NOTICE IS HEREBY GIVEN that the 23rd Annual General Meeting of the Shareholders of Hinopak Motors Limited will be held at the Registered Office of the Company situated at D-2, S.I.T.E., Manghopir Road, Karachi on Monday, March 17, 2008 at 10:30 a.m. for transacting the following business:

## ORDINARY BUSINESS

(1) To receive, consider and adopt the Audited Financial Statements of the Company for the financial year ended December 31, 2007, together with the Reports of the Directors and Auditors.

(2) To approve final cash dividend @ 240% (or Rs.24.0 per share) on the ordinary shares of the Company as recommended by the Directors.

(3) To appoint Auditors for the ensuing year and fix their remuneration.

(4) Any other business with the permission of the Chair.

By order of the Board

MUHAMMAD SALEEM
Company Secretary

Karachi:
February 22, 2008

Notes

i) A member entitled to attend and vote at this General Meeting is entitled to appoint a Proxy to attend, speak and vote in his place at the Meeting. Instrument appointing a proxy must be deposited at the Registered Office of the Company at least forty eight hours before the time of the Meeting.

ii) The Share Transfer Books of the Company will remain closed from March 10, 2008 to March 17, 2008 (both days inclusive) for the purpose of Annual General Meeting and to determine entitlement of cash dividend. No transfer will be accepted for registration during this period.

iii) The Shareholders are requested to intimate any changes in their addresses to: The Company Secretary, Hinopak Motors Limited, D-2, S.I.T.E., Manghopir Road, P.O. Box 10714, Karachi-75700, Pakistan.

iv) To facilitate identification for right to attend the Annual General Meeting, Shareholder whose holdings are on the Central Depository System (CDS) or his Proxy should authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting; along with the Participant's Identity Number and Shareholder's account number allocated by the Central Depository Company.

In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

# balance sheet

as at December 31, 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | Rupees '000 | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Share Capital | 3 | **124,006** | 124,006 |
| Reserves | 4 | **1,764,552** | 1,298,847 |
| | | **1,888,558** | 1,422,853 |
| **SURPLUS ON REVALUATION OF FIXED ASSETS** | 5 | **284,677** | 290,541 |
| **NON-CURRENT LIABILITIES** | | | |
| Liability against assets subject to finance lease | 6 | **-** | 5,691 |
| Long-term security deposits | | **32,000** | 30,000 |
| Deferred taxation | 7 | **33,594** | 48,670 |
| | | **65,594** | 84,361 |
| **CURRENT LIABILITIES** | | | |
| Current maturity of liability against assets subject to finance lease | 6 | **4,299** | 3,634 |
| Trade and other payables | 8 | **2,439,908** | 1,946,143 |
| Running finance under mark-up arrangements | 9 | **105,178** | 262,486 |
| Accrued mark-up | | **598** | 496 |
| Taxation | | **122,719** | 129,322 |
| | | **2,672,702** | 2,342,081 |
| **COMMITMENTS** | 10 | | |
| | | **4,911,531** | 4,139,836 |

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | Rupees '000 | |
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | 11 | **890,313** | 865,244 |
| Investments | 12 | **-** | - |
| Long-term loans and advances | 13 | **7,121** | 6,755 |
| Long-term deposits | | **6,002** | 8,299 |
| **CURRENT ASSETS** | | | |
| Stores, spares and loose tools | 14 | **30,605** | 25,915 |
| Stock-in-trade | 15 | **2,533,159** | 2,381,286 |
| Trade debts | 16 | **816,386** | 503,226 |
| Loans and advances | 17 | **90,523** | 92,324 |
| Trade deposits and prepayments | 18 | **96,829** | 58,643 |
| Accrued mark-up on term deposit account | | **2,678** | 2,842 |
| Refunds due from the government - sales tax | 19 | **164,817** | 67,969 |
| Other receivables | 20 | **12,183** | 9,036 |
| Cash and bank balances | 21 | **260,915** | 118,297 |
| | | **4,008,095** | 3,259,538 |
| | | **4,911,531** | 4,139,836 |

The annexed notes 1 to 38 form an integral part of these financial statements.

**Managing Director &**
**Chief Executive**

K. Idris
**Chairman**

# board committees

## Audit Committee

**Members**
Kunwar Idris - Chairman
Shinji Fujimoto
Fasihul Karim Siddiqi

**Terms of Reference**
The terms of reference of the Audit Committee are as follows:
- determination of appropriate measures to safeguard Company's assets;
- review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors;
- review of management letter issued by external auditors and management's response thereto and monitor the action plan to improve the control environment;
- review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;
- ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;
- instituting special projects, other investigations on any matter specified by the Board of Directors, and to refer any matter to the external auditors or to any other external body;
- monitoring compliance with relevant statutes and best practices of corporate governance.

## Management Committee

**Members**
Hideya Iijima - Chairman
Takeshi Ito
Susumu Hongo
Muhammad Irfan Shaikh
Fasihul Karim Siddiqi
Muhammad Owais M. Khan
Muhammad Saleem
Naushad Riaz
Syed Arshad Ali

**Terms of Reference**
The terms of reference of the Management Committee are as follows:
- managing the day to day operations of the Company;
- developing the business and marketing strategy of the Company;
- reviewing budgetary proposals and the necessary actions to implement the business plan;
- monitoring profitability and deviations from business plan;
- handling the major business issues and other urgent matters on behalf of the Board.

## Global Compact & CSR Committee

**Members**
Hideya Iijima - Chairman
Takeshi Ito
Susumu Hongo
Fasihul Karim Siddiqi
Muhammad Saleem
Naushad Riaz
Syed Arshad Ali
Adil M. Shah

**Terms of Reference**
The Term of Reference of the Global Compact and CSR Committee are as follows:
- Review and approve the budget for CSR activities;
- Monitor the following CSR related activities directly or through sub committees;
  - Compliance and Good Governance (Internal Control System, Risk Management and SOA Compliance activities);
  - Environment Management;
  - Creating safe and decent work place;
  - Social activities and contribution to Local Communities (Activities in the field of Education, Health, Safety, Sports and Creating Awareness).
- Monitor Global Compact internalisation and implementation plan;
- CSR and Global Compact Reporting.

## Industrial Relations Committee

**Members**
Fasihul Karim Siddiqi - Chairman
Muhammad Akram
Muhammad Zaman Khan
Siddique Balouch
Muhammad Ahmed

**Terms of Reference**
The terms of reference of Industrial Relations Committee are as follows:
- promoting labor management relationship;
- reviewing grievance handling mechanism;
- reviewing employee involvement in continuous improvement activities.

## Health & Safety Committee

**Members**
Fasihul Karim Siddiqi - Chairman
Muhammad Owais M. Khan
Naushad Riaz
Muhammad Akram
Muhammad Zaman Khan
Muhammad Ahmed

**Terms of Reference**
The terms of reference of the Health & Safety Committee are as follows:
- to review health and safety policy of the Company to provide awareness on health and safety to the employees through conducting training programs;
- to review major health and safety projects and ensure their implementation;
- to organize different training programs to educate employees for health & safety issues.

## Environment & Quality Management Systems Steering Committee

**Members**
Hideya Iijima - Chairman
Takeshi Ito
Susumu Hongo
Muhammad Irfan Shaikh
Fasihul Karim Siddiqi
Muhammad Owais M. Khan
Muhammad Saleem
Naushad Riaz
Syed Arshad Ali
Muhammad Ahmed
EMC Secretariat Members

**Terms of Reference**
The terms of reference of the Environment & Management Systems Steering Committee are as follows:
- to establish, implement and maintain environmental management system and QMS against ISO 9000:2000 and ISO 14001:2004 Standard Company wide;
- to provide leadership and guidance and periodic review of the progress and performance of QMS. EMS through audits and management reviews for the continuous improvement.

## Information Technology Steering Committee

**Members**
Fasihul Karim Siddiqi - Chairman
Muhammad Saleem
Naushad Riaz
Adil M. Shah
Shams Naveed Zia

**Terms of Reference**
The terms of reference of the IT Steering Committee are as follows:
- reviewing the long & short term plans;
- approving and monitoring major projects;
- reviewing and approving the major acquisitions;
- ensuring liaison between IT and the User Departments;
- reviewing the adequacy and allocation of resources.

## Human Resource Development Committee

**Members**
Hideya Iijima - Chairman
Takeshi Ito
Fasihul Karim Siddiqi
Muhammad Saleem
Muhammad Akram

**Terms of Reference**
The terms of reference of Human Resource Development Committee are as follows:
- develop and implement policies for management of human capital;
- establishing performance management system, developing and reviewing performance goals and objectives;
- reviewing compensation system and practices.

# board of directors

**Takeshi Ito**
Deputy Managing Director

**Kunwar Idris**
Chairman

**Hideya Iijima**
Managing Director & CEO

**Fasihul Karim Siddiqi**
Member

**Susumu Hongo**
Member

**Muhammad Irfan Shaikh**
Member

**Shinji Fujimoto**
Member

**Muhammad Saleem**
Company Secretary

# chairman's review

It gives me immense pleasure to report to this 23rd Annual General Meeting of the Hinopak share-holders that in the year ended December 31, 2007 their Company made the highest ever profit in its history. The production and sales revenue have also been the highest.

I am sure at this stage you would like to join me in extending a standing ovation to the management and workers of the Company for this record-setting performance. They have achieved it despite growing competition from the domestic manufacturers and second-hand imports made under various schemes and drastic reduction in bank loans and lease finance for commercial vehicles. It goes to the credit of the management that while the sale of locally manufactured trucks declined nationally, Hinopak was able to claim a larger share in the reduced numbers.

## National Sales

The national growth in Large Scale Manufacturing in 2007 fell to 8% from 9% in 2006 and an average of 11.6% over the last five years. In the automotive sector it fell more steeply. In 2007 it grew only by 3.8% against the five-year average of 25.8%.

The table below shows the sale of locally produced vehicles in the last five calendar years:

**Sales - Units**

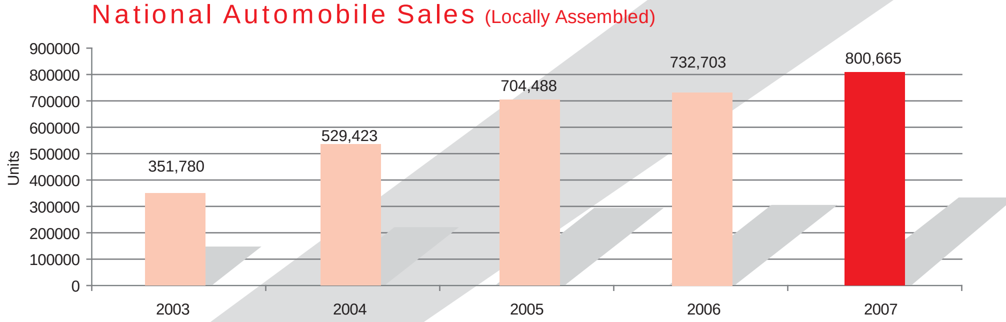
| Vehicle Segment | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Car | 177,306 | 160,256 | 141,326 | 109,439 | 80,368 |
| Truck | 4,098 | 4,558 | 3,887 | 2,048 | 1,828 |
| Bus | 1,078 | 928 | 1,375 | 1,411 | 1,383 |
| L.C.V.(Jeep,Van,Pick-up) | 23,476 | 33,936 | 29,187 | 18,692 | 12,802 |
| Farm Tractor | 54,322 | 49,643 | 46,733 | 40,300 | 32,726 |
| Motor Cycle | 540,385 | 483,382 | 481,980 | 357,533 | 222,673 |
| **Total** | **800,665** | **732,703** | **704,488** | **529,423** | **351,780** |

(The above figures are only for the member Companies of the Pakistan Automotive Manufacturers Association)

The increased freight movement because of growth in industrial production and exports had substantially increased the demand for trucks in recent years. The benefit of this increase however all went to the second-hand or illegally imported (later regularized) heavy and medium duty trucks. The sale of locally produced trucks of this category in 2007, ironically, fell to 2544 units from 3154 in 2006. The sale of light duty trucks however increased from 1404 to 1554.

The sales of buses increased by 16% from 928 in 2006 to 1078 in 2007 as the sales tax was reduced to zero towards the end of 2006. However, it still fell considerably short of the level of 2004 when 1411 buses were sold. The bus sales, it seems, will remain depressed till the time the second-hand imports are altogether stopped and the policy incentives for urban transport, under consideration since long, are announced by the federal and provincial governments.

National Automobile Sales (Locally Assembled)

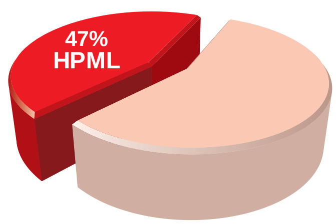


# Hinopak Business

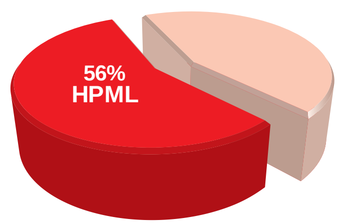
## Sales Volume

It was Hinopak's best ever year for business. The sale of its commercial vehicles increased by 14% though nationally the sales fell by 6%. Besides retaining its number one position, the Company increased its market share in commercial vehicles to 56 % from last year's 47%.

HPML Market Share 2006

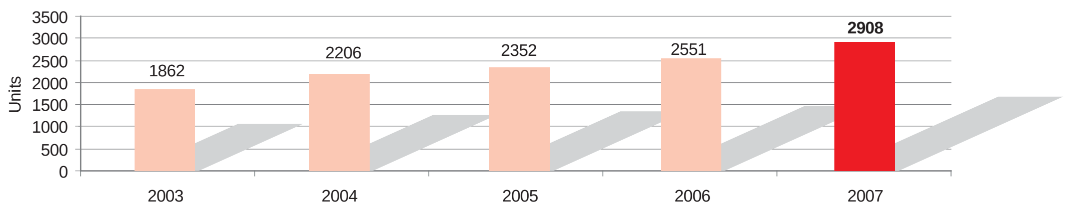



HPML Market Share 2007

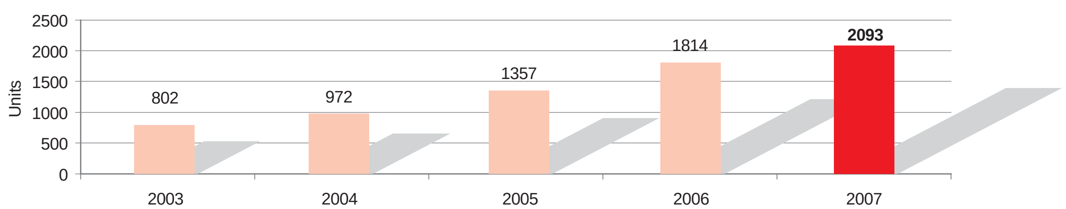



The Company has been overall market leader in commercial vehicles for the last 20 years but was lagging behind in light duty trucks. Now with the introduction of world renowned Dutro it leads in all three segments i.e. bus, medium / heavy, and small truck. Hinopak's market share now stands at 76% in bus, 53% in medium / heavy trucks and 49% in light-duty truck.

