



Notes to the Financial Statements for the year ended March 31, 2010

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 requirements of the Companies Ordinance, 1984 (the Ordinance) and 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 Standards, amendments to published standards and interpretations that are effective in the current year and are relevant to the company

- IAS 1 (Revised), 'Presentation of financial statements' is effective from January 1, 2009. The revised standard prohibits 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 in a statement of comprehensive income. As a result the company shows all owner related changes in equity in statement of changes in equity, whereas all non-owner changes in equity are presented in other comprehensive income. Comparative information is required to be re-presented so that it is in conformity with the revised standard.

The Company has preferred to present two statements; a profit and loss account (income statement) and a second statement beginning with profit or loss and display components of other comprehensive income (statement of comprehensive income). Comparative information has also been re-presented so it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on profit for the year.

- IFRS 7, 'Financial instruments: Disclosures', is effective from January 1, 2009. IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and measurement of the Company's financial instruments. The application of IFRS 7 has resulted in additional disclosures in the Company's financial statements, however, there is no impact on loss for the year.

- IAS 23 (Amendment), 'Borrowing Costs' is effective from January 1, 2009. The amendment requires an entity 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 has been removed. The current policy of the company is in line with the requirements of this amendment, therefore, there is no impact on the financial statements.



2.2.2 Standards, amendments to published standards and interpretations that are effective in the current year but not relevant to the company

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after April 1, 2009 are considered not to be relevant or to have any significant impact on the Company's financial reporting and operations.

2.2.3 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 (Amendment), 'Presentation of Financial Statements' will be effective from January 1, 2010. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. It is not expected to have a material impact on the company's financial statements.

There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in April 2009 (not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and therefore have not been analysed in detail.

2.2.4 Amendments to standards and interpretations to existing standards that are not relevant to the Company and not yet effective

Standards or Interpretation	Effective date
IFRS 2: Share based payments	July 01, 2009
IFRS 3: Business combinations	July 01, 2009
IFRS 5: Non-current assets held for sale and discontinued operations	January 01, 2010
IFRS 8: Operating segments	January 01, 2010
IAS 17: Leases	January 01, 2010
IAS 27: Consolidated and separate financial statements	July 01, 2009
IAS 36: Impairment of assets	January 01, 2010
IAS 38: Intangible assets	July 01, 2009
IAS 39: Financial Instruments: Recognition and measurement	January 01, 2010
IFRIC 9: Reassessment of embedded derivatives	July 01, 2009
IFRIC 16: Hedges of a net investment in a foreign operation	July 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 and 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 view 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% (2009: 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, 2010.

The actual return / (loss) on the plan assets during the year was Rs 11.50 million (2009: Rs (13.65) million). The actual return / (loss) 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	12% per annum
Expected increase in eligible pay	11% per annum
Expected rate of return on plan assets	15% per annum

The company is expected to contribute Rs. 10.65 million to the gratuity fund in the next financial year.

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, 2010 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, technical drawings of 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.



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 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.



			2010	2009
			(Rupees in thousand)	
5. Issued, subscribed and paid up capital				
	2010	2009		
	(Number of shares)			
	111,400,000	111,400,000	1,114,000	1,114,000
	31,400,000	31,400,000	314,000	314,000
	<u>142,800,000</u>	<u>142,800,000</u>	<u>1,428,000</u>	<u>1,428,000</u>
		ordinary shares of Rs 10 each fully paid in cash		
		ordinary shares of Rs 10 each issued as fully paid bonus shares		

72,828,000 (2009: 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:

	2010	2009
	(Number of shares)	
Atlas Insurance Limited	850,000	850,000
Shirazi Investments (Private) Limited	2,337,650	279,650
Shirazi Capital (Private) Limited	32,517,000	-
	<u>35,704,650</u>	<u>1,129,650</u>

		2010	2009
		(Rupees in thousand)	
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		1,725,500	1,651,000
- Transferred (to) / from unappropriated profit		(400,000)	74,500
		<u>1,325,500</u>	<u>1,725,500</u>
		<u>1,401,500</u>	<u>1,801,500</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.



	Note	2010 (Rupees in thousand)	2009
7. Long-term finances - secured			
The Bank of Tokyo - Mitsubishi UFJ, Limited			
- Loan I	7.1	-	500,000
- Loan II	7.2	500,000	-
MCB Bank Limited			
- Loan I	7.3	-	1,000,000
- Loan II	7.4	500,000	-
Standard Chartered Bank (Pakistan) Limited	7.5	500,000	-
		1,500,000	1,500,000
Current portion shown under current liabilities		(166,667)	-
		1,333,333	1,500,000

7.1 It carried mark-up at six month's KIBOR plus 0.50 percent per annum payable semi annually. It was secured by first pari passu equitable mortgage charge over all the current and future immovable assets of the company amounting to Rs 667 million and has been repaid in full during the year. The effective mark-up charged was 13.25% per annum.

