

HARMONISING TECHNOLOGY WITH  
ENVIRONMENT



HINO



annualreport  
2006



WELCOME



Harmoni  
Civi

# contents

2	Mission and Vision Statement
4	Basic Principles of Code of Conduct
6	Company Information
7	Board of Directors
8	Management Team and Board Committees
13	Chairman's Review
21	Directors' Report
25	Financial Highlights
29	Corporate Social Responsibility
46	Statement of Compliance
48	Review Report on Statement of Compliance
49	Financial Statements
86	Pattern of Shareholding
88	Notice of Annual General Meeting
	Proxy Form



mission &  
vision

Mission & Vision



**The mission of Hinopak Motors Limited is to provide the society with safe, economical, comfortable and environment friendly means of transportation by manufacturing and supplying commercial vehicles and services.**

**To achieve this mission, we commit ourselves:**

**To our individual, institutional and international customers:**

to deliver high quality, safe, durable, reliable, comfortable, environment-friendly and economical products and services to their total satisfaction.

**To our employees:**

to foster corporate culture of mutual trust; respect for fundamental human rights at work; opportunities for professional growth and personal welfare so that they are proud of being a member of the "Hinopak Family".

**To the community and our nation:**

to contribute to economic and social development by providing means of transportation and by progressive localization of the vehicles.

**To the shareholders:**

to act in compliance with the norms expected of a subsidiary of the Toyota Group of Companies and make a meaningful financial return to the shareholders.



basic principles of  
code of conduct

Basic Principles of  
Code of Conduct

1. We develop and provide outstanding products and services that fulfill the demands of customers with sufficient attention given to safety and the environment, and we aim to be an enterprise which has a significant presence in the commercial vehicle market.

2. We undertake open and fair corporate activities in conformity with the spirit and letter of laws. We maintain sound and transparent relationships with governmental and administrative entities.

3. We build and maintain good communications with society as well as our stakeholders, and we are committed to accurate and timely disclosure of information.

4. We recognize that an environmental preservation activity is an integral part of our business, and we voluntarily and actively promote and engage in environmental preservation activities as an indispensable condition for Hinopak's corporate existence and activities.

5. We recognize the inherent dignity and fundamental human rights of all members of the Hino family and therefore respect and support the practice of human rights.

6. We actively promote and engage in philanthropic activities as a member of Hino Motors Ltd. and the Toyota Group, and as a good corporate citizen.

7. We respect the right of workers at the workplace and their right of freedom of association and the right to organize and bargain collectively. We believe in transparency, mutual trust and respect for each others' rights and obligations and need for bilateral dialogue and cooperation between employees and management for achieving decent work with safe and healthy work environment, growth and excellence in business performance.

8. We take a resolute stand against antisocial power and organizations, and we act in compliance with ethical standards and sound social values.

9. We respect and abide the law of the land and applicable rules and the diversity of customs and culture and we contribute to development in the communities through our business activities.

10. We support the principles of Global Compact and expect our employees to embrace them in the work culture of our enterprise for sustainable growth and development.

11. We pledge to comply and enforce the basic principles of Hinopak's Code of Conduct and prevent its violation through the mechanism already in place from enforcing discipline, company wide. Any member of Hinopak family observing any violation or abuse of this code of conduct may bring the same to the notice of the Management Committee or the Audit Committee in writing directly or through the suggestion boxes for necessary consideration and action.

# company information

## BOARD OF DIRECTORS

**Kunwar Idris**  
Chairman

**Keiji Maeda**  
Managing Director & CEO

**Takeshi Ito**  
Deputy Managing Director

**Shinji Fujimoto**  
Member

**Susumu Hongo**  
Member

**Muhammad Irfan Shaikh**  
Member

**Fasihul Karim Siddiqi**  
Member

**COMPANY SECRETARY**  
Muhammad Saleem

## BANKERS

Allied Bank of Pakistan Limited  
Bank Alfalah Limited  
Citi Bank N.A.  
Habib Metropolitan Bank  
Habib Bank Limited  
National Bank of Pakistan  
Standard Chartered Bank  
The Bank of Tokyo-Mitsubishi UFJ, Limited  
United Bank Limited

## AUDITORS

A.F. Ferguson & Co. Chartered Accountants

## LEGAL ADVISOR

Sayeed & Sayeed

## REGISTERED OFFICE

D-2, S.I.T.E., Manghopir Road  
P.O. Box No. 10714,  
Karachi-75700, Pakistan

Tel: 111-25-25-25

Website: [www.hinopak.com](http://www.hinopak.com)

Email: [info@hinopak.com](mailto:info@hinopak.com)





## board of directors

**Fasihul Karim Siddiqi**  
Member

**Susumu Hongo**  
Member

**Muhammad Irfan Shaikh**  
Member

**Shinji Fujimoto**  
Member

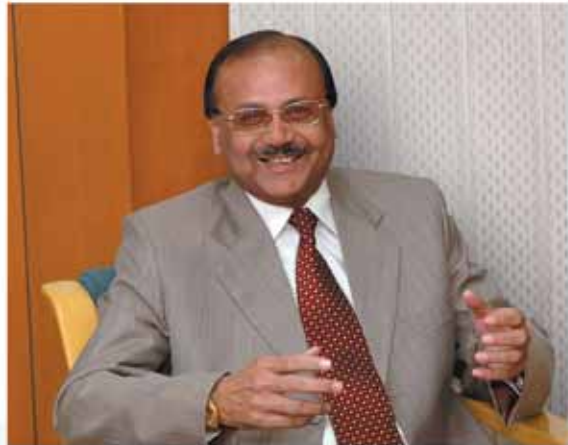
**Muhammad Saleem**  
Company Secretary

**Takeshi Ito**  
Deputy Managing Director

**Kunwar Idris**  
Chairman

**Keiji Maeda**  
Managing Director & CEO

# management team



Starting from upper left

**Keiji Maeda**  
Managing Director & CEO

**Muhammad Irfan Shaikh**  
Director Sales & Marketing

**Fasihul Karim Siddiqi**  
Director HR, Admin, MOD & PMD

**Muhammad Saleem**  
CFO & Company Secretary

**Syed Arshad Ali**  
GM Product Support





Starting from upper left

Susumu Hongo  
Director Production

Takeshi Ito  
Deputy Managing Director

Naushad Riaz  
GM Body Operation Plant

Muhammad Owais M. Khan  
GM Assembly Operation Plant



# board committees

## Audit Committee

### Members

Kunwar Idris-Chairman  
Shinji Fujimoto  
Fasihul Karim Siddiqi

### Terms of Reference

The terms of reference of the Audit Committee are as follows:

- determination of appropriate measures to safeguard Company's assets;
- review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors;
- review of management letter issued by external auditors and management's response thereto and monitor the action plan to improve the control environment;
- review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;
- ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;
- instituting special projects, other investigations on any matter specified by the Board of Directors, and to refer any matter to the external auditors or to any other external body;
- monitoring compliance with relevant statutes and best practices of corporate governance.

## Management Committee

### Members

Keiji Maeda -Chairman  
Takeshi Ito  
Susumu Hongo  
Muhammad Irfan Shaikh  
Fasihul Karim Siddiqi  
Muhammad Owais M. Khan  
Muhammad Saleem  
Naushad Riaz  
Syed Arshad Ali

### Terms of Reference

The terms of reference of the Management Committee are as follows:

- managing the day to day operations of the Company;
- Developing the business and marketing strategy of the Company;
- Reviewing budgetary proposals and the necessary actions to implement the business plan;
- Monitoring profitability and deviations from business plan;
- Handling the major business issues and other urgent matters on behalf of the Board;

## Information Technology Steering Committee

### Members

Fasihul Karim Siddiqi -Chairman  
Muhammad Saleem  
Naushad Riaz  
Adil M Shah  
Shams Naveed Zia

### Terms of Reference

The terms of reference of the IT Steering Committee are as follows:

- reviewing the long & short term plans;
- approving and monitoring major projects;
- reviewing and approving the major acquisitions;
- ensuring liason between MIS and the User Departments;
- reviewing the adequacy and allocation of resources.

## Human Resource Development Committee

### Members

Keiji Maeda -Chairman  
Takeshi Ito  
Fasihul Karim Siddiqi  
Muhammad Saleem  
Muhammad Akram

## Industrial Relations Committee

### Members

Fasihul Karim Siddiqi -Chairman  
Muhammad Akram  
Muhammad Zaman Khan  
Siddique Balouch  
Muhammad Ahmed

## Health & Safety Committee

### Members

Fasihul Karim Siddiqi -Chairman  
Muhammad Akram  
Muhammad Zaman Khan  
Muhammad Owais M. Khan  
Naushad Riaz  
Muhammad Ahmed

## Environment and Quality Management Systems Steering Committee

### Members

Keiji Maeda -Chairman  
Takeshi Ito  
Susumu Hongo  
Muhammad Irfan Shaikh  
Fasihul Karim Siddiqi  
Muhammad Owais M. Khan  
Muhammad Saleem  
Naushad Riaz  
Syed Arshad Ali  
Muhammad Ahmed  
EMC Secretariat Members

### Terms of Reference

The terms of reference of Human Resource Development Committee are as follows:

- develop and implement policies for management of human capital;
- establishing performance management system, developing and reviewing performance goals and objectives;
- reviewing compensation system and practices.

### Terms of Reference

The terms of reference of the Human Resource Committee are as follows:

- promoting labor management relationship;
- reviewing grievance handling mechanism;
- reviewing employee involvement in continuous improvement activities.

### Terms of Reference

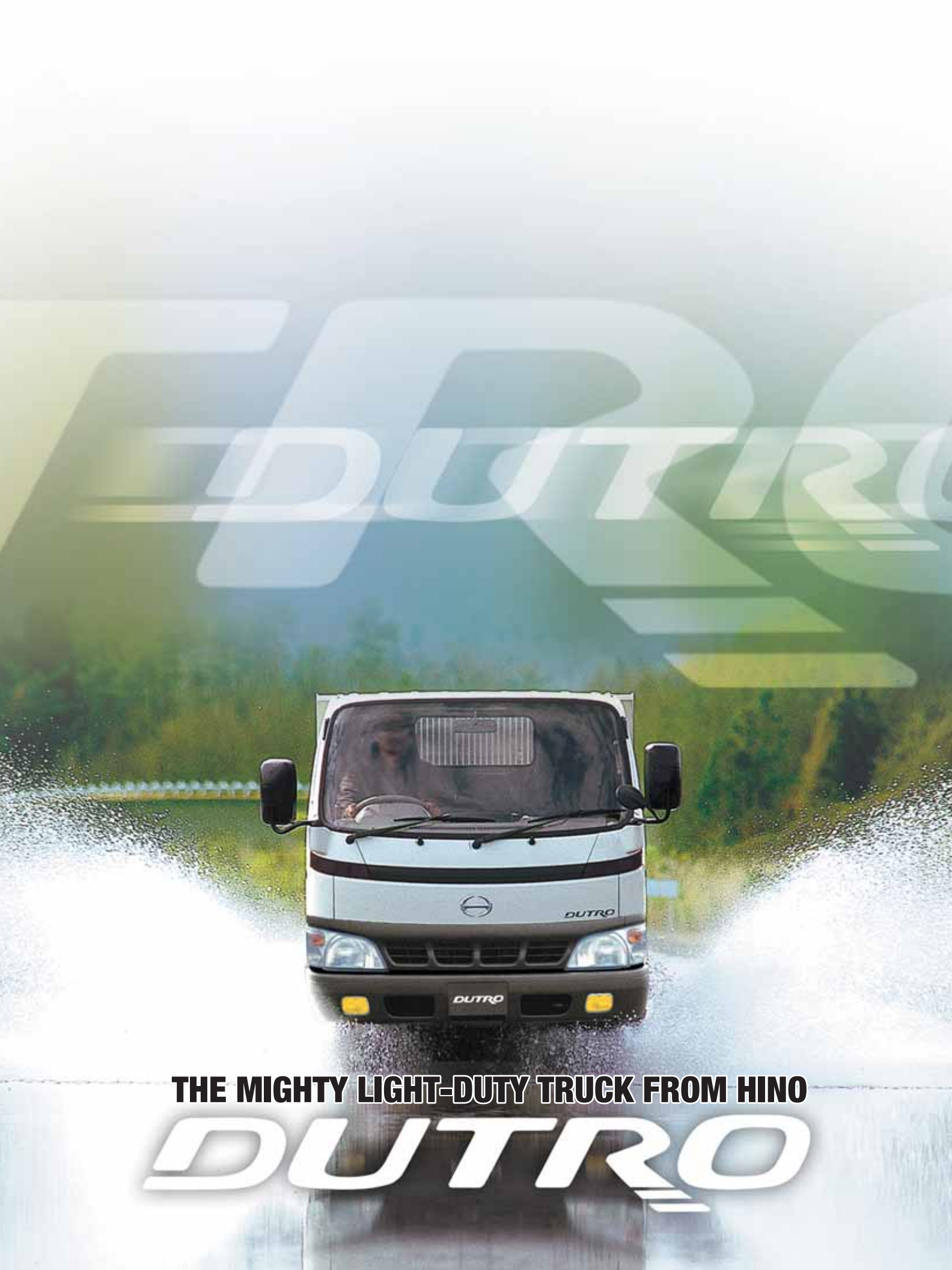
The terms of reference of the Committee are as follows:

- to review health and safety policy of the Company to provide awareness on health and safety to the employees through conducting training programs;
- to review major health and safety projects and ensure their implementation;
- to organize different training programs to educate employees for health & safety issues.

### Terms of Reference

The terms of reference of the Committee are as follows:

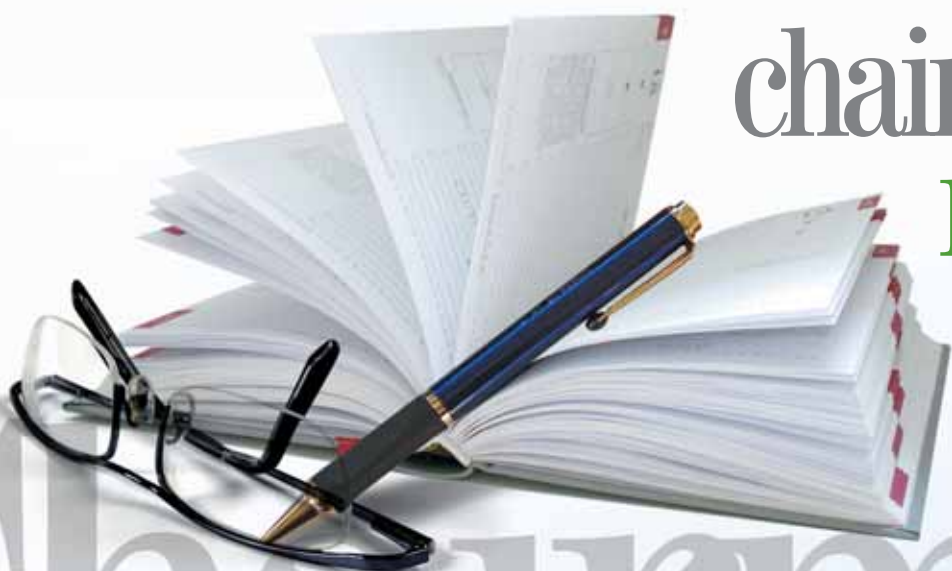
- to establish, implement and maintain environmental management system and QMS against ISO 9000:2000 and ISO 14001:2004 Standard Company wide;
- to provide leadership and guidance and periodic review of the progress and performance of QMS, EMS through audits and management reviews for the continuous improvement.



**THE MIGHTY LIGHT-DUTY TRUCK FROM HINO**

**DUTRO**

chairman's  
review



Chairman's  
REVIEW





I welcome you all to the 22nd Annual General Meeting of Hinopak Motors Limited and take pleasure in presenting the accounts of the Company and a review of its performance during the year ended December 31, 2006, and the prospects ahead.

### **GENERAL:**

The economic growth of the country in the official financial year (July 2005 to June 2006) slowed down by a percentage point to 6.6 percent from an average of 7.5 percent in the previous three years. In manufacturing the growth fell by 4 percent- from 12.6 to 8.4. For this steep fall the Automotive sector has to take a part of the blame. In 2005-06 the production of all types of vehicles grew by 22.7 percent against 36.6 percent in 2004-05.



The table below shows the sales of locally produced vehicles in the last five calendar years:

**Sales - Units**

Vehicle Segment	2006	2005	2004	2003	2002
Car	160,256	141,326	109,439	80,368	48,134
Truck	4,558	3,887	2,048	1,828	1,636
Bus	928	1,375	1,411	1,383	1,373
L.C.V.(Jeep, Van, Pick-up)	33,936	29,187	18,692	12,802	10,994
Farm Tractor	49,643	46,733	40,300	32,726	25,069
Motor Cycle	483,382	481,980	357,533	222,673	141,709
<b>Total</b>	<b>732,703</b>	<b>704,488</b>	<b>529,423</b>	<b>351,780</b>	<b>228,915</b>

(The above figures are only for the member Companies of the Pakistan Automotive Manufacturers Association)

The sale of trucks as can be seen in the table has been rising over the years. The sale in 2006 would have been even higher but for the glut of 2nd hand trucks in the market which were imported under various schemes and regularization of trucks illegally imported or smuggled. In the total sale of trucks in 2006 the share of medium and large trucks however remained static at around 3000 units as this category was the hardest hit by imports under the 2005-06 Trade Policy.

