

## **Pak Suzuki Motor Co. Limited**

### **Annual Report 1999**

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#### **COMPANY PROFILE**

Pak Suzuki Motor Company Limited (PSMC) is a public limited company with its shares quoted on Stock Exchanges in Pakistan. The Company was formed in August 1983 in accordance with the terms of a joint venture agreement concluded between Pakistan Automobile Corporation Limited (representing Government of Pakistan) and Suzuki Motor Corporation (SMC) - Japan. The Company started commercial production in January 1984 with the primary objective of progressive manufacturing, assembling and marketing of Cars, Pickups, Vans and 4 x 4 vehicles in Pakistan.

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

Under the Government's privatization policy, 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 equity to 72.8% by purchasing remaining shares from PACO. The total foreign investment brought in by SMC - Japan since inception stands at Rs.1026.36 million.

The Suzuki Management immediately after privatization started expansion of the Bin Qasim Plant to increase its installed capacity to 50,000 vehicles per year. The expansion 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 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.

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. PSMC is serviced by over 204 active vendors who are engaged in the local manufacture and supply of automotive parts to the company.

#### **BIN QASIM PLANT IN BRIEF:**

<b>LOCATION</b>	Downstream Industrial Estate of Pakistan Steel
<b>TOTAL AREA COVERED AREA</b>	259,200 M2 (64 acres)
<b>FACILITIES</b>	41,000 M2
	Press Shop, Welding Shop, Paint Shop, Engine and Transmission Assembly Shop, Final Assembly & Hi-Tech Inspection Shop. The Company has also established a modern Waste Water Treatment Plant as its contribution to

the environment.

**COST** Rs. 2.7 billion

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

## **COMPANY INFORMATION**

### **BOARD OF DIRECTORS**

Hirofumi Nagao	Chairman & Chief Executive
Capt. (Retd) Bashir Ahmed	Deputy Managing Director
Katsuichiro Ota	Director
Qaiser Sultan	Director
Yoshio Saito	Director
Nasim Beg	Director
Koki Imamura	Director

### **COMPANY SECRETARY**

Abdul Hamid Bhombal

### **AUDITORS**

Sidat Hyder Qamar & Co.  
Chartered Accountants

### **BANKERS**

ABN-AMRO Bank  
Allied Bank of Pakistan Limited  
Bank Alfalah Limited  
Deutsche Bank AG  
Habib Bank Limited  
Muslim Commercial Bank Limited  
National Bank of Pakistan  
The Bank of Tokyo-Mitsubishi Limited  
The Hongkong and Shanghai Banking Corporation Limited

### **LEGAL ADVISORS**

Syed Qamaruddin Hassan  
Industrial Relations Advisor

Orr Dignam & Company  
Advocates & Legal Consultants

### **REGISTERED OFFICE**

DSU-1 3, 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 Sixteenth Annual General Meeting of the shareholders of Pak Suzuki Motor Company Limited will be held at Avari Towers, Fatima Jinnah Road, Karachi on Monday December 27, 1999 at 3.00 p.m. to transact the following business:

1. To confirm minutes of Fifteenth Annual General Meeting held on December 17, 1998.
2. To receive, consider and adopt the audited accounts of the Company for the year ended June 30,

1999 together with Directors' and Auditors' reports thereon.

3. To approve payment of cash dividend to the shareholders @ Rs. 2.25/- (22.5%) per share of Rs. 10/- each.

4. To appoint auditors and fix their remuneration for the year ending June 30, 2000.

5. To consider any other business with the permission of the Chair.

**BY ORDER OF THE BOARD**

**ABDUL HAMID BHOMBAL**  
**COMPANY SECRETARY**

Karachi: November 14, 1999

**Notes:**

1. The share transfer books of the Company shall remain closed from December 9, 1999 to December 16, 1999 (both days inclusive) for entitlement of Dividend and no transfer will be accepted for registration during this period. Transfers received in order till close of business on December 8, 1999 will be accepted for transfer and will be entitled to dividend for the year ended June 30 1999.

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 immediately notify the change in their address, if any, to our Registrar Ferguson Associates (Pvt.) Limited, State Life Building, 1-A, I. I. Chundrigar Road, Karachi.

4. Account holders and sub-account holders holding book entry securities of the Company in Central Depository Company of Pakistan Limited, who wish to attend the Annual General Meeting, are requested to bring original National Identity Card for identification purpose.

**HIGHLIGHTS OF THE ACCOUNTS**  
**FOR THE YEAR ENDED JUNE 30, 1999**

	1999	1998	Amount	Increase/(Decrease) %
	(Rupees in thousand)			
Production volume (units)	32,805	31,302	1,503	4.8
Sales volume (units)	31,296	32,601	(1,305)	(4.0)
Net sales	8,914,017	8,680,931	233,086	2.7
Gross profit	663,093	578,623	84,470	14.6
as a % of net sales	7.4	6.7	--	0.7
Expenses - Selling & admin.	252,841	220,631	32,210	14.6
- Financial & other charges	189,061	56,718	132,343	233.3
- Total	441,902	277,349	164,553	59.3
as a % of net sales	5.0	3.2	--	1.8
Other income	109,211	187,985	(78,774)	(41.9)
as a % of net sales	1.2	2.2	--	(1.0)
Profit before taxation	339,158	488,753	(149,595)	(30.6)
as a % of net sales	3.8	5.6	--	(1.8)
Profit after taxation	263,347	357,753	(94,406)	(26.4)
as a % of net sales	3.0	4.1	--	--
Stocks	2,320,589	1,059,791	1,260,798	119
as a % of net sales	26.0	12.2	--	13.8
number of days stock held	103	48	55	114.6
inventory turn over ratio	3.6	7.6	--	(4.0)
Cash and bank balances	182,567	833,614	(651,047)	(78.1)
Advances from customers	167,454	753,065	(585,611)	(77.8)
Shareholders' equity	1,786,732	1,633,930	152,802.00	9.4
Debt Equity ratio	0:100	0:100	--	--
Current ratio	1.15:1	1.16:1	--	--
Profit per share	5.36	7.28	--	--

Break-up value per share	36.37	33.26	--	--
No. of permanent employees				
- Officers	293	274	19	6.9
- Staff/workers	326	327	(1)	(0.3)
- Total	619	601	18	3.0

## CHAIRMAN'S REVIEW

I am pleased to present my review on the performance of the Company for the year ended June 30, 1999.

### PRODUCTION

The production volume increased by 5%. During the year 32,805 units were produced against 31,302 units produced in the preceding year. The plant capacity improved to 66% from 63% recorded last year.

### OPERATING RESULTS

Sales continued to suffer depressed demand due to a sluggish market arising out of the economic down turn. However, the Company succeeded in limiting drop in sales volume upto 4% and could sell 31,296 units as compared to 32,601 units sold in the previous year. This was achieved through aggressive marketing and advertising/sales promotion.

Gross profit as a percentage of sales improved from 6.7 to 7.4. In absolute terms it increased by Rs. 84.470 million. This improvement arose mainly from discount allowed by Suzuki Motor Corporation Japan on purchase of CKD kits in view of change in terms of payment implemented from credit to cash basis.

The selling and administration expenses increased from Rs. 220.631 million to Rs. 252.841 million and as a percentage of sales from 2.54 to 2.84. The main factors which contributed to the increase were increase in salaries, advertising and sales promotion expenses. Other income declined from Rs. 1 87.985 million to Rs. 109.211 million. The decrease was due to fall in income from surplus bank deposits. The other income reflected in the previous year also included compensation received on delayed income tax refunds.