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 over all the current and future immovable assets of the company amounting to Rs 667 million and is repayable in six equal semi annual installments commencing September 30, 2010. The effective mark-up charged during the year is 13.66% per annum.

7.3 It carried mark-up at six month's KIBOR plus 1.25 percent per annum payable semi annually. It was 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 has been repaid in full during the year. The effective mark-up charged was 13.99% per annum.

7.4 It carries mark-up at six month's KIBOR plus 2.25 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 667 million and is repayable in lump sum on June 17, 2012 . The effective mark-up charged was 15.00% per annum.

7.5 It carries mark-up at six month's KIBOR plus 1.20 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 667 million and is repayable in four semi annual installments commencing September 30, 2011. The effective mark-up charged was 13.61% per annum.



	Note	2010 (Rupees in thousand)	2009
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 4,240 million (2009: Rs 3,610 million). The rates of markup ranges from 13.36% to 15.56% 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 2,817 million (2009: Rs 3,810 million) for opening letters of credit, the amount utilized at March 31, 2010 was Rs 44.90 million (2009: Rs 14.64 million).

	Note	2010 (Rupees in thousand)	2009
9. Trade and other payables			
Creditors	9.1	252,763	396,791
Accrued liabilities		20,284	42,793
Bills payable	9.2	2,773,564	240,406
Deposits against display cars	9.3	1,065,479	1,064,643
Workers' profit participation fund	9.4	-	-
Workers' welfare fund		1,496	-
Employees' retirement benefits and other obligations	9.5	20,210	18,309
Advances from customers	9.6	1,129,078	1,136,755
License fee, technical fee and royalties	9.7	109,905	297,082
Provision for custom duties	9.8	32,169	32,169
Unclaimed dividends		4,801	4,822
Federal excise duty payable		16,222	130,719
Withholding tax payable		6,237	10,372
Others		16,014	12,733
		5,448,222	3,387,594

9.1 Creditors include amount due to related parties of Rs 20.20 million (2009: Rs 35.39 million).

9.2 Bills payable include amount due to related parties of Rs 2,773.56 million (2009: Rs 234.52 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	2010 (Rupees in thousand)	2009
9.4 Workers' profit participation fund			
Opening balance		-	3,417
Provision for the year		-	-
Interest for the year		-	19
		-	19
		-	3,436
Payments made during the year		-	(3,436)
		-	-
9.5 Employees' retirement benefits and other obligations			
Accumulating compensated absences	9.5.1	20,210	18,309
Staff gratuity	9.5.2	-	-
		20,210	18,309
9.5.1 Accumulating compensated absences			
Opening balance		18,309	15,921
Accrual for the year		15,405	13,560
Payments made during the year		(13,504)	(11,172)
Closing balance		20,210	18,309
9.5.2 Staff gratuity			
The amounts recognized in the balance sheet are as follows:			
Present value of defined benefit obligation		80,769	69,824
Fair value of plan assets		(67,490)	(47,251)
Deficit		13,279	22,573
Un-recognized actuarial loss		(13,279)	(22,573)
Net liability as at March 31		-	-
Net liability as at April 01		-	-
Charge to profit and loss account		12,877	7,481
Payments to fund during the year		(12,877)	(7,481)
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		69,824	55,306
Current service cost		8,291	7,526
Interest cost		10,474	5,531
Benefits paid		(4,136)	(2,340)
Actuarial (gain) / loss		(3,684)	3,801
Present value of defined benefit obligation		80,769	69,824



	2010	2009
	(Rupees in thousand)	
The movement in the fair value of plan assets is as follows:		
Fair value of plan asset as at April 01	47,251	55,758
Expected return on plan asset	7,087	5,576
Contributions	12,877	7,481
Benefits paid	(4,136)	(2,340)
Actuarial gain / (loss)	4,411	(19,224)
Fair value of plan asset as at March 31	67,490	47,251
Plan assets are comprised as follows:		
Debt	24,619	5,050
Mutual funds	35,668	17,778
Cash	7,203	24,423
	67,490	47,251

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	2010	2009	2008	2007	2006
	(Rupees in thousand)				
Present value of defined benefit obligation	(80,769)	(69,824)	(55,306)	(45,268)	(34,405)
Fair value of plan assets	67,490	47,251	55,758	39,884	31,074
(Deficit) / Surplus	(13,279)	(22,573)	452	(5,384)	(3,331)
Experience adjustment:					
- on obligation	-5%	5%	6%	5%	10%
- on plan assets	7%	-41%	6%	-8%	17%

9.6 Advances from customers include Rs 1,125.72 million (2009: Rs 1,135.38 million) against the sale of vehicles including sales tax and excise duties. These advances carry mark-up @ 12.17% 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 101.88 million (2009: Rs 294.55 million) due to the holding company, Honda Motor Company Limited, Japan.

