

Al-Ghazi Tractors Limited
Annual Report 1998

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COMPANY PROFILE

* DATE OF INCORPORATION June 26, 1983
* DATE OF COMMENCEMENT
OF OPERATIONS: September 1, 1983
* DATE OF TAKE OVER
BY AL-FUTTAIM December 8, 1991
* START OF PRODUCTION AT
DERA GHAZI KHAN PLANT:
i) Auxiliary Plant. February 20, 1984
ii) Main Plant. April 1, 1985
* INSTALLED CAPACITY: 15,000 TRACTORS PER ANNUM IN SINGLE SHIFT
* TOTAL LAND AREA: APPROXIMATELY 100 ACRES
* EMPLOYEES: 536
* OFFICES:
Head Office. Karachi.
Plant. Dera Ghazi Khan - 12 km from D.G. Khan City.
Marketing Centres: Lahore.
 Multan
 Islamabad.
 Sukkar.

**FACILITIES AT THE AGTL
STAFF COLONY**

HOUSING 126 FAMILY HOMES AND BACHELOR QUARTERS
 FOR EXECUTIVES AND WORKERS.

POPULATION OF THE STAFF
COLONY: APPROXIMATELY 500.

CHILDREN IN THE AGTL
PRIMARY SCHOOL: 98
OTHER FACILITIES:
- MOSQUE
- HOSPITAL WITH AMBULANCE
- AGTL PRIMARY SCHOOL FOR CHILDREN OF
THE STAFF RESIDING IN THE COLONY.
- RECREATION CENTRES FOR EXECUTIVES,
WORKERS AND LADIES, WITH INDOOR
GAMES, TV, VIDEOS, DISH ANTENNAS, AND
OTHER FACILITIES.
- PLAY GROUNDS, PARKS, HORTICULTURE,
AND JANITORIAL SERVICES.
- SCHOOL BUS FOR PICK AND DROP SERVICES
TO SCHOOL AND COLLEGE GOING
CHILDREN OF THE STAFF FOR D.G. KHAN
CITY.
- PRIVATE ELECTRIC GENERATOR FOR
UNINTERRUPTED POWER SUPPLY
- CLEAN WATER SUPPLY WITH UV FILTERS.
- TRANSPORT FACILITY FOR D.G. KHAN CITY
& ADJOINING AREAS.
- WASTE WATER RECYCLING PLANT FOR

HOTRICULTURE.

COMPANY INFORMATION

Board of Directors

MR. JOHN E. HAINES - CHAIRMAN
MR. PARVEZ ALL - CHIEF EXECUTIVE
MR. KUNWAR IDRIS
MR. HASAN IRSHAD
MR. PETER WALL
MR. MOHD ALI QAIYUM
MR. NAZIR A. SHAIKH
MR. FRANCESCO MIZZI

Auditors

A.F. FERGUSON & CO.

Legal Advisors

SURRIDGE & BEECHENO

Tax Advisors

FORD RHODES, ROBSON,
MORROW

Bankers

SOCIETE GENERALE
UNION BANK LTD.
BANK AGRICOLE INDOSUEZ
ASKARI COMMERCIAL BANK
HABIB BANK LTD.

Company Secretary

SALEEM ADIL

OFFICES

KARACHI

Registered Office-11th Floor, NIC Building, Abbasi Shaheed Road, Karachi 74400.
Telephone: (92.021) 5660881-5. Telefax: (92.021) 5689387.

DERA GHAZI KHAN

PLANT P.O. Box 38, Sakhi Sarwar Road, Dera Ghazi Khan.
Telephone: (92.0641) 63159, 63805,63750. Telefax: (92.0641) 62117.

LAHORE

MARKETING Center- 10 km Sheikhpura Road, Lahore.
Telephone: (92.042) 270081 , 272226,7924676-7. Telefax: (92.042) 272257.

ISLAMABAD

Flat No. 8,2rid Floor, Malik Complex, Shahrahe Quaid-e-Azam,
Blue Area, Sector F-7 & G-7, Islamabad.
Telephone: (92.05 1) 829895, 272866. Telefax: (92.051) 272377.

MULTAN

20 Industrial Estate, Multan.
Telephone: (92.061) 539557-9 Telefax: (92.061) 539241.

SUKKAR

C/631/3, Minara Road, Sukkar.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Fifteenth Annual General Meeting of Al-Ghazi Tractors Limited will be held at Hotel Marriott, Karachi on Monday, December 21, 1998 at 11.00 a.m to transact the following business:

ORDINARY BUSINESS

1. To receive and consider the audited Accounts, the Directors' report and the Auditors' report for the year ended June 30, 1998.
2. To declare the final cash dividend (The Directors have recommended a final Dividend of 60% i.e. Rs. 3.00 per share issued).
3. To appoint Auditors for the year ending June 30, 1999 and to fix their remuneration. The retiring Auditors M/s. A.F. Ferguson & Co. being eligible, offer themselves for reappointment.

SPECIAL BUSINESS

1. To approve issue of bonus shares and in this regard to pass the following special resolutions:

"RESOLVED THAT a sum of Rs. 22,304,650 out of the Free Reserves of the company be capitalized and applied to the issue of 4,460,930 Ordinary shares of Rs. 5/- each and allocated as fully paid up Bonus shares to the Members whose names appear in the register of the members at the close of business on December 6, 1998 in the proportion of one Share for every four existing shares held and that such new shares shall rank pari passu with the existing ordinary shares of the company but shall not be eligible for dividend in respect of the year ended June 30, 1998.

