CHAIRMAN'S REVIEW

2007 was yet another monumental year for the company in spite of turbulent political events in December 2007. The performance during the year exceeded all expectations and set new records in production, sales and profits.

REVIEW OF OPERATIONS, FINANCIAL RESULTS

During 2007 the company produced record 26,380 tractors compared with 26,076 produced in 2006. This was in spite of a total loss of production in the last week of December in the aftermath of the assassination of Mohtarma Benazir Bhutto. During the year 26,364 tractors were delivered compared with 26,250 in 2006.

On sales revenue of Rs 9.08 billion, the company earned a pre-tax profit of Rs 1.914 billion compared with Rs 1.910 billion in 2006. The post-tax profit for the year 2007 recorded an increase of 3.1 % - up from Rs 1.229 billion in 2006 to Rs 1.267 billion in 2007, with Rs 647 million going to the tax authorities as income tax.

Company's reserves recorded an increase of 8.6 % - up from Rs 3.55 billion in 2006 to Rs 3.85 billion in 2007. With cash reserves of Rs 5.40 billion, the company's balance sheet reflects very strong financial health.

The Company continued to maintain lead over other automobile sector companies in Pakistan and its shares fetched the highest value of all listed stocks. The share value reached an all time high and recorded a peak of Rs 298 for its five rupee share, thus giving a market cap of Rs 12.795 billion to the company. Net Asset Value per share went up from Rs 82.68 to 89.70 – an increase of 8.5 % and earning per share was up from Rs 28.63 to Rs 29.52.

During the year the company also succeeded in sourcing 92% of the purchases locally which was possible due to the efforts and co-operation of the vendor associates. This helped achieve foreign exchange savings of Rs 5.0 billion.

Most importantly the company continued to contribute to the national economy by selling tractors at prices fixed in 1998 and did not raise them in spite of Government lifting embargo on frozen prices.

DIVIDEND PAYOUT

An interim cash dividend of 100% was paid by the company with the financial results of the half year ended June 30, 2007 followed by payment of another interim cash dividend of 100% in November 2007.

The Board of Directors is now pleased to recommend payment of another cash dividend of 150 %. The cash dividend for the year 2007 will thus total 350 % that is a payment of Rs 751.387 million.

Company's outstanding performance was recognized with the company once again winning the Top Company Award from the Karachi Stock Exchange. The company's 2007 calendar won the Best Calendar of the year Award from the National Council of Culture and Arts. And the Management Association of Pakistan once again conferred the Award of the Best Corporate Performance – a tribute to corporate excellence, good corporate governance and superior capabilities in managing finance and marketing.

CORPORATE GOVERNANCE

It has always been the endeavor of the company to strive for good corporate governance practices and to bring them in line with international norms. We are glad to say that Company's auditors have assessed these practices and have expressed their complete satisfaction. The leadership for good corporate governance at AGTL flows from the Board of Directors. Their commitment and foresight has shaped the overall corporate culture and that has percolated down to all levels throughout the company. This has helped to maintained excellent rapport and relations with investors, vendor associates, dealers, customers, employees and all other stake holders.

Through various Board and Management committees the directors monitor management performance and compliance with statutory requirements. The Audit Committee in particular reviews internal controls and risk management systems. The charter of the Audit Committee is to oversee integrity of company's financial statements, monitor corporate policies, taxation matters, legal cases / litigations and related party transactions.

AGTL is the first company in the automobile sector in Pakistan to achieve ISO certification. The company has put in place a system of sound quality controls to meet ISO standards and CNH standard benchmarks. The ISO registration has been revalidated up to February 2010.

The company acquired BaaN in 2002 to implement ERP to execute entire business cycle of the company as enterprise-wide integrated system. The MIS department keeps itself abreast of the new technological developments. The company has recently installed IBM X series servers for e-mail, proxy and domain controller and will switch to IBM RICS 6000 P series for its ERP. Other than the plant at D.G. Khan, the company's marketing offices are being connected through WAN to the company's data network thus enabling these locations to use ERP.

NEED FOR STIMULUS PACKAGES FOR TRACTOR INDUSTRY

Banks have grown disbursement of credit to the agricultural sector by 26% during the first half of the current fiscal; however the share of tractor financing has continued to witness sharp decline. From an all time high of 77,261 units booked in the fiscal year 2005-2006, bookings fell to mere 39,386 units in the fiscal year 2006-2007 – a drop of 49%. Loaning from the agricultural development bank ZTBL in particular continues to fall. 9,871 tractors were booked through ZTBL in the fiscal 2005-06, which dropped to 6,650 tractors in 2006-07.

According to reports, the State Bank of Pakistan has planned a strategy that aims to increase agriculture credit outreach level from 1.6 million to 3.3 million farmers in the next 3-4 years. However the State Bank report also states that a number of small farmers are unable to avail the facility mainly due to inappropriate documentation such as non-availability of pass books resulting in hindrance to these farmers.

There is need to enact stimulus packages for increasing sale of tractors through the banks, to reduce mark-up (to around 7%) and to create special agricultural development fund for purchase of tractors. This would help to increase mechanization of farming activities in Pakistan, increase tractor manufacturing activities and in the event of fall in bookings it would help protect interest of our vendor associates who supply 92% local content to the company. It should be noted that the tractor manufacturers had responded positively to the spurt in 2005-06 and increased manufacturing capacity, therefore it is necessary to safeguard their interest.

