# Notes to and Forming Part of the Financial Statements

for the year ended March 31, 2012

## 1. Legal status and nature of business

Honda Atlas Cars (Pakistan) Limited (the company) is a public limited company incorporated in Pakistan on November 4, 1992. The company is a subsidiary of Honda Motor Co., Ltd., Japan. The company's ordinary shares are 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 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 and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives prevail.

### 2.2 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the company's financial statements covering annual periods, beginning on or after the following dates:

### 2.2.1 Amendments to published standards effective in current year

New and amended standards and interpretations mandatory for the first time for the financial year beginning on or after April 01, 2011 that are either not relevant to the company's current operations (although they may affect the accounting for future transactions and events) or do not have a significant impact on the company's financial statements other than certain additional disclosures, are as follows:

- IFRS 7 (Amendments), 'Financial Instruments', emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- IAS 1, 'Presentation of financial statements' (Amendments), now requires an entity to present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The company has preferred to present this analysis in the statement of changes in equity.

- IAS 24 (Revised), 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24, 'Related Party Disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

- IAS 32 (Amendment), 'Classification of rights issues', issued in October 2009. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.

- IFRIC 14 (Amendment); 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

### 2.2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company

The following amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after April 01, 2012 or later periods, and the company has not early adopted them, however, these are not expected to have any material impact on the company's financial statements:

- IFRS 7, 'Disclosures on transfers of financial assets' (Amendment), issued on October 08, 2010. The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset. These amendments are effective for the financial reporting periods commencing on April 01, 2012.

- IFRS 9, 'Financial Instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 01, 2013 but is available for early adoption. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace IAS 39, 'Financial Instruments' Recognition and measurement'. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. There will be no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the company does not have any such liabilities.

- IFRS 10, 'Consolidated Financial Statements', applicable from January 01, 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

# Notes to and Forming Part of the Financial Statements
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- IFRS 11, 'Joint Arrangements', applicable from January 01, 2013, is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The company will apply this standard from April 01, 2013.

- IFRS 12, 'Disclosures of interests in other entities'. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is not applicable until April 01, 2013 but is available for early adoption.

- IFRS 13, 'Fair value measurement'. This standard provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is not applicable until April 01, 2013 but is available for early adoption.

- IAS 1, 'Financial statement presentation' (Amendment). The main change resulting from this amendment is the requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in OCI. The company will apply these amendments from April 01, 2013.

- IAS 12, 'Income Taxes' (Amendments). These are applicable on accounting periods beginning on or after January 01, 2012. IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The company will apply these amendments from April 01, 2012.

- IAS 19, 'Employee Benefits' (Amendment). The amendment will eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments are not applicable until April 01, 2013 but is available for early adoption.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

3. Basis of measurement

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

3.2 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 6.4% (2011: 6.1%) 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, 2012.

The actual return on the plan assets during the year was Rs 9.52 million (2011: Rs 3.61 million). The actual 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 gains and losses and as reduced by the fair value of the plan assets.

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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 | 13% per annum |
| Expected increase in eligible pay | 15% per annum |
| Expected rate of return on plan assets | 13% per annum |

The company is expected to contribute Rs 17.44 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 "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 below.

| | Rate |
|---|---|
| Buildings on freehold land | 5% |
| Plant and machinery | 15% to 20% |
| Furniture and office equipment | 20% |
| Vehicles | 20% |
| Tools and equipments | 20% |
| Computers | 35% |

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, 2012 has not required any adjustment.

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 available for use while no depreciation is charged for the month in which the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

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.

### 4.4 Intangible assets

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

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 available for use while no amortization is charged for the month in which the asset is disposed off. Amortization is charged at the annual rates given below.

# Notes to and Forming Part of the Financial Statements

## for the year ended March 31, 2012

| | Rate |
|---|---|
| License fees & drawings | 20% to 25% |
| Computer software | 20% to 25% |

The assets' useful lives are continually reviewed by the company and adjusted if impact on amortization is significant. The company's estimate of the useful life of its intangible assets as at March 31, 2012 have not required any adjustment.

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. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to operating fixed assets as and when these are available for use.

### 4.6 Financial assets

### 4.6.1 Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

### a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise, they are classified as non-current.

### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise advances, deposits and other receivables and cash and cash equivalents in the balance sheet.

### c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

d) Held to maturity

Financial assets with fixed or determinable payments and fixed maturity, where management has the intention and ability to hold till maturity are classified as held to maturity and are stated at amortized cost.

4.6.2 Recognition and measurement

All financial assets are recognized at the time when the company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date – the date on which the company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the company's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account. Dividends on available-for-sale equity instruments are recognized in the profit and loss account when the company's right to receive payments is established.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the company measures the investments at cost less impairment in value, if any.

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts and other receivables is described in note 4.17.

4.7 Financial liabilities

All financial liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account.

# Notes to and Forming Part of the Financial Statements
## for the year ended March 31, 2012

### 4.8 Offsetting of financial assets and financial liabilities

Financial assets and financial 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.

### 4.9 Stores and spares

Usable stores and spares are valued principally at weighted 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.

### 4.10 Stock-in-trade

Stock of raw materials, work-in-process and finished goods are valued at the lower of weighted 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.

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.

### 4.11 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method. Finance costs are accounted for on an accrual basis and are reported under accrued mark up to the extent of the amount remaining unpaid.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### 4.12 Foreign currency transactions and translation

### a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the functional currency). The financial statements are presented in Pak Rupees, which is the company's functional and presentation currency.

### b) Transactions and balances

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

### 4.13 Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the company and the revenue can be measured reliably.

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.

### 4.14 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.

### 4.15 Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### 4.16 Long term deposits

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

### 4.17 Trade debts and other receivables

Trade and other 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.

### 4.18 Trade and other payables

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

### 4.19 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Short term running finances are shown in current liabilities on the balance sheet.

### 4.20 Dividend

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

### 4.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the company that makes strategic decisions.

### 4.22 Share capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax.

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## for the year ended March 31, 2012

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |

### 5. Issued, subscribed and paid up share capital

| 2012 | 2011 | | 2012 | 2011 |
|---|---|---|---|---|
| (Number of shares) | | | | |
| 111,400,000 | 111,400,000 | Ordinary shares of Rs 10 each fully paid in cash | 1,114,000 | 1,114,000 |
| 31,400,000 | 31,400,000 | Ordinary shares of Rs 10 each issued as fully paid bonus shares | 314,000 | 314,000 |
| 142,800,000 | 142,800,000 | | 1,428,000 | 1,428,000 |

72,828,000 (2011: 72,828,000) ordinary shares of the company are held by Honda Motor Co., Ltd., Japan, the holding company.

