

Notes to the Financial Statements for the year ended March 31, 2009

1. Legal status and nature of business

The company is a public limited company incorporated in Pakistan on November 4, 1992 and is listed on the Karachi, Islamabad and Lahore Stock Exchanges. The registered office of the company is situated at 1-Mcleod Road, Lahore. Its' principal activities are assembling and progressive manufacturing and sale of Honda vehicles and spare parts. The company commenced commercial production from July 1994.

2. Basis of preparation

2.1 Statement of compliance

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

2.2 Standards, interpretations and amendments to published approved accounting standards

2.2.1 Amendments to published standards effective in current year

IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective from January 01, 2008. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of 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 requirement. Its adoption does not have any significant impact on the company's financial statements.

2.2.2 Amendments to published standards applicable to the company not yet effective

The following amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after their respective effective dates:

- IAS 1 (Revised), 'Presentation of financial statements' is effective from January 01, 2009. The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in performance statement, but company can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The above standard will only impact the presentation of financial statements.

- IFRS 7 'Financial Instruments : Disclosures' is effective from January 01, 2009. It requires disclosures about the significance of financial instruments for the company's financial position and performance, as well as quantitative and qualitative disclosure on the nature and extent to risks, however it will not have any impact on the classification and valuation of the company's financial instruments.

- Certain amendments to IAS 23 'Borrowing Costs' have been published that are applicable to the company's financial statements covering annual periods, beginning on or after January 01, 2009. Adoption of these amendments would require the company to capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. Its adoption will not have any impact on the company's financial statements.

2.2.3 Standards and interpretations to existing standards that are not applicable to the Company and not yet effective

Standards or Interpretation	Effective date
IFRS 2 - Share based payment	January 01, 2009
IFRS 4 - Insurance contracts	January 01, 2009
IFRS 8 - Operating segments	January 01, 2009
IFRIC 12 - Service concession arrangements	January 01, 2009
IFRIC 13 - Customer loyalty programmes	January 01, 2009
IFRIC 15 - Accounting for agreements for the construction of real estate	January 01, 2009
IFRIC 16 - Hedge of net investment in a foreign operation	January 01, 2009

3. Basis of measurement

These financial statements have been prepared under the historical cost convention except for recognition of certain employee retirement benefits at present value.

The company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Employee retirement benefits

The company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.1.

b) Provision for taxation

The company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the company's views differs from the view taken by the income tax department at the assessment stage and where the company considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

c) Useful life and residual values of property, plant and equipment

The company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.



4. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Employees' retirement benefits and other obligations

The main features of the schemes operated by the company for its employees are as follows:

4.1.1 Defined benefit plan

The company operates a funded defined benefit gratuity scheme for all its permanent employees. Under the scheme gratuity is payable on the basis of last drawn basic salary at the following rates:

Service in the company	Per completed year of service
0-4 years and 364 days	Nil
5-9 years and 364 days	15 days
10 years or more	30 days

Contributions under the scheme are made to this fund on the basis of actuarial recommendation at the rate of 5.6% (2008: 5.6%) per annum of basic salary and are charged to profit and loss account. The latest actuarial valuation for the scheme was carried out as at March 31, 2009.

The actual (loss) / return on the plan assets during the year was Rs (13.65) million (2008: Rs 7.57 million). The actual (loss) / return on plan assets represents the difference between the fair value of plan assets at the beginning of the year and as at the end of the year after adjustments for contributions made by the company as reduced by benefits paid during the year.

The amount recognized in balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gain and losses and as reduced by the fair value of the plan assets.

The future contribution rate of the plan includes allowances for deficit and surplus. Projected Unit Credit Method, using the following significant assumptions, is used for valuation of this scheme:

Discount rate	15%
Expected increase in eligible pay	14%
Expected rate of return on plan assets	10%

The company's policy with regard to actuarial gains / losses is to follow minimum recommended approach under IAS 19 (Revised 2000) "Employee Benefits".

4.1.2 Accumulating compensated absences

Accruals are made annually to cover the obligation for accumulating compensated absences on the basis of accumulated leaves and the last drawn salary and are charged to profit.

4.1.3 Defined contribution plan

The company operates a defined contributory provident fund for all its permanent employees. Contributions are made equally by the company and the employees at the rate of 10% per annum of the basic salary subject to completion of minimum qualifying period of service as determined under the rules of the fund.

4.2 Taxation

Current

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for taxation made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized 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 utilized.

Deferred tax is calculated at the rates that are expected to apply to the year when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.3 Property, plant and equipment

Property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss.

Depreciation on all items of property, plant and equipment except for freehold land and model specific plant and machinery is charged to income applying the diminishing balance method so as to write-off the depreciable amount of an asset over its useful life. Depreciation on model specific plant and machinery is provided on a straight line basis so as to write-off the depreciable amount of an asset over the life of the model. Depreciation is being charged at the rates given in note 11.

The assets' residual values and useful lives are continually reviewed by the company and adjusted if impact on depreciation is significant. The company's estimate of the residual value of its property, plant and equipment as at March 31, 2009 has not required any adjustment as its impact is considered insignificant.

The company continually assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account for the year. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful life.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed off.



The profit or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense. Maintenance and normal repairs are charged to income. Major renewals and improvements are capitalized.

4.4 Intangible assets

Intangible assets, which are stated at cost less accumulated amortization and any identified impairment loss, represent the cost of software licenses, licenses and technical drawings to manufacture certain components and licenses for the right to manufacture Honda vehicles in Pakistan.

Amortization is charged to income on the straight line method so as to write off the cost of an asset over its estimated useful life. Amortization on additions is charged from the month in which an asset is acquired or capitalized while no amortization is charged for the month in which the asset is disposed off. Amortization is charged at the rate given in note 12.

The company continually assesses at each balance sheet date whether there is any indication that intangible assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account for the year. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognized, the amortization charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful life.

4.5 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

4.6 Investments - Available for sale

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which the quoted market price is not available, are measured at cost as it is not possible to apply any other methodology. Realized and unrealized gains and losses arising from changes in fair value are included in the net profit or loss for the period in which they arise.