	2010	2009
	(Rupees in thousand)	
9.8 Provision for custom duties		
Opening balance	32,169	32,169
Provision for the year	-	-
	32,169	32,169
Payments made during the year	-	-
	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 (2009: 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) In the previous year, Collector Customs, Sales Tax & Federal Excise (Appeals) 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 had 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.

In addition to the above, the company has received a show cause notice during the year from the custom authorities claiming short recoveries on account of custom duty and additional custom duty amounting to Rs. 70.68 million, sales tax amounting to Rs. 33.92 million, income tax amounting to Rs. 4.92 million and excise duties amounting to Rs. 1.41 million on royalty paid during the period from June 2008 to March 2009 to the holding company.

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 or show cause notice has been made in these financial statements.

10.2 Commitments in respect of

Letters of credit and purchase commitments other than capital expenditure Rs 505.83 million (2009: Rs 231.54 million).



11. Property, plant and equipment

	2010							
	Cost as at April 01, 2009	Additions/ (deletions)	Cost as at March 31, 2010	Accumulated depreciation as at April 01, 2009	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at March 31, 2010	Book Value as at March 31, 2010	Annual depreciation rate %
	(Rupees in thousand)							
Freehold land	417,319	-	417,319	-	-	-	417,319	-
Buildings on freehold land	1,951,128	-	1,951,128	486,368	73,238	559,606	1,391,522	5
Plant and machinery	4,636,793	17,967	4,654,760	1,522,643	643,275	2,165,918	2,488,842	15-20
Furniture and office equipment	98,454	1,588 (208)	99,834	50,155	9,854 (122)	59,887	39,947	20
Vehicles	150,627	1,480 (24,803)	127,304	50,459	18,247 (11,355)	57,351	69,953	20
Tools and equipments	72,026	2,467	74,493	39,429	6,780	46,209	28,284	20
Computers	45,380	1,679 (853)	46,206	32,138	4,894 (769)	36,263	9,943	35
	7,371,727	25,181 (25,864)	7,371,044	2,181,192	756,288 (12,246)	2,925,234	4,445,810	
	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	

- a)** Plant and Machinery includes dies and moulds having book value of Rs 528.58 million (2009: Rs 664.24 million) are in possession of various vendors.
- b)** Borrowing costs of Rs Nil (2009: Rs 82.07 million) were capitalized during the year and are included in additions in plant and machinery and tools and equipments.



	Note	2010 (Rupees in thousand)	2009
11.1 The depreciation charge has been allocated as follows:			
Cost of sales	23	720,456	490,471
Cost of sales - Trading goods	23	10,378	4,952
Distribution and marketing expenses	24	9,823	11,748
Administrative expenses	25	15,631	15,096
		756,288	522,267

11.2 Disposal of property, plant and equipment

Detail of property, plant and equipment disposed off during the year is as follows:

