A.F. FERGUSON & CO.

A member firm of
PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Al-Ghazi Tractors Limited as at December 31, 2009 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

(b) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied except for the changes as stated in note 2.1.1(a), with which we concur;

   (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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and

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

"In case of any discrepancy on a company's website, the auditors shall only be responsible in respect of the information contained in the hard copies of the audited financial statements available at the company's registered office."

A.F.Ferguson & Co
Chartered Accountants
Karachi

Dated: February 16, 2010

Name of Engagement Partner: Syed Fahim ul Hasan

AL-GHAZI TRACTORS LIMITED

BALANCE SHEET AS AT DECEMBER 31, 2009

	Note	2009	2008
		Rupees '000	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	3	252,695	235,452
Long-term loans	4	2,858	10,137
Long-term deposits		367	367
		255,920	245,956
CURRENT ASSETS			
Stores, spares and loose tools	5	11,691	14,673
Stock-in-trade	6	1,253,682	1,931,399
Trade debts	7	20,292	7,143
Loans and advances	8	32,012	37,393
Short-term deposits and prepayments	9	12,725	16,443
Accrued mark-up	10	128,281	164,045
Other receivables	11	10,761	9,838
Taxation		530,563	112,809
Refunds due from the Government	12	1,457,265	750,554
Investments	13	145,000	446,760
Cash and bank balances	14	3,522,479	3,348,997
		7,124,751	6,840,054
		7,380,671	7,086,010
SHARE CAPITAL AND RESERVES			
Share capital	15	214,682	214,682
Reserves	16	5,205,237	4,213,090
		5,419,919	4,427,772
NON-CURRENT LIABILITIES			
Deferred staff benefits - compensated absences		21,871	19,367
Deferred taxation	17	31,460	27,161
CURRENT LIABILITIES			
Trade and other payables	18	1,907,421	2,611,710
COMMITMENTS	19		
		7,380,671	7,086,010

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Director

AL-GHAZI TRACTORS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		Rupees '000	
Sales	21	15,764,825	10,107,874
Cost of goods sold	22	(13,119,011)	(8,530,087)
Gross profit		2,645,814	1,577,787
Distribution cost	23	(87,569)	(75,286)
Administrative expenses	24	(111,270)	(91,560)
		2,446,975	1,410,941
Other operating income	25	411,070	399,487
Other operating expenses	26	(197,057)	(124,753)
		2,660,988	1,685,675
Finance cost	27	(2,154)	(2,734)
Profit before taxation		2,658,834	1,682,941
Taxation	28	(915,299)	(569,685)
Profit after taxation		1,743,535	1,113,256
Other comprehensive income		-	-
Total comprehensive income		1,743,535	1,113,256
Earnings per share	29	Rs 40.61	Rs 25.93

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Director

AL-GHAZI TRACTORS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	30	1,553,642	(576,025)
Income taxes paid		(1,328,754)	(700,906)
Increase in deferred staff benefits - compensated absences		2,504	980
Net cash from / (used in) operating activities		227,392	(1,275,951)
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(46,025)	(18,338)
Proceeds from disposal of fixed assets		2,529	3,393
Purchase of investments		(400,000)	(1,098,983)
Proceeds from sale of investments		746,938	1,708,558
Return on bank deposits		355,399	349,180
Return on Certificates of Investment (COIs)		29,572	57,723
Decrease / (increase) in long-term loans		7,279	(9,166)
Net cash from investing activities		695,692	992,367
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid		(749,602)	(751,970)
Net increase / (decrease) in cash and cash equivalents		173,482	(1,035,554)
Cash and cash equivalents at the beginning of the year		3,348,997	4,384,551
Cash and cash equivalents at the end of the year	14	3,522,479	3,348,997

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Director

AL-GHAZI TRACTORS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009

	Share capital	General reserve	Unappropriated profit	Total
	Rupees '000			
Balance at January 1, 2008	214,682	1,000,000	2,636,539	3,851,221
Final dividend @ Rs 7.5 per share for the year ended December 31, 2007	-	-	(322,023)	(322,023)
Interim dividend @ Rs 5 per share for the year ended December 31, 2008	-	-	(214,682)	(214,682)
Net profit after taxation for the year ended December 31, 2008	-	-	1,113,256	1,113,256
Balance at December 31, 2008	214,682	1,000,000	3,213,090	4,427,772
Final dividend @ Rs 12.5 per share for the year ended December 31, 2008	-	-	(536,706)	(536,706)
Interim dividend @ Rs 5 per share for the year ended December 31, 2009	-	-	(214,682)	(214,682)
Net profit after taxation for the year ended December 31, 2009	-	-	1,743,535	1,743,535
Balance at December 31, 2009	214,682	1,000,000	4,205,237	5,419,919