All purchases and sales of investments are recognized on the trade date which is the date that the company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each balance sheet date, the company reviews the carrying amount of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

4.7 Stores and spares

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising of invoice value and other incidental charges paid thereon.

4.8 Stock in trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of moving average cost and net realizable value. Cost of raw materials and trading stock comprises of the invoice value plus other charges paid thereon. Cost of work-in-process and finished goods includes cost of direct materials, labour and appropriate portion of manufacturing overheads. Items in transit are stated at cost comprising invoice value and other incidental charges paid thereon.

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

4.9 Borrowings

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method. Finance costs are accounted for on an accrual basis and are included in current liabilities to the extent of the amount remaining unpaid.

4.10 Foreign currency transactions and translation

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak Rupees at exchange rate prevailing at the date of transaction. Foreign exchange gains and losses on translation are recognized in the profit and loss account. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

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

4.11 Revenue recognition

Sales of vehicles and spare parts are recognized as revenue when goods are dispatched and invoiced to the customers.

Return on bank balances is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income on equity investments is recognized as income when the right of receipt is established.

4.12 Borrowing costs

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of that asset up to the date of its' commissioning.

4.13 Provisions

Provisions are recognized when the company has a present obligation as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



4.14 Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument and de-recognized when the company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

All financial assets and financial liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.15 Long term deposits

These are stated at cost which represents the fair value of consideration given.

4.16 Receivables

Receivables are measured at original invoice amount less an estimate made for doubtful receivable balances based on the review of all outstanding amounts at the balance sheet date. Bad debts are written off when identified.

4.17 Trade and other payables

Liabilities for trade and other amounts payable are measured at cost which is the fair value of the consideration to be paid in future for goods and services received.

4.18 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits and short term borrowings.

4.19 Dividend

Dividend distribution to the shareholders is recognized as a liability in the period in which it is approved by the shareholders.

4.20 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

		2009	2008
		(Rupees in thousand)	
5. Issued, subscribed and paid up capital			
2009	2008		
(Number of shares)			
111,400,000	111,400,000	ordinary shares of Rs 10 each fully paid in cash	1,114,000
31,400,000	31,400,000	ordinary shares of Rs 10 each issued as fully paid bonus shares	314,000
<u>142,800,000</u>	<u>142,800,000</u>		<u>1,428,000</u>
72,828,000 (2008: 72,828,000) ordinary shares of the company are held by Honda Motor Company Ltd., Japan, the holding company.			
Ordinary shares of the company held by associated undertakings as at year end are as follows:			
		2009	2008
		(Number of shares)	
Atlas Insurance Limited		850,000	850,000
Shirazi Investments (Private) Limited		279,650	279,650
		<u>1,129,650</u>	<u>1,129,650</u>
		2009	2008
		(Rupees in thousand)	
	Note		
6. Reserves			
Movement in and composition of reserves is as follows:			
Capital			
Share premium	6.1	76,000	76,000
Revenue			
General reserve			
- At the beginning of the year		1,651,000	1,915,000
- Transferred from / (to) unappropriated profit		74,500	(264,000)
		<u>1,725,500</u>	<u>1,651,000</u>
		<u>1,801,500</u>	<u>1,727,000</u>
6.1	This reserve can be utilized by the company only for the purposes specified in Section 83(2) of the Companies Ordinance, 1984.		
		2009	2008
		(Rupees in thousand)	
	Note		
7. Long-term finances - secured			
The Bank of Tokyo - Mitsubishi UFJ, Limited	7.1	500,000	500,000
MCB Bank Limited	7.2	1,000,000	-
		<u>1,500,000</u>	<u>500,000</u>
Current portion shown under current liabilities		-	-
		<u>1,500,000</u>	<u>500,000</u>



7.1 It carries mark-up at six month's KIBOR plus 0.50 percent per annum and is payable semi annually. It is secured by first pari passu equitable mortgage over all the current and future immovable assets of the company amounting to Rs 667 million and is repayable in lump sum on April 30, 2010. The effective mark-up charged during the year is 12.92% per annum. Of the aggregate facility of Rs 500 million (2008: Rs 500 million) the amount availed as at March 31, 2009 is Rs 500 million (2008: Rs 500 million).

7.2 It carries mark-up at six month's KIBOR plus 1.25 percent per annum and is payable semi annually. It is secured by first pari passu equitable mortgage charge over all the current and future immovable assets of the company amounting to Rs 1,334 million and is repayable in lump sum on October 07, 2010. The effective mark-up charged during the year is 15.77% per annum. Of the aggregate facility of Rs 1,000 million (2008: Rs Nil) the amount availed as at March 31, 2009 is Rs 1,000 million (2008: Rs Nil).

	Note	2009 (Rupees in thousand)	2008
8. Short term borrowings - secured			
Short term borrowings - secured	8.1	2,151,601	-

8.1 Short term borrowings available from commercial banks under mark-up arrangements amount to Rs 3,610 million (2008: Rs 3,710 million). The rates of markup ranges from 12.39% to 17.00% per annum on the balances outstanding. The aggregate short term borrowings are secured by first pari passu hypothecation charge over current assets of the company.

Of the aggregate facility of Rs 3,810.00 million (2008: Rs 4,278.00 million) for opening letters of credit, the amount utilized at March 31, 2009 was Rs 14.64 million (2008: Rs 643.16 million).

	Note	2009 (Rupees in thousand)	2008
9. Trade and other payables			
Creditors	9.1	396,791	130,159
Accrued liabilities		42,793	21,026
Bills payable	9.2	240,406	420,350
Deposits against display cars	9.3	1,064,643	1,147,643
Workers' profit participation fund	9.4	-	3,417
Workers' welfare fund		-	1,298
Employees' retirement benefits and other obligations	9.5	18,309	15,921
Advances from customers	9.6	1,136,755	1,115,617
License fee, technical fee and royalties	9.7	297,082	135,270
Provision for custom duties	9.8	32,169	32,169
Unclaimed dividends		4,822	4,842
Federal excise duty payable		130,719	6,188
Withholding tax payable		10,372	3,570
Others		12,733	17,567
		3,387,594	3,055,037

9.1 Creditors include amount due to related parties of Rs 35.39 million (2008: Rs 18.41 million).

9.2 Bills payable include amount due to related parties of Rs 234.52 million (2008: Rs 420.35 million). These are in the normal course of business and are interest free.