DISCRIMINATORY POLICIES – CONCERNS

Although tractor manufacturers had put in exemplary efforts for over a decade to achieve 92% local content, the government allowed import of CBU tractors at zero tariffs to four select companies in 2005-06. In 2006-07 it went a step further to open wholesale imports at zero tariffs. The fly-by-night operators are now exploiting this benefit and trying to pirate components that have been painfully developed indigenously. The company is agitating the issue with Engineering Development Board, the apex body in this respect and trying to thwart the efforts of such rivals.

It is for the Engineering Development Board to protect the bona fide manufacturers and to prevent misrepresentations to protect legitimate and world renowned products such as Fiat. They should verify the authenticity of the product which should be free of piracy.

FUTURE OUTLOOK

The company is very optimistic about the future outlook, however has also taken note of political crisis that has emerged towards end 2007. The latest State Bank Report too warns of an anticipated downturn. There have been conflicting signals about the health of economy from major indicators such as foreign exchange reserves, trade deficit, balance of payment, portfolio investment, violation of inflation benchmark to name a few. Though the dollar is languishing at a record low elsewhere, the rupee continues to fall viz-a-viz the dollar. It has already depreciated from around Rs 60 to about Rs 63 in recent days. The country is in the grips of a vicious price spiral which is likely to worsen and will cause the economy to suffer. Acute energy crisis, power cuts and stoppage of gas supplies are further compounding the economic troubles and disrupting production.

We hope the economic managers will take necessary steps to set this process in right direction and evolve a strategy to stimulate growth. We hope the banks will disburse huge funds that have been allocated for the agricultural sector to support purchase of tractors.

The company is entering the silver jubilee year of its formation. It has a lot to be proud of and a lot to celebrate of its glorious achievements over the years. We would endeavor to maintain that same spirit and leap into the future. With a healthy order bank the year 2008 looks promising and we hope that there are no unforeseen disturbances of any nature that are beyond our control.

ACKNOWLEDGEMENT

During the year 2007, CNH directors Mr. Michael Stuart Edmondson and Mr. Alain Gold left the board of directors and were replaced by Mr. Franco Fusignani and Mr. Hadjas Youssef. The company acknowledges the invaluable services of Mr. Michael Stuart Edmondson and Mr. Alain Gold to the company and welcomes Mr. Franco Fusignani and Mr. Hadjas Youssef and looks forward to their support.

The company also acknowledges the support of all its stake holders - the Government, the Banks, Supply Chain Associates, our principals CNH, the Dealers and the Customers. The company acknowledges with thanks the recognition conferred on the company with awards from KSE, MAP and NCCA.

AGTL's most valuable wealth is its team of employees. It is a team of many talents and they have been contributing to AGTL's monumental success. They work with a mission to achieve the vision and the goals of the company. They are committed to making the silver jubilee year, a year of yet another leap forward to success.

Colin D.W. Leitch
Chairman

Karachi
February 13, 2008

AL-GHAZI TRACTORS LIMITED

BALANCE SHEET AS AT DECEMBER 31, 2007

	Note	2007	2006
		Rupees '000	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	3	244,928	252,243
Long-term loans to employees	4	971	493
Long-term deposits		367	367
		246,266	253,103
CURRENT ASSETS			
Stores, spares and loose tools	5	10,442	8,118
Stock-in-trade	6	708,733	731,002
Trade debts	7	24,271	6,116
Loans and advances	8	19,590	23,041
Short-term deposits and prepayments	9	1,193	3,157
Accrued mark-up	10	226,997	246,286
Other receivables	11	2,833	312
Taxation		-	78,457
Refunds due from the Government	12	183,632	259,868
Investments	13	1,018,800	526,808
Cash and bank balances	14	4,384,551	5,142,121
		6,581,042	7,025,286
		6,827,308	7,278,389
SHARE CAPITAL AND RESERVES			
Share capital	15	214,682	214,682
Reserves	16	3,636,539	3,335,198
		3,851,221	3,549,880
NON-CURRENT LIABILITIES			
Deferred staff benefits - compensated absences		18,387	17,173
Deferred taxation	17	19,476	12,483
CURRENT LIABILITIES			
Trade and other payables	18	2,912,127	3,698,853
Taxation		26,097	-
		2,938,224	3,698,853
COMMITMENTS	19		
		6,827,308	7,278,389

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman

Chief Executive

AL-GHAZI TRACTORS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		Rupees '000	
Sales	21	9,081,310	9,022,515
Cost of goods sold	22	(7,427,824)	(7,387,468)
Gross profit		1,653,486	1,635,047
Distribution cost	22	(67,145)	(65,152)
Administrative expenses	22	(85,845)	(80,043)
		1,500,496	1,489,852
Other operating income	23	558,858	564,660
Other operating expenses	24	(141,888)	(141,571)
		1,917,466	1,912,941
Finance cost	25	(3,012)	(2,761)
Profit before taxation		1,914,454	1,910,180
Taxation	26	(647,044)	(680,862)
Profit after taxation		1,267,410	1,229,318
Earnings per share	27	Rs 29.52	Rs 28.63

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman

Chief Executive

AL-GHAZI TRACTORS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	28	475,567	1,192,395
Income taxes paid		(535,497)	(828,337)
Increase in long-term deposits		-	(13)
Decrease / (increase) in deferred staff benefits - compensated absences		1,214	(1,065)
Net cash from operating activities		(58,716)	362,980
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(20,988)	(110,981)
Proceeds from disposal of fixed assets		1,692	3,084
(Increase) / decrease in investments		(475,000)	225,000
Return on bank deposits		482,883	345,032
Return on certificates of investments (COIs)		62,193	43,895
Increase in long-term loans		(478)	6,570
Net cash from investing activities		50,302	512,600
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(749,156)	(750,766)
Net increase in cash and cash equivalents		(757,570)	124,814
Cash and cash equivalents at the beginning of the year		5,142,121	5,017,307
Cash and cash equivalents at the end of the year	14	4,384,551	5,142,121