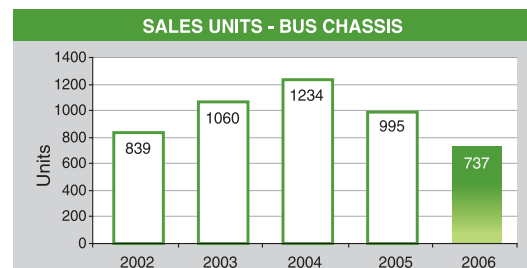
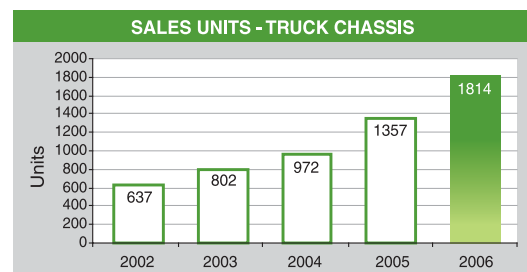
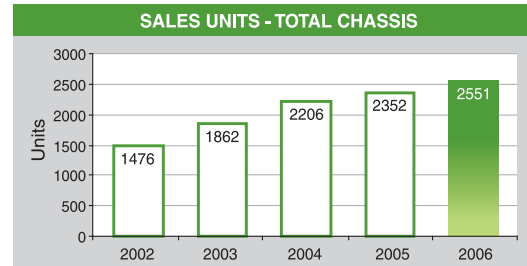
The steep fall in the sale of buses is to be attributed, besides the import of second hand buses (more the 1000 buses are reported to have been imported under the liberalized Transfer of Residence & Personal Baggage schemes), to the discontinuation of the Urban Transport Scheme. Towards the end of the year, however, the government abolished the sales tax on buses to boost their demand. The sales are now expected to pick up.

**BUSINESS OVERVIEW:**

Despite growing competition, the sale of Hinopak's trucks has increased by 34 percent - from 1357 in 2005 to 1814 in 2006. The sale of Hino buses however has fallen from 995 to 737 for the reasons stated in the previous para. Hinopak's share in the overall truck/bus market has increased to 47% in 2006 from 43% in 2005. The company, thus, retains its first position in the market.

Hinopak's share in the light duty truck segment has received a tremendous boost by the introduction of Dutro truck in the second half of the year replacing FB113KA discontinued in 2004. In just five months the Company was able to sell 249 Dutros capturing almost one-fifth of the light duty truck market.

Although Hinopak's bus sales during the year declined by 26%, the Company continues to dominate even the shrinking bus market with 79.4% share. The Company's share in the light duty bus market increased from last year's 36% to 78% mainly because of one-time fleet sale to the Punjab Police.



## OPERATING RESULTS:

### Sales Revenue

The sales revenue remained steady at the last year's level of Rs. 6.4 billion. From chassis sales it increased by 4% but from body fabrication and other businesses it fell by 19%.

### Gross Profit

The gross profit increased to Rs. 835 million from last year's Rs. 662 million. For each product line it is shown below:

Rs in million			
Gross Profit	2006	2005	Inc/(Dec)
Chassis	795	592	203
Bus & Truck Bodies	12	25	(13)
Other Business (Contract Assembly and Spare Parts)	28	45	(17)
<b>Total Gross Profit</b>	<b>835</b>	<b>662</b>	<b>173</b>

The variation in bodies and other business is related to the sales volume. The appreciation of Pak Rupee against Japanese Yen had a favourable impact on chassis business.

### Distribution & Administrative Expenses

The distribution cost increased to Rs. 189 million from Rs. 149 million because of investments made in the Company's 3S dealership network, the launch of new products, inflation and normal increments to the staff. The administrative expenses increased from Rs. 107 million to Rs. 120 million mainly due to inflation.

### Other Income & Expenses

Income from short term investments increased by Rs. 9 million mainly due to better liquidity. A net exchange loss of Rs. 39 million was however recorded in fair value adjustment on forward exchange contracts made to hedge the exchange risk.

### Capital Expenditure

The Company's capital expenditure in the year under review was Rs. 117 million against Rs. 214 million in 2005.

### Cash Flow

The Company generated a cash of Rs. 257 million from its operating activities and invested Rs. 117 million in capital goods. Rs. 74 million were paid in dividends. The net increase in cash and cash equivalents was Rs. 70 million. The year closed with a negative cash balance of Rs. 144 million. The Company is striving to improve its inventory management and adjust its future CKD orders to improve the cash flow. We expect to pay back the borrowed amount in the 2nd quarter of 2007.

## PRODUCTION:

The number of chassis assembled during the year was 2614 compared to 2286 in 2005. The production of trucks went up by 35% while that of buses fell by 18%. 970 Hilux frames and 946 Hilux decks were also produced for Indus Motor Company before this activity came to an end. The plant productivity improved by 6.7% through Kaizen i.e. continuous improvement.

In the body operation plant 907 units were fabricated. A variety of specialized vehicles have been developed including sludge carrier, mobile canteen and mobile dispensary. The productivity of the plant improved by 7%.

### **PRODUCT SUPPORT AND AFTER SALES SERVICES:**

Hinopak once again received "Hino's Gold Award" from Hino Motors of Japan in recognition of its strong after-sales services to the customers.

The Company is working to expand its 3S dealership network across the country to serve its growing number of customers. At present four 3S facilities are operating, in Karachi (two), Lahore and Peshawar and various 2S facilities in other cities. Seven free service camps were held to educate the operators at their door steps.



Hinopak's training centre at Karachi is gaining popularity amongst students and apprentices for its training techniques. The centre will be soon commissioning a mobile training unit.

### **BUSINESS PROCESS IMPROVEMENT AND PRODUCT DEVELOPMENT:**

The Company's state of the art Electro Deposition and Top Coat painting facility installed in 2005 is now fully operational enhancing the quality of the product. The Toyota Production System is being implemented to improve the processes, productivity and eliminate non-value added activities. The Engineering and Development Department of the Body Fabrication Plant has designed and developed a number of new products.

The Implementation of the Oracle based Enterprise Resource Planning (ERP) System was completed for finance and procurement processes.

### **CORPORATE SOCIAL RESPONSIBILITY:**

Conscious of its responsibilities towards environment and safety, the Company has been holding regular service camps, monitoring effluent and treating waste water at its plants. The Company also extends a helping hand to sports and subscribes to charitable causes.

The Company now complies with all the requirements of Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and Toyota group's Good Governance guidelines.

Hinopak is Pakistan's first automotive company to affirm commitment to the Global Compact Principles for Human Rights, Labour and Environment. The Company's Director of Human Resources, Mr. Fasihul Karim Siddiqi act as the UN's Global Compact focal point in Pakistan.

## CONTRIBUTION TO NATIONAL EXCHEQUER:

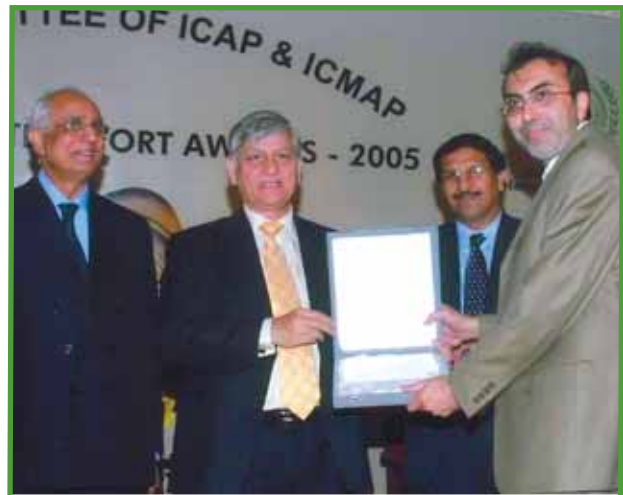
The Company would be paying approximately Rs. 194 million in income tax besides the other taxes, duties and welfare contributions exceeding Rupees one billion.

## HUMAN RESOURCE MANAGEMENT:

An average of 47 hours per employee was spent on in-house training to improve technical, professional and managerial skills. Employees were also sent for training to Japan and Thailand.

## BEST CORPORATE REPORT AWARD:

The Company's annual report for the year 2005 was selected for the **"Best Corporate Report Award"** in a competition organized jointly by the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP).



## BUSINESS RISKS AND CHALLENGES:

Some important issues arising from the government policies and globalization that have bearing on the automotive industry and on Hinopak's business are discussed below briefly:

### Import of 2nd Hand Trucks & Buses

Under the 2005 Trade Policy not only the restrictions that previously applied to the import of second hand vehicles were relaxed or lifted altogether. The regularization of vehicles smuggled or imported in violation of the Import Order or under Personal Baggage, Transfer of Residence (TR) and Gift Schemes was also allowed on payment of 30% fine. The result has been that number of used trucks, buses and dumpers imported or smuggled now exceeds the number of new trucks and buses produced in the country. It is therefore not unsurprising that the local industry is operating at less than one-fifth of its installed capacity. At the same time new plants are also coming up. On our strong and persistent representations, the government has renewed its commitment to the local industry and has promised to announce appropriate fiscal and regulatory measures to protect it even before the next Budget and Trade Policy.

### Tariff Based System

In order to comply with the WTO's Trade Related Investment Measures (TRIM), the Government of Pakistan has decided to introduce Tariff Based System (TBS) for the automobile industry from July 1, 2006. Under this system, duty on the import of parts already developed in the country, would be higher than the duty on CKD. The duty rate on the parts that are being manufactured locally, if imported, the impact on commercial vehicles would be in the range of 25% to 35% compared to only 15% on passenger cars. Our efforts to keep the impact at the same level as on cars have not succeeded. Thus Hinopak, though it had achieved the deletion levels prescribed under the old system, would be paying higher duty on some parts which it has not localized but fall under TBS. The Company in collaboration with its vendors would be making special efforts to localize such parts to avoid paying higher duty on their import.

## Auto Industry Development Plan (AIDP)

The Engineering Development Board/Ministry of Industries in consultation with the industry has drawn a five- year Auto Industry Development Plan (AIDP) which is awaiting ECC's approval. The assured tariff rates for five years and other stipulations of the AIDP would enable the Company to plan its business better.

## Modernization of Trucking Sector

The government is studying a number of proposals for the modernization of the trucking sector in the country to bring it in line with the standards being followed in other developing countries, the intention being to save roads from stress and also to enable Pakistan to become a hub of trade by road in the region. The Plan envisages induction of large size multi axle prime movers to facilitate movement of heavy cargo. The implementation of this plan would give fillip to the production of prime movers. Hinopak has assured the government of its capability to meet the standards of trucking laid down in the new policy.

## New Entrants in the Market

Competition in the commercial vehicle market is getting stiffer by the day with the manufacture, as well as the CBU import, of the Chinese and Korean makes. The Company, nevertheless, hopes to maintain its market leadership because of Hino's superior technology, reliable after sales service all over the country and reasonable prices.

## CNG Buses

The government has declared its intention to introduce CNG buses in large cities to reduce pollution and operating cost but has yet to announce incentives for the investors and operators. Hinopak has already exhibited its locally manufactured CNG bus and is poised for commercial production. We expect to lead the market in this segment as well once the policy is announced.

## Exchange Risk

Hinopak pays for the CKD and other imported raw materials in Japanese Yen. Yen's appreciation against Pak rupee, thus, hurts the profitability of the Company. Though the Company tries to keep its currency exposure at the lowest possible level, the cost on this count during the year came to Rs. 39 million against the budgeted Rs. 100 million.

## Body Fabrication Plant

Hinopak is the only commercial vehicle manufacturer with a modern body fabrication plant with a capacity to fabricate more than 150 bodies - buses and other special purpose vehicles - in a month. In 2006, the plant was underutilized because of the large imports of second hand buses, dumpers, etc. impacting the profitability of the Company. The Company hopes that with the abolition of sales tax on buses, the demand for buses will rise in 2007. The Company is also exploring the possibility of exporting built-up buses to the Gulf countries.



## OUTLOOK FOR 2007:

The market for trucks and buses is now recovering, albeit slowly, after a year long slump caused by the large scale import of second hand vehicles. The sales are also expected to pick up after the government announces incentives for the CNG and Urban buses and for the renewal of the country's ageing truck fleet.

The new range of Hino trucks designed to suit the operating conditions in Pakistan are steadily gaining popularity for their quality, price and compliance with Euro Emission standards. Hinopak is leader in the medium & heavy duty truck segment and expects so to remain in 2007 and beyond. Dutro, Hino's new small truck, has gained popularity exceeding expectations and raising hopes that even in the light duty truck segment Hinopak soon might become the number one seller.



The company expects its growth to continue in the year 2007. Any measures adopted by the government to curb the import of second-hand trucks and buses would give its sales and profitability a great fillip.

## ACKNOWLEDGEMENT:

I would like to record my appreciation for the ingenuity and hard work of the Company's management and labour in enhancing the productivity, sales and profit of the Company. I have also to thank the Company's vendors and dealers for their efforts and cooperation. The customer's confidence in our products and after sales service, of course, remains the key to the Company's success. We owe the Company's success in a large measure to the support - technical, administrative and in pricing - that always ungrudgingly comes from our principals and major shareholders - Hino Motors and TTC of Japan. I have also to thank the government especially the Engineering Development Board, Ministry of Industries and Central Board of Revenue for the understanding that have shown for the problems faced by Hinopak and by the automotive industry as a whole.

A handwritten signature in black ink that reads "K. Idaris".

**KUNWAR IDRIS**

CHAIRMAN

February 26, 2007



directors'  
report

Directors  
Report



The Directors of your Company take pleasure in presenting this report, together with the Audited Annual Accounts of the Company for the year ended 31st December 2006.

The **Board of Directors** of the Company as at December 31, 2006 consists of:

Mr. Kunwar Idris	Mr. Susumu Hongo
Mr. Keiji Maeda	Mr. Muhammad Irfan Shaikh
Mr. Takeshi Ito	Mr. Fasihul Karim Siddiqi
Mr. Shinji Fujimoto	

## APPROPRIATION OF PROFIT

Following are the details of appropriations:

	Year ended December 31, 2006	Year ended December 31, 2005
	Rupees in thousand	
Profit before taxation	511,763	381,580
Taxation	(187,882)	(138,624)
Profit after taxation	323,881	242,956
Transferred from surplus on revaluation of fixed assets: Incremental depreciation for the year	5,860	5,862
Unappropriated profit brought forward	752,509	609,096
Profit available for appropriation	1,082,250	857,914
Final cash dividend paid for the year 2005: Rs 6.0 per share (2004: Rs 8.5 per share)	(74,403)	(105,405)
Unappropriated profit brought forward	1,007,847	752,509

**For the year ended December 31, 2006, the Board in its meeting held on February 26, 2007 has proposed a final cash dividend of Rs 10.5 per share.**

## BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share for the year is Rupees 26.12 (2005: Rupees 19.59)

## AUDITORS

The present auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment. The directors endorse recommendation of the Audit Committee for the re-appointment of Messrs A. F. Ferguson & Co. as the auditors for the financial year 2007.



## **PATTERN OF SHAREHOLDING**

The pattern of shareholdings as at 31st December 2006 and additional information thereabout required under Code of Corporate Governance is disclosed on page 86 and page 87 respectively.

## **HOLDING COMPANY**

Since 19th October 1998 Hino Motors, Ltd., Japan, is the Holding Company of Hinopak Motors Limited, by virtue of its 59.3% shareholding in the Company.

## **SUBSEQUENT EVENTS**

No material changes or commitments affecting the financial position of the Company have taken place between the end of the financial year and the date of the Report.

## **COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE AS PER CLAUSE XIX OF CODE OF CORPORATE GOVERNANCE**

The Board is pleased to state that the management of the Company is compliant with the best practices of corporate governance. The Board acknowledges its responsibility in respect of the corporate and financial reporting framework and thus states that:

- The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The highlights of operating and financial data for the last six years are given on page 25 to 28.
- The value of investments of Company's Provident, Gratuity and Pension Funds as on December 31, 2006 was as follows:

	<b>Rupees in thousand</b>
Hinopak Motors Limited Employees' Provident Fund	30,300
Hinopak Motors Limited Employees' Gratuity Fund	23,194
Hinopak Motors Limited Employees' Pension Fund	49,879

Audit of these funds for the year ended June 30, 2006 is in process.

- During the year five meetings of the Board were held in which the attendance by each Director is as follows:

<b>Name of Director</b>	<b>Number of meetings attended</b>
Mr. Kunwar Idris	5
Mr. Keiji Maeda	5
Mr. Yoshiaki Kato	1
Mr. Takeshi Ito	4
Mr. Takahiko Yamamoto	-
Mr. Shinji Fujimoto	-
Mr. Susumu Hongo	5
Mr. Muhammad Irfan Shaikh	5
Mr. Fasihul Karim Siddiqi	5

During the year, Mr. Yoshiaki Kato and Mr. Takahiko Yamamoto were replaced by Mr. Takeshi Ito and Mr. Shinji Fujimoto respectively.

- The directors including CEO, CFO, Company Secretary and their spouses and minor children have not traded in the shares of the Company during the year ended December 31, 2006.

## **CHAIRMAN'S REVIEW**

The accompanied Chairman's Review covers the performance, significant deviations from last year in operating results and future outlook. The Board endorses the contents of the review.