9.3 These represent interest free deposits from dealers against display cars and are repayable on demand.

	Note	2009 (Rupees in thousand)	2008
9.4 Workers' profit participation fund			
Opening balance		3,417	-
Provision for the year	27	-	3,417
Interest for the year		19	-
		19	3,417
Payments made during the year		3,436 (3,436)	3,417 -
		-	3,417
9.5 Employees' retirement benefits and other obligations			
Accumulating compensated absences	9.5.1	18,309	15,921
Staff gratuity	9.5.2	-	-
		18,309	15,921
9.5.1 Accumulating compensated absences			
Opening balance		15,921	14,165
Accrual for the year		13,560	12,159
Payments made during the year		(11,172)	(10,403)
Closing balance		18,309	15,921
9.5.2 Staff gratuity			
The amounts recognized in the balance sheet are as follows:			
Present value of defined benefit obligation		69,824	55,306
Fair value of plan assets		(47,251)	(55,758)
Deficit / (surplus)		22,573	(452)
Un-recognized actuarial (loss)/gain		(22,573)	452
Net liability as at March 31		-	-
Net liability as at April 01		-	-
Charge to profit and loss account		7,481	12,354
Payments to fund during the year		(7,481)	(12,354)
Net liability as at March 31		-	-
The movement in the present value of defined benefit obligation is as follows:			
Present value of defined benefit obligation		55,306	45,268
Current service cost		7,526	6,431
Interest cost		5,531	4,527
Benefits paid		(2,340)	(4,054)
Actuarial loss		3,801	3,134
Present value of defined benefit obligation		69,824	55,306



	2009 (Rupees in thousand)	2008
The movement in the fair value of plan assets is as follows:		
Fair value of plan asset as at April 01	55,758	39,884
Expected return on plan asset	5,576	3,989
Contributions	7,481	12,354
Benefits paid	(2,340)	(4,054)
Actuarial (loss) / gain	(19,224)	3,585
Fair value of plan assets as at March 31	47,251	55,758
Plan assets are comprised as follows:		
Debt	5,050	5,087
Mutual Funds	17,778	33,431
Cash	24,423	17,240
	47,251	55,758

Comparison of present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund for five years is as follows:

As at March 31	2009	2008	2007	2006	2005
	(Rupees in thousand)				
Present value of defined benefit obligation	(69,824)	(55,306)	(45,268)	(34,405)	(26,760)
Fair value of plan assets	47,251	55,758	39,884	31,074	25,135
(Deficit) / surplus	(22,573)	452	(5,384)	(3,331)	(1,625)
Experience adjustment on obligation	5%	6%	5%	10%	3%
Experience adjustment on plan assets	-41%	6%	-8%	17%	-3%

9.6 Advances from customers include Rs 1,135.38 million (2008: Rs 1,110.40 million) against the sale of vehicles including sales tax and excise duties. These advances carry mark-up @ 12.56% per annum, being the weighted average rate of three months market treasury bills as at the end of the year, in accordance with the directive issued by the Engineering Development Board, Government of Pakistan on September 17, 2002. The mark-up is calculated and payable only if vehicles are delivered after sixty days from the receipt of such advances.

9.7 License fee, technical fee and royalties include Rs 294.55 million (2008: Rs 131.67 million) due to the holding company, Honda Motor Company Limited, Japan.

	2009 (Rupees in thousand)	2008
9.8 Provision for custom duties		
Opening balance	32,169	273,449
Provision for the year	-	-
	32,169	273,449
Payments made during the year	-	(241,280)
	32,169	32,169

10. Contingencies and commitments

10.1 Contingencies

- (i) Claims against the company not acknowledged as debt by the company amount to Rs 9.79 million (2008: Rs 9.79 million). As the management is confident that the matter would be settled in its favor, consequently no provision has been made in these financial statements in respect of the above mentioned disputed liabilities.
- (ii) In the previous years, company received notices from custom authorities for payment of custom duty and sales tax in respect of certain components of Honda Cars imported during prior years. Custom authorities interpreted that CBU rate of duty was applicable on such components and thus raised a demand of Rs 110 million. It included Rs 96 million on account of custom duty and Rs 14 million on account of sales tax.

The company approached custom authorities on the grounds that the components specified in the above mentioned notices included certain components which were duly appearing in the indigenization program of the company for the relevant period. Hence CBU rate of duty was not applicable on import of these components. In 2004, the company made a provision of Rs 42 million against the total demand of Rs 110 million. As the management is confident that the matter would be settled in its favor, consequently no provision for the balance amount has been made in these financial statements in respect of the above mentioned notices.

- (iii) During the year, Collector Customs, Sales Tax & Federal Excise (Appeals) has decided a case against the company in respect of demand notices received by the company from custom authorities claiming short recoveries on account of custom duty amounting to Rs 607.70 million, sales tax amounting to Rs 351.60 million and income tax amounting to Rs 145.74 million on license fees and royalty paid during the period from July 2000 to May 2008 to the holding company, Honda Motor Company Limited, Japan. The demand was raised by the custom authorities on the basis that these payments should have been included in the customs value of imported CKD kits and other imported parts. The company has filed an appeal against the decision of Collector Customs, Sales Tax & Federal Excise (Appeals) before the Custom, Excise & Sales Tax Appellate Tribunal, which is pending hearing.

The company's management and its legal advisor are of the opinion that these license fees and royalty payments do not relate to the imported goods but arise as a result of setting up and operating a manufacturing plant in Pakistan and selling vehicles in the local market and as such no custom duty is leviable on it. Consequently no provision for these demand notices has been made in these financial statements.

10.2 Commitments in respect of

- (i) Letters of credit and purchase commitments other than capital expenditure Rs 231.54 million (2008: Rs 163.89 million).
- (ii) Letters of credit and purchase commitments for capital expenditure Rs Nil (2008: Rs 70.21 million).