Financial and other charges increased from Rs. 56.718 million to Rs. 189.061million. The increase represents mainly markup on bank borrowings. Company had borrowed from banks for working capital on withdrawal of credit facilities for imports from Suzuki Motor Corporation - Japan. The funds had also depleted due to requirement of L/C margin.

### MARKETING

The exports of Suzuki Ravi Pickups to Nepal have progressively increased and Bangladesh added as another destination. To date 93 units have been exported to Nepal and Bangladesh. The management is aggressively pursuing exports to utilize idle capacity.

The new model Baleno 1300 cc Car was successfully launched in early September 1998. The Company also introduced 1600 cc model of this Car in May 1999. The Baleno Car has been accepted very well and the product continues to penetrate in the market segment.

The management is aware of the forthcoming competition in automobile industry and has drawn up a well planned strategy to compete. The Company has planned to bring in new models in the year 2000.

Company has participated in the National Transport Taxi Scheme. However only 71 Mehran taxis could be delivered against full payment through the banks.

#### **DELETION**

The Company is strictly adhering to the Industry Specific Deletion Programmes and the Ministry of Industries programmes and would continue to meet the deletion targets. The Company's resolve and commitment to localization is evidenced with the achievement of higher deletion levels in the Mehran Car, Ravi Pickup, Bolan Van and the Khyber Car. Higher deletion in the recently introduced Baleno Car is being actively pursued.

#### **PERSONNEL**

Management and employees relations continued to remain cordial and industrial peace prevailed during the year. A new charter of demand was negotiated in a congenial atmosphere and agreement was entered into with the CBA for two years for the period July 1998 to June 2000.

#### **ECONOMIC CONTRIBUTION**

Despite adverse factors, the Company maintained its distinctive position in the automobile industry as a leading contributor 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:

<i>Year</i>	<i>Duties and taxes</i>	<i>Foreign exchange savings</i>
	<i>(Rupees in million)</i>	
1994-95	1,804	1,581
1995-96	2,600	2,555
1996-97	2,728	2,539
1997-98	2,571	2,924
1998-99	3,203	3,751

#### **FUTURE PROSPECTS & CONCLUSION**

The Company would strive to earn reasonable return on equity. However Rupee/Yen parity, economic conditions and Government policies would play a vital role in this achievement.

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.

In conclusion, I on behalf of the Board and shareholders would like to express my appreciation to the management, executives, workers, dealers, vendors and Suzuki experts for their efforts and contribution to the affairs of the Company. My sincere gratitude also goes to all the Government agencies for their continued support and encouragement.

**Hirofumi Nagao**  
**Chairman & Chief Executive**

## **DIRECTORS' REPORT**

1. 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, 1999.

### **2. ACCOUNTS**

	<i>(Rs. in 000)</i>
Profit after taxation	263,347
Accumulated profit brought forward	3,616
	-----
Profit available for appropriation	266,963
Less: Appropriations	
Proposed cash dividend @ 22.5 %	1,105,451
Transfer to General Reserve	155,000
	-----
	265,545
	-----
Unappropriated profit carried forward	1,418
	=====

### **3. QUALIFICATION IN THE AUDITORS' REPORT**

The para (c) of auditors report to the members on the Company's accounts for the year ended June 30, 1999 contain qualification which is explained hereunder:

Net sales for the year included Rs. 622.710 million in respect of vehicles which were delivered to customers subsequent to year end. The said sales were booked on the basis of confirmed purchase orders for specified vehicles against which partial payments were received during the year. The vehicles were delivered to customers upon realization of balance payment.

In the opinion of auditors, since the physical possession was not parted with and full payment was not received by the Company, significant risks and rewards associated with the ownership of the said vehicles remained with the Company and as such sales cut off was not properly observed. On receipt of this observation from the auditors, management mooted to rectify the situation by reversing the sales. However it was deemed inadvisable to reverse the entire process because of potential exposure in direct and indirect taxation. Had the above sales been reversed, the profit for the year after taxation would have been lower by Rs. 22.807 million.

### **4. INFORMATION TECHNOLOGY**

The Directors are pleased to inform that Company's Computer applications, system and hardware are Y2K compliant.

### **5. EARNING PER SHARE**

The earning per share for the year is Rs. 5.36.

### **6. HOLDING COMPANY**

The Company is a subsidiary of Suzuki Motor Corporation which is incorporated in Japan.

### **7. ASSOCIATED COMPANIES**

- Arabian Sea Country Club Limited is associated Company of Pak Suzuki Motor Co. Ltd. because of common directorship. Mr. Nagao - Chairman and Chief Executive of Pak Suzuki Motor Co. Ltd. is also director of Arabian Sea Country Club Limited. Pak Suzuki holds 7.22% shares of the total share capital of Arabian Sea Country Club Limited.

- Suzuki Motorcycles Pakistan Limited is an associated company of Pak Suzuki Motor Co. Ltd. in terms of a common holding Company i.e. Suzuki Motor Corporation - Japan.

#### **8. 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 contents of the same.

#### **9. PATTERN OF SHAREHOLDINGS**

The pattern of shareholdings is given on page 41.

#### **10. BOARD CHANGES**

Mr. Nasim Beg and Mr. Katsuichiro Ota were appointed as directors in place of Mr. Razi-ur-Rehman Khan and Mr. Osamu Iizuka who resigned.

#### **11. AUDITORS**

Messrs. Sidat Hyder Qamar & Co., Chartered Accountants retire and being eligible offer themselves for appointment as the auditors of the Company for the year ending June 30, 2000.

**BY ORDER OF THE BOARD**

Karachi  
November 6, 1999

**HIROFUMI NAGAO**  
**Chairman & Chief Executive**

### **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of **PAK SUZUKI MOTOR COMPANY LIMITED** as at **30 June 1999** 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 purpose of the Company's business; and

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the 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 except for the effects of any adjustment which would have been necessary to achieve a proper sales cut off and consequential effect thereof on sales and profit in respect of vehicles delivered subsequent to the balance sheet date as referred in note 13.2 to the accounts, respectively give a true and fair view of the state of the Company's affairs as at 30 June 1999 and of the profit and the changes in financial position for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi: November 6, 1999

**Sidat Hyder Qamar & Co.**  
**Chartered Accountants**

**BALANCE SHEET**  
**AS AT JUNE 30, 1999**

	<i>NOTE</i>	<i>1999</i>	<i>1998</i>
		<i>(Rupees in thousand)</i>	
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised share capital 150,000,000 (1998:150,000,000) ordinary shares of Rs.10/- each		1,500,000	1,500,000
		=====	=====
Issued, subscribed and paid-up share capital	3	491,312	491,312
Reserves	4	1,295,420	1,142,618
		-----	-----
Shareholders' equity		1,786,732	1,633,930
<b>LIABILITIES</b>			
Deferred taxation	19.2	102,000	105,000
Current liabilities	5	3,633,560	2,143,223
<b>COMMITMENTS</b>			
Total shareholders' equity and liabilities	6	5,522,292	3,882,153
		=====	=====
Tangible fixed assets	7	1,279,773	1,379,357
Deferred cost	8	31,593	
Long - term investments	9	6,006	5,500
Long - term loans	10	3,373	3,011
Long - term deposits and prepayments	11	5,614	5,866
Current assets	12	4,195,933	2,488,419
		-----	-----
Total assets		5,522,292	3,882,153
		=====	=====

The annexed notes form an integral part of these accounts.