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

1. THE COMPANY AND ITS OPERATIONS

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

The financial statements are presented in Pak Rupee, which is the company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of preparation

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

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The matter involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements is provision for staff retirement benefit. Significant estimates relating to staff retirement benefit are disclosed in note 31.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

2.1.1 Changes in accounting policies and disclosures

(a) New standard, amendments to published standard and new interpretation effective in current period

IFRS 7 - 'Financial Instruments: Disclosures', introduces new disclosures relating to financial instruments. Adoption of IFRS 7 has only impacted the format and extent of disclosures presented in the financial statements.

IAS 1 (revised) ‘Presentation of financial statements’, requires presentation of transactions with owners in Statement of Changes in Equity and with non-owners in the Statement of Comprehensive Income. The revised standard requires an entity to opt for presenting such transactions either in a single statement of comprehensive income or in an income statement and a separate statement of comprehensive income. The company has applied IAS 1(revised) from Janary 1, 2009 and elected to present one performance statement(i.e. the profit and loss account). However, since there are no non-owner changes in the equity, there is no impact of such revised standard on these financial statements.

(b) The other new standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or have no significant effect on the company's financial statements and hence are not detailed in these financial statements.

2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

2.3 Fixed assets and depreciation

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

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

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

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

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

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

2.4 Impairment

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount and the resulting impairment is charged to profit and loss account.

2.5 Loans, deposits and other debts

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

2.6 Taxation

Current

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

Deferred

Deferred income tax is accounted for using the balance sheet liability method on all temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liability is generally recognised for all taxable temporary differences and deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax is charged or credited in the profit and loss account.

2.7 Stores, spares and loose tools

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

2.8 Stock-in-trade

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

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

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

2.9 Trade Debts

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

2.10 Investments

Investments of the company are classified into the following categories :

(i) Held to maturity

These are investments with fixed or determinable payments and fixed maturity with the company having positive intent and ability to hold to maturity. These are stated at amortised cost.

(ii) Investments at fair value through profit and loss account

These are investments designated at fair value through profit and loss account at inception. Investments in this category are classified as current assets if they are expected to be realised within twelve months of the balance sheet date.

'Investments at fair value through profit and loss account' are recognised at fair value and changes in fair value are taken to profit and loss account.

(iii) Available for sale

These represent non derivative investments that are either designated in this category or not classified in any other category. They are included as non-current assets unless management intends to dispose of the investments within twelve months of the balance sheet date.

Available for sale investments are initially recognised at fair value plus transaction cost, and subsequently at fair value. Changes in fair value are recognised in other comprehensive income.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash, cheques, demand drafts in hand and balances with banks on current accounts and deposit accounts.

2.12 Staff retirement benefits

(i) Defined benefit plan

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

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

The gratuity obligation is calculated as at December 31, 2009 by independent actuary using projected unit credit method. The present value of the gratuity obligation is determined by discounting the estimated future cash outflows using interest rates of high quality government securities and that have terms to maturity approximating to the terms of the related gratuity liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the gratuity obligation are charged or credited to profit and loss account over the employees' expected average remaining working lives.

(ii) Defined contribution plan

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

2.13 Financial instruments

Financial instruments include investments, loans and advances, deposits, trade and other debts, accrued mark-up, cash and bank balances and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2.14 Deferred staff benefits - compensated absences

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

2.15 Trade and other payables

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

2.16 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

2.17 Foreign currencies

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

2.18 Revenue recognition

Sales are recorded on dispatch of goods.

Return on deposits and investments is recognised on accrual basis.

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

2.19 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of the qualifying asset, if any, are capitalised as part of the cost of that asset.

2.20 Dividend distribution

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

3. FIXED ASSETS

3.1 PROPERTY, PLANT AND EQUIPMENT

	Note	2009	2008
		Rupees '000	
Operating assets	3.2	252,695	233,214
Capital work-in-progress - civil work		-	2,238
Intangible assets	3.3	-	-
		252,695	235,452