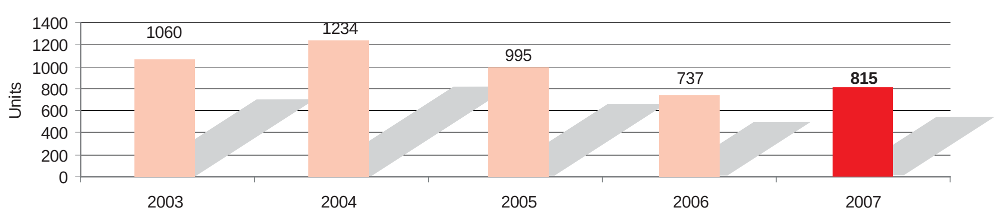
HPML Sales Units - Total Chassis




HPML Sales Units - Truck Chassis




HPML Sales Units - Bus Chassis




## Export

During the year the Company exported 84 wind deflectors to UAE and expects to export more of them and some other components too in the years ahead.

# Operating Results:

## Sales Revenue

The sales revenue in the year increased by 22% to Rs.7,827 million from Rs. 6,392 million in 2006. Most of it, around 76%, came from the sale of chassis.

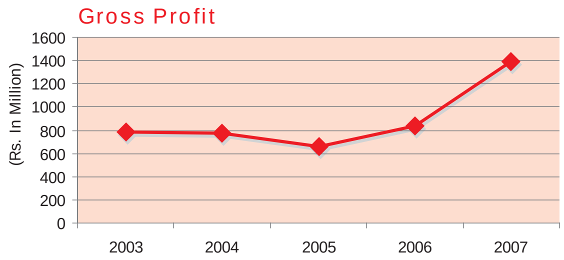
## Gross Profit

The gross profit increased to Rs. 1,388 million from last year's Rs. 835 million. The profit for each product line is shown below:

**Rs in million**

| Gross Profit | 2007 | 2006 | Increase |
|---|---|---|---|
| Chassis | 939 | 795 | 144 |
| Bus & Truck Bodies | 263 | 12 | 251 |
| Other Business (Contract Assembly and Spare Parts) | 186 | 28 | 158 |
| **Total Gross Profit** | **1,388** | **835** | **553** |

The increase in chassis gross profit is in line with the increase in sales volume. The steady value of the Japanese yen in the first three quarters of the year helped gross profit from bus and truck chassis to rise. Larger production reduced the cost per unit and higher value-added specialized vehicles were produced than in any previous year.




## Distribution and Administrative Expenses

The distribution and administrative expenses increased to Rs. 409 million from Rs. 308 million due to:
(i) investments made in 3S dealership network; (ii) publicity launched to promote new models; and
(iii) general inflation and normal increments in salaries and wages.

## Other Income & Expenses

Income from short term investments decreased by Rs.16 million due to lower liquidity. A net exchange loss of Rs. 31 million was recorded in fair value adjustment on forward exchange contracts made to hedge the exchange risk.

## Capital Expenditure

The Company is continuously making investments to improve the capacity, technology and safety of its plants especially the Body Fabrication Plant. The expense incurred on this account during the year was Rs. 117 million.

## Cash Flow

The cash income from the operating activities was Rs. 542 million of which Rs.117 million were invested in capital goods and Rs.130 million paid in dividend to shareholders. The net increase in cash and cash equivalent was Rs. 300 million. The year thus closed with a positive cash balance of Rs.156 million.

# Production

The number of chassis produced during the year was 4152 compared to 2898 in 2006. The production of trucks went up by 13% and that of buses by 24%. 809 Toyota Hilux frames were produced for Indus Motor Company. The plant productivity improved by 6% through Kaizen.

### Body Fabrication

Hinopak is the only commercial vehicle manufacturer in Pakistan which alongside its main plant also has a state-of-the-art body fabrication shop. In 2007 this shop set a new record by producing 1747 bodies of different kinds both for trucks and buses. The number produced in 2006 was only 938. The Company is now exploring the possibility of exporting built-up buses with the assistance of its principals - Hino and TTC of Japan. It has also developed bodies for diverse, specialized purposes including flatbed, dozzer carrier, recovery vehicle and troop carrier. The productivity in bus bodies increased by 6% and in truck bodies by 9%.

## Business Process Improvement and Product Development

Ten new high-end computers with enhanced features for 3D CAD and engineering analysis have been procured. In the first phase 3D CAD models of chassis related projects have been started. The Toyota production system is being implemented to improve processes and reduce waste.

The implementation of the Oracle-based Enterprise Resource Planning System is in the final stages and complete integration of different modules will be completed during the year. A Hinopak intranet portal is being developed to provide on-line real time information to the management.

## Corporate Social Responsibility

A "CSR and Global Compact Committee" has been formed to cover all CSR activities ranging from environment to philanthropy. The standards for health and safety have been established. Donations are made for sports and charitable causes. A full review of these activities is given in a separate section of this report.

The Company now complies with all the requirements of Code of Corporate Governance laid down by the Securities and Exchange Commission of Pakistan and Toyota group's guidelines.

### Contribution to National Exchequer

The Company's manufacturing activities and localization of parts saved more than two billion rupees in foreign exchange. It paid more than Rs. 500 million in import duty, Income Tax and Sales Tax payments. Contributions made to the Workers' Welfare and Profit Participation Funds, Old Age Benefits, Social Security and Education Cess add up to Rs. 69 million.

### Human Resource Development

Regular training courses at home and abroad were organized for the workers, managers and executives to keep them abreast of new technologies and work practices.

An average of 55 hours per employee was spent on in-house training. Some employees were also sent for training to Netherlands, Japan, and the Philippines.

Best Corporate Report Award

The Company's Annual Report for the year 2006 won the first position in a competition organized jointly by the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP).

## Business Issues and Challenges Ahead

In this encouraging background of Hinopak's business, it would be appropriate briefly to recount the issues which will have a bearing on its performance in the times ahead and on economic growth in general-the two being interlinked.

Foremost is a stable political and economic environment after the general elections followed by stability in the oil and steel prices and check on inflation. The falling value of the rupee against dollar and yen is making the import of CKD expensive and also adding to the cost of production of parts locally because most raw materials are imported. The selling prices of vehicles therefore are rising and "Deletion" which is now regulated by tariff may also slow adown to the detriment of the national engineering industry.

The trucking policy in the making needs to be expedited so that new and bigger trucks replace the old, unfit vehicles which damage the roads and pollute the environment. Hinopak is making its contribution to the modernization of the trucking sector by introducing a variety of new low-emission vehicles backed by after-sales service through a network of 3S dealers.

Hinopak with the support of Hino of Japan has designed a CNG bus suited the operating conditions in Pakistan. Some buses have been produced and sold to institutions. The mass production is awaiting the government scheme for their operation in cities. That needs to be expedited.

## Looking Forward

The outlook for the volume of business in the year 2008 remains bright but the profitability is bound to falter because of the declining value of the rupee both against yen and dollar. The increased bus sales could partly make up for it if the federal and provincial governments were to finalize and implement the Urban Transport Policy which has been on the anvil since long. The introduction of CNG buses in large cities will save foreign exchange and reduced pollution.

The Government's tariff policies have been helpful but the import of used vehicles in various garbs continues to hamper the growth of local automotive industry. In a time of rising inflation the industry can maintain its levels of profitability and tax and dividend payments only through larger volumes of production and sale. The production of commercial vehicles in the country can double if the import of second-hand vehicles were to be banned.

## Acknowledgement

I take this opportunity to thank the workers and the management, the dealers, the vendors and the customers of the Company for their cooperation and exertions in making 2007 a record year all round - in sales, productivity, profit and dividend to the shareholders. I have also to thank the Government of Pakistan and the Engineering Development Board for laying down a policy framework for the development of the automotive industry. An early finalization of the trucking and urban transport policies would give the industry the fillip it needs to expand at a faster rate.

K. Idris

**Kunwar Idris**
Chairman
Februray 11, 2008

# statement of compliance with the code of corporate governance for the year ended december 31, 2007

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 and chapter XIII of listing regulations of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited respectively, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes two independent non-executive directors.

The directors have confirmed that none of them is serving as a directors in more than ten listed companies, including this Company.

All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

The casual vacancy occured during the year was duly filled up by the Board.

The Company has prepared a 'Basic Principles of Code of Conduct', which has been signed by all the directors and employees of the Company.

The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

The meetings of the Board were presided over by the Chairman and in his absence by a director elected by the board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

The Board arranged orientation course for its directors to appraise them of their duties and responsibilities.

The Board has approved remuneration and terms and conditions of employment of CFO who is also the Company Secretary, and Head of Internal Audit, as determined by the CEO. There were no new appointments of CFO or Company Secretary, and Head of Internal Audit during the year.

The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

The Company has complied with all the corporate and financial reporting requirements of the Code.

The Board has formed an audit committee. It comprises three members, of whom two are non-executive director including the chairman of the committee.

The meetings of the audit committee were held atleast once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

The Board has set-up an internal audit function.

The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

We confirm that all other material principles contained in the Code have been complied with.

By order of the Board

**Hideya Iijima**
Managing Director & CEO

**Kunwar Idris**
Chairman

Dated: February 11, 2008

# basic principles of code of conduct

1. We develop and provide outstanding products and services that fulfill the demands of customers with sufficient attention given to safety and the environment, and we aim to be an enterprise which has a significant presence in the commercial vehicle market.

2. We undertake open and fair corporate activities in conformity with the spirit and letter of laws. We maintain sound and transparent relationships with governmental and administrative entities.

3. We build and maintain good communications with society as well as our stakeholders, and we are committed to accurate and timely disclosure of information.

4. We recognize that an environmental preservation activity is an integral part of our business, and we voluntarily and actively promote and engage in environmental preservation activities as an indispensable condition for Hinopak's corporate existence and activities.

5. We recognize the inherent dignity and fundamental human rights of all members of the Hino family and therefore respect and support the practice of human rights.

6. We actively promote and engage in philanthropic activities as a member of Hino Motors Ltd. and the Toyota Group, and as a good corporate citizen.

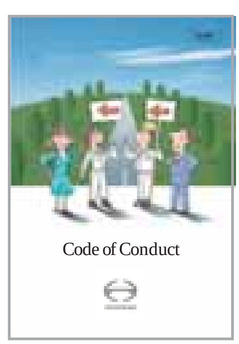
7. We respect the right of workers at the workplace and their right of freedom of association and the right to organize and bargain collectively. We believe in transparency, mutual trust and respect for each others' rights and obligations and need for bilateral dialogue and cooperation between employees and management for achieving decent work with safe and healthy work environment, growth and excellence in business performance.

8. We take a resolute stand against anti social power and organizations, and we act in compliance with ethical standards and sound social values.

9. We respect and abide the law of the land and applicable rules and the diversity of customs and culture and we contribute to development in the communities through our business activities.

10. We support the principles of Global Compact and expect our employees to embrace them in the work culture of our enterprise for sustainable growth and development.

11. We pledge to comply and enforce the basic principles of Hinopak's Code of Conduct and prevent its violation through the mechanism already in place from enforcing discipline, company wide. Any member of Hinopak family observing any violation or abuse of this code of conduct may bring the same to the notice of the Management Committee or the Audit Committee in writing directly or through the suggestion boxes for necessary consideration and action.



# directors' report

The Directors of your Company take pleasure in presenting this report, together with the Audited Financial Statements of the Company for the year ended December 31, 2007.

The **Board of Directors** of the Company as at December 31, 2007 consists of:

- Mr. Kunwar Idris
- Mr. Hideya Iijima
- Mr. Takeshi Ito
- Mr. Shinji Fujimoto
- Mr. Susumu Hongo
- Mr. Muhammad Irfan Shaikh
- Mr. Fasihul Karim Siddiqi

## Appropriation of Profit

Following are the details of appropriations:

| | **Year ended December 31, 2007** | **Year ended December 31, 2006** |
|---|---|---|
| | Rupees in thousand | |
| Profit before taxation | 904,610 | 511,763 |
| Taxation | (314,563) | (187,882) |
| Profit after taxation | 590,047 | 323,881 |
| Transferred from surplus on revaluation of fixed assets / on account of Incremental depreciation | 5,864 | 5,860 |
| Unappropriated profit brought forward | 1,007,847 | 752,509 |
| Profit available for appropriation | 1,888,558 | 1,082,250 |
| Final cash dividend paid for the year 2006: Rs. 10.5 per share (2005: Rs. 6.0 per share) | (130,206) | (74,403) |
| Unappropriated profit brought forward | 1,473,552 | 1,007,847 |

**For the year ended December 31, 2007, the Board in its meeting held on February 11, 2008 has proposed a final cash dividend of Rs 24.0 per share.**

## Basic and Diluted Earnings Per Share

The basic and diluted earnings per share for the year is Rupees 47.58 (2006: Rupees 26.12)

## Auditors

The present auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment. The directors endorse recommendation of the Audit Committee for the re-appointment of Messrs A. F. Ferguson & Co. as the auditors for the financial year 2008.

## Pattern of Shareholding

The pattern of shareholdings as at December 31, 2007 and additional information thereabout required under Code of Corporate Governance is disclosed on page 91 and page 92 respectively.

## Holding Company

Since 19th October 1998 Hino Motors, Ltd., Japan, is the Holding Company of Hinopak Motors Limited, by virtue of its 59.3% shareholding in the Company.

## Subsequent Events

No material changes or commitments affecting the financial position of the Company have taken place between the end of the financial year and the date of the Report.

## Compliance With The Best Practices Of Corporate Governance As Per Clause XIX Of Code Of Corporate Governance

The Board is pleased to state that the management of the Company is compliant with the best practices of corporate governance. The Board acknowledges its responsibility in respect of the corporate and financial reporting framework and thus states that:

- The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The highlights of operating and financial data for the last six years are given on page 26
- The value of investments of Company's Provident, Gratuity and Pension Funds as on December 31, 2007 was as follows:

| | Rupees in thousand |
|---|---|
| Hinopak Motors Limited Employees' Provident Fund | 120,904 |
| Hinopak Motors Limited Employees' Gratuity Fund | 50,418 |
| Hinopak Motors Limited Employees' Pension Fund | 59,576 |

Audit of these funds for the year ended June 30, 2007 is in process.

