

Notes to the Accounts

for the period July 1, 2002 to March 31, 2003

1. Company background, operation and legal status

The company was incorporated on November 4, 1992. The company is listed on the Karachi, Islamabad and Lahore Stock Exchanges and its principal activities are the assembly and progressive manufacture and sale of Honda vehicles and spare parts. The company commenced commercial production from July 1994.

2. Summary of significant accounting policies

2.1 Basis of preparation

These accounts have been prepared in accordance with the requirements of Companies Ordinance, 1984 and accounting standards issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretations Committee of the IASC, as applicable in Pakistan except where provisions of the Companies Ordinance, 1984 require otherwise in which case such provisions have been applied.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention, except for measurement of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

2.3 Staff retirement benefits

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

- a) The company operates a funded gratuity scheme for all its 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 |

Monthly contributions are made to this fund on the basis of actuarial recommendation at the rate of 5.7 percent per annum of basic salary. The actuarial valuation for the scheme was carried out as at July 1, 2002.

The actual returns on the plan assets during the period were Rs 0.44 million. The actual returns on plan assets represent the difference between the fair value of plan assets at the beginning of the period and as at the end of the period after adjustments for contributions made by the company as reduced by benefits paid during the period.

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

| | |
|--|-----|
| Discount rate | 11% |
| Expected increase in eligible pay | 10% |
| Expected rate of return on plan assets | 11% |

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

Consequential to the adoption of IAS 19 (revised 2000), the actuarial valuation for the plan determined a transitional liability of Rs 4.92 million. The company has accounted for the transitional liability in accordance with the allowed alternative treatment of IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Pro forma information is not presented as it is impracticable to do so.

Had there been no change in accounting policy the profit for the period would have been higher by Rs 4.04 million.

b) There is an approved contributory provident fund for all employees.

2.4 Fixed assets and depreciation

Tangible

Operating fixed assets except land are stated at cost less accumulated depreciation. Land and capital work-in-progress are stated at cost.

Depreciation on all operating fixed assets except land is charged to income applying the diminishing balance method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions during the year while no depreciation is charged on disposals or retirement of fixed assets. Depreciation is being charged at the rates given in note 9.1.

Profit and loss on disposal of fixed assets is included in income currently. Maintenance and normal repairs are charged to income. Major renewals and improvements are capitalised.

Intangible

Intangible fixed assets are stated at cost less accumulated amortization and represents the cost of licences 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 capitalised. Amortization is being charged at the rate given in note 9.4.

2.5 Stores and spares

These are valued at cost determined on moving average basis. Items in transit are valued at cost comprising invoice values and other incidental charges thereon.

2.6 Stock in trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are stated at the lower of moving average cost and net realisable value. Cost of raw materials and spare parts purchased for resale comprises the invoice values plus other charges paid thereon. Cost of work-in-process and finished goods includes prime cost and appropriate portion of manufacturing overheads. Items in transit are stated at cost comprising invoice values and other incidental charges paid thereon.

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

2.7 Foreign currency transactions

All monetary assets and liabilities in foreign currencies are translated into Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Rupees at exchange rate prevailing at the date of transaction. All non-monetary items are translated into

Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

Exchange differences are included in income currently.

2.8 Taxation

Current

Provision of 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 tax 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 recognised for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period 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.

2.9 Mark up, interest, profit and other charges

Mark up, interest, profit and other charges are charged to income.

2.10 Revenue recognition

Sales of vehicles and spare parts are recognized on dispatch to the customers.

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

2.11 Provisions

Provisions are recorded when the company has a present obligation as a result of past event which it is probable will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

2.12 Adoption of IAS 39

In the current year, the Company has adopted IAS 39 "Financial Instruments: Recognition and Measurement". Adoption of IAS 39 has no effect on the amounts reported for in the profit and loss account for the period.

2.13 Financial instruments

Financial instruments are recognised when the company becomes a party to the contractual provisions of the instrument. The financial instruments include long term deposits, receivables, cash and cash equivalents and creditors, accrued and other liabilities. The particular measurement methods adopted are disclosed in individual policy statements associated with each item.

a) Long term deposits

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

b) Receivables

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

c) Creditors, accrued and other liabilities

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.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

| | March 31, 2003 | June 30, 2002 |
|--|----------------------|------------------|
| | (Rupees in thousand) | |
| 3. Issued, subscribed and paid up capital | | |
| 40,000,000 ordinary shares of Rs 10 each fully paid in cash | 400,000 | 400,000 |
| 2,000,000 ordinary shares of Rs 10 each issued as fully paid bonus shares | 20,000 | 20,000 |
| <u>42,000,000</u> | <u>420,000</u> | <u>420,000</u> |

21,420,000 (June 30, 2002: 21,420,000) ordinary shares of the company are held by Honda Motor Company, the holding company.