FURTHER RESOLVED THAT in the event of any member holding shares which are not an exact multiple of Four, the Directors be and are hereby authorised to sell in the stock market such fractional entitlement and to pay the proceeds of sale when realized to a charitable Institution."

By order of the Board

Karachi
November 28, 1998

SALEEM ADIL
Company Secretary

STATEMENT UNDER SECTION 160

OF THE COMPANIES ORDINANCE 1984:

1. The Directors consider it advisable to capitalise a sum of Rs. 22,304,650 which they have set aside in a special Reserve for issue of Bonus shares.

NOTES:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf. No person shall act as a proxy (except for a corporation) unless he is entitled to be present and vote in his own right. Proxies, in order to be effective, must be received at the registered office of the Company duly stamped and signed not less than 48 hours before the time of the meeting.

2. The Share Transfer Books of the Company will remain closed from December 7, 1998 to December 21, 1998 (both days inclusive).

3. Members are requested to promptly communicate to the Company any change in their addresses.

CHAIRMAN'S REVIEW

given excellent returns to its shareholders. I am pleased to report that despite the recent economic difficulties affecting our country, the year ended June 1998 was no exception.

OPERATING RESULTS

During the period an all time record pre-tax profit of Rs 303.81 million was achieved against Rs 186.03 million last time, an increase of some 63%. Turnover increased from Rs 1,717 million to Rs 2,349 million or 37% with gross margins strengthening. Earnings per share increased from Rs 8.26 to Rs 11.62. All other financial and non-financial measurements also showed significant improvement.

In recognition of the above, a cash dividend of 60% will be paid and in further pursuance of our policy to strengthen the balance sheet and continually enlarge the equity base of the company, shareholders will receive a bonus share issue of 1 share for every four. This will have the effect of increasing the paid up capital of the Company from Rs 89 million to Rs 112 million.

Despite difficult conditions, market share increased to 49.9% against 40% last year, with the current trend remaining very positive. Al-Ghazi has therefore achieved the No. 1 position in the market for the first time.

CORPORATE EXCELLENCE

For achieving the highest undiluted earnings per share in the automotive sector for the years 1994, 1995, and 1996, the company was awarded the "Top Companies Award" by the Karachi Stock Exchange. Similarly in 1995 and 1996 the Management Association of Pakistan awarded Al-Ghazi first place for "Best Corporate Performance" in the Engineering Sector. With anticipation we await the 1997 results.

The company's efforts in the area of art and culture have also been recognised, with the National Council of Culture and Arts awarding us special prize for the year 1997 and the first prize in 1998 for the company's annual calendar.

During the year our focus has remained resolute on tight management control of the manufacturing process and its assets, optimisation of the integrated production process by gradual and continual improvement, Just-in-Time components delivery, strengthened procurement management, intensified quality assurance and increased staff productivity through improved and enhanced training.

By such management techniques we have been able to benefit our customers by significantly improving specifications and quality. At the same time, prices were held at July 1996 levels through to June 1998, and in concert we were also able to maintain above average returns to our shareholders.

Obtaining ISO-9002 from AOQC Moody International was another goal we set ourselves during the year. Under the banner "Fast Track to ISO-9000" we set out on the task. In record time we earned the distinction of being the first company in the automotive sector to achieve this prestigious accolade.

SHAREHOLDER ACTIVITY

Al-Futtaim (Industries) Ltd, part of Al-Futtaim (Private) Ltd. of Dubai have held the majority shareholding in Al-Ghazi having acquired 46% of the equity at the time of privatisation in December 1991. Fiat/New Holland of Italy at that time held 5% equity.

In May 1998, Fiat/New Holland increased its shareholding to 43.17% by acquiring the entire shareholding of NIT and other financial institutions. In parallel, Al-Futtaim increased its shareholding to 50.02% thus maintaining its majority position and management control.

This situation greatly benefits the company and its long term future. Fiat/New Holland has now increased its technical support and assistance in R&D, as well as giving the Company greater access to its global network and wider product range, whilst Al-Futtaim brings to the party its local knowledge and significant management expertise. In addition both parties are totally committed to the long term financial and strategic development of the business.

FUTURE PROSPECTS

During the year ahead we will continue to focus on our core strategy.

"To be the lowest cost producer of the highest quality products"

Total customer satisfaction is our corporate goal. We are confident that well planned investment in areas that will either generate significant improvements in the area of customer satisfaction, quality of product or productivity will continue to keep us in the number one position in the market.

The Pakistan tractor market is expected to increase by around 33% next year to 20,000. Al-Ghazi plans to further improve upon its dominant market position.

The government has committed funds to the Agricultural Development Bank of Pakistan (ADBP) to ensure the farming community has access to suitable financing arrangements.

In June 1998 the government withdrew sales tax of 12.5% and import duty on CKD imports of 10%, whilst at the same time forcing the country's tractor manufacturers to reduce retail prices by an average 7.5%.

We believe that the margin squeeze created by the above will be off-set by the projected increase in volume and that 1999 financial results will therefore also be encouraging.

With Al-Ghazi Tractors now holding almost 50% market share the company has looked to diversification to maintain growth. This diversification will come in two forms. "New products within the agricultural sector" and "new business opportunities outside the sector." Both are currently under study and plans will be announced in due course.