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman

Chief Executive

AL-GHAZI TRACTORS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

	Share capital	General reserve	Unappropriated profit	Total
	Rupees '000			
Balance at January 1, 2006	214,682	1,000,000	1,857,267	3,071,949
Final dividend @ Rs. 12.5 per share for the year ended December 31, 2005	-	-	(536,705)	(536,705)
Interim dividend @ Rs. 5 per share for the year ended December 31, 2006	-	-	(214,682)	(214,682)
Net profit after taxation for the year ended December 31, 2006	-	-	1,229,318	1,229,318
Balance at December 31, 2006	214,682	1,000,000	2,335,198	3,549,880
Final dividend @ Rs. 12.5 per share for the year ended December 31, 2006	-	-	(536,705)	(536,705)
First interim dividend @ Rs. 5 per share for the year ended December 31, 2007	-	-	(214,682)	(214,682)
Second interim dividend @ Rs. 5 per share for the year ended December 31, 2007	-	-	(214,682)	(214,682)
Net profit after taxation for the year ended December 31, 2007	-	-	1,267,410	1,267,410
Balance at December 31, 2007	214,682	1,000,000	2,636,539	3,851,221

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman   Chief Executive

1. THE COMPANY AND ITS OPERATIONS

The company was incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984) as a public limited company in June, 1983 and is quoted on Karachi and Lahore Stock Exchanges. The address of registered office of the company is '11th Floor, NIC Building, Abbasi Shaheed Road, Karachi'. The company is principally engaged in the manufacture and sale of agricultural tractors, implements and spare parts.

The financial statements are presented in Pak Rupees, 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 approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

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 judgment in the process of applying the company's accounting policies. The matter involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements is provision for staff retirement benefits. Significant estimates relating to staff retirement benefits are disclosed in note 29.

Estimates and judgments 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.

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

Recent accounting developments

- **Amendment effective in 2007**

  IAS 1 (Amendment), 'Presentation of Financial Statements - Capital Disclosures', is mandatory for the company's accounting periods beginning on or after January 1, 2007. It introduces new disclosures relating to company's objectives, policies and processes for managing capital. Adoption of this amendment only impacts the format and extent of the disclosure presented in note 33 to the financial statements.

- **Standards and interpretations effective in 2007 but not relevant**

  The other new accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2007 but are considered not to be relevant or have any impact on the company's operations and are therefore not explained in these financial statements.

- **Standard, interpretation and amendment not yet effective but relevant**

  Following accounting standard, amendment and interpretation to approved accounting standards have been published that are mandatory for the company's accounting periods beginning on the dates mentioned below:

  IAS 1, 'Presentation of financial statements', issued in September 2007 revises the existing IAS 1 and requires apart from changing the names of certain financial statements, presentation of transactions with owners in statement of changes in equity and with non-owners in the Comprehensive Income statement. The revised standard will be effective from January 1, 2009.

  IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be withdrawn.

  IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

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 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation / amortisation except freehold land and capital work-in-progress which are stated at cost.

The cost of leasehold land is amortised over the period of lease. Depreciation on all other assets is charged to profit and loss account applying straight-line method whereby the cost of an asset less residual value is written off over its estimated useful life. The useful lives of the assets as estimated by the management are as follows:

- Leasehold land	99 years
- Building	40 years
- Plant and machinery	10 years
- Furniture and fixtures	4 - 10 years
- Office equipment	10 years
- Computer hardware	3 years
- Vehicles	4 years
- Factory equipments and tools	10 years

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.

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

During the year, as a result of review of useful lives of assets, the company has revised estimated useful lives of computer hardware and vehicles and reduced the useful lives of computer hardware from 4 years to 3 years and vehicles from 5 years to 4 years. This change in estimate has resulted in higher depreciation charge for the year by Rs 1.1 million.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired.

Gains and losses on disposal / retirement of fixed assets are included in profit and loss account.

2.4 Loans, deposits and other debts

These are initially measured at cost which is the fair value of the consideration given and are subsequently measured at amortised cost.

2.5 Taxation

Current

Provision for current income tax is based on the taxable income at the current rates of taxation after taking into account tax credits available, if any, in accordance with the prevailing income tax law.

Deferred

Deferred income tax is accounted for using the balance sheet liability method on all temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liability is generally recognised for all 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.

2.6 Stores, spares and loose tools

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

2.7 Stock-in-trade

These are valued at the lower of cost and net realisable value. Cost is determined on moving average method except for stock-in-transit which is valued at invoice value plus other charges incurred thereon.

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

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

2.8 Trade Debts

Trade debts are valued at invoice value, being the fair value and subsequently measured at amortised cost. Provision is made against debts considered doubtful of recovery.

2.9 Investments

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 amortised cost.

(ii) Investments 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.

2.10 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 and demand drafts in hand, balances with banks on current accounts and deposit accounts.

2.11 Staff retirement benefits

(i) Defined benefit plan

The company operates an approved funded gratuity scheme for all its permanent employees. The scheme defines an amount of gratuity benefit that an employee will receive on retirement subject to a minimum qualifying period of service under the scheme. The amount of gratuity is usually dependant on one or more factors such as age, years of service and salary.