11. Property, plant and equipment

2009								
	Cost as at April 01, 2008	Additions/ (deletions)	Cost as at March 31, 2009	Accumulated depreciation as at April 01, 2008	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at March 31, 2009	Book Value as at March 31, 2009	Annual depreciation rate %
(Rupees in thousand)								
Freehold land	417,319	-	417,319	-	-	-	417,319	-
Buildings on freehold land	1,951,128	-	1,951,128	409,275	77,093	486,368	1,464,760	5
Plant and machinery	2,991,883	1,938,006 (293,096)	4,636,793	1,259,343	402,893 (139,593)	1,522,643	3,114,150	15-20
Furniture and office equipment	90,640	7,959 (145)	98,454	39,564	10,700 (109)	50,155	48,299	20
Vehicles	118,166	63,526 (31,065)	150,627	45,284	18,561 (13,386)	50,459	100,168	20
Tools and equipments	68,159	4,115 (248)	72,026	32,182	7,412 (165)	39,429	32,597	20
Computers	39,410	5,970	45,380	26,530	5,608	32,138	13,242	35
	5,676,705	2,019,576 (324,554)	7,371,727	1,812,178	522,267 (153,253)	2,181,192	5,190,535	
2008								
	Cost as at April 01, 2007	Additions/ (deletions)	Cost as at March 31, 2008	Accumulated depreciation as at April 01, 2007	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at March 31, 2008	Book Value as at March 31, 2008	Annual depreciation rate %
(Rupees in thousand)								
Freehold land	417,319	-	417,319	-	-	-	417,319	-
Buildings on freehold land	1,949,026	2,102	1,951,128	328,152	81,123	409,275	1,541,853	5
Plant and machinery	2,784,048	208,260 (425)	2,991,883	919,777	339,886 (320)	1,259,343	1,732,540	15-20
Furniture and office equipment	84,404	6,366 (130)	90,640	27,309	12,336 (81)	39,564	51,076	20
Vehicles	116,867	41,795 (40,496)	118,166	44,366	16,471 (15,553)	45,284	72,882	20
Tools and equipments	62,384	6,091 (316)	68,159	24,167	8,297 (282)	32,182	35,977	20
Computers	33,149	6,261	39,410	20,471	6,059	26,530	12,880	35
	5,447,197	270,875 (41,367)	5,676,705	1,364,242	464,172 (16,236)	1,812,178	3,864,527	

- a)** Plant and Machinery includes dies and moulds having book value of Rs 664.24 million (2008: Rs 170.03 million) are in possession of various vendors.
- b)** Borrowing costs of Rs 82.07 million (2008: Rs Nil) were capitalized during the year and are included in additions in plant and machinery and tools and equipments.

		Note	2009 (Rupees in thousand)	2008		
11.1 The depreciation charge has been allocated as follows:						
Cost of sales		23	490,471	434,677		
Cost of sales - Trading goods		23	4,952	3,144		
Distribution and marketing expenses		24	11,748	11,564		
Administrative expenses		25	15,096	14,787		
			522,267	464,172		
11.2 Disposal of property, plant and equipment						
2009						
Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
(Rupees In thousand)						
Vehicles						
Directors						
	Mr. Yusuf H. Shirazi - (Chairman)	2,200	1,088	1,112	1,208	Employees car sale scheme
	Mr. Jawaid Iqbal Ahmed	2,200	1,088	1,112	1,208	
	Mr. Aamir H. Shirazi	2,244	1,109	1,135	1,208	
Employees						
	Mr. Sardar Abid Ali Khan	2,244	1,109	1,135	1,208	-do-
	Mr. Razi-ur-Rehman (Ex-employee)	1,431	208	1,223	1,235	-do-
	Mr. Mawiz Akhtar	886	185	701	700	-do-
	Mr. Hamid Asghar (Late)	1,305	290	1,015	1,094	-do-
	Mr. Zulfiqar Ali	886	271	615	619	-do-
	Mr. Sadiq Hasan	799	444	355	368	-do-
	Mr. Muhammad Rafi	957	128	829	831	-do-
	Mr. Muhammad Nauman	957	128	829	831	-do-
	Dr. Amjad Ali	799	444	355	368	-do-
	Mr. Tariq Rasheed	942	170	772	723	-do-
	Syed Ishtiaq Hussain Bokhari	841	467	374	389	-do-
	Syed Ali Nasir	799	444	355	368	-do-
	Mr. Muhammad Afzal	886	271	615	619	-do-
	Mr. Khalid Mahmood	841	467	374	389	-do-
	Mr. Ashfaq Khan	53	35	18	51	Employees motor cycles sale scheme
	Mr. Saeed Ur Rehman	54	32	22	51	-do-
	Syed Shehbaz Haider	54	33	21	51	-do-
	Mr. Ejaz Ahmed	54	33	21	51	-do-
	Mr. Muhammad Adeel Amir	53	24	29	52	-do-
Outsiders						
	Mr. Muhammad Aamer	2,244	1,129	1,115	1,767	Negotiation.
	Mr. Attiq Ur Rehman	825	688	137	526	-do-
	Mr. Muhammad Aamer	2,268	1,049	1,219	1,863	-do-
	Mr. Muhammad Kamal	804	719	85	371	-do-
	Mr. Khurram Imtiaz	2,774	841	1,933	1,986	-do-
	Mr. Rana Rizwan Haider	665	492	173	415	-do-
Furniture and office equipments						
		124	106	18	-	Assets written off
	Mr. Razi-ur-Rehman (Ex-employee)	21	3	18	18	Negotiation
Tools and Equipments						
		248	165	83	-	Assets written off
Plant and Machinery						
	Welding and assembly jigs	182,340	102,213	80,127	-	Assets written off
	Press dies and Moulds	Honda Turkey A. S. 110,756	37,380	73,376	84,684	Negotiation
		324,554	153,253	171,301	105,252	