**KEIJI MAEDA**  
MANAGING DIRECTOR & CEO

By order of the Board



**KUNWAR IDRIS**  
CHAIRMAN

Dated; February 26, 2007

# financial highlights

	2001	2002	2003	2004	2005	2006
<b>PROFIT &amp; LOSS ACCOUNT (Rs.in million)</b>						
Net Turnover	1,669.13	3,078.15	4,261.27	5,521.80	6,367.61	6,392.28
Gross Profit	205.84	626.16	784.21	770.09	661.51	834.58
Operating Profit	101.00	483.00	552.98	509.40	435.06	560.18
Profit before Tax	50.23	462.78	546.18	499.74	381.58	511.76
Taxation	8.70	23.38	194.05	164.01	138.62	187.88
Profit after Tax	41.53	439.41	352.13	335.73	242.96	323.88
Transfer from surplus on revaluation of fixed assets	-	29.93	4.62	21.05	5.86	5.86
Dividend	-	-	12.40	105.41	105.41	74.40
Unappropriated Profit/(Accumulated Loss) carried forward	(455.97)	13.37	357.72	609.10	752.51	1,007.85
<b>BALANCE SHEET (Rs.in million)</b>						
Net Assets						
Property Plant and Equipment	545.26	557.16	639.40	682.47	833.68	865.24
Other Long Term Assets	8.49	9.59	12.14	11.96	12.71	15.05
Current Assets	829.51	1,222.42	2,355.98	2,724.51	2,320.62	3,262.32
Less : Current Liabilities	1029.01	1017.52	1,866.94	2,032.57	1,639.450	2,374.87
Total Net Assets	354.25	771.64	1,140.57	1,386.37	1,527.56	1,767.76
Financed By						
Issued, Subscribed & Paid up Capital	124.01	124.01	124.01	124.01	124.01	124.01
Reserves / Accumulated Profit (Loss)	(164.97)	291.97	648.72	900.10	1,043.51	1,298.84
Long Term/ Deferred tax Liabilities	-	119.84	136.65	60.01	63.64	54.36
Surplus on Revaluation of Fixed Assets	395.22	235.82	231.20	302.26	296.40	290.54
Total Funds Invested	354.25	771.64	1,140.57	1,386.37	1,527.56	1,767.76
<b>TURNOVER (Rs.in million)</b>						
Hino Chassis	1466.16	2673.22	3143.40	4161.05	5359.53	5577.64
Bus & other bodies	164.27	282.69	610.23	815.31	633.74	580.24
Spare Parts	14.32	18.06	39.12	38.14	51.79	89.05
Others	24.38	104.18	468.52	507.30	322.54	145.35
Total	1,669.13	3,078.15	4,261.27	5,521.80	6,367.61	6,392.28
<b>PRODUCTION (Units)</b>						
Hino Chassis	876	1,518	1,883	2,341	2,286	2,614
Bus & other Bodies	280	472	1,363	1,712	739	907
Hilux Frame	822	2,118	2,549	2,910	3,290	970
Hilux Deck	-	1,443	2,557	2,906	3,375	946
<b>SALES (Units)</b>						
Hino Chassis	859	1,476	1,862	2,206	2,352	2,551
Bus & other Bodies	281	451	1,337	1,579	918	789
Hilux Frame	810	2,118	2,549	2,941	3,290	970
Hilux Deck	-	1,443	2,560	2,900	3,375	962
<b>NO. OF EMPLOYEES</b>						
	227	227	249	255	268	287

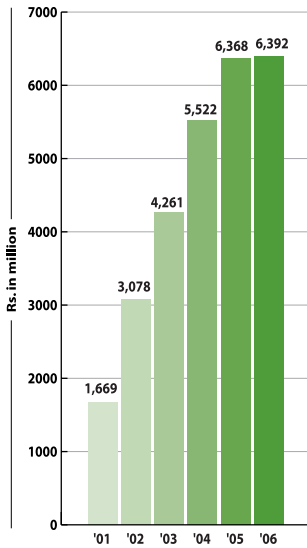
# financial highlights cont..

	2001	2002	2003	2004	2005	2006
<b>INVESTOR INFORMATION</b>						
Financial Ratios						
Gross Profit Ratio	12.33%	20.34%	18.40%	13.95%	10.39%	13.06%
Net Profit Margin	2.49%	14.28%	8.26%	6.08%	3.82%	5.07%
Return on Assets (after tax)	3.0%	24.6%	11.7%	10%	7.7%	7.8%
Debt Equity Ratio *	-	0.18	0.14	0.05	0.05	0.03
Current Ratio	0.81	1.20	1.26	1.34	1.42	1.32
Quick Ratio	0.26	0.42	0.57	0.46	0.31	0.35
Interest Cover Ratio	1.88	48.88	522.18	-	67.64	148.59
<b>OTHER RATIOS</b>						
Dividend Payout Ratio	-	2.8%	29.9%	31.4%	30.6%	39.6%
Price Earning Ratio	9.41	2.06	4.23	5.95	8.58	5.81
Total Assets Turnover Ratio	1.21	1.72	1.42	1.62	2.01	1.54
Fixed Assets Turnover Ratio	3.06	5.53	6.68	8.15	7.66	7.38
Return on Capital Employed	11.72	56.95	30.87	24.22	15.90	18.32
Inventory Turnover Ratio	2.77	3.66	3.38	3.11	3.19	2.66
Number of Days Inventory	132	100	108	117	114	137
Debtors Turnover Ratio	28.20	30.07	12.31	13.84	22.25	15.47
Number of Days Debtors	13	12	30	26	16	24
<b>PER SHARE AMOUNTS (in Rupees)</b>						
Cash Dividend	-	1.00	8.5	8.5	6.0	10.5
Breakup Value with Surplus on Revaluation of Fixed assets	28.57	52.56	80.96	106.96	118.06	138.55
Breakup Value without Surplus on Revaluation of Fixed assets	(3.30)	33.55	62.32	82.59	94.15	115.12
Earning Per Share	3.35	35.43	28.40	27.074	19.59	26.49
Share Price (High)	41.90	82.00	143.00	180.00	175.00	241.75
Share Price (Low)	31.50	26.40	56.25	110.00	102.00	129.00
Share Price (Closing)	31.50	73.00	120.00	161.00	168.00	154.00
ONE US\$ = RUPEE	60.25	58.50	57.62	59.65	59.93	60.98
ONE YEN = RUPEE	0.4592	0.4930	0.5389	0.5812	0.5092	0.5122

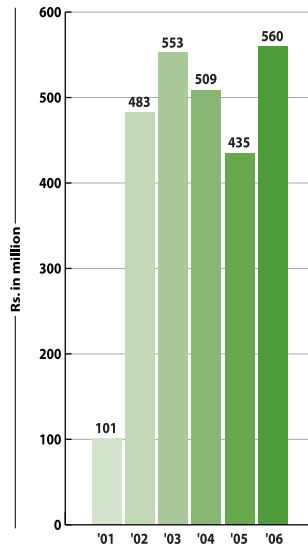
Debt Equity Ratio takes into consideration the surplus on revaluation of land and building.

# financial highlights cont..

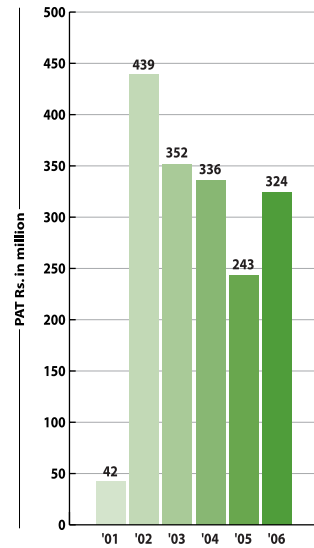
### Net Sales



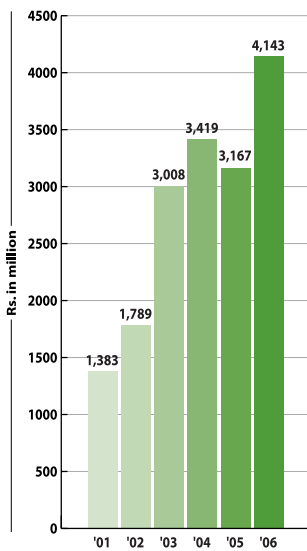
### Operating Profit



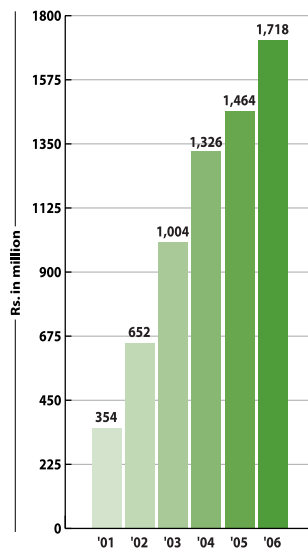
### Profit After Tax



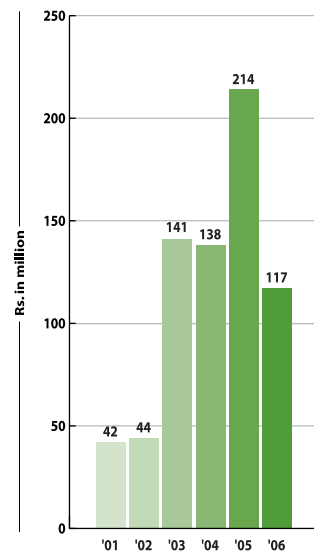
### Total Assets



### Total Shareholder's Equity



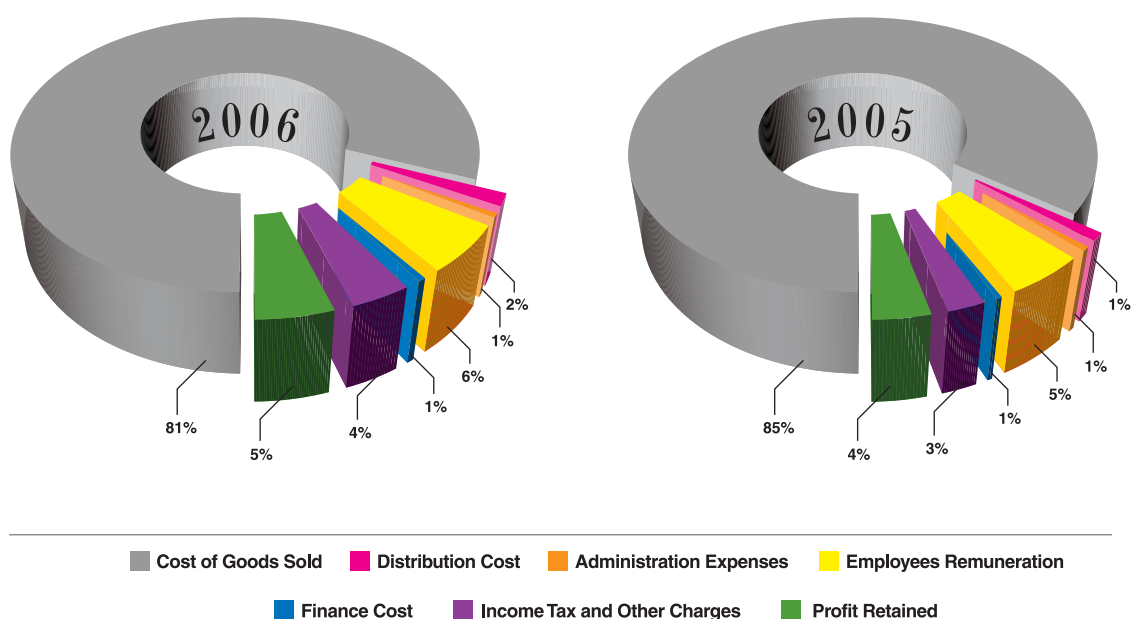
### Capital Expenditure



# statement of value addition and its distribution

	2006		2005	
	Rs in million	%	Rs in million	%
<b>Value Addition</b>				
Sales	6,392	99	6,368	99
Other Income	73	1	64	1
	<b>6,465</b>	<b>100</b>	<b>6,432</b>	<b>100</b>
<b>Value Distribution</b>				
Cost of Goods Sold	5,277	81	5,473	85
Distribution Cost	128	2	94	1
Administration Expenses	69	1	64	1
Employees Remuneration	392	6	332	5
Finance Cost	48	1	53	1
Income Tax and Other Charges	227	4	173	3
Profit Retained	324	5	243	4
	<b>6,465</b>	<b>100</b>	<b>6,432</b>	<b>100</b>

## distribution of value addition



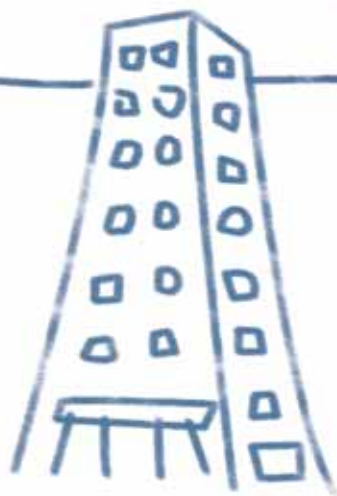
# corporate social citizenship



Harmonising Technology  
with **Environment**,  
Labour, Human Rights  
and Society



seeking harmony between people,  
society and the environment





# supporting society through the movement of people and goods. that's what we do.

In this age of technology and value-addition, people have come to expect more of trucks and buses. There is growing demand for vehicles that are environment-friendly and pose fewer hazards to human habitation. Consumer expectations have also increased in the area of safety.

In response to such concerns, Hino Motors Japan has been developing truck and bus technologies that protect the environment and are fitted with enhanced safety devices. Hino Motors has also been hard at work on making improvements in basic vehicle functions. The Company is constantly evaluating the effects that both its products and its manufacturing activities have on society.

In Pakistan, we are continuously striving to become an ideal contributor through various initiatives for improvement of environment, human resource development and community care. We ensure strict compliance of local regulations and corporate ethics. In 2006 we also introduced the first locally assembled CNG bus to support the Government of Pakistan initiative to improve the environment. As part of our continued commitment to sustainable development, we have renewed our pledge of social responsiveness by voluntarily subscribing to the principles of UN Global Compact. We intend to work with all employees, vendors and suppliers to integrate these principles, as far as possible, in our work culture and improve our competitiveness in the wake of impending social and global challenges.

A message from  
**Keiji Maeda**  
Managing Director & CEO



The basic Japanese philosophy of Toyota Tsusho Corporation one of our major shareholder and group company:

"Living and prospering together with people, society, and the globe, we aim to be a value-generating corporation that contributes to creation of a prosperous society"

In Pakistan, We at hinopak also have the same commitment and work towards creation of a prosperous society through various corporate activities.

- We work to reduce impact of environment, conserve energy and eliminate environment pollution and comply with all the environmental requirements;
- we promote safety activities at Hinopak with an aim to eliminate occupational disasters and accidents;
- we promote the creation of pleasant and people friendly work environment;
- we actively pursue the increased management efficiency and transparency through compliance.

We do not consider Corporate Social Responsibility to be a special activity, but rather as an element of management itself for determining the ideal means for pursuing corporate activities.

A message from  
**Takeshi Ito**  
Deputy Managing Director



# commitment toward corporate social responsibilities

The key to running a business is having a relationship of trust with the Company's many stakeholders, including shareholders, customers, suppliers and employees. The goal of the Hinopak motors is to be a trusted company. Moreover we are actively committed to reducing the environmental impact of our product, including the impact created between production and sale of our trucks and buses, before our product reach to our customers.



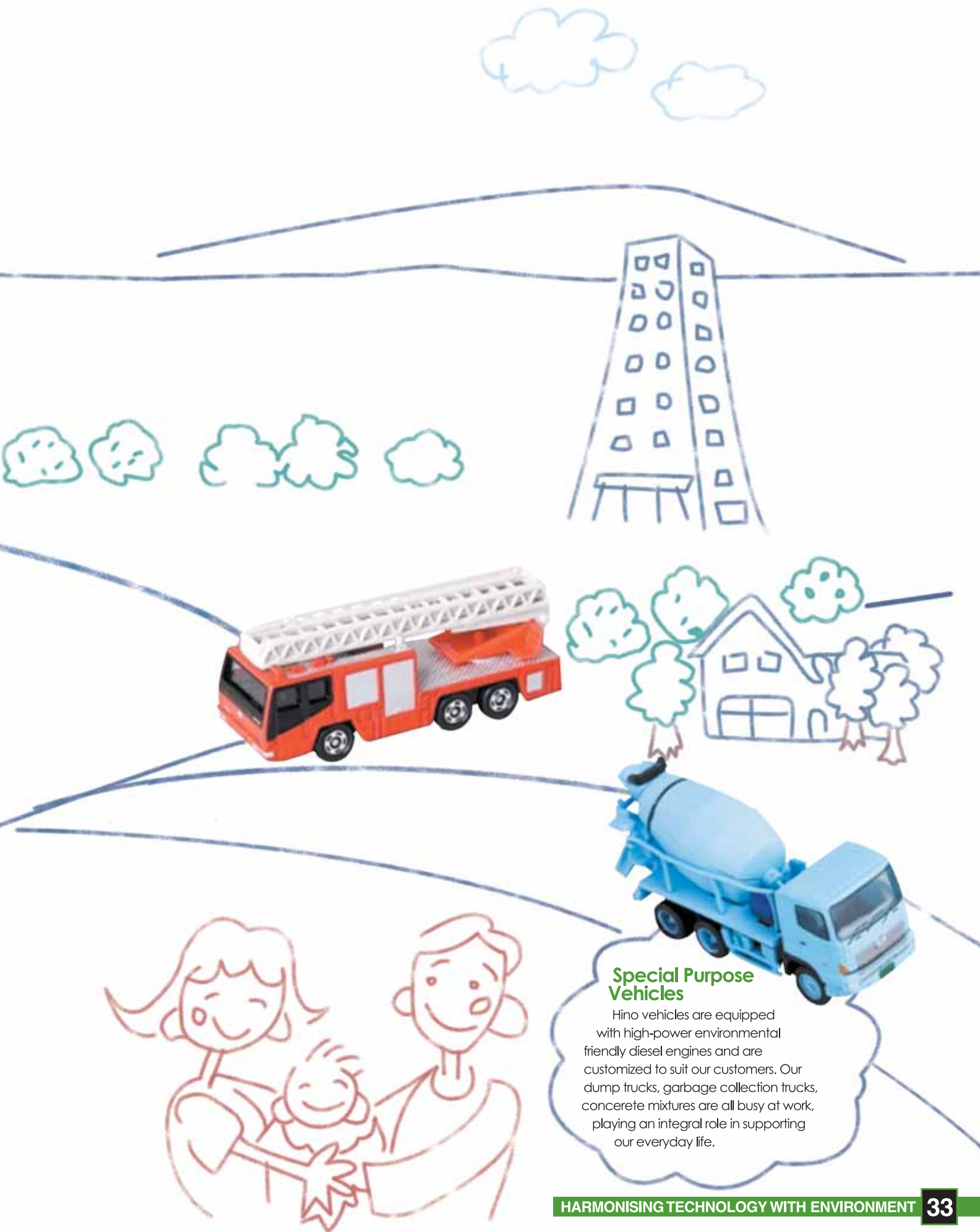
## Trucks

Our cargo vans and bottle carriers deliver edibles and other merchandise everyday to millions of people across Pakistan.



## Buses

Our commitment is to provide safe, economical and environment friendly transport system to the citizens of Pakistan. Modern and comfortable buses are playing a role as the legs of the people across the country.



### Special Purpose Vehicles

Hino vehicles are equipped with high-power environmental friendly diesel engines and are customized to suit our customers. Our dump trucks, garbage collection trucks, concrete mixtures are all busy at work, playing an integral role in supporting our everyday life.