		2010				
Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
(Rupees in thousand)						
Furniture and office equipments	Employees					
	Mr. Hafiz Arslan	77	43	34	39	Negotiation
	Mr. Adnan Shaheen	22	13	9	3	- do -
	Mr. Imtiaz H. Khan	42	25	17	5	- do -
	Mr. Ghulam Murtaza	11	6	5	2	- do -
	Mr. Munir Malik	21	12	9	7	- do -
	Mr. Nafees Ahmed	19	11	8	6	- do -
	Mr. Shehbaz Hasan	16	12	4	7	- do -
Vehicles	Employees					
	Mr. Rizwan Shafique - Ex employee	1,310	493	817	824	Employees car sale scheme
	Mr. Arif Hamid Dar - Ex employee	1,430	555	875	885	-do-
	Mr. Sadiq Hasan - Ex employee	1,441	303	1,138	1,087	-do-
	Mr. Zafar Iqbal	54	30	24	52	Employees motor-cycle sale scheme
	Mr. Shahid Mahmood	54	31	23	52	-do-
	Mr. Hamayoun Nazir	54	31	23	52	-do-
	Mr. Mohammad Shafique	54	31	23	52	-do-
	Mr. Mohammad Shahid Khan	53	31	22	51	-do-
	Mr. Jawad Khan	53	32	21	51	-do-
	Outsiders					
	Mr. Attiq Ur Rehman	2,847	2,111	736	2,409	Negotiation
	Mr. Muhammad Hasnat Zafar	945	702	243	771	- do -
	Mr. Sheikh Yasir Yousaf	1,728	1,387	341	1,231	- do -
	Mr. Sheikh Farzand Ali	800	543	257	625	- do -
	Mr. Faisal Mahmood	1,600	1,086	514	1,327	- do -
	M/s Creative Electronics (Pvt) Limited	2,570	506	2,064	3,050	- do -
	M/s Creative Engineering (Pvt) Limited	2,570	506	2,064	3,000	- do -
	Mr. Muhammad Ammar	3,432	709	2,723	3,826	- do -
	Mr. Naveed Asghar	789	548	241	786	- do -
	Mr. Saif Ur Rehman	1,588	1,199	389	753	- do -
	M/s Atlas Insurance Limited - Related Party	1,431	521	910	1,500	Insurance Claim
Computer	Employees					
	Mr. Arif Hamid Dar - Ex employee	112	73	39	38	Negotiation.
		741	696	45	-	Assets written off
		25,864	12,246	13,618	22,491	



12. Intangible assets

		2010						
	Cost as at April 01, 2009	Additions	Cost as at March 31, 2010	Accumulated amortization as at April 01, 2009	Amortization charge for the year	Accumulated amortization as at March 31, 2010	Book Value as at March 31, 2010	Annual amortization rate %
(Rupees in thousand)								
License fees and drawings	385,557	1,196	386,753	192,754	69,516	262,270	124,483	20-25
Softwares	6,603	-	6,603	3,576	1,522	5,098	1,505	20-25
	392,160	1,196	393,356	196,330	71,038	267,368	125,988	

		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	

a) Borrowing costs of Rs Nil (2009: Rs 3.69 million) were capitalized during the year and are included in additions in license fees and drawings.

	Note	2010 (Rupees in thousand)	2009
12.1 The amortization charge has been allocated as follows:			
Cost of sales	23	70,845	39,100
Distribution and marketing costs	24	169	42
Administrative expenses	25	24	286
		71,038	39,428
13. Capital work-in-progress			
Plant and machinery		21,813	19,043
Others		-	183
		21,813	19,226
14. Long term investments			
Available for sale - unquoted			
Automotive Testing and Training Centre (Private) Limited			
Nil (2009: 75,000) ordinary shares of Rs. 10 each		-	750
Less: Provision for impairment		-	(750)
		-	-



	Note	2010 (Rupees in thousand)	2009
15. Long term loans and advances			
Loans to employees - considered good			
- Executives	15.1	11,222	11,918
- Others		33,012	29,583
		44,234	41,501
Receivable within one year			
- Executives		(2,092)	(2,590)
- Others		(8,246)	(7,408)
		(10,338)	(9,998)
		33,896	31,503
15.1 Executives			
Opening balance		11,918	9,787
Disbursement during the year		7,581	5,755
		19,499	15,542
Repayments during the year		(8,277)	(3,624)
		11,222	11,918

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 13.74 million (2009: Rs 12.78 million).

	2010 (Rupees in thousand)	2009
16. Deferred taxation		
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 35%		
Opening balance	571,214	338,165
Charged to profit	231,700	233,049
Deferred tax asset as at March 31	802,914	571,214
The deferred tax asset comprises of temporary differences arising due to:		
Accelerated tax depreciation	(680,545)	(825,224)
Minimum tax carried forward	-	163,549
Unused tax losses carried forward	1,472,200	1,221,630
Others	11,259	11,259
	802,914	571,214



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 16.32 million (2009: Rs 10.89 million) are in the possession of various vendors .

	Note	2010 (Rupees in thousand)	2009
18. Stock in trade			
Raw materials including in transit Rs 526.03 million (2009: Rs 505.63 million)	18.1	1,146,136	1,263,003
Work in process		265,139	248,184
Finished goods			
- Own manufactured	18.2	650,786	1,065,836
- Trading stock including in transit Rs 35.52 million (2009: Rs 31.82 million)		267,100	377,068
		<u>2,329,161</u>	<u>2,954,091</u>

18.1 Raw materials amounting to Rs 107.05 million (2009: Rs 112.86 million) are in the possession of various vendors of the company.

