

# Pak Suzuki Motor Co. Limited

(Annual Report 1996)

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## COMPANY PROFILE

Pak Suzuki Motor Company Limited (PSMC) was incorporated in August 1983 as a Public Limited Company, in accordance with the terms of a joint venture agreement between Suzuki Motor Corporation, Japan (SMC) and Pakistan Automobile Corporation (PACO). The company was formed by taking over the production facilities of Awami Autos Limited. The company started commercial operations in January 1984 with the primary objective of progressive manufacturing, assembling and marketing of cars, pickups, vans and 4 X 4s vehicles in Pakistan.

The foundation stone laying ceremony of the company's green field automobile plant at Bin Qasim was performed in early 1989 by the Prime Minister in office Ms. Benazir Bhutto. By early 1990, on completion of first phase of this plant, in-house assembly of all the Suzuki engines started. In 1992, this new plant was completed and production of new three box 1300cc Margalla Car commenced. Presently the entire range of Suzuki products currently marketed in Pakistan are being produced at the Bin Qasim Plant.

The company was privatized and placed directly under the Japanese management in September 1992. At the time of privatization SMC increased its equity from 25% to 40%. Subsequently, SMC progressively increased its investment. As on June 30, 1996 the shareholding of SMC stood at 67.2%/- . In 1996, SMC further enhanced its shareholding to 72.8% by purchasing remaining shares from PACC) and as a result the joint venture agreement came to an end. Since privatization, SMC has brought in foreign investment equivalent to Pak Rs. 991.75 million.

The Company continues to be in the fore-front of automobile industry of Pakistan. Over a period of time, the company has developed an effective and comprehensive network of sales service and spare parts dealers who cater to the needs of customers and render effective after sale service country wide. It has achieved 59% of indigenization in its main product Mehran 800cc Car. PSMC is serviced by over 200 active vendors who are engaged in the local manufacture and supply of automotive parts to the company.

The Suzuki Management immediately after privatization started expansion of the Bin Qasim Plant to increase its installed capacity 50,000 vehicles per year which was completed in July 1994. Keeping this in view, the company's long term plans inter-alia include tapping of export markets. The company has acquired additional plot of land measuring about 30 acres from Pakistan Steel Mills Corporation in proximity to its Bin Qasim Plant to set up production facilities for manufacture of some local components.

**BIN QASIM PLANT IN BRIEF:**

**LOCATION:** Downstream Industrial Estate of  
Pakistan Steel

**TOTAL AREA:** 259,200 M2 (64 acres)

**COVERED AREA:** 41,000 M2

**FACILITIES:** Press Shop, Welding Shop, Paint Shop (Electro Deposition System),  
Engine and Transmission Assembly Shop, Final Assembly &  
Inspection Shop

**COST:** Rs. 2.1 billion

**PRODUCTION CAPACITY :** 50,000 units per annum (double shift)

**COMPANY INFORMATION**

**BOARD OF DIRECTORS**

Hirofumi Nagao	Chairman & Chief Executive
Capt. (Retd) Bashir Ahmed	Director
S. G. Abbas	Director
Razi-ur-Rehman Khan	Director
Abdul Latif Uqaili	Director
Osamu Iizuka	Director
Qaiser Sultan	Director
Katsumi Saruta	Director
Col. (Retd) Mir Saadatullah	Director

**COMPANY SECRETARY**

Abdul Hamid Bhombal

**AUDITORS**

Sidat Hyder Qamar Maqbool & Co.  
Chartered Accountants

**BANKERS**

Deutsche Bank AG  
Habib Bank Limited  
Habib Credit & Exchange Bank Limited  
Muslim Commercial Bank Limited  
National Bank of Pakistan  
National Development Finance Corporation  
The Bank of Tokyo-Mitsubishi Limited

**LEGAL ADVISORS**

Syed Qamaruddin Hassan  
Industrial Relations Advisor

Orr Dignam & Company  
Advocates & Legal Consultants

**REGISTERED OFFICE**

DSU-13, Pakistan Steel Industrial Estate,  
Bin Qasim,

Karachi.

**REGISTRAR**

Ferguson Associates (Pvt) Limited  
 State Life Building 1-A,  
 I.I. Chundrigar Road,  
 Karachi

**NOTICE OF MEETING**

Notice is hereby given that the Thirteenth Annual General Meeting of the shareholders of Pak Suzuki Motor Company Limited will be held at Avari Towers, Fatima Jinnah Road, Karachi on Thursday November 21, 1996 at 3.00 p.m. to transact the following business:

1. To confirm the minutes of Twelfth Annual General Meeting held on December 24, 1995.
2. To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 1996 together with directors' and auditors' reports thereon.
3. To approve payment of cash dividend to the shareholders @ Re. 0.70 (7%) per share of Rs. 10/- each.
4. To appoint auditors and fix their remuneration for the year ending June 30, 1997.
5. To consider any other business with the permission of the Chair.

**Notes:**

1. The share transfer books of the company shall remain closed from November 14, 1996 to November 21, 1996 (both days inclusive) for entitlement of Dividend and no transfer will be accepted for registration during this period.
2. A member entitled to attend and vote at this meeting may appoint another person as his/her proxy to attend the meeting and vote for him/her. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
3. Shareholders are requested to notify the change in their addresses, if any, immediately to our Registrar Ferguson Associates (Pvt.) Limited, State Life Building 1-A, I. I. Chundrigar Road, Karachi.

**HIGHLIGHTS OF THE ACCOUNTS**

FOR THE YEAR ENDED JUNE 30, 1996

	1996	1995	Increase / (Decrease) Amount	%
	(Rupees in thousand)			
Net sales	7,904,301	5,703,785	2,200,516	38.60
Sales volume (units)	28,217	25,336	2,881	11.40
Gross profit	917,709	297,753	619,956	208.20
as a % of net sales	11.6	5.2	--	6.40
Expenses				
-- Selling & admin.	145,239	97,812	47,427	48.50
-- Financial & other charges	127,644	182,748	(55,104)	(30.2)
-- Total	272,883	280,560	(7,677)	(2.7)
as a % of net sales	3.5	4.90	--	(1.4)
Other income	98,435	92,199	6,236	6.80

as a % of net sales	1.2	1.60	--	(0.4)
Profit before taxation	743,261	22,828	720,433	--
as a % of net sales	9.4	0.40	--	9.00
Profit/(loss) after taxation	574,502	(5,918)	580,420	--
as a % of net sales	7.3	(0.1)	--	7.40
Production volume (units)	28,040	22,202	5,838	26.30
Stocks	1,694,591	1,532,472	162,119	10.60
as a % of net sales	21.40	26.90	--	(5.5)
number of days stock held	88	103	(15)	--
inventory turn over ratio	4.10	3.50	--	--
Cash and bank balances	489,922	455,508	34,414	7.60
Advances from customers	905,018	2,063,957	(1,158,939)	(56.2)
Pending orders	28,204	44,869	(16,665)	(37.1)
Shareholders' equity	1,081,313	541,203	540,110	99.80
Debt Equity ratio	13:87	33:67	--	--
Current ratio	1.04:1	0.92:1	--	--
Profit/(loss) per share	11.70	(0.12)	--	--
Break-up value per share	22.00	11.02	--	--
Number of permanent employees -- Officers	225	221	4	1.80
-- Staff/workers	327	319	8	2.50
-- Total	552	540	12	2.20

#### CHAIRMAN'S REVIEW

I am pleased to present annual report for the year ended June 30, 1996.

#### OPERATING RESULTS

The Company earned net profit after tax of Rs. 574.502 million against net loss of Rs. 5.918 million incurred in the previous year. Gross profit increased significantly from Rs. 297.753 million to Rs. 917.709 million.

The increase in profitability resulted from implementation of phase-wise increase of vehicle prices after lifting of price controls in June 1994. The company increased prices in phases so that the market could absorb prices as reflected in last year's annual report. This policy eventually paid-off and the company, indeed turned the corner.

Sales revenues increased substantially from Rs. 5.7 billion to 7.9 billion and sales volume increased from 25,336 units of last year to 28,217 units in the current year.

Selling and administration expenses increased from Rs. 97.812 million to Rs. 145.239 million and as a percentage of sales from 1.71% to 1.84%. The main factors which contributed to the increase

were salaries, depreciation, conveyance & travelling and advertising & sales promotion. In view of higher inflationary pressures on the economy and competition in the automobile industry, the Company had to incur more on advertising and sales promotion.