# environment & society philosophy and its endorsements

## ENVIRONMENT & SOCIETY

Production of vehicles impacts the environment in many ways. At Hinopak, we reduce these environmental impacts through our short- to long-term plans.

As we continue to relentlessly reduce the negative environmental impacts of our operations, we strive hard to also achieve a solid understanding of the positive impacts and increase the value of the truck, bus, and distribution industry to society.

Pakistan is signatory to Kyoto Protocol which has already been effective from January 2005. We subscribe to this Protocol through our pledge to reduce carbon dioxide (CO<sub>2</sub>) emissions. Our principal, Hino Motors Japan, is likewise working on the reduction of carbon dioxide emissions by improving fuel efficiency. We are therefore confident that we lead the industry in improving this area.

## ENVIRONMENT INITIATIVES:

### Initial Environmental Assessment (IER)

We conducted our Initial Environmental Review (IER) in the year 2001 to ascertain our capability to adopt ISO14001 standards. We are proud to be the 1st automobile Company in Pakistan to obtain this qualification.

### Commitment to the Environment in Product Development

We maximized the environmental performance of our diesel engines, brought clean trucks to Pakistan market ahead of regulations. And, we continue to work tirelessly to achieve our aim to provide customers with superior products powered by latest technology.

Euro emission compliant models have been developed to change the concept of transportation and to facilitate a cleaner environment. With more powerful engines and more favorable carrying capacities, our product line is developed in a disciplined manner not only to optimize performance but also to ensure that we have the requisite serviceability necessary to sustain the objective of changing the transportation concept.

Another feather in our cap was added as we introduced the first-ever dedicated CNG bus manufactured in Pakistan.

All these measures are no doubt, in response to our commitment to help provide a cleaner environment and promote CNG as transport fuel. We strongly believe that the nation will benefit in the long run by saving precious foreign exchange spent on import of fuel and reducing pollution and improving our environment.

### Preventing Global Warming

A manifestation of our contribution to the prevention of global warming: CO<sub>2</sub> emission/unit reduced by 15.9% against the set reduction target of 5% in our Assembly Operation Plant (AOP) while in our Body Operations Plant (BOP), a reduction of 11.39% against the reduction target of 2%.

### Conservation of Water Resources

Proof of our water conservation commitment: Water consumption/unit reduced by 21.6% in AOP and 13.31% in BOP against the set reduction target of 2%.

### Waste Reduction

Waste generation/unit reduced by 19.1% against the set target of 2% in BOP, whereas in AOP it increased by 2.7% against the set reduction target of 1.5% due to CKD packaging material which we are addressing now.

Hazardous waste is being disposed off through environment - friendly methods. Last year, around 41 tons of hazardous waste was sent for incineration.

### Neighbor Complaint

We have history of zero neighbor complaint on environmental issues.

### Waste Water Treatment

Waste water from each plant is treated by a comprehensive waste water treatment facility.

### Controlling Chemical Substances

Vehicle manufacturing requires a wide range of chemicals. At Hinopak, we strictly adhere to procedures to control Chlorinated Organic Compound (COC) and PCB-based chemicals. We have established a chemical substance preliminary assessment system to confirm in advance, hazardous nature of chemicals and prevent use of highly-polluting substances with regard to environment and safety. Currently, no chemical substance contaminated with COC is in use.

### **Soil Compliance for COC**

A soil contamination investigation for COC-based substances was conducted in the previous year. Both plants were declared free from any contamination.

### **Replacement of Asbestos Roof**

Another significant aspect is the replacement of our Assembly Operation Plant asbestos roofing with concrete.

### **Internal and External Environmental Audits**

In carrying out our Environmental Management System based on ISO14001 standards, we conducted internal and external audits; the latter conducted by an independent inspection body.

Due to our concerted efforts, Hino Motors Japan rated Hinopak the "best environmental performance company" among Hino overseas facilities worldwide.

In line with the Hino Global Environment Charter, Hinopak is committed to continue its aim to prevent global warming by reducing CO2 emission, conserving water resources and minimizing waste generation.

## **EDUCATION AND AWARENESS ACTIVITIES:**

We make it a point that our people develop greater consciousness of and sense of responsibility towards environment. Trainings related to Emergency Response, Energy Conservation and Operation Control are on our regular agenda.

Country-wide free service and tune-up camps are regularly organized to educate the general transport customers on the need to maintain healthy environment. Such activity demonstrates our commitment to a better environment and road safety.

We organize technical training program free of cost for mechanics and drivers. Topics range from Road Safety to Vehicle Maintenance, etc. to inculcate consciousness for safe, optimum, pollution free, environment-friendly performance of our products. So far, 5,000 individuals from diverse backgrounds have received training from our Technical Training Centre, a positive reflection

in our contribution to the betterment of our environment and road conditions.

In collaboration with the Provincial Technical Education Board, we run a 6-month Diploma program in Automobile Engineering in our Technical Training Centre.

At Hinopak, we can rightfully claim that we have emerged as an excellent example of a learning organization focused on customer needs, relationship-building and maintaining a track record of market leadership, innovation, improved technology and pragmatic inputs from our management systems.

## **CONNECTING COMMUNITY THROUGH SPORTS:**

For the last 16 consecutive years, we have been in collaboration with the Karachi City Cricket Association in organizing Inter-firm Cricket Trophy, annually played for around three months and participated by cricket teams from 40-45 private & public- sector enterprises. As it stands out as the longest business and sports partnership sponsored by a single business organization within the country, the Trophy is a testament to our role in promoting sports as social responsibility. Hinopak also sponsors annual golf tournament at Arabian Sea Country Club on a regular basis.

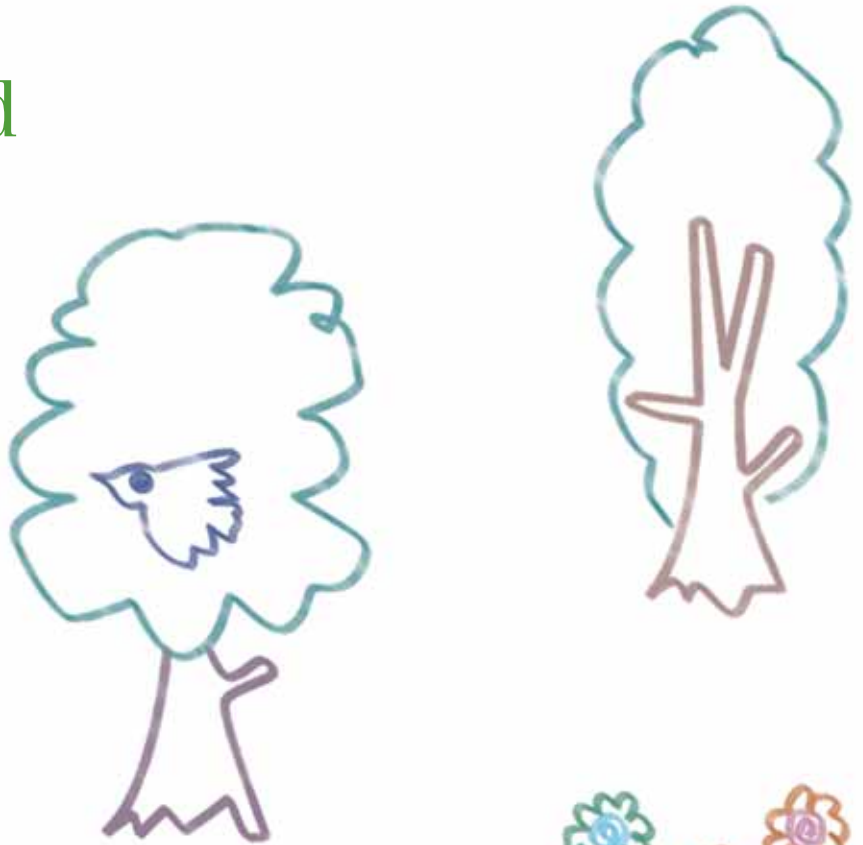
# hinopak motor's initiatives in the environmental field

## Improving Environmental Performance

We observed the public requirement for the environmental friendly vehicle and prototyped a CNG fitted vehicle before the government could ever call for it.

## Promoting waste management

The waste water plants were built in-house with the concerted efforts of our engineers.





### Compliances

Hinopak Successfully upgraded its ISO 14001:1996 certification to the new ISO 14001:2004 standards. In doing so Hinopak once again took the lead among the automobile companies in Pakistan.



### Reducing Chemicals

We have established a chemical substance preliminary assessment system to confirm in advance, hazardous nature of chemicals and prevent use of highly-polluting substances with regard to environment and safety.



## Reducing the environmental impact of our products, trucks and buses, at all stages from development to disposal

Our approach in developing low emission and alternative fuel vehicles reflects the company's commitment to advancing practicality of green technologies. Introduction of Euro II complaint CNG bus is marked as a milestone for low emission vehicles in Pakistan.

We always focus on further improvement in product's safety beyond what is required by government regulations. Importantly, our endeavors are aimed at reducing traffic accidents involving commercial vehicles.

We are also challenging ourselves to ensure that all of our facilities operate as much efficient as possible. In order to cause the least impact on the environment, this requires conserving energy, water, and other resources, and minimizing waste and chemical releases.

A message from  
**Susumu Hongo**  
Director Production



Waste Water Treatment Plant

# hinopak motor's initiatives in the social field



## **Making our Customers Happy**

Our commitment to our customers include the after sales services, energy efficiency and Safe driving. We offer our customers the optimum products based on the information we receive from them, as well as a wide range of after sales services and support.



## **Relationships with employees and their families**

We create a secure workplace for our employees and offer a wide range of support based on Hinopak Motors Code of conduct and ethical principles.



## **Promoting Sports**

we take pride in contributing to the promotion of healthy sports among the youngsters in general and the working employee in particular.





We aim to continue earning the trust of all of our stakeholders as a good corporate citizen through contributions to the sustained development of the earth and **society with the production of trucks and buses as our starting point.**

### Relationships with Society

We aim to become a company that is trusted by the local community and society through various activities conducive to the society.

### Education and Training

Hinopak's training center in Karachi is playing a vital role towards imparting modernized training and is gaining popularity amongst upcoming technical students,

### Customer Care

Country-wide free service and tune-up camps are regularly organized to educate the general transport customers on the need to maintain healthy environment.

Being the largest commercial vehicle manufacturer in Pakistan, we at Hinopak Motors are fully committed in preserving the green pastures and smiling faces around us. We realize our social responsibility by producing environmental friendly commercial vehicles and supporting transportation that is friendly to the earth and people.

In addition to our regular product line up we at Hinopak Motors are also striving to achieve more and more diversification in our products to better serve our society. Our special purpose vehicles, in addition to garbage maintenance are all busy at work, playing an integral role in supporting our everyday life.

Our buses are comfortable and environment friendly and take care of all including children and senior citizens.

Our efforts are not only limited to our products designs. We have taken many steps further and our countrywide product support network takes care of our vehicles that are on the road by holding regular tune up camps and regular on-time maintenance provided by our dealers network placed strategically throughout the country.

A message from

**Muhammad Irfan Shaikh**

Director Sales & Marketing





## helping make **globalization work** for all

The Global Compact is a call to business worldwide to help build the social and environmental framework to support and ensure the continuation of open and free markets whilst ensuring that people everywhere have a chance to share the benefits of the new global new global economy.

Global Compact consists of ten principles focusing on Human Rights, Labor, Environment and corruption. These principles have been drawn from various charters of UNO ratified by global community time to time.

We feel honored to be one of 52 participating business organisations from all over Pakistan, who volunteered to subscribe to Global Compact principles which made Pakistan the second largest subscriber country in the region.

In a multi stakeholder context of today's business environment where we are facing challenges related to globalization, corporate citizenship and sustainable development, knowledgeable human resources are assets which can help the organization to meet these challenges. We are faced with shrinking market size owing to the ever increasing competition while maintaining the market leadership is a continuous challenge to us. Our company, while eyeing the domestic as well as export market is aggressively developing its human resources. With a five year development plan on the anvil which will cater critical areas of the HR development, Hinopak surely will be able to be a knowledge organization during upcoming years. Our redefined Code of Conduct and subscription to the Global Compact to honor ten principals in the areas of Human Rights, Labor and Environment has provided us much emphasized guide lines for the development of our stakeholders and in turn the company will be equipping itself to meet the upcoming challenges.

A message from  
**Fasihul Karim Siddiqi**  
 Director HR, Admin, MOD & PMD

(Mr. Fasihul Karim Siddiqi, the director who represented Pakistan at the Ministerial Dialogue Meeting with business leaders on the occasion of the High Level Segment of 14th UN Commission for Sustainable Development on 10th May, 2006 New York).



## the ten principles (global compact)

The Global Compact's principles in the areas of human rights, labour and the environment enjoy universal consensus being derived from:

- The Universal Declaration of Human Rights;
- The International Labor Organization's Declaration of Fundamental Principles and Right at work;
- The Rio Declaration on Environment and Development.

### HUMAN RIGHTS

**Principle 1:** Business are asked to support and respect the protection of international human rights within their sphere of influence, and

**Principle 2:** Make sure their own corporations are not complicit in human rights abuses.

### LABOUR

**Principle 3:** Businesses are asked to uphold the freedom of association and the effective recognition of the right to collective bargaining;

**Principle 4:** The elimination of all forms of forced and compulsory labour;

**Principle 5:** The effective abolition of child labour, and

**Principle 6:** The elimination of discrimination in respect of employment and occupation.

### ENVIRONMENT

**Principle 7:** Businesses are asked to support a precautionary approach to environmental challenges;

**Principle 8:** Undertake initiatives to promote greater environmental responsibility;

**Principle 9:** Encourage the development and diffusion of environmentally friendly technologies; and

**Principle 10:** Business should work against corruptions, all its forms, including extortion and bribery.

To comply with all the applicable legislation / regulations and to Cooperate with the authorities concerned.

## HUMAN RIGHTS, SAFETY AND SECURITY

### Human Capital Management

Our human capital management initiatives relating to principles 3~6 of the Global Compact are detailed below:

- The company does not employ child labor and as per its employment policy the minimum age for employment is 18 years and above. The contractors and vendors are also required to abide by this policy.
- Hinopak does not allow forced and compulsory labor in any form and ensures that the contractors and vendors also abide by this principle
- The company encourages freedom of association and right to collective bargaining.
- The elimination of discrimination in respect of employment and occupation.

The ideal industrial relationship between Hinopak employees and management is quoted as a model on Pakistan as exemplified below:

During the past 20 years, 9 Charters of Demand have been bilaterally negotiated in a record period ranging from one week to three weeks. There has been no strike or loss of working hours for any reason related to labor dispute. Issues like wage linkage with productivity and performance have been bargained successfully for the first time in country's history.

### Other Initiatives:

#### Training and development:

As a part of our commitment to invest in human capital, we run an in-house technical training diploma program for our worker-employees, in critical trades such as Painter, Electrician, etc. Spread over 6-12 months comprising of on-the-job training and theoretical training at a local polytechnic, employees undergo an examination as other regular students at the completion of the program, entitling them to the same degree approved by the Provincial Technical Education Board if passed.

We have also been running an Apprenticeship Program in fulfillment of our desire to work with the government in enhancing the skills of our youth.

This program has been regularly churning out skilled manpower, for our own and other industries' requirement.

Employees who improve their academic qualification by pursuing private courses in the evenings, at their own initiative, are reimbursed expenses related to books and examination and allowed examination leaves.

Our managers and executives continue to benefit from our training needs analysis system that helps us chalk out regular, tailored courses to enhance their competencies. We have a yearly budget for in-house, institution, foreign trainings and other learning avenues to ensure that we meet the training and development needs of our human capital.

### Occupational Health & Safety

In May 2006, the Safety & Health Policy of the company was completely revamped. Basic action plans for effective risk management have been prepared. Giving top priority to safety in everything we do, these action plans position the creation of safe, healthy and facilitating workplace as the best way to both respect people and achieve company growth. Our aim is to prove our commitment to safety and health management to the people inside the company and the public, and get all employees on the same pace.

To reach this goal, we have active safety and health programs aimed at preventing occupational accidents. These programs include training/ awareness sessions, medical camps, mock drills, etc. We have already started working on the adoption of OHSAS18001 Standards and have sufficient measures (medical/emergency response teams, medical centers, ambulances, etc.) to cater to emergency situations.

### Workplace Improvement

The company is successfully practicing Japanese management concepts like 5S, Kaizen, Quality Circles, Statistical Process, Quality Control techniques, and TPS (Toyota Production System for improvement through waste control) - all contributing to the strengthening of our Quality Management System, increasing productivity and adding value to our products and services while leaving a positive impact on developing human potential and ecological improvement.

### **Gender Policy Endorsement**

We have voluntarily endorsed a policy on gender discrimination and harassment and have been awarded WEBCOP-AASHA recognition award for gender sensitive management in recognition of our commitment to gender policy.

Various policies sensitive to the needs of our human capital, aided by intensive internal and external trainings, encouraging employee participation and empowerment have no doubt, shown positive impacts.

## **COMPLIANCE**

At Hinopak, we want to build our relationships on trust with all the stakeholders including investors, vendors, customers, business partners, local communities and employees. Sound principles of corporate governance are critical in obtaining and retaining this trust. We are taking concrete measures to reinforce our corporate governance activities in order to enhance and maintain our corporate value. These measures also include various compliance activities.

Compliance at Hinopak is not just about observing the laws and regulation. It also means respecting social norms and corporate ethics, complying with the expectation of all the stakeholders and engaging in fair corporate activities.

### **The Board of Directors**

At the core of corporate governance is the role of the board of directors. An active, informed, independent board is essential to ensure integrity, transparency and to achieve a stable and long term growth of the Company. In Hinopak, the Board of Directors is composed of executive and non executive directors. The Board convened five times in 2006. The board reviewed and approved Company's future strategy and short and mid term plans. The Board was continuously informed of operational fluctuations and significant events and reviewed in details the results of the company in the quarterly meetings.

**An independent audit Committee has been** established by the board for monitoring of compliance activities in the Company. The Committee is comprises of three board members

including two non-executive directors. An internal audit department was also established to support the committee.

The Committee held four meeting in 2006. Two meeting were also attended by the external auditors of the Company.