- During the year five meetings of the Board were held in which the attendance by each Director is as follows:

| Name of Directors | Number of meetings attended |
|---|---|
| Mr. Kunwar Idris | 5 |
| Mr. Keiji Maeda | 5 |
| Mr. Hideya Iijima | - |
| Mr. Takeshi Ito | 5 |
| Mr. Shinji Fujimoto | - |
| Mr. Susumu Hongo | 5 |
| Mr. Muhammad Irfan Shaikh | 5 |
| Mr. Fasihul Karim Siddiqi | 5 |

During the year, Mr. Keiji Maeda was replaced by Mr. Hideya Iijima in the month of December.

- The directors including CEO, CFO, Company Secretary and their spouses and minor children have not traded in the shares of the Company during the year ended December 31, 2007.

## Chairman's Review

The accompanied Chairman's Review covers the performance, significant deviations from last year in operating results and future outlook. The Board endorses the contents of the review.

By order of the Board

**Hideya Iijima**
Managing Director & CEO

**Kunwar Idris**
Chairman

Dated; February 11, 2008

# statement of changes in equity

for the year ended December 31, 2007

| | Share Capital | Revenue Reserve | Unappropriated profit | Total |
|---|---|---|---|---|
| | Rupees '000 | | | |
| Balance at January 1, 2006 | 124,006 | 291,000 | 752,509 | 1,167,515 |
| Dividend for the year 2005 @ Rs. 6 per share | - | - | (74,403) | (74,403) |
| Transferred from surplus on revaluation of fixed assets on account of incremental depreciation | - | - | 5,860 | 5,860 |
| Profit after taxation for the year 2006 | - | - | 323,881 | 323,881 |
| Balance at December 31, 2006 | 124,006 | 291,000 | 1,007,847 | 1,422,853 |
| Dividend for the year 2006 @ Rs. 10.5 per share | - | - | (130,206) | (130,206) |
| Transferred from surplus on revaluation of fixed assets on account of incremental depreciation | - | - | 5,864 | 5,864 |
| Profit after taxation for the year 2007 | - | - | 590,047 | 590,047 |
| **Balance at December 31, 2007** | **124,006** | **291,000** | **1,473,552** | **1,888,558** |

The annexed notes 1 to 38 form an integral part of these financial statements.

**Managing Director &**
**Chief Executive**

K. Idris
**Chairman**

# financial highlights

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **Profit & Loss Account (Rs. in Million)** | | | | | | |
| Net Turnover | 3,078.15 | 4,261.27 | 5,521.80 | 6,367.61 | 6,392.28 | 7,826.78 |
| Gross Profit | 626.16 | 784.21 | 770.09 | 661.51 | 834.58 | 1,387.64 |
| Operating Profit | 483.00 | 552.98 | 509.40 | 435.06 | 560.18 | 967.78 |
| Profit before Tax | 462.78 | 546.18 | 499.74 | 381.58 | 511.76 | 904.61 |
| Taxation | 23.38 | 194.05 | 164.01 | 138.62 | 187.88 | 314.56 |
| Profit after Tax | 439.41 | 352.13 | 335.73 | 242.96 | 323.88 | 590.05 |
| Transfer from surplus on revaluation of fixed assets | 29.93 | 4.62 | 21.05 | 5.86 | 5.86 | 5.86 |
| Dividend | - | 12.40 | 105.41 | 105.41 | 74.40 | 130.21 |
| Unappropriated Profit carried forward | 13.37 | 357.72 | 609.10 | 752.51 | 1,007.85 | 1,473.55 |
| **Balance Sheet (Rs. in Million)** | | | | | | |
| Net Assets | | | | | | |
| Fixed Assets | 557.16 | 639.40 | 682.47 | 833.68 | 865.24 | 890.31 |
| Other Long Term Assets | 9.59 | 12.14 | 11.96 | 12.71 | 15.05 | 13.12 |
| Current Assets | 1,222.42 | 2,355.98 | 2,724.51 | 2,320.62 | 3,259.54 | 4,008.10 |
| Less : Current Liabilities | 1,017.52 | 1,866.94 | 2,032.57 | 1,639.45 | 2,342.08 | 2,672.70 |
| Total Net Assets | 771.64 | 1,140.57 | 1,386.37 | 1,527.56 | 1,797.76 | 2,238.83 |
| Financed By | | | | | | |
| Issued, Subscribed & Paid up Capital | 124.01 | 124.01 | 124.01 | 124.01 | 124.01 | 124.01 |
| Reserves / Accumulated Profit | 291.97 | 648.72 | 900.10 | 1,043.51 | 1,298.84 | 1,764.55 |
| Long Term / Deferred tax Liabilities | 119.84 | 136.65 | 60.01 | 63.64 | 84.36 | 65.59 |
| Surplus on Revaluation of Fixed Assets | 235.82 | 231.20 | 302.26 | 296.40 | 290.54 | 284.68 |
| Total Funds Invested | 771.64 | 1,140.57 | 1,386.37 | 1,527.56 | 1,767.76 | 2,238.83 |
| **Turnover (Rs. in Million)** | | | | | | |
| Hino Chassis | 2,673.22 | 3,143.40 | 4,161.05 | 5,359.53 | 5,577.64 | 5,943.60 |
| Bus & other bodies | 282.69 | 610.23 | 815.31 | 633.74 | 580.24 | 1,023.70 |
| Spare Parts | 18.06 | 39.12 | 38.14 | 51.79 | 89.05 | 120.88 |
| Others | 104.18 | 468.52 | 507.30 | 322.54 | 145.35 | 738.60 |
| Total | 3,078.15 | 4,261.27 | 5,521.80 | 6,367.61 | 6,392.28 | 7,826.78 |
| **Production (Units)** | | | | | | |
| Hino Chassis | 1518 | 1883 | 2341 | 2286 | 2614 | 3044 |
| Bus & other bodies | 472 | 1363 | 1712 | 739 | 938 | 1747 |
| IMV / Hilux Frame | 2118 | 2549 | 2910 | 3290 | 970 | 809 |
| Hilux Deck | 1443 | 2557 | 2906 | 3375 | 946 | - |
| **Sales (Units)** | | | | | | |
| Hino Chassis | 1476 | 1862 | 2206 | 2352 | 2551 | 2908 |
| Bus & other bodies | 451 | 1337 | 1579 | 918 | 789 | 1697 |
| IMV / Hilux Frame | 2118 | 2549 | 2941 | 3290 | 970 | 775 |
| Hilux Deck | 1443 | 2560 | 2900 | 3375 | 962 | - |
| **No. of Employees** | 227 | 249 | 255 | 268 | 287 | 313 |

## Investor Information

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Financial Ratios | | | | | | |
| Gross Profit Ratio | 20.34% | 18.40% | 13.95% | 10.39% | 13.06% | 17.73% |
| Net Profit Margin | 14.28% | 8.26% | 6.08% | 3.82% | 5.07% | 7.54% |
| Return on Assets (after tax) | 24.60% | 11.70% | 10.00% | 7.70% | 7.80% | 12.00% |
| Debt Equity Ratio * | 0.18 | 0.14 | 0.05 | 0.05 | 0.05 | 0.03 |
| Current Ratio | 1.20 | 1.26 | 1.34 | 1.42 | 1.39 | 1.50 |
| Quick Ratio | 0.42 | 0.57 | 0.46 | 0.31 | 0.36 | 0.54 |
| Interest Cover Ratio | 48.88 | 522.18 | - | 67.64 | 148.59 | 41.87 |

## Other Ratios

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Dividend Payout Ratio | 2.80% | 29.90% | 31.40% | 30.60% | 40.20% | 50.44% |
| Price Earning Ratio | 2.06 | 4.23 | 5.95 | 8.58 | 5.90 | 12.57 |
| Total Assets Turnover Ratio | 1.72 | 1.42 | 1.62 | 2.01 | 1.54 | 1.59 |
| Fixed Assets Turnover Ratio | 5.52 | 6.66 | 8.09 | 7.64 | 7.39 | 8.79 |
| Return on Capital Employed | 56.95 | 30.87 | 24.22 | 15.90 | 18.02 | 26.36 |
| Inventory Turnover Ratio | 3.66 | 3.38 | 3.11 | 3.19 | 2.66 | 2.62 |
| Number of Days Inventory | 100 | 108 | 117 | 114 | 137 | 139 |
| Debtors Turnover Ratio | 30.07 | 12.31 | 13.84 | 22.25 | 15.47 | 11.86 |
| Number of Days Debtors | 12 | 30 | 26 | 16 | 24 | 31 |

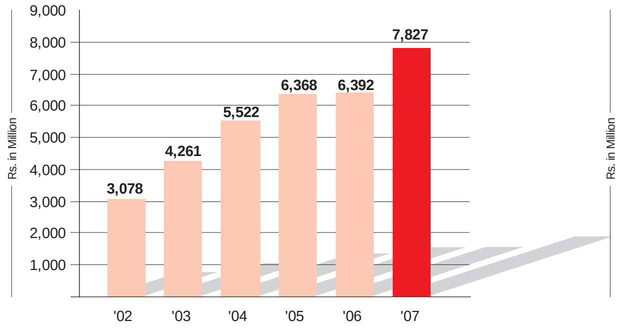
## Per Share Amounts (in Rupees)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Cash Dividend | 1.00 | 8.50 | 8.50 | 6.00 | 10.50 | 24.00 |
| Breakup Value with Surplus on Revaluation of Fixed assets | 52.56 | 80.96 | 106.96 | 118.06 | 138.17 | 175.25 |
| Breakup Value without Surplus on Revaluation of Fixed assets | 33.55 | 62.32 | 82.59 | 94.15 | 114.74 | 152.30 |
| Earning Per Share | 35.43 | 28.40 | 27.07 | 19.59 | 26.12 | 47.58 |
| Share Price (High) | 82.00 | 143.00 | 180.00 | 175.00 | 241.75 | 624.00 |
| Share Price (Low) | 26.40 | 56.25 | 110.00 | 102.00 | 120.10 | 152.90 |
| Share Price (Closing) | 73.00 | 120.00 | 161.00 | 168.00 | 154.00 | 598.00 |
| ONE US$ = RUPEE - as at December 31st | 58.50 | 57.62 | 59.65 | 59.93 | 60.98 | 61.55 |
| ONE YEN = RUPEE - as at December 31st | 0.4930 | 0.5389 | 0.5812 | 0.5092 | 0.5122 | 0.5497 |

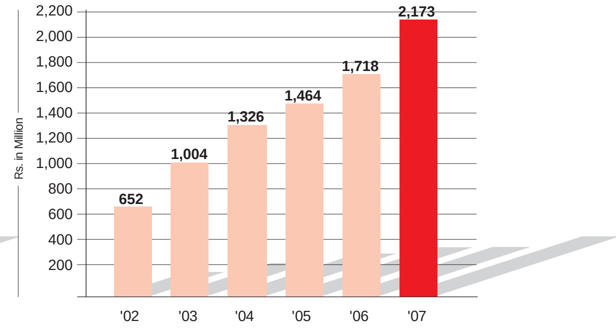
* Debt Equity Ratio takes into consideration the surplus on revaluation of land and building.