The liability recognised in respect of gratuity scheme is the present value of the company's gratuity obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gain or losses.

The gratuity obligation is calculated as at December 31, 2007 by independent actuary using projected unit credit method. The present value of the gratuity obligation is determined by discounting the estimated future cash outflows using interest rates of high quality government securities and that have terms to maturity approximating to the terms of the related gratuity liability.

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 gratuity obligation are charged or credited to profit and loss account over the employees' expected average remaining working lives.

(ii) Defined contribution plan

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

2.12 Deferred staff benefits - compensated absences

The company accounts for compensated absences of its employees on unavailed balance of leave in the period in which the leave is earned. The liability recognised in respect of compensated absences is based on employees last drawn salary.

2.13 Trade and other payables

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

2.14 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.

2.15 Foreign currencies

Assets and liabilities in foreign currencies are recorded using the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rates of exchange approximating to those applicable on the balance sheet date. Exchange gains and losses are taken to profit and loss account.

2.16 Revenue recognition

Sales are recorded on dispatch of goods.

Return on deposits and investments is recognised on accrual basis.

Dividend income on investments is recognised when the company's right to receive payments is established.

2.17 Dividend distribution

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

	Note	2007	2006
		Rupees '000	
3. FIXED ASSETS			
3.1 PROPERTY, PLANT AND EQUIPMENT			
Operating assets	3.2	244,928	249,851
Capital work-in-progress - civil work		-	2,392
Intangible assets	3.3	-	-
		244,928	252,243

3.2 Operating assets

	LAND		BUILDING								
	Freehold	Lease hold	on freehold land	on lease hold land	Plant and machinery	Furniture and fixtures	Office equipment	Computer hardware	Vehicles	Factory equipment and tools	Total
	Rupees'000										
At January 1, 2006											
Cost	3,854	830	58,939	8,969	65,024	8,146	3,377	10,830	42,643	30,904	233,516
Accumulated depreciation / amortisation	-	(185)	(41,940)	(2,408)	(56,482)	(5,836)	(2,324)	(9,365)	(31,508)	(22,583)	(172,631)
Net book value	3,854	645	16,999	6,561	8,542	2,310	1,053	1,465	11,135	8,321	60,885
Year ended December 31, 2006											
Opening net book value	3,854	645	16,999	6,561	8,542	2,310	1,053	1,465	11,135	8,321	60,885
Additions	-	-	98,453	-	87,406	461	-	903	13,741	5,253	206,217
Disposals	-	-	-	-	-	(88)	(7)	-	(239)	-	(334)
Depreciation / amortisation charge	-	(8)	(1,847)	(224)	(4,350)	(923)	(211)	(1,175)	(6,319)	(1,860)	(16,917)
Closing net book value	3,854	637	113,605	6,337	91,598	1,760	835	1,193	18,318	11,714	249,851
At December 31, 2006											
Cost	3,854	830	157,392	8,969	152,275	8,134	3,111	11,631	49,690	35,628	431,514
Accumulated depreciation / amortisation	-	(193)	(43,787)	(2,632)	(60,677)	(6,374)	(2,276)	(10,438)	(31,372)	(23,914)	(181,663)
Net book value	3,854	637	113,605	6,337	91,598	1,760	835	1,193	18,318	11,714	249,851
Year ended December 31, 2007											
Opening net book value	3,854	637	113,605	6,337	91,598	1,760	835	1,193	18,318	11,714	249,851
Additions	-	-	1,604	-	7,882	398	80	1,004	7,666	4,746	23,380
Disposals / write off - note 3.2.2	-	-	-	-	-	(102)	-	-	(147)	-	(249)
Depreciation/ amortisation charge	-	(8)	(3,836)	(224)	(11,374)	(864)	(208)	(908)	(8,225)	(2,407)	(28,054)
Closing net book value	3,854	629	111,373	6,113	88,106	1,192	707	1,289	17,612	14,053	244,928
At December 31, 2007											
Cost	3,854	830	158,996	8,969	160,135	8,172	3,191	12,635	51,538	40,294	448,614
Accumulated depreciation / amortisation	-	(201)	(47,623)	(2,856)	(72,029)	(6,980)	(2,484)	(11,346)	(33,926)	(26,241)	(203,686)
Net book value	3,854	629	111,373	6,113	88,106	1,192	707	1,289	17,612	14,053	244,928

3.2.1 Fixed assets include leasehold land located at Multan carried at Rs 629 thousand. In 2004 the company received a notice from the Board of Management Industrial Estate Multan (BOM) for cancellation of lease of land at a price of Rs 700 thousand on the contention that the company had not constructed building on the land for industrial purposes in the specified time.

The company has obtained a stay from the Civil Court of Multan against BOM's decision. The lawyer handling the case is positive about the favourable outcome of the case.

3.2.2 Following are the details of fixed assets disposed / written off:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees '000					
Furniture and fixtures	134	72	62	65	Company policy	Ms. Shenila Parekh Ex-Executive
Vehicle	560	495	65	103	Company policy	Mr. Ishrat Kazmi Executive
"	560	506	54	101	Company policy	Mr. Javaid Akhtar Executive
Aggregate of assets disposed of having book value less than Rs. 50,000 each						
Furniture and fixtures	226	186	40	69		Various
Vehicles	4,698	4,670	28	1,335		"
Office equipment	81	81	-	15		"
Plant and machinery	22	22	-	4		"
	6,281	**6,032**	**249**	**1,692**		

	2007	2006
	Rupees '000	
3.3 INTANGIBLE ASSETS		
Cost	6,234	6,234
Accumulated amortisation	(6,234)	(6,234)
Net book value	-	-

4. LONG-TERM LOANS TO EMPLOYEES - considered good

These are interest free loans given to employees under employee loan schemes to facilitate purchase of domestic appliances and motor vehicles.