The board has also set up various other committees to manage the day to day operations efficiently. The terms of reference for these committees are given on page.

### **Code of Corporate Governance**

The Company is strictly complying with the Code of Corporate Governance (the code) issued by Securities and Exchange Commission of Pakistan. All the significant policies and statements required under the code have been adopted by the board.

Our statement of compliance (refer Page 46) with the Code of Corporate Governance has been examined by the company's external auditors as required by the Code.

### **Internal Controls System and Financial Reporting**

The Company maintains a system of internal controls and procedure designed to ensure reliable and transparent financial reporting and disclosures.

Hinopak is a group company of Toyota Motors Corporation (TMC) and was selected for TMC's project for strengthening internal controls and compliance with the requirements of US Sarbanes Oxley Act. The Company is working on the project under the guidelines from TMC.

The Company has adopted various accounting policies and ensures that those policies are applied properly and consistently. The Company publishes quarterly financial statements for updated financial position. These statements are also being published on Company's website.

# environment policy

Hinopak Motors Limited is committed to identify and implement means and measures that would result in minimum environmental impact from its products and every aspect of its business activities ranging from product development to production and servicing.

Our motto at Hinopak is:  
"Strive for contributing to environment friendly products to our customer satisfaction & support to environmental preservation activities for our employees and community, to the best of our ability."

For this, we set objectives and targets to:

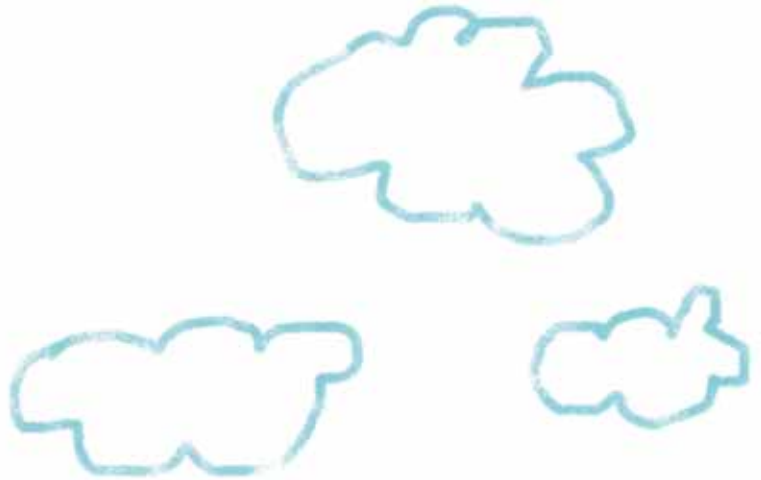
**Promote** pollution prevention & reduce environmental impacts by proper handling and disposal of wastewater, solid waste, hazardous substances & gaseous emissions.

**Conserve** energy and other resources.

**Comply** with all the applicable legal and other requirements.

**Improve** environmental performance continually by reviewing objectives, conducting audits and management reviews under our Environmental Management System.

**Educate**, train and motivate employees and interested parties to conduct activities in an environmentally responsible manner and as per the company's environmental policy, which is also available to the public.



## quality policy

Hinopak Motors Limited is committed to produce trucks and buses which meet the expectations of its customers in the areas of quality, cost and delivery.

Striving for total customer satisfaction, we focus on achieving quality objectives set in the following areas;

- i) Identification of products and operational needs of customers.
- ii) Building quality features in product design ensuring reliability, maintainability, safety and durability.
- iii) Production of vehicles conforming to Hino Global Standards.
- iv) Diligent Product Support and Customer Services.

All Hino Users, suppliers and employees are continuously being educated, trained and motivated to accept the quality as combined responsibility and to meet the customer needs and regulatory requirements following the international standards of Quality Management System.



## safety and health policy:

Hinopak Motors limited is committed to have all its operations safe and protected against all hazards effecting occupational safety **and health** of its employees.

### **Our Aim at Hinopak is:**

To create and develop such working conditions and environment which are conducive to safety and health of employees.

To make our process free from accidents and illnesses, gradually.

To work in an organized manner to make CONTINUAL IMPROVEMENT in the areas of OSH.

To make objective based efforts for reducing unsafe and un healthy work practices/conditions.

To educate/train our employees in the area of OSH and make continuous efforts to create awareness among all concerned on the subject.

TO develop an adequate investigation system which can help avoiding reoccurrence of accidents.

To comply with all the applicable legislation / regulations and to Cooperate with the authorities concerned.



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED DECEMBER 31, 2006

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 and chapter XIII of listing regulations of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited respectively, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

The Company encourages representation of independent non-executive directors on its Board of Directors and at present the Board includes two independent non-executive directors.

None of the directors of the Company is serving as a director in more than ten listed companies, including this Company.

All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any dues, to any banking company, a DFI or NBFIs or stock exchanges.

The casual vacancies occurring during the year were duly filled up by the Board.

The Company has prepared a 'Basic Principles of Code of Conduct', which has been signed by all the directors and employees of the Company.

The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

All the powers of the Board have been duly exercised and decisions on material transactions as done traditionally based on the significance of the matter involved, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

All the directors on the board are fully conversant with their duties and responsibilities. For incoming directors' the orientation course will be arranged in due course.

The appointment of the Chief Financial Officer (CFO), who is also the Company Secretary, including his remuneration and terms and conditions has been approved by the board. The Company believes that there are reasonable grounds that the same person can act as Chief Financial Officer and Company Secretary.



The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

The Company has complied with all the corporate and financial reporting requirements of the Code.

The Board has formed an audit committee. It comprises three members, of whom two are non-executive director including the chairman of the committee.

The meetings of the audit committee were held once in every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

The Board has set-up an internal audit function which is being staffed. The Board has approved the appointment and remuneration of the head of internal audit.

The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

We confirm that all other material principles contained in the Code have been complied with.

By order of the Board



**KEIJI MAEDA**  
MANAGING DIRECTOR & CEO



**KUNWAR IDRIS**  
CHAIRMAN

Dated: February 26, 2007

## review report to the members on statement of compliance with best practices of code of corporate governance

A.F. Ferguson & Co  
Chartered Accountants  
State Life Building No. 1-C  
I.I Chundrigar Road, P.O. BOX 4716  
Karachi- 74000, Pakistan  
Telephone: (021) 2426682-6 / 2426711-5  
Facsimile: (021) 2415007 / 2427938

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Hinopak Motors Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and chapter XIII of Lahore Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2006.



**A.F. Ferguson & Co.**  
Chartered Accountants

Karachi

Dated: February 28, 2007



# financial statements

Financial  
Statements



Audit Committee meeting in progress



Board of Directors reviewing the financial statements

Board  
of Directors

## auditors' report to the members

A.F. Ferguson & Co  
Chartered Accountants  
State Life Building No. 1-C  
I.I Chundrigar Road, P.O. BOX 4716  
Karachi- 74000, Pakistan  
Telephone: (021) 2426682-6 / 2426711-5  
Facsimile: (021) 2415007 / 2427938

We have audited the annexed balance sheet of Hinopak Motors Limited as at December 31, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity 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.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, 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, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



**A.F. Ferguson & Co.**  
Chartered Accountants

Karachi

Dated: February 28, 2007

# balance sheet

as at December 31, 2006

	Note	2006 (Rupees '000)	2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	864,530	831,265
Intangible assets	4	714	2,412
Investments	5	-	-
Loans and advances	6	6,755	6,397
Trade deposits		8,299	6,317
		<b>880,298</b>	<b>846,391</b>
<b>Current assets</b>			
Stores, spares and loose tools	7	25,915	29,802
Stock in trade	8	2,381,286	1,790,708
Trade debts	9	503,226	323,086
Loans and advances	10	92,324	70,743
Trade deposits and prepayments	11	58,643	40,865
Accrued mark-up on term deposit account		2,842	850
Other receivables	12	79,789	6,572
Cash and bank balances	13	118,297	57,993
		<b>3,262,322</b>	<b>2,320,619</b>
Total Assets		<b>4,142,620</b>	<b>3,167,010</b>

	Note	2006 (Rupees '000)	2005
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share Capital	14	124,006	124,006
Revenue reserve		291,000	291,000
Unappropriated profit		1,007,847	752,509
Total capital and reserves		1,422,853	1,167,515
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>	15	290,541	296,401
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Liabilities against assets subject to finance lease	16	5,691	9,310
Deferred taxation	17	48,670	54,332
		54,361	63,642
<b>Current liabilities</b>			
Current maturity of liabilities against assets subject to finance lease	16	3,634	3,295
Trade and other payables	18	1,978,927	1,301,885
Running finance under mark-up arrangements	19	262,486	272,014
Accrued mark-up		496	5,711
Taxation		129,322	56,547
		2,374,865	1,639,452
<b>Contingency and Commitments</b>	20		
Total Liabilities		2,429,226	1,703,094
Total Equity and Liabilities		4,142,620	3,167,010

The annexed notes form an integral part of these financial statements.

  
**Managing Director &  
Chief Executive**

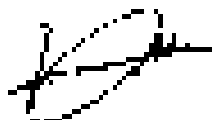
  
**Chairman**

# profit and loss account

for the year ended December 31, 2006

	Note	2006 (Rupees '000)	2005
Sales	21	<b>6,392,282</b>	6,367,606
Cost of goods sold	22	<b>(5,557,702)</b>	(5,706,089)
Gross profit		<b>834,580</b>	661,517
Distribution expenses	22	<b>(188,528)</b>	(149,218)
Administration expenses	22	<b>(119,721)</b>	(107,363)
Other income	23	<b>72,620</b>	64,531
Other expenses	24	<b>(38,772)</b>	(34,407)
Profit from operations		<b>560,179</b>	435,060
Finance cost	25	<b>(48,416)</b>	(53,480)
Profit before taxation		<b>511,763</b>	381,580
Taxation	26	<b>(187,882)</b>	(138,624)
Profit after taxation		<b>323,881</b>	242,956
Earnings per share - Basic and diluted	27	<b>Rs. 26.12</b>	Rs. 19.59

The annexed notes form an integral part of these financial statements.



Managing Director &  
Chief Executive



Chairman



# cash flow statement

for the year ended December 31, 2006

	Note	2006 (Rupees '000)	2005
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from / (used in) operations	28	353,053	(295,929)
Payment of mark-up on running finance		(8,985)	(721)
Return on investments, savings and term deposit accounts		36,397	29,948
Taxes paid		(120,769)	(158,523)
Increase in long term deposits		(1,982)	(744)
Increase in long term loans and advances		(358)	(9)
Net cash generated from / (used in) operating activities		257,356	(425,978)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		(116,501)	(214,495)
Proceeds from sale of property, plant and equipment		6,515	9,521
Net cash used in investing activities		(109,986)	(204,974)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Decrease in liabilities against assets subject to finance lease		(3,280)	(3,152)
Dividend paid		(74,258)	(105,317)
Net cash used in financing activities		(77,538)	(108,469)
Net increase / (decrease) in cash and cash equivalents		69,832	(739,421)
Cash and cash equivalents at the beginning of the year	29	(214,021)	525,400
Cash and cash equivalents at the end of the year	29	(144,189)	(214,021)

The annexed notes form an integral part of these financial statements.



Managing Director &  
Chief Executive



Chairman

# statement of changes in equity

for the year ended December 31, 2006

	Share Capital	Revenue Reserve	Unappropriated Profit	Total
	(Rupees ' 000)			
<b>Balance at January 1, 2005</b>	124,006	291,000	609,096	1,024,102
Dividend for the year 2004 @ Rs. 8.5 per share	-	-	(105,405)	(105,405)
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation	-	-	5,862	5,862
Profit after taxation for the year 2005	-	-	242,956	242,956
Balance at December 31, 2005	124,006	291,000	752,509	1,167,515
Dividend for the year 2005 @ Rs. 6 per share	-	-	(74,403)	(74,403)
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation	-	-	5,860	5,860
Profit after taxation for the year 2006	-	-	323,881	323,881
<b>Balance at December 31, 2006</b>	<b>124,006</b>	<b>291,000</b>	<b>1,007,847</b>	<b>1,422,853</b>

The annexed notes form an integral part of these financial statements



Managing Director &  
Chief Executive



Chairman

# notes to the financial statements

for the year ended December 31, 2006

## 1. THE COMPANY AND ITS OPERATIONS

Hinopak Motors Limited is incorporated in Pakistan as a public limited company and quoted on Karachi and Lahore stock exchanges.

The company's principal activity is the assembly, progressive manufacture and sale of Hino buses and trucks in Pakistan.

The financial statements are presented in Pak Rupee, which is the company's functional and presentation currency.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 2.1 Basis of preparation

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirement of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives have been followed.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The matters involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements are as follows:

- (a) Provision for doubtful debts and other receivables and stocks

The company has used judgments, based on the history of the transactions, for making provisions for the doubtful debts and other receivables, whereas provision for stocks is based on the current market conditions. Management believes that changes in outcome of estimates will not have material effect on the financial statements.

- (b) Post retirement benefits

The company has post retirement benefit obligations, which are determined through actuarial valuations using various assumptions as disclosed in note 12.1 below. Management believes that the changes in assumptions will not have significant effect on the financial statements.

# notes to the financial statements

for the year ended December 31, 2006

(c) Contingent liability - custom duty

As disclosed in note 20.1 below, company has challenged the levy of custom duty. If the final outcome of the case differs from management assessment, the company will suffer loss in the year when such decision will be finalised and would affect the financial statements of that year.

There have been no critical judgments made by the company's management in applying the accounting policies that would have the most significant effect on the amounts recognised in the financial statements.

## **Amendments to relevant published standard and new interpretations effective in 2006**

IAS 19 (Amendment) – Employee Benefits, is mandatory for the company's accounting periods beginning on or after January 1, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. The company does not intend to adopt the alternative approach for recognition of actuarial gains and losses. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 12.1 to the financial statements.

## **Standards, amendments and interpretations effective in 2006 but not relevant**

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 are considered not to be relevant or have any significant effect to the company's operations.

## **Standards, interpretations and amendments to published approved accounting standards as adopted in Pakistan that are not yet effective:**

Amendment to IAS 1- Presentation of Financial Statements prescribing Capital Disclosures has been issued which is applicable on the company from accounting period beginning January 1, 2007.

Adoption of the above amendment may only impact to the extent of disclosures presented in the financial statements.

## **2.2 Overall valuation policy**

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

## **2.3 Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation/amortisation except capital work in progress which is stated at cost.

The cost of leasehold land is amortised over the remaining period of the lease i.e. 57 to 60 years. Depreciation on all other assets is charged to profit and loss account applying the straight line method whereby the cost of an asset less residual value is written off over its estimated useful life. Depreciation on assets is charged from the month of addition and no depreciation is charged in the month of disposal.

# notes to the financial statements

for the year ended December 31, 2006

The useful lives of assets as estimated by the management are as follows:

- Buildings on leasehold land	40 years
- Plant and machinery	10 years
- Furniture and fixtures	2 to 10 years
- Vehicles - owned	4 to 5 years
- Vehicles - held under finance lease	4 to 5 years
- Electric installations	5 years
- Office and other equipments	3 to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if significant, at each balance sheet date.

The company has acquired certain vehicles under lease. The leases where the company has acquired substantially all the risks and rewards of ownership are classified as finance leases. Assets under finance leases are capitalised at the lease commencement date at the lower of fair value of the leased asset and the present value of minimum lease payments and the corresponding liability is recognised on the balance sheet. Finance lease charges are allocated to the accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. The assets acquired under finance lease are depreciated over the shorter of the useful life of the asset or the lease term.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. The company accounts for impairment by reducing its carrying value to the recoverable amount.

Gain or loss on disposal or retirement of property, plant and equipment is included in profit and loss account. Maintenance and normal repairs, plant and machinery costing up to approximately Rs. 50,000 and other assets costing up to approximately Rs. 25,000 are charged to profit and loss account as and when incurred.

## 2.4 Intangible assets - computer software

Computer software licenses acquired by the company are stated at cost less amortisation. Cost represents the cost incurred to acquire the software licenses and bring them to use. The cost of computer software is amortised over the estimated useful life i.e. 3 years.

Costs associated with maintaining computer softwares are charged to profit and loss account.

## 2.5 Investments

The investments of the company are classified into the following categories:

- i) Held to maturity

These are investments with fixed or determinable payments and fixed maturity with the company having positive intent and ability to hold to maturity. These are stated at cost.

# notes to the financial statements

for the year ended December 31, 2006

ii) At fair value through profit and loss account

These are investments designated at fair value through profit and loss account at inception. Investments in this category are classified as current assets if they are expected to be realised within twelve months of the balance sheet date.

Investments at fair value through profit and loss account are recognised at fair value and changes in fair value are taken to profit and loss account.

iii) Available for sale

These represent non derivative investments that are either designated in this category or not classified in any other category. They are included as non-current assets unless management intends to dispose off the investments within twelve months of the balance sheet date.

Available for sale investments are initially recognised at fair value plus transaction cost, and subsequently at fair value. Changes in fair value are recognised in equity.

The company assesses at each balance sheet date whether there is objective evidence that an investment is impaired. Impairment loss on all investments is recognised in the profit and loss account. In arriving at the provision in respect of any diminution in long-term investments, consideration is given only if there is a permanent impairment in the value of the investment.

## 2.6 Stores, spares and loose tools

These are valued at cost determined on moving average basis less provision for slow moving and obsolete stores and spares. Items in transit are valued at invoice value plus other charges incurred thereon.

## 2.7 Stock in trade

These are valued at lower of cost and net realisable value. Cost is determined by first-in first-out method except for materials for fabrication of bus bodies, consumable stores, locally manufactured parts, spares for sale and stock in transit.

Cost of material for fabrication of bus bodies, consumable stores, locally manufactured parts and spares for sale is determined on moving average method. Cost of stock in transit comprises of invoice value plus other charges incurred thereon.

Cost of work in process and finished goods include direct material, labour and appropriate portion of manufacturing expenses.

## 2.8 Trade debts and other debts

Trade and other debts are carried at original invoice amount being the fair value. Provision is made against debts considered doubtful of recovery whereas debts considered irrecoverable are written off.