# financial highlights cont...

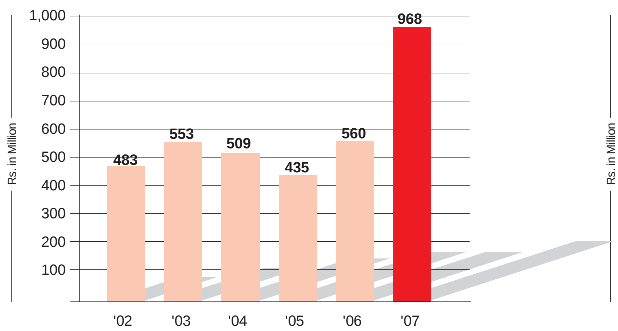
## Net Sales



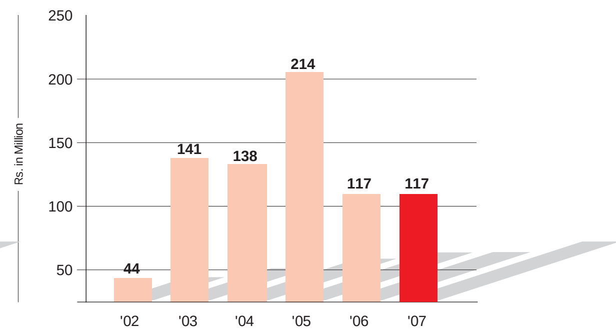

## Total Shareholder's Equity



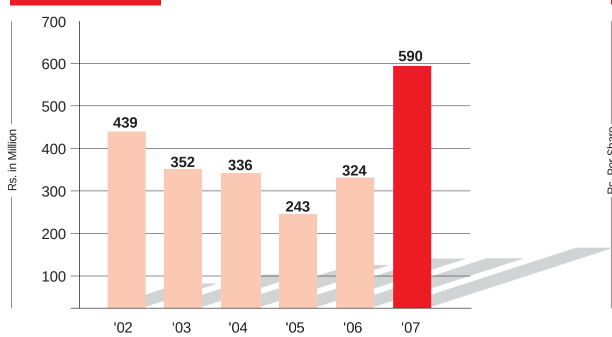

## Operating Profit



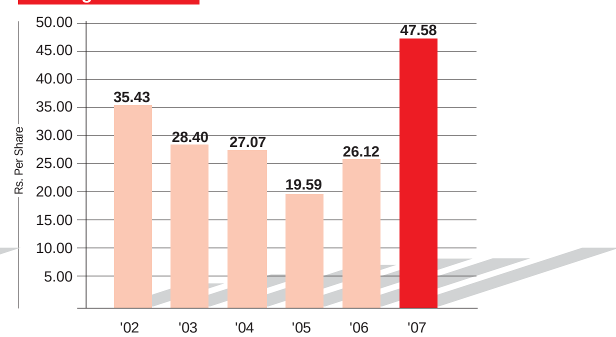

## Capital Expenditure



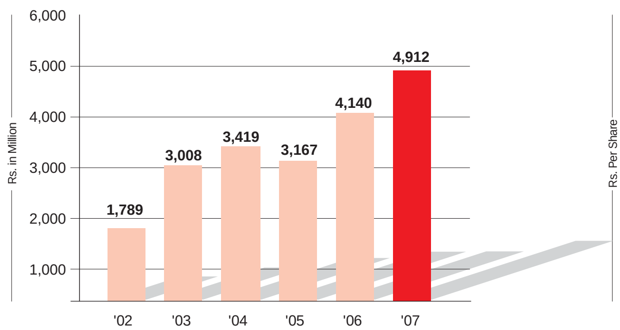

## Profit After Tax



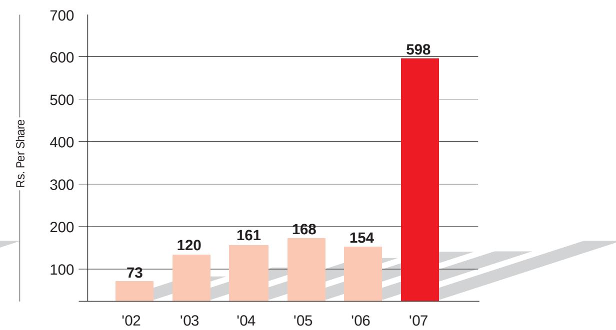

## Earnings Per Share




## Total Assets



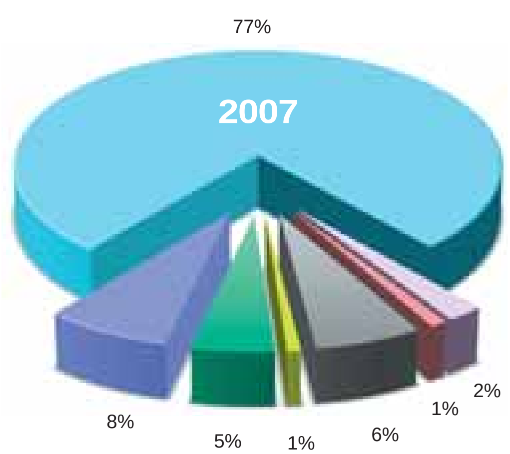

## Share Price (Closing)

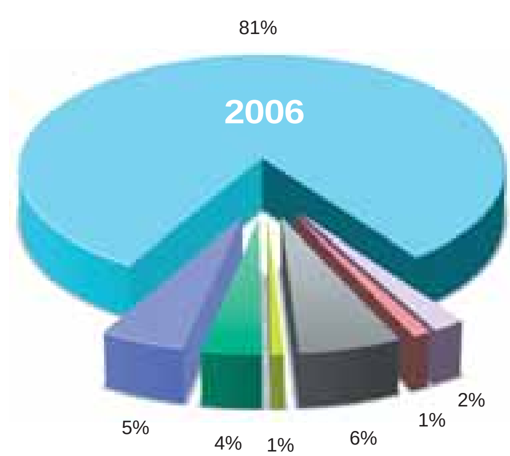


# statement of value addition and its distribution

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Rs in million | % | Rs in million | % |
| **Value Addition** | | | | |
| Net Sales | 7,827 | 99 | 6,392 | 99 |
| Operating Income | 58 | 1 | 73 | 1 |
| | **7,885** | **100** | **6,465** | **100** |
| **Value Destribution** | | | | |
| Cost of Sales | 6,097 | 77 | 5,277 | 81 |
| Distribution Expenses | 175 | 2 | 128 | 2 |
| Administration Expenses | 78 | 1 | 69 | 1 |
| Employees Remuneration | 499 | 6 | 392 | 6 |
| Finance Cost | 63 | 1 | 48 | 1 |
| Income Tax and Other Charges | 383 | 5 | 227 | 4 |
| Profit Retained | 590 | 8 | 324 | 5 |
| | **7,885** | **100** | **6,465** | **100** |

# distribution of value addition




- Cost of Sales
- Distribution Expenses
- Administration Expenses
- Employees Remuneration
- Finance Cost
- Income Tax and Other Charges
- Profit Retained

# financial statements

financial statements

# company information

## Bankers

Allied Bank Limited
Bank Alfalah Limited
Citibank, N.A.
Habib Metropolitan Bank Ltd.
Habib Bank Ltd.
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
United Bank Ltd.

## Auditors

A.F. Ferguson & Co. Chartered Accountants

## Legal Advisor

Sayeed & Sayeed

## Registered Office

D-2, S.I.T.E., Manghopir Road
P.O. Box No. 10714
Karachi-75700, Pakistan

Tel: 111-25-25-25
Website: www.hinopak.com
Email: info@hinopak.com

# management team

## Starting from left (Sitting)

**Susumu Hongo**
Director Production

**Hideya Iijima**
Managing Director & CEO

**Takeshi Ito**
Deputy Managing Director

## Starting from left (Standing)

**Syed Arshad Ali**
General Manager Product Support

**Naushad Riaz**
Senior General Manager BOP, MOD & PMD

**Fasihul Karim Siddiqi**
Director & Board Advisor - HR, PMD & CSR

**Muhammad Irfan Shaikh**
Director Sales & Marketing

**Muhammad Saleem**
Senior General Manager Finance, IT, HR & Administration

**Muhammad Owais M. Khan**
Senior General Manager AOP and E&D


HINO
always ahead
DUTRO
HINO
DUTRO
DUTRO

# mission & vision

The mission of Hinopak Motors Limited is to provide the society with safe, economical, comfortable and environment friendly means of transportation by manufacturing and supplying commercial vehicles and services.

**To achieve this mission, we commit ourselves:**

**To our individual, institutional and international customers:**
to deliver high quality, safe, durable, reliable, comfortable, environment friendly and economical products and services to their total satisfaction.

**To our employees:**
to foster corporate culture of mutual trust; respect for fundamental human rights at work; opportunities for professional growth and personal welfare so that they are proud of being a member of the "Hinopak Family".

**To the community and our nation:**
to contribute to economic and social development by providing means of transportation and by progressive localization of the vehicles.

**To the shareholders:**
to act in compliance with the norms expected of a subsidiary of the Toyota Group of Companies and make a meaningful financial return to the shareholders.

## 1. THE COMPANY AND ITS OPERATIONS

Hinopak Motors Limited is incorporated in Pakistan as a public limited company and quoted on Karachi and Lahore stock exchanges.

The company's principal activity is the assembly, progressive manufacture and sale of Hino buses and trucks in Pakistan.

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 notified under Companies Ordinance, 1984, provisions of the directives issued under Companies Ordinance, 1984. In case requirement differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**Accounting standards, amendments and interpretations effective in 2007**

Amendments to IAS 1 Presentation of Financial Statements - Capital Disclosures is mandatory for the company's accounting periods beginning on or after January 1, 2007. It introduces new disclosures relating to Company's objectives, policies and processes for managing capital. Adoption of this amendment only impacts the format and extent of the disclosure presented in note 35 to the financial statements.

The other new standards, amendments and interpretations are considered not relevant or have any significant effect to the company's financial statements.

**Standards, interpretations and amendments to the published approved accounting standards that are relevant but not yet effective.**

Following amendments to approved accounting standards and interpretations have been published that are mandatory for the company's accounting periods beginning on the dates mentioned below:

| | |
|---|---|
| IAS 23 (Amendment) - Borrowing Cost | effective from January 1, 2009 |

Adoption to this amendment will result in change in accounting policy relating to borrowing cost. After this amendment borrowing costs that are directly attributable to the, acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.

IAS 1 'Presentation of financial statements', issued in September 2007 revises the existing IAS 1 and requires apart from changing the name of certain financial statements, presentation of transactions with owners in statement of changes in equity and with non-owners in the Comprehensive Income statement. The revised standard will be effective from January 1, 2009.

IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

## 2.2 Basis of measurement

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

## 2.3 Staff retirement benefits

**Defined benefit plans**

The company operates approved funded gratuity and pension schemes for all its permanent employees. The schemes define the amounts of benefit that an employee will receive on or after retirement subject to a minimum qualifying period of service under the schemes. The amounts of retirement benefits are usually dependant on one or more factors such as age, years of service and salary.

The liabilities recognised in respect of gratuity and pension schemes are the present values of the company's obligations under each scheme at the balance sheet date less the fair values of respective plan assets, together with adjustment for unrecognised actuarial gains or losses.

Contribution to pension fund is made by both, the company based on actuarial recommendation, and by employees at 2% and 3% of the basic monthly salary in case of management and non-management staff respectively.

The latest actuarial valuation of the schemes were carried out as at December 31, 2007 using the projected unit credit method. The present values of the obligations are determined by discounting the estimated future cash outflows using interest rates of high quality government securities that have terms to maturity approximating to the terms of the related obligations.

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 obligations are charged or credited to profit and loss account separately for each scheme over the employees' expected average remaining working lives.

**Defined contribution plan**

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

.

## 2.4 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.

## 2.5 Taxation

i. Current

Charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, and taxes paid under the final tax regime.

ii. Deferred

The company accounts for deferred taxation using the liability method on all major temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liability is generally recognised for 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.

## 2.6 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.

## 2.7 Revenue recognition

- The company recognises sales upon delivery of goods to customers and in the case of exports when the goods are shipped.
- Commission on handling Complete Built Up (CBU) vehicles and spare parts is recognised on accrual basis.
- Return on bank deposits and short term investments is recognised on accrual basis.

## 2.8 Research and development cost

Research and development cost is charged in the year in which it is incurred.

## 2.9 Borrowing cost

Borrowing cost is recognised as an expense in the period in which it is incurred.

## 2.10 Warranty obligations

The company recognises the estimated liability on an accrual basis to repair or replace goods under warranty at the balance sheet date.

### 2.11 Financial instruments

Financial instruments include investments, trade and other debts, cash and bank balances, borrowings, liabilities against assets subject to finance leases and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

### 2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The company enters into derivative transactions mainly to hedge foreign currency liabilities or firm commitments and these are designated as fair value hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged liability that are attributable to the hedged risk.

### 2.13 Trade and other payable

Trade and other payables are initially measured at cost which is the fair value of the consideration to be paid for goods and services, whether or not billed to the company.

### 2.14 Fixed assets

#### 2.14.1 Property, plant and equipment

These are stated at cost less accumulated depreciation / amortisation and impairment losses, if any, except capital work-in-progress which is stated at cost.

Depreciation is charged to profit and loss account applying the straight line method, whereby the depreciable amount of an asset, if any, is written off over its estimated useful life. The cost of leasehold land is amortised equally over the lease period. Depreciation is charged on additions from the month the asset is available for use and on disposals upto the month preceding the month of disposal.

The useful lives of assets as estimated by the management are as follows:

| | |
|---|---|
| - Leasehold land | lease term i.e. 65 to 67 years |
| - Buildings on leasehold land | 40 years |
| - Plant and machinery | 2 to10 years |
| - Furniture and fixtures | 2 to10 years |
| - Vehicles | 4 to 5 years |
| - Electric installations | 5 years |
| - Office and other equipments | 3 to 7 years |

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

During the year as a result of review of useful lives of assets, the company has revised the estimated useful lives of certain components of plant and machinery which were depreciated over 10 years. The revised estimated useful lives of such components range between 2 to 7 years. This change in estimate has resulted in higher depreciation charge for the year by Rs.1.44 million.

The company has acquired certain vehicles under lease. The leases where the company has acquired substantially all the risks and rewards of ownership are classified as finance leases. Assets under finance leases are capitalised at the lease commencement date at the lower of fair value of the leased asset and the present value of minimum lease payments and the corresponding liability is recognised on the balance sheet. Finance lease charges are allocated to the accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. The assets acquired under finance lease are depreciated over the shorter of the useful life of the asset or the lease term.

Gain or loss on disposal or retirement of property, plant and equipment is included in profit and loss account. Maintenance and normal repairs of plant and machinery costing up to approximately Rs. 50,000 and other assets costing up to approximately Rs. 25,000 are charged to profit and loss account as and when incurred.

### 2.14.2 Intangible assets - computer software

Computer software licenses acquired by the company are stated at cost less accumulated amortisation. Cost represents the cost incurred to acquire the software licenses and bring them to use. The cost of computer software is amortised over the estimated useful life i.e. 2 to 3 years.

Costs associated with maintaining computer softwares are charged to profit and loss account.

### 2.14.3 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.

## 2.15 Investments

The 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 initially recognised at fair value plus transaction cost, and subsequently at amortised cost.

ii) 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 off 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 equity.

The company assesses at each balance sheet date whether there is objective evidence that an investment is impaired. Impairment loss on all investments is recognised in the profit and loss account. In arriving at the provision in respect of any diminution in long-term investments, consideration is given only if there is a permanent impairment in the value of the investment.

### 2.16 Stores, spares and loose tools

These are valued at cost determined on moving average basis less provision for slow moving and obsolete stores and spares. Items in transit are valued at invoice value plus other charges incurred thereon.

### 2.17 Stock in trade

These are valued at lower of cost and net realisable value. Cost is determined by first-in first-out method except for materials for fabrication of bus bodies, consumable stores, locally manufactured parts, spares for sale and stock in transit.

Cost of material for fabrication of bus bodies, consumable stores, locally manufactured parts and spares for sale is determined on moving average method. Cost of stock in transit comprises of invoice value plus other charges incurred thereon.

Cost of work in process and finished goods include direct material, labour and appropriate portion of manufacturing expenses.

Net realisable value is determined on the basis of estimated selling price of the product in the ordinary course of business less cost of completion and estimated costs necessarily to be incurred to make the sale.

### 2.18 Trade and other debts

Trade and other debts are carried at original invoice amount being the fair value. Provision is made against debts considered doubtful of recovery whereas debts considered irrecoverable are written off.

### 2.19 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 in hand, balances with banks on current, savings and deposit accounts and running finance under mark-up arrangements.

### 2.20 Foreign currency translation

Foreign currency transactions are recorded into Pak Rupee using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are taken to profit and loss account.

### 2.21 Dividend distribution

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

### 2.22 Accounting estimates and judgements

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.

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 matters involving a higher degree of judgment or complexity, or area where assumptions and estimates are significant to the financial statements are as follows:

(a) Provision for doubtful debts, other receivables and stocks

The company has used judgments, based on the history of the transactions, for making provisions for the doubtful debts and other receivables, whereas provision for stocks is based on the current market conditions. Management believes that changes in outcome of estimates will not have material effect on the financial statements.

(b) Staff retirement benefits

The company has post retirement benefit obligations, which are determined through actuarial valuations using various assumptions as disclosed in note 8.3 below. Management believes that the changes in assumptions will not have significant effect on the financial statements.