DIRECTORS

Vacancies were created during the year due to the passing away of Mr. Shah Jalil Alam. On behalf of the Board and all his friends in the company I would like to thank him posthumously for his assistance, guidance and help. He will be missed by all who knew him.

Resignations were received from:

Mr. Keith Stack (Al-Futtaim)

Mr. Mario Chessa (Fiat/New Holland)

Mr. Razi-ur-Rehman Khan (NIT)

Vacancies were filled by:

Mr. John Haines (Group Director - Al-Futtaim)

Mr. Mohammed Ali Qaiyum (Al-Futtaim)
 Mr. Peter Wall (Fiat/New Holland)
 Mr. Francesco Mizzi (Fiat/New Holland)

TO CONCLUDE

I would like to pass on the appreciation of the board of directors to the management and staff of the company, their trade unions and trade union officials. During the year the team has worked positively, enthusiastically, and in harmony to create quality products, satisfied customers and financial success.

May I also thank the Government of Pakistan and the ADBP for their continuing financial and moral support to the agricultural industry. I also acknowledge the support of The Engineering Development Board and the Ministry of Industries for finalising the industry specific deletion programme for the tractor industry. This programme now confirms our claims to have the highest local content of any tractor manufacturer in Pakistan.

I thank and acknowledge Fiat/New Holland for their enhanced technical support and their continual strive for technical excellence.

Last but not least I would thank our dealers. The hardworking and entrepreneurial team who are the front line of our sales and after-sales delivery. The most professional team in the country.

Dated: October 19, 1998

John E. Haines
 Chairman

DIRECTORS' REPORT

The Directors of Al-Ghazi Tractors Limited are pleased to present their Annual Report together with the company's audited accounts for the year ended June 30, 1998 .

(Rs. '000)

Profit for the year before taxation	303,813	
Less: Provision for taxation (Net)	96,500	

Profit after taxation	207,313	
Un-appropriated profit brought forward	4,140	

Profit available for appropriation	211,453	
Less: Appropriations		
Dividend @ 60%	53,531	
Transfer to Reserve for Issue of Bonus Shares	22,305	
Transfer to General Reserve	135,000	210,836

Un-appropriated profit carried forward	617	=====

1. Al-Futtaim Industries (Pvt) Ltd., Dubai incorporated in U.A.E. is the holding company of Al-Ghazi Tractors Ltd., being the holder of 50.02% shares of the Company.

2. The pattern of share holdings is included in this Annual Report.

3. The Directors do not foresee any problem viz-a-viz the Millennium Bug as the existing computer systems of the Company were designed to take care of the problem.

4. The retiring Auditors Messrs A.F. Ferguson & Co., being eligible, offer themselves for re-appointment.

On behalf of the Board

Karachi
 October- 19, 1998

John E. Haines
 Chairman

DECADE AT A GLANCE

	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90
VOLUME IN UNITS									
Production									
Model 480s	5,375	3,841	4,415	4,400	3,686	4,101	2,595	4,226	4,722
Model 640	1,007	1,098	2,202	2,015	1,861	2,081	732	1,438	1,885
Total Production	6,382	4,939	6,617	6,415	5,547	6,182	3,327	5,664	6,607
Sales:									
-Industry	13,659	10,161	16,286	17,334	16,089	15,797	10,684	13,909	20,103
-AGTL	6,441	4,701	6,617	6,420	5,798	5,955	3,402	5,737	6,621
-AGTLs share %	47.16	46.27	40.63	37.04	36.04	37.70	31.84	41.25	32.94
Bookings:									
-Industry	15,021	8,294	14,419	21,739	17,552	13,464	14,527	12,387	19,526
-AGTL	7,495	3,322	5,843	8,693	6,839	3,944	5,509	4,958	6,715
-AGTLs share %	49.90	40.10	40.50	40.00	39.00	29.30	37.90	40.00	34.40
Deletion Achieved									
Model 480s	82%	82%	82%	82%	82%	81%	81%	81%	79%
Model 640	74%	74%	74%	74%	74%	74%	74%	71%	58%

	VALUE IN RS. 000								
Sale Revenue	2,349,148	1,717,094	2,264,748	2,029,937	1,749,255	1,700,645	869,590	1,376,778	1,369,485
Gross Margin	366,435	254,487	225,422	298,948	275,135	196,194	25,678	82,541	111,404
Profit(loss) before t	303,813	186,034	171,893	259,859	166,191	102,521	(77,009)	9,065	6,278
Income tax paid	96,500	52,073	64,292	87,069	70,000	12,500	5,282	6,949	--
Profit(loss) after ta	207,313	133,961	107,601	172,790	96,191	90,021	(82,291)	2,116	6,278
Capital Expenditure	14,131	13,477	25,528	9,050	17,919	5,551	5,122	1,195	4,345
Dividend									
- Cash	53,531	40,554	36,867	28,359	13,613	6,188	--	--	6,187
- Percentage	60.0%	50.0%	50.0%	50.0%	30.0%	15.0%	--	--	15.0%
- Stock	22,305	8,111	7,373	17,016	11,343	4,125	--	--	6,187
- Percentage	25.0%	10.0%	10.0%	30.0%	25.0%	10.0%	--	--	15.0%
Earning/(loss) per sh	11.62	8.26	7.30	15.23	10.60	10.91	(9.97)	0.26	0.76