Other income improved from Rs. 92.199 million to Rs. 98.435 million. Financial and other charges decreased from Rs. 182.748 million to Rs. 127.644 million. The drop in financial and other charges was due to the improvement in liquidity as a result of issue of right shares in May 1995, improvement of profitability and decrease in pending booking of vehicles.

In view of brought forward tax losses, Company provided only for turnover tax on account of current taxation. If there had not been un-absorbed brought forward tax losses, the provision for current taxation would have been Rs. 252 million and accordingly net profit after tax would have reduced to Rs. 363 million.

#### **MARKETING**

The company was able to sell practically all vehicles produced during the year in a depressed market. This was achieved through aggressive advertising and sales promotion strategies implemented during the year. The management is aware of the competition which Company products may face with the entry of new automobile assemblers and products.

#### **PRODUCTION**

The production volume increased drastically by 26%. During the year 28,040 units were produced against 22,202 units produced in the previous year. The production level was below production capacity. The under utilization of capacity was mainly attributable to erratic supply and quality problems of some vendorised parts.

#### **PERSONNEL**

Labour management relations continued to remain cordial and industrial peace prevailed during the year. The CBA served a new charter of demand for the period July 1996 to June 1998. The management commenced negotiations with the CBA.

#### **DELETION**

The Company has been following the deletion programme approved by the Government and is making all endeavours to continue to meet the deletion targets for future years. In October 1995, the Government of Pakistan constituted

the Engineering Development Board on which Pak Suzuki is also represented. The objective of the Board is to review deletion programmes to make them Industry Specific in order to accelerate pace of indigenisation. Pak Suzuki would continue to assist vendor industry to enhance its technological levels to international standards at economically viable prices. Possibilities of technical co-operation/ collaboration with the Japanese vendors are being explored and encouraged. Technical assistance wherever necessary continues to be provided to local vendors for acquiring high technology.

#### **ECONOMIC CONTRIBUTION**

Despite adverse factors, the Company maintained its distinctive position as a leading contributor in the automobile industry to the public exchequer. The duties and taxes paid and the foreign exchange saved by Company in its last five years of operations are as follows:

<b>Year</b>	<b>Duties and taxes</b>	<b>Foreign exchange savings</b>
	<b>(Rupees in million)</b>	
1991-92	1,768	1,619
1992-93	1,475	1,581
1993-94	1,157	1,033
1994-95	1,804	1,581
1995-96	2,600	2,555

#### **WASTE WATER TREATMENT PLANT**

In compliance with Government's policy to control environment pollution, the Company set up its waste water treatment plant at a cost of Rs. 40 million. The treatment plant commenced operation in June 1996.

#### **EQUITY/INVESTMENT OF SUZUKI MOTOR**

##### **CORP. JAPAN**

Subsequent to June 1996, PACO in compliance with Government's policy of dis-investment sold its remaining shareholding to Suzuki Motor Corporation, Japan (SMC) in accordance with the terms of Joint Venture Agreement between PACO and SMC entered into in June 1982. As a result, the Joint Venture Agreement came to an end.

Presently SMC's shareholding in the company stands at 72.8%. Since privatization SMC brought in foreign investment equivalent to Pak Rs. 991.75 million.

#### **CONCLUSION/PROSPECTS**

The Regulatory Duty on imports imposed in October 1995 was not abolished by the Government as earlier programmed. On the other hand, the Government increased custom duties on cars as well as sales tax on all products through the 1996-97 budget. The imposition of Capital Value Tax (CVT) on vehicles upto 1000 cc for non-tax payers and enhanced rates for those above 1000 cc have seriously affected sales and production. The outcome of this levy has tangibly depressed demand. As a result sales volume in the first quarter of 1996-97 dropped as compared to the preceding quarter. The company has urged the Government through Pakistan Automotive Manufacturers Association (PAMA) to review and rationalise the sliding scale of CVT, since this is an obstacle to the growth of the industry and the economy.

Company's key objectives continue to remain:

-- To provide automobiles of international quality at reasonable prices.

-- To improve skills of employees by imparting training and by inculcating in them a sense of participation; and

-- To abide by the deletion policy of the Government, achieve maximum indigenisation and promote the automobile vending industry.

I thank the Company's management, executives, workers, dealers, vendors and the experts of Suzuki Motor Corporation for their efforts and valuable contribution to the affairs of the Company. I am also grateful to the Federal and Provincial governments for their continued support and guidance.

**DIRECTORS' REPORT**

The Directors of the Company take pleasure in submitting their report with audited accounts of the Company, together with auditors' Report thereon, for the year ended June 30, 1996.

**ACCOUNTS**

(Rs. in 000)

Profit after taxation	574,502
Accumulated loss brought forward	(534,111)
	-----
Profit available for appropriation	40,391
Less: Appropriation	
Proposed cash dividend @ 7%	34,392
	-----
Unappropriated profit carried forward	5,999

=====

### 3. CHAIRMAN'S REVIEW

The Chairman's review on page 7 to 9 deals with the year's activities and the directors Of the Company endorse the contents of the same.

### 4. PATTERN OF SHAREHOLDINGS

The pattern of shareholdings is given on page 43.

### 5. BOARD CHANGES

5.1 Mr. Javed Burki resigned as Chairman and Director consequent to termination of the Joint Venture Agreement between SMC Japan and PACO as a result of disinvestment of shares by PACO.

5.2 Mr. Hirofumi Nagao has been appointed as Chairman in place of Mr. Javed Burki.

5.3 Mr. Razi-ur-Rehman Khan replaced Mr. Asadullah Sheikh who resigned.

### 6. AUDITORS

Messrs Sidat Hyder Qamar Maqbool & Co., Chartered Accountants retire and being eligible offer themselves for appointment as the auditors of the Company for the year 1997.

#### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pak Suzuki Motor Company Limited as at 30 June 1996 and the related profit and loss account and statement of changes in financial position, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet 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 purposes of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the statement of changes in financial position, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 1996 and of the profit and the changes in financial position for the year then ended; and

(d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance,



1980.

**BALANCE SHEET**

AS AT JUNE 30, 1996

	NOTE	1996 (Rupees in thousand)	1995
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised share capital 150,000,000 (1995: 50,000,000) ordinary shares of Rs. 10/- each		1,500,000 =====	500,000 =====
Issued, subscribed and paid-up share capital	3	491,312	491,312
Reserves	4	584,002	584,002
Unappropriated profit/(loss)		5,999	(534,111)
		-----	-----
Shareholders' equity		1,081,313	541,203
<b>LIABILITIES</b>			
Deferred taxation	19.2	126,000	-
Long-term liabilities	5	402,463	779,264
Current liabilities	6	2,896,613	3,342,683
		-----	-----
		3,299,076	4,121,947
<b>CONTINGENCIES AND COMMITMENTS</b>			
	7	-----	-----
Total shareholders' equity and liabilities		4,506,389 =====	4,663,150 =====
<b>ASSETS</b>			
Tangible fixed assets	8	1,471,713	1,590,692
Long-term investments	9	6,006,306	
Long-term loans	10	2,916	2,393
Long-term deposits and prepayments	11	4,454	4,256
Current assets	12	3,021,300	3,062,803
		-----	-----
Total assets		4,506,389 =====	4,663,150 =====

The annexed notes form an integral part of these accounts.

**PROFIT AND LOSS ACCOUNT**

FOR THE YEAR ENDED JUNE 30, 1996

	NOTE	1996 (Rupees in thousand)	1995
Net sales	13	7,904,301	5,703,785
Cost of sales	14	6,986,592	5,406,032
		-----	-----
Gross profit		917,709	297,753
Selling and administration expenses	15	145,239	97,812
		-----	-----
Operating profit		772,470	199,941
Other income	16	98,435	92,199
		-----	-----

		870,905	292,140
Financial and other charges	17	127,644	182,748
Voluntary retirement benefits	18	-	86,564
		-----	-----
		127,644	269,312
		-----	-----
Profit before taxation		743,261	22,828
Taxation			
Current	- for the year	19.1	40,500
	- for prior years		2,259
Deferred		19.2	126,000
		-----	-----
		168,759	28,746
		-----	-----
Profit/(loss) after taxation		574,502	(5,918)
Accumulated loss brought forward		(534,111)	(528,193)
		-----	-----
Accumulated profit/(loss) available for appropriation		40,391	(534,111)
Appropriation			
Proposed cash dividend @ 7% (1995: Nil)		34,392	--
		-----	-----
Upappropriated profit/(loss) carried forward		5,999	(534,111)
		=====	=====

The annexed notes form an integral part of these accounts.