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

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 3. SHARE CAPITAL

### 3.1 Authorised share capital

| | 2007 | 2006 |
|---|---|---|
| 20,000,000 ordinary shares of Rs. 10 each | **200,000** | 200,000 |

### 3.2 Issued, subscribed and paid-up capital

Ordinary shares of Rs. 10 each

| Number of shares | | 2007 | 2006 |
|---|---|---|---|
| **6,200,280** | shares allotted for consideration paid in cash | **62,003** | 62,003 |
| **4,133,520** | shares allotted for consideration other than cash against fixed assets | **41,335** | 41,335 |
| **2,066,760** | shares allotted as bonus shares | **20,668** | 20,668 |
| **12,400,560** | | **124,006** | 124,006 |

3.3 At December 31, 2007 and 2006 Hino Motors Ltd, Japan - holding company and Toyota Tsusho Corporation, Japan - associated company respectively held 7,357,665 and 3,678,833 ordinary shares of Rs. 10 each.

## 4. RESERVES - revenue

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |
| General reserves | **291,000** | 291,000 |
| Unappropriated profit | **1,473,552** | 1,007,847 |
| | **1,764,552** | 1,298,847 |

## 5. SURPLUS ON REVALUATION OF FIXED ASSETS

The surplus on revaluation of fixed assets represents surplus recognised in 1998 on revaluation of certain leasehold land and buildings on leasehold land carried out by an independent professional valuer.

To comply with the requirements of the revised International Accounting Standard 16 - Property, Plant and Equipment, the company adopted the cost model for its fixed assets. Consequently, the revalued figures of such assets as at January 1, 2005 were treated as deemed cost. The surplus on revaluation on these assets shall be held on the balance sheet till realisation in accordance with the requirements of section 235 of the Companies Ordinance, 1984.

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |
| Balance at January 1 | **290,541** | 296,401 |
| Less: Transferred to unappropriated profit on account of incremental depreciation for the year | **(5,864)** | (5,860) |
| Balance at December 31 | **284,677** | 290,541 |

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | 2007 | 2006 |
|---|---|---|
| **Present value of finance lease liabilities** | | |
| Not later than 1 year | **4,299** | 3,634 |
| Later than one year and not later than 2 year | **-** | 5,691 |
| | **4,299** | 9,325 |
| Less : Current maturity shown under current liabilities | **(4,299)** | (3,634) |
| | **-** | 5,691 |
| **Minimum lease payments** | | |
| Not later than 1 year | **4,439** | 4,197 |
| Later than one year and not later than 2 year | **-** | 5,851 |
| | **4,439** | 10,048 |
| Future finance charges on finance lease | **(140)** | (723) |
| Present value of finance lease liabilities | **4,299** | 9,325 |

6.1 These represent company's obligation for vehicles obtained under finance lease agreements entered into with a Non-Banking Finance Company. The amount is payable by November 2008 in monthly installments. Monthly lease payments include finance charge at six months KIBOR + 1.9% per annum (2006: 6.5% and six months KIBOR + 1.9% per annum), which is used as discounting factor.

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 7. DEFERRED TAXATION

| | 2007 | 2006 |
|---|---|---|
| Credit balances arising in respect of: | | |
| - accelerated tax depreciation allowances | **79,553** | 75,523 |
| - surplus on revaluation of fixed assets | **28,615** | 29,556 |
| | **108,168** | 105,079 |
| Debit balances arising in respect of: | | |
| - provision for stores and stock obsolescence | **(57,890)** | (44,294) |
| - provision for doubtful trade debts, deposits, advances and other receivables | **(16,416)** | (11,229) |
| - liabilities against assets subject to finance lease | **(268)** | (886) |
| | **(74,574)** | (56,409) |
| | **33,594** | 48,670 |

## 8. TRADE AND OTHER PAYABLES

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |
| Creditors | **177,500** | 43,092 |
| Bills payable to Toyota Tsusho Corporation, Japan | | |
| - associated company | **893,042** | 933,119 |
| Accrued liabilities | **425,492** | 427,325 |
| Advances from customers - note 8.1 | **709,774** | 342,261 |
| Payable to Hino Motors Ltd. Japan - holding company | | |
| - Royalty | **64,024** | 21,362 |
| - Technical assistance fee | **2,434** | - |
| Workers' welfare fund | **21,287** | 12,732 |
| Payable to Employees' Pension Fund - note 8.3 | **3,236** | - |
| Workers' profits participation fund - note 20.1 | **-** | 27,520 |
| Net unrealised loss on foreign exchange forward contracts | **-** | 13,249 |
| Custom duties payable | **112,826** | 102,724 |
| Payable to employees - note 8.2 | **21,909** | 17,200 |
| Excise duty payable | **4,532** | 1,068 |
| Unclaimed dividend | **1,393** | 1,100 |
| Others | **2,459** | 3,391 |
| | **2,439,908** | 1,946,143 |

**8.1** These include Rs. 8.30 million (2006: Rs. 3.26 million) in respect of advance received from Orix Leasing Pakistan Limited - related party.

**8.2** These represent contributions made by employees towards the sale price of vehicles provided to them by the company in accordance with the company's vehicle policy.

## 8.3 Staff Retirement Benefits

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Gratuity Fund | Pension Fund | Gratuity Fund | Pension Fund |
| | Rupees '000 | | | |
| **8.3.1 Movement in asset / (liability)** | | | | |
| Balance at January 1 | **2,536** | **1,728** | 331 | - |
| Charge for the year | **(2,978)** | **(7,242)** | (1,794) | (3,302) |
| Payments to the fund | **666** | **2,278** | 3,999 | 5,030 |
| Balance at December 31 | **224** | **(3,236)** | 2,536 | 1,728 |
| **8.3.2 Balance sheet reconciliation as at December 31** | | | | |
| Fair value of plan assets | **69,337** | **70,040** | 63,165 | 61,406 |
| Present value of obligations | **(68,920)** | **(78,546)** | (56,221) | (58,482) |
| Unrecognised actuarial (gain) / loss | **(193)** | **2,295** | (4,408) | (1,196) |
| Past service cost - non vested | **-** | **2,975** | - | - |
| | **224** | **(3,236)** | 2,536 | 1,728 |
| **8.3.3 Charge for the year** | | | | |
| Current service cost | **3,672** | **3,660** | 2,982 | 3,284 |
| Interest cost | **5,622** | **5,848** | 3,953 | 4,384 |
| Expected return on plan assets | **(6,316)** | **(6,140)** | (4,830) | (4,366) |
| Actuarial gain recognised during the year | **-** | **-** | (311) | - |
| Past service cost - vested | **-** | **3,874** | - | - |
| | **2,978** | **7,242** | 1,794 | 3,302 |
| **8.3.4 Actual return on plan assets** | **6,577** | **6,459** | 2,707 | 5,716 |
| **8.3.5 Movement in the present value of obligation** | | | | |
| Obligation at January 1 | **56,221** | **58,482** | 43,922 | 48,712 |
| Current service cost | **3,672** | **3,660** | 2,982 | 3,284 |
| Interest cost | **5,622** | **5,848** | 3,953 | 4,384 |
| Actuarial loss | **4,476** | **3,810** | 6,521 | 2,145 |
| Benefits paid | **(1,071)** | **(103)** | (1,157) | (43) |
| Past service cost - vested | **-** | **3,874** | - | - |
| Past service cost - non vested | **-** | **2,975** | - | - |
| Obligation at December 31 | **68,920** | **78,546** | 56,221 | 58,482 |

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Gratuity Fund | Pension Fund | Gratuity Fund | Pension Fund |
| | Rupees '000 | | | |

### 8.3.6 Movement in fair value of plan assets

| | 2007 Gratuity Fund | 2007 Pension Fund | 2006 Gratuity Fund | 2006 Pension Fund |
|---|---|---|---|---|
| Fair value at January 1 | **63,165** | **61,406** | 53,665 | 48,511 |
| Expected return on plan assets | **6,316** | **6,140** | 4,830 | 4,366 |
| Actuarial gain | **261** | **319** | 1,828 | 3,542 |
| Employer contributions | **666** | **2,278** | 3,999 | 5,030 |
| Benefits paid | **(1,071)** | **(103)** | (1,157) | (43) |
| Fair value at December 31 | **69,337** | **70,040** | 63,165 | 61,406 |

### 8.3.7 Plan assets comprise of:

| | 2007 Gratuity Fund | 2007 Pension Fund | 2006 Gratuity Fund | 2006 Pension Fund |
|---|---|---|---|---|
| Equity (%) | **19** | **43** | 19 | 48 |
| Debt (%) | **65** | **40** | 77 | 46 |
| Others (%) | **16** | **17** | 4 | 6 |
| | **100** | **100** | 100 | 100 |

### 8.3.8 Key actuarial assumptions used:

| | 2007 Gratuity Fund | 2007 Pension Fund | 2006 Gratuity Fund | 2006 Pension Fund |
|---|---|---|---|---|
| Expected rate of return on investments (%) | **10** | **10** | 10 | 10 |
| Expected rate of increase in salaries (%) | **9** | **9** | 9 | 9 |
| Discount factor used (%) | **10** | **10** | 10 | 10 |
| Retirement age (years) | **60** | **60** | 60 | 60 |

### 8.3.9 Comparison for five years:

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | Rupees '000 | | | | |
| **Funded gratuity plan** | | | | | |
| Fair value of plan assets | **69,337** | 63,165 | 53,665 | 50,835 | 50,126 |
| Present value of defined benefit obligation | **(68,920)** | (56,221) | (43,922) | (35,900) | (28,840) |
| Surplus | **417** | 6,944 | 9,743 | 14,935 | 21,286 |
| Experience adjustment | | | | | |
| Actuarial loss / (gain) on obligations | **4,476** | 6,521 | 603 | 2,978 | (1,927) |
| Actuarial (gain) / loss on plan assets | **(261)** | (1,828) | 593 | 3,523 | (19,628) |
| **Funded pension plan** | | | | | |
| Fair value of plan assets | **70,040** | 61,406 | 48,511 | 34,545 | - |
| Present value of defined benefit obligation | **(78,546)** | (58,482) | (48,712) | (39,433) | (32,522) |
| (Deficit) / surplus | **(8,506)** | 2,924 | (201) | (4,888) | (32,522) |
| **Experience adjustment** | | | | | |
| Actuarial loss on obligations | **3,810** | 2,145 | 1,747 | 2,025 | - |
| Actuarial gain on plan assets | **(319)** | (3,542) | (4,098) | (528) | - |

8.3.10 The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the plan, at the beginning of the period, for returns over the entire life of the related obligation.

8.3.11 Based on actuary's advice, the amount of expected contribution to gratuity and pension funds in 2008 will be Rs. 4.17 million and Rs. 5.71 million respectively.

## 9. RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS

The facilities for running finance under mark-up arrangements with various banks amounted to Rs. 810 million (2006: Rs. 677.5 million) of which the amount remaining unutilised at the year end was Rs. 705 million (2006: Rs. 414 million). The rates of mark-up range between 3 Month's KIBOR + 0.6% to 1 Month's KIBOR + 1.25% per annum (2006: KIBOR + 0.75% to KIBOR + 1.25% per annum). The purchase prices are payable by October 31, 2008.

The facilities for opening the letters of credit and guarantees as at December 31, 2007 amounted to Rs. 4.08 billion (2006: Rs. 2.9 billion) of which the amount remaining unutilised at the year end was Rs. 1.35 billion (2006: Rs. 1.67 billion).

The above facilities are secured by way of hypothecation charge on current assets including stock-in-trade.

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | Rupees '000 | |
| **10. COMMITMENTS** | | | |
| Commitments for capital expenditure | | **58,816** | 75,641 |
| **11. FIXED ASSETS** | | | |
| Property, plant and equipment | 11.1 | **887,117** | 864,530 |
| Intangible assets | 11.5 | **3,196** | 714 |
| | | **890,313** | 865,244 |
| **11.1 Property, plant and equipment** | | | |
| Operating assets | 11.2 | **884,341** | 856,661 |
| Capital work-in-progress | 11.3 | **2,776** | 7,869 |
| | | **887,117** | 864,530 |

## 11.2 Operating assets

| | Leasehold Land | Buildings on leasehold land | Plant and machinery | Furniture and fittings | Vehicles Owned | Vehicles Acquired under finance lease | Electrical Installations | Office and other equipments | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rupees '000 | | | | |
| **2006** | | | | | | | | | |
| **At January 1** | | | | | | | | | |
| Cost | 294,451 | 282,849 | 325,919 | 9,507 | 72,509 | 19,527 | 54,440 | 64,360 | 1,123,562 |
| Accumulated depreciation / amortisation | (37,518) | (52,827) | (102,075) | (4,719) | (31,556) | (8,829) | (21,265) | (42,614) | (301,403) |
| Net book value | 256,933 | 230,022 | 223,844 | 4,788 | 40,953 | 10,698 | 33,175 | 21,746 | 822,159 |
| **Year ended December 31** | | | | | | | | | |
| Opening net book value | 256,933 | 230,022 | 223,844 | 4,788 | 40,953 | 10,698 | 33,175 | 21,746 | 822,159 |
| Additions | - | 31,797 | 58,694 | - | 19,456 | - | 1,207 | 6,263 | 117,417 |
| Disposals | - | - | - | - | (2,075) | - | - | - | (2,075) |
| Depreciation / amortisation charge for the year | (4,475) | (7,535) | (31,269) | (705) | (11,281) | (3,905) | (8,618) | (8,781) | (76,569) |
| Provision for impairment | - | - | (4,271) | - | - | - | - | - | (4,271) |
| Closing net book value | 252,458 | 254,284 | 246,998 | 4,083 | 47,053 | 6,793 | 25,764 | 19,228 | 856,661 |
| **At December 31** | | | | | | | | | |
| Cost | 294,451 | 314,646 | 384,613 | 9,507 | 79,039 | 19,527 | 55,647 | 68,618 | 1,226,048 |
| Accumulated depreciation / amortisation | (41,993) | (60,362) | (133,344) | (5,424) | (31,986) | (12,734) | (29,883) | (49,390) | (365,116) |
| Provision for impairment | - | - | (4,271) | - | - | - | - | - | (4,271) |
| Net book value | 252,458 | 254,284 | 246,998 | 4,083 | 47,053 | 6,793 | 25,764 | 19,228 | 856,661 |
| **2007** | | | | | | | | | |
| **Year ended December 31** | | | | | | | | | |
| Opening net book value | **252,458** | **254,284** | **246,998** | **4,083** | **47,053** | **6,793** | **25,764** | **19,228** | **856,661** |
| Additions | **-** | **1,775** | **70,338** | **1,045** | **32,178** | **-** | **2,006** | **10,835** | **118,177** |
| Disposals | **-** | **(3,566)** | **(134)** | **-** | **(4,493)** | **(830)** | **(4)** | **(11)** | **(9,038)** |
| Depreciation/amortisation charge for the year | **(4,476)** | **(7,878)** | **(36,677)** | **(721)** | **(10,734)** | **(2,428)** | **(8,423)** | **(10,122)** | **(81,459)** |
| Closing net book value | **247,982** | **244,615** | **280,525** | **4,407** | **64,004** | **3,535** | **19,343** | **19,930** | **884,341** |
| **At December 31** | | | | | | | | | |
| Cost | **294,451** | **310,974** | **452,549** | **10,552** | **98,102** | **16,176** | **56,849** | **78,738** | **1,318,391** |
| Accumulated depreciation / amortisation | **(46,469)** | **(66,359)** | **(167,753)** | **(6,145)** | **(34,098)** | **(12,641)** | **(37,506)** | **(58,808)** | **(429,779)** |
| Provision for impairment | **-** | **-** | **(4,271)** | **-** | **-** | **-** | **-** | **-** | **(4,271)** |
| Net book value | **247,982** | **244,615** | **280,525** | **4,407** | **64,004** | **3,535** | **19,343** | **19,930** | **884,341** |