# notes to the financial statements

for the year ended December 31, 2006

## 2.9 Foreign currency translation

Foreign currency transactions are recorded into Pak Rupee using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are taken to profit and loss account.

## 2.10 Staff retirement benefits

### Defined benefit plans

The company operates approved funded gratuity and pension schemes for all its permanent employees. The schemes define the amounts of benefit that an employee will receive on or after retirement subject to a minimum qualifying period of service under the schemes. The amounts of retirement benefits are usually dependant on one or more factors such as age, years of service and salary.

The liabilities recognised in respect of gratuity and pension schemes are the present values of the company's obligations under each scheme at the balance sheet date less the fair values of respective plan assets, together with adjustment for unrecognised actuarial gains or losses.

Contribution to pension fund is made by both the company, based on actuarial recommendation, and the employees at 2% of basic monthly salary.

The gratuity and pension obligations are calculated annually by independent actuaries using the projected unit credit method. The present values of the obligations are determined by discounting the estimated future cash outflows using interest rates of high quality government securities that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the obligations are charged or credited to profit and loss account separately for each scheme over the employees' expected average remaining working lives.

### Defined contribution plan

The company also operates an approved contributory provident fund for all its permanent employees to which equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 10% of basic salary.

## 2.11 Compensated absences

The company provides for compensated absences of its employees on unavailed leave balances in the period in which the leave is earned.

# notes to the financial statements

for the year ended December 31, 2006

## 2.12 Taxation

### i. Current

Charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, and taxes paid under the presumptive tax regime.

### ii. Deferred

The company accounts for deferred taxation using the liability method on all major temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liability is generally recognised for taxable temporary differences and deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax is charged or credited in the profit and loss account.

## 2.13 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

## 2.14 Revenue recognition

- The company recognises sales upon delivery of goods to customers.
- Commission on handling Complete Built Up (CBU) vehicles and spare parts is recognised on accrual basis.
- Return on bank deposits and short term investments is recognised on accrual basis.

## 2.15 Borrowing cost

Borrowing cost is recognised as an expense in the period in which it is incurred.

## 2.16 Research and development cost

Research and development cost is charged in the year in which it is incurred.

## 2.17 Warranty expenses

Warranty expenses are recorded as and when claims are received from customers.

## 2.18 Financial instruments

Financial instruments include investments, trade and other debts, cash and bank balances, borrowings, liabilities against assets subject to finance leases and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.



# notes to the financial statements

for the year ended December 31, 2006

## 2.19 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The company enters into derivative transactions mainly to hedge foreign currency liabilities or firm commitments and these are designated as fair value hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged liability that are attributable to the hedged risk.

## 2.20 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash, cheques in hand, balances with banks on current, savings and deposit accounts and running finance under mark-up arrangements.

## 2.21 Trade and other payable

Trade and other payables are initially measured at cost which is the fair value of the consideration received.

## 2.22 Dividend distribution

Dividend distribution to shareholders is recognised as liability in the financial statements in the period in which the dividend is approved.

## 3. PROPERTY, PLANT AND EQUIPMENT

	Note	2006 (Rupees '000)	2005
Operating fixed assets	3.1	856,661	822,159
Capital work in progress - at cost	3.2	7,869	9,106
		<u>864,530</u>	<u>831,265</u>

# notes to the financial statements

for the year ended December 31, 2006

## 3.1 Operating fixed assets

	Leasehold Land	Buildings on leasehold land	Plant and machinery	Furniture and fixtures	Vehicle		Electrical Installations	Office and other equipments	Total
					Owned	Held under finance leases			
(Rupees '000)									
<b>2005</b>									
<b>At January 1</b>									
Cost	294,451	258,992	210,395	8,201	60,677	19,527	29,916	55,914	938,073
Accumulated depreciation	(33,043)	(47,022)	(89,123)	(3,988)	(32,803)	(4,923)	(17,207)	(38,219)	(266,328)
Net book value	<u>261,408</u>	<u>211,970</u>	<u>121,272</u>	<u>4,213</u>	<u>27,874</u>	<u>14,604</u>	<u>12,709</u>	<u>17,695</u>	<u>671,745</u>
<b>Year ended December 31</b>									
Opening net book value	261,408	211,970	121,272	4,213	27,874	14,604	12,709	17,695	671,745
Additions	-	27,583	124,615	1,306	20,125	-	25,877	11,612	211,118
Disposals	-	(2,732)	(2,431)	-	(643)	-	-	(71)	(5,877)
Depreciation charge	(4,475)	(6,799)	(19,612)	(731)	(6,403)	(3,906)	(5,411)	(7,490)	(54,827)
Closing net book value	<u>256,933</u>	<u>230,022</u>	<u>223,844</u>	<u>4,788</u>	<u>40,953</u>	<u>10,698</u>	<u>33,175</u>	<u>21,746</u>	<u>822,159</u>
<b>At December 31</b>									
Cost	294,451	282,849	325,919	9,507	72,509	19,527	54,440	64,360	1,123,562
Accumulated depreciation	(37,518)	(52,827)	(102,075)	(4,719)	(31,556)	(8,829)	(21,265)	(42,614)	(301,403)
Net book value	<u>256,933</u>	<u>230,022</u>	<u>223,844</u>	<u>4,788</u>	<u>40,953</u>	<u>10,698</u>	<u>33,175</u>	<u>21,746</u>	<u>822,159</u>
<b>2006</b>									
<b>Year ended December 31</b>									
Opening net book value	256,933	230,022	223,844	4,788	40,953	10,698	33,175	21,746	822,159
Additions	-	31,797	58,694	-	19,456	-	1,207	6,263	117,417
Disposals (Note 3.1.1)	-	-	-	-	(2,075)	-	-	-	(2,075)
Depreciation charge	(4,475)	(7,535)	(31,269)	(705)	(11,281)	(3,905)	(8,618)	(8,781)	(76,569)
Provision for impairment (Note 3.1.2)	-	-	(4,271)	-	-	-	-	-	(4,271)
Closing net book value	<u>252,458</u>	<u>254,284</u>	<u>246,998</u>	<u>4,083</u>	<u>47,053</u>	<u>6,793</u>	<u>25,764</u>	<u>19,228</u>	<u>856,661</u>
<b>At December 31</b>									
Cost	294,451	314,646	384,613	9,507	79,039	19,527	55,647	68,618	1,226,048
Accumulated depreciation	(41,993)	(60,362)	(133,344)	(5,424)	(31,986)	(12,734)	(29,883)	(49,390)	(365,116)
Provision for impairment	-	-	(4,271)	-	-	-	-	-	(4,271)
Net book value	<u>252,458</u>	<u>254,284</u>	<u>246,998</u>	<u>4,083</u>	<u>47,053</u>	<u>6,793</u>	<u>25,764</u>	<u>19,228</u>	<u>856,661</u>

**3.1.1** These include disposal of fully depreciated office and other equipments costing Rs. 2 million.

**3.1.2** This represents impairment loss booked on plant and machinery due to discontinuance of third party manufacturing by the company.

# notes to the financial statements

for the year ended December 31, 2006

	2006	2005
	(Rupees '000)	
<b>3.2 Capital work in progress - at cost</b>		
Civil works	-	8,571
Plant and machinery	<b>7,869</b>	535
	<b>7,869</b>	9,106

### 3.3 Details of property, plant and equipment sold

The details of property, plant and equipment sold, having net book value in excess of Rs. 50,000 each are as follows:

Description	Cost	Accumulated depreciation (Rupees '000)	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
Vehicle	769	719	50	349	Company Policy	Mr. Mahmood Mian Employee
"	560	299	261	370	Company Policy	Ms. Zahra Ishtiaq Ex-employee
"	560	271	289	378	Company Policy	Mr. Ahmad Mala Ex-employee
"	560	187	373	481	Insurance Claim	EFU General Insurance Limited Karachi
"	560	365	195	335	Company Policy	Mr. Ahsan Soori Ex-employee
<b>Aggregate of assets disposed of having book value less than Rs. 50,000 each</b>						
Vehicles	9,911	9,006	905	4,563	Company Policy & Insurance Claim	Various

	2006	2005
	(Rupees '000)	
<b>4. INTANGIBLE ASSETS - Computer Software</b>		
<b>At January 1</b>		
Cost	<b>7,893</b>	7,598
Accumulated amortisation	<b>(5,481)</b>	(2,896)
Net book value	<b>2,412</b>	4,702
<b>Year ended December 31</b>		
Opening net book value	<b>2,412</b>	4,702
Additions	<b>321</b>	295
Amortisation	<b>(2,019)</b>	(2,585)
Closing net book value	<b>714</b>	2,412
<b>At December 31</b>		
Cost	<b>8,214</b>	7,893
Accumulated amortisation	<b>(7,500)</b>	(5,481)
Net book value	<b>714</b>	2,412

# notes to the financial statements

for the year ended December 31, 2006

	2006	2005
	(Rupees '000)	
<b>5. INVESTMENTS - Related Parties</b>		
Available for sale - at cost		
Arabian Sea Country Club Limited - Note 5.1	5,000	5,000
Automotive Testing & Training Centre (Private) Limited - Note 5.2	750	750
	<u>5,750</u>	<u>5,750</u>
Less: Provision for impairment	(5,750)	(5,750)
	<u>-</u>	<u>-</u>

**5.1** This represents cost of 500,000 (2005: 500,000) fully paid-up unquoted ordinary shares of Rs. 10 each. Company holds 6.45% of the shares of the investee company. The fair value of the investment is indeterminable.

**5.2** This represents cost of 75,000 (2005: 75,000) fully paid-up unquoted ordinary shares of Rs. 10 each. Company holds 5% of the shares of the investee company. The fair value of these shares is indeterminable. The company has a commitment to surrender 25,000 shares to Engineering Development Board at Nil value.

	2006	2005
	(Rupees '000)	
<b>6. LONG TERM LOANS AND ADVANCES – considered good</b>		
Loans to:		
- executive	37	22
- other than executives	7,982	8,242
	<u>8,019</u>	<u>8,264</u>
Less: Recoverable within one year	(2,166)	(2,094)
	<u>5,853</u>	<u>6,170</u>
Advances to:		
- executives	2,043	993
- other than executives	1,082	368
	<u>3,125</u>	<u>1,361</u>
Less: Recoverable within one year	(2,223)	(1,134)
	<u>902</u>	<u>227</u>
	<u>6,755</u>	<u>6,397</u>

# notes to the financial statements

for the year ended December 31, 2006

- 6.1** The loans and advances are provided to employees under their terms of employment on interest free basis.

Loans under the schemes have been provided to facilitate purchase of motor vehicles and purchase / construction of house and are repayable over a period of five to thirteen years. The company also extends loans for employee assistance which are repayable within one year. The house loans are secured against employees' retirement fund balances. The motor vehicle loans are secured by joint registration of the vehicle in the name of the company and employees.

Advances to employees are in respect of house rent assistance and these are repayable over a period of two years. These are secured against employees' retirement fund balances.

**6.2 Reconciliation of carrying amount of loans and advances to executives:**

	2006			2005		
	Loans	Advances	Total	Loans	Advances	Total
	(Rupees '000)			(Rupees '000)		
Opening balances	22	993	1,015	5	1,385	1,390
Add: Disbursements	20	2,343	2,363	34	862	896
Employees promoted	17	-	17	-	-	-
	59	3,336	3,395	39	2,247	2,286
Less: Repayments	(22)	(1,293)	(1,315)	(17)	(1,254)	(1,271)
Closing balances	37	2,043	2,080	22	993	1,015

- 6.3** The maximum aggregate amount of loans and advances due from executives at the end of any month during the year

	2006	2005
	(Rupees '000)	
	5,410	2,388

**7. STORES, SPARES AND LOOSE TOOLS**

Stores	17,016	22,487
Spares	5,272	4,936
Loose tools	3,627	2,379
	25,915	29,802

# notes to the financial statements

for the year ended December 31, 2006

	2006	2005
	(Rupees '000)	
<b>8. STOCK IN TRADE</b>		
Raw materials and components [including in transit Rs. 242 million (2005: Rs. 106.141 million)]	1,768,401	1,302,085
Less: Provision for obsolescence	(53,693)	(20,706)
	<u>1,714,708</u>	<u>1,281,379</u>
Work-in-process	6,342	31,279
Finished goods - Note 8.1	629,576	468,354
Less: Provision for obsolescence	(39,474)	(41,066)
	<u>590,102</u>	<u>427,288</u>
Trading stock - Spare parts [including in transit Rs. 409 thousand (2005: Rs. 1,972 thousand)]	103,521	81,911
Less: Provision for obsolescence	(33,387)	(31,149)
	<u>70,134</u>	<u>50,762</u>
	<u><u>2,381,286</u></u>	<u><u>1,790,708</u></u>

- 8.1** Finished goods include stocks amounting to Rs. 157.21 million (2005: Rs. 103.52 million) lying with company's authorised dealers.

	2006	2005
	(Rupees '000)	
<b>9. TRADE DEBTS</b>		
<b>Considered good</b>		
Indus Motors Company Limited - related party	187	19,134
Others	503,039	303,952
	<u>503,226</u>	<u>323,086</u>
<b>Considered doubtful</b>	21,280	15,091
	<u>524,506</u>	<u>338,177</u>
Less: Provision for doubtful debts	(21,280)	(15,091)
	<u><u>503,226</u></u>	<u><u>323,086</u></u>

# notes to the financial statements

for the year ended December 31, 2006

2006                      2005  
(Rupees '000)

## 10. SHORT TERM LOANS AND ADVANCES

### Considered good

Current maturity of long term loans to:

- executive                      } Note 6
- other than executives

16	13
2,150	2,081
<b>2,166</b>	2,094

Current maturity of long term advances to:

- executives                      } Note 6
- other than executives

1,438	814
785	320
<b>2,223</b>	1,134

Advances to:

- executives
- other than executives
- suppliers

3,326	1,673
14,923	14,066
69,686	51,776
<b>87,935</b>	67,515
<b>92,324</b>	70,743

### Considered doubtful

Advances to suppliers

835	835
<b>93,159</b>	71,578
<b>(835)</b>	<b>(835)</b>
<b>92,324</b>	<b>70,743</b>

Less: Provision for doubtful advances to suppliers

## 11. TRADE DEPOSITS AND PREPAYMENTS

Trade deposits

63,581	46,393
--------	--------

Prepayments

2,502	1,032
-------	-------

<b>66,083</b>	47,425
---------------	--------

Less: Provision for doubtful deposits

<b>(7,440)</b>	<b>(6,560)</b>
----------------	----------------

<b>58,643</b>	<b>40,865</b>
---------------	---------------

# notes to the financial statements

for the year ended December 31, 2006

2006

2005

(Rupees '000)

## 12. OTHER RECEIVABLES

### Considered good

Receivable from Toyota Tsusho Corporation, Japan

- related party

Insurance claim receivable

Due from Employees' Gratuity Fund - Note 12.1

Due from Employees' Pension Fund - Note 12.1

Workers' profits participation fund - Note 18.1

Excise duty receivable

Custom duty receivable

Sales tax receivable

Others

1,427

1,189

2,395

-

2,536

331

1,728

-

-

1,043

296

1,013

2,784

2,061

67,969

555

654

380

78,362

5,383

### Considered doubtful

Sales tax receivable

2,527

5,479

82,316

12,051

Less: Provision for doubtful receivables

(2,527)

(5,479)

79,789

6,572



# notes to the financial statements

for the year ended December 31, 2006

## 12.1 Staff Retirement Benefits

	2006		2005	
	Gratuity Fund	Pension Fund	Gratuity Fund	Pension Fund
	(Rupees '000)			
<b>12.1.1 Movement in asset / (liability)</b>				
Prepayment / (Liability) as at January 1	331	-	3,636	(2,336)
Charge for the year	(1,794)	(3,302)	(2,868)	(3,900)
Contributions / benefits paid / (refund)	3,999	5,030	(437)	6,236
Prepayment as at December 31	<u>2,536</u>	<u>1,728</u>	<u>331</u>	<u>-</u>
<b>12.1.2 Balance sheet reconciliation as at December 31</b>				
Fair value of plan assets	63,165	61,406	53,665	48,511
Present value of obligations	(56,221)	(58,482)	(43,922)	(48,712)
Unrecognised actuarial (gain) / loss	(4,408)	(1,196)	(9,412)	201
	<u>2,536</u>	<u>1,728</u>	<u>331</u>	<u>-</u>
<b>12.1.3 Expense recognized</b>				
Service cost	(2,982)	(3,284)	(4,917)	(3,989)
Interest cost	(3,953)	(4,384)	(3,231)	(3,549)
Expected return on plan assets	4,830	4,366	4,589	3,638
Actuarial gain recognised during the year	311	-	691	-
	<u>(1,794)</u>	<u>(3,302)</u>	<u>(2,868)</u>	<u>(3,900)</u>
<b>12.1.4 Actual return on plan assets</b>	<u>2,707</u>	<u>5,716</u>	<u>1,659</u>	<u>7,208</u>
<b>12.1.5 Movement in the defined benefit obligation</b>				
Obligation as at January 1	43,922	48,712	35,900	39,433
Service cost	2,982	3,284	4,917	3,989
Interest cost	3,953	4,384	3,231	3,549
Actuarial loss	6,521	2,145	603	1,747
Benefits paid	(1,157)	(43)	(729)	(6)
Obligation as at December 31	<u>56,221</u>	<u>58,482</u>	<u>43,922</u>	<u>48,712</u>
<b>12.1.6 Movement in fair value of plan assets</b>				
Fair value as at January 1	53,665	48,511	50,835	34,545
Expected return on plan assets	4,830	4,366	4,589	3,638
Actuarial gain / (loss)	1,828	3,542	(593)	4,098
Employer contributions	3,999	5,030	(437)	6,236
Benefits paid	(1,157)	(43)	(729)	(6)
Fair value as at December 31	<u>63,165</u>	<u>61,406</u>	<u>53,665</u>	<u>48,511</u>

# notes to the financial statements

for the year ended December 31, 2006

	2006		2005	
	Rupees '000	%	Rupees '000	%
<b>12.1.7 Plan assets comprise of:</b>				
<b>Funded pension plan</b>				
Equity	29,665	48	30,227	62
Debt	28,161	46	18,154	38
Others (includes cash and bank balances)	3,580	6	130	-
	<b>61,406</b>	<b>100</b>	<b>48,511</b>	<b>100</b>
<b>Funded gratuity plan</b>				
Equity	12,137	19	11,721	22
Debt	48,770	77	41,937	78
Others (includes cash and bank balances)	2,258	4	7	-
	<b>63,165</b>	<b>100</b>	<b>53,665</b>	<b>100</b>

	2006	2005
<b>12.1.8 Key actuarial assumptions used are as follows:</b>		
Expected rate of return on investments	10%	9%
Expected rate of increase in salaries	9%	9%
Discount factor used	10%	9%
Retirement age (years)	60	60

	2006	2005	2004	2003	2002
	(Rupees '000)				
<b>12.1.9 Comparison for five years:</b>					
<b>Funded pension plan</b>					
Present value of defined benefit obligation	58,482	48,712	39,433	32,522	-
Fair value of plan assets	(61,406)	(48,511)	(34,545)	-	-
(Surplus) / Deficit	<b>(2,924)</b>	201	4,888	32,522	-
<b>Experience adjustment</b>					
Actuarial loss on obligations	2,145	1,747	2,025	-	-
Actuarial gain on plan assets	(3,542)	(4,098)	(528)	-	-
<b>Funded gratuity plan</b>					
Present value of defined benefit obligation	56,221	43,922	35,900	28,840	23,570
Fair value of plan assets	(63,165)	(53,665)	(50,835)	(50,126)	(27,074)
Surplus	<b>(6,944)</b>	<b>(9,743)</b>	<b>(14,935)</b>	<b>(21,286)</b>	<b>(3,504)</b>
<b>Experience adjustment</b>					
Actuarial (gain) / loss on obligations	6,521	603	2,978	(1,927)	1,480
Actuarial gain / (loss) on plan assets	1,828	(593)	(3,523)	19,628	183

# notes to the financial statements

for the year ended December 31, 2006

**12.1.10** The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the plan, at the beginning of the period, for returns over the entire life of the related obligation.