**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
FOR THE YEAR ENDED JUNE 30, 1996

	NOTE	1996	1995
		(Rupees in thousand)	
<b>Cash Flow from operating activities</b>			
Cash generated from operations	20	1,466,434	655,303
Financial charges paid		(116,337)	(166,919)
Taxes paid		(14,874)	(3,413)
Long-term loans (net)		(523)	1,489
Long-term deposits and prepayments (net)		(198)	(1,574)
		-----	-----
Net cash inflow from operating activities		1,334,502	484,886
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		(134,795)	(81,793)
Investment made		(3,000)	(2,000)
Sale proceeds on disposal of fixed assets		7,071	3,997
Mark-up on cash deposits and advances to suppliers and income from investments received		90,398	79,705
WAPDA bearer bonds encashed		-	313
		-----	-----
Net cash (outflow)/inflow from investing activities		(40,326)	222
<b>Cash flow from financing activities</b>			
Issue of share capital		-	245,656

Premium on issue of share capital	-	368,485
Repayment of long-term loans	(100,823)	(90,735)
Advances from customers (net)	(1,158,939)	(529,856)
Dividends paid	-	(1)
	-----	-----
Net cash outflow from financing activities	(1,259,762)	(6,451)
	-----	-----
Net increase in cash and cash equivalents	34,414	478,657
Cash and cash equivalents at the beginning of the year	455,508	(23,149)
	-----	-----
Cash and cash equivalents at the end of the year 21	489,922	455,508
	=====	=====

The annexed notes form an integral part of these accounts.

**NOTES TO AND FORMING PART OF THE ACCOUNTS**  
FOR THE YEAR ENDED JUNE 30, 1996

**1. COMPANY BACKGROUND, OPERATIONS AND LEGAL STATUS**

The Company was formed in accordance with the terms of a joint venture agreement concluded between Pakistan Automobile Corporation Limited (PACO) and Suzuki Motor Corporation, Japan (SMC) -- the principal shareholders of the Company, for the purposes of assembling, progressive manufacturing and marketing of Suzuki Cars, Pickups, Vans and 4 X 4s. Under the joint venture agreement, the net assets of Awami Autos Limited (AAL), a subsidiary of PACO, now liquidated, were taken over by the Company in August 1983 in consideration for which shares in the Company were issued to PACO.

The Company was incorporated in Pakistan as a public limited company in August 1983 and started commercial production in January 1984. The shares of the Company are quoted on the stock exchanges in Pakistan.

In accordance with the terms of a sale agreement dated September 19, 1992 between SMC and PACO, SMC increased their shareholding to 40% in the Company by purchasing shares from PACO and took over its management with effect from September 21, 1992. Subsequently SMC progressively increased its investment thereby acquiring increased equity.

As on June 30, 1996 the shareholding of SMC stood at 67.2%. However, subsequent to June 30, 1996, SMC further enhanced its shareholding to 72.8% by purchasing remaining shares from PACO and as a result the joint venture agreement between PACO and SMC has come to an end. Since privatization, SMC brought in foreign investment equivalent to Pak Rs. 991.75 million.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

**2.2 Tangible fixed assets and depreciation**

Operating fixed assets are stated at cost less accumulated depreciation. Capital work-in-progress is stated at cost. Items of fixed assets costing Rs. 1,000/- or less are not capitalized and charged off in the year of purchase.

Depreciation on all operating fixed assets, except leasehold land, is charged to income applying the reducing balance method whereby the cost of an asset is written off over its estimated useful life. Leasehold land is depreciated using the straight line

method whereby the cost of the leasehold land is written off over its lease term. The full year's depreciation is charged on additions while no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred. Gain or loss on sale or retirement of fixed assets is included in income currently.

### **2.3 Capitalisation of borrowing cost**

The borrowing cost during construction period, on loans obtained for a specific project, is capitalised as part of fixed asset additions or included in capital work-in-progress.

### **2.4 Investments**

Long-term investments in shares are stated at cost. However, provision is made for permanent diminution in value of investment, if any. Short-term investments are stated at the lower of cost and market value. However, these are stated at cost if it is expected that the proceeds upon maturity will exceed the cost.

### **2.5 Deferred costs**

Deferred costs are charged to income over a period of three years.

### **2.6 Stores, spares and loose tools**

Stores, spares and loose tools, except items-in-transit, are valued at cost calculated on a first-in-first-out basis. Items in-transit are valued at cost comprising invoice values plus other charges paid thereon to the balance sheet date. Provision is made annually in the accounts for slow moving and obsolete items.

### **2.7 Stocks**

Stocks, except items-in-transit, are valued at the lower of cost and net realisable value. Cost is calculated on a first-in-first-out or specific consignment basis, depending upon their categories. Stocks-in-transit are stated at invoice values plus other charges accrued thereon to the balance sheet date. The Company assumes title to stocks-in-transit after the relevant documents are retired.

Vehicles on wheels are taken as work-in-process until they are approved by the quality control department. After such approval the vehicles are classified as finished goods. Cost in relation to engines assembled by the Company shown as part of raw materials, work-in-process and finished goods consists of landed cost of imported materials, average local materials cost, factory overhead and direct labour. Cost in relation to CKD vehicles represents landed cost.

Net realisable value is determined by considering the prevailing selling prices of vehicles in the ordinary course of business less costs of completion and less cost necessarily to be incurred in order to make the sale. The net realisable values are determined on the basis of each line of product.

Provision is made annually in the accounts for slow moving and obsolete items.

### **2.8 Employees retirement gratuity scheme**

The Company operates an approved funded gratuity scheme covering all its permanent employees who have completed the minimum qualifying period as specified by the scheme. Provision is made annually in the accounts to cover obligations under the scheme. Provision for the year ended June 30, 1996 is based on actuarial valuation.

### **2.9 Taxation**

**Current:**

Provision for current taxation in the accounts is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at 0.5 percent of turnover, whichever is higher.

**Deferred:**

The Company accounts for deferred taxation arising on major timing differences using the liability method.

**2.10 Foreign currencies**

Foreign currency transactions are converted at the rates of exchange ruling on the dates of those transactions or forward exchange contracts rates. Assets and liabilities expressed in foreign currencies are translated into Pak rupees at the rates of exchange prevailing on the balance sheet date except those liabilities covered under forward exchange contracts which are translated at the contractual rates. Exchange differences are included in income currently.

**2.11 Revenue recognition**

Revenue is recognised when goods are sold and services rendered. Goods are treated as sold when they are specified and invoiced.

Warranty and insurance claims are recognised when the claims in respect thereof are lodged whereas indenting and agency commission is recognised when the shipments are made by the principals.

**2.12 Accounting for compensated absences**

The Company accounts for accrual for employees compensated absences on the basis of unavailed earned leave balance of each employee as at the end of the year.

**2.13 Research and development costs**

Research and development costs are charged in the year in which they are incurred.

**2.14 Warranty obligations**

The Company accounts for its warranty obligations on accrual basis.

1996            1995  
(Rupees in thousand)

**3. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL**

44,284,117 (1995: 44,284,117) ordinary shares of Rs. 10/- each fully paid in cash	442,841	442,841
2,800,000 (1995: 2,800,000) ordinary shares of Rs. 10/- each fully paid-up for consideration other than cash	28,000	28,000
2,047,135 (1995: 2,047,135) ordinary shares of Rs. 10/- each issued as fully paid bonus shares	20,471	20,471
	-----	-----
	491,312	491,312
	=====	=====

3.1 At June 30, 1996 Suzuki Motor Corporation, Japan held 33,017,666 ordinary shares of Rs. 10 each (1995: 33,017,666 ordinary shares).