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 11.3 Capital work-in-progress

| | 2007 | 2006 |
|---|---|---|
| Civil works | **2,631** | - |
| Plant and machinery | **145** | 7,869 |
| | **2,776** | 7,869 |

## 11.4 Details of operating assets sold

The details of operating assets sold, having net book value in excess of Rs. 50,000 each are as follows:

| Description | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal | Particulars of purchaser |
|---|---|---|---|---|---|---|
| | Rupees'000 | | | | | |
| Scrap of buildings on leasehold land | 5,447 | 1,881 | 3,566 | 1,130 | Tender | M/s Hajiwala Traders, Karachi |
| Vehicle | 1,206 | 905 | 301 | 444 | Company policy | Mr. Fasihul Karim Siddiqi Director |
| " | 1,206 | 985 | 221 | 444 | Company policy | Mr. Muhammad Irfan Shaikh Director |
| " | 939 | 767 | 172 | 386 | Company policy | Mr. S. Arshad Ali Executive |
| " | 620 | 165 | 455 | 513 | Company policy | Mr. S. Tariq Kabeer Ex-employee |
| " | 609 | 548 | 61 | 237 | Insurance claim | EFU General Insurance Limited Karachi |
| " | 434 | 36 | 398 | 403 | Insurance claim | EFU General Insurance Limited Karachi |
| " | 424 | 92 | 332 | 381 | Insurance claim | EFU General Insurance Limited Karachi |

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 11.5 INTANGIBLE ASSETS - Computer Software

| | 2007 | 2006 |
|---|---|---|
| **At January 1** | | |
| Cost | **8,214** | 7,893 |
| Accumulated amortisation | **(7,500)** | (5,481) |
| Net book value | **714** | 2,412 |
| **Year ended December 31** | | |
| Opening net book value | **714** | 2,412 |
| Additions | **3,971** | 321 |
| Amortisation | **(1,489)** | (2,019) |
| Closing net book value | **3,196** | 714 |
| **At December 31** | | |
| Cost | **12,185** | 8,214 |
| Accumulated amortisation | **(8,989)** | (7,500) |
| Net book value | **3,196** | 714 |

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 12. INVESTMENTS - Related Parties

| | 2007 | 2006 |
|---|---|---|
| **Available for sale** | | |
| Arabian Sea Country Club Limited - note 12.1 | **5,000** | 5,000 |
| Automotive Testing & Training Centre (Private) Limited - note 12.2 | **500** | 750 |
| | **5,500** | 5,750 |
| Less: Provision for impairment | **(5,500)** | (5,750) |
| | **-** | - |

**12.1** This represents cost of 500,000 (2006: 500,000) fully paid-up unquoted ordinary shares of Rs. 10 each. Company holds 6.45% of the shares of the investee company. The fair value of the investment is indeterminable.

**12.2** This represents cost of 50,000 (2006: 75,000) fully paid-up unquoted ordinary shares of Rs. 10 each. Company holds 3.33% (2006: 5%) of the shares of the investee company. The fair value of these shares is indeterminable. During the year company has surrendered 25,000 shares to Engineering Development Board at Nil value.

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 13. LONG-TERM LOANS AND ADVANCES – considered good

| | 2007 | 2006 |
|---|---|---|
| Loans and advances to: | | |
| - executives | **2,720** | 2,080 |
| - other employees | **9,064** | 9,064 |
| | **11,784** | 11,144 |
| Less: Recoverable within one year | **(4,663)** | (4,389) |
| | **7,121** | 6,755 |

**13.1** The loans and advances are provided to employees under their terms of employment on interest free basis.

Loans under the schemes have been provided to facilitate purchase of motor vehicles and purchase / construction of house and are repayable over a period of five to twelve years. The motor vehicle loans are secured by joint registration of the vehicle in the name of the company and employee. The loan for purchase / construction is secured against employees' retirement fund balances.

Advances to employees are in respect of house rent assistance and these are repayable upto a period of two years. These are secured against employees' retirement fund balances.

### 13.2 Reconciliation of carrying amount of loans and advances to executives:

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Loans | Advances | Total | Loans | Advances | Total |
| | Rupees '000 | | | | | |
| Opening balances | **37** | **2,043** | **2,080** | 22 | 993 | 1,015 |
| Add: Disbursements | **64** | **3,940** | **4,004** | 37 | 2,343 | 2,380 |
| | **101** | **5,983** | **6,084** | 59 | 3,336 | 3,395 |
| Less: Repayments | **(34)** | **(3,330)** | **(3,364)** | (22) | (1,293) | (1,315) |
| Closing balances | **67** | **2,653** | **2,720** | 37 | 2,043 | 2,080 |

| | | 2007 | 2006 |
|---|---|---|---|
| | | Rupees '000 | |
| 13.3 | The maximum aggregate amount of loans and advances due from executives at the end of any month during the year | **6,907** | 5,410 |

### 14. STORES, SPARES AND LOOSE TOOLS

| | 2007 | 2006 |
|---|---|---|
| Stores | **17,419** | 17,016 |
| Spares | **7,585** | 5,272 |
| Loose tools | **8,240** | 3,627 |
| | **33,244** | 25,915 |
| Less: Provision for obsolescence | **(2,639)** | - |
| | **30,605** | 25,915 |

### 15. STOCK-IN-TRADE

| | 2007 | 2006 |
|---|---|---|
| Raw Materials and components [including in transit Rs. 265 million (2006: Rs. 242 million)] | **1,703,069** | 1,768,401 |
| Less: Provision for obsolescence | **(68,267)** | (53,693) |
| | **1,634,802** | 1,714,708 |
| Work-in-process | **64,627** | 6,342 |
| Finished goods - note 15.1 | **810,068** | 629,576 |
| Less: Provision for obsolescence | **(58,044)** | (39,474) |
| | **752,024** | 590,102 |
| Trading stock - Spare parts [including in transit Rs. 15.26 million (2006: Rs. 409 thousand)] | **118,154** | 103,521 |
| Less: Provision for obsolescence | **(36,448)** | (33,387) |
| | **81,706** | 70,134 |
| | **2,533,159** | 2,381,286 |

15.1 Finished goods include stocks amounting to Rs. 102.66 million (2006: Rs. 157.21 million) lying with company's authorised dealers.

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 16. TRADE DEBTS

| | 2007 | 2006 |
|---|---|---|
| **Considered good - unsecured** | | |
| Related parties | | |
| Indus Motor Company Limited | **14,738** | 187 |
| Orix Leasing Pakistan Limited | **2,375** | - |
| Others | **799,273** | 503,039 |
| | **816,386** | 503,226 |
| **Considered doubtful** | | |
| Others | **29,026** | 21,280 |
| | **845,412** | 524,506 |
| Less: Provision for doubtful debts | **(29,026)** | (21,280) |
| | **816,386** | 503,226 |

## 17. LOANS AND ADVANCES

| | 2007 | 2006 |
|---|---|---|
| **Considered good** | | |
| Current maturity of long term loans and advances to: | | |
| - executives (note 13) | **2,152** | 1,454 |
| - other employees (note 13) | **2,511** | 2,935 |
| | **4,663** | 4,389 |
| Advances to: | | |
| - executives | **4,521** | 3,326 |
| - other employees | **16,067** | 14,923 |
| - suppliers | | |
| Indus Motor Company Limited - related party | **994** | 434 |
| others | **64,278** | 69,252 |
| | **85,860** | 87,935 |
| | **90,523** | 92,324 |
| **Considered doubtful** | | |
| Advances to suppliers - note 17.1 | **-** | 835 |
| | **90,523** | 93,159 |
| Less: Provision for doubtful advances to suppliers | **-** | (835) |
| | **90,523** | 92,324 |

**17.1** Advances to suppliers of Rs. 835 thousand have been written off during the year.

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 18. TRADE DEPOSITS AND PREPAYMENTS

| | 2007 | 2006 |
|---|---|---|
| **Considered good** | | |
| Trade deposits | **94,840** | 56,141 |
| Prepayments | **1,989** | 2,502 |
| | **96,829** | 58,643 |
| **Considered doubtful** | | |
| Trade deposits | **15,350** | 7,440 |
| | **112,179** | 66,083 |
| Less: Provision for doubtful deposits | **(15,350)** | (7,440) |
| | **96,829** | 58,643 |

## 19. REFUNDS DUE FROM THE GOVERNMENT - SALES TAX

| | 2007 | 2006 |
|---|---|---|
| Considered good | **164,817** | 67,969 |
| Considered doubtful | **2,527** | 2,527 |
| | **167,344** | 70,496 |
| Less: Provision for doubtful refundable | **(2,527)** | (2,527) |
| | **164,817** | 67,969 |

19.1 During the year the company has received provisional refunds of Rs. 180.78 million from the sales tax authorities against bank guarantees.

## 20. OTHER RECEIVABLES

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |
| **Receivable from related parties - considered good** | | |
| Toyota Tsusho Corporation, Japan | **1,148** | 1,427 |
| Employees' Gratuity Fund - note 8.3 | **224** | 2,536 |
| Employees' Pension Fund - note 8.3 | **-** | 1,728 |
| Workers' profits participation fund - note 20.1 | **1,287** | - |
| Employees' Provident Fund | **350** | - |
| **Others - considered good** | | |
| Insurance claim receivable | **3,393** | 2,395 |
| Net unrealised gain on foreign exchange forward contracts | **4,562** | - |
| Others | **1,219** | 950 |
| | **12,183** | 9,036 |

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

### 20.1 Workers' Profits Participation Fund

| | 2007 | 2006 |
|---|---|---|
| Opening (liability) / asset | **(27,520)** | 1,043 |
| Allocation for the year | **(48,713)** | (27,520) |
| | **(76,233)** | (26,477) |
| Interest on funds utilised in company's business | **(1,633)** | - |
| | **(77,866)** | (26,477) |
| Amounts paid to / (received from) the Fund | **79,153** | (1,043) |
| Closing asset / (liability) | **1,287** | (27,520) |

## 21. CASH AND BANK BALANCES

| | 2007 | 2006 |
|---|---|---|
| Balances with banks | | |
| on current accounts | **52,514** | 18,602 |
| on PLS savings accounts | **156,377** | 54,661 |
| on term deposit account | **52,000** | 45,000 |
| Cash in hand | **24** | 34 |
| | **260,915** | 118,297 |

**21.1** At December 31, 2007 the rates of mark-up on savings accounts and term deposits range from 0.25% to 10.5% per annum (2006: 0.25% to 9.5% per annum).

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 22. SALES

| | 2007 | 2006 |
|---|---|---|
| **Manufactured goods** | | |
| Gross sales | **7,989,977** | 7,075,542 |
| Less: Commission and discounts | **196,751** | 200,583 |
| Sales tax and excise duty | **84,450** | 545,171 |
| Sales returns | **2,875** | 30,309 |
| | **7,705,901** | 6,299,479 |
| **Trading goods** | | |
| Gross sales | **169,210** | 124,883 |
| Less: Commission and discounts | **29,338** | 19,018 |
| Sales tax | **18,876** | 12,837 |
| Sales returns | **117** | 225 |
| | **120,879** | 92,803 |
| | **7,826,780** | 6,392,282 |