**12.1.11** Based on actuary's advice, the amount of expected contribution to gratuity and pension funds in 2007 will be Rs. 2.977 million and Rs. 3.367 million respectively.

**2006**                  2005  
(Rupees '000)

## 13. CASH AND BANK BALANCES

Balances with banks		
on current accounts	<b>18,602</b>	17,661
on PLS savings accounts	<b>54,661</b>	211
on term deposit account - Note 13.1	<b>45,000</b>	40,000
Cash in hand	<b>34</b>	121
	<b>118,297</b>	57,993

**13.1** The mark-up rate on term deposit account is 9.5% (2005: 8.5%) per annum.

**2006**                  2005  
(Rupees '000)

## 14. SHARE CAPITAL

### 14.1 Authorised share capital

20,000,000 ordinary shares of Rs. 10 each	<b>200,000</b>	200,000
---	----------------	---------

### 14.2 Issued, subscribed and paid-up capital

Ordinary shares of Rs. 10 each		
<b>6,200,280</b> shares allotted for consideration paid in cash	<b>62,003</b>	62,003
<b>4,133,520</b> shares allotted for consideration other than cash against fixed assets	<b>41,335</b>	41,335
<b>2,066,760</b> shares allotted as bonus shares	<b>20,668</b>	20,668
	<b>124,006</b>	<b>124,006</b>

**14.3** At December 31, 2006 and 2005 Hino Motors Ltd, Japan - holding company and Toyota Tsusho Corporation, Japan - associated company respectively held 7,357,665 and 3,678,833 ordinary shares of Rs. 10 each.

# notes to the financial statements

for the year ended December 31, 2006

## 15. SURPLUS ON REVALUATION OF FIXED ASSETS

The surplus on revaluation of fixed assets represents surplus recognised in 1998 on revaluation of certain leasehold land and buildings on leasehold land carried out by an independent professional valuer.

To comply with the requirements of the revised International Accounting Standard 16 - Property, Plant and Equipment, the company adopted the cost model for its fixed assets. Consequently, the revalued figures of such assets as at January 1, 2005 were treated as deemed cost. The surplus on revaluation on these assets shall be held on the balance sheet till realisation in accordance with the requirements of section 235 of the Companies Ordinance, 1984.

Surplus on revaluation has been adjusted by surplus realised on disposal of revalued assets and incremental depreciation arising out of revaluation net of deferred tax.

	2006 (Rupees '000)	2005
Balance at January 1	<b>296,401</b>	302,263
Less: Transferred to unappropriated profit on account of incremental depreciation for the year	<b>(5,860)</b>	(5,862)
Balance at December 31	<b>290,541</b>	296,401

## 16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006			2005		
	Minimum lease payments	Finance charges	Present value of minimum lease payments	Minimum lease payments	Finance charges	Present value of minimum lease payments
	(Rupees '000)			(Rupees '000)		
Payable						
- Not later than one year	4,197	563	3,634	4,148	853	3,295
- Later than one year but not later than five years	5,851	160	5,691	9,955	645	9,310
	<b>10,048</b>	<b>723</b>	<b>9,325</b>	14,103	1,498	12,605
Less: Current maturity shown under current liabilities			<b>(3,634)</b>			(3,295)
			<b>5,691</b>			9,310

# notes to the financial statements

for the year ended December 31, 2006

- 16.1** This represents company's obligations for vehicles obtained under finance lease agreements entered into with Non-Banking Finance Companies. The balance of liability is payable by November 2008 in monthly installments. Monthly lease payments include finance charges ranging between 6.5 % and six months KIBOR + 1.9% per annum (2005: 6.5% and six months KIBOR + 1.9% per annum), which are used as discounting factors.

	2006	2005
	(Rupees '000)	
<b>17. DEFERRED TAXATION</b>		
Credit balances arising in respect of:		
- accelerated tax depreciation allowances	75,523	66,813
- surplus on revaluation of fixed assets	29,556	30,497
	<u>105,079</u>	<u>97,310</u>
Debit balances arising in respect of:		
- provision for stock obsolescence	(44,294)	(32,522)
- provision for doubtful trade debts, deposits, advances and other receivables	(11,229)	(9,788)
- liabilities against assets subject to finance lease	(886)	(668)
	<u>(56,409)</u>	<u>(42,978)</u>
	<u>48,670</u>	<u>54,332</u>
<b>18. TRADE AND OTHER PAYABLES</b>		
Creditors	43,092	95,447
Bills payable	933,119	544,670
Accrued liabilities	427,325	250,162
Net unrealised loss on foreign exchange forward contracts	13,249	20,945
Customers' credit balances	372,261	169,127
Royalty payable to Hino Motors Ltd. Japan, holding company	21,362	38,821
Contractors' earnest/retention money	991	1,390
Taxes deducted, payable to statutory authorities	108	37
Employees mutual subscription fund	1,736	1,618
Workers' welfare fund	12,732	8,948
Workers' profits participation fund - Note 18.1	27,520	-
Sales tax payable	-	30,368
Custom duties payable	105,508	122,275
Excise duty payable	1,068	-
Unclaimed dividend	1,100	955
Others	17,756	17,122
	<u>1,978,927</u>	<u>1,301,885</u>

# notes to the financial statements

for the year ended December 31, 2006

2006                      2005  
(Rupees '000)

## 18.1 WORKERS' PROFITS PARTICIPATION FUND

Opening asset / (liability)	1,043	(26,961)
Allocation for the year	(27,520)	(20,457)
	<b>(26,477)</b>	(47,418)
Return on funds utilised in company's business	-	(833)
	<b>(26,477)</b>	(48,251)
Amounts (received from) / paid to trustees	(1,043)	49,294
Closing (liability) / asset	<b>(27,520)</b>	1,043

## 19. RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS

The facilities for running finance under mark-up arrangements with various banks amounted to Rs. 677.5 million (2005: Rs. 502.5 million). The rates of mark-up range between KIBOR + 0.75% to KIBOR + 1.25% per annum (2005: KIBOR + 0.75% to KIBOR + 1% per annum). The purchase prices are payable by September 30, 2007.

The facilities for opening letters of credit and guarantees as at December 31, 2006 amounted to Rs. 2.9 billion (2005: Rs. 2.3 billion) of which the amount remaining unutilised at the year end was Rs. 1.67 billion (2005: Rs. 1.26 billion).

The above facilities are secured by way of hypothecation charge on current assets including stock-in-trade.

## 20. CONTINGENCY AND COMMITMENTS

### 20.1 Contingent liability

The Collector of Customs (Appraisalment) issued an order-in-original during the year 2006 demanding payment of Rs. 64.8 million in respect of imports of CKD kits of various models of buses and trucks during various periods between February 1998 and September 2002 at a discount, alleging that the discount given by the supplier to the company was special in nature as it was not available to others and as such should be disallowed for the purposes of assessment of custom duty.

The company filed an appeal with the Collector of Customs (Appeals) who after setting aside the order in December 2006 remanded the case to Deputy Collector of Customs (Appraisalment) for de novo consideration.

Based on the opinion of company's legal advisor, the management is confident that the final outcome of the matter will be in company's favour. Therefore no provision has been made in the accounts.

# notes to the financial statements

for the year ended December 31, 2006

	2006	2005
	(Rupees '000)	
<b>20.2 Commitments</b>		
Commitments for capital expenditure	<u>75,641</u>	<u>22,732</u>
Commitments in respect of foreign exchange forward contracts with banks	<u>977,498</u>	<u>562,554</u>
<b>21. SALES</b>		
<b>Manufactured goods</b>		
Gross sales	7,075,542	7,309,681
Less: Commission	200,583	110,938
Sales tax	545,171	894,586
Sales returns	30,309	-
	<u>6,299,479</u>	<u>6,304,157</u>
<b>Trading goods</b>		
Gross sales	124,883	85,552
Less: Commission and discounts	19,018	13,617
Sales tax	12,837	8,486
Sales returns	225	-
	<u>92,803</u>	<u>63,449</u>
	<u>6,392,282</u>	<u>6,367,606</u>

# notes to the financial statements

for the year ended December 31, 2006

## 22. OPERATING COST

	Cost of goods sold		Distribution expenses		Administration expenses		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	(Rupees '000)							
Raw materials consumed – Note 22.1	5,108,993	4,991,812	-	-	-	-	5,108,993	4,991,812
Stores and spares consumed	13,924	11,233	767	-	6	-	14,697	11,233
Staff costs - note 22.2	281,006	233,106	60,006	55,094	50,672	43,551	391,684	331,751
Staff training	2,119	578	711	111	602	421	3,432	1,110
Rent, rates and taxes	7,114	6,839	727	647	-	-	7,841	7,486
Insurance	1,528	1,450	540	600	1,188	1,065	3,256	3,115
Fuel and power	21,439	17,173	3,094	1,733	7,064	5,216	31,597	24,122
Repairs and maintenance	35,064	28,313	603	2,099	8,437	6,192	44,104	36,604
Postage, telex and telephone	1,987	1,981	3,311	3,295	1,399	1,880	6,697	7,156
Vehicle running expenses	8,485	6,943	7,701	5,830	5,832	4,994	22,018	17,767
Printing, stationery and office supplies	2,384	2,373	4,337	3,497	1,533	2,159	8,254	8,029
Travelling and entertainment	6,528	6,733	12,817	13,058	4,084	2,967	23,429	22,758
Technical assistance fee	-	1,112	-	-	-	-	-	1,112
Royalty	42,947	34,073	-	-	-	-	42,947	34,073
Depreciation and amortisation	59,887	42,364	6,797	3,823	11,904	11,225	78,588	57,412
Impairment loss	4,271	-	-	-	-	-	4,271	-
Fixed assets charged off	8,345	4,346	1,122	589	631	1,879	10,098	6,814
Research and development	1,285	2,983	-	-	-	-	1,285	2,983
Legal and professional charges	-	-	-	-	5,420	6,048	5,420	6,048
Auditors' remuneration - Note 22.3	-	-	-	-	1,526	1,347	1,526	1,347
Security and maintenance	-	-	-	-	16,202	16,999	16,202	16,999
Outward freight and handling	-	-	762	1,003	-	-	762	1,003
Advertising and sales promotion	-	-	26,415	31,129	-	-	26,415	31,129
Product maintenance charges	-	-	37,404	8,766	-	-	37,404	8,766
Warranty services	-	-	11,012	7,345	-	-	11,012	7,345
Provision for doubtful trade debts	-	-	6,189	3,131	-	-	6,189	3,131
Provision for doubtful deposits	-	-	2,539	3,887	-	-	2,539	3,887
Other receivables written off	-	-	-	860	-	-	-	860
Other expenses	5,487	3,497	1,674	2,721	3,221	1,420	10,382	7,638
	<b>5,612,793</b>	<b>5,396,909</b>	<b>188,528</b>	<b>149,218</b>	<b>119,721</b>	<b>107,363</b>	<b>5,921,042</b>	<b>5,653,490</b>
Opening stock of work in process	31,279	40,316						
	<b>5,644,072</b>	<b>5,437,225</b>						
Closing stock of work in process	(6,342)	(31,279)						
Cost of goods manufactured	<b>5,637,730</b>	<b>5,405,946</b>						
Opening stock of finished goods	427,288	668,074						
Closing stock of finished goods	(590,102)	(427,288)						
	<b>5,474,916</b>	<b>5,646,732</b>						
<b>Trading goods</b>								
Opening stock	50,762	42,326						
Purchases	102,158	67,793						
	152,920	110,119						
Closing stock	(70,134)	(50,762)						
	<b>82,786</b>	<b>59,357</b>						
	<b>5,557,702</b>	<b>5,706,089</b>						

22.1 Cost of goods sold includes charge for stock obsolescence Rs. 33.633 million (2005: Rs. 47.142 million).



# notes to the financial statements

for the year ended December 31, 2006

## 22.2 Staff costs

	Cost of goods sold		Distribution expenses		Administration expenses		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	(Rupees '000)							
Salaries, wages, allowances and staff welfare	273,953	225,952	58,179	52,538	49,422	42,053	381,554	320,543
Charge for defined benefit plans	3,728	4,410	812	1,536	556	822	5,096	6,768
Charge for defined contribution plan	3,325	2,744	1,015	1,020	694	676	5,034	4,440
	<b>281,006</b>	<b>233,106</b>	<b>60,006</b>	<b>55,094</b>	<b>50,672</b>	<b>43,551</b>	<b>391,684</b>	<b>331,751</b>

## 22.3 Auditors' Remuneration

	2006	2005
	(Rupees '000)	
Audit fee	650	600
Fee for limited review, audit of workers' profits participation fund, gratuity fund, provident fund, pension fund, special certifications and other assignments	710	630
Out of pocket expenses	166	117
	<b>1,526</b>	<b>1,347</b>

## 23. OTHER INCOME

Income from financial assets		
Return on PLS savings accounts	12,408	12,972
Return on certificates of investment and short term deposits	25,981	16,664
Scrap sales	18,342	19,634
Gain on disposal of fixed assets	4,440	3,644
Commission - from related party	1,466	7,536
Liabilities no longer required written back	4,608	2,718
Others	5,375	1,363
	<b>72,620</b>	<b>64,531</b>

## 24. OTHER EXPENSES

Donations - Note 24.1	78	6,865
Workers' profits participation fund	27,520	20,457
Workers' welfare fund	11,174	7,085
	<b>38,772</b>	<b>34,407</b>

24.1 None of the directors or their spouses had any interest in the donee.

# notes to the financial statements

for the year ended December 31, 2006

	2006	2005
	(Rupees '000)	
<b>25. FINANCE COST</b>		
Finance lease charges	889	825
Exchange loss	38,774	41,232
Bank charges	4,983	4,158
Interest on workers' profits participation fund	-	833
Mark-up on running finance	3,770	6,432
	<b>48,416</b>	<b>53,480</b>
<b>26. TAXATION</b>		
Current	194,461	131,839
Prior years	(917)	(133)
Deferred	(5,662)	6,918
	<b>187,882</b>	<b>138,624</b>
<b>26.1 Relationship between tax expense and accounting profit</b>		
Profit before taxation	511,763	381,580
Tax calculated at the rate of 35%	179,117	133,553
Permanent differences	6,213	2,315
Effect of presumptive tax	3,469	2,889
Prior years' tax reversal	(917)	(133)
Tax charge for the year	<b>187,882</b>	<b>138,624</b>
<b>27. EARNINGS PER SHARE - BASIC AND DILUTED</b>		
Profit after taxation attributable to ordinary shareholders	323,881	242,956
Number of ordinary shares (in '000s) issued and subscribed at the end of the year	12,401	12,401
Earnings per share - Basic and diluted	<b>Rs. 26.12</b>	<b>Rs. 19.59</b>

# notes to the financial statements

for the year ended December 31, 2006

2006                      2005  
(Rupees '000)

## 28. CASH GENERATED FROM OPERATIONS

Profit before taxation	511,763	381,580
Add/(Less): Adjustments for non cash charges and other items		
Depreciation and amortisation	78,588	57,412
Impairment loss	4,271	-
Mark-up on running finance	3,770	6,432
Gain on disposal of fixed assets	(4,440)	(3,644)
Return on PLS savings accounts	(12,408)	(12,972)
Return on certificates of investment and deposit accounts	(25,981)	(16,664)
	43,800	30,564
Profit before working capital changes	555,563	412,144
EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES		
(Increase)/decrease in current assets		
Stores, spares and loose tools	3,887	(13,035)
Stock in trade	(590,578)	(11,329)
Trade debts	(180,140)	(73,910)
Loans and advances	(21,581)	(21,976)
Trade deposits and prepayments	(17,778)	7,133
Other receivables	(73,217)	49,293
	(879,407)	(63,824)
Increase/(decrease) in current liabilities		
Increase in trade and other payables	676,897	(644,249)
	(202,510)	(708,073)
	353,053	(295,929)
29. CASH AND CASH EQUIVALENTS		
Cash and bank balances	118,297	57,993
Running finance under mark-up arrangements	(262,486)	(272,014)
	(144,189)	(214,021)

# notes to the financial statements

for the year ended December 31, 2006

## 30. REMUNERATION OF MANAGING DIRECTOR, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for remuneration, including all benefits to the Managing Director, Directors and Executives of the company were as follows:

	Managing Director		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	(Rupees '000)					
Managerial remuneration and allowances	5,092	4,296	19,862	13,840	38,001	17,636
Retirement benefits	-	-	734	858	1,477	1,566
Rent and utilities	1,661	1,471	3,867	4,474	5,806	5,036
Leave passage	288	252	812	765	1,182	856
Club expenses	23	44	82	136	201	128
Medical expenses	-	-	120	110	640	366
	<b>7,064</b>	6,063	<b>25,477</b>	20,183	<b>47,307</b>	25,588
Number of persons	1	1	4	4	16	13

**30.1** Consultancy fee paid to the Chairman during the year amounted to Rs. 2.184 million (2005: Rs. 1.93 million).

**30.2** The Chairman, Managing Director, Directors and certain executives of the company are provided with free use of company maintained cars and certain items of household furniture & fixtures and electrical appliances in accordance with their terms of employment.

