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Chairman's Review

OPERATING RESULTS

I have pleasure in informing the shareholders of the Company that we have once again achieved record sales of 1,555,680 tyres as compared to 1,533,054 of last year. The increase, although a meager 1.5%, was restricted by our capacity constraints, which shows the potential and promise the market holds for our products. There was substantial increase in demands of Light Truck and Farm tyres from Original Equipment Manufacturers (OEMs) which the Company was obligated to supply at the cost of lower supply to the Replacement Market. The Company has decided to meet the challenges of capacity limitation by a BMR / Expansion which is already under implementation and is discussed in Future Outlook below.

The increase in Net Sales (from Rs. 3,732.0 to Rs. 3,951.1, an increase of 5.9%) was due to higher volume and price increases during the year. However, the increase in prices was not enough to compensate fully the increase in raw material cost, which increased substantially last year, and other inflationary costs. The Company also had to absorb heavier burden of financial charges due to the financing of BMR projects in the previous year. Resultantly the Profit for the year ended June 30, 2007 has decreased to Rs. 105.9 million as compared to Rs. 210.1 million of last year.

MANUFACTURING

Despite go slow tactics by the workers for nine days early in the year, the Company was able to recover the loss of production and achieved record production of 1,626,152 tyres. During the year Triplex Extruder, Tyre Uniformity Optimizer and Curing Presses were commissioned to increase the capacity and improve the quality of the tyres.

MARKETING & SALES

This year again, the sales of Light Truck and Farm Tyres to the Replacement Market were reduced as compared to last year due to limitation of production capacity and the priority given to Original Equipment Manufacturers. The sales in these segments could have been more had we not been limited by our production capacity. The sales in passenger car tyres were slightly lower than last year as one of the OEM customers postponed the lifting of tyres which were then diverted to the Replacement Market.

FUTURE OUTLOOK

The Company continues to benefit from its association with Continental AG, Germany, under the Technical Service Agreement ('TSA') signed with Continental Tire North America, Inc. (CTNAI) - USA in 2002 for a seven (7) year term. Continental AG also values this association.

With the abolition of the Deletion Programme and low duties on import of tyres, the only way to continue as a major player in the market is to give good quality tyres at competitive prices. This can be achieved through controlling costs and increasing capacity. The Company is undertaking a BMR/ Expansion of approximately Rs. one billion over the next three years for balancing and aligning the capacities of various production areas which will increase the overall capacity of the Plant to 2 million tyres by the year 2009-2010.

The above BMR/Expansion will enable the Company to continue serving the ever growing demands of the OEMs and penetrate and get a larger share of the Replacement Market.

INDUSTRY REVIEW

The local tyre industry continues to face constraints under the current policies of the Government of Pakistan as tyres are still not included in the Tariff Based System (TBS). The Management of the Company continues to make representations at different levels of the Government to convince them that tyres are an integral

Chairman's Review

part of the Automobile Industry ever since its inception.

In the meantime, OEMs continue to show confidence in the products of the Company due to Quality, Service and Just-in-Time delivery and the Company has not lost any OEM business.

BUSINESS PROCESS RE-ENGINEERING / R&D

During the year, your Company reviewed its Production Cycle and brought about process changes along with limited Capital Expenditure to increase the capacity of the plant from 1,400,000 to 1,600,000 tyres.

TAXES / DUTIES PAID

Your Company has contributed Rs. 698 million to the National Exchequer as against Rs. 608 million in the previous year.

DONATIONS MADE DURING THE YEAR

Your Company donated Rs. 1.0 million to Agha Khan University Hospital which provides medical services and assistance to poor patients and Rs.1.6 million during the year to charitable institutions which promote education to under privileged children throughout the country.

CODE OF CORPORATE GOVERNANCE

Your Company continues to work closely with the Stock Exchanges and Securities & Exchange Commission of Pakistan and to comply with the Code of Corporate Governance.

BOARD CHANGES

On April 23, 2007, Mr. Asif Jameel, a nominee of NIT resigned from the directorship of the Company and was replaced by Mr. Zahid Hussain on the same date.

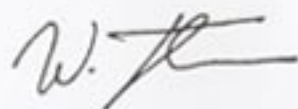
The Board would like to record its appreciation for the valuable services rendered by Mr. Asif Jameel to the Company and welcomes Mr. Zahid Hussain on the Board.

EMPLOYEE/LABOUR RELATIONS

The disputes subsequent to the receipt of the Charter of Demands by the Company in January 2006 from the Labour Union were resolved and the agreement was signed in September, 2006.

On behalf of the Board, I wish to acknowledge and appreciate the dedication and efforts of our employees/workers and the Management for the achievements during the year. The support of our dealers/customers and the support of our banks and financial institutions is also gratefully acknowledged.