A. F. FERGUSON & CO. STATE LIFE BUILDING 1-C Telephones: (021)242 6682 6
 CHARTERED ACCOUNTANTS OFF I. I. CHUNDRIGAR ROAD (021) 242 6711-5
 P.O. BOX 4716 Fax: (021) 241 5007 Audit
 OTHER OFFICES AT KARACHI 74000 (021) 242 7938 Tax
 LAHORE - RAWALPINDI - ISLAMABAD PAKISTAN Telex: 21155 AFFCO
 E-mail affco-abs@cyber.net.pk
 affco-tax@cyber.net.pk

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of AI-Ghazi Tractors Limited as at June 30, 1998 and the related profit and loss account and cash flow statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit 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 cash flow statement, 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 June 30, 1998 and of the profit and the cash flows for the year then ended; and

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

Sd/-

Chartered Accountants

**Balance Sheet
As at June 30, 1998**

	Note	1998	1997
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Share capital			
Authorized			
40,000,000 (1997: 40,000,000) ordinary shares of Rs 5 each			
		200,000	200,000
		=====	=====
Issued, subscribed and paid-up	3	89,219	81,108
Reserves	4	542,305	393,111
Unappropriated profit		617	4,140
		-----	-----
		632,141	478,359
LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASES			
	5	3,246	--
PROVISION FOR GRATUITY			
		35,271	29,150
CURRENT LIABILITIES			
Current maturity of liability against assets subject to finance leases			
	5	879	839
Creditors, accrued and other liabilities	6	440,089	347,140
Taxation	7	21,564	5,435
Dividend	8	54,328	41,013
		-----	-----
		516,860	394,427
CONTINGENT LIABILITY AND COMMITMENTS			
	9	-----	-----
		1,187,518	901,936
		=====	=====
FIXED ASSETS			
Operating assets	10	78,660	84,403
LONG-TERM LOANS AND ADVANCES			
	11	2,347	765
LONG-TERM DEPOSITS		983	575
DEFERRED TAXATION	12	24,542	15,702

CURRENT ASSETS

Spares and loose tools	13	3,468	3,947
Stock-in-trade	14	339,443	448,646
Trade debts	15	2,296	2,234
Loans and advances	16	24,494	17,931
Short-term deposits and prepayments	17	7,571	5,353
Other receivables	18	16,445	7,841
Short-term investments - at cost	19	20,000	20,000
Cash and bank balances	20	667,269	294,539
		-----	-----
		1,080,986	800,491
		-----	-----
		1,187,518	901,936
		=====	=====

The annexed notes form an integral part of these accounts.

Sd/- Chairman
Sd/- Chief Executive

**Profit and Loss Account
For the Year Ended June 30, 1998**

	Note	1998	1997
		(Rupees '000)	
Sales	21	2,349,148	1,717,094
Cost of goods sold	22	1,982,713	1,462,607
		-----	-----
Gross profit		366,435	254,487
		-----	-----
Administration and general expenses	23	33,347	30,503
Selling and distribution expenses	24	35,085	32,711
Financial charges	25	5,081	3,438
		-----	-----
		73,513	66,652
		-----	-----
Operating profit		292,922	187,835
Other income	26	33,293	11,926
		-----	-----
		326,215	199,761
		-----	-----
Workers' profits participation fund		16,326	10,006
Workers' welfare fund		6,076	3,721
		-----	-----
		22,402	13,727
		-----	-----
Profit before taxation		303,813	186,034
		-----	-----
Taxation - current		110,237	67,000
- prior year		(4,897)	775
- deferred		(8,840)	(15,702)
		-----	-----
		96,500	52,073
		-----	-----
Profit after taxation		207,313	133,961
Unappropriated profit brought forward		4,140	3,844
		-----	-----
		211,453	137,805
		-----	-----
Appropriations			
Transfer to - general reserve		135,000	85,000
- reserve for issue of bonus shares		22,305	8,111
Interim dividend Nil (1997: 15%)		--	12,166
Proposed final dividend @ 60% (1997: 35%)		53,531	28,388
		-----	-----
		210,836	133,665
		-----	-----
		617	4,140
		=====	=====

The annexed notes form an integral part of these accounts.

Sd/- Chairman Sd/- Chief Executive

Cash Flow Statement
For the Year Ended June 30, 1998

	Note	1998	1997
		(Rupees '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	31	495,703	(180,434)
Financial expenses paid		(3,144)	(2,165)
Taxes paid		(89,211)	(60,360)
Payment of gratuity		(1,518)	(665)
Net cash inflow/(out flow) from operating activities		401,830	(243,624)
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(8,154)	(13,477)
Sale proceeds of fixed assets		2,518	3,644
Return/profit received		21,433	8,801
(Increase)/Decrease in long term loans, advances and depo		(1,990)	716
Net cash inflow/(out flow) from investing activities		13,807	(316)
CASH OUT FLOW FROM FINANCING ACTIVITIES			
Payment of liability against finance leases		(2,691)	(3,083)
Dividend paid		(40,216)	(36,712)
		(42,907)	(39,795)
Net increase/(decrease) in cash and cash equivalents		372,730	(283,735)
Cash and cash equivalents at the beginning of the year		294,539	578,274
Cash and cash equivalents at the end of the year		667,269	294,539
		=====	=====

The annexed notes form an integral part of these accounts.