	2006	2005
	Units	

## 31. PLANT CAPACITY AND PRODUCTION

Plant capacity (single shift without overtime)

- Chassis
- Bodies

	<b>6,000</b>	6,000
	<b>1,800</b>	1,800
Actual production		
- Chassis	<b>2,898</b>	2,328
- Bodies	<b>938</b>	739

Actual production is lower in accordance with market requirements.

# notes to the financial statements

for the year ended December 31, 2006

## 32. RELATED PARTY DISCLOSURES

Disclosure of transactions between the company and related parties:

Relationship	Nature of transaction	2006 (Rupees '000)	2005
i. Holding company	- Purchase of goods	104,465	119,929
	- Royalty	42,252	34,073
	- Dividend paid	40,007	62,540
	- Technical assistance fee	-	1,112
ii. Associated companies	- Purchase of goods	3,390,642	3,627,054
	- Sale of goods	68,339	246,813
	- Purchase of fixed assets	29,027	47,094
	- Commission earned	1,466	7,536
	- Dividend paid	20,004	31,270
iii. Employees' Provident Fund	- Contribution paid	5,034	4,440
iv. Employees' Gratuity Fund	- Contribution paid	3,999	2,868
v. Employees' Pension Fund	- Contribution paid	5,030	3,900

**32.1** Outstanding balances with related parties as at year end have been included in trade and other payables, trade debts and other receivables respectively.

**32.2** Compensation to key management personnel comprising of Managing Director and Directors is disclosed in note 30 above.

# notes to the financial statements

for the year ended December 31, 2006

## 33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (i) Financial assets and liabilities

	Interest / Mark-up bearing			Non Interest / Mark-up bearing			Total
	Maturity	Maturity	Sub-total	Maturity	Maturity	Sub-total	
	up to one	after one		up to one	after one		
year	year		year	year			
	(Rupees '000)						
<b>Financial assets</b>							
Loans and advances	-	-	-	22,638	6,755	29,393	29,393
Deposits	-	-	-	56,141	8,299	64,440	64,440
Trade debts	-	-	-	503,226	-	503,226	503,226
Accrued return on deposit account	-	-	-	2,842	-	2,842	2,842
Other receivables	-	-	-	3,822	-	3,822	3,822
Cash and bank balances	99,661	-	99,661	18,636	-	18,636	118,297
<b>December 31, 2006</b>	<b>99,661</b>	<b>-</b>	<b>99,661</b>	<b>607,305</b>	<b>15,054</b>	<b>622,359</b>	<b>722,020</b>
December 31, 2005	40,211	-	40,211	453,863	12,714	466,577	506,788
<b>Financial liabilities</b>							
Liabilities against assets							
subject to finance lease	3,634	5,691	9,325	-	-	-	9,325
Trade and other payables	-	-	-	1,427,625	-	1,427,625	1,427,625
Running finance under mark-up							
arrangements	262,486	-	262,486	-	-	-	262,486
Mark-up accrued on running							
finance arrangements	-	-	-	496	-	496	496
<b>December 31, 2006</b>	<b>266,120</b>	<b>5,691</b>	<b>271,811</b>	<b>1,428,121</b>	<b>-</b>	<b>1,428,121</b>	<b>1,699,932</b>
December 31, 2005	275,310	9,310	284,620	955,895	-	955,895	1,240,515
<b>Off balance sheet items</b>							
Financial commitments:							
Contracts for capital							
expenditure	-	-	-	75,641	-	75,641	75,641
Foreign currency							
forward contracts	-	-	-	977,498	-	977,498	977,498
<b>December 31, 2006</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,053,139</b>	<b>-</b>	<b>1,053,139</b>	<b>1,053,139</b>
December 31, 2005	-	-	-	585,286	-	585,286	585,286

The effective mark-up rates for financial assets and liabilities are mentioned in respective notes to the financial statements.

### (ii) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparts failed to perform as contracted. Out of the total financial assets of Rs. 722.020 million (2005: Rs. 506.788 million), the assets subject to credit risk amount to Rs. 503.226 million (2005: Rs. 323.086 million). The company believes that it is not exposed to credit risk as major part of these receivables comprise of receivable from government institutions and in case of other customers company usually obtains post dated cheques.

# notes to the financial statements

for the year ended December 31, 2006

## (iii) Liquidity risk

The company manages liquidity risk by maintaining sufficient cash and the availability of financing through banking arrangements.

## (iv) Foreign exchange risk management

Foreign currency risk arises mainly when receivables and payables exist due to transactions with foreign undertakings. The company manages foreign currency risk arising on import related activity usually by obtaining forward currency contracts.

## (v) Fair values of the financial assets and liabilities and derivatives

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. The fair value of forward currency contracts is calculated using the prevailing market rates of forward contracts approximately matching with the term of maturity of the contracts.

## 34. DIVIDEND

The Board of Directors in their meeting held on February 26, 2007 proposed a cash dividend of Rs. 10.5 per share (2005: Rs. 6 per share) amounting to Rs. 130.206 million (2005: Rs. 74.403 million).

## 35. CORRESPONDING FIGURES

Corresponding figures have been reclassified for the purposes of comparison to achieve enhanced presentation. Major re-classifications are as follows:

Nature of reclassification	Reclassification from		Reclassification to		(Rupees '000)
	Note	Component	Note	Component	
Fabricated Re-enforced Parts (FRP) stock	8	Stock in trade - finished goods	8	Stock in trade - raw materials and components	2,356
Net proceeds from sales of packing material	22	Operating cost - raw materials consumed	23	Other income - scrap sales	15,650

## 36. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 26, 2007 by the Directors.

  
Managing Director &  
Chief Executive

  
Chairman

# pattern of shareholding

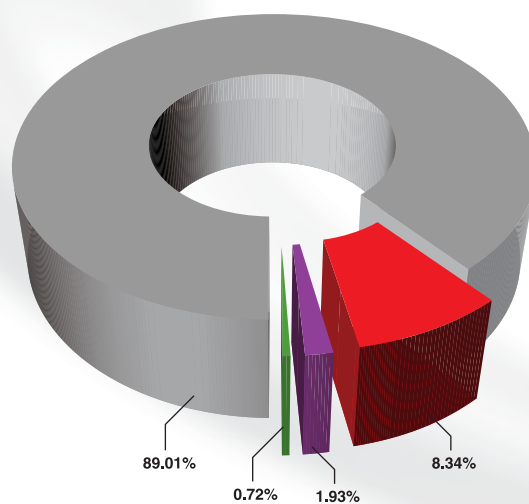
as at December 31, 2006

Number of Shareholders	Shareholding		Number of Shares held
	From	To	
227	1	100	10,776
635	101	500	99,385
46	501	1,000	35,340
28	1,001	5,000	58,380
4	5,001	10,000	31,500
3	10,001	20,000	37,700
1	20,001	60,000	57,360
2	60,001	3,700,000	4,712,454
1	3,700,001	7,400,000	7,357,665
<b>947</b>			<b>12,400,560</b>

Shareholders Category	Number of Shareholders	Number of Shares held	Percentage of Holding
Individuals	936	239,791	1.93
Investment Companies	1	150	0.00
Insurance Companies	2	70,560	0.57
Joint Stock Companies	3	13,220	0.11
Modarabas	1	5,520	0.04
Financial Institutions	1	1,033,821	8.34
Foreign Investors	3	11,037,498	89.01
	<b>947</b>	<b>12,400,560</b>	<b>100.00</b>

} Companies  
0.72%

## shareholding by category



Foreign Investors   Financial Institutions   Individuals   Companies



# pattern of shareholding **additional information**

Shareholders Category	Number of Shareholders	Number of Shares held
<b>Associated Companies:</b>		
- Hino Motors Limited, Japan	1	7,357,665
- Toyota Tsusho Corporation, Japan	1	3,678,833
<b>NIT</b>		
- National Bank of Pakistan - Trustee Department	1	1,033,821
<b>Directors and Executives</b>		
- Mr. Fasihul Karim Siddiqi	1	120
- Mr. Muhammad Owais M. Khan	1	120
- Mr. Naushad Riaz	1	120
- Mr. Syed Arshad Ali	1	120
- Mr. Gul Abbas	1	120
- Mr. Nishat Zafar	1	120
- Mr. Johnson P. J. Pereira	1	120
<b>Banks, Development Finance Institutions, Non - Banking Finance Institution, Insurance Companies, Modarabas and Mutual Funds</b>		
- State Life Insurance Corporation of Pakistan	1	13,200
- New Jubilee Insurance Company Limited	1	57,360
- First Tri Star Modaraba	1	5,520
<b>Shareholders Holding 10% or More Voting Interest</b>		
- Hino Motors Limited, Japan	1	7,357,665
- Toyota Tsusho Corporation, Japan	1	3,678,833

# notice of annual general meeting

NOTICE IS HEREBY GIVEN that the 22nd Annual General Meeting of the Shareholders of Hinopak Motors Limited will be held at the Registered Office of the Company situated at D-2, S.I.T.E., Manghopir Road, Karachi on Thursday, 29th March 2007 at 2:00 p.m. for transacting the following business:

## ORDINARY BUSINESS

- To receive, consider and adopt the Audited Financial Statements of the Company for the financial year ended 31st December 2006, together with the Reports of the Directors and Auditors.
- To approve final cash dividend @ 105% (or Rs. 10.50 per share) on the ordinary shares of the Company as recommended by the Directors.
- To appoint Auditors for the ensuing year and fix their remuneration.
- Any other business with the permission of the Chair.

By order of the Board

**MUHAMMAD SALEEM**  
Company Secretary

Karachi:  
March 06, 2007

## Notes

- i) A member entitled to attend and vote at this General Meeting is entitled to appoint a Proxy to attend, speak and vote in his place at the Meeting. Instrument appointing a proxy must be deposited at the Registered Office of the Company at least forty eight hours before the time of the Meeting.
- ii) The Share Transfer Books of the Company will remain closed from 22nd March 2007 to 30th March 2007 (both days inclusive) for the purpose of Annual General Meeting and to determine entitlement of cash dividend. No transfer will be accepted for registration during this period.
- iii) The Shareholders are requested to intimate any changes in their addresses to: The Company Secretary, Hinopak Motors Limited, D-2, S.I.T.E., Manghopir Road, P.O. Box 10714, Karachi-75700, Pakistan.
- iv) To facilitate identification for right to attend the Annual General Meeting, Shareholder whose holdings are on the Central Depository System (CDS) or his Proxy should authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting; along with the Participant's Identity Number and Shareholder's account number allocated by the Central Depository Company.

In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

# proxy form

I/We \_\_\_\_\_ of \_\_\_\_\_  
being a Shareholder of HINOPAK MOTORS LIMITED and holding \_\_\_\_\_ Ordinary Shares as per Register Folio No. \_\_\_\_\_ or "CDC" Participant's I.D. No. \_\_\_\_\_ A/c No. \_\_\_\_\_ hereby appoint MR. \_\_\_\_\_ of \_\_\_\_\_ or failing him/her MR. \_\_\_\_\_ of \_\_\_\_\_ as my/our Proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 22nd Annual General Meeting of the Company to be held on Thursday, 29th March 2007 and at any adjournment thereof.

**Affix Revenue Stamp(s) of Rupees five**  
**Executant's Signature on Revenue Stamp(s)**  
(Signature should agree with the Specimen Signature registered with the Company).

**Executant's Computerised National Identity Card Number (CNIC) or Passport Number**

<p>_____ <b>First Witness Signature</b></p> <p>_____ Name in Block letters and Address</p> <p>_____ Computerised National Identity Card Number or Passport Number of Witness</p>	<p>_____ <b>Second Witness Signature</b></p> <p>_____ Name in Block letters and Address</p> <p>_____ Computerised National Identity Card Number or Passport Number of Witness</p>
--	---

\_\_\_\_\_  
**Proxy's Signature**

\_\_\_\_\_  
Proxy's CNIC or Passport Number

\_\_\_\_\_  
**Proxy's Signature**

\_\_\_\_\_  
Proxy's CNIC or Passport Number

**NOTES:**

1. A shareholder entitled to attend and vote at the Annual General Meeting of the Company may appoint any person as his/her proxy to attend and vote instead of him/her. The proxy shall have the right to attend, speak and vote in place of the shareholder appointing him/her at the meeting.  
**A proxy need not be a member of the Company.**
2. The instrument appointing a proxy should be signed by the Shareholder or by his/her Attorney, duly authorised in writing and person appointed proxy. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature shall be submitted alongwith proxy form to the company.
3. The Proxy Form duly completed, must be deposited at the Company's Registered Office at D-2, S.I.T.E., Manghopir Road, P.O. Box No.10714, Karachi-75700 not less than 48 hours before the time of holding the meeting.
4. Shareholders whose holdings are in the Central Depository System (CDS) and their proxies both, should attach with this form, attested copies of their Computerised National Identity Card or (attested copies of first four pages of their passport). To facilitate identification at the AGM, the proxy should bring his/her original Computerised National Identity Card or passport). In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.



The Company Secretary  
**Hinopak Motors Limited**  
D-2, S.I.T.E., Manghopir Road,  
P.O. Box 10714  
Karachi - 75700

# department

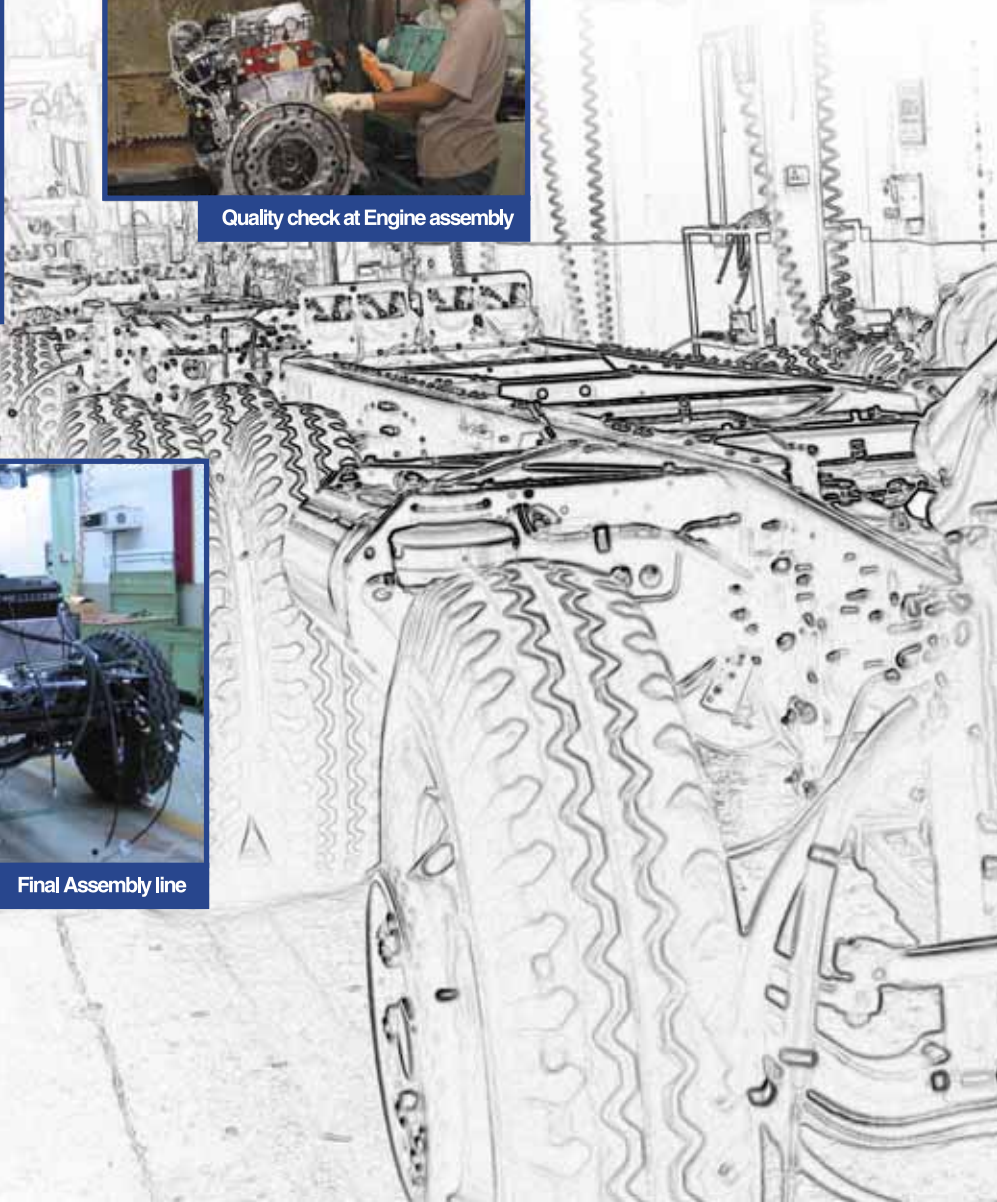
Engine Assembly



Quality check at Engine assembly



Final Assembly line





**HINO**

**HINOPAK MOTORS LIMITED**

D-2, S.I.T.E., Manghopir Road, P.O. Box No. 10714, Karachi  
UAN: 111-25-25-25 Website: [www.hinopak.com](http://www.hinopak.com)