**HIROFUMI NAGAO**  
Chairman & Chief Executive

**CAPT. (RETD) BASHIR AHMED**  
Deputy Managing Director

**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 1999**

	<i>NOTE</i>	<i>1999</i>	<i>1998</i>
		<i>(Rupees in thousand)</i>	
Net sales	13	8,914,017	8,680,931
Cost of sales	14	8,250,924	8,102,308
		-----	-----
Gross profit		663,093	578,623
Selling and administration expenses	15	252,841	220,631
		-----	-----
Operating profit		410,252	357,992
Other income	16	109,211	187,985
		-----	-----
		519,463	545,977
Financial and other charges	17	189,061	56,718
(Reversal of provision)/provision for diminution in market value of Investments	18	(8,756)	506
		-----	-----
		180,305	57,224
		-----	-----
Profit before taxation		339,158	488,753
Taxation	19	75,811	131,000



Profit after taxation		263,347	357,753
Unappropriated profit brought forward		3,616	4,126
Profit available for appropriation		266,963	361,879
<b>Appropriations</b>			
Transfer to general reserve		155,000	260,000
Proposed cash dividend @ 22.5% (1998: 20%)		110,545	98,263
		265,545	358,263
Unappropriated profit carried forward		1,418	3,616
Earnings per share - Basic and diluted	20	Rupees 5.36	Rupees 7.28

The annexed notes form an integral part of these accounts.

**HIROFUMI NAGAO**  
Chairman & Chief Executive

**CAPT. (RETD) BASHIR AHMED**  
Deputy Managing Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
(CASH FLOW STATEMENT)  
FOR THE YEAR ENDED JUNE 30, 1999**

	<i>NOTE</i>	<i>1998</i>	<i>1999</i>
		<i>(Rupees in thousand)</i>	
<b>Cash flow from operating activities</b>			
Cash generated from operations	21	(2,041,816)	688,306
Financial charges paid		(73,681)	(55,128)
Taxes paid		(276,085)	(68,687)
Long-term loans (net)		(362)	(527)
Deferred cost		(47,390)	
Long-term deposits & prepayments - net		252	(356)
Net cash (out flow)/inflow from operating activities		(2,439,082)	563,608
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		(100,586)	(270,326)
Sale proceeds on disposal of fixed assets		7,463	7,066
Sale proceeds of WAPDA Bearer Bonds		47,262	--
Mark-up on cash deposits and advances to suppliers and income from investments received		149,350	88,710
Net cash (outflow)/inflow from investing activities		103,489	(174,550)
<b>Cash flow from financing activities</b>			
Repayment of long-term loans		(41,694)	(120,543)
Advances from customers - net		(585,611)	288,808
Dividends paid		(26,503)	(98,036)
Net cash (outflow)/inflow from financing activities		(653,808)	70,229
Net (decrease)/increase in cash & cash equivalents		(2,989,401)	459,287
Cash and cash equivalents at beginning of the year		833,614	374,327
Cash and cash equivalents at end of the year	22	(2,155,787)	833,614

**HIROFUMI NAGAO**  
Chairman & Chief Executive

**CAPT. (RETD) BASHIR AHMED**  
Deputy Managing Director

## **NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1999**

### **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 4x4s. 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 Karachi and Lahore Stock Exchanges.

In accordance with the terms of a sale agreement dated September 19, 1992 between SMC and PACO, SMC increased its shareholding to 40% in the Company by purchasing shares from PACO and took over its management with effect from September 21, 1992. Since then SMC progressively increased its equity to 72.8%

In July 1996, PACO had disinvested its remaining shareholding. These shares were acquired by SMC in terms of the joint venture agreement between PACO and SMC - Japan which since came to an end. The total foreign investment brought in by SMC - Japan since inception stands at Rs. 1,026.36 million.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Accounting convention and basis of preparation**

These accounts have been prepared under historical cost convention and in accordance with International Accounting Standards as applicable in Pakistan.

#### **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. 10,000/- or less are not capitalised 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.

#### **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 accrued 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. The assembled engines are included in raw material. The cost of assembled engines, work-in-process and finished goods consists of landed cost of imported materials, average local material 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 benefit schemes**

The Company operates an approved contributory provident fund scheme as well as an approved defined benefit funded gratuity scheme covering all its permanent employees.

Contributions are payable to the gratuity fund on yearly basis according to actuarial recommendation at a rate of 13.5% of basic salaries. The actuarial valuation of the scheme is carried out once in every three years on the basis of "Attained Age Normal Actuarial Cost Method". The expected rate of increase in salaries and return on investment for the purpose of actuarial valuation are assumed to be 11% and 12% respectively.

The latest actuarial valuation was carried out as on June 30, 1999 both under "Attained Age Normal Cost Method" and "Projected Unit Credit Cost Method". The actuarial liability is the same under both methods. The fund balance of Rs. 67.831 million was equal to actuarial liability on the date of actuarial valuation.

The gratuity benefits are payable to staff on completion of prescribed qualifying period of service at the time of retirement as laid down in the scheme.

## **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 contract 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. Material exchange differences in respect of unpaid liabilities arising from devaluation subsequent to balance sheet date are provided for in the accounts.

## **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.

	<i>1999</i>	<i>1998</i>
	<i>(Rupees in thousand)</i>	
<b>3. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL</b>		
44,284,117 (1998: 44,284,117) ordinary shares of Rs. 10/- each fully paid in cash	442,841	442,841
2,800,000 (1998: 2,800,000) ordinary shares of Rs.10/-each fully paid-up for consideration other than cash	28,000	28,000
2,047,135 (1998: 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, 1999 Suzuki Motor Corporation, Japan held 35,780,338 ordinary shares of Rs 10/- each (1998:35,780,338 ordinary shares).

**4. STATEMENT OF CHANGES IN EQUITY**

	<i>RESERVES</i>					<i>Share-holders Equity</i>
	<i>Share Capital</i>	<i>Share Premium</i>	<i>General Reserves</i>	<i>Unappropriated Profit</i>	<i>Total Reserves</i>	
	<i>(Rupees in thousand)</i>					
Balance at July 1, 1997	491,312	584,002	295,000	4,126	883,128	1,374,440
Net profit for the year	--	--	--	357,753	357,753	357,753
Transfer to general reserve	--	--	260,000	(260,000)	--	--
Dividend declared	--	--	--	(98,263)	(98,263)	(98,263)
Balance at June30, 1998	491,312	584,002	555,000	3,616	1,142,618	1,633,930
	-----	-----	-----	-----	-----	-----
Balance at July 1, 1998	491,312	584,002	555,000	3,616	1,142,618	1,633,930
	=====	=====	=====	=====	=====	=====
Net profit for the year	--	--	--	263,347	263,347	263,347
Transfer to general reserves	--	--	155,000	(155,000)	--	--
Proposed dividend	--	--	--	(110,545)	(110,545)	(110,545)
	-----	-----	-----	-----	-----	-----
Balance at June 30, 1999	491,312	584,002	710,000	1,418	1,295,420	1,786,732
	=====	=====	=====	=====	=====	=====

**NOTE**

*1999*  
*(Rupees in thousand)*

**5. CURRENT LIABILITIES**

Running finance under mark-up arrangements-secured	5.1	2,338,354	--
Bills payable to SMC, Japan - an associated undertaking		--	697,570
Creditors		231,696	86,462