18.2 Finished goods at sale value amounting to Rs 590.97 million (2009: Rs 572.02 million) are in the possession of various dealers.

18.3 The above balances include items costing Rs. 463.43 million (2009: Rs. 61.18 million) valued at their net realizable value amounting to Rs. 442.45 million (2009: Rs. 55.57 million).

	Note	2010 (Rupees in thousand)	2009
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	10,338	9,998
Advances - considered good:			
- to employees	20.1	180	276
- to suppliers and contractors		14,446	14,655
		14,626	14,931
Due from related parties - considered good	20.2	13,326	29,699
Recoverable from government authorities:			
- Income tax		581,506	325,131
- Sales tax and special excise duty		294,853	374,599
- Custom duty		39,098	39,093
		915,457	738,823
Margin against letter of credit		-	7,307
Prepayments		11,362	11,602
Other receivables		29,120	40,858
		<u>994,229</u>	<u>853,218</u>

20.1 Included in advances to employees is an amount of Rs 0.07 million (2009: Rs 0.06 million) due from executives.



	2010	2009
	(Rupees in thousand)	
20.2 Due from related parties - considered good		
Honda Motor Company Limited, Japan	930	1,112
Honda Automobile (Thailand) Company Limited	9,059	24,234
Honda Trading (Thailand) Company Limited	-	1,891
Honda Trading Asia Company Limited Thailand	2,054	-
Honda Cars Philippines, Inc.	41	30
Honda Trading Corporation, Japan	201	1,598
Honda Auto parts Manufacturing (M) SDN. BHD, Malaysia	54	9
Asian Honda Motor Company, Thailand	484	567
Honda Trading (South) China	166	158
Honda Parts Manufacturing Corporation Philippines	-	3
Honda Malaysia SDN. BHD. Malaysia	104	97
Wuhan Honda Trading China	45	-
Honda Research and Development Asia Pacific	181	-
PT Honda Precision Parts Manufacturing Indonesia	7	-
	13,326	29,699

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

21. Cash and bank balances

At banks

- On current accounts	4,247	5,319
- On saving accounts [including US \$ 52,905 (2009: US \$ 1,013)]	75,493	13,114
	79,740	18,433

Cash in hand

2,306	2,054
82,046	20,487

Balances in saving accounts bear mark-up which ranges from 5.00 % to 10.00% per annum.

	Note	2010	2009
		(Rupees in thousand)	
22. Sales			
Sales - Own manufactured goods		18,031,533	16,181,349
Sales tax		(2,464,979)	(2,181,051)
Excise duties	22.1	(263,414)	(625,526)
Commission to dealers		(332,021)	(314,219)
		14,971,119	13,060,553
Sales - Trading goods		1,026,319	1,269,897
Sales tax		(141,546)	(173,339)
Commission to dealers		(1,750)	(7,465)
		883,023	1,089,093
		15,854,142	14,149,646

22.1 Federal excise duty at the rate of 5% of ex-factory price was levied on sale of locally assembled cars with effect from July 01, 2008 and was withdrawn with effect from June 14, 2009.



	Note	2010 (Rupees in thousand)	2009
23. Cost of sales			
Raw material consumed		13,357,356	12,470,229
Stores and spares consumed		49,711	47,638
Salaries, wages and benefits	23.1	239,279	225,195
Fuel and power		47,178	49,652
Insurance		36,419	28,278
Travelling and vehicle running		42,001	62,331
Freight and handling		16,020	19,751
Repairs and maintenance		6,024	10,781
Technical assistance		11,771	31,834
Depreciation on property, plant and equipment	11.1	720,456	490,471
Amortization on intangible assets	12.1	70,845	39,100
Royalty		331,342	287,321
Canteen subsidy		8,673	11,308
Other expenses		647	1,714
		14,937,722	13,775,603
Opening stock of work-in-process		248,184	188,496
Closing stock of work-in-process		(265,139)	(248,184)
		(16,955)	(59,688)
Cost of goods manufactured		14,920,767	13,715,915
Own work capitalized		(1,125)	(25,648)
Cost of damaged cars		(1,065)	(6,816)
		14,918,577	13,683,451
Opening stock of finished goods		1,065,836	400,312
Closing stock of finished goods		(650,786)	(1,065,836)
		415,050	(665,524)
		15,333,627	13,017,927
Cost of sales - Trading goods	23.2	760,060	955,217
		16,093,687	13,973,144

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

	2010 (Rupees in thousand)	2009
Interest cost for the year	6,151	3,175
Current service cost	4,869	4,320
Actuarial loss for the year	704	-
Expected return on plan assets	(4,162)	(3,201)
	7,562	4,294

In addition to above salaries, wages and benefits include Rs 7.23 million (2009: Rs 6.45 million) on account of provident fund contributions.