Domestic appliances loans which are repayable over a period of 20 to 36 months are secured against provident fund balances. The motor vehicle loans, which are repayable over a period of five years, are secured by joint registration of vehicles in the name of employee and the company.

	2007	2006
	Rupees '000	

5. STORES, SPARES AND LOOSE TOOLS

	2007	2006
Stores	4,853	2,178
Spares	5,573	5,893
Loose tools	16	47
	10,442	8,118

6. STOCK-IN-TRADE

	2007	2006
Raw materials and components – including in transit Rs 144.17 million (2006: Rs 221.18 million)	694,559	723,437
Finished goods – tractors	9,654	5,035
Trading stock – spare parts and implements	4,520	2,530
	708,733	731,002

6.1 The above includes raw materials and components of Rs 10.03 million (2006: Rs 9.15 million) held by third parties.

	Note	2007	2006
		Rupees '000	

7. TRADE DEBTS – considered good

	Note	2007	2006
Secured		936	1,264
Unsecured		23,335	4,852
		24,271	6,116

8. LOANS AND ADVANCES – considered good

	Note	2007	2006
Loans to employees	4	1,158	901
Dealer car loans		-	6,407
Advances to suppliers for goods and services		18,432	15,733
		19,590	23,041

9. SHORT-TERM DEPOSITS AND PREPAYMENTS

	2007	2006
Security deposits	755	421
Prepayments	438	2,736
	1,193	3,157

	Note	2007	2006
		Rupees '000	

10. ACCRUED MARK-UP

Mark-up accrued on			
- Certificates of Investment (COIs)		45,421	48,007
- Deposit accounts with banks		181,576	198,279
		226,997	246,286

11. OTHER RECEIVABLES

Due from Al-Futtaim Industries Company LLC - holding company	11.1	112	112
Due from CNH Italia SpA - associated company	11.2	-	23
Due from Staff Provident Fund		402	-
Due from Employees Gratuity Fund		536	-
Others		1,783	177
		2,833	312

11.1 Maximum aggregate amount due from Al-Futtaim Industries Company LLC - the holding company, at the end of any month during the year was Rs 112 thousand (2006: Rs 112 thousand).

11.2 Maximum aggregate amount due from CNH Italia SpA, associated company, at the end of any month during the year was Rs 119 thousand (2006: Rs 23 thousand).

	Note	2007	2006
		Rupees '000	

12. REFUNDS DUE FROM THE GOVERNMENT

Sales tax	12.1	167,362	259,868
Special excise duty	12.2	16,270	-
		183,632	259,868

12.1 During the year, the company has received refunds from sales tax authorities against bank guarantee amounting to Rs 85 million.

12.2 This represents the amount of special excise duty collected by the government. In December 2007 the levy was withdrawn and hence a refund has been recognised by the company.

	Note	2007	2006
		Rupees '000	

13. INVESTMENTS

Held to maturity - Certificates of Investment (COIs)	13.1	500,000	500,000
Investments at fair value through profit and loss account	13.2	518,800	26,808
		1,018,800	526,808

13.1 The COIs carry mark - up between 10.35% to 12% per anum (2006: 11.25% to 12% per annum) and will mature by December 2008.

13.2 These represent investments in open ended quoted mutual funds. The fair value of these investments is based on quoted market price prevailing at the balance sheet date.

	Note	2007	2006
		Rupees '000	

14. CASH AND BANK BALANCES

	Note	2007	2006
With banks on			
- Current accounts		904,998	538,339
- Deposit accounts	14.1	3,289,055	4,589,587
Cash in hand		190,498	14,195
		4,384,551	5,142,121

14.1 At December 31, 2007 the mark-up rates on PLS savings and term deposit accounts range from 0.76% to 11.75% per annum (2006: 2.44% to 11.70% per annum). The term deposits will mature upto November 2008.

15. SHARE CAPITAL

15.1 Authorised Share Capital

	2007	2006
	Rupees '000	
60,000,000 ordinary shares of Rs. 5 each	300,000	300,000

15.2 Issued, subscribed and paid up capital

Ordinary shares of Rs. 5 each 2007	Ordinary shares of Rs. 5 each 2006		2007	2006
4,500,000	4,500,000	Shares allotted for consideration paid in cash	22,500	22,500
38,436,445	38,436,445	Shares allotted as bonus shares	192,182	192,182
42,936,445	42,936,445		214,682	214,682

15.3 As at December 31, 2007 and 2006 Al-Futtaim Industries Company LLC, U.A.E., the holding company and CNH Global N.V., Netherlands, an associated company held 21,476,078 and 18,535,096 shares of Rs. 5 each respectively.