Accrued liabilities		153,242	112,638
Advances from customers		167,454	753,065
Security deposits	5.2	64,955	47,865
Customs duties		15,335	14,222
Provision for sales tax demand	5.3	50,465	50,465
Provision for custom duties demand	5.4	87,208	69,067
Rebate accrued on late delivery of vehicles		8,586	12,144
Current maturity of loan payable to International Finance Corporation		--	41,694
Royalties and technical fee payable to SMC, Japan - an associated undertaking		231,172	55,221
Provision for income tax - net		--	55,503
Markup accrued on secured running finance		54,727	--
Interest accrued on secured long term loans		--	1,951
Proposed dividend		110,545	98,263
Unpaid dividend	5.5	72,235	475
Capital value tax		712	619
Workers' profits participation fund	5.6	19,010	23,484
Workers' welfare fund		7,224	7,500
Others		20,640	15,015
		-----	-----
		3,633,560	2,143,223
		=====	=====

5.1 The facilities for running finance available from various banks amounted to Rs. 2,405 million (1998: Rs. 510 million). These facilities are secured by hypothecation charge on stocks, dies, plant and machinery and pledge of WAPDA Bearer Bonds. The markup rates on these facilities are ranging from Re. 0.3562 to Re. 0.4167 per Rs. 1000 per diem or part thereof on balance outstanding. These facilities are normally for a period of one year and are renewable on agreed terms.

**1999**                      **1998**  
**(Rupees in thousand)**

**5.2 Security deposits**

Repayable on demand	62,100	45,300
Other deposits	2,855	2,565
	-----	-----
	64,955	47,865
	=====	=====

The above deposits are not liable to financial charges.

5.3 The sales tax authorities had issued demand notice for recovery of sales tax, additional tax and surcharge for Rs. 50.465 million (1998: Rs. 50.465 million) for alleged incorrect adjustment of input sales tax amounting to Rs. 19.804 million (1998: 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 subsequently filed a writ petition in the High Court of Sindh. The Company was granted status quo 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 provision was made as a matter of prudence.

5.4 Custom authorities had issued demand notices for the alleged short payment of customs duties and sales tax aggregating Rs. 70.067 million (1998: Rs 70.067 million) in respect of material imported in prior years. The Company had disputed the contention of the Custom authorities and filed appeals with Collector (Appeals) which were decided against the Company. The Company subsequently filed writ petitions in Sindh High Court. The Honourable Court has granted status quo till the final disposal of the petitions. In view of the inherent delays that are associated in litigation and the element of uncertainty inherent in such matters, the provision was made as a matter of prudence. The Company had to pay Rupees one million on account against the demand pending disposal of appeal.

During the year custom authorities raised further demands aggregating Rs. 18.141 million (1998:

Nil) for additional surcharge on goods over stayed in bond and custom duties on loading for association charges in respect of material imported in prior years. The Company has filed appeals before Custom Appellate Tribunal against the order passed by the Collector Appraisal. In view of the inherent delays that are associated and the element of uncertainty inherent in such matters, provision has been made as a matter of prudence.

**1999**                      **1998**  
**(Rupees in thousand)**

#### 5.5 Unpaid dividend

Payable to Suzuki Motor Corporation, Japan - an associated undertaking  
Unclaimed

	71,561	--
	674	475
	-----	-----
	72,235	475
	=====	=====

Remittance of dividend to Suzuki Motor Corporation - Japan for the year 1998 was made subsequent to the year end on August 21, 1999. This delay was due to the fact that State Bank's permission was received on August 13, 1999.

**1999**                      **1998**  
**(Rupees in thousand)**

#### 5.6 Workers' profit participation fund

Balance at beginning of the year  
Interest on funds utilised in the Company's business

	23,484	21,207
	772	1,264
	-----	-----
	24,256	22,471
	-----	-----
	19,010	23,484

Allocation for the year

	43,266	45,955
	24,256	22,471
	-----	-----
	19,010	23,484
	=====	=====

Less: Paid during the year

Balance at end of the year

5.7 The facility for opening letters of credit as at June 30, 1999 amounted to Rs. 3,320 million (1998: Rs. 350 million) of which the amount remaining unutilised at the year end was Rs. 2,900 million (1998' Rs. 304 million).

#### 6. COMMITMENTS

Capital expenditure contracted for but not incurred amounted to Rs. 8.93 million (1998: Rs. 6.56 million).

**NOTE**                      **1999**                      **1998**  
**(Rupees in thousand)**

#### 7. TANGIBLE FIXED ASSETS

Operating fixed assets  
Capital work-in-progress

	7.1	1,257,881	1,370,739
	7.6	21,892	8,618
		-----	-----
		1,279,773	1,379,357
		=====	=====

#### 7.1 Operating fixed assets

The following is a statement of operating fixed assets:

<i>Cost as at July 1, 1998</i>	<i>Addition/ (deletion)</i>	<i>Cost as at June 30, 1999</i>	<i>Accumulated depreciation as at July 1, 1998</i>	<i>Charge for the year/ (depreciation on deletion)</i>	<i>Accumulated depreciation as at June 30, 1999</i>	<i>Book value as at June 30, 1999</i>	<i>Depreciation Rate %</i>
--	---------------------------------	---	--	--	---	---	------------------------------------

*(Rupees in thousand)*

Leasehold land	60,494	--	60,494	7,598	1,008	8,606	51,888	60 Years
Buildings on leasehold land (notes 7.4 & 7.5)								
- Factory	496,067	7,608	503,675	130,328	18,667	148,995	354,680	5
- Office	2,063	--	2,063	2,063	--	2,063	--	5
- Test tracks & other buildings	7,780	--	7,780	2,801	996	3,797	3,983	20
Plant and machinery	1,320,987	31,549	1,352,536	651,916	105,093	757,009	595,527	15
Waste water treatment plant	44,928	--	44,928	25,259	4,917	30,176	14,752	25
Permanent & special tools	67,448	2,206	69,654	26,865	4,356	31,221	38,433	10 & 25
Dies	370,141	8,950	379,091	265,240	28,463	293,703	85,388	25
Jigs & fixtures	117,954	2,415	120,369	75,167	11,300	86,467	33,902	25
Electrical installations	16,885	--	16,885	10,329	1,311	11,640	5,245	20
Furniture and fittings	9,957	194	10,151	5,843	861	6,704	3,447	20
Vehicles	73,277	31,394	96,216	32,557	13,617	41,755	54,461	20
		(8,455)			(4,419)			
Airconditioners and refrigerators	16,442	814	17,091	9,716	1,503	11,080	6,011	20
		(165)			(139)			
Office equipment	11,179	912	11,031	7,254	928	7,320	3,711	20
		(1,060)			(862)			
Computers	20,363	1,270	17,721	12,290	2,036	11,268	6,453	20 & 25
		(3,912)			(3,058)			
1999	2,635,965	87,312	2,709,685	1,265,226	195,056	1,451,804	1,257,881	
		(13,592)			(8,478)			
1998	2,384,137	267,380	2,635,965	1,043,628	232,595	1,265,226	1,370,739	
		(15,552)			(10,997)			

**NOTE****1999****1998***(Rupees in thousand)***7.2 Depreciation charge for the period has been allocated as under:**

Cost of goods manufactured	14.1	176,112	215,122
Selling and administration expenses	15	18,944	17,473
		195,056	232,595

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

<i>Particulars</i>	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Net book value</i>	<i>Sales proceeds</i>	<i>Profit/(Loss)</i>	<i>Mode of disposal</i>	<i>Particulars of buyers &amp; insurance company</i>
<b>Vehicles</b>							
Suzuki Potohar	175	157	18	193	175	Tender	Shoukat Ali C/o Ali Motors, Qazi Abdul Qayyum Road, Gari Khata, Hyderabad.
Suzuki Khyber	231	136	95	235	140	Tender	Mohd. Kashif Younus, Flat No. 22, Asif Square Opp. Dow Medical College, Karachi.
Suzuki Mehran	169	100	69	161	92	Tender	Mohd. Ali Siddiqi, B - 27 Cosmos Plaza Block 16, F.B. Area, Karachi.
Suzuki Mehran	128	107	21	136	115	Tender	Mohd. Salman, B - 43, Block A, North Nazimabad, Karachi.
Suzuki Vitara	350	277	73	523	450	Tender	Syed Riaz Ahmed, A-573, Block 3, Gulshan-e-Iqbal, Karachi.