NOTE            1996            1995  
(Rupees in thousand)

**4. RESERVES**

Capital reserve			
Share premium account		584,002	584,002
		=====	=====

**5. LONG TERM LIABILITIES**

Long-term loans

Secured			
From National Development Finance Corporation	5.1	146,917	205,924
Less: Current maturity	6	67,375	59,281
		-----	-----
		79,542	146,643
From International Finance Corporation	5.2	125,325	167,141
Less: Current maturity	6	41,816	41,816
		-----	-----
		83,509	125,325
		-----	-----
		163,051	271,968
Advances from customers		905,018	2,063,957
Less: Current maturity	6	665,606	1,556,661
		-----	-----
		239,412	507,296
		-----	-----
		402,463	779,264
		=====	=====

5.1 Particulars of the long-term loans from National Development Finance Corporation (NDFC)

	1996	REPAYMENT 1995 TERMS	RATE OF INTEREST AND OTHER CHARGES	SECURITY	OTHER PARTICULARS
(Rupees in thousand)					
A.	57,237	80,332	10.9% per annum plus foreign exchange risk fee of 4.1% per annum payable on April 1, and October 1, each year.	This loan is secured by the following: -- Mortgage on the immovable properties of the new plant. Formalities for creating the mortgage are in process. -- Floating charge on the business undertaking and all other assets and properties. -- Hypothecation of all plant, equipment, motor vehicles and	A credit facility of Japanese Yen 1 billion was sanctioned by NDFC to the Company for the import of machinery for the new plant at Bin Qasim. During the period that the loan is outstanding the lender has the right to convert the amount outstanding upto a maximum of

	-----	-----
carried forward	57,237	80,332
brought forward	57,237	80,332
B.	89,680	125,592

Repayable in Pakistan rupees, in fourteen semi-annual instalments commencing October 1, 1991.

15% per annum including foreign exchange risk fee payable on April 1, and October 1, each year.

movable properties.  
 -- Hypothecation of book debts and all receivables.  
 -- Hypothecation to NDFC of the benefits of the contracts with the suppliers of goods to be imported/purchased for the purposes of the new plant. (All the above securities rank pari passu with other existing creditors).  
 -- Promissory notes.  
 --Repayment guarantee from PACO. Replacement of this guarantee is in progress in accordance with the sale agreement dated September 19, 1992 between PACO and SMC.

This loan is secured by the following:  
 --Mortgage on the immovable properties of the new plant. Formalities for creating the mortgage are in process.  
 -- Floating charge on tile business udertaking and all other assets and properties.  
 --Hypothecation of all plant, equipment, motor vehicles and movable properties.  
 -- Hypothecation to NDFC of the benefits of the contracts with the suppliers of goods to be imported/ purchased for the purposes of the new plant. (All the above securities rank pari passu with other existing

20% of the facility to fully paid up ordinary shares in the Company at par.  
 A credit facility of US\$ 9.7 million was sanctioned by NDFC to the Company for import of machinery for the new plant at Bin Qasim. During the period that the loan is outstanding the lender has the right to convert the amount outstanding upto a maximum of 20% of the facility to fully paid up ordinary shares ill the Company at par.

-----  
 146,917      205,924  
 =====

creditors).  
 -- Hypothecation of  
 book debts and all re-  
 ceivables.  
 -- Promissory notes.  
 --Repayment  
 guarantee from PACO.  
 Replacement of this  
 guarantee is in  
 progress in accordance  
 with the sale agree-  
 ment dated September  
 19, 1992 between  
 PACO and SMC.

A.	125,325	167,141	Repayable in Japanese Yen in thirteen equal semi-annual instalments commencing September 1, 1992 and a fourteenth instalment for the balance.	8.3125% per annum payable in Japanese Yen plus foreign exchange risk fee of 5.6875% payable in Pakistan Rupees on March 1, and September 1, each year.	The loan is secured by a first fixed charge by way of mortgage by deposit of title deeds on the immovable assets of the new plant and a first charge on all movable assets (present and future) of the Company. The se- curities rank pari passu with any mortgages and charges securing the NDFC loans.	The loan facility of 2.400 billion Japanese Yen was sanctioned by International Finance Corporation (IFC) for the new plant at Bin Qasim. IFC has disbursed 1.500 billion Japanese Yen upto June 30, 1992. The undisbursed loan balance of Japanese Yen 0.9 billion was surrendered by the Company on March 4 1993.
	----- 125,325 =====	----- 167,141 =====				

	NOTE	1996 (Rupees in thousand)	1995
<b>6. CURRENT LIABILITIES</b>			
Bills payable		1,506,813	1,143,362
Creditors		175,531	174,760
Accrued liabilities		71,350	43,810
Advances from customers	5	665,606	1,556,661
Rebate accrued on late delivery of vehicles		78,721	101,866
Current maturity of long-term loans			
- National Development Finance Corporation	5	67,375	59,281
- International Finance Corporation	5	41,816	41,816
		-----	-----
Security deposits	6.1	109,191	101,097
Royalties payable to Suzuki Motor Corporation, Japan - an associated undertaking		59,245	60,665
Interest accrued on secured loans		28,609	72,468
Interest accrued on secured loans		11,553	15,788
Proposed dividend		34,392	-
Unclaimed dividends		169	169
Custom duties	6.2	50,126	33,553
Sales tax payable		-	23,705
Provision for sales tax demand		50,465	-
Capital value tax		2,564	2,286



Contractors' earnest and retention money		5,360	4,808
Workers' profits participation fund	6.3	39,119	1,201
Others		7,799	6,484
		-----	-----
		2,896,613	3,342,683
		=====	=====
<b>6.1 Security deposits</b>			
Repayable on demand		57,600	59,000
Other deposits		1,645	1,665
		-----	-----
		59,245	60,665
		=====	=====

The above deposits are not liable to financial charges.

6.2 The sales tax authorities had issued demand notice for recovery of sales tax, additional tax and surcharge for Rs. 50.465 million (1995: Rs. 50.465 million) for alleged incorrect adjustment of input sales tax amounting to Rs. 19.804 million (1995: Rs. 19.804 million) on components locally procured for consumption in the assembly of Suzuki taxis against output sales tax of other taxable vehicles during the period from February 1992 to August 1992, which were otherwise exempted from the levy of sales tax under the Prime Minister's Public Transport Scheme. The Company had disputed the contention of the sales tax authorities and had filed appeal against the order of the sales tax authorities with the Collector (Appeals) which was decided against the Company. The Company has subsequently filed a writ petition in the High Court of Sindh. The Company was granted stay of demand by the High Court of Sindh till the final disposal of the writ petition. In view of the inherent delays that are associated in litigation and the element of uncertainty inherent in such matters, the management has reviewed the matter during the year and as a matter of prudence a provision has been made.

1996            1995  
(Rupees in thousand)

### 6.3 Workers Profit Participation Fund

Balance at beginning of the year	1,201	--
Interest on funds utilised in the Company's business	62	--
	-----	-----
	1,263	--
Allocation for the year	39,119	1,201
	-----	-----
	40,382	1,201
Less: Paid during the year	1,263	--
	-----	-----
Balance at end of the year	39,119	1,201
	=====	=====

6.4 The facility for opening letters of credit as at June 30, 1996 amounted to Rs. 2,024 million (1995: Rs. 1,300 million) of which the amount remaining unutilised at the year end was Rs. 491.287 million (1995: Rs. 464.351 million).

6.5 The facility for running finance available from a bank amounted to Rs. 100 million (1995: Rs. 100 million) and carry markup at the rate of Re. 0.48 per Rs. 1,000 per day. At the year end no running finance was outstanding (1995: Nil).

### 7. CONTINGENCIES AND COMMITMENT

7.1 The municipal authorities have demanded Rs. 21.685 million (1995: Rs. 21.685 million) for recovery of additional octroi on custom duties and sales tax on import of

completely built-up Suzuki taxis whereas the Company has pleaded that the levy of octroi is not applicable on custom duties and sales tax which were exempted under the Prime Minister's Public Transport Scheme. The Company has, therefore, filed a constitutional writ petition before the High Court of Sindh against the aforementioned octroi levies demanded by the municipal authorities. Pending outcome of the appeal and because the management is confident that the outcome will be favourable, no provision has been made in the accounts for the aforesaid octroi levies.