4. Reserves

Movement in and composition of reserves is as follows:

Capital

| | | |
|---------------|--------|--------|
| Share premium | 76,000 | 76,000 |
|---------------|--------|--------|

Revenue

| | | |
|---|------------------|------------------|
| General reserve | | |
| - At the beginning of the period | 1,006,000 | 764,000 |
| - Transfer from profit and loss account | 200,000 | 242,000 |
| | <u>1,206,000</u> | <u>1,006,000</u> |
| | <u>1,282,000</u> | <u>1,082,000</u> |

| | | March 31, 2003 | June 30, 2002 |
|---|------------|-------------------|------------------|
| (Rupees in thousand) | | | |
| 5. Staff retirement benefits | | | |
| Staff gratuity | - note 5.1 | - | 7,484 |
| Statutory gratuity | - note 5.2 | - | 2,391 |
| | | - | 9,875 |
| 5.1 Staff gratuity | | | |
| Present value of defined benefit obligation | | 16,362 | - |
| Fair value of plan assets | | (15,121) | - |
| Un-recognised actuarial losses | | (362) | - |
| Un-recognised past service cost | | (879) | - |
| Liability as on March 31, 2003 | | - | - |
| Liability as at July 1, 2002 | | 7,484 | 5,290 |
| Charge to profit and loss account | | 7,366 | 2,543 |
| Contributions by the company | | (14,850) | (349) |
| Liability as at March 31, 2003 | | - | 7,484 |
| 5.2 Statutory gratuity | | | |
| Opening balance | | 2,391 | 2,031 |
| Expense for the period | | 462 | 360 |
| | | 2,853 | 2,391 |
| Less: Payments during the period | | 2,853 | - |
| | | - | 2,391 |

The company ceased statutory gratuity in 1995.
The liability in this regard has been paid off during the period.

6. Short term running finances and other credit facilities - secured

6.1 Short term running finances available from commercial banks under mark-up arrangements amount to Rs 849.60 million (June 30, 2002: Rs 850 million). Mark-up is charged at rates ranging from Re 0.2055 to Re 0.3288 per Rs 1,000 per diem or part thereof on the balances outstanding. The aggregate short term running finances are secured by a first hypothecation charge on current assets of the company.

6.2 Of the aggregate facility of Rs 1,301.60 million (June 30, 2002: Rs 1,273 million) for opening letters of credit, the amount utilized at March 31, 2003 was Rs 323.78 million (June 30, 2002: Rs 419.64 million).

| | March 31, 2003 | June 30, 2002 |
|--|----------------------|------------------|
| | (Rupees in thousand) | |
| 7. Creditors, accrued and other liabilities | | |
| Creditors | - note 7.1 184,427 | 186,422 |
| Accrued liabilities | 15,138 | 12,789 |
| Bills payable | 178,208 | 148,964 |
| Security deposits from dealers and contractors | - note 7.2 1,428 | 1,193 |
| Mark up on secured running finances | - | 105 |
| Workers' profit participation fund | - note 7.3 524 | 3,301 |
| Advances from customers | 615,558 | 285,232 |
| Licence fee, technical fee and royalties | - note 7.4 26,870 | 35,921 |
| Provision for warranty obligations | - | 6,088 |
| Unclaimed dividend | 3,197 | 2,128 |
| Workers' welfare fund | 9,215 | 12,993 |
| Others | 10,009 | 5,943 |
| | <u>1,044,574</u> | <u>701,079</u> |
| 7.1 Trade creditors include Rs 9.36 million (June 30, 2002: Rs 14.34 million) due to associated undertakings. | | |
| 7.2 These security deposits are interest free and are repayable on termination of dealership/contract. | | |
| 7.3 Workers' profit participation fund | | |
| Opening balance | 3,301 | 15,881 |
| Provision for the period | 25,441 | 35,218 |
| Interest for the period | 59 | 396 |
| | <u>25,500</u> | <u>35,614</u> |
| | 28,801 | 51,495 |
| Less: Payments made during the period | 28,277 | 48,194 |
| | <u>524</u> | <u>3,301</u> |
| 7.4 Licence fee, technical fee and royalties include Rs 24.48 million (June 30, 2002: Rs 35.80 million) due to associated undertakings. | | |
| 8. Contingencies and commitments | | |
| 8.1 Contingencies | | |
| i) Claims against the company not acknowledged as debt by the company amounting to Rs 9.79 million (June 30, 2002: 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 accounts in respect of the above mentioned disputed liabilities. | | |
| ii) For the assessment year 1999-2000, the assessing officer has raised an additional tax liability of Rs 32.6 million under section 12(9A) of the Income Tax Ordinance, 1979 on account of excess revenue reserves. The company filed an appeal before the Commissioner of Income Tax [CIT(A)], who upheld the decision of assessing officer. Against the decision of CIT(A), the company has preferred an appeal before the ITAT which is pending adjudication. As the management is confident that the matter would be settled in its favour, consequently no provision has been made in these accounts in respect of the above mentioned disputed tax liability. | | |
| 8.2 Commitments in respect of | | |
| i) Letters of credit and purchase commitments other than capital expenditure Rs 322.46 million (June 30, 2002: Rs 413.85 million). | | |
| ii) Letters of credit and purchase commitments for capital expenditure Rs 1.32 million (June 30, 2002: Rs 5.79 million). | | |