## 23. OPERATING COST

| | Cost of Sales | | Distribution Expenses | | Administration Expenses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | Rupees '000 | | | | | | | |
| Raw materials consumed | 5,933,569 | 5,108,993 | - | - | - | - | 5,933,569 | 5,108,993 |
| Stores and spares consumed | 6,863 | 13,924 | - | 767 | 9 | 6 | 6,872 | 14,697 |
| Staff costs - note 23.2 | 342,288 | 281,006 | 94,242 | 60,006 | 62,208 | 50,672 | 498,738 | 391,684 |
| Staff training | 1,357 | 2,119 | 634 | 711 | 741 | 602 | 2,732 | 3,432 |
| Rent, rates and taxes | 11,111 | 7,114 | 903 | 727 | - | - | 12,014 | 7,841 |
| Insurance | 1,395 | 1,528 | 722 | 540 | 1,129 | 1,188 | 3,246 | 3,256 |
| Fuel and power | 27,555 | 21,439 | 1,188 | 3,094 | 6,301 | 7,064 | 35,044 | 31,597 |
| Repairs and maintenance | 38,987 | 35,064 | 3,364 | 603 | 10,797 | 8,437 | 53,148 | 44,104 |
| Postage, telex and telephone | 1,728 | 1,987 | 3,153 | 3,311 | 2,097 | 1,399 | 6,978 | 6,697 |
| Vehicle running expenses | 8,979 | 8,485 | 9,174 | 7,701 | 5,860 | 5,832 | 24,013 | 22,018 |
| Printing, stationery and office supplies | 2,554 | 2,384 | 4,101 | 4,337 | 1,940 | 1,533 | 8,595 | 8,254 |
| Travelling and entertainment | 6,389 | 6,528 | 15,654 | 12,817 | 4,753 | 4,084 | 26,796 | 23,429 |
| Technical assistance fee | 2,499 | - | - | - | - | - | 2,499 | - |
| Royalty | 67,919 | 42,947 | - | - | - | - | 67,919 | 42,947 |
| Depreciation and amortisation | 63,790 | 59,887 | 5,728 | 6,797 | 13,430 | 11,904 | 82,948 | 78,588 |
| Impairment loss | - | 4,271 | - | - | - | - | - | 4,271 |
| Fixed assets charged off | 8,326 | 8,345 | 251 | 1,122 | 2,386 | 631 | 10,963 | 10,098 |
| Research and development | 3,417 | 1,285 | 42 | - | - | - | 3,459 | 1,285 |
| Legal and professional charges | - | - | - | - | 7,613 | 5,420 | 7,613 | 5,420 |
| Auditors' remuneration - note 23.3 | - | - | - | - | 1,630 | 1,526 | 1,630 | 1,526 |
| Security and maintenance | - | - | - | - | 16,428 | 16,202 | 16,428 | 16,202 |
| Outward freight and handling | - | - | 919 | 762 | - | - | 919 | 762 |
| Advertising and sales promotion | - | - | 32,766 | 26,415 | - | - | 32,766 | 26,415 |
| Product maintenance charges | - | - | 48,440 | 37,404 | - | - | 48,440 | 37,404 |
| Warranty services | - | - | 27,695 | 11,012 | - | - | 27,695 | 11,012 |
| Provision for doubtful trade debts | - | - | 7,746 | 6,189 | - | - | 7,746 | 6,189 |
| Provision for doubtful deposits | - | - | 7,910 | 2,539 | - | - | 7,910 | 2,539 |
| Other expenses | 5,673 | 5,487 | 4,348 | 1,674 | 3,066 | 3,221 | 13,087 | 10,382 |
| | 6,534,399 | 5,612,793 | 268,980 | 188,528 | 140,388 | 119,721 | 6,943,767 | 5,921,042 |
| Opening stock of work in process | 6,342 | 31,279 | | | | | | |
| | 6,540,741 | 5,644,072 | | | | | | |
| Closing stock of work in process | (64,627) | (6,342) | | | | | | |
| Cost of goods manufactured | 6,476,114 | 5,637,730 | | | | | | |
| Opening stock of finished goods | 590,102 | 427,288 | | | | | | |
| Closing stock of finished goods | (752,024) | (590,102) | | | | | | |
| | 6,314,192 | 5,474,916 | | | | | | |
| **Trading goods** | | | | | | | | |
| Opening stock | 70,134 | 50,762 | | | | | | |
| Purchases | 136,523 | 102,158 | | | | | | |
| | 206,657 | 152,920 | | | | | | |
| Closing stock | (81,706) | (70,134) | | | | | | |
| | 124,951 | 82,786 | | | | | | |
| | 6,439,143 | 5,557,702 | | | | | | |

**23.1** Cost of sales includes charge for stock obsolescence of Rs. 38.84 million (2006: Rs. 33.63 million).

## 23.2 Staff costs

| | Cost of Sales | | Distribution Expenses | | Administration Expenses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | Rupees '000 | | | | | | | |
| Salaries, wages, allowances and staff welfare | **331,612** | 273,953 | **90,823** | 58,179 | **60,095** | 49,422 | **482,530** | 381,554 |
| Charge for defined benefit plans | **6,846** | 3,728 | **2,095** | 812 | **1,279** | 556 | **10,220** | 5,096 |
| Charge for defined contribution plan | **3,830** | 3,325 | **1,324** | 1,015 | **834** | 694 | **5,988** | 5,034 |
| | **342,288** | 281,006 | **94,242** | 60,006 | **62,208** | 50,672 | **498,738** | 391,684 |

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 23.3 Auditors' Remuneration

| | 2007 | 2006 |
|---|---|---|
| Audit fee | **750** | 650 |
| Fee for limited review, audit of workers' profits participation fund, gratuity fund, provident fund, pension fund, special certifications and other assignments | **700** | 710 |
| Out of pocket expenses | **180** | 166 |
| | **1,630** | 1,526 |

## 24. OTHER OPERATING INCOME

| | 2007 | 2006 |
|---|---|---|
| **Income from financial assets** | | |
| Return on PLS savings accounts | **10,698** | 12,408 |
| Return on certificates of investment and short term deposits | **10,002** | 25,981 |
| **Income from non-financial assets** | | |
| Gain on disposal of operating fixed assets | **1,178** | 4,440 |
| **Others** | | |
| Scrap sales | **28,076** | 18,342 |
| Commission - from related party | **935** | 1,466 |
| Liabilities no longer required written back | **4,177** | 4,608 |
| Others | **2,544** | 5,375 |
| | **57,610** | 72,620 |

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 25. OTHER OPERATING EXPENSES

| | 2007 | 2006 |
|---|---|---|
| Donations - note 25.1 | **91** | 78 |
| Workers' profits participation fund - note 20.1 | **48,713** | 27,520 |
| Workers' welfare fund | **19,297** | 11,174 |
| | **68,101** | 38,772 |

**25.1 None of the directors or their spouses had any interest in the donee.**

## 26. FINANCE COST

| | 2007 | 2006 |
|---|---|---|
| Finance lease charges | **545** | 889 |
| Exchange loss | **31,283** | 38,774 |
| Bank charges | **6,595** | 4,983 |
| Interest on workers' profits participation fund - note 20.1 | **1,633** | - |
| Mark-up on running finance | **23,112** | 3,770 |
| | **63,168** | 48,416 |

## 27. TAXATION

| | 2007 | 2006 |
|---|---|---|
| Current - for the year | **333,000** | 194,461 |
| - for prior year | **(3,361)** | (917) |
| Deferred | **(15,076)** | (5,662) |
| | **314,563** | 187,882 |

**27.1 Relationship between tax expense and accounting profit**

| | 2007 | 2006 |
|---|---|---|
| Profit before taxation | **904,610** | 511,763 |
| Tax calculated at the rate of 35% | **316,614** | 179,117 |
| Effect of final tax regime | **2,939** | 3,469 |
| Permanent differences | **(1,629)** | 6,213 |
| Reversal of prior years' tax provision | **(3,361)** | (917) |
| Tax charge for the year | **314,563** | 187,882 |

## 28. EARNINGS PER SHARE

| | 2007 | 2006 |
|---|---|---|
| Profit after taxation attributable to ordinary shareholders | **590,047** | 323,881 |
| Number of ordinary shares (in '000s) issued and subscribed at the end of the year | **12,401** | 12,401 |
| Earnings per share | **Rs. 47.58** | Rs. 26.12 |

A diluted earnings per share has not been presented as the company does not have any convertible instruments in issue as at December 31, 2006 and 2007 which would have any effect on the earnings per share if the option to convert exercised.

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |

## 29. CASH GENERATED FROM OPERATIONS

| | 2007 | 2006 |
|---|---|---|
| Profit before taxation | **904,610** | 511,763 |
| Add / (Less): Adjustments for non cash charges and other items | | |
| Depreciation and amortisation | **82,948** | 78,588 |
| Impairment loss | **-** | 4,271 |
| Mark-up on running finance | **23,112** | 3,770 |
| Gain on sale of fixed assets | **(1,178)** | (4,440) |
| Return on PLS savings accounts | **(10,698)** | (12,408) |
| Return on certificates of investment and short term deposits | **(10,002)** | (25,981) |
| | **84,182** | 43,800 |
| Profit before working capital changes | **988,792** | 555,563 |
| EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES | | |
| (Increase) / decrease in current assets | | |
| Stores, spares and loose tools | **(4,690)** | 3,887 |
| Stock-in-trade | **(151,873)** | (590,578) |
| Trade debts | **(313,160)** | (180,140) |
| Loans and advances | **1,801** | (21,581) |
| Trade deposits and prepayments | **(38,186)** | (17,778) |
| Refunds due from the government - sales tax | **(96,848)** | (67,414) |
| Other receivables | **(3,147)** | (5,080) |
| | **(606,103)** | (878,684) |
| Increase / (decrease) in current liabilities | | |
| Increase in trade and other payables | **493,472** | 676,174 |
| | **(112,631)** | (202,510) |
| | **876,161** | 353,053 |

## 30. CASH AND CASH EQUIVALENTS

| | 2007 | 2006 |
|---|---|---|
| | Rupees '000 | |
| Cash and bank balances | **260,915** | 118,297 |
| Running finance under mark-up arrangements | **(105,178)** | (262,486) |
| | **155,737** | (144,189) |

## 31. REMUNERATION OF MANAGING DIRECTOR, DIRECTORS AND EXECUTIVES

The aggregate amount charged in these financial statements for remuneration, including all benefits to the Managing Director, Directors and Executives of the company are as follows:

| | Managing Director | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | Rupees '000 | | | | | |
| Managerial remuneration and allowances | 3,860 | 3,079 | 12,767 | 10,890 | 42,291 | 17,432 |
| Bonus | 993 | 2,013 | 9,009 | 6,121 | 14,170 | 8,293 |
| Retirement benefits | - | - | 879 | 734 | 2,615 | 1,726 |
| Rent and utilities | 1,906 | 1,661 | 5,777 | 5,050 | 9,341 | 6,842 |
| Leave passage | - | 288 | 1,033 | 812 | 1,612 | 1,037 |
| Club expenses | 23 | 23 | 106 | 82 | 267 | 201 |
| Medical expenses | 101 | 85 | 394 | 341 | 1,460 | 1,027 |
| | 6,883 | 7,149 | 29,965 | 24,030 | 71,756 | 36,558 |
| Number of persons | 1 | 1 | 4 | 4 | 21 | 16 |

31.1 Consultancy fee paid to the Chairman during the year amounted to Rs. 2.50 million (2006: Rs. 2.18 million). Further, Chairman is provided with free use of company maintained car and certain items of household furniture & fixtures and electrical appliances.

31.2 The Managing Director, Directors and certain executives of the company are provided with free use of company maintained cars and certain items of household furniture & fixtures and electrical appliances in accordance with their terms of employment.

## 32. PLANT CAPACITY AND PRODUCTION

| | 2007 | 2006 |
|---|---|---|
| | Units | |
| **Plant capacity (single shift without overtime)** | | |
| - Chassis | 6,000 | 6,000 |
| - Bodies | 1,800 | 1,800 |
| **Actual production** | | |
| - Chassis | 4,152 | 2,898 |
| - Bodies | 1,747 | 938 |

Low production during the year was consequent to low market demand.

## 33. RELATED PARTY DISCLOSURES

Disclosure of transactions between the company and related parties:

| Relationship | Nature of transaction | 2007 | 2006 |
|---|---|---|---|
| | | Rupees '000 | |
| i. Holding company | - Purchase of goods | **89,840** | 104,465 |
| | - Royalty charge | **67,919** | 42,947 |
| | - Dividend paid | **77,255** | 44,146 |
| | - Technical assistance fee | **2,499** | - |
| ii. Associated companies | - Purchase of goods | **3,267,225** | 3,390,642 |
| | - Purchase of services | **1,281** | 148 |
| | - Sale of goods | **321,833** | 520,705 |
| | - Purchase of fixed assets | **54,752** | 29,027 |
| | - Commission earned | **935** | 1,466 |
| | - Dividend paid | **38,628** | 22,073 |
| iii. Employees' Provident Fund | - Contribution paid | **6,338** | 5,034 |
| iv. Employees' Gratuity Fund | - Contribution paid | **666** | 3,999 |
| v. Employees' Pension Fund | - Contribution paid | **2,278** | 5,030 |
| vi. Key Management Personnel | - Compensation | **36,848** | 31,179 |
| | - Sale of fixed assets | **888** | - |

**33.1** Outstanding balances with related parties as at year end have been included in trade and other payables, trade debts, loans and advances and other receivables respectively.

**33.2** Details of compensation to key management personnel comprising of Managing Director and Directors is disclosed in note 31 above. Further, details of fixed assets sold to key management personnel is disclosed in note 11.4.

## 34. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

| | Interest / Mark-up bearing | | | Non Interest / Mark-up 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 advances | - | - | - | 4,663 | 7,121 | 11,784 | 11,784 |
| Deposits | - | - | - | 94,840 | 6,002 | 100,842 | 100,842 |
| Trade debts | - | - | - | 816,386 | - | 816,386 | 816,386 |
| Accrued mark-up on deposit account | - | - | - | 2,678 | - | 2,678 | 2,678 |
| Other receivables | - | - | - | 4,541 | - | 4,541 | 4,541 |
| Cash and bank balances | 208,377 | - | 208,377 | 52,538 | - | 52,538 | 260,915 |
| **December 31, 2007** | **208,377** | **-** | **208,377** | **975,646** | **13,123** | **988,769** | **1,197,146** |
| December 31, 2006 | 99,661 | - | 99,661 | 607,305 | 15,054 | 622,359 | 722,020 |
| **Financial liabilities** | | | | | | | |
| Long-term security deposits | - | - | - | - | 32,000 | 32,000 | 32,000 |
| Liabilities against assets subject to finance lease | 4,299 | - | 4,299 | - | - | - | 4,299 |
| Trade and other payables | - | - | - | 1,563,885 | - | 1,563,885 | 1,563,885 |
| Running finance under mark-up arrangements | 105,178 | - | 105,178 | - | - | - | 105,178 |
| Mark-up accrued on running finance arrangements | - | - | - | 598 | - | 598 | 598 |
| **December 31, 2007** | **109,477** | **-** | **109,477** | **1,564,483** | **32,000** | **1,596,483** | **1,705,960** |
| December 31, 2006 | 266,120 | 5,691 | 271,811 | 1,398,121 | 30,000 | 1,428,121 | 1,699,932 |

**(i) Interest / Mark-up rate risk**

The company has no significant interest bearing financial assets or liabilities. The effective mark-up rates for financial assets and liabilities are mentioned in respective notes to the financial statements.

**(ii) Concentration of credit risk**

Credit risk represents the accounting loss that would be recognised if counterparts failed to perform as contracted. Out of the total financial assets of Rs. 1.2 billion (2006: Rs. 722 million), the assets subject to credit risk amount to Rs. 816 million (2006: Rs. 503 million). The company believes that it is not exposed to credit risk as major part of these receivables comprise of receivable from government agencies and in case of other customers company usually obtains post dated cheques.

The company attempts to control credit risk by monitoring credit exposure, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

**(iii) Liquidity risk**

Liquidity risk reflects the company's inability in raising funds to meet commitment. The company manages liquidity risk by maintaining sufficient cash and the availability of financing through banking arrangements.

**(iv) Foreign exchange risk management**

Foreign currency risk arises mainly when receivables and payables exist due to transactions with foreign undertakings. The company manages foreign currency risk arising on import related activity usually by obtaining forward currency contracts.

**(v) Fair values of the financial assets and liabilities and derivatives**

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. The fair value of forward currency contracts is calculated using the prevailing market rates of forward contracts approximately matching with the term of maturity of the contracts.

## 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 borrowings. Company avails short term borrowings for working capital purposes only.