16. RESERVES

	2007	2006
	Rupees '000	
Revenue reserve - General	1,000,000	1,000,000
Unappropriated profit	2,636,539	2,335,198
	3,636,539	3,335,198

17. DEFERRED TAXATION

	2007	2006
Credit balances arising on account of:		
Accelerated tax depreciation allowances	33,637	33,727
Gain on investments at fair value through profit and loss account	6,580	-
Debit balances arising on account of:		
Deferred staff benefits - compensated absences	(6,436)	(6,011)
Royalty payable	(14,305)	(15,233)
	(20,741)	(21,244)
	19,476	12,483

	Note	2007	2006
		Rupees '000	

18. TRADE AND OTHER PAYABLES

	Note	2007	2006
Creditors		5,819	-
Accrued liabilities		245,972	272,496
Customers' advance payments	18.1	2,220,013	3,199,809
Unclaimed dividend	18.2	229,707	12,794
Deposits		19,546	22,285
Taxes deducted at source and payable to statutory authority		4,906	4,329
Workers' Profits Participation Fund	18.3	102,387	102,570
Workers' Welfare Fund		40,993	38,900
Royalty payable to CNH Global N.V. - associated company		40,872	43,522
Others		1,912	2,148
		2,912,127	3,698,853

18.1 These represent advances against sale of tractors which carry no mark-up.

18.2 This includes dividend payable to Al Futtaim Industries Company LLC, the holding company and CNH Global N.V., associated company amounting to Rs 107.38 million (2006: Nil) and Rs 92.68 million (2006: Nil) respectively.

18.3 Workers' Profits Participation Fund

	Note	2007	2006
		Rupees '000	
At the beginning of the year		102,570	86,363
Allocation for the year	24	102,817	102,588
		205,387	188,951
Interest on funds utilised in company's business	25	-	333
		205,387	189,284
Less: Amount paid to the trustees of the fund		6,540	2,790
Deposited with the Government		96,460	83,924
		103,000	86,714
		102,387	102,570

19. COMMITMENTS

Commitments for capital expenditure outstanding as at December 31, 2007 amounted to Rs 2.34 million (2006: Rs 4.59 million).

20. UNFUNDED BANKING FACILITIES

The facilities for opening letters of credit and guarantees as at December 31, 2007 amounted to Rs 1,496 million (2006: Rs 1,705 million) of which unutilised balance at year end amounted to Rs 1,126.81 million (2006: Rs 1,510.68 million).

The above arrangements are secured by way of pari-passu charge against hypothecation of company's stock-in-trade and book debts.

	2007	2006
	Rupees '000	

21. SALES

	2007	2006
Tractors	9,163,733	9,102,366
Trading goods	45,795	45,906
	9,209,528	9,148,272
Less:		
Commission and discounts	123,425	120,257
Sales tax	4,793	5,500
	128,218	125,757
	9,081,310	9,022,515

22. OPERATING COST

	COST OF GOODS SOLD		DISTRIBUTION COST		ADMINISTRATIVE EXPENSES		TOTAL	
	2007	2006	2007	2006	2007	2006	2007	2006
	Rupees '000							
Manufactured goods								
Raw materials and components consumed	7,000,819	6,898,477	-	-	-	-	7,000,819	6,898,477
Salaries, wages and benefits	140,451	131,538	39,391	36,729	58,315	51,334	238,157	219,601
Charge for defined benefit plan	867	1,120	838	1,082	1,040	1,342	2,745	3,544
Charge for defined contribution pla	2,016	1,879	842	783	1,396	1,242	4,254	3,904
Royalty and technical fee	84,577	125,982	-	-	-	-	84,577	125,982
Consultancy fee	-	-	-	-	-	524	-	524
Stores and supplies	111,772	100,132	-	-			111,772	100,132
Insurance	806	930	35	47	24	27	865	1,004
Depreciation / amortisation	20,333	10,465	3,709	2,879	4,012	3,573	28,054	16,917
Fuel, power and electricity	20,121	16,546	895	862	-	-	21,016	17,408
Travelling, vehicle running and entertainment	4,915	5,475	5,740	5,669	5,499	5,994	16,154	17,138
Repairs and maintenance	9,087	14,203	385	410	363	459	9,835	15,072
Rent, rates and taxes	1,548	1,532	470	537	5,399	4,701	7,417	6,770
Communication	661	569	1,328	1,587	5,180	5,837	7,169	7,993
Advertising	-	-	-	-	1,021	1,150	1,021	1,150
After sales expense	-	-	10,007	8,978	-	-	10,007	8,978
Dealers' convention	-	-	154	2,956	-	-	154	2,956
Auditors' remuneration - note 22.1	-	-	-	-	1,352	1,202	1,352	1,202
Legal and professional charges	-	-	-	-	469	738	469	738
Publicity	-	-	569	296	-	-	569	296
Printing and stationery	1,157	1,207	1,411	1,558	1,542	1,820	4,110	4,585
Donation - note 22.2	-	-	-	-	100	-	100	-
Others	1,506	1,767	1,371	779	133	100	3,010	2,646
Cost of goods manufactured	7,400,636	7,311,822	67,145	65,152	85,845	80,043	7,553,626	7,457,017
Opening stock of finished goods	5,035	46,736						
Closing stock of finished goods	(9,654)	(5,035)						
	7,396,017	7,353,523						
Trading goods								
Opening stock	2,530	8,749						
Purchases	33,797	27,726						
	36,327	36,475						
Closing stock	(4,520)	(2,530)						
	31,807	33,945						
	7,427,824	7,387,468						

		2007	2006
		Rupees '000	
22.1	Auditors' remuneration		
	Audit fee	605	550
	Fee for limited review of half yearly financial statements, certification for compliance with Code of Corporate Governance and certifications for government and other agencies	605	515
	Out of pocket expenses	142	137
		1,352	1,202