Ordinary shares of the company held by associated undertakings as at year end are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Number of shares) | |
| Atlas Insurance Limited | 850,000 | 850,000 |
| Shirazi Investments (Private) Limited | 10,602,650 | 10,602,650 |
| Shirazi Capital (Private) Limited | 32,517,000 | 32,517,000 |
| | 43,969,650 | 43,969,650 |

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |

### 6. Reserves

| | Note | 2012 | 2011 |
|---|---|---|---|
| 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 | | 472,500 | 1,325,500 |
| - Transferred to profit and loss account | | (299,000) | (853,000) |
| | | 173,500 | 472,500 |
| | | 249,500 | 548,500 |

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 | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| **7.** | **Long-term finances - secured** | | | |
| | The Bank of Tokyo - Mitsubishi UFJ, Limited | 7.1 | 166,667 | 333,334 |
| | Standard Chartered Bank (Pakistan) Limited | 7.2 | - | 500,000 |
| | | | 166,667 | 833,334 |
| | Current portion shown under current liabilities | | (83,334) | (416,667) |
| | | | 83,333 | 416,667 |

7.1 It carries mark up at six months' Karachi Inter-Bank Offered Rate (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 Rs 667 million and is repayable in two equal semi annual installments ending April 30, 2013. The effective mark up rate charged during the year is 14.86% per annum.

7.2 This has been repaid during the year and it carried markup at six months' KIBOR plus 1.20 percent per annum. It was secured by first pari passu equitable mortgage charge over all the current and future immovable assets of the company amounting Rs 667 million. The effective mark up rate charged during the year is 14.92% per annum.

## 8. Short term running finances - secured

Short term running finances available from commercial banks under mark up arrangements amount to Rs 4,240 million (2011: Rs 4,240 million). The rates of mark up range from 12.79% to 13.45% per annum on the balances outstanding. The aggregate short term running finances are secured by first pari passu hypothecation charge over current assets of the company.

Of the aggregate facility of Rs 2,428 million (2011: Rs 2,375 million) for opening letters of credit, the amount utilized at March 31, 2012 was Rs 75.97 million (2011: Rs 42.82 million).

Of the aggregate facility of Rs 400 million (2011: Rs 400 million) for guarantees, which is available as a sub-limit of the abovementioned facility for running finances, the amount utilized at March 31, 2012 was Rs 12.29 million (2011: Nil).

| | | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **9.** | **Accrued mark up** | | |
| | Accrued mark up on: | | |
| | Long term finances - secured | 121 | 321 |
| | Short term running finances | 308 | 3,981 |
| | Advances from customers | 65,067 | - |
| | | 65,496 | 4,302 |

# Notes to and Forming Part of the Financial Statements

## for the year ended March 31, 2012

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| 10. | Trade and other payables | | | |
| | Creditors | 10.1 | 347,891 | 396,705 |
| | Accrued liabilities | | 70,691 | 23,174 |
| | Bills payable | 10.2 | 2,801,104 | 5,390,887 |
| | Deposits against display cars | 10.3 | 1,144,974 | 1,071,914 |
| | Workers' welfare fund | | - | 2,130 |
| | Employees' retirement benefits and other obligations | 10.4 | 19,917 | 23,060 |
| | Advances from customers | 10.5 | 3,559,031 | 920,722 |
| | License fee, technical fee and royalties | 10.6 | 54,236 | 141,118 |
| | Provision for custom duties | 10.7 | 32,169 | 32,169 |
| | Unclaimed dividends | | 4,789 | 4,793 |
| | Federal excise duty payable | | 3,859 | 13,794 |
| | Withholding tax payable | | 22,224 | 8,650 |
| | Others | | 41,793 | 29,482 |
| | | | 8,102,678 | 8,058,598 |

10.1 Creditors include amount due to related parties of Rs 18.04 million (2011: Rs 34.21 million). These are in the normal course of business and are interest free.

10.2 Bills payable include amount due to related parties of Rs 2,792.23 million (2011: Rs 5,384.33 million). These are in the normal course of business and are interest free.

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

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| 10.4 | Employees' retirement benefits and other obligations | | | |
| | Accumulating compensated absences | 10.4.1 | 19,917 | 23,060 |
| | Staff gratuity | 10.4.2 | - | - |
| | | | 19,917 | 23,060 |
| 10.4.1 | Accumulating compensated absences | | | |
| | Opening balance | | 23,060 | 20,210 |
| | Accrual for the year | | 13,099 | 17,667 |
| | Payments made during the year | | (16,242) | (14,817) |
| | Closing balance | | 19,917 | 23,060 |
| 10.4.2 | Staff gratuity | | | |
| | The amounts recognized in the balance sheet are as follows: | | | |
| | Present value of defined benefit obligation | | 124,443 | 96,980 |
| | Fair value of plan assets | | (98,050) | (74,238) |
| | Deficit | | 26,393 | 22,742 |
| | Un-recognized actuarial loss | | (26,393) | (22,742) |
| | Net liability as at March 31 | | - | - |

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Net liability as at April 01 | - | - |
| Charge to profit and loss account | 14,813 | 11,769 |
| Payments to fund during the year | (14,813) | (11,769) |
| 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 as at April 01 | 96,980 | 80,769 |
| Current service cost | 10,925 | 9,804 |
| Interest cost | 12,607 | 9,692 |
| Benefits paid | (524) | (8,628) |
| Actuarial loss | 4,455 | 5,343 |
| Present value of defined benefit obligation as at March 31 | 124,443 | 96,980 |
| The movement in the fair value of plan assets is as follows: | | |
| Fair value of plan assets as at April 01 | 74,238 | 67,490 |
| Expected return on plan assets | 9,651 | 8,099 |
| Contributions | 14,813 | 11,769 |
| Benefits paid | (524) | (8,628) |
| Actuarial loss | (128) | (4,492) |
| Fair value of plan assets as at March 31 | 98,050 | 74,238 |
| Plan assets are comprised as follows: | | |
| Debt | 31,812 | 24,854 |
| Mutual funds | 30,144 | 37,371 |
| Cash | 36,094 | 12,013 |
| | 98,050 | 74,238 |

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:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | | (Rupees in thousand) | | | |
| Present value of defined benefit obligation | (124,443) | (96,980) | (80,769) | (69,824) | (55,306) |
| Fair value of plan assets | 98,050 | 74,238 | 67,490 | 47,251 | 55,758 |
| (Deficit) / surplus | (26,393) | (22,742) | (13,279) | (22,573) | 452 |
| Experience adjustment: | | | | | |
| - on obligation | 4% | 6% | -5% | 5% | 6% |
| - on plan assets | 0% | -6% | 7% | -41% | 6% |

10.5 Advances from customers include Rs 3,440.92 million (2011: Rs 887.42 million) against the sale of vehicles including sales tax and excise duty. These advances carry mark up at the rate of 11.74% 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 on demand of customer, if vehicles are delivered after sixty days from the receipt of such advances.

# Notes to and Forming Part of the Financial Statements

for the year ended March 31, 2012

10.6 License fee, technical fee and royalties include amount of Rs 53.57 million (2011: Rs 140.20 million) due to related parties.