12. Intangible assets

		2009							
		Cost as at April 01, 2008	Additions	Cost as at March 31, 2009	Accumulated amortization as at April 01, 2008	Amortization charge for the year	Accumulated amortization as at March 31, 2009	Book Value as at March 31, 2009	Annual amortization rate %
		(Rupees in thousand)							
License fees and drawings		215,780	169,777	385,557	154,721	38,033	192,754	192,803	20-25
Softwares		5,758	845	6,603	2,181	1,395	3,576	3,027	20-25
		221,538	170,622	392,160	156,902	39,428	196,330	195,830	

		2008							
		Cost as at April 01, 2007	Additions	Cost as at March 31, 2008	Accumulated amortization as at April 01, 2007	Amortization charge for the year	Accumulated amortization as at March 31, 2008	Book Value as at March 31, 2008	Annual amortization rate %
		(Rupees in thousand)							
License fees and drawings		187,067	28,713	215,780	126,094	28,627	154,721	61,059	20-45
Softwares		5,758	-	5,758	828	1,353	2,181	3,577	20-25
		192,825	28,713	221,538	126,922	29,980	156,902	64,636	

- a) Borrowing costs of Rs 3.69 million (2008: Rs Nil) were capitalized during the year and are included in additions in license fees and drawings.

		Note	2009 (Rupees in thousand)	2008
12.1	The amortization charge has been allocated as follows:			
	Cost of sales	23	39,100	29,524
	Cost of sales - Trading goods	23	-	170
	Distribution and marketing costs	24	42	-
	Administrative expenses	25	286	286
			39,428	29,980
		Note	2009 (Rupees in thousand)	2008
13.	Capital work-in-progress			
	Plant and machinery	13.1	19,043	75,738
	Others		183	5,008
			19,226	80,746
13.1	Plant and machinery includes goods in transit amounting to Rs nil (2008: Rs 40.12 million).			
14.	Long term investments			
	Available for sale - unquoted			
	Automotive Testing and Training Centre (Private) Limited			
	75,000 (2008: 75,000) ordinary shares of Rs. 10 each		750	750
	Less: Provision for impairment		(750)	(750)
			-	-

	Note	2009 (Rupees in thousand)	2008 (Rupees in thousand)
15. Long term loans and advances			
Loans to employees - considered good			
- Executives	15.1	11,918	9,787
- Others		29,583	29,087
		41,501	38,874
Receivable within one year			
- Executives		(2,590)	(1,943)
- Others		(7,408)	(7,881)
		(9,998)	(9,824)
		31,503	29,050
15.1 Executives			
Opening balance		9,787	10,380
Disbursement during the year		5,755	2,736
		15,542	13,116
Repayments during the year		(3,624)	(3,329)
		11,918	9,787
Loans to employees comprise of staff welfare loan and furniture loan.			
Staff welfare loans carry interest at the rate of 11% per annum and are recoverable within a period of 7 years commencing from the date of disbursement through monthly deductions from salaries and are secured against retirement benefits of employees and their guarantors. All the loans are granted to the employees of the company in accordance with their terms of employment.			
Loans for purchase of furniture are interest free and are repayable between 2 to 4 years. These loans are secured against retirement benefits of employees and their guarantors. All the loans are granted to the employees of the company in accordance with their terms of employment.			
The maximum aggregate amount due from executives at the end of any month during the year was Rs 12.78 million (2008: Rs 12.69 million).			
		2009 (Rupees in thousand)	2008 (Rupees in thousand)
16. Deferred taxation			
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 35%			
Opening balance		338,165	251,008
Charged to profit		233,049	87,157
Deferred tax asset as at March 31		571,214	338,165
The deferred tax asset comprises of temporary differences arising due to:			
Accelerated tax depreciation		(825,224)	(549,902)
Minimum tax carried forward		163,549	163,549
Unused tax losses carried forward		1,221,630	713,259
Others		11,259	11,259
		571,214	338,165



17. Stores and spares

Most of the items of stores and spares are of interchangeable nature and can be used as machine spares or consumed as stores. Accordingly it is not practicable to distinguish stores from spares until their actual usage.

Spares amounting to Rs 10.89 million (2008: Rs 8.99 million) are in the possession of various vendors .

	Note	2009 (Rupees in thousand)	2008
18. Stock in trade			
Raw materials including in transit Rs 505.63 million (2008: Rs 433.96 million)	18.1	1,263,003	764,977
Work in process		248,184	188,496
Finished goods			
- Own manufactured	18.2	1,065,836	400,312
- Trading stock including in transit Rs 31.82 million (2008: Rs 21.01 million)	18.3	377,068	258,911
		<u>2,954,091</u>	<u>1,612,696</u>
18.1 Raw materials amounting to Rs 112.86 million (2008: Rs 109.24 million) are in the possession of various vendors of the company.			
18.2 Finished goods at sale value amounting to Rs 572.02 million (2008: Rs 372.93 million) are in the possession of various dealers.			
18.3 Trading stock costing Rs 61.18 Million (2008: Rs 46.45 million) are valued at their net realizable value amounting to Rs 55.57 million (2008: Rs 36.91 million).			
	Note	2009 (Rupees in thousand)	2008
19. Trade debts - unsecured			
Considered good		-	-
Considered doubtful		16,142	16,142
Less: Provision for doubtful debts		(16,142)	(16,142)
		-	-
		-	-
20. Advances, prepayments and other receivables			
Current portion of loans to employees	15	9,998	9,824
Advances - considered good:			
- to employees	20.1	276	590
- to suppliers and contractors		14,655	76,486
		14,931	77,076
Due from related parties - considered good	20.2	29,699	10,035
Recoverable from government authorities:			
- Income tax		325,131	81,046
- Sales tax and special excise duty		374,599	262,506
- Custom authorities		39,093	25,714
		738,823	369,266
Margin against letter of credit		7,307	7,589
Prepayments		11,602	10,874
Other receivables		40,858	23,188
		<u>853,218</u>	<u>507,852</u>
20.1 Included in advances to employees is an amount of Rs 0.06 million (2008: Rs 0.25 million) due from executives.			