3.2 Operating assets

	LAND		BUILDING								
	Freehold	Lease hold	on freehold land	on lease hold land	Plant and machinery	Furniture and fixtures	Office equipment	Computer hardware	Vehicles	Factory equipment and tools	Total
	Rupees'000										
At January 1, 2008											
Cost	3,854	830	158,996	8,969	160,135	8,172	3,191	12,635	51,538	40,293	448,613
Accumulated amortisation / depreciation	-	(201)	(47,623)	(2,856)	(72,029)	(6,980)	(2,484)	(11,346)	(33,926)	(26,240)	(203,685)
Net book value	3,854	629	111,373	6,113	88,106	1,192	707	1,289	17,612	14,053	244,928
Year ended December 31, 2008											
Opening net book value	3,854	629	111,373	6,113	88,106	1,192	707	1,289	17,612	14,053	244,928
Additions	-	-	1,136	-	6,007	1,625	42	677	6,224	389	16,100
Disposals / write off											
Cost	-	-	-	-	-	(1,486)	-	(37)	(7,646)	(29)	(9,198)
Depreciation	-	-	-	-	-	1,311	-	37	7,172	29	8,549
	-	-	-	-	-	(175)	-	-	(474)	-	(649)
Amortisation / depreciation charge	-	(8)	(3,377)	(224)	(11,521)	(650)	(193)	(891)	(7,919)	(2,382)	(27,165)
Closing net book value	3,854	621	109,132	5,889	82,592	1,992	556	1,075	15,443	12,060	233,214
At December 31, 2008											
Cost	3,854	830	160,132	8,969	166,142	8,311	3,233	13,275	50,116	40,653	455,515
Accumulated amortisation / depreciation	-	(209)	(51,000)	(3,080)	(83,550)	(6,319)	(2,677)	(12,200)	(34,673)	(28,593)	(222,301)
Net book value	3,854	621	109,132	5,889	82,592	1,992	556	1,075	15,443	12,060	233,214
Year ended December 31, 2009											
Opening net book value	3,854	621	109,132	5,889	82,592	1,992	556	1,075	15,443	12,060	233,214
Additions	-	-	740	-	34,148	586	84	396	8,868	3,441	48,263
Disposals - note 3.2.1											
Cost	-	-	-	-	(948)	(691)	(15)	-	(2,539)	(249)	(4,442)
Depreciation	-	-	-	-	948	529	15	-	2,539	243	4,274
	-	-	-	-	-	(162)	-	-	-	(6)	(168)
Amortisation / depreciation charge	-	(8)	(3,392)	(224)	(12,594)	(750)	(194)	(801)	(8,299)	(2,352)	(28,614)
Closing net book value	3,854	613	106,480	5,665	104,146	1,666	446	670	16,012	13,143	252,695
At December 31, 2009											
Cost	3,854	830	160,872	8,969	199,342	8,206	3,302	13,671	56,445	43,845	499,336
Accumulated amortisation / depreciation	-	(217)	(54,392)	(3,304)	(95,196)	(6,540)	(2,856)	(13,001)	(40,433)	(30,702)	(246,641)
Net book value	3,854	613	106,480	5,665	104,146	1,666	446	670	16,012	13,143	252,695

3.2.1 Following are the details of fixed assets disposed off:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees '000					
Furniture and fixtures	92	10	82	83	Company policy	Mr. A.K. Baloch Ex-Executive
	92	36	56	57	"	Mr. Farooq Khattak Ex-Executive
Aggregate of assets disposed / write off having book value less than Rs. 50,000 each						
Plant and machinery	948	948	-	1,175		
Furniture and fixtures	507	483	24	24		
Vehicles	2,539	2,539	-	1,158		
Office equipment	15	15	-	7		
Factory equipment and tools	249	243	6	25		
	4,442	**4,274**	**168**	**2,529**		

	Note	2009	2008
		Rupees '000	
3.3 INTANGIBLE ASSETS			
Cost		6,234	6,234
Accumulated amortisation		(6,234)	(6,234)
Net book value		-	-
4. LONG-TERM LOANS - considered good			
Loan to employees	4.1	631	670
Dealer car loans	4.2	2,227	9,467
		2,858	10,137

4.1 These are interest free loans given to employees under employee loan schemes to facilitate purchase of domestic appliances and motor cycles. The said loans are repayable over a period of 24 to 36 months and are secured against provident fund balances.

4.2 These represent loans given by the company to finance the purchase of cars by dealers. The amount is repayable in 36 monthly installments carrying interest at the rate of 9% per annum and are secured by joint registration of cars in the name of dealers and the company.

