessments up to assessment year 1995-96 (accounting year ended June 30, 1995) on the basis of Tribunal's findings.

During the year the Commissioner of Income Tax (CIT) has reopened the assessments for the assessment years 1991-92 through 1994-95 (accounting years ended June 30, 1991 through 1994) raising additional tax demands aggregating Rs 3.45 million by disallowing the tax on royalty paid by the company for these years. Appeals filed by the company against the orders of CIT are pending with the Income Tax Appellate Tribunal for these years. On the similar issue in deciding the appeal for assessment year 1995-96 (accounting year ended June 30, 1995) the Commissioner of Income Tax (Appeals) has deleted the tax demand of Rs 1.14 million raised by the tax officer.

As the management is confident that ultimate decision will be in company's favour, no provision has been made in these accounts in respect of the additional tax liability of Rs 3.45 million.

18. Short-term investments

The company has invested in certificates of investment with a leasing company.

	1996	1995
	(Rs. '000)	(Rs. '000)

19. Cash and bank balances

With banks and financial institutions		
- on current accounts including collection accounts	234,193	98,350
Rs 218.72 million (1995: Rs 78.59 million)	164,722	204,312
- on deposit accounts		
In hand		
- demand drafts	178,882	33,013
- cash	42	165
In transit	435	3
	-----	-----
	578,274	335,843
	=====	=====

20. Sales

Manufactured goods	2,267,709	2,031,607
--------------------	-----------	-----------

Less: Commission	19,460	18,823
	-----	-----
	2,248,249	2,012,784
	16,499	17,153
	-----	-----
Trading goods	2,264,748	2,029,937
	=====	=====

21. Cost of goods sold

Manufactured goods		
Raw materials and components consumed	1,884,502	1,593,328
Salaries, wages and benefits - note 21.1	50,899	47,462
Royalty	35,980	28,725
Stores and supplies	26,139	21,257
Insurance	1,254	1,252
Depreciation	6,572	6,402
Lease rentals	137	703
Fuel, power and electricity	6,666	5,343
Travelling and entertainment	3,863	3,214
Repairs and maintenance	4,396	4,295
Rent, rates and taxes	1,200	1,001
Communication	1,489	1,388
Printing and stationery	682	759
Legal and professional charges	187	469
Other	1,826	1,536
	-----	-----
Cost of goods manufactured	2,025,792	1,717,134
Opening stock of finished goods	563	1,974
Closing stock of finished goods	(320)	(563)
	-----	-----
	2,026,035	1,718,545
Trading goods		
Opening stock	8,601	14,809
Purchases	9,772	5,497
Internal receipts	205	739
	18,578	21,045
Closing stock	(5,287)	(8,601)
	-----	-----
	13,291	12,444
	-----	-----
	2,039,326	1,730,989
	=====	=====

21.1 Salaries and wages include Rs 3.66 million (1995: Rs 3.87 million) in respect of staff retirement benefits.

22. Administration and general expenses

Salaries, wages and benefits - note 22.1	15,135	13,714
Travelling and motor car running	3,360	2,889
Rent, rates and taxes	1,565	1,326
Repairs and maintenance	1,038	189
Electricity	150	96
Communication	1,605	1,269
Printing and stationery	1,251	874
Auditors' remuneration - note 22.2	260	230
Legal and professional charges	234	654
Depreciation	1,772	1.38
Lease rentals	663	1,039
Provision for doubtful receivables	376	
Insurance	22	2
Other	710	895
	-----	-----
	28,141	24,576
	=====	=====

22. Salaries and wages include Rs 1.04 million (1995: Rs. 0.76 million) in respect of staff retirement benefits

22.2 Auditors' remuneration

Audit fee	200	160
Advisory services, certification of dividend, royalty remittances and physical		

verification of stocks	22	54
Out of pocket expenses	22	16
Central Excise duty	16	-
	-----	-----
	260	230
	=====	=====

23. Selling and distribution expenses

Salaries, wages and benefits - note 23.1	15,746	15,820
Travelling and motor car running	3,110	3,532
Rent, rates and taxes	304	154
Repairs and maintenance	586	232
Electricity	426	335
Communication	2,025	1,691
Printing and stationery	709	690
Free after sales service	1,164	1,635
Publicity	779	1,753
Warranty	160	1,291
Freight outward	360	958
Depreciation	2,423	990
Lease rentals	24	261
Entertainment	288	307
Insurance	96	110
Dealers' convention	1,261	1,524
Other	250	122
	-----	-----
	29,711	31,405
	=====	=====

23.1 Salaries and wages include Rs 0.89 million (1995: Rs. 1.46 million) in respect of staff retirement benefits. of staff retirement benefits.