9. Operating fixed assets - tangible

9.1 The following is a statement of the operating fixed assets

| | Cost as at June 30, 2002 | Additions/ (deletions) | Cost as at March 31, 2003 | Accumulated depreciation as at June 30, 2002 | Depreciation charge/ (deletions) for the period | Accumulated depreciation as at March 31, 2003 | Book value as at March 31, 2003 | Annual depreciation rate % |
|-----------------------------------|--------------------------------|---------------------------|---------------------------------|---|--|--|---------------------------------------|----------------------------------|
| Freehold Land | 52,148 | - (595) | 51,553 | - | - | - | 51,553 | - |
| Buildings on freehold land | 346,171 | 4,632 | 350,803 | 186,602 | 12,315 | 198,917 | 151,886 | 10 |
| Plant and machinery | 618,040 | 12,256 (207) | 630,089 | 449,865 | 31,740 (171) | 481,434 | 148,655 | 20-35 |
| Furniture and office equipment | 10,077 | 4,104 | 14,181 | 4,450 | 1,460 | 5,910 | 8,271 | 20 |
| Vehicles | 43,811 | 4,206 (2,381) | 45,636 | 22,154 | 3,781 (1,721) | 24,214 | 21,422 | 20 |
| Tools and equipments | 32,451 | 3,955 | 36,406 | 20,530 | 2,132 | 22,662 | 13,744 | 20 |
| Computers | 5,772 | 2,681 (31) | 8,422 | 3,770 | 1,228 (26) | 4,972 | 3,450 | 35 |
| March 31, 2003 | 1,108,470 | 31,834 (3,214) | 1,137,090 | 687,371 | 52,656 (1,918) | 738,109 | 398,981 | |
| June 30, 2002 | 1,052,702 | 92,849 (37,081) | 1,108,470 | 631,923 | 83,102 (27,654) | 687,371 | 421,099 | |

Plant and Machinery includes Seat Dyes, which have a book value of Rs 1.96 million (June 30, 2002: Rs 1.96 million), in the possession of M/s Procon Engineering (Private) Limited and Bumper Dyes, which have a book value of Rs 16.87 million (June 30, 2002: Rs 22.88 million), in the possession of M/s Omer Jibrán Engineering Industries (Private) Limited.

Fixed assets include assets which have a book value of Rs 8.95 million (June 30, 2002: Rs 8.95 million) of the company which are not in operation.

9.2 The depreciation charge has been allocated as follows:

| | | Nine months ended March 31, 2003 | Year ended June 30, 2002 |
|-------------------------------------|-----------|--|--------------------------------|
| Cost of goods sold | - note 19 | 43,109 | 70,695 |
| Administration and selling expenses | - note 20 | 9,547 | 12,407 |
| | | 52,656 | 83,102 |

9.3 Disposal of operating fixed assets

| Particulars of assets | Sold to | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal |
|-----------------------|--|--------------|--------------------------|--------------|---------------|-----------------------------------|
| Vehicles | Employees | | | | | |
| | - Mr Muhammad Yousaf | 67 | 13 | 54 | 65 | Employees motorcycle sale scheme. |
| | Outsiders | | | | | |
| | - Major Ziwaqar Haider Kazmi Lahore | 928 | 548 | 380 | 860 | Auction |
| | - Mr Abdul Hamid Qureshi Lahore | 286 | 226 | 60 | 195 | Auction |
| | - Mr Muhammad Naeem, Lahore | 550 | 467 | 83 | 353 | Auction |
| | - Mr Waqar Ahmad, Lahore | 550 | 467 | 83 | 325 | Auction |
| Computers | | 31 | 26 | 5 | - | Scrap |
| Plant and machinery | | 207 | 171 | 36 | - | Scrap |
| Land | - Mr Allah Ditta | 595 | - | 595 | 30 | Negotiation |
| | | <u>3,214</u> | <u>1,918</u> | <u>1,296</u> | <u>1,828</u> | |