	2009	2008
	(Rupees in thousand)	
20.2 Due from related parties - considered good		
Honda Motor Company Limited, Japan	1,112	3,440
Honda Automobile (Thailand) Company Limited	24,234	5,883
Honda Trading (Thailand) Company Limited	1,891	84
Honda Cars Philippines, Inc.	30	71
Honda Trading Corporation, Japan	1,598	74
Honda Autoparts Manufacturing (M) SDN. BHD, Malaysia	9	24
Asian Honda Motor Company, Thailand	567	336
Honda Trading (South) China	158	123
Honda Parts Manufacturing Corporation Philippines	3	-
Honda Malaysia SDN. BHD. Malaysia	97	-
	29,699	10,035

These are in the normal course of business and are interest free.

21. Cash and bank balances

At banks

- On current accounts

- On saving accounts [including US \$ 1,013 (2008: US \$ 70,631)]

Cash in hand

	5,319	4,844
	13,114	225,513
	2,054	1,523
	20,487	231,880

Balances in saving accounts bear mark-up which ranges from 5.00 % to 11.50 % per annum.

	Note	2009	2008
		(Rupees in thousand)	
22. Sales			
Sales - Own manufactured goods		16,181,349	16,605,711
Sales tax		(2,181,051)	(2,152,808)
Excise duties	22.1	(625,526)	(98,830)
Commission to dealers		(314,219)	(352,605)
		13,060,553	14,001,468
Sales - Trading goods		1,269,897	825,094
Sales tax		(173,339)	(107,602)
Commission to dealers		(7,465)	(3,465)
		1,089,093	714,027
		14,149,646	14,715,495

22.1 Federal excise duty at the rate of 5% of ex-factory price has been levied on sale of locally assembled cars with effect from July 1, 2008.



	Note	2009 (Rupees in thousand)	2008
23. Cost of sales			
Raw material consumed		12,470,229	12,022,266
Stores and spares consumed		47,638	35,438
Salaries, wages and benefits	23.1	225,195	202,079
Fuel and power		49,652	39,051
Insurance		28,278	28,918
Traveling and vehicle running		62,331	62,258
Freight and handling		19,751	16,098
Repairs and maintenance		10,781	12,306
Technical assistance		31,834	26,852
Depreciation on property, plant and equipment	11.1	490,471	434,677
Amortization on intangible assets	12.1	39,100	29,524
Royalty		287,321	296,486
Canteen subsidy		11,308	10,272
Other expenses		1,714	2,367
		<u>13,775,603</u>	<u>13,218,592</u>
Opening stock of work-in-process		188,496	173,408
Closing stock of work-in-process		(248,184)	(188,496)
		<u>(59,688)</u>	<u>(15,088)</u>
Cost of goods manufactured		13,715,915	13,203,504
Less: Own work capitalized		(25,648)	(38,637)
Cost of damaged cars		(6,816)	(713)
		<u>13,683,451</u>	<u>13,164,154</u>
Opening stock of finished goods		400,312	672,368
Closing stock of finished goods		(1,065,836)	(400,312)
		<u>(665,524)</u>	<u>272,056</u>
		<u>13,017,927</u>	<u>13,436,210</u>
Cost of sales - Trading goods	23.2	955,217	651,791
		<u>13,973,144</u>	<u>14,088,001</u>

23.1 Salaries, wages and benefits include following amounts in respect of employees' retirement benefits.

	2009 (Rupees in thousand)	2008
Interest cost for the year	3,175	2,663
Current service cost	4,320	3,783
Actuarial loss for the year	-	3,167
Expected return on plan assets	(3,201)	(2,346)
	<u>4,294</u>	<u>7,267</u>

In addition to above salaries, wages and benefits include Rs 6.45 million (2008: Rs 5.54 million) on account of provident fund contributions.

23.2 It includes depreciation charge of Rs 4.95 million (2008: Rs 3.14 million)

	Note	2009 (Rupees in thousand)	2008
24. Distribution and marketing costs			
Salaries, wages and benefits	24.1	52,203	49,234
Fuel and power		3,027	2,601
Insurance		4,634	4,219
Traveling and vehicle running		14,572	15,230
Freight and handling		15,254	16,232
Repairs and maintenance		2,421	3,454
Printing and stationery		12,659	5,495
Warranty costs		5,155	11,735
Advertising		51,462	72,919
Depreciation on property, plant and equipment	11.1	11,748	11,564
Amortization on intangible assets	12.1	42	-
Training expenses		2,662	1,401
Canteen subsidy		1,124	1,182
Free service claims		3,604	4,698
Rent, rates and taxes		6,348	7,449
Other expenses		3,173	2,264
		190,088	209,677

24.1 Salaries, wages and benefits include following amounts in respect of employees' retirement benefits.

	2009 (Rupees in thousand)	2008
Interest cost for the year	1,067	788
Current service cost	1,452	1,119
Actuarial loss for the year	-	937
Expected return on plan assets	(1,076)	(694)
	1,443	2,150

In addition to above salaries, wages and benefits include Rs 2.19 million (2008: Rs 1.81 million) on account of provident fund contributions.



	Note	2009 (Rupees in thousand)	2008
25. Administrative expenses			
Salaries, wages and benefits	25.1	70,962	68,582
Fuel and power		4,334	3,160
Insurance		2,549	2,057
Traveling and vehicle running		17,324	15,547
Repairs and maintenance		3,864	5,250
Printing and stationery		2,275	1,977
Communications		5,630	4,966
Postage		2,466	2,126
Advertising		545	941
Auditors' remuneration	25.2	2,468	3,976
Legal and professional charges		4,583	4,110
Depreciation on property, plant and equipment	11.1	15,096	14,787
Amortization on intangible assets	12.1	286	286
Fees and subscription		679	5,884
Canteen subsidy		3,180	2,697
Security expenses		2,477	1,775
Other expenses		1,031	1,042
		139,749	139,163

25.1 Salaries, wages and benefits include following amounts in respect of employees' retirement benefits.

	2009 (Rupees in thousand)	2008
Interest cost for the year	1,289	1,076
Current service cost	1,754	1,529
Actuarial loss for the year	-	1,281
Expected return on plan assets	(1,299)	(949)
	1,744	2,937

In addition to above salaries, wages and benefits include Rs 2.63 million (2008: Rs 2.45 million) on account of provident fund contributions.