24. Financial charges

Interest		
on long-term loan	193	845
on workers' profits participation fund	718	987
Mark-up on short-term finance	31	3,995
Interest on provident fund	147	111
Bank charges, commission and excise duty on borrowings	992	545
Exchange loss	4,492	-
Finance lease charges	1,101	1,652
Others	-	19
	-----	-----
	7,674	8,157
	=====	=====

25. Other income

Return on deposits	10,183	7,439
Return on certificates of investment	2,034	489
Interest on vendors' loans	993	1,692
Trading discount received	425	584
Provision for royalty written back	-	31,304
Liabilities no longer payable written back	7,929	-
Provision for bad debts written back	896	-
Scrap sales	1,230	810
Profit on sale of fixed assets	1,048	1,054
Exchange gain	-	100
Sundries	36	327
	-----	-----
	24,774	43,799
	=====	=====

26. Remuneration of chief executive, directors and executives:

	Chief Executive		Directors		Executives		Total	
	1996	1995	1996	1995	1996	1995	1996	1995
	(Rupees in thousands)							
Managerial remuneration	1,140	1,014	833	978	7,729	7,611	9,702	9,603

Rent	297	254	123	215	2,037	1,900	2,457	2,369
Utilities	51	28	14	25	344	206	409	259
Retirement benefits	161	121	25	94	1,027	1,119	1,213	1,334
Medical expenses	37	29	22	24	330	317	389	370
Leave passage	60	50	-	42	353	322	413	414
Other expenses	9	6	20	24	28	24	57	54
	-----	-----	-----	-----	-----	-----	-----	-----
	1,755	1,502	1,037	1,402	11,848	11,499	14,640	14,403
	=====	=====	=====	=====	=====	=====	=====	=====
Number of persons	1	1	2	2	27	26	30	29
	=====	=====	=====	=====	=====	=====	=====	=====

The chief executive, directors and certain executives are also provided with free use of the Company's maintained cars.

27. Transactions with associated companies

The aggregate amount of the Company's purchases from associated undertakings of goods and services during the year amounted to Rs 81.62 million (1995: Rs 98.67 million).

28. Financing arrangements

The facilities for running finance available from various banks amounted to Rs 380 million (1995: Rs 340 million).

The arrangements are secured by joint hypothecation of stock-in-trade, spares and book debts.

The rates of mark-up range from 17.50% to 18.98% per annum.

The facilities for opening letters of credit and guarantees amounted to Rs 495 million (1995: Rs 375 million) of which Rs 116.09 million (1995: Rs 275.50 million) remained unutilised as at June 30, 1996.

	1996 Units	1995 Units
Plant capacity	15,000	15,000
Actual production	6,617	6,415

29. Plant capacity and production

During the year the production was lower due to irregular supply of some components from local vendors.

30. Cash flow from operating activities

Profit before taxation	171,893	259,859
Add/(less) adjustment for non-cash charges and other items		
Depreciation	10,767	8,771
Profit on sale of fixed assets	(1,048)	(1,054)
Provision for gratuity	3,399	4,053
Financial expenses	1,325	6,495
Return/profit earned	(13,210)	(9,620)
	-----	-----
Profit before working capital changes	173,126	268,504

Effect on cash flow due to working capital changes

(Increase)/decrease in current assets

Spares and loose tools	(230)	280
Stock-in-trade	(8,969)	102,042
Trade debts	107	124,540
Loans and advances	(568)	9,203
Trade deposits and short-term prepayments	(707)	4,325
Other receivables	1,236	4,105
Short-term investments	(10,000)	(10,000)
	-----	-----
	(19,131)	234,495
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities	247,507	(4,417)
	-----	-----
Cash generated from operations	401,502	498,582
	=====	=====

31. Comparative figures

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

**PATTERN OF HOLDINGS OF THE SHARES HELD BY THE
SHAREHOLDERS AS AT JUNE 30, 1996**

Number of Shareholders		Size of Shareholding Rs.5 each			Total Shares held
396	from	1	to	100 Shares	17,081
462	from	101	to	500 Shares	147,004
116	from	501	to	1000 Shares	86,177
168	from	1001	to	5000 Shares	384,191
18	from	5001	to	10000 Shares	135,108
12	from	10001	to	15000 Shares	152,564
5	from	15001	to	20000 Shares	89,540
5	from	20001	to	25000 Shares	105,932
1	from	25001	to	30000 Shares	26,812
6	from	30001	to	35000 Shares	194,430
1	from	35001	to	40000 Shares	39,000
1	from	40001	to	45000 Shares	44,330
1	from	50001	to	55000 Shares	52,162
1	from	80001	to	85000 Shares	81,980
1	from	105001	to	110000 Shares	108,830
1	from	140001	to	145000 Shares	142,820
1	from	155001	to	160000 Shares	156,000
1	from	190001	to	195000 Shares	195,000
1	from	275001	to	280000 Shares	277,615
1	from	300001	to	305000 Shares	303,875
1	from	735001	to	740000 Shares	737,341
1	from	820001	to	825000 Shares	821,925
1	from	3660001	to	3665000 Shares	3,663,596
1	from	6780001	to	6785000 Shares	6,783,562
-----					-----
1,203					14,746,875

Categories of Shareholders	Number of Shareholders	Shares held	Percentage
Individuals	1,169	1,330,959	9.03
Investment Companies	19	4,200,294	28.48
Insurance Companies	3	1,120,745	7.60
Joint Stock Companies	3	286	0.00
Financial Institutions	-	-	-
Modaraba Companies	0.30	21,173	0.14
Foreign Investors	6	8,073,418	54.75
	-----	-----	-----
	1,203	14,746,875	100.00