Sd/- Chairman Sd/- Chief Executive

Notes to the Accounts
For the Year Ended June 30, 1998

1. THE COMPANY AND ITS OPERATIONS

Al-Ghazi Tractors Limited is a public company quoted on Karachi and Lahore stock exchanges. The Company is engaged in the manufacture and sale of agricultural tractors, implements and spare parts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Staff retirement benefits

(i) Staff gratuity

The Company operates an unfunded gratuity scheme for all employees. Accrual is made annually to cover the period of service completed by the employees. However, gratuity is payable only on completion of the prescribed qualifying period of service.

(ii) Provident fund

The Company operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 10% of basic salary.

2.3 Taxation

Provision for current taxation is based on taxable income at the applicable rates of taxation. The Company accounts for deferred taxation using liability method on all significant timing differences.

2.4 Warranties

Warranty expenses are recorded as and when claims are received.

2.5 Fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation except freehold land and capital work-in-progress which are stated at cost.

Leasehold land is amortized over the period of the lease. Depreciation on all other assets is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged in the year of acquisition and no depreciation is charged in the year of disposal.

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

The company accounts for fixed assets acquired under finance leases by recording the asset and the related liability. These amounts are determined on the basis of discounted value of minimum lease payment. Financial charges are allocated to the accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged to income applying the straight line method.

Gain or loss on disposal or retirement of fixed assets is included in income currently.

2.6 Spares and loose tools

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

2.7 Stock-in-trade

These are valued at lower of cost and net realisable value. Cost is determined on moving average method except for Completely Knocked Down (CKD) components and stock-in-transit.

Cost of CKD components is determined on first-in-first-out method. Cost of stock-in-transit comprises of invoice value plus other charges incurred thereon.

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

The trading stock of spare parts is valued on average cost basis.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost necessarily to be incurred in order to make the sale.

2.8 Foreign currencies

Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange ruling on the balance sheet date except for liabilities covered under forward exchange contracts, which are translated at the contracted rates.

Exchange gains and losses are included in income currently.

2.9 Revenue recognition

Sale of goods is recognised on delivery of goods to customers.

1998 1997
(Rupees '000)

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Ordinary shares of Rs 5 each

1998	1997			
4,500,000	4,500,000	shares fully paid in cash	22,500	22,500
#####	#####	shares issued as fully paid bonus shares	66,719	58,608

#####	#####		89,219	81,108
=====				

1998 1997
(Rupees '000)

4. RESERVES

	Capital For issue of bonus shares	Revenue General		
At the beginning of the year	8,111	385,000	393,111	307,373
Appropriated from profits	22,305	135,000	157,305	93,111
Issue of bonus shares	(8,111)	--	(8,111)	(7,373)

	22,305	520,000	542,305	393,111
	=====			

5. LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASES

Payable during 1997-1998	--	888		
1998-1999	1,686	--		
1999-2000	1,686	--		
2000-2001	1,443	--		
2001-2002	1,055	--		

	5,870	888		
Less: Finance charge not due	1,745	49		

	4,125	839		
Less: Current maturity shown under current liabilities	879	839		

	3,246	--		
	=====			

This represents finance leases entered into with a leasing company for vehicles. The balance of liability is payable by April 2002 in monthly/quarterly installments.

Monthly/quarterly lease payments include finance charge of 23.5% and 24.5% per annum, which is used as discounting factor.

6. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	28,723	51,664		
Bills payable	177,171	152,648		
Sales tax payable	4,867	17,734		
Accrued liabilities	139,831	55,658		
Royalty	44,284	32,598		
Mark up on running finance	27	9		
Customers' credit balances	4,549	4,721		
Deposits - others	7,237	6,443		
Warranties	5,037	4,937		
Workers' profits participation fund - note 6.1	17,407	11,096		
Workers' welfare fund	6,076	3,721		
Others	4,880	5,911		

	440,089	347,140		
	=====			

6.1 Workers' profits participation fund

At the beginning of the year	11,096	10,341		
Allocation for the year	16,326	10,006		

	27,422	20,347
Add: Interest on fund utilised in Company's business	302	368
	-----	-----
	27,724	20,715
Less: Amount paid to:		
The Trustees of the Fund	1,598	1,682
Deposited with the Government	8,719	7,937
	-----	-----
	10,317	9,619
	-----	-----
	17,407	11,096
	=====	=====

7. TAXATION

The income tax department has filed an appeal with the Lahore High Court against the order of the Income Tax Appellate Tribunal allowing the company a tax holiday period of 5 years which expired on March 31, 1990. Pending the decision of the High Court in this matter the department has finalised the assessments up to assessment year 1997-98 (accounting year ended June 30, 1997) on the basis of Tribunal's findings.

8. DIVIDEND

Dividend payable	--	12,166
Proposed dividend	53,531	28,388
Unclaimed dividend	797	459
	-----	-----
	54,328	41,013
	=====	=====

9. CONTINGENT LIABILITY AND COMMITMENTS

9.1 Contingent liability

Post-dated cheques to Collector of Customs as a security against the concessional rate of duty amounted to Rs 124.14 million (1997: Rs 74.98 million).

9.2 Commitments

Commitments for capital expenditure outstanding at June 30, 1998 amounted to approximately Rs 0.7 million (1997: Rs 3.94 million).