25.2 Auditors' remuneration

The audit fee and remuneration for other services included in the financial statements is as follows:

Statutory audit	450	360
Half yearly review	150	90
Taxation services	1,282	3,132
Royalty audit, certificates for remittance of foreign currency and sundry services	461	292
Out of pocket expenses	125	102
	2,468	3,976

	Note	2009 (Rupees in thousand)	2008
26. Other operating income			
Income from financial assets			
Profit on bank deposits		38,794	10,860
Interest on loans to employees		2,950	2,583
Interest on advances to suppliers		840	1,738
Exchange gain		-	133
		42,584	15,314
Income from non-financial assets			
Profit on disposal of property, plant and equipment		14,179	2,931
Others		8,081	5,344
		22,260	8,275
		64,844	23,589
27. Other operating expenses			
Workers' profit participation fund		-	3,417
Workers' welfare fund		-	1,298
Fixed assets written off		80,228	125
Donations	27.1	10	135
Exchange loss		230,787	-
		311,025	4,975
27.1 None of the directors and their spouses had any interest in the donee.			
28. Finance Cost			
Interest and mark-up on:			
- Long term borrowings		62,136	129,840
- Short term borrowings		150,917	92,636
- Customer advances		8,879	10,399
- Workers' profit participation fund		19	-
Bank charges		818	776
		222,769	233,651
29. Taxation			
For the year			
- Current		12,597	75,764
- Deferred		(234,374)	(63,540)
		(221,777)	12,224
Prior year			
- Current		-	-
- Deferred		1,325	(23,617)
		1,325	(23,617)
		(220,452)	(11,393)



	2009 % age	2008 % age
29.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate.		
Applicable tax rate as per Income Tax Ordinance, 2001	(35.00)	35.00
Tax effect of:		
- Change in prior years' tax	0.21	(37.12)
- Effect of lower tax rates / presumptive tax regime and others	(0.64)	(15.78)
	(0.43)	(52.90)
Average effective tax rate charged to profit and loss account	(35.43)	(17.90)

30. Remuneration of Chief Executive, Directors and Executives

30.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits to the chief executive, working directors and other executives of the company is as follows:

(Rupees in thousand)

	Chief Executive		Directors		Executives	
	2009	2008	2009	2008	2009	2008
Managerial remuneration	1,176	894	7,336	5,943	35,947	31,589
House rent and utilities	1,685	1,421	5,688	4,397	24,714	22,888
Bonus	-	-	828	766	6,127	5,053
Reimbursement of medical expenses	-	-	235	205	709	249
Employees' retirement benefits	-	-	710	630	5,276	3,972
Other allowances and expenses	2,875	1,981	11,751	5,350	17,706	19,491
	<u>5,736</u>	<u>4,296</u>	<u>26,548</u>	<u>17,291</u>	<u>90,479</u>	<u>83,242</u>
Number of persons	1	1	3	3	38	32

The Chief Executive, certain directors and executives of the company are provided with free use of company cars and company maintained furnished accommodation.

30.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to one director (2008: one director) was Rs nil (2008: Rs 1,000).

	Note	2009 (Rupees in thousand)	2008
31. Cash generated from operations			
(Loss) / profit before taxation		(622,285)	63,617
Adjustment for:			
Depreciation on property, plant and equipment		522,267	464,172
Profit on disposal of property, plant and equipment		(14,179)	(2,931)
Profit on bank deposits		(38,794)	(10,860)
Interest on loans to employees		(2,950)	(2,583)
Interest on advances to suppliers		(840)	(1,738)
Assets written off		80,228	125
Finance cost		222,769	233,651
Provision for employees' retirement benefits and other obligations		21,041	24,512
Amortization on intangible assets		39,428	29,980
Royalty		264,451	282,367
Working capital changes	31.1	(1,279,091)	997,882
		(807,955)	2,078,194
31.1 Working capital changes			
(Increase) / decrease in current assets			
- Stores and spares		(18,841)	(32,785)
- Stock in trade		(1,341,395)	1,092,250
- Advances, prepayments and other receivables		(101,085)	194,149
		(1,461,321)	1,253,614
Increase / (decrease) in current liabilities			
- Trade and other payables		182,230	(255,732)
		(1,279,091)	997,882
32. Cash and cash equivalents			
Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:			
Cash and bank balance		20,487	231,880
Short term borrowings - secured		(2,151,601)	-
		(2,131,114)	231,880
33. (Loss)/earnings per share			
33.1 Basic (loss) / earnings per share			
Net (loss)/profit for the year	Rupees in thousand	(401,833)	75,010
Weighted average number of ordinary shares	Number in thousands	142,800	136,788
Basic (loss)/earnings per share	Rupees	(2.81)	0.55
33.2 Diluted earnings per share			
There is no dilution effect on the loss per share of the company as the company has no such commitments.			



34. Financial assets and liabilities

(Rupees in thousand)

	2009						Total	Credit risk
	Interest/mark-up bearing			Non Interest/mark-up bearing				
	Maturity upto one year	Maturity more than year and less than five years	Sub-total	Maturity upto one year	Maturity more than year and less than five years	Sub-total		
Financial assets								
On balance sheet								
Loans to employees	5,371	24,680	30,051	4,627	6,823	11,450	41,501	-
Security deposits	-	-	-	-	4,042	4,042	4,042	4,042
Other receivables	-	-	-	40,858	-	40,858	40,858	40,858
Cash and bank balances	13,114	-	13,114	7,373	-	7,373	20,487	18,433
	18,485	24,680	43,165	52,858	10,865	63,723	106,888	63,333
Off balance sheet								
	-	-	-	-	-	-	-	-
Total	18,485	24,680	43,165	52,858	10,865	63,723	106,888	63,333
Financial liabilities								
On balance sheet								
Long term finances	-	1,500,000	1,500,000	-	-	-	1,500,000	
Mark-up accrued on loans and other payables	-	-	-	75,048	-	75,048	75,048	
Short term borrowings	2,151,601	-	2,151,601	-	-	-	2,151,601	
Trade and other payables	-	-	-	2,056,534	-	2,056,534	2,056,534	
	2,151,601	1,500,000	3,651,601	2,131,582	-	2,131,582	5,783,183	
Off balance sheet								
Contracts for capital expenditure	-	-	-	-	-	-	-	
Letters of credit	-	-	-	231,540	-	231,540	231,540	
Letters of guarantees	-	-	-	-	-	-	-	
	-	-	-	231,540	-	231,540	231,540	
Total	2,151,601	1,500,000	3,651,601	2,363,122	-	2,363,122	6,014,723	
On balance sheet gap	(2,133,116)	(1,475,320)	(3,608,436)	(2,078,724)	10,865	(2,067,859)	(5,676,295)	
Off balance sheet gap	-	-	-	(231,540)	-	(231,540)	(231,540)	