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| **10.7 Provision for custom duties** | | |
| Opening balance | 32,169 | 32,169 |
| Provision for the year | - | - |
| Closing balance | 32,169 | 32,169 |

## 11. Contingencies and commitments

### 11.1 Contingencies

(i) Claims against the company not acknowledged as debt by the company amount to Rs 9.79 million (2011: Rs 9.79 million). As the management is confident that the matter would be settled in its favour, consequently, no provision has been made in these financial statements in respect of the above mentioned disputed liabilities.

(ii) In the previous years, the 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 Completely Built Unit (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. The company has made a provision of Rs 32 million against the total demand of Rs 110 million. As the management is confident that the matter would be settled in its favour, consequently, no provision for the balance amount has been made in these financial statements in respect of the above mentioned notices.

(iii) Custom, Excise and Sales Tax Appellate Tribunal (Appellate Tribunal) endorsed the demand of Rs 1,105.04 million earlier raised against the company on account of custom duty, sales tax and income tax on the grounds that 'license fee' and 'royalty' paid to M/s Honda Motor Co., Ltd., Japan was includable in the 'import value' of 'completely knocked down' kits of vehicles assembled by the company and parts thereof.

The company further agitated the matter before honourable Lahore High Court that is pending adjudication. In this respect, interim relief has been extended by honourable Court and the Custom authorities have been refrained from enforcing the recovery of the amount adjudged against the company. No provision on this account has been made in these financial statements as the company's management considers that its stance is founded on meritorious grounds and relief will be secured from higher appellate fora. In this respect, it is the company's contention that subject amount of 'royalty' and 'license' fee were relatable to the company's manufacturing facilities and not the goods imported by it and hence such amounts cannot be considered as part and parcel of import value.

In addition to above, another demand of Rs 110.93 million, raised on substantially similar grounds in respect of imports affected during the period from June 2008 to March 2009, have been endorsed by Collector (Appeals) and the company has preferred an appeal before Appellate Tribunal against such demand. In this respect also, based on company's request, interim relief has been extended to the company by honourable High Court and the Custom authorities have been refrained from enforcing the recovery of the amount adjudged against the company. While Appellate Tribunal is not likely to extend any relief on this account due to its earlier decision on the matter, the liability on this account has not been recognized in these financial statements as management expects a relief from higher appellate fora, as explained above.

Similarly, the company is in the process of availing the available legal remedy i.e., [filing of an appeal before Collector (Appeals)] against another demand of Rs 523.72 million adjudged by Custom authorities on substantially similar grounds in respect of imports affected during the period from April 2009 to December 2010. While Collector (Appeals) is not likely to extend any relief on this account due to its earlier decisions on the matter, the liability on this account has not been recognized by the management in these financial statements for the reasons discussed above.

### 11.2 Commitments in respect of

(i) Letters of credit and purchases for capital expenditure amounts to Rs 52.31 million (2011: Nil).

(ii) Letters of credit and purchases, other than capital expenditure, amounts to Rs 732.54 million (2011: Rs 407.63 million).

## 12. Property, plant and equipment

2012

| | Freehold land | Buildings on freehold land | Plant and machinery | Furniture and office equipment | Vehicles | Tools and equipments | Computers | Total |
|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | |
| At April 01, 2011 | | | | | | | | |
| Cost | 417,319 | 1,954,366 | 4,687,653 | 99,590 | 132,676 | 74,787 | 49,306 | 7,415,697 |
| Accumulated depreciation | - | 629,250 | 2,713,443 | 67,377 | 67,073 | 51,394 | 40,144 | 3,568,681 |
| Net Book Value | 417,319 | 1,325,116 | 1,974,210 | 32,213 | 65,603 | 23,393 | 9,162 | 3,847,016 |
| Year ended March 31, 2012 | | | | | | | | |
| Opening net book value | 417,319 | 1,325,116 | 1,974,210 | 32,213 | 65,603 | 23,393 | 9,162 | 3,847,016 |
| Additions at cost | - | - | 14,016 | 5,727 | 22,825 | 5,020 | 3,716 | 51,304 |
| Disposals | | | | | | | | |
| Cost | - | - | - | 1,548 | 12,776 | - | 668 | 14,992 |
| Accumulated depreciation | - | - | - | 1,029 | 9,180 | - | 563 | 10,772 |
| | - | - | - | 519 | 3,596 | - | 105 | 4,220 |
| Depreciation for the year | - | 66,256 | 541,367 | 6,554 | 15,190 | 5,130 | 3,848 | 638,345 |
| Closing net book value | 417,319 | 1,258,860 | 1,446,859 | 30,867 | 69,642 | 23,283 | 8,925 | 3,255,755 |
| At March 31, 2012 | | | | | | | | |
| Cost | 417,319 | 1,954,366 | 4,701,669 | 103,769 | 142,725 | 79,807 | 52,354 | 7,452,009 |
| Accumulated depreciation | - | 695,506 | 3,254,810 | 72,902 | 73,083 | 56,524 | 43,429 | 4,196,254 |
| Net Book Value | 417,319 | 1,258,860 | 1,446,859 | 30,867 | 69,642 | 23,283 | 8,925 | 3,255,755 |

2011

| | Freehold land | Buildings on freehold land | Plant and machinery | Furniture and office equipment | Vehicles | Tools and equipments | Computers | Total |
|---|---|---|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | | | | |
| At April 01, 2010 | | | | | | | | |
| Cost | 417,319 | 1,951,128 | 4,654,760 | 99,834 | 127,304 | 74,493 | 46,206 | 7,371,044 |
| Accumulated depreciation | - | 559,606 | 2,165,918 | 59,887 | 57,351 | 46,209 | 36,263 | 2,925,234 |
| Net Book Value | 417,319 | 1,391,522 | 2,488,842 | 39,947 | 69,953 | 28,284 | 9,943 | 4,445,810 |
| Year ended March 31, 2011 | | | | | | | | |
| Opening net book value | 417,319 | 1,391,522 | 2,488,842 | 39,947 | 69,953 | 28,284 | 9,943 | 4,445,810 |
| Additions at cost | - | 3,238 | 36,519 | 613 | 20,596 | 905 | 3,180 | 65,051 |
| Disposals | | | | | | | | |
| Cost | - | - | 3,626 | 857 | 15,224 | 611 | 80 | 20,398 |
| Accumulated depreciation | - | - | 3,410 | 494 | 5,762 | 547 | 74 | 10,287 |
| | - | - | 216 | 363 | 9,462 | 64 | 6 | 10,111 |
| Depreciation for the year | - | 69,644 | 550,935 | 7,984 | 15,484 | 5,732 | 3,955 | 653,734 |
| Closing net book value | 417,319 | 1,325,116 | 1,974,210 | 32,213 | 65,603 | 23,393 | 9,162 | 3,847,016 |
| At March 31, 2011 | | | | | | | | |
| Cost | 417,319 | 1,954,366 | 4,687,653 | 99,590 | 132,676 | 74,787 | 49,306 | 7,415,697 |
| Accumulated depreciation | - | 629,250 | 2,713,443 | 67,377 | 67,073 | 51,394 | 40,144 | 3,568,681 |
| Net Book Value | 417,319 | 1,325,116 | 1,974,210 | 32,213 | 65,603 | 23,393 | 9,162 | 3,847,016 |

12.1 Plant and machinery includes dies and moulds having book value of Rs 262.58 million (2011: Rs 395.18 million) which are in possession of various vendors of the company.