	Note	2009	2008
		Rupees '000	

5. STORES, SPARES AND LOOSE TOOLS

		2009	2008
Stores		5,735	9,294
Spares		5,956	5,379
		11,691	14,673

6. STOCK-IN-TRADE

	Note	2009	2008
Raw materials and components – including in transit Rs 94.12 million (2008: Rs 205.10 million)	6.1	1,167,843	904,500
Finished goods – tractors	6.2	83,332	1,024,712
Trading stock – spare parts and implements		2,507	2,187
		1,253,682	1,931,399

6.1 The above includes raw materials and components of Rs 12.79 million (2008: Rs 13.35 million) held by third parties.

6.2 Finished goods stock includes stocks held by third parties amounting to Rs 0.36 million (2008: Rs 65.85 million).

	2009	2008
	Rupees '000	

7. TRADE DEBTS – considered good

	2009	2008
Secured	914	2,496
Unsecured	19,378	4,647
	20,292	7,143

7.1 The age analysis of trade debts is as follows:

	2009	2008
Not yet due	20,292	7,143
Upto 3 months	-	-
	20,292	7,143

		Note	2009	2008
			Rupees '000	
8.	**LOANS AND ADVANCES – considered good**			
	Loans to employees		1,314	1,377
	Dealer car loans		6,683	7,100
	Advances to suppliers for goods and services		24,015	28,916
			32,012	37,393
9.	**SHORT-TERM DEPOSITS AND PREPAYMENTS**			
	Security deposits		12,308	9,795
	Prepayments		417	6,648
			12,725	16,443
10.	**ACCRUED MARK-UP**			
	Mark-up accrued on			
	- Certificates of Investment (COIs)		5,995	21,450
	- Deposit accounts with banks		122,286	142,595
			128,281	164,045
11.	**OTHER RECEIVABLES**			
	Due from Al-Futtaim Industries Company LLC - holding company	11.1	-	50
	Due from associated companies	11.2	80	326
	Workers' Profits Participation Fund	11.3	7,204	6,787
	Due from Staff Provident Fund		-	529
	Due from Employees Gratuity Fund	31.1	389	217
	Others		3,088	1,929
			10,761	9,838

11.1 There was no outstanding receivable balance from Al-Futtaim Industries Company LLC - the holding company, at the end of any month during the year.

11.2 Maximum aggregate amount due from associated companies, at the end of any month during the year was Rs 326 thousand (2008: Rs 326 thousand).

		Note	2009	2008
			Rupees '000	
11.3	**Workers' Profits Participation Fund**			
	At the beginning of the year		6,787	(102,387)
	Allocation for the year		(142,795)	(90,407)
			(136,008)	(192,794)
	Interest on funds utilised in company's business		-	(451)
			(136,008)	(193,245)
	Less: Amount paid during the year		143,212	200,032
			7,204	6,787

		Note	2009	2008
12.	**REFUNDS DUE FROM THE GOVERNMENT**			
	Sales tax	12.1	1,319,259	670,916
	Special excise duty		138,006	79,638
			1,457,265	750,554

12.1 The company has received refunds from sales tax authorities against bank guarantees amounting to Rs 290 million.

		Note	2009	2008
			Rupees '000	
13.	**INVESTMENTS**			
	Held to maturity - Certificates of Investment (COIs)	13.1	145,000	200,000
	Investments at fair value through profit and loss account		-	246,760
			145,000	446,760

13.1 The COIs carry mark - up of 13% to 16% per annum (2008: 10.95% per annum) with maturities in 2010.

		2009	2008
		Rupees '000	
14.	**CASH AND BANK BALANCES**		
	With banks on		
	- Current accounts - Note 14.1	1,162,492	757,430
	- Deposit accounts - Note 14.2 & 14.3	1,479,144	2,361,003
	Demand drafts in hand	880,531	230,387
	Cash in hand	312	177
		3,522,479	3,348,997

14.1 Current account balance includes Rs 1.07 billion (2008: Rs 298.44 million) kept with Zarai Taraqiati Bank Limited. The withdrawal from the account is subject to prior authorisation from the bank.

14.2 At December 31, 2009 the mark-up rates on PLS savings and term deposit accounts range from 4.19% to 14.5% per annum (2008: 2.7% to 18% per annum). The term deposits will mature in 2010.

14.3 Term deposits amounting to Rs 300 million (2008: Rs 270 million) have been held under lien by banks as a security against guarantees issued on behalf of the company.

		2009	2008
		Rupees '000	
15.	**SHARE CAPITAL**		
15.1	**Authorised Share Capital**		
	60,000,000 ordinary shares of Rs. 5 each	300,000	300,000

15.2 **Issued, subscribed and paid up capital**

Ordinary shares of Rs 5 each 2009	2008		2009	2008
4,500,000	4,500,000	Shares allotted for consideration paid in cash	22,500	22,500
38,436,445	38,436,445	Shares allotted as bonus shares	192,182	192,182
42,936,445	42,936,445		214,682	214,682

15.3 As at December 31, 2008 and 2009 Al-Futtaim Industries Company LLC, U.A.E., the holding company and CNH Global N.V., Netherlands, an associated company held 21,476,078 and 18,535,096 shares of Rs. 5 each respectively.