9.4 Fixed assets - intangible

| | Cost as at June 30, 2002 | Additions | Cost as at March 31, 2003 | Accumulated amortization as at June 30, 2002 | Amortization charge for the period | Accumulated amortization as at March 31, 2003 | Book value as at March 31, 2003 | Annual Amortization rate % |
|----------------|--------------------------------|-----------|---------------------------------|---|--|--|---------------------------------------|----------------------------------|
| Licence fee | 65,347 | 2,249 | 67,596 | 52,097 | 4,815 | 56,912 | 10,684 | 25 |
| March 31, 2003 | 65,347 | 2,249 | 67,596 | 52,097 | 4,815 | 56,912 | 10,684 | |
| June 30, 2002 | 61,139 | 4,208 | 65,347 | 43,115 | 8,982 | 52,097 | 13,250 | 25 |

The amortization charge has been allocated to cost of goods sold.

Intangible assets include assets amounting to Rs 2.25 million (June 30, 2002: Rs Nil) on which amortization is not charged in the accounts.

| | March 31, 2003 | June 30, 2002 |
|------------------------------|-----------------------|------------------|
| (Rupees in thousand) | | |
| 10. Capital work-in-progress | | |
| Civil works | 50 | 2,977 |
| Plant and machinery | 39,255 | 11,124 |
| Others | - note 10.1 11,829 | - |
| | <u>51,134</u> | <u>14,101</u> |

10.1 Others include furniture, tools and equipment.

11. Deferred taxation

This represents temporary differences arising due to accelerated accounting depreciation over tax depreciation.

| | | March 31, 2003 | June 30, 2002 |
|---|-------------|-------------------|------------------|
| (Rupees in thousand) | | | |
| 12. Long term loans and deposits | | | |
| Security deposits | - note 12.1 | 1,545 | 1,745 |
| Loans to employees - considered good | | | |
| - Executives | | 839 | 725 |
| - Others | - note 12.2 | 1,196 | 995 |
| | | 2,035 | 1,720 |
| Less: Receivable within one year | | | |
| - Executives | | 570 | 503 |
| - Others | | 602 | 570 |
| | | 1,172 | 1,073 |
| | | 2,408 | 2,392 |
| Outstanding for periods | | | |
| - Less than three years | | 2,035 | 1,720 |
| - Three years and more | | - | - |
| | | 2,035 | 1,720 |

12.1 These are interest free.

12.2 Loans for purchase of furniture are interest free and are repayable between one to three years. All the loans are granted to the employees of the company in accordance with their terms of employment. These loans are unsecured.

The maximum aggregate amount due from executives at the end of any month during the period was Rs 0.93 million (June 30, 2002: Rs 0.89 million).

13. 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 1.90 million (June 30, 2002: Rs 1.91 million) are in the possession of M/s Omer Jibrani Engineering Industries (Private) Limited.

| | March 31, 2003 | June 30, 2002 |
|--|----------------------|------------------|
| | (Rupees in thousand) | |
| 14. Stock in trade | | |
| Raw materials including in transit Rs 327.20 million (June 30, 2002: Rs 288.52 million) | 602,747 | 718,521 |
| Spare parts purchased for resale including in transit Rs 9.58 million (June 30, 2002: Rs 9.69 million) | 87,911 | 91,027 |
| Work in process | 74,078 | 61,312 |
| Finished goods | 176,189 | 67,908 |
| | 940,925 | 938,768 |
| | 940,925 | 938,768 |
| Raw materials amounting to Rs 13.47 million (June 30, 2002: Rs 18.78 million) are in the possession of various vendors of the company. | | |
| Finished goods amounting to Rs 59.97 million (June 30, 2002: Rs 43.90 million) are in the possession of various dealers. | | |
| Spare parts purchased for resale amounting to Rs 3.66 million (June 30, 2002: Rs 3.55 million) are valued at NRV. | | |
| 15. Trade debts - unsecured | | |
| Considered good | - | - |
| Considered doubtful | 16,142 | 16,142 |
| Less: Provision for doubtful debts | 16,142 | 16,142 |
| | - | - |
| | - | - |
| | - | - |
| 16. Loans, advances, deposits, prepayments and other receivables | | |
| Considered good: | | |
| - Advances to suppliers and contractors - note 16.1 | 14,202 | 14,254 |
| - Advances to employees | 84 | 188 |
| - Due from associated undertakings - note 16.2 | 2,060 | 969 |
| - Current maturity of loans to employees - note 16.3 | 1,172 | 1,073 |
| Income tax recoverable | 139,352 | 78,691 |
| Prepayments | 10,866 | 13,261 |
| Sales tax recoverable | 91,320 | 85,334 |
| Accrued interest | 2,572 | 10,488 |
| Other receivables - considered good | 7,560 | 4,541 |
| | 269,188 | 208,799 |
| | 269,188 | 208,799 |

16.1 Included in advances to suppliers and contractors is an amount of Rs 1.07 million (June 30, 2002: Rs 0.98 million) due from an associated undertaking M/s Allwin Engineering Industries Limited.