23.2 It includes depreciation charge of Rs 10.38 million (2009: Rs 4.95 million)



	Note	2010 (Rupees in thousand)	2009
24. Distribution and marketing costs			
Salaries, wages and benefits	24.1	50,313	52,203
Fuel and power		2,727	3,027
Insurance		4,846	4,634
Travelling and vehicle running		9,790	14,572
Freight and handling		10,905	15,254
Repairs and maintenance		1,284	2,421
Printing and stationery		2,860	12,659
Warranty costs		5,289	5,155
Advertising		11,894	51,462
Depreciation on property, plant and equipment	11.1	9,823	11,748
Amortization on intangible assets	12.1	169	42
Training expenses		589	2,662
Canteen subsidy		839	1,124
Free service claims		3,305	3,604
Rent, rates and taxes		6,765	6,348
Other expenses		3,518	3,173
		124,916	190,088

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

	2010 (Rupees in thousand)	2009
Interest cost for the year	1,957	1,067
Current service cost	1,549	1,452
Actuarial loss for the year	224	-
Expected return on plan assets	(1,324)	(1,076)
	2,406	1,443

In addition to above salaries, wages and benefits include Rs 2.37 million (2009: Rs 2.19 million) on account of provident fund contributions.



	Note	2010 (Rupees in thousand)	2009
25. Administrative expenses			
Salaries, wages and benefits	25.1	71,470	70,962
Fuel and power		4,060	4,334
Insurance		3,364	2,549
Travelling and vehicle running		14,082	17,324
Repairs and maintenance		2,918	3,864
Printing and stationery		2,591	2,275
Communications		4,176	5,630
Postage		1,901	2,466
Advertising		213	545
Auditors' remuneration	25.2	3,199	2,468
Legal and professional charges		5,472	4,583
Depreciation on property, plant and equipment	11.1	15,631	15,096
Amortization on intangible assets	12.1	24	286
Fees and subscription		766	679
Canteen subsidy		2,066	3,180
Security expenses		2,591	2,477
Other expenses		1,607	1,031
		136,131	139,749

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

	2010 (Rupees in thousand)	2009
Interest cost for the year	2,366	1,289
Current service cost	1,873	1,754
Actuarial loss for the year	271	-
Expected return on plan assets	(1,601)	(1,299)
	2,909	1,744

In addition to above salaries, wages and benefits include Rs 2.89 million (2009: Rs 2.45 million) on account of provident fund contributions.

	2010 (Rupees in thousand)	2009
25.2 Auditors' remuneration		
The audit fee and remuneration for other services included in the financial statements is as follows:		
Statutory audit	750	450
Half yearly review	250	150
Taxation services	1,729	1,282
Royalty audit, certificates for remittance of foreign currency and sundry services	285	461
Out of pocket expenses	185	125
	3,199	2,468



	2010	2009
	(Rupees in thousand)	
26. Other operating income		
Income from financial assets		
Profit on bank deposits	455	38,794
Interest on loans to employees	3,737	2,950
Interest on advances to suppliers	740	840
	4,932	42,584
Income from non-financial assets		
Profit on disposal of property, plant and equipment	8,918	14,179
Others	12,518	8,081
	21,436	22,260
	26,368	64,844
27. Other operating expenses		
Workers' welfare fund	2,762	-
Fixed assets written off	45	80,228
Donations	-	10
Exchange loss	55,821	230,787
	58,628	311,025
28. Finance Cost		
Interest and mark-up on:		
- Long term finances	257,055	62,136
- Short term borrowings	189,704	150,917
- Customer advances	7,651	8,879
- Workers' profit participation fund	-	19
Bank charges	718	818
	455,128	222,769
29. Taxation		
For the year		
- Current	94,999	12,597
- Deferred	(207,371)	(234,374)
	(112,372)	(221,777)
Prior year		
- Current	921	-
- Deferred	(24,329)	1,325
	(23,408)	1,325
	(135,780)	(220,452)



	2010 % age	2009 % 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	(2.37)	0.21
- minimum tax not carried forward	24.53	-
- lower tax rates / final tax regime and others	(0.90)	(0.64)
	21.26	(0.43)
Average effective tax rate charged to profit and loss account	(13.74)	(35.43)