I also record my appreciation for the dedicated support of all the members of the Board of the Company. On behalf of myself and Continental A.G., both as shareholder of the Company and the technical service provider to the Company under the TSA, I want to express our gratitude for my election as the Chairman of the Board.



Dr. Willi Flamm
Chairman, Board of Directors

Karachi
Dated: August 29, 2007

Director's Report

Your Directors have pleasure in presenting the Annual Report and Audited Financial Statements of the Company for the year ended June 30, 2007.

	2007	2006
	(Rupees in thousand)	
Financial Results		
Profit for the year after taxation	62,919	126,998
Unappropriated profit brought forward	<u>697,584</u>	<u>675,186</u>
	760,503	802,184
Appropriation		
Dividend	<u>119,543</u>	<u>104,600</u>
Unappropriated profit carried forward	<u>640,960</u>	<u>697,584</u>
Basic earnings per share	Rs. 1.05	Rs. 2.12

The Board of Directors has recommended NIL dividend for the year ended June 30, 2007 due to lower profits.

Compliance with the Code of Corporate Governance

As required under the Code of Corporate Governance, the Directors are pleased to confirm that:

- The financial statements of the Company, prepared by the management, present fairly its state of affairs, the results of its operations, cash flows and the changes in equity.
- Proper books of account have been maintained by the Company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and the accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and departures, if any, have been adequately disclosed.
- 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.
- Key operating and financial data for the last 6 years have been included in the Annual Report.

Director's Report

- Information regarding outstanding taxes and levies is given in the notes to the financial statements.
- The value of investments made by the staff retirement funds as per their respective audited accounts are given below:

	<u>Value of Investment</u>	<u>Year ended :</u>
Provident Fund	Rs. 108.7 Million	June 30, 2006
Gratuity Fund	Rs. 12.9 Million	June 30, 2007

- No trading in the shares of the Company was carried out by the Directors, CFO, Company Secretary, their spouses and minor children.

Board Meetings

During the year five (5) meetings of the Board of Directors were held. Attendances by each Director are as follows:

<u>S. No.</u>	<u>Name of Director</u>	<u>Number of Meetings Attended</u>
1.	Lt. Gen. (Retd) Ali Kuli Khan Khattak	5
2.	Mr. Ahmed Kuli Khan Khattak	5
3.	Mr. Asif Jameel*	4
4.	Mr. Firasat Ali	5
5.	Mr. Ikram Ul-Majeed Sehgal	3
6.	Mr. Irfan Siddiqui	4
7.	Mr. Istaqbal Mehdi	3
8.	Mr. Mushtaq Ahmed Khan	1
9.	Mr. Rana Ahmed Humayun	4
10.	Mr. Raza Kuli Khan Khattak	3
11.	Mr. Tasnim-ul-Haq Farooqui	5
12.	Dr. Willi Flamm	5
13.	Mr. Zahid Hussain**	1

* Resigned w.e.f. April 23, 2007

** Appointed w.e.f. April 23, 2007

Change in Chief Executive Officer's Remuneration

The Board in its meeting on August 29, 2007 increased the remuneration of Chief Executive Officer (CEO) Gen. (Retd) Ali Kuli Khan Khattak effective September 01, 2007. The revised annual remuneration of the CEO shall be Rs. 7,371,000.

The Company shall also provide transportation, security, club expenses, telephone and medical expenses at actual. He shall also be entitled to receive other benefits as per Company policy applicable to all Management Employees.

Mr. Ahmed Kuli Khan Khattak and Mr. Raza Kuli Khan Khattak are interested in appointment of CEO by virtue of being close relative.

Key Operating & Financial Data

	2007	2006	2005	2004	2003	2002	2001
	(Rupees in million)						
Operating Results							
Gross sales	4,606	4,348	3,698	3,267	2,605	2,257	2,348
Net sales	3,951	3,732	3,198	2,803	2,239	1,906	1,967
Gross profit	468	522	583	627	530	428	448
Profit before tax	106	210	328	377	334	245	287
Profit after tax	63	127	204	236	197	175	189
Cash dividend *	20%	17.5%	-	-	20%	50%	60%
Bonus issue			-	-	250%	-	-
Financial Position							
Operating Fixed assets - at cost	2,875	2,620	2,080	1,526	1,344	1,285	1,223
Share capital	598	598	598	598	598	171	171
Reserves & unappropriated profit	641	697	675	472	237	587	497
Shareholders' equity	1,239	1,295	1,273	1,070	835	757	667
Long-term loans and liabilities against assets subject to finance leases	499	467	390	153	6	8	14

* The Board of directors has recommended NIL dividend for the year ended June 30, 2007.