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **12.2 The depreciation charge has been allocated as follows:** | | | |
| Cost of sales | 23 | 607,572 | 621,567 |
| Cost of sales - Trading goods | 23.2 | 10,377 | 10,377 |
| Distribution and marketing costs | 24 | 7,303 | 8,120 |
| Administrative expenses | 25 | 13,093 | 13,670 |
| | | 638,345 | 653,734 |

# Notes to and Forming Part of the Financial Statements

## for the year ended March 31, 2012

### 12.3 Disposal of property, plant and equipment

2012

| Particulars of assets | Sold to | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal |
|---|---|---|---|---|---|---|
| | | (Rupees in thousand) | | | | |
| Furniture and office equipments | | | | | | |
| | Employee | | | | | |
| | Jawaid Iqbal Ahmad (ex-director) | 26 | 13 | 13 | 13 | As per company policy |
| | Outsiders | | | | | |
| | Khawaja Ghulam Ali | 492 | 360 | 132 | 52 | Auction |
| | Rana Sohail Anjum | 1,030 | 656 | 374 | 262 | -do- |
| Vehicles | Employee | | | | | |
| | Jawaid Iqbal Ahmad (ex-director) | 3,215 | 1,553 | 1,662 | 1,766 | Employees car sale scheme |
| | Outsiders | | | | | |
| | M/s Argosy Enterprises | 1,626 | 1,399 | 227 | 1,310 | Auction |
| | Kamran Ahmad | 1,609 | 1,294 | 315 | 1,403 | -do- |
| | Syed Qamar Ali Rizvi | 764 | 615 | 149 | 785 | -do- |
| | Muhammad Ammar | 951 | 675 | 276 | 907 | -do- |
| | Shaukat Mahmood | 2,314 | 2,260 | 54 | 523 | -do- |
| | Abdul Jabbar | 1,430 | 837 | 593 | 1,435 | -do- |
| | M/s Atlas Insurance Limited | 867 | 547 | 320 | 900 | Insurance claim |
| Computers | Outsider | | | | | |
| | M/s Brain Net | 668 | 563 | 105 | 355 | Negotiation |
| | | 14,992 | 10,772 | 4,220 | 9,711 | |

2011

| Particulars of assets | Sold to | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal |
|---|---|---|---|---|---|---|
| | | (Rupees in thousand) | | | | |
| Plant and machinery | | 3,626 | 3,410 | 216 | - | Assets written off |
| Furniture and office equipments | | | | | | |
| | Employees | | | | | |
| | Syed Ishtiaq H. Bokhari | 32 | 10 | 22 | 22 | As per company policy |
| | Various employees | 825 | 484 | 341 | 478 | Auction |
| Vehicles | Employees | | | | | |
| | Zulfiqar Ali | 1,452 | 366 | 1,086 | 1,031 | Employees car sale scheme |
| | Sohail Nawaz | 1,311 | 581 | 730 | 737 | -do- |
| | Syed Ishtiaq H. Bokhari | 1,452 | 367 | 1,085 | 1,031 | -do- |
| | Muhammad Afzal | 1,452 | 367 | 1,085 | 1,031 | -do- |
| | Syed Ali Nasir (ex-employee) | 1,452 | 366 | 1,086 | 1,050 | -do- |
| | Kashif Mustafa Khan (ex-employee) | 1,310 | 593 | 717 | 723 | -do- |
| | Asad Murad (ex-employee) | 1,430 | 689 | 741 | 746 | -do- |
| | Khalid Mahmood (ex-employee) | 1,452 | 479 | 973 | 919 | -do- |
| | Outsiders | | | | | |
| | M/s Argosy Enterprises | 1,430 | 620 | 810 | 1,522 | Negotiation |
| | M/s Argosy Enterprises | 1,053 | 714 | 339 | 869 | -do- |
| | Atiq Ur Rehman | 1,430 | 620 | 810 | 1,528 | -do- |
| Tools and equipments | | 611 | 547 | 64 | - | Assets written off |
| Computer | | 80 | 74 | 6 | - | Assets written off |
| | | 20,398 | 10,287 | 10,111 | 11,687 | |

## 13. Intangible assets

| | 2012 | | |
|---|---|---|---|
| | License fees & drawings | Computer softwares | Total |
| | (Rupees in thousand) | | |
| At April 01, 2011 | | | |
| Cost | 386,753 | 6,603 | 393,356 |
| Accumulated amortization | 300,396 | 5,937 | 306,333 |
| Net Book Value | 86,357 | 666 | 87,023 |
| Year ended March 31, 2012 | | | |
| Opening net book value | 86,357 | 666 | 87,023 |
| Additions | 1,135 | - | 1,135 |
| Amortization for the year | 31,422 | 370 | 31,792 |
| Closing net book value | 56,070 | 296 | 56,366 |
| At March 31, 2012 | | | |
| Cost | 387,888 | 6,603 | 394,491 |
| Accumulated amortization | 331,818 | 6,307 | 338,125 |
| Net Book Value | 56,070 | 296 | 56,366 |

| | 2011 | | |
|---|---|---|---|
| | License fees & drawings | Computer softwares | Total |
| | (Rupees in thousand) | | |
| At April 01, 2010 | | | |
| Cost | 386,753 | 6,603 | 393,356 |
| Accumulated amortization | 262,270 | 5,098 | 267,368 |
| Net Book Value | 124,483 | 1,505 | 125,988 |
| Year ended March 31, 2011 | | | |
| Opening net book value | 124,483 | 1,505 | 125,988 |
| Amortization for the year | 38,126 | 839 | 38,965 |
| Closing net book value | 86,357 | 666 | 87,023 |
| At March 31, 2011 | | | |
| Cost | 386,753 | 6,603 | 393,356 |
| Accumulated amortization | 300,396 | 5,937 | 306,333 |
| Net Book Value | 86,357 | 666 | 87,023 |

### 13.1 The amortization charge has been allocated as follows:

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Cost of sales | 23 | 31,604 | 38,796 |
| Distribution and marketing costs | 24 | 169 | 169 |
| Administrative expenses | 25 | 19 | - |
| | | 31,792 | 38,965 |

# Notes to and Forming Part of the Financial Statements

## for the year ended March 31, 2012

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| 14. | Capital work-in-progress | | | |
| | Plant and machinery | | 324,054 | 11,448 |
| | Civil works | | 1,469 | - |
| | Other tangible assets | | 3,952 | - |
| | Intangible assets | | 26,337 | - |
| | | | 355,812 | 11,448 |
| 15. | Long term loans and advances | | | |
| | Loans to employees - considered good | | | |
| | - Executives | 15.1 | 14,057 | 14,021 |
| | - Others | | 32,251 | 30,409 |
| | | | 46,308 | 44,430 |
| | Receivable within one year | | | |
| | - Executives | | (3,238) | (2,436) |
| | - Others | | (9,215) | (8,462) |
| | | | (12,453) | (10,898) |
| | | | 33,855 | 33,532 |
| 15.1 | Executives | | | |
| | Opening balance | | 14,021 | 11,222 |
| | Disbursement during the year | | 7,462 | 15,280 |
| | | | 21,483 | 26,502 |
| | Repayments during the year | | (7,426) | (12,481) |
| | | | 14,057 | 14,021 |

Loans to employees comprise of staff welfare loan and associate 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.