30. Remuneration of Chief Executive, Directors and Executives

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	
	2010	2009	2010	2009	2010	2009
Managerial remuneration	1,322	1,176	7,872	7,336	43,608	35,947
House rent and utilities	1,729	1,685	5,289	5,688	28,557	24,714
Bonus	-	-	-	828	-	6,127
Reimbursement of medical expenses	-	-	580	235	1,013	709
Employees' retirement benefits	-	-	957	710	7,172	5,276
Other allowances and expenses	3,941	2,875	7,569	11,751	42,584	17,706
	6,992	5,736	22,267	26,548	122,934	90,479
Number of persons	1	1	2	3	46	38

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



	Note	2010 (Rupees in thousand)	2009
31. Cash generated from operations			
Loss before taxation		(987,980)	(622,285)
Adjustment for:			
Depreciation on property, plant and equipment		756,288	522,267
Profit on disposal of property, plant and equipment		(8,918)	(14,179)
Profit on bank deposits		(455)	(38,794)
Interest on advances to suppliers		(740)	(840)
Interest on loans to employees		(3,737)	(2,950)
Assets written off		45	80,228
Finance cost		455,128	222,769
Provision for employees' retirement benefits and other obligations		28,282	21,041
Amortization on intangible assets		71,038	39,428
Royalty		301,219	264,451
Working capital changes	31.1	2,948,522	(1,279,091)
		<u>3,558,692</u>	<u>(807,955)</u>
31.1 Working capital changes			
(Increase) / decrease in current assets			
- Stores and spares		(19,426)	(18,841)
- Stock in trade		624,930	(1,341,395)
- Advances, prepayments and other receivables		115,766	(101,085)
		<u>721,270</u>	<u>(1,461,321)</u>
Increase in current liabilities			
- Trade and other payables		2,227,252	182,230
		<u>2,948,522</u>	<u>(1,279,091)</u>
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		82,046	20,487
Short term borrowings - secured		-	(2,151,601)
		<u>82,046</u>	<u>(2,131,114)</u>
33. Loss per share			
33.1 Basic loss per share			
Net loss for the year	Rupees in thousand	(852,200)	(401,833)
Weighted average number of ordinary shares	Number in thousands	142,800	142,800
Basic loss per share	Rupees	(5.97)	(2.81)
33.2 Diluted loss per share			
There is no dilution effect on the loss per share of the company as the company has no such commitments.			



34. Financial risk management

34.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's finance department under policies approved by the board of directors. The Company's finance department evaluates and hedges financial risks. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Japanese Yen (JPY). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable / payable from / to foreign entities. The Company's exposure to currency risk is as follows:

	2010	2009
	(In thousand)	
Cash and bank balances- USD	74	15
Advances, prepayments and other receivables - USD	106	380
Trade and other payables - USD	(31,528)	(2,053)
Net exposure - USD	(31,348)	(1,658)
Advances, prepayments and other receivables - JPY	830	1,113
Trade and other payables - JPY	(103,191)	(154,695)
Net exposure - JPY	(102,361)	(153,582)
Advances, prepayments and other receivables - THB	1,976	198
Trade and other payables - THB	(16,137)	(1,088)
Net exposure - THB	(14,161)	(890)

The following significant exchange rates were applied during the year:

	2010	2009
Rupees per USD		
Average rate	82.96	73.66
Reporting date rate	84.18	80.45
Rupees per JPY		
Average rate	0.90	0.73
Reporting date rate	0.90	0.82
Rupees per THB		
Average rate	2.46	2.29
Reporting date rate	2.60	2.26

If the functional currency, at reporting date, had fluctuated by 1% against the USD and JPY with all other variables held constant, the impact on loss after taxation for the year would have been Rs. 17.99 million (2009: Rs 1.70 million) higher / lower, mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

(ii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from long term and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments was:

	2010	2009
	(Rupees in thousand)	
Fixed rate instruments		
Financial assets		
Long term loans and advances	44,234	41,501
	<u>44,234</u>	<u>41,501</u>
Floating rate instruments		
Financial assets		
Cash at bank - savings accounts	75,493	13,114
Financial liabilities		
Long-term finances - secured	(1,500,000)	(1,500,000)
Short term borrowings - secured	-	(2,151,601)
Net exposure	<u>(1,424,507)</u>	<u>(3,638,487)</u>

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

At March 31, 2010, if interest rates on long term borrowings had been 1% higher / lower with all other variables held constant, post-tax loss for the year would have been Rs 12.75 million (2009: Rs 6.50 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.