	Note	2009	2008
		Rupees '000	

16. RESERVES

		2009	2008
Revenue reserve - General		1,000,000	1,000,000
Unappropriated profit		4,205,237	3,213,090
		5,205,237	4,213,090

17. DEFERRED TAXATION

Credit / (debit) balance arising on account of

		2009	2008
Accelerated tax depreciation allowances		39,115	33,939
Deferred staff benefits - compensated absences		(7,655)	(6,778)
		31,460	27,161

18. TRADE AND OTHER PAYABLES

	Note	2009	2008
Creditors		1,364,071	868,495
Accrued liabilities		242,141	99,403
Customers' advance payments	18.1	125,367	1,513,337
Unclaimed dividend		16,228	14,442
Deposits		22,151	20,952
Taxes deducted at source and payable to statutory authority		9,087	4,578
Workers' Welfare Fund		58,153	37,479
Royalty payable to CNH Global N.V.		66,525	49,045
Others		3,698	3,979
		1,907,421	2,611,710

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

19. COMMITMENTS

Commitments for capital expenditure outstanding as at December 31, 2009 amounted to Rs 10.07 million (2008: Rs 1.66 million).

20. UNFUNDED BANKING FACILITIES

The facilities for opening letters of credit and guarantees as at December 31, 2009 amounted to Rs 2,625 million (2008: Rs 1,783 million) of which unutilised balance at year end amounted to Rs 1,911 million (2008: Rs 1,428 million).

The above arrangements are secured by way of pari-passu charge against hypothecation of company's stock-in-trade, book debts and term deposits held under lien by banks.

	2009	2008
	Rupees '000	
21. SALES		
Tractors	15,857,514	10,200,736
Trading goods	105,483	41,151
	15,962,997	10,241,887
Less:		
Commission and discounts	186,851	129,398
Sales tax	11,321	4,615
	198,172	134,013
	15,764,825	10,107,874
22. COST OF GOODS SOLD		
Manufactured goods		
Raw materials and components consumed	11,522,462	9,014,414
Salaries, wages and benefits	179,598	161,877
(Reversal) / charge for defined benefit plan	(70)	1,576
Charge for defined contribution plan	2,169	2,083
Royalty and technical fee	152,626	96,158
Stores and supplies	166,188	162,038
Insurance	1,078	845
Depreciation	21,235	20,050
Fuel, power and electricity	28,894	27,755
Travelling, vehicle running and entertainment	3,352	5,158
Repairs and maintenance	21,366	17,792
Rent, rates and taxes	2,070	1,718
Freight charges	351	775
Communication	778	849
Printing and stationery	1,714	1,357
Others	1,217	1,743
	582,566	501,774
Cost of goods manufactured	12,105,028	9,516,188
Opening stock of finished goods	1,024,712	9,654
Closing stock of finished goods	(83,332)	(1,024,712)
	13,046,408	8,501,130
Trading goods		
Opening stock	2,187	4,520
Purchases	72,923	26,624
	75,110	31,144
Closing stock	(2,507)	(2,187)
	72,603	28,957
	13,119,011	8,530,087

		2009	2008
		Rupees ’000	
23.	**DISTRIBUTION COST**		
	Salaries, wages and benefits	48,414	41,143
	(Reversal) / charge for defined benefit plan	(36)	570
	Charge for defined contribution plan	972	865
	Insurance	34	32
	Depreciation / amortisation	3,454	3,312
	Fuel, power and electricity	1,017	881
	Travelling, vehicle running and entertainment	7,846	7,242
	Repairs and maintenance	229	261
	Rent, rates and taxes	476	471
	Communication	1,073	1,193
	Advertisement and promotion	806	14
	After sales expense	17,148	11,199
	Dealers' convention	3,503	5,045
	Freight charges	457	727
	Legal and professional charges	32	287
	Printing and stationery	1,747	1,624
	Others	397	420
		87,569	75,286
24.	**ADMINISTRATIVE EXPENSES**		
	Salaries, wages and benefits	80,166	63,616
	(Reversal) / charge for defined benefit plan	(66)	1,045
	Charge for defined contribution plan	1,802	1,505
	Insurance	22	22
	Depreciation	3,925	3,803
	Travelling, vehicle running and entertainment	6,339	5,340
	Repairs and maintenance	896	426
	Rent, rates and taxes	7,197	5,835
	Communication	5,168	5,394
	Auditors' remuneration - Note 24.1	1,759	1,445
	Legal and professional charges	2,104	523
	Printing and stationery	1,830	1,691
	Others	128	915
		111,270	91,560