7.2 Capital expenditure contracted for but not incurred amounted to Rs. 6.537 million (1995: Rs. 22.731 million).

	NOTE	1996 (Rupees in thousand)	1995
<b>8. TANGIBLE FIXED ASSETS</b>			
Operating fixed assets	8.1	1,470,888	1,569,722
Capital work-in-progress	8.9	825	20,970
		-----	-----
		1,471,713	1,590,692
		=====	=====

#### 8.1 Operating fixed assets

The following is a statement of operating assets:

	Cost as at July 1, 1995	Addition/ (dele- [ions)	Reclassi fication	Cost as at June 30, 1996	Accumu- lated depre- ciation as at July 1, 1995	Charge for the year/ (depre- ciation on dele- tions)	Reclassi fication	Accumu lated depre ciation as at June 30, 1996	Net book value as at June 30, 1996	Depre ciation rate %
	(Rupees in thousand)									
Leasehold land	60,494	--	--	60,494	4,573	1,008	--	5,581	54,913	60 years
Buildings on leasehold land (notes 8.2 and 8.4)										
-- Factory	470,876	6,122	--	476,998	61,515	20,774	--	82,289	394,709	5
-- Office	2,063	--	--	2,063	839	61	--	900	1,163	5
Plant and machinery (note 8.4 & 8.6)	1,069,707	23,530	--	1,093,237	306,311	118,039	--	424,351	668,887	15
Waste water treatment plant	--	39,837	--	39,837	--	9,959	--	9,959	29,878	25
Furniture and fittings	12,186	65	--	12,251	6,372	1,176	--	7,548	4,703	20
Vehicles	32,514	13,518 (7,195)	--	38,837	18,345	5,017 (4,594)	--	18,768	20,069	20
Permanent and special tools (note 8.5)	473,573	4,264 (4,767)	(406,768)	66,302	175,410	6,090 (4,141)	(160,294)	17,065	49,237	10 & 25
Dies (notes 8.3, 8.5 & 8.6)	--	47,524	322,893	370,417	--	66,854	123,556	190,410	180,007	25
Jigs & fixtures (notes 8.5 & 8.6)	--	4,382	83,875	88,257	--	13,558	36,738	50,296	37,961	25
Electrical installation	9,230	5,611	--	14,841	4,803	2,008	--	6,811	8,030	20
Airconditioners and refrigerators	115,812	750	--	16,562	4,559	2,401	--	6,960	9,602	20
Office equipment	10,307	516	--	10,823	6,415	881	--	7,296	3,527	20
Computers	6,909	8,821 (449)	--	15,281	4,858	2,550 (329)	--	7,079	8,202	20 & 25
Fixtures	315	-- (315)	--	--	264	-- (264)	--	--	--	15
	-----	-----	-----	-----	-----	-----	-----	-----	-----	

1996	2,163,986	154,940 (12,726)	--	2,306,200	594,264	250,376 (9,328)	--	835,312	1,470,888
1995	1,800,712	368,578 (5,304)	--	2,163,986	443,082	154,608 (3,426)	--	594,264	1,569,722

8.2 Two out of three leasehold lands on which the buildings at West Wharf are situated are in the names of Sind Engineering (Private) Limited, and Republic Motors (Private) Limited. The lease agreements relating to these lands have been expiring on various dates commencing March 1998. The transfer of the leasehold lands in the name of the Company and the renewal of these leases is in process.

8.3 Dies of a net book value of Rs. 12.235 million (1995: Rs. 9.601 million) are kept at the premises of Naya Daur Motors (Private) Limited.

8.4 Included in the operating fixed assets, in note 8.1 above, at an aggregate net book value, as at June 30, 1996, of Rs. 10.693 million (1995: Rs. 11.256 million) are factory and office buildings on leasehold lands at West Wharf, Karachi which consequent to the transfer of the Company's production facilities from West Wharf to Bin Qasim in July 1993 and transfer of the Company's head office in July, 1994 are no longer in use and are now held for disposal. Also included in the operating fixed assets are certain items of plant and machinery whose aggregate net book value as at June, 30, 1996 is not expected to exceed Rs. 7.715 million (1995: Rs. 9.077 million). Such items of plant and machinery are no longer in use and are now held for disposal. The management is confident that the net releasable values of the aforementioned factory and office buildings on leasehold lands and items of plant and machinery are more than their net book values.

8.5 During the year, permanent & special tools have been reclassified into permanent & special tools, dies, jigs and fixtures.

8.6 The Bin Qasim plant commenced commercial production from July 1, 1992. Since then the company has been charging depreciation on plant and machinery, dies, jigs and fixtures (previously classified under permanent and special tools) on reducing balance method at the rate of 10%.

Keeping in view the automobile industry's practice of charging depreciation on the above assets at the rates higher than currently being charged by the company, both locally and internationally and company's plan to change its existing models in the foreseeable future and effects of increasing competition in the local automobile industry, the company has reviewed the remaining expected service lives of the said assets and reconsidered the rates of depreciation with due consideration to International Accounting Standard (IAS-4). The management of the company is of the considered view that depreciation charge should be based on a more fair and realistic remaining economic service lives of the said assets commensurate with their usage and the expected level of operations in the foreseeable future. In view of these considerations, the management has revised the rates of depreciation on the said plant and machinery from 10% to 15% and on dies, jigs and fixtures from 10% to 25% on the basis of revised estimated useful lives, which in its opinion is more appropriate for a fair presentation of the financial statements of the company.

Had the depreciation been charged on the said assets at the rates consistent with prior year, the depreciation charge for the year would have been lower by Rs. 81.953 million and accordingly profit for the year would have been

more by Rs. 77.856 million.

	NOTE	1996	1995
(Rupees in thousand)			
Depreciation charge for the year has been allocated as under:			
Cost of goods manufactured	14.1	239,066	146,210
Selling and administration expenses	15	11,310	8,398
		-----	-----
		250,376	154,608
		=====	=====

**8.8 The following fixed assets were disposed off during the year:**

Cost	Accumulated depreciation	Net book value	Sale proceeds	Profit/(Loss)	Mode of disposal	Particulars of buyers and insurance Company
(Rupees in thousand)						
<b>Vehicles</b>						
Suzuki Khyber	163	120	43	252	209By tender	Mr. Mansoor Ahmad B. Yar Jang Street, Karachi.
Suzuki Bolan	116	85	31	111	80By tender	Mr. Sohail Mithani Ranchore Purl Road, Karachi.
Suzuki Mehran	124	91	33	96	63By tender	Mr. Roshan All Adat 160-A, S.M.C.H.S., Karachi.
Suzuki Bolan	47	43	4	71	67By tender	Mr. Mohammad Tariq A-310, Block-L, North Nazimabad, Karachi.
Bed Ford Truck	317	274	43	426	383By tender	Haji Mohammad Qasim Liaquatabad, Karachi.
Toyota Starlet	125	83	42	181	139By tender	Mr. Ahmad S/o. Siddiq Niaabad, Karachi.
Suzuki Khyber	194	130	64	157	93By tender	Mr. Mohammad Hussain, K.A.E.C.H.S. Karachi.
Suzuki SS-80 FX	98	82	16	49	33By tender	Mr. Mohammad Azeem Shaikh Haiderbad Colony, Karachi.
Suzuki Margalla	233	172	61	253	192By tender	Mrs. Almas Shaikh Hydri, North Nazimabad, Karachi.
Suzuki Margalla	242	179	63	290	227By tender	Syed Kausar Hussain,
Suzuki Bolan	115	99	16	131	115By tender	Federal 'B' Area, Karachi.
Bed Ford Truck	446	329	117	433	316By tender	Mr. Fazal Din, Azam Town, Karachi.
Suzuki Margalla	166	112	54	79	25By negotiation	Mir Saadatullah, Director. House No. 124, DOHS, Malir Cantt, Karachi.
Suzuki Bolan	130	88	42	135	93By negotiation	City Automobile, D-155, F.B. Area, Karachi.
Suzuki Khyber	245	49	196	246	50Insurance claim	E.F.U. General Insurance Co. 124/T, Block-2, Tariq Road, P.E.C.H.S., Karachi.
Suzuki Margalla	233	172	61	343	282By tender	Mr. Mohammad Yousuf, P.P. 13, Block-16,