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

23. OTHER OPERATING INCOME

	2007	2006
Income from financial assets		
Return on deposit accounts	466,180	480,017
Return on COIs	59,607	70,201
Gain on investments at fair value through profit and loss account	16,992	3,937
Exchange gain - net	-	1
Others	214	583
	542,993	554,739
Income from other assets		
Scrap sales	11,568	5,663
Profit on disposal of fixed assets	1,443	2,750
Others	2,854	1,508
	15,865	9,921
	558,858	564,660

24. OTHER OPERATING EXPENSES

	2007	2006
Workers' Profits Participation Fund	102,817	102,588
Workers' Welfare Fund	39,071	38,983
	141,888	141,571

25. FINANCE COST

	2007	2006
Interest on Workers' Profits Participation Fund	-	333
Bank charges and commission	2,863	2,265
Mark-up on security deposit	149	163
	3,012	2,761

26. TAXATION

	2007	2006
Current		
- for the year	662,951	645,000
- for prior years	(22,901)	-
Deferred	6,994	35,862
	647,044	680,862

		2007	2006
		Rupees ’000	
26.1	Relationship between tax expense and accounting profit:		
	Accounting profit before tax	1,914,454	1,910,180
	Tax at applicable rate of 35%	670,059	668,563
	Income exempt from tax	-	(1,412)
	Tax effect of permanent differences	(114)	13,711
	Reversal of current tax in respect of prior years	(22,901)	-
		647,044	680,862

27. EARNINGS PER SHARE

	2007	2006
	Rupees ’000	
Profit after taxation attributable to ordinary shareholders	1,267,410	1,229,318
Number of ordinary shares outstanding (in thousands) at the end of the year	42,936	42,936
Earnings per share	Rs. 29.52	Rs. 28.63

A diluted earnings per share has not been presented as the company does not have any convertible instruments in issue as at December 31, 2006 and 2007 which would have any effect on the earnings per share if the option to convert excercised.

28. CASH GENERATED FROM OPERATIONS

	2007	2006
Profit before taxation	1,914,454	1,910,180
Add / (less): Adjustment for non-cash charges and other items		
Depreciation / amortisation	28,054	16,917
Gain on disposal of fixed assets	(1,443)	(2,750)
Gain on investments at fair value through profit and loss account	(16,992)	(514)
Return on bank deposits	(466,180)	(480,017)
Return on certificates of investment	(59,607)	(70,201)
Profit before working capital changes	1,398,286	1,373,615
Effect on cash flow due to working capital changes		
(Increase) / decrease in current assets		
Stores and spares	(2,324)	7,198
Stock-in-trade	22,269	9,138
Trade debts	(18,155)	817
Loans and advances	3,451	15,274
Short-term deposits and prepayments	1,964	7,638
Other receivables	(2,521)	8,487
Refunds due from the Government	76,236	122,327
	80,920	170,879
(Decrease) / increase in trade and other payables	(1,003,639)	(352,099)
	(922,719)	(181,220)
	475,567	1,192,395

		Note	2007	2006
			Rupees '000	
29.	**STAFF RETIREMENT BENEFIT**			
29.1	**Movement in (asset) / liability**			
	Balance as at January 1		283	(381)
	Charge for the year	29.5	2,745	3,544
	Employer contributions		(3,564)	(2,880)
	Balance as at December 31		(536)	283
29.2	**Movement in the defined benefit obligation**			
	Obligation as at January 1		66,835	61,980
	Service cost		4,370	4,229
	Interest cost		6,684	5,580
	Actuarial gains		(287)	(2,409)
	Benefits paid		(3,828)	(2,545)
	Obligation as at December 31		73,774	66,835
29.3	**Movement in the fair value of plan assets**			
	Fair value as at January 1		78,760	69,459
	Expected return on plan assets		7,876	6,251
	Actuarial (losses) / gains		(873)	2,715
	Employer contributions		3,564	2,880
	Benefits paid		(3,828)	(2,545)
	Fair value as at December 31		85,499	78,760
29.4	**Balance sheet reconciliation as at December 31, 2007**			
	Present value of obligation		73,774	66,835
	Fair value of plan assets		(85,499)	(78,760)
	Unrecognised actuarial gains		11,189	12,208
			(536)	283
29.5	**Charge for the year**			
	Service cost		4,370	4,229
	Interest cost		6,684	5,580
	Expected return on plan assets		(7,876)	(6,251)
	Actuarial gains recognised during the year		(433)	(14)
			2,745	3,544
29.6	**Actual return on plan assets**		7,003	7,875

		2007	2006
29.7	Key actuarial assumptions used are as follows:	2007	2006
	Expected rate of return on investments	10%	10%
	Expected rate of increase in salaries		
	- Management staff	10%	10%
	- Non-management staff	8%	8%
	Discount factor used	10%	10%
	Retirement age (years)	60	60

29.8 Comparison of actuarial estimates and experience adjustments for five years:

	2007	2006	2005	2004	2003
	←		Rupees '000		→
Comparison for five years:					
As at December 31					
Present value of defined benefit obligation	73,774	66,835	61,980	62,487	57,956
Fair value of plan assets	(85,499)	(78,760)	(69,459)	(67,384)	(64,537)
Surplus	(11,725)	(11,925)	(7,479)	(4,897)	(6,581)
Experience adjustments					
Actuarial (gain) / loss on obligation	(287)	(2,409)	(1,060)	(1,336)	492
Actuarial gain / (loss) on plan assets	(873)	2,715	706	(2,571)	573
	(1,160)	306	(354)	(3,907)	1,065

29.9 Composition of plan assets:

	2007		2006	
	Rupees '000	%	Rupees '000	%
Term Deposits	80,773	94.5	73,509	93.3
Others (include cash balance)	4,726	5.5	5,251	6.7
	85,499	100	78,760	100

29.10 The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the fund, at the beginning of the period.

29.11 As per actuary advice, the company is expected to contribute Rs 3.19 million towards gratuity fund in 2008 (2007: 2.75 million).