As per accounting policy, dividend is recognised as liability in the period in which it is approved by the shareholders.

Statement of Compliance with Code of Corporate Governance

For The Year Ended June 30, 2007

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange 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.

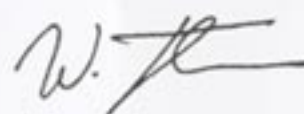
The Company has applied the principles contained in the Code in the following manner :-

1. The Company encourages representation of non-executive directors on its Board of Directors. At present, the Board includes eleven non - executive Directors.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident Directors of the Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non - Banking Financial Institution. None of the resident Directors are a member of any of the stock exchanges on which the Company's shares are listed.
4. One vacancy occurring on the Board due to resignation was filled in by the Board of Directors within 30 days.
5. The Company has prepared "Statement of Ethics and Business Practices" which has been signed by all the Directors and management employees of the Company.
6. 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.
7. All powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CEO) have been taken by the Board.
8. 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.
9. An orientation course was conducted during the year ended June 30, 2003 to apprise the directors of their duties and responsibilities.
10. The Board has approved appointment of Chief Financial Officer (CFO) and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the Chief Executive. The appointment of the Company Secretary had been made prior to the application of the Code.

Statement of Compliance with Code of Corporate Governance

11. 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.
12. The financial statements of the Company were duly endorsed by the CEO and the CFO, before approval by the Board.
13. 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.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises three members, all of whom are non – executive Directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been formulated and advised to the Committee for compliance.
17. The Company has set up an effective Internal Audit Function.
18. 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 the Institute of Chartered Accountants of Pakistan.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board of Directors



Dr. Willi Flamm
Chairman, Board of Directors

Karachi
Dated : August 29, 2007

Review Report of Members on Statement of Compliance with Best Practices of Code of Corporate Governance

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 The General Tyre and Rubber Company of Pakistan Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the 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 control 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 the Statement of Compliance does not appropriately reflect the status of 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 June 30, 2007.



A. F. FERGUSON & CO.
Chartered Accountants
Karachi, September 4, 2007



HAMEED CHAUDHRI & CO.
Chartered Accountants
Karachi, September 4, 2007


Auditor's Report to Members

We have audited the annexed balance sheet of The General Tyre and Rubber Company of Pakistan Limited as at June 30, 2007 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.


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, statement of changes in equity and cash flow statement 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 June 30, 2006 and of the profit, its changes in equity and cash flows for the year then ended; and
- (d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.


A. F. FERGUSON & CO.
Chartered Accountants
Karachi, September 4, 2007




HAMEED CHAUDRI & CO.
Chartered Accountants
Karachi, September 4, 2007



Balance Sheet

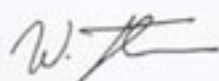
As at June 30, 2007

	Note	2007 (Rupees in thousand)	2006
SHARE CAPITAL AND RESERVE			
Share capital			
Authorised			
75,000,000 (2006: 75,000,000) ordinary shares of Rs 10 each		750,000	750,000
Issued, subscribed and paid-up	6	597,713	597,713
Reserve		640,960	697,584
		<u>1,238,673</u>	<u>1,295,297</u>
LONG TERM MURABAHA FINANCING	7	100,000	200,000
LONG TERM LOAN	8	356,250	200,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES	9	42,776	66,846
STAFF BENEFITS	10	124,308	119,350
DEFERRED CREDIT	11	283	430
DEFERRED TAXATION	12	43,911	33,298
LONG TERM DEPOSITS FROM DEALERS	13	9,340	9,350
CURRENT LIABILITIES AND PROVISIONS			
Current maturity of			
- long term murabaha financing	7	100,000	100,000
- long term loan	8	118,750	-
- liabilities against assets subject to finance leases	9	24,674	22,950
Short term finances	14	413,519	410,764
Running finances under mark-up arrangements	15	232,193	97,829
Trade and other payables	16	567,668	704,221
Accrued mark-up	17	14,103	7,778
Taxation		587	-
Provisions	18	129,300	125,286
		<u>1,600,794</u>	<u>1,468,828</u>
CONTINGENCIES AND COMMITMENTS	19		
		<u>3,516,335</u>	<u>3,393,399</u>

The annexed notes 1 to 49 form an integral part of these financial statements.