Suzuki Khyber	174	145	29	165	136	By tender	Gulshan-e-Iqbal, Karachi. Mr. Meer Alam 52/2B, B Area, Liaquatabad, Karachi.
Suzuki Bolan	131	88	43	163	120	By tender	Syed Mohammad Ali, B-143, Block-A, North Nazimabad, Karachi.
Suzuki Mehran	105	83	22	116	94	By tender	Mr. Sadruddin Jaffar Ali Kurji 13-A Platinum H.S., Lobo St., Karachi.
Carried forward	3,404	2,424	980	3,697	2,717		
Brought forward	3,404	2,424	980	3,697	2,717		
Suzuki Margalla	233	172	61	236	175	By tender	Mr. S.N. Hassan A/80, Block-8, F.B. Area, Azizabad, Karachi.
Mazda B220 Pickup Diesel	220	148	72	220	148	By tender	Mr. Mohammad Hussain, 3rd-Dada Garden, Jamaluddin Afghani Road, Karachi.
Suzuki Khyber	163	120	43	267	224	By tender	Mr. Rizwan Karim, 1-C, 2/3 Nazimabad, Karachi.
Suzuki Bolan	131	88	43	137	94	By tender	
Suzuki Bolan	115	91	24	141	117	By tender	Mr. M. Hameed Khan, B-322, Block L, North Nazimabad, Karachi.
Suzuki Ravi	89	60	29	70	41	By tender	
Honda Motor Cycle	30	22	8	28	20	By tender	
Suzuki Bolan	54	49	5	102	97	By tender	Mr. Javed, Rawalpindi
Suzuki Bolan	116	85	31	153	122	By tender	Mr. Khan Khalid Waqar 37-Tulsa Rd., Lalazar, Rawalpindi
Suzuki Mehran	124	91	33	162	129	By tender	Mr. Julius Samuel NE.320, Jinah Colony, Tipu Road, Rawalpindi
Suzuki Ravi	93	63	30	70	40	By tender	Mr. Jawed Abdul Haseeb D-88, PAF Faisal, Karachi.
Honda Motor Cycle	37	22	15	36	21	By tender	Sheikh Abdul Rauf D-88, PAF Faisal, Karachi.
Suzuki Ravi	92	62	30	76	46	By tender	Mr. Meer Alam, 52/2B, B Area, Liaquatabad, Karachi.
Suzuki Ravi	89	66	23	52	29	By tender	
Suzuki Margalla	252	186	66	260	194	Insurance claim	E.F.U. General Insurance Co. 124/T, Block-2, Tariq Road, P.E.C.H.S., Karachi.
Suzuki Mehran	202	40	162	205	43	Insurance claim	
Suzuki Margala	376	75	301	375	74	Insurance claim	
Suzuki Khyber	246	49	197	246	49	Insurance claim	
Suzuki Motorcycle	44	9	35	44	9	Insurance claim	
Suzuki Cars/Vans	1,085	672	413	424	11	Executive car Scheme	Company Employees.
	7,195	4,594	2,601	7,001	4,400		

**Computers:**

Personal Computers	449	329	120	70	(50) Trade in
Fixtures	315	264	51	0	(51) Scrap out
Permanent&Special tools	4,767	4,141	626	0	(626) Scrap out
	-----	-----	-----	-----	-----
1996	12,726	9,328	3,398	7,071	3,673
	=====	=====	=====	=====	=====
1995	5,304	3,426	1,878	3,997	2,119
	=====	=====	=====	=====	=====

Ascom Technologies  
321, Panorama Centre, Karachi

NOTE  
(Rupees in thousand)

**8.9 Capital work-in-progress**

Civil works	--	4,424
Plant and machinery	--	16,546
Advance for capital expenditure	825	--
	-----	-----
	825	20,970
	=====	=====

**9. LONG-TERM INVESTMENTS**

Quoted

Bolan Castings Limited  
100,000 fully paid ordinary shares of Rs. 10/- each [market value as at June 30, 1996 Rs. 0.890 million (1995: Rs. 0.950 million)]

	1,006	1,006
Advance against investment	--	2,000

Unquoted

Arabian Sea Country Club Limited  
500,000 (1995: Nil) fully paid ordinary shares of Rs. 10 each (Representing 12.3% holdings)  
The value of the Company's investment on the basis of net assets of the investee company as disclosed in its audited account for the year ended June 30, 1995 amounted to Rs. 5 million. Mr. Zaeem Lutfi is the Chief Executive of the Company.

	5,000	--
	-----	-----
	6,006	3,006
	=====	=====

**10. LONG-TERM LOANS - Secured**

Loans - considered good, due from employees	10.1	5,593	4,291
Less: Receivable within one year	12.5	2,677	1,898
		-----	-----
		2,916	2,393
		=====	=====

10.1 These represent loans given to employees, against guarantees of three employees of the Company, for purchase of motorcycles. These loans are repayable in thirty six equal monthly instalments free of any financial charges.

**11. LONG-TERM DEPOSITS AND PREPAYMENTS**

Long-term deposits		3,931	2,641
Long-term prepayments		523	1,615
		-----	-----
		4,454	4,256
		=====	=====

**CURRENT ASSETS**

Stores, spares and loose tools	12.1	23,731	24,282
Stocks	12.2	1,694,591	1,532,472
Trade debts	12.3	73,671	32,530
Sales tax refundable	12.4	14,195	215,639
Loans and advances	12.5	33,978	34,695
Short-term prepayments and current account balances with statutory authorities	12.6	9,004	4,594
Income tax refundable-net		86,459	114,344
Accrued income		15,758	15,882
Other receivables	12.7	82,491	135,357
WAPDA bearer bonds	12.8	497,500	497,500
Cash and bank balances	12.9	489,922	455,508
		-----	-----
		3,021,300	3,062,803
		=====	=====

<b>Stores, spares and loose tools</b>		14,187	11,448
Stores		13,863	13,994
Spares		4,371	4,233
Loose tools		-----	-----
		32,421	29,675

Less: Provision for slow moving and obsolete items		8,690	5,393
		-----	-----
		23,731	24,282
		=====	=====

**Stocks**

Raw materials and components [including items in transit Rs. 432.209 million (1995: Rs. 498.038 million)]		1,601,660	1,325,475
Less: Provision for obsolete items		17,795	16,895
		-----	-----
		1,583,865	1,308,580
Work-in-process		36,670	108,928
Finished goods		935	72,569
Trading stock: [including items in transit Rs. 0.892 million (1995: Rs. 6.758 million)]		101,428	68,522
Less: Provision for slow moving and obsolete items		28,307	26,127
		-----	-----
		73,121	42,395
		-----	-----
		1,694,591	1,532,472
		=====	=====

12.2.1 Of the aggregate amount, stocks which were in the custody of third parties are as follows:

Vendors	24,479	21,603
Dealers	-	849
	-----	-----
	24,479	22,452
	=====	=====

### 12.3 Trade debts

Unsecured and considered good	73,671	32,530
Considered doubtful	354	317
	-----	-----
	74,025	32,847
Less: Provision for doubtful debts	354	317
	-----	-----
	73,671	32,530
	=====	=====

### 12.4 Sales tax refundable

Considered good	14,195	215,639
Considered doubtful		
-Unadjusted sales tax on components locally procured	12.4.1	- 30,470
- Sales tax paid on purchase of local components for Suzuki taxis	12.4.2	22,386 22,386
		-----
		22,386 52,856
		-----
		36,581 268,495
Provision for doubtful sales tax refundable		22,386 52,856
		-----
		14,195 215,639
		=====

12.4.1 In the preceding year the adjustment of sale tax paid on components locally procured for consumption in the assembly of cars had been contested with the sales tax authorities. During the years the matter was decided by the sales tax authorities whereby company was allowed adjustment for Rs. 12.807 million and the balance amount of Rs. 17.663 million was disallowed.

12.4.2 This represents sales tax paid on purchase of local components for consumption in the assembly of Suzuki taxis. The grounds for this claim are similar as that of the matter stated in note 6.2 above which is under litigation in the High Court of Sindh. However, in view of the delays that are usually associated with matters in litigation and the element of uncertainty inherent in such matters, as a matter of prudence a provisions has been made.

### 12.5 Loans and advances

Considered good		
Loans to employees	10	2,677 1,898
Advances to:		
- Employees		2,710 1,736
- Suppliers		28,591 31,061



	33,978	34,695
Considered doubtful - Advances to suppliers	15,344	15,344
	49,322	50,039
Less: Provision for doubtful advances to suppliers	15,344	15,344
	33,978	34,695
	=====	=====

**12.6 Short-term prepayments and current account balances with statutory authorities**

Short-term prepayments	3,692	4,359
Balances with statutory authorities	5,312	235
	9,004	4,594
	=====	=====

**12.7 Other receivables**

Due from Suzuki Motor Corporation, Japan an associated undertaking	6,308	4,280
Insurance claims	12,806	28,096
Octroi refundable - Considered good	59,549	99,591
Others - Considered good	3,828	3,390
- Considered doubtful	--	1,529
	82,491	136,886
Less: Provision for doubtful other receivable	--	1,529
	82,491	135,357
	=====	=====

12.7.1 The maximum amount outstanding from the associated undertaking at the end of any month during the year was Rs. 7.573 million (1995: Rs. 75.244 million).