Associate loans 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 17.32 million (2011: Rs 18.70 million).

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | (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% | | | |
| | Deferred tax asset as at April 01 | | 926,746 | 802,914 |
| | Credited to profit and loss account for the year | 29 | 218,044 | 123,832 |
| | Deferred tax asset as at March 31 | | 1,144,790 | 926,746 |
| | The deferred tax asset comprises of temporary differences arising due to: | | | |
| | Accelerated tax depreciation | | (430,252) | (560,544) |
| | Unused tax losses carried forward | | 1,563,783 | 1,476,031 |
| | Others | | 11,259 | 11,259 |
| | | | 1,144,790 | 926,746 |

16.1 The company has not recognized deferred tax asset in respect of the tax credit available under section 113 of the Income Tax Ordinance, 2001 of Rs 510.04 million (2011: Rs 434.15 million) in view of the management's estimate that sufficient taxable temporary differences may not be available to utilize these tax credits before these are set to expire.

## 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 13.66 million (2011: Rs 14.71 million) are in the possession of various vendors.

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| 18. | Stock-in-trade | | | |
| | Raw materials including in transit Rs 296.89 million (2011: Rs 1,525 million) | 18.1 | 1,798,242 | 2,171,943 |
| | Work in process | | 323,572 | 308,017 |
| | Finished goods | | | |
| | - Own manufactured | 18.2 | 334,006 | 674,739 |
| | - Trading stock including in transit Rs 91.94 million (2011: Rs 57.17 million) | | 397,703 | 288,355 |
| | | | 2,853,523 | 3,443,054 |

18.1 Raw materials amounting to Rs 68.34 million (2011: Rs 53.16 million) are in the possession of various vendors of the company.

18.2 Finished goods at sale value amounting to Rs 271.28 million (2011: Rs 653.52 million) are in the possession of various dealers.

18.3 The above balances include items costing Rs 1,573.53 million (2011: Rs 512.44 million) valued at their Net Realizable Value (NRV) amounting to Rs 1,463.09 million (2011: Rs 492.21 million). The NRV write down expense of Rs 90.2 million has been charged to cost of sales.

# Notes to and Forming Part of the Financial Statements

for the year ended March 31, 2012

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| 19. | **Trade debts - unsecured** | | | |
| | Considered good | | - | - |
| | Considered doubtful | | 16,142 | 16,142 |
| | Provision for doubtful debts | | (16,142) | (16,142) |
| | | | - | - |
| | | | - | - |
| 20. | **Loans, advances, prepayments and other receivables** | | | |
| | Current portion of loans to employees | 15 | 12,453 | 10,898 |
| | Advances - considered good: | | | |
| | - to employees | 20.1 | 160 | 638 |
| | - to suppliers and contractors | | 359,479 | 247,656 |
| | | | 359,639 | 248,294 |
| | Due from related parties - considered good | 20.2 | 28,314 | 3,452 |
| | Recoverable from government authorities: | | | |
| | - Income tax | | 697,010 | 518,432 |
| | - Sales tax and special excise duty | | 425,842 | 398,265 |
| | - Custom duty | | 39,098 | 39,098 |
| | | | 1,161,950 | 955,795 |
| | Prepayments | | 5,322 | 7,414 |
| | Profit receivable on bank deposits | | 2,331 | 7,800 |
| | Other receivables - considered good | 20.3 | 11,053 | 12,133 |
| | | | 1,581,062 | 1,245,786 |

20.1 Included in advances to employees is an amount of Rs 0.05 million (2011: Nil) due from the chief executive and Rs 0.11 million (2011: Rs 0.09 million) due from executives.

| | | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| 20.2 | **Due from related parties - considered good** | | |
| | Honda Motor Co., Ltd., Japan | 14,297 | 1,178 |
| | Honda Automobile (Thailand) Company Limited | 10,734 | 1,599 |
| | Honda Trading Asia Company Limited Thailand | 10 | 24 |
| | Honda Cars Philippines, Inc. | 8 | 25 |
| | Honda Trading Corporation, Japan | - | 99 |
| | Honda Auto parts Manufacturing (M) SDN. BHD, Malaysia | - | 68 |
| | Asian Honda Motor Company, Thailand | 3,244 | 459 |
| | Honda Malaysia SDN. BHD. Malaysia | 7 | - |
| | PT Honda Precision Parts Manufacturing Indonesia | 14 | - |
| | | 28,314 | 3,452 |

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

20.3 Other receivables include an amount of Rs 3.13 million (2011: Rs 1.18 million) due from, Atlas Insurance Limited, a related party. It is in the normal course of business and is interest free.

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **21. Cash and bank balances** | | | |
| At banks on : | | | |
| - Current accounts | | 845 | 4,441 |
| - Saving accounts [including USD 61,359 (2011: USD 95,858)] | 21.1 | 80,323 | 862,220 |
| | | 81,168 | 866,661 |
| Cash in hand | | 1,309 | 2,080 |
| | | 82,477 | 868,741 |

21.1 Balances in saving accounts bear mark up which ranges from 5.00% to 10.75% per annum.

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| **22. Sales** | | |
| Sales - Own manufactured goods | 18,545,211 | 25,241,087 |
| Sales tax | (2,579,520) | (3,598,669) |
| Excise duty | (111,480) | (232,319) |
| Commission to dealers | (303,196) | (436,119) |
| Discounts to customers | (19,675) | - |
| | 15,531,340 | 20,973,980 |
| Sales - Trading goods | 1,243,749 | 1,230,980 |
| Sales tax | (173,851) | (176,701) |
| Commission to dealers | (1,630) | (2,150) |
| | 1,068,268 | 1,052,129 |
| | 16,599,608 | 22,026,109 |