Suzuki Vitara	350	277	73	553	480	Tender	-do-
Suzuki Vitara	222	193	29	305	276	Tender	Fayaz Ahmed, 127, Fasih Road, New Islamic Park, Samanabad, Lahore.
Suzuki Potohar	164	146	18	141	123	Tender	Abdul Rauf, Sector 15-B, Buffer Zone 2-R, Karachi.
Eder Crane	211	210	1	228	227	Tender	Mr. Habibullah Khan, 37-B/45, Landhi, Karachi.
Suzuki Vitara	2,007	722	1,285	1,600	315	Insurance Claim	EFU General Insurance Ltd. 124/T, Block-2, Tariq Road, Karachi.
Suzuki Potohar	462	92	370	416	46	Insurance Claim	-do-
Suzuki Mehran	256		256	280	24	Insurance Claim	-do-
Suzuki Margalla	485	237	248	321	73	Insurance Claim	-do-
Suzuki Mehran	256	51	205	277	72	Insurance Claim	-do-
Suzuki Mehran	256	51	205	277	72	Insurance Claim	-do-
Suzuki Cars	2,732	1,663	1,069	1,069	--	Negotiation	Company employees, under the Executive Car Scheme.
<b>TOTAL</b>	<b>8,454</b>	<b>4,419</b>	<b>4,035</b>	<b>6,715</b>	<b>2,680</b>		
Office Equipment	321	259	62	17	(45)	Tender	Mr. Himmat Khan AI-Karam Textile Mills, Landhi, Karachi.
	150	65	85	93	8	Insurance Claim	EFU General Insurance Ltd. 124/T, Block-2, Tariq Road, Karachi.
	589	538	51	8	(43)	Tender	Mr. Abdullah Soomro Soomro Street, Old Timber Market, Nishter Road, Karachi.
	1,060	862	198	118	(80)		
Airconditioners and Refrigerators	35	33	2	--	(2)	Tender	Mr. Himmat Khan AI-Karam Textile Mills, Landhi, Karachi.
	130	106	24	4	(20)	Tender	Mr. Abdullah Soomro Soomro Street, Old Timber Market, Nishter Road, Karachi.
	165	139	26	4	(22)		
Computers	907	417	490	489	(1)	Negotiation	Company Employees
	2,920	2,624	296	48	(248)	Tender	Mr. Abdullah Soomro Soomro Street, Old Timber Market, Nishter Road, Karachi.
	86	17	69	89	20	Insurance Claim	EFU General Insurance Ltd. 124/T, Block-2, Tariq Road, Karachi.
	3,913	3,058	855	626	(229)		
1999	13,592	8,478	5,114	7,463	2,349		
1998	15,552	10,997	4,555	7,066	2,511		



7.4 The buildings on leasehold land at West Wharf are situated at three plots numbered 16, 20, and 21. These plots are owned by Karachi Port Trust (KPT). The lease tenure of plots numbered 16, 20 and 21 expired on July 31 1998, March 31 1998 and September 30, 1998 respectively. Except for plot No. 20, lease agreements of plot Nos. 16 and 21 are registered in the name of Sind Engineering (Private) Limited and Republic Motors (Private) Limited respectively, both subsidiary companies of PACO. Despite persistent efforts, KPT has not issued mutation letter in respect of plot No. 20 neither have they effected transfer and or renewed lease in respect of plot Nos. 16 and 21. On the other hand KPT without any notice, intimation or warning forcibly took possession of plot Nos. 20 and 21 The Company had filed writ petitions in the Honourable High Court of Sindh praying for restoration of possession and renewal of leases in favour of the Company. Status quo had been granted and notices issued to the respondents by the Court in this respect.

7.5 The immovable assets lying at West Wharf have been impaired by the action of KPT as explained in note 7.4 above. Such assets included buildings, electric installations and immovable plant. The book value of these assets was Rs. 14.604 million. This impairment had necessitated charging off the entire book value of these assets to the said extent and accordingly it was fully charged off in the previous year.

	<i>NOTE</i>	<i>1998</i>	<i>1999</i>
		<i>(Rupees in thousand)</i>	
<b>7.6 Capital work-in-progress</b>			
Plant and machinery		--	8,009
Advance for capital expenditure		21,892	609
		-----	-----
		21,892	8,618
		=====	=====

#### **8. DEFERRED COST**

Licence fee for manufacturing of Baleno car		47,390	--
Less: Charged during the year	14.1	15,797	--
		-----	-----
		31,593	--
		=====	=====

The licence fee is carried forward because the benefit accrues over more than one year.

#### **9. LONG-TERM INVESTMENTS**

<b>Quoted</b>			
Bolan Castings Limited			
100,000 fully paid ordinary shares of Rs. 10/- each [market value as at June 30, 1999 Rs. 1.800 million (1998' Rs. 0.500 million)]		1,006	1,006
Less: Provision for diminution in market value		--	506
		-----	-----
		1,006	500
<b>Unquoted</b>			
Arabian Sea Country Club Limited			
- an associated company	9.1	5,000	5,000
500,000 (1998: 500,000) fully paid ordinary shares of Rs. 10/- each (Representing 7.22% holding)		-----	-----
		6,006	5,500
		=====	=====

9.1 Had the equity method been applied, the value of the Company's investment on the basis of net assets of the investee company as disclosed in its audited accounts for the year ended June 30, 1998 amounted to Rs. 3.095 million and the unappropriated profit carried forward would have been decreased by Rs. 1.905 million.

	<i>NOTE</i>	<i>1999</i>	<i>1998</i>
--	-------------	-------------	-------------

*(Rupees in thousand)***10. LONG-TERM LOANS - secured**

Loans- considered good, due from employees	10.1	6,084	5,564
Less: Receivable within one year	12.5	2,711	2,553
		-----	-----
		3,373	3,011
		=====	=====

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 installments free of any financial charges.