		2009	2008
		Rupees '000	
24.1	Auditors' remuneration		
	Audit fee	750	660
	Fee for limited review of half yearly financial statements, certification for compliance with Code of Corporate Governance, certifications for government and other agencies and other services	829	625
	Out of pocket expenses	180	160
		1,759	1,445

25. **OTHER OPERATING INCOME**

Income from financial assets

	2009	2008
Return on deposit accounts	335,090	310,199
Return on COIs	14,117	33,752
Revaluation loss on investments at fair value through profit and loss account	-	(7,305)
Gain on disposal of investments at fair value through profit and loss account	45,178	44,840
Others	1,169	1,251
	395,554	382,737

Income from other assets

	2009	2008
Scrap sales	11,923	13,086
Profit on disposal of fixed assets	2,361	2,744
Others	1,232	920
	15,516	16,750
	411,070	399,487

26. **OTHER OPERATING EXPENSES**

	2009	2008
Workers' Profits Participation Fund	142,795	90,407
Workers' Welfare Fund	54,262	34,346
	197,057	124,753

		2009	2008
		Rupees '000	
27.	**FINANCE COST**		
	Interest on Workers' Profits Participation Fund	-	451
	Bank charges and commission	2,154	2,283
		2,154	2,734
28.	**TAXATION**		
	Current - for the year	911,000	562,000
	Deferred	4,299	7,685
		915,299	569,685
28.1	Relationship between tax expense and accounting profit:		
	Accounting profit before tax	2,658,834	1,682,941
	Tax at applicable rate of 35%	930,592	589,029
	Effect of income exempt from tax	(15,812)	(13,137)
	Effect of permanent differences	519	(6,207)
		915,299	569,685
29.	**EARNINGS PER SHARE**		
	Profit after taxation attributable to ordinary shareholders	1,743,535	1,113,256
	Number of ordinary shares outstanding (in thousands) at the end of the year	42,936	42,936
	Earnings per share	Rs 40.61	Rs 25.93

A diluted earnings per share has not been presented as the company does not have any convertible instruments in issue as at December 31, 2008 and 2009 which would have any effect on the earnings per share if the option to convert exercised.

30. CASH GENERATED FROM / (USED IN) OPERATIONS

	2009	2008
	Rupees '000	
Profit before taxation	2,658,834	1,682,941
Add / (less): Adjustment for non-cash charges and other items		
Depreciation / amortisation	28,614	27,165
Gain on disposal of fixed assets	(2,361)	(2,744)
Gain on disposal of investments at fair value through profit and loss account	(45,178)	(44,840)
Revaluation loss on investments at fair value through profit and loss account	-	7,305
Return on bank deposits	(335,090)	(310,199)
Return on Certificates of Investment	(14,117)	(33,752)
Profit before working capital changes	2,290,702	1,325,876
Effect on cash flow due to working capital changes		
(Increase) / decrease in current assets		
Stores and spares	2,982	(4,231)
Stock-in-trade	677,717	(1,222,666)
Trade debts	(13,149)	17,128
Loans and advances	5,381	(17,803)
Short-term deposits and prepayments	3,718	(15,250)
Other receivables	(923)	(7,005)
Refunds due from the Government	(706,711)	(566,922)
	(30,985)	(1,816,749)
Decrease in trade and other payables	(706,075)	(85,152)
	(737,060)	(1,901,901)
	1,553,642	(576,025)

		2009	2008
		Rupees '000	
31.	**STAFF RETIREMENT BENEFIT**		
31.1	**Movement in asset**		
	Balance as at January 1	(217)	(536)
	(Reversal) / charge for the year - Note 31.5	(172)	3,191
	Employer contributions	-	(2,872)
	Balance as at December 31	(389)	(217)
31.2	**Movement in the defined benefit obligation**		
	Obligation as at January 1	76,065	73,774
	Service cost	3,871	4,657
	Interest cost	11,410	7,377
	Actuarial gains	(118)	(6,072)
	Benefits paid	(5,201)	(3,671)
	Obligation as at December 31	86,027	76,065
31.3	**Movement in the fair value of plan assets**		
	Fair value as at January 1	95,194	85,499
	Expected return on plan assets	14,279	8,550
	Actuarial (losses) / gains	(3,753)	1,944
	Employer contributions	-	2,872
	Benefits paid	(5,201)	(3,671)
	Fair value as at December 31	100,519	95,194
31.4	**Balance sheet reconciliation as at December 31**		
	Present value of obligation	86,027	76,065
	Fair value of plan assets	(100,519)	(95,194)
	Unrecognised actuarial gains	14,103	18,912
		(389)	(217)
31.5	**(Reversal) / charge for the year**		
	Service cost	3,871	4,657
	Interest cost	11,410	7,377
	Expected return on plan assets	(14,279)	(8,550)
	Actuarial gains recognised during the year	(1,174)	(293)
		(172)	3,191
31.6	**Actual return on plan assets**	10,526	10,494