March
31, 2003
June
30, 2002
(Rupees in thousand)

16.2 Due from associated undertakings - considered good

| | | |
|--|--------------|------------|
| Honda Motor Company Limited, Japan | 116 | 266 |
| Honda Automobile (Thailand) Company Limited | 98 | 69 |
| Honda Trading (Thailand) Company Limited | 1,551 | 40 |
| Honda Cars Philippines, Inc. | 2 | 2 |
| PT Honda Prospect Motor | 234 | 559 |
| Honda Trading Corporation, Japan | 14 | 14 |
| Honda Autoparts Manufacturing (M) SDN. BHD. Malaysia | 45 | 19 |
| | <u>2,060</u> | <u>969</u> |

These are in the normal course of business and are interest free.
The maximum aggregate amount due from associated undertakings at the end of any month during the period was Rs 2.06 million (June 30, 2002: Rs 2.65 million).

16.3 These include Rs 0.57 million (June 30, 2002: Rs 0.50 million) due from executives.

17. Cash and bank balances

| | | |
|---|------------------|----------------|
| At banks | | |
| - On current account | 2,488 | 9,461 |
| - On deposit accounts | - | 500,000 |
| - On saving accounts [including US \$ 124,293 (June 30, 2002: US \$ 133,087)] | 1,260,068 | 328,446 |
| Cash in hand | 420 | 373 |
| | <u>1,262,976</u> | <u>838,280</u> |

The deposit and saving accounts carry average interest rate of 4.51% (June 30, 2002: 6.92%).

Nine months
ended March
31, 2003
Year
ended June
30, 2002
(Rupees in thousand)

18. Sales

| | | |
|-----------------------------|------------------|------------------|
| Sales - vehicles | 4,936,959 | 6,594,461 |
| Less: Commission to dealers | 134,530 | 181,927 |
| | 4,802,429 | 6,412,534 |
| Spare parts | 98,637 | 106,535 |
| | <u>4,901,066</u> | <u>6,519,069</u> |

Sales of vehicles and spare parts are exclusive of sales tax amounting to Rs 759.29 million (June 30, 2002: Rs 1,004.63 million).

| | Nine months ended March 31, 2003 | Year ended June 30, 2002 |
|---|--|--------------------------------|
| | (Rupees in thousand) | |
| 19. Cost of goods sold | | |
| Raw material consumed | 4,127,081 | 5,343,443 |
| Stores and spares consumed | 12,439 | 13,247 |
| Salaries, wages and benefits | 58,606 | 65,104 |
| Fuel and power | 14,636 | 17,508 |
| Insurance | 5,149 | 6,880 |
| Travelling and vehicle running | 14,471 | 14,174 |
| Freight and handling | 7,525 | 6,785 |
| Repairs and maintenance | 2,434 | 3,923 |
| Printing and stationery | 203 | 309 |
| Technical assistance | 9,048 | 9,432 |
| Depreciation | 43,109 | 70,695 |
| Royalty | 72,322 | 96,626 |
| Amortization - licence fee | 4,815 | 8,982 |
| Canteen subsidy | 2,712 | 3,851 |
| Others | 276 | 149 |
| | 4,374,826 | 5,661,108 |
| Opening stock of work-in-process | 61,312 | 71,518 |
| Closing stock of work-in-process | (74,078) | (61,312) |
| | (12,766) | 10,206 |
| Cost of goods manufactured | 4,362,060 | 5,671,314 |
| Less: Own work capitalized | - | 2,515 |
| Cost of damaged cars | 1,484 | - |
| | 4,360,576 | 5,668,799 |
| Opening stock of finished goods | 67,908 | 58,312 |
| Closing stock of finished goods | (176,189) | (67,908) |
| | (108,281) | (9,596) |
| | 4,252,295 | 5,659,203 |
| Cost of spare parts purchased for resale | 81,373 | 88,456 |
| | 4,333,668 | 5,747,659 |
| 19.1 Salaries, wages and benefits include following amounts in respect of staff retirement benefits: | | |
| Transitional liability | 2,672 | - |
| Interest cost for the period | 615 | - |
| Current service cost | 916 | - |
| Past service cost - non vested benefits | 239 | - |
| Expected return on plan assets | (438) | - |
| | 4,004 | - |

In addition to above salaries, wages and benefits include Rs 1.58 million (June 30, 2002: Rs 1.89 million) and Rs 0.27 million (June 30, 2002: Rs 0.22 million) on account of provident fund contributions and statutory gratuity respectively.