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

Long-term trade deposits		5,614	5,211
Long-term prepayments		--	655
		-----	-----
		5,614	5,866
		=====	=====

**12. CURRENT ASSETS**

Stores, spares and loose tools	12.1	37,002	26,766
Stocks	12.2	2,320,589	1,059,791
Trade debts	12.3	741,790	8,281
Sales tax adjustable	12.4	216,778	8,819
Loans and advances	12.5	54,512	42,473
Prepayments and current account balances with statutory authorities	12.6	6,382	6,758
Advance income tax - net		141,771	--
Accrued income		10,468	55,831
Other receivables	12.7	110,574	31,086
WAPDA bearer bonds	12.8	373,500	415,000
Cash and bank balances	12.9	182,567	833,614
		-----	-----
		4,195,933	2,488,419
		=====	=====

**1999**      **1998**  
*(Rupees in thousand)*

**12.1 Stores, spares and loose tools**

Stores		27,860	19,429
Spares		13,586	15,887
Loose tools		6,428	2,990
		-----	-----
		47,874	38,306
Less: Provision for slow moving and obsolete items		10,872	11,540
		-----	-----
		37,002	26,766
		=====	=====

**2.2 Stocks**

Raw material and components [including items in transit Rs. 0.508 million (1998: Rs. 383.334 million)]		1,751,625	979,778
Less: Provision for obsolete items		19,075	21,757
		-----	-----
		1,732,550	958,021
Work-in-process		28,366	4,898
Finished goods		516,309	27,157
Trading stocks [including items in transit Rs. Nil (1998: Rs. 6.340 million)]		81,598	75,499

Less: Provision for slow moving and

obsolete items	38,234	5,784
	-----	-----
	43,364	69,715
	-----	-----
	2,320,589	1,059,791
	=====	=====

12.2.1 Of the aggregate amount, stocks worth Rs. 0.821 million (1 998: Rs. 2.732 million) were in the custody of vendors for fitment and sub-assembly.

### 12.3 Trade debts

Considered good		
- secured	650,366	--
- unsecured	91,424	8,281
	-----	-----
	741,790	8,281
	=====	=====

### 12.4 Sales tax refundable

Considered good	216,778	8,819
Considered doubtful		
- Sales tax paid on purchase of local components for Suzuki taxis	12.4.1	22,386
	-----	-----
	239,164	31,205
Provision for doubtful sales tax refundable	22,386	22,386
	-----	-----
	216,778	8,819
	=====	=====

12.4.1 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 5.3 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 provision was made.

### 12.5 loans and advances

Considered good		
Loans to employees	10	2,711
Advances to		
Employees		4,342
- Suppliers		47,459
		-----
		54,512
Considered doubtful - Advances to suppliers		--
		-----
		54,512
Less: Provision for doubtful advances to suppliers		--
		-----
		54,512
		-----
		42,473
		-----
		42,473
		=====

### 12.6 Prepayments and current account balances with statutory authorities

Short-term prepayments	6,382	5,983
Balances with statutory authorities	--	775
	-----	-----
	6,382	6,758
	=====	=====

### 12.7 Other receivables

Recoverable exchange difference under Exchange Risk Cover Scheme	53,370	19,088
Due from Suzuki Motor Corporation, Japan		

an associated undertaking	33,663	2,783
Insurance claims	7,897	4,052
Due from vendors for material/components supplied- considered good	11,976	1,919
Others - considered good	3,668	3,244
	-----	-----
	110,574	31,086
	=====	=====

12.7.1 The maximum amount outstanding from the associated undertaking at the end of any month during the year was Rs. 33.663 million (1998: Rs. 3.927 million)

### 12.8 WAPDA bearer bonds (111 issue)

Cost	447,750	497,500
Less: Provision for diminution in market value	74,250	82,500
	-----	-----
	373,500	415,000
	=====	=====

12.8.1 Nominal value Rs. 450 million (1998: Rs. 500 million)

Market value Rs. 373.5 million (1998: Rs. 415 million)

Rate of return: 12.5% tax free; Date of issue: May 1990

Period of redemption: 10 years

### 12.9 Cash and bank balances

Cash in hand	1,083	946
Cheques in hand	69,376	--
Cash at bank		
In current accounts	4,059	20,742
On deposit	43,094	764,061
In special accounts	2.9.1	64,955
	-----	-----
	112,108	832,668
	-----	-----
	182,567	833,614
	=====	=====

12.9.1 The special accounts are maintained in respect of security deposits (note 5.2) in accordance with the requirements of section 226 of the Companies Ordinance, 1984.

12.9.2 The markup on funds placed on deposit accounts ranges between 6% to 12%

### 13. NET SALES

Manufactured goods - Vehicles		
Sales	9,043,614	8,779,934
Less: Commission paid to selling agents	201,658	163,784
Discounts	157	--
	-----	-----
	201,815	163,783
	-----	-----
	8,841,799	8,616,151
Trading stocks		
Sales	73,496	72,886
Less: Discounts	1,278	8,106
	-----	-----
	72,218	64,780
	-----	-----
	8,914,017	8,680,931
	=====	=====

13.1 The net sales include export of vehicles Rs. 8.985 million (1998: Rs. 3.949 million)

13.2 The net sales includes Rs. 622.710 million representing net sales value of vehicles delivered to customers subsequent to the balance sheet date. These have been booked as sales on the basis of

confirmed purchase orders for specified vehicles and partial payments received through the dealers. The said vehicles have been delivered subsequently to customers through the dealers on realization of full amount. Had these not been accounted for as sales in the current accounting year ended June 30, 1999, the profit for the year after taxation would have been lower by Rs. 22.807 million.

#### 14. COST OF SALES

##### Manufactured goods - Vehicles

Finished goods at beginning of the year		27,157	383,465
Cost of goods manufactured	14.1	8,638,333	7,694,829
		8,665,490	8,078,294
Finished goods at end of the year		516,309	27,157
		8,149,181	8,051,137
Trading stocks			
Stocks at the beginning of the year		69,715	78,642
Purchases during the year		75,392	42,244
		145,107	120,886
Stocks at end of the year		43,364	69,715
		101,743	51,171
		8,250,924	8,102,308

#### 14.1 Cost of goods manufactured

Work-in-process at beginning of the year		4,898	70,404
Raw materials and components consumed			
Stocks at beginning of the year		958,021	1,469,180
Purchases during the year	14.1.1	8,663,186	6,369,354
		9,621,207	7,838,534
Stocks at end of the year		1,732,550	958,021
		7,888,657	6,880,513
Stores and spares consumed		63,451	60,757
Provision for slow moving and obsolete stores, spares and loose tools		(668)	(1,014)
Fuel and power		52,267	45,546
Salaries, wages and other benefits	14.1.2	191,627	1 79,364
Rent, rates and taxes		2,145	1,081
Insurance		13,831	12,768
Repairs and maintenance		49,428	43,421
Royalties and technical fee		151,224	100,991
Rebate allowed on technical fee of last year		--	(1 7,077)
Depreciation	7.2	176,112	215,122
Licence fee for Baleno car	8	15,797	--
Provision for custom duties & sales tax demand	5.4	18,141	70,067
Conveyance and travelling		32,812	32,269
Communications		1,006	1,033
Others		5,971	4,482
		773,144	748,810
Manufacturing cost for the year		8,661,801	7,629,323
Work-in-process at end of the year		28,366	4,898
		8,638,333	7,694,829

14.1.1 Purchases are stated net of proceeds from the sale of packing materials of Rs. 47.101 million (1998: Rs. 36.390 million).

14.1.2 Includes Rs. 7.975 million (1998: Rs. 2.690 million) in respect of defined benefit gratuity fund and Rs. 2.368 million (1998: Rs. 2.168 million) in respect of defined contributory provident fund.