10. FIXED ASSETS

The following is a statement of operating fixed assets:

	Cost as at July 1, 1997	Additions/ *transfers/ (deletions)	Cost as at June 30, 1998	Accumulated depreciation as at July 1, 1997	Depreciation for the year/on *transfers/on (deletions)	Accumulated depreciation as at June 30, 1998	Written down value as at June 30, 1998	Rate of depreciation %
(Rupees '000)								
Freehold land	3,854	--	3,854	--	--	--	3,854	--
Leasehold land	831	--	831	106	9	115	716	--
Factory buildings on freehold land	31,098	--	31,098	19,569	778	20,347	10,751	2.5
Other buildings on freehold land	25,050	122	25,172	9,306	629	9,935	15,237	2.5
on leasehold land	5,228	--	5,228	1,007	130	1,137	4,091	2.5
Plant and machinery	49,575	3,257	52,832	34,463	5,283	39,746	13,086	10
Furniture, fixtures and equipment	18,976	1,652 (389)	20,239	8,370	2,491 (125)	10,736	9,503	10-33
Vehicles	24,854	1,867 *3,485 (3,034)	27,172	12,243	5,434 *2,397 (2,465)	17,609	9,563	20
Electrical installations	11,236	728	11,944	7,092	1,194	8,266	3,678	10

	(20)	(20)						
Factory equipment and tools	11,033	528	11,561	6,264	1,156	7,420	4,141	10
Assets held under finance leases								
- vehicles	3,485	5,977 *(3,485) (927)	5,050	2,397	1,010 *(2,397)	1,010	4,040	20

1998	185,220	14,131 (4,370)	194,981	100,817	18,114 (2,610)	116,321	78,660	
=====								
1997	173,786	13,477 (2,043)	185,220	85,264	16,783 (1,230)	100,817	84,403	
=====								

An independent professional valuation of land and buildings carried out in April 1995 revealed an aggregate value of Rs 134.82 million. The surplus of Rs 102.79 million over the written down value as at June 30, 1995 has not been considered in these accounts.

(b) Following are the details of fixed assets disposed of:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of sale	Particulars of purchaser
(Rupees '000)						
VEHICLES						
Car	65	39	26	336	Tender	Dr. Farhana G-2 / Bedrock Apartments Frere Town, Clifton, Karachi.
	392	392	--	256	-do-	Mr. M. Azam 234/E, Gulshan-e-Ravi, Lahore.
	197	158	39	59	Company Policy	Mr. Nadeem Ahmed Executive
	1,923	1,539	384	577	-do-	Mr. Parvez Ali Chief Executive
	927	--	927	777	Insurance Claim	Adamjee Insurance Company Limited
Car 4WD	365	292	73	110	Company Policy	Mr. Farooq Khattak Executive
Motor Cycle	57	11	46	58	Insurance Claim	Adamjee Insurance Company Limited
FURNITURE, FIXTURES AND EQUIPMENTS						
Furniture	205	51	154	145	Company Policy	Mr. M. Zafar Malick Ex-Executive
	42	21	21	29	-do-	Mr. Ghazanfar Abbas Ex-Executive
	42	21	21	17	-do-	Mr. S. Abbas Raza Zaidi Ex-Executive
	92	23	69	56	-do-	Mr. Usman Ali Khan Ex-Executive
ELECTRICAL INSTALLATIONS						
Television	11	11	--	2	Company Policy	Mr. Lal Khan Employee
Refrigerator	7	7	--	5	Tender	Mr. Jewan Khan Employee

	4,325	2,565	1,760	2,427
Items having written down value below Rs.5,000 each	45	45	--	91
	-----	-----	-----	-----
	4,370	2,610	1,760	2,518
	=====	=====	=====	=====

	1998	1997
	(Rupees '000)	
11. LONG-TERM LOANS AND ADVANCES-considered good		
Loans to		
- Executives	434	66
- Employees	896	699
	-----	-----
	1,330	765
Advances to		
- Chief Executive	502	--
- Executives	515	--
	-----	-----
	1,017	--
	-----	-----
	2,347	765
	=====	=====

The loans under the schemes have been provided to the executives and employees of the Company to facilitate purchase of vehicles and domestic appliances and are repayable over a period of eighteen months to five years.

The motor vehicle loans, repayable over a period of five years, are secured by joint registration of vehicles in the name of employee and the company. The loans repayable over a period of eighteen months to three years are secured against provident fund account balances.

Advances are made to the chief executive and executives of the Company in respect of house rent and these are payable over a period of two years.

Aggregate amount outstanding for period exceeding three years is Rs.8 thousand (1997: Rs 22 thousand).

The maximum amount of loans and advances to chief executive and executives of the Company at the end of any month during the year was Rs 1 million and Rs 2.03 million respectively (1997: Rs 0.51 million and Rs 0.82 million respectively).

12. DEFERRED TAXATION

Debit balances arising on account of:

Provisions made for:

Staff gratuity	10,582	8,745
Royalty	13,652	8,353
Other receivables	--	167
Excess of accounting depreciation over tax depreciation	308	--
	-----	-----
	24,542	17,265

Credit balance arising due to accelerated tax depreciation allowances

--	(1,563)
-----	-----
24,542	15,702
=====	=====

13. SPARES AND LOOSE TOOLS

Spares	3,468	3,787
Loose tools	--	160
	-----	-----
	3,468	3,947
	=====	=====

14. STOCK-IN-TRADE

Raw materials and components - including in transit Rs 79.47 million (1997: Rs 50.28 million)	304,684	345,734
Finished goods - tractors	28,581	96,356
Trading stock - spare pans and implements	6,178	6,556
	-----	-----
	339,443	448,646
	=====	=====

Raw materials, components and finished goods include stock amounting to Rs.7.88 million (1996:Rs.7.97 million) lying with suppliers and dealers.