| | | Nine months ended March 31, 2003 (Rupees in thousand) | Year ended June 30, 2002 |
|---|-------------|--|--------------------------------|
| 20. Administration and selling expenses | | | |
| Salaries, wages and benefits | - note 20.1 | 42,180 | 49,105 |
| Fuel and power | | 1,730 | 2,106 |
| Insurance | | 2,604 | 3,023 |
| Travelling and vehicle running | | 10,112 | 10,869 |
| Freight and handling | | 538 | 1,408 |
| Repairs and maintenance | | 1,484 | 2,433 |
| Printing and stationery | | 2,255 | 3,221 |
| Communications | | 2,596 | 4,852 |
| Postage | | 1,299 | 1,578 |
| Warranty costs | | - | 4,954 |
| Advertising | | 23,360 | 18,714 |
| Auditor's remuneration | - note 25 | 882 | 1,275 |
| Legal and professional charges | | 1,330 | 1,140 |
| Depreciation | | 9,547 | 12,407 |
| Training expenses | | 711 | 1,375 |
| Fee and subscription | | 293 | 353 |
| Canteen subsidy | | 1,462 | 1,715 |
| Security expenses | | 807 | 1,074 |
| Free service claims | | 2,096 | 2,485 |
| Rent, rates and taxes | | 825 | 1,200 |
| Assets written off | | - | 7,703 |
| Others | | 1,252 | 347 |
| | | <u>107,363</u> | <u>133,337</u> |
| 20.1 Salaries, wages and benefits include following amounts in respect of staff retirement benefits: | | | |
| Transitional liability | | 2,244 | - |
| Interest cost for the period | | 517 | - |
| Current service cost | | 769 | - |
| Past service cost - non vested benefits | | 200 | - |
| Expected return on plan assets | | (368) | - |
| | | <u>3,362</u> | <u>-</u> |
| In addition to above salaries, wages and benefits include Rs 1.45 million (June 30, 2002: Rs 1.73 million) and Rs 0.19 million (June 30, 2002: Rs 0.14 million) on account of provident fund contributions and statutory gratuity respectively. | | | |
| 21. Other income | | | |
| Return on bank deposits | | 37,783 | 51,940 |
| Scrap sales | | 10,681 | 14,529 |
| Gain on disposal of fixed assets | | 533 | - |
| Interest on loans and advances | | 664 | 1,403 |
| Liabilities written back | | 1,142 | - |
| Others | | 535 | 439 |
| | | <u>51,338</u> | <u>68,311</u> |

| | Nine months ended March 31, 2003 (Rupees in thousand) | Year ended June 30, 2002 |
|--|--|--------------------------------|
| 22. Financial charges | | |
| Mark-up on short term running finances | 40 | 462 |
| Mark-up on customer advances | 38 | - |
| Interest on workers' profit participation fund | 59 | 396 |
| Bank charges | 368 | 394 |
| | 505 | 1,252 |
| 23. Other charges | | |
| Workers' profit participation fund | 25,441 | 35,218 |
| Workers' welfare fund | 9,205 | 12,983 |
| Loss on sale of fixed assets | - | 316 |
| Exchange loss | 390 | 461 |
| | 35,036 | 48,978 |
| 24. Provision for taxation | | |
| For the year | | |
| - Current | 162,676 | 222,971 |
| - Deferred | (32,979) | - |
| | 129,697 | 222,971 |
| Prior year | | |
| - Current | - | - |
| - Deferred | - | 1,541 |
| | - | 1,541 |
| | 129,697 | 224,512 |
| 24.1 Tax charge reconciliation | | |
| Numerical reconciliation between the average effective tax rate and the applicable tax rate. | | |
| | %age | %age |
| Applicable tax rate as per Income Tax Ordinance, 2001 | 35.00 | 35.00 |
| Tax effect of: | | |
| - Admissible tax credits | - | (1.02) |
| - Presumptive tax regime | 0.06 | 0.32 |
| - Amounts that are not deductible for tax purposes | (0.87) | (0.32) |
| - Deferred tax asset | (6.93) | 0.23 |
| | (7.74) | (0.79) |
| Average effective tax rate charged to profit and loss account | 27.26 | 34.21 |

Nine months
ended March
31, 2003
(Rupees in thousand)

Year
ended June
30, 2002

25. Auditors remuneration

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

| | | |
|---|-----|-------|
| Statutory audit | 275 | 240 |
| Half yearly review | 75 | - |
| Taxation services | 394 | 857 |
| Workers' profit participation fund audit, royalty audit and certificates for remittance of foreign currency | 63 | 128 |
| Out of pocket expenses | 75 | 50 |
| | 882 | 1,275 |