30. TRANSACTIONS WITH RELATED PARTIES

Disclosure of transactions between the company and related parties

	Relationship	Nature of transactions	2007	2006
			Rupees '000	
i.	Holding company:	Dividends paid	375,831	375,831
ii.	Other related parties:	Dividends paid	324,364	324,364
		Purchases of goods, material and services	4,265	5,485
		Sales of goods, material and services	7,670	6,083
		Royalty paid	82,535	73,864
		Technical fee paid	-	45,418
		Recovery of expenses	194	56
		COIs encashed	-	200,000
		Return on COIs	-	4,471
		Contribution to Al-Ghazi Tractors Limited Staff Provident Fund	4,254	3,904
		Contribution to Al-Ghazi Tractors Limited Employees' Gratuity Fund	3,564	2,880
iii.	Key management personnel:	Salaries and other employee benefits	52,086	49,910
		Retirement benefits	2,317	2,206

The outstanding balances of related parties as at December 31, 2007 are included in trade and other payables and other receivables respectively.

Key management compensation is disclosed in note 31.

31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, including all benefits, to the Chief Executive, Director and Executives of the company are as follows:

	Chief Executive		Director		Executives	
	2007	2006	**2007**	2006	**2007**	2006
	Rupees '000					
Managerial remuneration	4,509	4,026	2,555	2,323	5,575	5,685
Bonus and ex-gratia	10,145	9,058	5,749	5,225	12,544	12,791
House Rent	2,029	1,812	1,150	1,045	2,509	2,558
Utilities	451	783	255	673	558	1,641
Retirement benefits	827	738	468	426	1,022	1,042
Medical expenses	442	67	32	57	503	134
Leave passage	958	567	543	436	1,190	954
Other expenses	153	45	52	16	184	14
	19,514	17,096	10,804	10,201	24,085	24,819
Number of persons	1	1	1	1	4	5

The Chief Executive, Director and Executives are also provided with company maintained cars in accordance with their entitlements.

In addition to the above, fee and benefits to one non-executive director paid during the year amounted to Rs 520 thousand (2006: Rs 524 thousand).

32. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(i) Financial assets and liabilities

		Interest / Mark-up bearing			Non interest bearing			Total
		Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
		Rupees '000						
Financial assets								
Investments		500,000	-	500,000	518,800	-	518,800	1,018,800
Loans and advances		-	-	-	1,158	971	2,129	2,129
Deposits		-	-	-	755	367	1,122	1,122
Trade debts		-	-	-	24,271	-	24,271	24,271
Accrued mark-up		-	-	-	226,997	-	226,997	226,997
Other receivables		-	-	-	2,833	-	2,833	2,833
Cash and bank balances		3,289,055	-	3,289,055	1,095,496	-	1,095,496	4,384,551
	2007	3,789,055	-	3,789,055	1,870,310	1,338	1,871,648	5,660,703
	2006	5,095,994	-	5,095,994	833,378	860	834,238	5,930,232
Financial liabilities								
Trade and other payables		-	-	-	543,828	-	543,828	543,828
	2007	-	-	-	543,828	-	543,828	543,828
	2006	-	-	-	353,245	-	353,245	353,245
Off balance sheet items								
Financial commitments:								
Contracts for capital expenditure		-	-	-	2,338	-	2,338	2,338
Open letters of credit		-	-	-	278,191	-	278,191	278,191
	2007	-	-	-	280,529	-	280,529	280,529
	2006	-	-	-	198,914	-	198,914	198,914

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

(ii) Concentrations of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparts failed to perform as contracted. The company's products are either sold against cash or demand drafts issued by Zarai Taraqiati Bank Limited (ZTBL) and certain other commercial banks. Hence, the company believes that it is not exposed to credit risk

The company places surplus funds with various reputed banks and Non-Banking Finance Companies (NBFCs). The exposure to the banks and NBFCs is managed through monitoring of limits on exposure on a continuous basis.

(iii) Foreign exchange risk management

The company believes that its operations are not exposed to foreign currency risk as there are no assets or liabilities denominated in foreign currency.

(iv) Liquidity risk

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

(v) Fair values of the financial instruments

The carrying values of all the financial instruments reflected in the financial statements approximate their fair values.

33. CAPITAL RISK MANAGEMENT

The company’s objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide adequate returns for shareholders and benefits for other stakeholders. The capital structure of the company is equity based with no financing through long term or short term borrowings.

34. PLANT CAPACITY AND PRODUCTION

	2007	2006
Plant capacity (single shift) - units	30,000	30,000
Actual production - units	26,376	26,076

34.1 Low actual production was due to limited availability of local components.

35. DIVIDEND

The Board of Directors in their meeting held on have proposed a final cash dividend of Rs per share amounting to Rs million (2006: Rs 12.5 per share amounting to Rs 536.71 million).

36. CORRESPONDING FIGURES

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison.

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 13 , 2008 by the Board of Directors.

Chairman Chief Executive