## 36. DIVIDEND

The Board of Directors in their meeting held on February 11, 2008 proposed a cash dividend of Rs.24 per share (2006: Rs.10.5 per share) amounting to Rs. 297.610 million (2006: Rs 130.206 million).

## 37. CORRESPONDING FIGURES

Corresponding figures have been reclassified for the purposes of better presentation. Major re-classifications are as follows:

| Nature of reclassification | Reclassification from | | Reclassification to | | "Rupees '000" |
|---|---|---|---|---|---|
| | Note | Component | Note | Component | |
| Sales tax refundable | 20. | Sales tax receivable | 19. | Refunds due from the government - sales tax | **67,969** |
| Dealer's long-term security deposits | 8. | Advances from customers | - | Long-term security deposits | **30,000** |
| Contibutions made by employees | 8. | Others | 8. | Payable to employees | **17,200** |

## 38. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 11, 2008 by the Directors.

**Managing Director & Chief Executive**

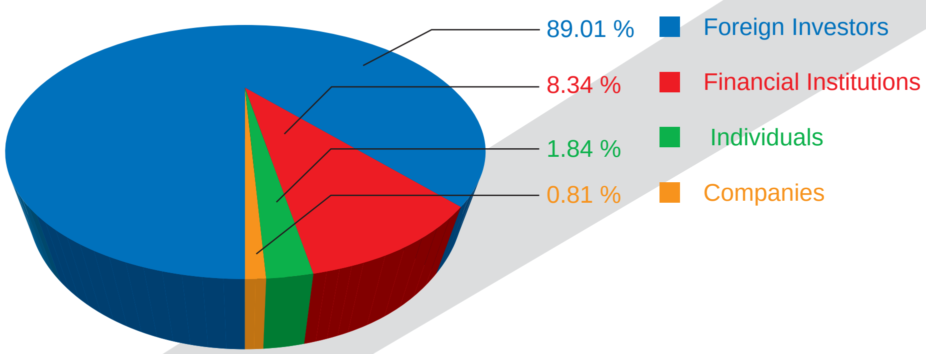
**Chairman**

# pattern of shareholding

as at december 31, 2007

| No. of Shareholders | Shareholding | | No. of Shares Held |
|---|---|---|---|
| | From | To | |
| 228 | 1 | 100 | 10,481 |
| 578 | 101 | 500 | 87,308 |
| 33 | 501 | 1,000 | 24,400 |
| 19 | 1,001 | 5,000 | 35,992 |
| 4 | 5,001 | 10,000 | 34,400 |
| 5 | 10,001 | 30,000 | 98,660 |
| 1 | 30,001 | 60,000 | 39,200 |
| 2 | 60,001 | 3,700,000 | 4,712,454 |
| 1 | 3,700,001 | 7,400,000 | 7,357,665 |
| **871** | | | **12,400,560** |

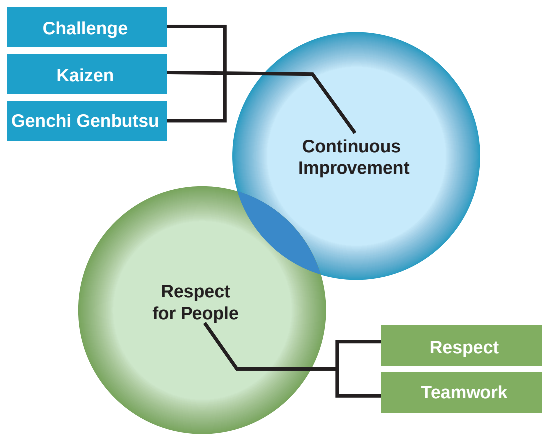
| Shareholders Category | No. of Shareholders | No. of Shares Held | Percentage of Holding | |
|---|---|---|---|---|
| Individuals | 860 | 228,461 | 1.84 | |
| Insurance Companies | 4 | 85,060 | 0.68 | 0.81 |
| Joint Stock Companies | 3 | 15,720 | 0.13 | |
| Financial Institutions | 1 | 1,033,821 | 8.34 | |
| Foreign Investors | 3 | 11,037,498 | 89.01 | |
| | **871** | **12,400,560** | **100.00** | |



| Shareholders Category | Number of Shareholders | Number of Shares held |
|---|---|---|
| **Associated Companies:** | | |
| - Hino Motors Limited, Japan<br>(Hinopak Motors Limited is Toyota group Company and subsidiary of Hino Motors Ltd. Japan. Toyota Motors Corporation is the ultimate parent of the group). | 1 | 7,357,665 |
| - Toyota Tsusho Corporation, Japan | 1 | 3,678,833 |
| **NIT** | | |
| - National Bank of Pakistan - Trustee Department | 1 | 1,033,821 |
| **Directors and Executives** | | |
| - Mr. Fasihul Karim Siddiqi | 1 | 120 |
| - Mr. Muhammad Owais M. Khan | 1 | 120 |
| - Mr. Naushad Riaz | 1 | 120 |
| - Mr. Syed Arshad Ali | 1 | 120 |
| - Mr. Gul Abbas | 1 | 120 |
| - Mr. Nishat Zafar | 1 | 120 |
| - Mr. Johnson P. J. Pereira | 1 | 120 |
| - Mr. Syed Rahmatullah | 1 | 120 |
| **Banks, Development Finance Institutions, Non - Banking Finance Institution, Insurance Companies, Modarabas and Mutual Funds** | | |
| - State Life Insurance Corporation of Pakistan | 1 | 13,200 |
| - New Jubilee Insurance Company Limited | 1 | 57,360 |
| - Premier Insurance Limited | 1 | 14,500 |
| **Shareholders Holding 10% or More Voting Interest** | | |
| - Hino Motors Limited, Japan | 1 | 7,357,665 |
| - Toyota Tsusho Corporation, Japan | 1 | 3,678,833 |


清掃

# some of the best practices followed by hinopak motors




**TOYOTA WAY**

## KAIZEN:

The Japanese term for continuous improvement is *kaizen* and is the process of making incremental improvements, no matter how small, and achieving the lean goal of eliminating all waste that adds cost without adding to value. *Kaizen* teaches individuals skills for working effectively in small groups, solving problems, documenting and improving processes, collecting and analyzing data, and self-managing within a peer group. It pushes the decision making (or proposal making) down to the workers and requires open discussion and a group consensus before implementing any decisions. *Kaizen* is a total philosophy that strives for perfection and sustains Toyota Production System (TPS) on a daily basis.

---

## 3 GEN MANNER:

If you notice any abnormal matter immediately take notice and proceed for action accordingly in the best possible manner under the prevalent circumstance:

Genchi : immediately rush yourself to the spot / site.

Genbutsu : immediately confirm yourself by observing the actual object.

Gensho : immediately investigate and confirm yourself the phenomenon.

Three 'G' Japanese principles of realizing a fact

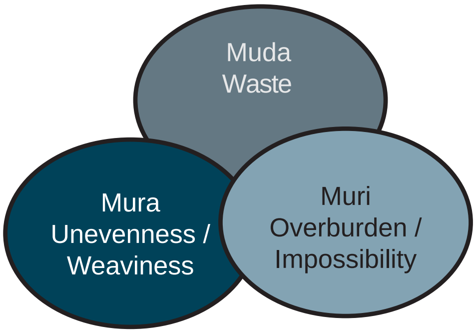
### SAN GEN SHUGI

1. GEN CHI.................... Actual place
2. GEN BUTSU............... Actual matter
3. GENIN........................ Actual person / practical recognition

# practices to improve process efficiency

## TO AVOID 3Ms:

3Ms 3 M = Muda
M = Mura
M = Muri




## HEIJUNKA - (LEVEL OUT THE WORKLOAD):

The slower but consistent tortoise causes less waste and is much more desirable than the speedy hare that races ahead and then stops occasionally to doze. The Toyota Production System can be realized only when all the workers become tortoises.

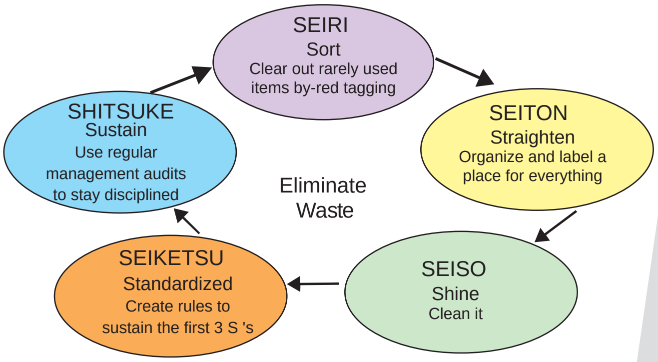
## JIDOKA - (STOPPING THE PROCESS TO BUILD IN QUALITY):

This means that you need a method to detect defects when they occur and automatically stop production so an employee can fix the problem before the defect continues downstream.

## 5S ACTIVITIES:

5S is used to abbreviate the basic requirement for Company's activities as mentioned here under:

**5S Objective**
"Implementation of 5S Activities to acquire a Neat & Clean environment which gives Higher Productivity, Fewer Defects, and a safer execution"



## NEMAWASHI:

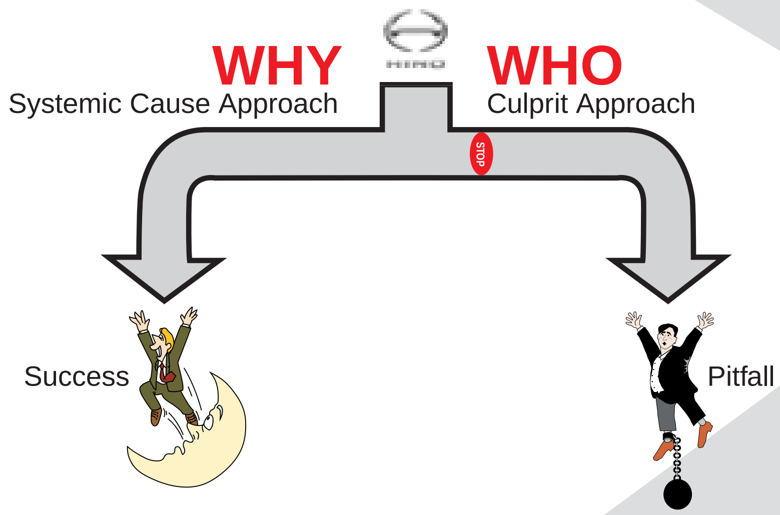
Make decisions slowly by consensus, thoroughly considering all options; implement rapidly.

## HANSEI:

In Japan, sometimes the mother and the father say to the children, "Please do the Hansei". Some child did a bad thing. It means he or she must be sorry and improve his or her attitude - everything is included, spirit and attitude. So once the child is told, "Please do the Hansei", he understands almost everything about what the mother and the father want him to do.

Without hansei it is impossible to have kaizen. In Japanese hansei, when you do something wrong, at first you must feel really, really sad. Then you must create a future plan to solve that problem and you must sincerely believe you will never make this type of mistake again. Hansei is a mindset, an attitude. Hansei and kaizen go hand in hand.

## 5 TIME WHY APPROACH



# profit and loss account

for the year ended December 31, 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | Rupees '000 | |
| Sales - net | 22 | **7,826,780** | 6,392,282 |
| Cost of sales | 23 | **(6,439,143)** | (5,557,702) |
| Gross profit | | **1,387,637** | 834,580 |
| Distribution expenses | 23 | **(268,980)** | (188,528) |
| Administration expenses | 23 | **(140,388)** | (119,721) |
| Other operating income | 24 | **57,610** | 72,620 |
| Other operating expenses | 25 | **(68,101)** | (38,772) |
| Profit from operations | | **967,778** | 560,179 |
| Finance cost | 26 | **(63,168)** | (48,416) |
| Profit before taxation | | **904,610** | 511,763 |
| Taxation | 27 | **(314,563)** | (187,882) |
| Profit after taxation | | **590,047** | 323,881 |
| Earnings per share | 28 | **Rs. 47.58** | Rs. 26.12 |

The annexed notes 1 to 38 form an integral part of these financial statements.

**Managing Director &**
**Chief Executive**

**Chairman**

# proxy form

I/We ____________________________________________ of ____________________________________________

being a Shareholder of HINOPAK MOTORS LIMITED and holding ___________Ordinary Shares as per Register Folio No. ______ or "CDC" Participant's I.D. No. _______________ A/c No. ______________ hereby appoint MR. ________________________ of __________________________ or failing him/her MR. ___________________ of ___________________________ as my/our Proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 23rd Annual General Meeting of the Company to be held on Monday, March 17, 2008 and at any adjournment thereof.

**Affix Revenue Stamp(s) of Rupees five**
**Executant's Signature on Revenue Stamp(s)**
(Signature should agree with the Specimen Signature registered with the Company).

______________________________________________

**Executant's Computerised National Identity Card Number (CNIC) or Passport Number**

| | |
|---|---|
| **First Witness Signature** | **Second Witness Signature** |
| Name in Block letters and Address | Name in Block letters and Address |
| Computerised National Identity Card Number or Passport Number of Witness | Computerised National Identity Card Number or Passport Number of Witness |

**Proxy's Signature**

Proxy's CNIC or Passport Number

**Proxy's Signature**

Proxy's CNIC or Passport Number

## NOTES:

1. A shareholder entitled to attend and vote at the Annual General Meeting of the Company may appoint any person as his/her proxy to attend and vote instead of him/her. The proxy shall have the right to attend, speak and vote in place of the shareholder appointing him/her at the meeting.

   **A proxy need not be a member of the Company.**

2. The instrument appointing a proxy should be signed by the Shareholder or by his/her Attorney, duly authorised in writing and person appointed proxy. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature shall be submitted alongwith proxy form to the company.

3. The Proxy Form duly completed, must be deposited at the Company's Registered Office at D-2, S.I.T.E., Manghopir Road, P.O. Box No.10714, Karachi-75700 not less than 48 hours before the time of holding the meeting.

4. Shareholders whose holdings are in the Central Depository System (CDS) and their proxies both, should attach with this form, attested copies of their Computerised National Identity Card or (attested copies of first four pages of their passport). To facilitate identification at the AGM, the proxy should bring his/her original Computerised National Identity Card or passport). In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

The Company Secretary
**Hinopak Motors Limited**
D-2, S.I.T.E., Manghopir Road,
P.O. Box 10714
Karachi - 75700

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F. Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. BOX 4716
Karachi- 74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

# review report to the members on statement of compliance with best practices of code of corporate governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Hinopak Motors Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and chapter XIII of Lahore Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2007.

**A.F. Ferguson & Co.**
Chartered Accountants

Karachi

Dated: February 15, 2008