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

(Rupees in thousand)

2008

	Interest/mark-up bearing			Non Interest/mark-up bearing			Total	Credit risk
	Maturity upto one year	Maturity more than year and less than five years	Sub-total	Maturity upto one year	Maturity more than year and less than five years	Sub-total		
Financial assets								
On balance sheet								
Loans to employees	5,764	21,891	27,655	4,060	7,159	11,219	38,874	-
Security deposits	-	-	-	-	4,091	4,091	4,091	4,091
Other receivables	-	-	-	41,049	-	41,049	41,049	41,049
Cash and bank balances	225,513	-	225,513	6,367	-	6,367	231,880	230,357
	231,277	21,891	253,168	51,476	11,250	62,726	315,894	275,497
Off balance sheet								
	-	-	-	-	-	-	-	-
Total	231,277	21,891	253,168	51,476	11,250	62,726	315,894	275,497
Financial liabilities								
On balance sheet								
Long term finances	-	500,000	500,000	-	-	-	500,000	
Mark-up accrued on loans and other payables	-	-	-	32,029	-	32,029	32,029	
Trade and other payables	-	-	-	1,902,536	-	1,902,536	1,902,536	
	-	500,000	500,000	1,934,565	-	1,934,565	2,434,565	
Off balance sheet								
Contracts for capital expenditure	-	-	-	70,207	-	70,207	70,207	
Letters of credit	-	-	-	163,888	-	163,888	163,888	
Letters of guarantees	-	-	-	-	-	-	-	
	-	-	-	234,095	-	234,095	234,095	
Total	-	500,000	500,000	2,168,660	-	2,168,660	2,668,660	
On balance sheet gap	231,277	(478,109)	(246,832)	(1,883,089)	11,250	(1,871,839)	(2,118,671)	
Off balance sheet gap	-	-	-	(234,095)	-	(234,095)	(234,095)	



34.1 Financial risk management objectives

The company's operations expose it to financial risk mainly due to changes in foreign exchange rates. Risk management is carried out by the management under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas like foreign exchange risk, interest rate risk and investing excessive liquidity.

34.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk is primarily attributable to its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. Out of the total financial assets of Rs 106.89 million (2008: Rs 315.89 million) the financial assets which are subject to credit risk amount to Rs 63.33 million (2008: Rs 275.50 million).

34.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings, especially group companies. Payables exposed to foreign are covered through exchange contracts, wherever required, on the basis of management's assessment.

34.4 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values, except for long term loans, loans to employees and other receivables which are stated at cost / amortized cost. Fair value is determined on the basis of objective evidence at each reporting date.

34.5 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, issue new shares and other measures commensurating to the circumstances. The company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term loans obtained by the company as referred to in note 7. Total capital employed includes equity as shown in the balance sheet plus borrowings. The gearing ratio as at year ended March 31, 2009 and March 31, 2008 are as follows:

		March 31, 2009	March 31, 2008
Borrowings	Rupees in thousand	1,500,000	500,000
Capital employed	Rupees in thousand	4,327,845	3,729,678
Gearing ratio	Percentage	35	13

35. Transactions with related parties

The related parties comprise holding company, fellow subsidiaries, associated undertakings and key management personnel. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables and remuneration of key management personnel is disclosed in note 30. Other significant transactions with related parties are as follows:

	2009		
	Holding company	Associated undertakings	Total
	(Rupees in thousand)		
For the year ended March 31, 2009			
Purchase of goods	2,582,965	5,342,096	7,925,061
Purchase of property, plant and equipment	3,829	1,465,683	1,469,512
Sale of goods	-	25,361	25,361
Sale of property, plant and equipment	-	87,076	87,076
Insurance premium	-	125,544	125,544
Royalty	263,927	606	264,533
License fee	79,150	18,411	97,561
Technical assistance and training charges	55,768	9,020	64,788
Interest on bank account	-	617	617
Mark-up on finances	-	1,020	1,020
	2008		
	Holding company	Associated undertakings	Total
	(Rupees in thousand)		
For the year ended March 31, 2008			
Purchase of goods	2,137,561	4,377,118	6,514,679
Purchase of property, plant and equipment	8,036	52,717	60,753
Sale of goods	-	133,484	133,484
Insurance premium	-	114,000	114,000
Royalty	280,869	940	281,809
License fee	799	-	799
Technical assistance and training charges	28,478	13,328	41,806
Interest on bank account	-	9,539	9,539

All transaction with related parties have been carried out on mutually agreed commercial terms and conditions.



36. Plant capacity and actual production

	Capacity		Production	
	2009 Number	2008 Number	2009 Number	2008 Number
Motor vehicles	50,000	50,000	12,780	15,080

The company has a capacity of producing 50,000 motor vehicles per annum on double shift basis. Under utilization of capacity was due to lower demand of certain products.

37. Rates of exchange

Liabilities in foreign currencies have been translated into Rupees at the following exchange rates:

US \$ 1	=	Rupees	80.45
¥ 1	=	Rupees	0.82

38. Date of authorization for issue

These financial statements were authorized for issue on May 05, 2009 by the Board of Directors of the company.

39. Events after the balance sheet date

The board has recommended following appropriations:

	2009 (Rupees in thousand)	2008
Transfer (from) / to general reserves	(400,000)	74,500

40. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.


Yusuf H. Shirazi
Chairman


Atsushi Yamazaki
Chief Executive