At March 31, 2010, if interest rates on short term borrowings had been 1% higher / lower with all other variables held constant, post-tax loss for the year would have been Rs 7.88 million (2009: Rs 6.73 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.



(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from deposits with banks, trade debts, investments, loans and advances and other receivables.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2010	2009
	(Rupees in thousand)	
Long term deposits	4,042	4,042
Advances, prepayments and other receivables	29,120	40,858
Balances with banks	79,740	18,433
	112,902	63,333

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company believes that it is not exposed to major concentration of credit risk as its exposure is spread over a significant number of counter parties.

(ii) Credit quality of major financial assets

The credit quality of Company's bank balances can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

Banks	Rating		Rating Agency	2010	2009
	Short term	Long term			
(Rupees in thousand)					
Askari Bank Limited	A1+	AA	PACRA	1	1
Citibank N.A.	A-1	A+	S&P	56,497	2,853
Deutsche Bank A.G.	A-1	A+	S&P	1	-
Habib Bank Limited	A-1+	AA+	JCR-VIS	345	1,009
MCB Bank Limited	A1+	AA+	PACRA	17,957	3,456
National Bank of Pakistan	A-1+	AAA	JCR-VIS	20	476
Soneri Bank Limited	A1+	AA-	PACRA	4,468	10,260
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	2	-
The Bank of Tokyo Mitsubishi UFJ, Limited	A-1	A+	S&P	2	-
United Bank Limited	A-1+	AA+	JCR-VIS	447	378
				79,740	18,433

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At March 31, 2010, the Company had Rs 4,240 million available borrowing limits from financial institutions and Rs 82 million cash and bank balances.

The following are the contractual maturities of financial liabilities as at March 31, 2010:

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long-term finances - secured	1,500,000	166,667	1,333,333	-
Short term borrowings - secured	-	-	-	-
Mark-up accrued on borrowings	37,400	37,400	-	-
Trade and other payables	4,263,020	4,263,020	-	-
	<u>5,800,420</u>	<u>4,467,087</u>	<u>1,333,333</u>	<u>-</u>

The following are the contractual maturities of financial liabilities as at March 31, 2009:

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long-term finances - secured	1,500,000	-	1,500,000	-
Short term borrowings - secured	2,151,601	2,151,601	-	-
Mark-up accrued on borrowings	75,048	75,048	-	-
Trade and other payables	2,056,534	2,056,534	-	-
	<u>5,783,183</u>	<u>4,283,183</u>	<u>1,500,000</u>	<u>-</u>

34.2 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. Fair value is determined on the basis of objective evidence at each reporting date.

34.3 Financial instruments by categories

	Loans and receivables	
	2010	2009
	(Rupees in thousand)	
Financial assets as per balance sheet		
Long term loans and advances	44,234	41,501
Long term deposits	4,042	4,042
Advances, prepayments and other receivables	29,120	40,858
Cash and bank balances	82,046	20,487
	<u>159,442</u>	<u>106,888</u>



	Other financial liabilities	
	2010	2009
(Rupees in thousand)		
Financial liabilities as per balance sheet		
Long-term finances - secured	1,500,000	1,500,000
Short term borrowings - secured	-	2,151,601
Mark-up accrued on borrowings	37,400	75,048
Trade and other payables	4,263,020	2,056,534
	5,800,420	5,783,183

34.4 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, 2010 and March 31, 2009 are as follows:

		2010	2009
Borrowings	Rupees in thousand	1,500,000	1,500,000
Capital employed	Rupees in thousand	3,475,645	4,327,845
Gearing ratio	Percentage	43	35

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:

	2010		
	Holding company	Associated undertakings	Total
(Rupees in thousand)			
For the year ended March 31, 2010			
Purchase of goods	2,421,742	5,902,029	8,323,771
Purchase of property, plant and equipment	-	3,904	3,904
Sale of goods	-	28,692	28,692
Insurance premium	-	135,484	135,484
Insurance claims	-	3,375	3,375
Royalty	299,466	765	300,231
Technical assistance and training charges	189	8,627	8,816



	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
Insurance claim	-	9,826	9,826
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

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

36. Plant capacity and actual production

		Capacity		Production	
		2010	2009	2010	2009
Motor vehicles	Number	50,000	50,000	11,980	12,780

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. Date of authorization for issue

These financial statements were authorized for issue on May 12, 2010 by the Board of Directors of the company.


38. Events after the balance sheet date

The board has recommended following appropriation:

	2010	2009
(Rupees in thousand)		
Transfer from general reserves	853,000	400,000

39. 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