# Notes to and Forming Part of the Financial Statements

for the year ended March 31, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **23. Cost of sales** | | | |
| Raw material consumed | | 13,960,643 | 19,373,596 |
| Stores and spares consumed | | 50,653 | 74,563 |
| Salaries, wages and benefits | 23.1 | 261,089 | 229,843 |
| Fuel and power | | 62,841 | 68,684 |
| Insurance | | 33,729 | 32,016 |
| Travelling and vehicle running | | 45,264 | 50,963 |
| Freight and handling | | 15,974 | 18,981 |
| Repairs and maintenance | | 11,146 | 10,404 |
| Technical assistance | | 21,917 | 26,720 |
| Depreciation on property, plant and equipment | 12.2 | 607,572 | 621,567 |
| Amortization on intangible assets | 13.1 | 31,604 | 38,796 |
| Royalty | | 344,190 | 464,458 |
| Canteen subsidy | | 10,420 | 12,244 |
| Other expenses | | 1,040 | 832 |
| | | 15,458,082 | 21,023,667 |
| Opening stock of work-in-process | | 308,017 | 265,139 |
| Closing stock of work-in-process | | (323,572) | (308,017) |
| | | (15,555) | (42,878) |
| Cost of goods manufactured | | 15,442,527 | 20,980,789 |
| Own work capitalized | | (12,943) | (16,988) |
| Cost of damaged cars | | (2,935) | (3,428) |
| | | 15,426,649 | 20,960,373 |
| Opening stock of finished goods | | 674,739 | 650,786 |
| Closing stock of finished goods | | (334,006) | (674,739) |
| | | 340,733 | (23,953) |
| Cost of sales - Own manufactured | | 15,767,382 | 20,936,420 |
| Cost of sales - Trading goods | 23.2 | 876,225 | 890,379 |
| | | 16,643,607 | 21,826,799 |

23.1 Salaries, wages and benefits include following amounts in respect of gratuity:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Interest cost for the year | 7,751 | 5,379 |
| Current service cost | 6,716 | 5,441 |
| Actuarial loss for the year | 573 | 206 |
| Expected return on plan assets | (5,933) | (4,495) |
| | 9,107 | 6,531 |

In addition to above, salaries, wages and benefits include Rs 10.08 million (2011: Rs 8.30 million) on account of provident fund contributions.

23.2 It includes depreciation charge of Rs 10.38 million (2011: Rs 10.38 million)

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **24. Distribution and marketing costs** | | | |
| Salaries, wages and benefits | 24.1 | 53,361 | 50,970 |
| Fuel and power | | 3,692 | 3,291 |
| Insurance | | 4,280 | 4,540 |
| Travelling and vehicle running | | 11,499 | 11,638 |
| Freight and handling | | 9,892 | 11,808 |
| Repairs and maintenance | | 3,384 | 2,863 |
| Printing and stationery | | 2,522 | 3,666 |
| Warranty costs | | 4,390 | 5,127 |
| Advertising | | 16,617 | 21,971 |
| Depreciation on property, plant and equipment | 12.2 | 7,303 | 8,120 |
| Amortization on intangible assets | 13.1 | 169 | 169 |
| Training expenses | | 1,410 | 129 |
| Canteen subsidy | | 1,249 | 1,135 |
| Free service claims | | 3,861 | 4,005 |
| Rent, rates and taxes | | 5,228 | 6,107 |
| Other expenses | | 1,693 | 3,646 |
| | | 130,550 | 139,185 |

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| **24.1 Salaries, wages and benefits include following amounts in respect of gratuity:** | | |
| Interest cost for the year | 1,902 | 1,537 |
| Current service cost | 1,649 | 1,555 |
| Actuarial loss for the year | 141 | 59 |
| Expected return on plan assets | (1,456) | (1,285) |
| | 2,236 | 1,866 |

In addition to above, salaries, wages and benefits include Rs 2.45 million (2011: Rs 2.27 million) on account of provident fund contributions.

# Notes to and Forming Part of the Financial Statements

## for the year ended March 31, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **25. Administrative expenses** | | | |
| Salaries, wages and benefits | 25.1 | 88,255 | 92,563 |
| Fuel and power | | 5,986 | 5,465 |
| Insurance | | 3,292 | 3,361 |
| Travelling and vehicle running | | 19,881 | 17,589 |
| Repairs and maintenance | | 2,568 | 5,030 |
| Printing and stationery | | 3,029 | 2,582 |
| Communications | | 3,649 | 4,108 |
| Postage | | 2,065 | 2,479 |
| Advertising | | 320 | 968 |
| Auditors' remuneration | 25.2 | 4,535 | 9,572 |
| Legal and professional charges | | 3,404 | 6,771 |
| Depreciation on property, plant and equipment | 12.2 | 13,093 | 13,670 |
| Amortization on intangible assets | 13.1 | 19 | - |
| Fees and subscription | | 2,066 | 718 |
| Canteen subsidy | | 2,753 | 2,758 |
| Security expenses | | 1,841 | 2,193 |
| Other expenses | | 2,187 | 1,902 |
| | | 158,943 | 171,729 |

25.1 Salaries, wages and benefits include following amounts in respect of gratuity:

| | 2012 | 2011 |
|---|---|---|
| Interest cost for the year | 2,954 | 2,776 |
| Current service cost | 2,560 | 2,808 |
| Actuarial loss for the year | 218 | 107 |
| Expected return on plan assets | (2,262) | (2,319) |
| | 3,470 | 3,372 |

In addition to above, salaries, wages and benefits include Rs 3.74 million (2011: Rs 3.22 million) on account of provident fund contributions.

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| **25.2 Auditors' remuneration** | | |
| The charges for professional services include the following in respect of auditors' services for: | | |
| Statutory audit | 1,075 | 1,000 |
| Half yearly review | 275 | 250 |
| Taxation services | 2,369 | 7,521 |
| Royalty audit, certificates for remittance of foreign currency and sundry services | 440 | 255 |
| Out of pocket expenses | 376 | 546 |
| | 4,535 | 9,572 |

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **26. Other operating income** | | | |
| Income from financial assets: | | | |
| Profit on bank deposits | | 129,306 | 57,756 |
| Profit on loans to employees | | 4,168 | 3,884 |
| Realized gain on investments | | 42,442 | - |
| | | 175,916 | 61,640 |
| Income from non-financial assets: | | | |
| Profit on disposal of property, plant and equipment | | 5,491 | 1,576 |
| Profit on advances to suppliers | | 11,066 | 1,544 |
| Liabilities no longer payable written back | | 2,141 | - |
| Others | | 9,842 | 19,217 |
| | | 28,540 | 22,337 |
| | | 204,456 | 83,977 |
| **27. Other operating expenses** | | | |
| Workers' welfare fund | | - | 2,130 |
| Donations | | - | 2,607 |
| Exchange loss | | 217,842 | 60,208 |
| | | 217,842 | 64,945 |
| **28. Finance cost** | | | |
| Interest and mark up on: | | | |
| - Long term finances | | 62,047 | 136,224 |
| - Short term borrowings | | 10,983 | 14,774 |
| - Advances from customers | | 77,552 | 63 |
| Bank charges | | 1,344 | 1,194 |
| | | 151,926 | 152,255 |
| **29. Taxation** | | | |
| Current | | | |
| - For the year | | 205,497 | 193,584 |
| - Prior years | | 45,956 | (16,127) |
| | | 251,453 | 177,457 |
| Deferred | 16 | (218,044) | (123,832) |
| | | 33,409 | 53,625 |