26. Remuneration of Chief Executive, Directors and Executives

26.1 The aggregate amounts charged in the accounts for remuneration including certain benefits to the chief executive, working directors and other executives of the company were as follows:

(Rupees in thousand)

| | Chief Executive | | Directors | | Executives | |
|-----------------------------------|--|--------------------------------|--|--------------------------------|--|--------------------------------|
| | Nine months ended March 31, 2003 | Year ended June 30, 2002 | Nine months ended March 31, 2003 | Year ended June 30, 2002 | Nine months ended March 31, 2003 | Year ended June 30, 2002 |
| Managerial remuneration | 399 | 1,429 | 2,086 | 3,778 | 22,457 | 24,720 |
| House rent and utilities | 536 | 632 | 1,699 | 1,038 | 13,393 | 10,683 |
| Reimbursement of medical expenses | 75 | 1 | 74 | 227 | 506 | 476 |
| Staff retirement benefits | - | 121 | 516 | 795 | 7,996 | 4,471 |
| Other allowances and expenses | 158 | 1,146 | 948 | 2,862 | 12,105 | 14,588 |
| | 1,168 | 3,329 | 5,323 | 8,700 | 56,457 | 54,938 |
| Number of persons | 1 | 1 | 3 | 3 | 118 | 88 |

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

26.2 Remuneration to other directors

Aggregate amount charged in the accounts for the period for fee to one director (June 30, 2002: one director) was Rs 500 (June 30, 2002: Rs 1,000).

| | Nine months ended March 31, 2003 (Rupees in thousand) | Year ended June 30, 2002 |
|---|--|--------------------------------|
| 27. Cash generated from operations | | |
| Profit before taxation | 475,832 | 656,154 |
| Adjustment for non cash charges and other items | | |
| Depreciation | 52,656 | 83,102 |
| Loss/(gain) on sale of fixed assets | (533) | 316 |
| Interest income | (38,447) | (53,343) |
| Assets written off | - | 7,703 |
| Financial charges | 505 | 1,252 |
| Provision for staff gratuity | 7,366 | 2,543 |
| Statutory gratuity | 462 | 360 |
| Amortization | 4,815 | 8,982 |
| Royalty | 72,322 | 96,626 |
| Workers' profit participation fund | 25,441 | 35,218 |
| Workers' welfare fund | 9,205 | 12,983 |
| Working capital changes - note 27.1 | 344,330 | (108,687) |
| | <u>953,954</u> | <u>743,209</u> |

27.1 Working capital changes

| | | |
|--|----------------|------------------|
| Increase in current assets | | |
| - Stores and spares | (100) | (1,713) |
| - Stock in trade | (2,157) | (129,513) |
| - Loans, advances, deposits, prepayments and other receivables | (7,860) | (35,520) |
| Increase in current liabilities | | |
| - Creditors, accrued and other liabilities | 354,447 | 58,059 |
| | <u>344,330</u> | <u>(108,687)</u> |

28. Cash and cash equivalents

Cash and cash equivalents comprise of the following items as included in the balance sheet.

| | | |
|------------------------|------------------|----------------|
| Cash and bank balances | <u>1,262,976</u> | <u>838,280</u> |
|------------------------|------------------|----------------|

29. Earnings per share

29.1 Basic earnings per share

| | | | |
|------------------------|----------------------|---------|---------|
| Net profit after tax | Rupees in thousand | 346,135 | 431,642 |
| Average ordinary share | Numbers in thousands | 42,000 | 42,000 |
| Earnings per share | Rupees | 8.24 | 10.28 |

29.2 Diluted earnings per share

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

30. Financial assets and liabilities

(Rupees in thousand)