31.7 Key actuarial assumptions used are as follows:

	2009	**2008**
Expected rate of return on investments	14%	15%
Expected rate of increase in salaries		
- Management staff	12%	13%
- Non-management staff	12%	13%
Discount factor used	14%	15%
Retirement age (years)	60	60

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

	2009	**2008**	**2007**	**2006**	**2005**
	Rupees '000				
Comparison for five years:					
As at December 31					
Present value of defined benefit obligation	86,027	76,065	73,774	66,835	61,980
Fair value of plan assets	(100,519)	(95,194)	(85,499)	(78,760)	(69,459)
Surplus	(14,492)	(19,129)	(11,725)	(11,925)	(7,479)
Experience adjustments					
Actuarial gain on obligation	(118)	(6,072)	(287)	(2,409)	(1,060)
Actuarial (loss) / gain on plan assets	(3,753)	1,944	(873)	2,715	706
	(3,871)	(4,128)	(1,160)	306	(354)

31.9 Composition of plan assets:

	2009		**2008**	
	Rupees '000	**%**	**Rupees '000**	**%**
Term Deposits	92,223	91.75	82,584	86.75
Others (include bank balance)	8,296	8.25	12,610	13.25
	100,519	100	95,194	100

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

31.11 As per actuarial advice, the company is expected to contribute Rs 1.55 million towards gratuity fund in 2010 (2009: Nil).

32. TRANSACTIONS WITH RELATED PARTIES

Disclosure of transactions between the company and related parties

	Relationship	Nature of transactions	2009	2008
			Rupees '000	
i.	Holding company:	Dividends paid	375,831	375,831
		Recovery of expenses	50	-
ii.	Other related parties:	Dividends paid	324,364	324,364
		Purchases of goods, material and services	-	5,274
		Royalty paid	122,230	82,112
		Recovery of expenses	326	75
		Contribution to Al-Ghazi Tractors Limited Staff Provident Fund	4,943	4,453
		Contribution to Al-Ghazi Tractors Limited Employees' Gratuity Fund	-	2,872
iii.	Key management personnel:	Salaries and other employee benefits	82,299	59,390
		Retirement benefits	1,938	2,604

The outstanding balances of related parties as at December 31, 2009 are included in trade and other payables and other receivables respectively.

Key management compensation is disclosed in note 33.

33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

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

	Chief Executive		Director		Executives	
	2009	2008	2009	2008	2009	2008
	Rupees '000					
Managerial remuneration	7,200	5,419	3,174	2,787	9,503	5,995
Bonus and ex-gratia	16,800	12,194	7,407	6,271	20,061	13,128
House Rent	3,240	2,439	1,428	1,254	4,052	2,698
Utilities	720	542	317	279	900	600
Retirement benefits	720	994	317	511	900	1,099
Medical expenses	162	-	175	56	653	628
Leave passage	1,530	1,152	675	592	1,962	1,288
Other expenses	434	478	356	505	1,550	1,085
	30,806	23,218	13,849	12,255	39,581	26,521
Number of persons	1	1	1	1	7	5

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

In addition to the above, fee and benefits to one non-executive director paid during the year amounted to Rs 535 thousand (2008: Rs 528 thousand).

34. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(i) Financial assets and liabilities by category and their respective maturities