# Notes to and Forming Part of the Financial Statements

for the year ended March 31, 2012

| | | 2012 | 2011 |
|---|---|---|---|
| | | (% 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 | 10.03 | (6.59) |
| | - minimum tax not carried forward | 34.19 | 79.07 |
| | - lower tax rates / final tax regime and others | (2.52) | (15.58) |
| | | 41.70 | 56.90 |
| | Average effective tax rate charged to profit and loss account | 6.70 | 21.90 |

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| **30.** | **Cash generated from operations** | | | |
| | Loss before taxation | | 498,804 | (244,827) |
| | Adjustment for: | | | |
| | Depreciation on property, plant and equipment | | 638,345 | 653,734 |
| | Profit on disposal of property, plant and equipment | | (5,491) | (1,576) |
| | Profit on bank deposits | | (129,306) | (57,756) |
| | Profit on advances to suppliers | | (11,066) | (1,544) |
| | Profit on loans to employees | | (4,168) | (3,884) |
| | Liabilities no longer payable written back | | (2,141) | - |
| | Finance cost | | 151,926 | 152,255 |
| | Provision for employees' retirement benefits and other obligations | | 27,912 | 29,436 |
| | Amortization on intangible assets | | 31,792 | 38,965 |
| | Royalty | | 312,900 | 422,234 |
| | Working capital changes | 30.1 | 571,519 | 1,167,875 |
| | | | 1,083,418 | 2,154,912 |
| **30.1** | **Working capital changes** | | | |
| | Decrease/ (increase) in current assets | | | |
| | - Stores and spares | | (6,100) | 15,329 |
| | - Stock-in-trade | | 589,531 | (1,113,892) |
| | - Loans, advances, prepayments and other receivables | | (160,612) | (321,852) |
| | | | 422,819 | (1,420,415) |
| | Increase in current liabilities | | | |
| | - Trade and other payables | | 148,700 | 2,588,290 |
| | | | 571,519 | 1,167,875 |

## 31. 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, certain directors and other executives of the company is as follows:

| | Chief Executive | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | | | (Rupees in thousand) | | | |
| Managerial remuneration | 774 | 1,551 | 8,421 | 7,849 | 60,411 | 48,023 |
| House rent and utilities | 1,487 | 1,889 | 5,696 | 5,340 | 33,638 | 26,224 |
| Bonus | - | - | 643 | 572 | 6,202 | 5,012 |
| Reimbursement of medical expenses | - | - | 938 | 1,002 | 1,107 | 900 |
| Employees' retirement benefits | - | - | 1,897 | 1,640 | 13,149 | 9,767 |
| Other allowances and expenses | 1,501 | 8,167 | 14,414 | 9,125 | 8,553 | 7,365 |
| | 3,762 | 11,607 | 32,009 | 25,528 | 123,060 | 97,291 |
| Number of persons | 1 | 1 | 2 | 2 | 64 | 56 |

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

## 32. Loss per share

### 32.1 Basic loss per share

| | | 2012 | 2011 |
|---|---|---|---|
| Net loss for the year | Rupees in thousand | (532,213) | (298,452) |
| Weighted average number of ordinary shares | Number in thousand | 142,800 | 142,800 |
| Basic loss per share | Rupees | (3.73) | (2.09) |

### 32.2 Diluted loss per share

There is no dilution effect on the loss per share of the company as the company has no such commitments.

## 33. Operating segments

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Maker (CODM). Segment performance is generally evaluated based on certain key performance indicators including business volume and gross profit.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

33.1 The management has determined the operating segments based on the reports reviewed by the CODM that are used to make strategic and business decisions.

### (a) Manufacturing

This segment relates to the sale of locally manufactured cars and spare parts.

# Notes to and Forming Part of the Financial Statements
for the year ended March 31, 2012

(b) Trading

This segment relates to the trading of CBU's and spare parts.

33.2 Segment information

| | Manufacturing | | Trading | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | (Rupees in thousand) | | | | | |
| Segment revenue | 15,531,340 | 20,973,980 | 1,068,268 | 1,052,129 | 16,599,608 | 22,026,109 |
| Segment expenses | | | | | | |
| - Cost of sales | (15,767,382) | (20,936,420) | (876,225) | (890,379) | (16,643,607) | (21,826,799) |
| Gross (loss) / profit | (236,042) | 37,560 | 192,043 | 161,750 | (43,999) | 199,310 |
| Distribution and marketing costs | | | | | (130,550) | (139,185) |
| Administrative expenses | | | | | (158,943) | (171,729) |
| Other operating income | | | | | 204,456 | 83,977 |
| Other operating expenses | | | | | (217,842) | (64,945) |
| Finance cost | | | | | (151,926) | (152,255) |
| Loss before taxation | | | | | (498,804) | (244,827) |
| Taxation | | | | | (33,409) | (53,625) |
| Loss after taxation | | | | | (532,213) | (298,452) |

33.2.1 Segment wise assets and liabilities are not being reviewed by the CODM.

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, price 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 minimize 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 based on 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, provided by the board of directors.

(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), Japanese Yen (JPY) and Thai Baht (THB). 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:

| | 2012 | 2011 |
|---|---|---|
| | (In thousand) | |
| Cash and bank balances - USD | 61 | 96 |
| Other receivables - USD | 38 | 36 |
| Trade and other payables - USD | (29,615) | (59,439) |
| Net exposure - USD | (29,516) | (59,307) |
| | | |
| Other receivables - JPY | 427 | 1,005 |
| Trade and other payables - JPY | (64,329) | (267,390) |
| Net exposure - JPY | (63,902) | (266,385) |
| | | |
| Other receivables - THB | 211 | 312 |
| Trade and other payables - THB | (22,504) | (13,384) |
| Net exposure - THB | (22,293) | (13,072) |

If the functional currency, at reporting date, had weakened / strengthened by 1% against the USD, JPY and THB with all other variables held constant, the impact on loss after taxation for the year would have been Rs 18.30 million (2011: Rs 34.98 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) Price risk

The company is neither exposed to equity securities price risk nor commodity price risk.

(iii) 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 analyzes 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 significant interest bearing financial instruments was:

# Notes to and Forming Part of the Financial Statements

## for the year ended March 31, 2012

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| **Fixed rate instruments** | | |
| **Financial assets** | | |
| Long term loans and advances | 46,308 | 44,430 |
| Cash at bank - savings accounts | 80,323 | 200,000 |
| | 126,631 | 244,430 |
| **Financial liabilities** | - | - |
| **Net exposure** | 126,631 | 244,430 |
| **Floating rate instruments** | | |
| **Financial assets** | | |
| Cash at bank - savings accounts | - | 662,220 |
| **Financial liabilities** | | |
| Long-term finances - secured | (166,667) | (833,334) |
| **Net exposure** | (166,667) | (171,114) |

### 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, 2012, 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 2.60 million (2011: Rs 6.33 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.