	<i>NOTE</i>	<i>1999</i>	<i>1998</i>
		<i>(Rupees in thousand)</i>	
<b>15. SELLING AND ADMINISTRATION EXPENSES</b>			
Salaries, wages and other benefits	15.1	79,112	67,981
Hired security guards services		5,027	5,080
Rent, rates and taxes		5,484	8,279
Utilities		3,256	3,773
Insurance		3,187	3,160
Repairs and maintenance		7,928	7,311
Depreciation	7.2	18,944	17,473
Auditors' remuneration	15.2	698	835
Legal and professional charges		3,242	9,795
Conveyance and travelling		17,328	17,661
Entertainment		713	508
Printing and stationery		3,007	3,746
Advertising and sales promotion		76,539	52,461
Free service and warranty claims		9,804	12,278
Y2K conversion cost		6,016	--
Communications		7,656	7,200
Reversal of provision for doubtful advances		(1,383)	--
Others		6,283	3,090
		-----	-----
		252,841	220,631
		=====	=====

15.1 Includes Rs. 5.553 million (1998: Rs. 2.503 million) in respect of defined benefit gratuity fund and Rs. 1.668 million (1998: Rs. 1.396 million) in respect of defined contributory provident fund.

#### **15.2 Auditors' remuneration**

Audit fee		300	300
Special certifications and sundry advisory services		365	517
Out of pocket expenses		33	18
		-----	-----
		698	835
		=====	=====

#### **16. OTHER INCOME**

Mark-up on cash deposits with banks		41,828	63,583
Mark-up on advances to suppliers		3,323	4,587
Income on WAPDA bearer bonds		58,836	62,500
Compensation for delayed income tax refund		--	48,948
Indenting and agency commission		--	83
Net profit on disposal of fixed assets	7.3	2,349	2,511
Others		2,875	5,773
		-----	-----
		109,211	187,985
		=====	=====

#### **17. FINANCIAL AND OTHER CHARGES**

Mark-up on running finances		118,170	8,197
Interest and other borrowing costs on secured, long-term loans		3,957	14,193
Net exchange loss/(gain)		19,824	(683)
Loss on sale of WAPDA Bearer Bonds		2,488	
Bank charges		2,798	2,763
Workers' profits participation fund (W.P.P.F.)		19,010	23,484
Workers' welfare fund	17.1	22,042	7,500
Interest on W.P.P.F.		772	1,264
		-----	-----
		189,061	56,718
		=====	=====

**17.1 Workers' welfare fund**

For the current year	7,224	7,500
For the prior years	14,818	--
	-----	-----
	22,042	7,500
	=====	=====

**18. (REVERSAL OF PROVISION)/PROVISION FOR DIMINUTION IN MARKET VALUE OF INVESTMENTS**

Reversal of provision for diminution in value of WAPDA Bearer Bonds sold	(8,250)	--
(Reversal of provision)/provision for diminution in value of shares in Bolan Castings Limited	(506)	506
	-----	-----
	(8,756)	506
	=====	=====

**19. TAXATION**

Current - for the year	19.1	120,000	123,500
- for prior years'		(41,189)	--
Deferred	19.2	(3,000)	7,500
		-----	-----
		75,811	131,000
		=====	=====

**19.1 Current**

The provision of income tax for the year represents tax calculated by applying corporate income tax rate on balance of income for the year after offsetting assessed brought forward tax losses, if any.

**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, 1999 amounted to approximately Rs. 102 million (1998: Rs. 105 million).

**NOTE**                      **1999**                      **1998**  
**(Rupees in thousand)**

**20. EARNINGS PER SHARE**

EPS = Net profit for the year after tax	263,347	357,753
Ordinary share in issue during the year	49,131	49,131
Earnings per sha Rs.	5.36	7.28
	-----	-----
	=====	=====

**21. CASH GENERATED FROM OPERATIONS**

Profit before taxation	339,158	488,753
Adjustments for non cash charges and other items:		
Depreciation	195,056	232,595
Amortization of licence fee for Baleno car	15,797	--
Net profit on disposal of fixed assets	(2,349)	(2,511)
Loss on sale of WAPDA Bearer Bonds	2,488	--
Mark-up on cash deposits and advances to suppliers and income from investments	(103,987)	(130,670)
Financial charges	122,899	23,654
(Reversal of provision)/provision for diminution in the market value's of WAPDA Bonds/Investments	(8,756)	506
Working capital changes	21.1	(2,602,122)
	-----	-----
	(2,041,816)	688,306
	=====	=====

**21.1 WORKING CAPITAL CHANGES**

(Increase)/decrease in current assets:

Stocks, stores, spares and loose tools	(1,271,034)	930,692
Trade debts	(733,509)	(7,511)
Loans and advances	(12,039)	(1,737)
Short-term deposits, prepayments and others	(287,071)	(12,474)
	-----	-----
	(2,303,653)	908,970
(Decrease)/increase in current liabilities - net	(298,469)	(832,991)
	-----	-----
	(2,602,122)	75,979
	=====	=====

## 22. CASH AND CASH EQUIVALENTS

Cash and bank balances	12.9	182,567	833,614
Running finance from banks under mark-up arrangements		(2,338,354)	--
		-----	-----
		(2,155,787)	833,614
		=====	=====

## 23. FINANCIAL ASSETS AND LIABILITIES

The financial assets of the Company amounted to Rs. 1,485.501 million and are not entitled to interest/markup other than advances to vendors, WAPDA bearer bonds and funds invested in short term deposits aggregating to Rs. 522.521 million.

The financial liabilities of the Company amounted to Rs. 3,094.786 million of which Rs. 2,261 million representing running finances from banks are markup bearing.

The maturity of all the financial assets and liabilities does not exceed one year.

The mark-up bearing financial assets and liabilities are subject to fixed markup rate.

The markup rates for significant financial assets and liabilities are disclosed in the respective notes to the accounts.

## 24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair value except where it is separately disclosed in the notes to the accounts.

## 25. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognised at the reporting date if the counterparty failed completely to perform as contracted. The Company does not have any significant exposure to any individual customer or vendor. To reduce the exposure to credit risk the Company obtains insurance guarantee from the suppliers, security deposits from the dealers and generally retains the title of goods till final recovery of debts.

## 26. REMUNERATION OF EXECUTIVES, DIRECTORS AND CHIEF EXECUTIVE

	1999			1998		
	<i>Executives</i>	<i>Directors</i>	<i>Chief Executive</i>	<i>Executives</i>	<i>Directors</i>	<i>Chief Executive</i>
	<i>(Rupees in thousands)</i>					
Managerial remuneration	19,135	4,585	1,690	12,951	3,939	1,391
Retirement benefits	6,858	601	--	5,226	503	--
Perquisites						
Rent	6,722	1,877	696	4,566	1,633	576
Utilities and upkeep	2,886	468	192	1,944	449	175
Telephone	289	274	--	250	175	--
Medical	944	139	--	676	164	--
Entertainment	1,542	68	--	1,102	116	--



	38,376	8,012	2,578	26,715	6,979	2,142
Number of persons	86	4	1	63	4	1

26.1 The chief executive, directors, and certain executives of the Company are provided with free use of company maintained cars.

**1999**      **1998**  
(Rupees in thousand)

### 27. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

Purchase of components	3,992,106	2,967,967
Purchase of fixed assets	11,595	4,655
Sale of vehicles	3,056	2,575
Royalties and technical fee	151,224	100,991
Licence fee for Baleno car	47,390	--
Rebate allowed on technical fee of last year	--	17,077
Indenting and agency commission	--	83
Sub-assembly revenues and other claims	854	566

The transactions with associated companies are undertaken at commercial terms and conditions and at market price.

**1999**      **1998**  
(Number of units)

### 28. PLANT CAPACITY AND ACTUAL PRODUCTION

Plant capacity (double shifts)	50,000	50,000
Actual production	32,805	31,302

The under utilization of capacity was due to lower demand during the year.