**12.8 WAPDA bearer bonds  
III issue:**

Nominal value Rs. 500 million (1995: Rs. 500 million)		
Rate of return: 12.5% tax free		
Date of issue: May 1990		
Period of redemption: 10 years	497,500	497,500
	=====	=====

12.8.1 WAPDA bearer bonds to an extent of a nominal value of Rs. 100 million are secured against short term running finance facility of Rs. 100 million from a bank as stated in note 6.5 above and those to an extent of a nominal value of Rs. 400 million are secured against a facility for usance letters of credit allowed by a bank for Rs. 1,500 million (1995: Rs. 1,000 million).

**Cash and bank balances**

Cash in hand	1,514	1,068
Pay orders and bank drafts in hand	19,818	69,457
	21,332	70,525
Cash at bank		

In current accounts		102,845	6,318
On deposit		306,500	318,000
In a special account	12.9.1	59,245	60,665
		-----	-----
		468,590	384,983
		-----	-----
		489,922	455,508
		=====	=====

12.9.1 The special account is maintained in respect of security deposits (note 6.1) in accordance with the requirements of section 226 of the Companies Ordinance, 1984.

**13. NET SALES**

Manufactured goods			
Sales		7,915,750	5,581,301
Less: Commission paid to selling agents		71,093	37,267
Discounts		3	3
		-----	-----
		71,096	37,270
		-----	-----
		7,844,654	5,544,031
Trading stocks			
Sales		65,780	167,921
Less: Commission paid to selling agents		-	626
Discounts		6,133	7,541
		-----	-----
		6,133	8,167
		-----	-----
		59,647	159,754
		-----	-----
		7,904,301	5,703,785
		=====	=====

**14. COST OF SALES**

Manufactured goods			
Finished goods at beginning of the year		72,569	461,419
Cost of goods manufactured		6,858,206	4,841,586
		-----	-----
		6,930,775	5,303,005
Finished goods at end of the year		935	72,569
		-----	-----
		6,929,840	5,230,436
Trading stocks			
Stocks at beginning of the year		42,395	183,568
Purchases during the year		87,478	34,423
		-----	-----
		129,873	217,991
Stocks at end of the year		73,121	42,395
		-----	-----
		56,752	175,596
		-----	-----
		6,986,592	5,406,032
		=====	=====

**14.1 Cost of goods manufactured**

Work-in-process at beginning of the year		108,928	154,241
		-----	-----
Raw materials and components consumed			
Stocks at beginning of the year		1,308,580	1,246,249
Purchases during the year		6,466,278	4,419,598
		-----	-----
		7,774,858	5,665,847
Stocks at end of the year		1,583,865	1,308,580
		-----	-----
		6,190,993	4,357,267
Stores and spares consumed		48,963	33,447
Provision for slow moving and obsolete stores, spares and loose tools		3,297	(819)
Fuel and power		34,318	31,188
Salaries, wages and other benefits		127,010	99,431
Rent, rates and taxes		2,892	4,754
Insurance		11,050	8,372
Repairs and maintenance		28,314	22,922
Royalties		30,966	21,305
Depreciation	8.7	239,066	146,210
Conveyance and travelling		21,811	12,375
Communications		1,103	1,069
(Reversal)/provision for doubtful sales tax refundable	12.4.1	(12,807)	52,856
Provision for sales tax demand	6.2	50,465	-
Others		8,507	5,896
		-----	-----
		594,955	439,006
		-----	-----
Manufacturing cost for the year		6,785,948	4,796,273
Work-in-process at end of the year		36,670	108,928
		-----	-----
		6,858,206	4,841,586
		=====	=====

**15. SELLING AND ADMINISTRATION EXPENSES**

Salaries, wages and other benefits		50,635	37,087
Hired security guards services		5,445	3,771
Rent, rates and taxes		7,192	3,286
Utilities		1,182	1,173
Insurance		2,078	1,391
Repairs and maintenance		4,984	4,680
Depreciation	8.7	11,310	8,398
Auditors' remuneration	15.1	678	530
Legal and professional charges		1,131	1,509
Conveyance and travelling		13,878	8,261
Entertainment		1,362	749
Printing and stationery		3,217	1,810
Advertising and sales promotion		30,505	7,062
Free service and warranty claims		2,757	2,074
Communications		4,798	3,678
Provision for doubtful debts		37	317
Provision for doubtful receivables		--	1,529

Provision for doubtful advances to suppliers	--	7,844
Others	4,050	2,663
	-----	-----
	145,239	97,812
	=====	=====

**15.1 Auditors' remuneration**

Audit fee	250	250
Special certifications and sundry advisory services	351	228
Out of pocket expenses	77	52
	-----	-----
	678	530
	=====	=====

**16. OTHER INCOME**

Mark-up on cash deposits with banks	23,177	39,961
Mark-up on advances to suppliers	4,597	5,631
Reversal of mark-up accrued on advances to suppliers	--	(23,193)
Income on WAPDA bearer bonds	62,500	62,500
Indenting and agency commission	123	103
Net profit on disposal of fixed assets	8.8	3,673
Others	4,365	5,078
	-----	-----
	98,435	92,199
	=====	=====

**17. FINANCIAL AND OTHER CHARGES**

Mark-up on short-term finances	14,578	32,389
Interest and other borrowing costs on secured long-term loans	49,412	63,858
Interest on short-term loans	--	21,993
Rebate on late delivery of Suzuki vehicles	24,905	37,168
Net exchange (gain)/loss	(1,834)	24,866
Bank charges	1,402	1,273
Workers' profits participation fund interest on W.P.P.F.	39,119	1,201
	62	--
	-----	-----
	127,644	182,748
	=====	=====

**18. VOLUNTARY RETIREMENT BENEFITS**

Voluntary retirement benefits represent extra payments made as incentive to employees who opted to retire from the Company in terms of the voluntary retirement scheme introduced during 1994-95.

**19. TAXATION****19.1 Current**

In view of the assessed accumulated tax losses available for set-off, provision for current taxation for the year is based on minimum tax at 0.5 percent on turnover of the Company. The Company has filed constitutional writ petitions in the High Court of Sindh challenging the vires of presumptive tax and minimum tax under sections 80-C and 80-D of the Income Tax Ordinance, 1979.

**19.2 Deferred**

The deferred tax liability, computed under the liability method on account of timing differences primarily due to accelerated tax depreciation, at June 30, 1996 amounted to approximately Rs. 126.000 million (1995: Rs. 160.304 million). Provision for deferred taxation has been made in the accounts as the management considers that the timing differences would reverse in the foreseeable future.

## 20. CASH GENERATED FROM OPERATIONS

Profit before taxation		743,261	22,828
Adjustments for non cash charges & other items:			
Depreciation		250,376	154,608
Net profit on disposal of fixed assets		(3,673)	(2,119)
Mark-up on cash deposits and advances to suppliers and income from investments		(90,274)	(84,899)
Financial charges		88,957	155,408
Working capital changes	20.1	477,787	409,477
		-----	-----
		1,466,434	655,303
		=====	=====

### 20.1 Working Capital Changes

(Increase)/decrease in current assets			
Stores, spares & loose tools		551	4,502
Stocks		(162,119)	513,005
Trade debts		(41,141)	(29,761)
Sales tax refundable		201,444	(137,108)
Loans and advances		717	41,170
Short-term prepayments & current account balances with statutory authorities		(4,410)	7,204
Other receivables		52,866	(3,015)
Amount held under the vehicle gift scheme		--	2
		-----	-----
		47,908	395,999
Increase in current liabilities (net)		429,879	13,478
		-----	-----
		477,787	409,477
		=====	=====

## 21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following items as included in the balance sheet.

Cash and bank balances	12.9	489,922	455,508
		=====	=====

## 22. REMUNERATION OF DIRECTORS AND CHIEF EXECUTIVE

	1996			1995		
	Directors	Chief Executive	Executives	Directors	Chief Executive	Executives
	(Rupees in thousand)					
Managerial remuneration	2,640	720	4,732	2,311	720	2,018
Retirement benefits						
Provident fund	168	--	435	154	--	202
Gratuity fund	140	--	2,623	131	--	1,521

## Perquisites

Rent	972	--	1,993	847	--	1,106
Utilities and upkeep	562	--	363	431	--	157
Telephone	242	1	120	121	--	94
Medical	57	--	389	174	--	239
Entertainment	41	--	552	46	--	251
	-----	-----	-----	-----	-----	-----
	4,822	721	11,207	4,215	720	5,588
	=====	=====	=====	=====	=====	=====
Number of persons	5	1	33	5	1	16

22.1 In addition, the chief executive, five directors and fourteen executives were provided with free use of chauffeur driven Company maintained cars while nineteen executives were provided cars under the Company's executive car scheme. One director is also provided with Company maintained accommodation.