At March 31, 2012, 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 0.52 million (2011: Rs 0.68 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 of the company 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:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Long term deposits | 4,042 | 4,042 |
| Loans, advances and other receivables | 13,384 | 19,933 |
| Balances with banks | 81,168 | 866,661 |
| | 98,594 | 890,636 |

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 Short term | Rating Long term | Rating Agency | 2012 | 2011 |
|---|---|---|---|---|---|
| | | | | (Rupees in thousand) | |
| Askari Bank Limited | A1+ | AA | PACRA | 1 | 1 |
| Citibank N.A. | A-1 | A+ | S&P | 36,462 | 206,716 |
| Deutsche Bank A.G. | A-1 | A+ | S&P | 199 | 10,070 |
| Faysal Bank Limited | A1+ | AA | PACRA | 731 | 287 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | 171 | 424 |
| MCB Bank Limited | A1+ | AA+ | PACRA | 32,130 | 105,092 |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS | 37 | 109 |
| Soneri Bank Limited | A1+ | AA- | PACRA | 4,936 | 329,780 |
| Standard Chartered Bank | | | | | |
| (Pakistan) Limited | A1+ | AAA | PACRA | 3,868 | 4,702 |
| The Bank of Tokyo | | | | | |
| - Mitsubishi UFJ, Limited | A-1 | A+ | S&P | 1,998 | 208,999 |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | 635 | 481 |
| | | | | 81,168 | 866,661 |

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. Furthermore, the holding company, Honda Motor Co., Ltd., Japan, through its associated company has provided liquidity support to the company in form of credit payments on some of the CKD material supplies. At March 31, 2012, the company had Rs 4,240 million available borrowing limits from financial institutions and Rs 82.48 million cash and bank balances.

The table below analyzes the company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as the impact of discounting is not significant.

| | 2012 Carrying amount | Less than one year | One to five years | More than five years |
|---|---|---|---|---|
| | | (Rupees in thousand) | | |
| Long-term finances - secured | 166,667 | 83,334 | 83,333 | - |
| Accrued mark up | 65,496 | 65,496 | - | - |
| Trade and other payables | 4,485,395 | 4,485,395 | - | - |
| | 4,717,558 | 4,634,225 | 83,333 | - |

# Notes to and Forming Part of the Financial Statements

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| | 2011 Carrying amount | Less than one year | One to five years | More than five years |
|---|---|---|---|---|
| | | (Rupees in thousand) | | |
| Long-term finances - secured | 833,334 | 416,667 | 416,667 | - |
| Accrued mark up | 4,302 | 4,302 | - | - |
| Trade and other payables | 7,081,133 | 7,081,133 | - | - |
| | 7,918,769 | 7,502,102 | 416,667 | - |

### 34.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. However, the company does not hold any quoted financial instrument.

The financial instruments that are not traded in active market are carried at cost and are tested for impairment according to IAS 39 'Financial Instruments: Recognition and Measurement'.

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

### 34.3 Financial instruments by categories

| | Loans and receivables | |
|---|---|---|
| | 2012 | 2011 |
| | (Rupees in thousand) | |
| Assets as per balance sheet | | |
| Long term loans and advances | 46,308 | 44,430 |
| Long term deposits | 4,042 | 4,042 |
| Loans, advances and other receivables | 41,698 | 23,385 |
| Cash and bank balances | 82,477 | 868,741 |
| | 174,525 | 940,598 |

| | Financial liabilities at amortized cost | |
|---|---|---|
| | 2012 | 2011 |
| | (Rupees in thousand) | |
| Liabilities as per balance sheet | | |
| Long-term finances - secured | 166,667 | 833,334 |
| Accrued mark up | 65,496 | 4,302 |
| Trade and other payables | 4,485,395 | 7,081,133 |
| | 4,717,558 | 7,918,769 |

### 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. 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 members 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 members, 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. Total capital employed includes equity as shown in the balance sheet plus borrowings. The gearing ratio as at year ended March 31, 2012 and March 31, 2011 are as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| Borrowings | Rupees in thousand | 166,667 | 833,334 |
| Total capital employed | Rupees in thousand | 1,311,647 | 2,510,527 |
| Gearing ratio | Percentage | 13 | 33 |

## 35. Transactions with related parties

The related parties comprise holding company, fellow subsidiaries, associated undertakings, key management personnel and post employment benefit plan. 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. Other significant transactions with related parties are as follows:

| | Holding company | Other related parties | Total |
|---|---|---|---|
| | | (Rupees in thousand) | |
| For the year ended March 31, 2012 | | | |
| Purchase of goods | 3,106,693 | 5,265,524 | 8,372,217 |
| Purchase of property, plant and equipment | - | 235,209 | 235,209 |
| Sale of goods | - | 85,155 | 85,155 |
| Insurance premium | - | 138,351 | 138,351 |
| Insurance claims | - | 7,145 | 7,145 |
| Royalty | 311,323 | 727 | 312,050 |
| License fee | 18,180 | - | 18,180 |
| Technical assistance and training charges | 11,159 | 19,971 | 31,130 |
| Expense charged to post retirement benefits | - | 31,079 | 31,079 |
| Key management personnel | - | 75,819 | 75,819 |
| For the year ended March 31, 2011 | | | |
| Purchase of goods | 3,788,956 | 9,240,650 | 13,029,606 |
| Purchase of property, plant and equipment | 1,615 | 101 | 1,716 |
| Sale of goods | - | 59,590 | 59,590 |
| Insurance premium | - | 174,881 | 174,881 |
| Insurance claim | - | 9,573 | 9,573 |
| Royalty | 419,900 | 990 | 420,890 |
| License fee | - | - | - |
| Technical assistance and training charges | 8,884 | 15,170 | 24,054 |
| Expense charged to post retirement benefits | - | 25,584 | 25,584 |
| Key management personnel | - | 72,616 | 72,616 |

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

# Notes to and Forming Part of the Financial Statements
## for the year ended March 31, 2012

### 36. Plant capacity and actual production

| | Capacity | | Production | |
|---|---|---|---|---|
| | 2012 Number | 2011 Number | 2012 Number | 2011 Number |
| Motor vehicles | 50,000 | 50,000 | 11,040 | 16,440 |

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 and supply chain disruption experienced by the company.

### 37. Date of authorization for issue

These financial statements were authorized for issue on May 14, 2012 by the Board of Directors of the company.

### 38. Events after the balance sheet date

The board has recommended following appropriation:

| | 2012 | 2011 |
|---|---|---|
| | (Rupees in thousand) | |
| Transfer to profit and loss account from general reserve | 173,500 | 299,000 |

### 39. Corresponding figures

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

Yusuf H. Shirazi
Chairman

Takeharu Aoki
Chief Executive