Balance Sheet

	Note	2007 (Rupees in thousand)	2006 (Rupees in thousand)
PROPERTY, PLANT AND EQUIPMENT	20	1,622,245	1,456,300
INTANGIBLE ASSETS	21	266	482
INVESTMENTS	22	-	-
LONG TERM LOANS AND ADVANCES	23	3,725	4,234
LONG TERM DEPOSITS AND PREPAYMENTS	24	6,899	7,559
CURRENT ASSETS			
Stores and spares	25	357,864	301,227
Stocks	26	907,208	1,012,679
Trade debts	27	467,470	409,711
Loans and advances	28	15,192	15,367
Deposits and prepayments	29	26,114	34,660
Other receivables	30	30,955	32,047
Taxation		-	40,158
Cash and bank balances	31	78,397	78,975
		<u>1,883,200</u>	<u>1,924,824</u>
		<u>3,516,335</u>	<u>3,393,399</u>



Dr. Willi Flamm
Director



Tasnim-ul-Haq Farooqui
Director

STATEMENT UNDER SECTION 241(2) OF THE COMPANIES ORDINANCE, 1984

The chief executive being out of Pakistan, these financial statements have been signed by two directors of the company as required under provision of section 241(2) of the Companies Ordinance, 1984.

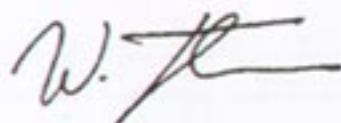
Profit & Loss Account

For the year ended June 30, 2007

	Note	2007 (Rupees in thousand)	2006
Net sales	32	3,951,145	3,731,994
Cost of sales	33	3,483,227	3,210,524
Gross profit		467,918	521,470
Administrative expenses	34	91,489	75,763
Distribution cost	35	163,018	156,398
		254,507	232,161
Operating profit		213,411	289,309
Other operating expenses	36	13,201	21,386
		200,210	267,923
Other operating income	37	31,093	29,127
		231,303	297,050
Finance cost	38	125,378	86,967
Profit before taxation		105,925	210,083
Taxation	39	43,006	83,085
Profit after taxation		62,919	126,998
Basic earnings per share	40	Rs 1.05	Rs 2.12

Note: The appropriations from profits are set out in the statement of changes in equity.

The annexed notes 1 to 49 form an integral part of these financial statements.



Dr. Willi Flamm
Director



Tasnim-ul-Haq Farooqui
Director

STATEMENT UNDER SECTION 241(2) OF THE COMPANIES ORDINANCE, 1984

The chief executive being out of Pakistan, these financial statements have been signed by two directors of the company as required under provision of section 241(2) of the Companies Ordinance, 1984.

Statement of Changes in Equity

For the year ended June 30, 2007

	Share capital	Unappropriated profit	Total
	----- (Rupees in thousand) -----		
Balance as at July 1, 2005	597,713	675,186	1,272,899
Final dividend - 17.5% for the year ended June 30, 2005	-	(104,600)	(104,600)
Profit for the year ended June 30, 2006	-	126,998	126,998
Balance as at June 30, 2006	<u>597,713</u>	<u>697,584</u>	<u>1,295,297</u>
Final dividend - 20% for the year ended June 30, 2006	-	(119,543)	(119,543)
Profit for the year ended June 30, 2007	-	62,919	62,919
Balance as at June 30, 2007	<u>597,713</u>	<u>640,960</u>	<u>1,238,673</u>

The annexed notes 1 to 49 form an integral part of these financial statements.



Dr. Willi Flamm
Director



Tasnim-ul-Haq Farooqui
Director

Cash Flow Statement

For the year ended June 30, 2007

	Note	2007 (Rupees in thousand)	2006
Cash flow from operating activities			
Cash generated from operations	41	250,302	371,925
Staff retirement gratuity paid		(5,738)	(5,612)
Compensated absences paid		(3,750)	(998)
Long term deposits from dealers		(10)	150
Financial charges paid		(157,150)	(82,049)
Taxes paid		(12,918)	(82,393)
Long term loans and advances		509	939
Long term deposits and prepayments		660	955
Net cash inflow from operating activities		71,905	202,917
Cash flow from investing activities			
Fixed capital expenditure		(247,811)	(547,673)
Proceeds on disposal of fixed assets		3,595	2,953
Profit on bank deposits received		333	543
Dividend received		290	45
Net cash outflow from investing activities		(243,593)	(544,132)
Cash flow from financing activities			
Long term murabaha financing		(100,000)	(100,000)
Long term loans		275,000	200,000
Liabilities against assets subject to finance leases		(22,346)	(12,847)
Short term finances		2,755	360,764
Dividends paid		(118,663)	(104,049)
Net cash inflow from financing activities		36,746	343,868
(Decrease) / increase in cash and cash equivalents		(134,942)	2,653
Cash and cash equivalents at the beginning of the year		(18,854)	(21,507)
Cash and cash equivalents at the end of the year	42	(153,796)	(18,854)

The annexed notes 1 to 49 form an integral part of these financial statements.



Dr. Willi Flamm
Director



Tasnim-ul-Haq Farooqui
Director