**23. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS**

	1996	1995
	(Rupees in thousand)	
Purchase of components	3,726,917	2,642,905
Purchase of fixed assets	19,659	1,262
Royalties	30,966	21,305
Indenting and agency commission	123	103
Sub assembly revenues	183	--

**24. PLANT CAPACITY AND ACTUAL PRODUCTION**

	1996	1995
	(Number of units)	
Plant capacity (double shifts)	50,000	50,000
Actual production	28,040	22,202

Decrease in actual production as compared to the installed capacity is mainly attributed to reduced working hours of second shift, interrupted supply of local components and intermittent closure of plant due to law and order situation in Karachi.

**25. COMPARATIVE FIGURES**

Previous year's figures have been reclassified, wherever necessary, for the purpose of comparison.

**SELECTED FINANCIAL DATA**

## 6 YEARS AT A GLANCE

	1996	1995	1994	1993	1992	1991
	(Rupees in thousand)					
<b>OPERATING RESULTS</b>						
Production volume (Nos)						
PSMC Plants	28,040	22,202	16,569	26,165	28,914	26,200
Assembled by associated undertakings	--	--	4,079	9,157	13,634	14,646
Total	28,040	22,202	20,648	35,322	42,548	40,846
Sales volume (Nos)	28,217	25,336	23,974	34,714	42,772	40,976

Sales revenue	7,904,301	5,703,785	4,261,897	5,362,390	5,257,790	5,013,093
Gross profit/(loss)	917,709	297,753	(82,720)	(14,533)	(480,361)	132,412
Operating profit/(loss)	772,470	199,941	(157,437)	(119,379)	(558,546)	33,666
Profit/(loss) before taxation	743,261	22,828	(302,943)	(232,408)	(507,104)	167,882
Profit/(loss) after taxation	574,502	(5,918)	(296,577)	(240,990)	(528,206)	117,269
Dividends	34,392	--	--	--	--	20,471
Profit retained	540,110	--	--	--	--	* 96,798
	=====	=====	=====	=====	=====	=====

**CAPITAL EMPLOYED**

Share capital	491,312	491,312	245,656	245,656	122,828	102,357
Reserves	584,002	584,002	215,517	215,517	40,649	588,746
Unappropriated profit/(adverse balance)	5,999	(534,111)	(528,193)	(231,616)	--	580
	-----	-----	-----	-----	-----	-----

Shareholders' equity	1,081,313	541,203	(67,020)	229,557	163,477	691,683
Long-term and deferred liabilities	528,463	779,264	1,772,180	1,853,049	1,603,091	1,556,504
	-----	-----	-----	-----	-----	-----
	1,609,776	1,320,467	1,705,160	2,082,606	1,766,568	2,248,187
	=====	=====	=====	=====	=====	=====

**Represented by:**

Fixed assets	1,471,713	1,590,692	1,665,385	1,655,710	1,627,050	1,315,496
Other non-current assets	13,376	9,655	7,570	9,197	12,498	10,815
Net current assets	124,687	(279,880)	32,205	417,699	127,020	921,876
	-----	-----	-----	-----	-----	-----
	1,609,776	1,320,467	1,705,160	2,082,606	1,766,568	2,248,187
	=====	=====	=====	=====	=====	=====

**PROFITABILITY RATIOS**

Gross profit/(loss) as a % of net sales	11.6	5.2	(1.9)	(0.3)	(9.1)	2.6
Operating profit/(loss) as % of net sales	9.80	3.50	(3.7)	(2.2)	(10.6)	0.7
Profit/(loss) before taxation as a % of net sales	9.4	0.4	(7.1)	(4.4)	(9.6)	3.3
Profit/(loss) after taxation as a % of net sales	7.3	(0.)	(7.0)	(4.5)	(10.0)	2.3
Earning/(loss) per share (Rs.)	11.7	(0.1)	(12.1)	(9.8)	(43.0)	11.5

\* Includes bonus shares

**LIQUIDITY & LEVERAGE RATIOS**

Current ratio	1.04:1	0.92:1	1.01:1	1.13:1	1.1:1	1.4:1
Quick ratio	0.34:1	0.29:1	0.21:1	0.23:1	0.35:1	0.78:1
Liabilities as % of total assets	76	88	--	96	96	84
Equity as % of total assets	24	12	-ve	4	4	16
Debt equity ratio	13:87	33:67	--	89:11	91:09	69:31

**EFFICIENCY RATIOS**

Inventory turn over ratio	4.10	3.50	2.10	2.30	5.80	4.6
No. of days stock held	88	103	173	158	63	79
No. of days sales in trade debts	3	2	0.20	1	4	7

Total assets turn over ratio	1.80	1.20	1.10	1.00	14	1.20
Net worth turn over ratio	7.30	10.50	--	23.40	32.20	7.20

**EQUITY RATIOS**

Break up value per share (Rs.)	22.00	11.02	-ve	9.34	13.30	67.50
Dividend as a % of capital	7	--	--	--	--	20
Dividend per share (Rs.)	0.7	--	--	--	--	2.00
Dividend payout ratio (%)	6	--	--	--	--	17.50
Dividend cover Ratio	16.7	--	--	--	--	5.70
Plough-back ratio (%)	94.0	--	--	--	--	82.50
Bonus shares (%)	--	--	--	--	--	20
Right Issue (%)	--	--	100	--	100	--

**OTHER DATA**

Permanent employees strength	552	540	884	917	1210	1202
Deletion achieved (%)						
Mehran Car SB 308 800cc	59.35	57.90	55.38	54.22	52.30	47.81
Khyber Car SA 310 1000cc	43.85	42.58	40.69	39.38	38.79	38.67
Margalla Car SF 413 1300cc	35.83	34.16	33.31	33.30	33.30	--
Margalla Car SF 413 (Power Pack)	30.52	30.43	--	--	--	--
Ravi Pickup 800cc	53.51	52.14	50.46	48.95	47.18	47.12
Bolan Van 800cc	48.46	47.11	45.68	44.35	42.75	41.72
Potohar Jeep 1000cc	37.56	35.31	34.89	30.60	30.33	30.14
Number of shares issued	49,131,252	49,131,252	24,565,626	24,565,626	12,282,813	10,235,678

**PATTERN OF SHAREHOLDINGS**

AS AT JUNE 30, 1996

Number of shareholders	Shareholding	Total shares held
673	From 1 to 100	32,906
1278	From 101 to 500	372,069
558	From 501 to 1000	437,082
400	From 1001 to 5000	953,354
56	From 5001 to 10000	396,426
17	From 10001 to 15000	226,408
7	From 15001 to 20000	120,896
4	From 20001 to 25000	91,600
4	From 25001 to 30000	108,986
3	From 30001 to 35000	95,900
3	From 35001 to 40000	116,800
2	From 40001 to 45000	85,308
1	From 45001 to 50000	45,080
1	From 50001 to 55000	52,000
2	From 55001 to 60000	115,744
1	From 60001 to 65000	64,960
1	From 95001 to 100000	100,000
1	From 100001 to 105000	100,960
1	From 115001 to 120000	118,700
1	From 155001 to 160000	155,500
2	From 230001 to 235000	463,288
1	From 240001 to 245000	242,600



1	From	260001	to	265000	263,100
1	From	345001	to	350000	350,000
1	From	425001	to	430000	427,480
1	From	530001	to	535000	531,560
2	From	585001	to	590000	1,174,804
1	From	605001	to	610000	610,000
1	From	685001	to	690000	690,000
1	From	820001	to	825000	823,700
1	From	1695001	to	1700000	1,696,818
1	From	2285001	to	2290000	2,286,635
1	From	2760001	to	2765000	2,762,922
1	From	33015001	to	33020000	33,017,666
-----				-----	
3030					49,131,252

S. No.	Categories of Shareholders	Number of Shareholder	Shares held	Percentage
1	Individuals	2955	2,668,495	5.43
2	Investment Companies	8	3,029,891	6.17
3	Insurance Companies	9	770,084	1.57
4	Joint Stock Companies	11	2,843,194	5.79
5	Financial Institutions/Banks	9	2,729,126	5.55
6	Modaraba Companies	6	68,180	0.14
7	Foreign Investors	28	36,766,386	74.83
8	Charitable Trust	1	232,480	0.47
9	Co-operative Societies	3	23,416	0.05
		-----	-----	-----
	TOTAL	3030	49,131,252	100.00