	Interest / Mark-up bearing			Non interest bearing			Total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	Rupees '000						
FINANCIAL ASSETS							
Loans and receivables							
Loans and advances	6,683	2,227	8,910	1,314	631	1,945	10,855
Deposits	-	-	-	12,308	367	12,675	12,675
Trade debts	-	-	-	20,292	-	20,292	20,292
Accrued mark-up	-	-	-	128,281	-	128,281	128,281
Other receivables	-	-	-	3,557	-	3,557	3,557
Cash and bank balances	1,479,144	-	1,479,144	2,043,335	-	2,043,335	3,522,479
Held to maturity investments at amortised cost	145,000	-	145,000	-	-	-	145,000
2009	1,630,827	2,227	1,633,054	2,209,087	998	2,210,085	3,843,139
2008	2,568,103	9,467	2,577,570	1,420,165	1,037	1,421,202	3,998,772
FINANCIAL LIABILITIES							
At amortised cost							
Trade and other payables	-	-	-	1,714,814	-	1,714,814	1,714,814
2009	-	-	-	1,714,814	-	1,714,814	1,714,814
2008	-	-	-	1,056,316	-	1,056,316	1,056,316
Off balance sheet items							
Financial commitments:							
Contracts for capital expenditure	-	-	-	10,065	-	10,065	10,065
Letters of credit and guarantee	-	-	-	714,315	-	714,315	714,315
2009	-	-	-	724,380	-	724,380	724,380
2008	-	-	-	356,287	-	356,287	356,287

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

(ii) Concentrations of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparts failed to perform as contracted. Out of the total financial assets of Rs 3,843.14 million the financial assets exposed to the credit risk amount to Rs 3,842.83 million which mainly comprise of balances with banks.

The company places surplus funds with various reputed banks and Non-Banking Finance Companies (NBFCs) having minimum credit rating of A-1 assigned by credit rating agencies. The company monitors its exposure to a single bank or NBFC and their respective ratings on continuous basis.

The company's products are mainly sold against cash or demand drafts issued by Zarai Taraqiati Bank Limited (ZTBL) and certain other commercial banks. Hence, the company believes that it is not exposed to credit risk against tractor sales. As of December 31, 2009 there is no past due or impaired balance and the carrying amount of trade debts relates to independent customers for whom there is no recent history of default.

Loans to employees and dealers are not exposed to any material credit risk. Loans to employees are secured against their retirement benefits while All Pakistan Fiat / New Holland Tractor Dealers Association stand surety for dealer loans.

Other receivables constitute mainly receivables from related parties, therefore, are not exposed to any significant credit risk.

Deposits have been placed mainly with government institutions, hence exposed to no significant credit risk.

The management does not expect any losses from non-performance by these counterparts.

(iii) Liquidity risk

Liquidity risk reflects the company's inability in raising funds to meet commitments. The company manages liquidity risk by maintaining sufficient cash and balances with banks in deposit accounts and the availability of financing through banking arrangements. As at December 31, 2009 there is no maturity mismatch between financial assets and liabilities that expose the company to liquidity risk.

(iv) Market risk

a) Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risks included in trade and other payables as at December 31, 2009 amounted to Rs 65.47 million (2008: Rs 43.59 million).

The company imports raw material in US Dollar and is exposed to Rupee / US Dollar exchange risk. If the Pakistan Rupee had weakened / strengthened by 10% against US Dollar with all other variables held constant, profit before tax for the year would have been lower / higher by Rs 6.55 million, mainly as a result of foreign exchange losses / gains on settlement of US Dollar denominated trade payables.

The sensitivity of foreign exchange rate looks at the outstanding foreign exchange balances of the Company as at the balance sheet date and assumes this is the position for a full twelve-month period. The volatility percentage for movement in foreign exchange rates has been used due to the fact that historically (5 years) rate has moved on average basis by the mentioned percentage per annum.

b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. As at December 31, 2009, the company's interest bearing financial assets amounted to Rs 1.63 billion and had the interest rate varied by 200 basis points with all the other variables held constant, profit before tax for the year would have been approximately higher / lower by Rs 39.64 million.

The sensitivity of 200 basis points movement in interest rates has been used as floating interest rates have moved by an average of 200 basis points per annum.

(v) Fair values of the financial instruments

The carrying values of all the financial instruments reflected in the financial statements are at fair values.

35. CAPITAL RISK MANAGEMENT

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

	2009	**2008**
36. PLANT CAPACITY AND PRODUCTION		
Plant capacity (single shift) - units	30,000	30,000
Actual production - units	30,351	27,550

37. DIVIDEND

The Board of Directors in their meeting held on February 15, 2010 have proposed a final cash dividend of Rs 15 per share amounting to Rs 644.05 million (2008: Rs 12.50 per share amounting to Rs 536.71 million).

38. CORRESPONDING FIGURES

Prior year's figures have been reclassified for the purpose of better presentation and comparison. Major reclassifications made are as follows:

Reclassification from component	Reclassification to component	Amount (Rupees in thousand)
Cash in hand	Demand drafts in hand	230,387
Accrued liabilities	Creditors	386,468

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue onFebruary 15, 2010 by the Board of Directors.

Chief Executive Director