### 29. NUMBER OF EMPLOYEES

The Company had 619 employees at the year end (1998: 601)

### 30. CORRESPONDING FIGURES

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

**HIROFUMI NAGAO**  
Chairman & Chief Executive

**CAPT. (RETD) BASHIR AHMED**  
Deputy Managing Director

## SELECTED FINANCIAL DATA 6 YEARS AT A GLANCE

	1999	1998	1997	1996	1995	1994
	(Rupees in thousand)					
<b>OPERATING RESULTS</b>						
Production volume (Nos.)						
PSMC Plant	32,805	31,302	30,513	28,040	22,202	16,569
assembled by associated undertakings	--	--	--	--	--	4,079
Total	32,805	31,302	30,513	28,040	22,202	20,648
Sales volume (Nos.)	31,296	32,601	29,067	28,217	25,336	23,974
Sales revenue	8,914,017	8,680,931	7,710,453	7,904,301	5,703,785	4,261,897
Gross profit/(loss)	663,093	578,623	661,118	917,709	297,753	(82,720)
Operating profit/(loss)	410,252	357,992	485,616	772,470	199,941	(157,437)
Profit/(loss) before taxation	339,158	488,753	402,920	743,261	22,828	(302,943)
Profit/(loss) after taxation	263,347	357,753	391,390	574,502	(5,918)	(296,577)
Dividends	110,545	98,263	98,263	34,392	--	--
Profit retained	152,802	259,490	293,127	540.11	--	--

<b>CAPITAL EMPLOYED</b>						
Share capital	491,312	491,312	491,312	491,312	491,312	245,656
Reserves	1,294,002	1,139,002	879,002	584,002	584,002	215,517
Unappropriated profit/(adverse balance)	1,418	3,616	4,126	5,999	(534,111 )	(528,193)
Shareholders' equity	1,786,732	1,633,930	1,374,440	1,081,313	541,203	(67,020)
Long - term and deferred liabilities	102,000	105,000	139,194	528,463	779,264	1,772,180
	1,888,732	1,738,930	1,513,634	1,609,776	1,320,467	1,705,160
<b>Represented by:</b>						
Fixed assets	1,279,773	1,379,357	1,346,181	1,471,713	1,590,692	1,665,385
Other non - current assets	46,586	14,377	14,000	13,376	9,655	7,570
Net current assets	562,373	345,196	153,453	124,687	(279,880)	32,205
	1,888,732	1,738,930	1,513,634	1,609,776	1,320,467	1,705,160
<b>PROFITABILITY RATIOS</b>						
Gross profit/(loss) as a % of net sales	7.4	6.7	8.6	11.6	5.2	(1.9)
Operating profit/(loss) as % of net sales	4.6	4.1	6.3	9.8	3.5	(3.7)
Profit/(loss) before-taxation as a % of net sales	3.8	5.6	5.2	9.4	0.4	(7.1)
Profit/(loss) after taxation as a % of net sales	3.0	4.1	5.1	7.3	(0.1)	(7.0)
Earning/(loss) per share (Rs.)	5.4	7.3	8.0	11.7	(0.1)	(12.1)
<b>LIQUIDITY &amp; LEVERAGE RATIOS</b>						
Current ratio	1.15:1	1.16:1	1.16:1	1.04:1	0.92:1	1.01:1
Quick ratio	0.15:1	0.58:1	0.29:1	0.34:1	0.29:1	0.21:1
Liabilities as % of total assets	68	58	68	76	88	--
Equity as % of total assets	32	42	32	24	12	-ve
Debt equity ratio	0:100	0:100	3:97	13:87	33:67	--
<b>EFFICIENCY RATIOS</b>						
Inventory turn over ratio	3.6	7.6	3.5	4.1	3.5	2.1
No. of days stock held	103	48	104	103	173	158
No. of days sales in trade debts	30.4	0.3	--	3	2	0.2
Total assets turn over ratio	1.6	2.2	1.8	1.8	1.2	1.1
Net worth turn over ratio	5.0	5.3	5.6	7.3	10.5	--
<b>EQUITY RATIOS</b>						
Break up value per share (Rs.)	36.37	33.26	27.97	22.0	11.02	-ve
Dividend as a % of capital	22.5	20	20	7	--	--
Dividend per share (Rs.)	2.25	2	2	0.7	--	--
Dividend payout ratio (%)	42	27	25	6	--	--
Dividend cover	2.38	3.64	--	16.7	--	--
Plough-back ratio (%)	58	73	--	94	--	--
Right issue (%)	--	--	--	--	--	100
<b>OTHER DATA</b>						
Permanent employees strength (Nos.)	619	601	549	552	540	884
Deletion achieved (%)						
Mehran Car SB 308 800 cc	*66.04	* 64.09	61.73	59.35	57.90	55.38
Khyber Car SA 310 1000 cc	*48.0	* 45.33	46.03	43.85	42.58	40.69
Margalla Car SF 413 1300 cc	--	Phase out	37.74	35.83	34.16	33.31
Margalla Car SF 413 (Power Pack)	--	Phase out	34.14	30.52	30.43	--
Baleno Car SY 413 1300cc	*42.01					
Ravi Pickup 800 cc	57.76	56.52	55.34	53.51	52.14	50.46
Bolan Van 800 cc	52.53	51.64	50.21	48.46	47.11	45.68
Potohar Jeep 1000 cc	40.07	39.12	38.13	37.56	35.31	34.89
Number of shares issued	49,131,252	49,131,252	49,131,252	49,131,252	49,131,252	24,565,626

\* As per ISDP

## PATTERN OF SHAREHOLDINGS AS AT JUNE 30, 1999

<i>Number of shareholders</i>	<i>Shareholding</i>			<i>Total shares held</i>	
864	From	1	to	100	38,586
1062	From	101	to	500	300,813
379	From	501	to	1000	289,891
235	From	1001	to	5000	540,869
42	From	5001	to	10000	302,042
9	From	10001	to	15000	118,728
3	From	15001	to	20000	45,884
2	From	20001	to	25000	47,000
3	From	25001	to	30000	88,276
1	From	30001	to	35000	31,000
1	From	40001	to	45000	42,700
1	From	45001	to	50000	48,000
1	From	55001	to	60000	56,000
1	From	125001	to	130000	127,300
1	From	135001	to	140000	137,200
1	From	230001	to	235000	232,480
1	From	495001	to	500000	500,000
1	From	530001	to	535000	531,560
1	From	1295001	to	1300000	1,295,900
1	From	1550001	to	1555000	1,554,818
1	From	1575001	to	1580000	1,577,325
1	From	5440001	to	5445000	5,444,542
1	From	35780001	to	35785000	35,780,338
-----				-----	
2613					49,131,252
=====				=====	

<i>S. No.</i>	<i>Categories of Shareholders</i>	<i>Number of Shareholders</i>	<i>Shares held</i>	<i>Percentage</i>
1	Individuals	2548	1,708,133	3.48
2	Investment Companies	6	65,024	0.13
3	Insurance Companies	10	802,084	1.63
4	Joint Stock Companies	14	85,052	0.17
5	Financial Institutions/Banks	7	4,948,543	10.07
6	Modaraba Companies	6	28,600	0.06
7	Foreign Investors	17	35,793,378	72.86
8	Charitable Trust	1	232,480	0.47
9	Co-operative Societies	3	23,416	0.05
10	Central Depository Co. of Pakistan	1	5,444,542	11.08
TOTAL		2613	49,131,252	100.00
		=====	=====	=====