15. TRADE DEBTS considered good

Secured	1,173	624
Unsecured	1,123	1,610
	-----	-----
	2,296	2,234
	=====	=====

16. LOANS AND ADVANCES

Considered good		
Chief executive	780	448
Executives	2,811	1,858
Employees	3,722	3,599
Suppliers for goods and services	17,181	12,026
Considered doubtful	--	555
	-----	-----
	24,494	18,486
	--	555
	-----	-----
	24,494	17,931
	=====	=====

The maximum amount due from the chief executive and executives of the Company at the end of any month during the year was Rs 0.78 million and Rs 2.81 million respectively (1997: Rs 0.49 million and Rs 1.79 million respectively).

17. SHORT-TERM DEPOSITS AND PREPAYMENTS

Deposits	--	348
Prepayments	7,571	5,005
	-----	-----
	7,571	5,353
	=====	=====

18. OTHER RECEIVABLES

Octroi receivable	3,174	3,178
Accrued mark-up	11,164	1,375
Claims receivable	1,816	3,150
Others	291	138
	-----	-----
	16,445	7,841
	=====	=====

19. SHORT TERM INVESTMENTS

The company has invested in certificates of investment with a leasing company.

20. CASH AND BANK BALANCES

With banks and financial institutions		
- on current accounts including collection accounts Rs 8.93 million (1997: Rs 111.97 million)	12,506	113,182
- on deposit accounts	654,490	156,933
In hand		
- demand drafts	--	24,222
- cash	198	202
In transit	75	--
	-----	-----
	667,269	294,539
	=====	=====

21. SALES

Manufactured goods	2,350,103	1,713,023
Less: Commission	20,798	14,212
	-----	-----
	2,329,305	1,698,811
Trading goods	19,843	18,283
	-----	-----
	2,349,148	1,717,094
	=====	=====

22. COSY OF GOODS SOLD**Manufactured goods**

Raw materials and components consumed	1,728,103	1,405,717
Salaries, wages and benefits - note 22.1	65,982	56,317
Royalty	45,507	27,844
Stores and supplies	24,107	21,678
Insurance	1,241	1,248
Depreciation	11,755	10,960
Fuel, power and electricity	7,278	7,098
Travelling, vehicles running and entertainment	4,305	3,886
Repairs and maintenance	4,744	3,915
Rent, rates and taxes	1,386	1,263
Communication	1,788	1,607
Printing and stationery	599	633
Legal and professional charges	147	129
Other - note 22.2	1,814	1,690
	-----	-----
Cost of goods manufactured	1,898,756	1,543,985
Opening stock of finished goods	96,356	320
Closing stock of finished goods	(28,581)	(96,356)
	-----	-----
	1,966,531	1,447,949
Trading goods		
Opening stock	6,556	5,287
Purchases	17,090	13,222
Internal receipts	(1,286)	2,705
	-----	-----
	22,360	21,214
Closing stock	(6,178)	(6,556)
	-----	-----
	16,182	14,658
	-----	-----
	1,982,713	1,462,607
	=====	=====

22.1 Salaries and wages include Rs 5.99 million (1997: Rs 6.11 million) in respect of staff retirement benefits.

22.2 Donations of Rs 8 thousand (1997: Rs 10 thousand) are included under "other expenses". None of the directors or their spouses had any interest in the donee.

1998 **1997**
(Rupees '000)

23. ADMINISTRATION AND GENERAL EXPENSES

Salaries, wages and benefits - note 23.1	19,550	17,277
Travelling, vehicles running and entertainment	3,822	3,707
Rent, rates and taxes	1,950	1,849
Repairs and maintenance	290	396
Electricity	139	170
Communication	1,332	1,420
Printing and stationery	596	871
Auditors' remuneration - note 23.2	439	415
Legal and professional charges	493	225
Depreciation	3,237	2,916
Insurance	45	34
Other	1,454	1,223
	-----	-----

33,347 30,503
 ===== =====

23.1 Salaries and wages include Rs 1.97 million (1997: Rs 1.74 million) in respect of staff retirement benefits.

23.2 Auditors' remuneration

Audit fee	300	250
Advisory services, certification of free reserves, export of bonus shares, dividend and royalty remittances	108	101
Out of pocket expenses	31	29
Central and provincial excise duty	--	35
	-----	-----
	439	415
	=====	=====

24. SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and benefits - note 24.1	20,518	17,280
Travelling and vehicles running	3,157	3,453
Rent, rates and taxes	373	478
Repairs and maintenance	271	228
Electricity	577	520
Communication	2,295	2,620
Printing and stationery	544	502
Free after sales service	1,274	1,051
Publicity	1,003	1,677
Warranty	146	284
Freight outward	119	188
Depreciation	3,122	2,907
Entertainment	216	278
Insurance	92	106
Dealers' convention	1,107	795
Other	271	344
	-----	-----
	35,085	32,711
	=====	=====