| | Interest/mark-up bearing | | | | Non Interest/mark-up bearing | | | | Total 2003 | Total 2002 |
|---|------------------------------|--|-------------------|-------------------|------------------------------|--|-------------------|-------------------|---------------|---------------|
| | Maturity upto one year | Maturity more than year and less than five years | Sub-total 2003 | Sub-total 2002 | Maturity upto one year | Maturity more than year and less than five years | Sub-total 2003 | Sub-total 2002 | | |
| Financial assets | | | | | | | | | | |
| On balance sheet | | | | | | | | | | |
| Advances to employees' | - | - | - | - | 84 | - | 84 | 188 | 84 | 188 |
| Deposits | - | - | - | - | - | 2,408 | 2,408 | 2,392 | 2,408 | 2,392 |
| Other receivables (excluding advances to suppliers and contractors, advances to employees, income tax recoverable, prepayments and sales tax recoverable and including margin against LCs). | - | - | - | - | 16,244 | - | 16,244 | 23,825 | 16,244 | 23,825 |
| Cash and bank balances | 1,260,068 | - | 1,260,068 | 828,446 | 2,908 | - | 2,908 | 9,834 | 1,262,976 | 838,280 |
| | 1,260,068 | - | 1,260,068 | 828,446 | 19,236 | 2,408 | 21,644 | 36,239 | 1,281,712 | 864,685 |
| Off balance sheet | | | | | | | | | | |
| Total | 1,260,068 | - | 1,260,068 | 828,446 | 19,236 | 2,408 | 21,644 | 36,239 | 1,281,712 | 864,685 |
| Financial liabilities | | | | | | | | | | |
| On balance sheet | | | | | | | | | | |
| Creditors (excluding WPPF, WWF, advances from customers and Provision for warranty obligation). | - | - | - | - | 419,277 | - | 419,277 | 393,465 | 419,277 | 393,465 |
| | - | - | - | - | 419,277 | - | 419,277 | 393,465 | 419,277 | 393,465 |
| Off balance sheet | | | | | | | | | | |
| Letter of credits | - | - | - | - | 323,775 | - | 323,775 | 419,643 | 323,775 | 419,643 |
| Total | - | - | - | - | 743,052 | - | 743,052 | 813,108 | 743,052 | 813,108 |
| On balance sheet gap | 1,260,068 | - | 1,260,068 | 828,446 | (400,041) | 2,408 | (397,633) | (357,226) | 862,435 | 471,220 |
| Off balance sheet gap | - | - | - | - | (323,775) | - | (323,775) | (419,643) | (323,775) | (419,643) |

30.1 Financial risk management objectives

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

30.2 Concentration of credit risk

Out of the aggregate financial assets of Rs 1,281.71 million (June 30, 2002: Rs 864.69 million) the financial assets which may be subject to "credit risk" amount to Rs 1,281.29 million (June 30, 2002: Rs 864.31 million) in the event the counter parties are unable to meet the terms of the agreements. The company believes it is not exposed to any major credit risk as a significant portion of its financial assets represents balances with major international banks meeting established credit guidelines.

30.3 Currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings, especially group companies. The company believes that it is not exposed to major foreign exchange risk.

30.4 Fair values of financial assets and liabilities

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

| | Nine months ended March 31, 2003 | Year ended June 30, 2002 |
|--|--|--------------------------------|
| | (Rupees in thousand) | |
| 31. Transactions with associated companies | | |
| Sale of goods | 18,329 | 20,146 |
| Purchase of goods | 2,042,311 | 2,930,642 |
| Advances to suppliers and contractors | 1,070 | 981 |
| Insurance premium | 47,845 | 72,312 |
| Insurance claims | 2,503 | 1,260 |
| Technical assistance | 4,051 | 7,857 |
| Royalty | 72,036 | 96,238 |
| | 2,188,145 | 3,129,436 |

Sales and purchase transactions with associated undertakings are carried out on commercial terms and conditions. All other transactions are carried out on the basis of mutually agreed terms and conditions.

| | Capacity (on single shift basis) | | Actual production | |
|-----------------------------------|----------------------------------|------------------|-------------------------|------------------|
| | Nine months ended March | Year ended June | Nine months ended March | Year ended June |
| | 31, 2003 Nos. | 30, 2002 Nos. | 31, 2003 Nos. | 30, 2002 Nos. |
| 32. Plant capacity and production | | | | |
| Motor vehicles | 3,750 | 5,000 | 6,113 | 8,001 |

| | March 31, 2003 | June 30, 2002 |
|-------------------------|----------------|---------------|
| 33. Number of employees | | |
| Number of employees | 477 | 461 |

34. Date of authorization for issue

These financial statements were authorized for issue on May 14, 2003 by the board of directors of the company.

35. Change in income year


The company has been accorded approval by the Commissioner of Income Tax to adopt March 31, 2003 as its income year to facilitate consolidation of accounts with those of the parent company. As such these accounts have been prepared for nine months and the corresponding figures for profit and loss account, cash flow statement, statement of changes in equity and the related notes are not comparable.


36. Corresponding figures

Previous year's figures have been restated for the purposes of comparison. Significant re-arrangements made are as follows:

| | Rupees in million |
|---|-------------------|
| From Loans, advances, deposits, prepayments and other receivables to Long term loans and deposits | 0.647 |
| From other payables to creditors | 4.016 |
| From other payables to accrued liabilities | 0.139 |
| From accrued liabilities to creditors | 28.814 |
| From accrued liabilities to other payables | 4.302 |

The above figures have been re-arranged as the reclassification made is considered more appropriate for the purposes of disclosures.


Yusuf H. Shirazi
Chairman


Mamoru Suwama
Chief Executive