24.1 Salaries and wages include Rs 2.19 million (1997: Rs 1.81 million) in respect of staff retirement benefits.

25. FINANCIAL CHARGES

Mark-up on running finance	2,612	1,763
Finance lease charges	550	411
Interest on workers' profits participation fund	302	368
Interest on provident fund	27	53
Exchange loss	909	--
Bank charges, commission and excise duty on borrowings	681	843
	-----	-----
	5,081	3,438
	=====	=====

26. OTHER INCOME

Return on deposits	29,905	4,750
Return on certificates of investment	322	1,134
Interest on vendors' loans	995	823
Trading discount received	213	68
Liabilities no longer payable written back	--	819
Provision for bad debts written back	--	4
Scrap sales	756	1,239
Profit on sale of fixed assets	758	2,831
Exchange gain	--	228
Sundries	344	30
	-----	-----
	33,293	11,926
	=====	=====

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives		Total	
	1998	1997	1998	1997	1998	1997	1998	1997
Managerial remuneration	2,137	1,444	198	162	14,428	10,253	16,763	11,859
Rent	459	371	--	--	3,082	2,640	3,541	3,011
Utilities	102	83	--	--	690	590	792	673
Retirement benefits	274	237	--	--	2,338	1,780	2,612	2,017
Medical expenses	52	34	--	--	605	466	657	500
Leave passage	93	77	--	--	600	551	693	628
Vehicle running	--	--	--	--	483	343	483	343
Other expenses	42	11	54	15	23	26	119	52
	3,159	2,257	252	177	22,249	16,649	25,660	19,083
Number of persons	1	1	1	1	40	36	42	38

The chief executive, director and certain executives are also provided with the company maintained cars.

28. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The aggregate amount of the company's purchases from associated undertakings of goods and services during the year amounted to Rs 12.72 million (1997: Rs 25.18 million).

29. FINANCING ARRANGEMENTS

The facilities for running finance available from various banks amounted to Rs 260 million (1997: Rs 310 million). The rates of mark-up range between Re 0.44 to Re 0.48 per Rs 1,000 per day.

The arrangements are secured by joint hypothecation of stock-in-trade, spares and book debts.

The facilities for opening letters of credit and guarantees amounted to Rs 355 million (1997: Rs 580 million) of which Rs 75.81 million (1997: Rs 387.62 million) remained unutilised as at June 30, 1998.

	1998	1997
30. PLANT CAPACITY AND PRODUCTION		
	Units	Units
Plant capacity	15,000	15,000
Actual production	6,288	4,939

Company's policy is to plan production to meet orders. During the year, production fell short of the aggregate of booking for the year and pending orders brought forward from the previous year on account of erratic supply of certain components by the local vendors.

	1998	1997
	(Rupees '000)	
31. CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	303,813	186,034
Add/(less) adjustment for non-cash charges and other items		
Depreciation	18,114	16,783
Profit on sale of fixed assets	(758)	(2,831)
Provision for gratuity	7,639	7,266
Financial expenses	3,162	2,174
Return/profit earned	(31,222)	(6,707)

Profit before working capital changes 300,748 202,719

EFFECT ON CASH FLOW DUE TO

WORKING CAPITAL CHANGES

(Increase)/Decrease in current assets

Spares and loose tools	479	(399)
Stock-in-trade	109,203	(171,394)
Trade debts	(62)	1,226
Loans and advances	(6,563)	1,875
Short-term deposits and prepayments	(2,218)	4,401
Other receivables	1,185	622

102,024 (163,669)

Increase/(decrease) in current liabilities

Creditors, accrued and other liabilities	92,931	(219,484)
--	--------	-----------

Cash generated from/(used in) operations

495,703 (180,434)

=====

32. CORRESPONDING FIGURES

Previous year's figures have been rearranged, wherever necessary, for the purposes of comparison.

Chairman

Chief Executive

PATTERN OF SHAREHOLDING

As at June 30, 1998

Number of Share holders	Size of Shareholding Rs. 5 each				Total Shares held
457 from	1	to	100	Shares	17,450
382 from	101	to	500	Shares	87,682
272 from	501	to	1,000	Shares	175,145
157 from	1,001	to	5,000	Shares	330,000
13 from	5,001	to	10,000	Shares	96,479
13 from	10,001	to	15,000	Shares	153,335
4 from	15,001	to	20,000	Shares	68,623
2 from	20,001	to	25,000	Shares	43,256
1 from	30,001	to	35,000	Shares	32,442
1 from	55,001	to	60,000	Shares	56,265
1 from	60,001	to	65,000	Shares	62,994
1 from	70,001	to	75,000	Shares	71,695
1 from	170,001	to	175,000	Shares	172,812
1 from	7,550,001	to	7,555,000	Shares	7,550,416
1 from	8,925,001	to	8,390,000	Shares	8,925,124
-----					-----
1307					17,843,718
=====					=====

Categories of Shareholders

Categories of Shareholders	Number of Shareholders	Shares held	Percentage
Individuals	1,279	1,018,376	5.71
Investment Companies	12	30,627	0.17
Insurance Companies	1	172,812	0.97
Joint Stock Companies	3	371	0.00
Financial Institutions	4	72,299	0.40
Modaraba Companies	2	8,527	0.05
Foreign Investors	6	16,540,706	92.70
-----		-----	
TOTAL	1,307	17,843,718	100.00
=====		=====	=====