

# Notes to the Financial Statements

for the year ended March 31, 2007

## 1. Legal status and nature of business

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

## 2. Statement of compliance

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

### 2.2 Standards, interpretations and amendments to published approved accounting standards

#### 2.2.1 Amendments to published standards effective in 2006

IAS 19 (Amendment) - Employee Benefits, is mandatory for the company's accounting periods beginning on or after April 01, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. The company does not intend to adopt the alternative approach for recognition of actuarial gains and losses. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 10.5.2 to the financial statements.

#### 2.2.2 Standards, amendments and interpretations effective in 2006 but not relevant

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after April 1, 2006 are considered not to be relevant or have any significant effect to the company's operations.

#### 2.2.3 Standards or interpretations not yet effective but relevant

Certain amendments to IAS 1 'Presentation of Financial Statements' - Capital Disclosures have been published that are applicable to the company's accounting periods beginning on or after April 01, 2007. Adoption of these amendments would impact the nature and extent of disclosures made in the future financial statements of the company.

## 3. Basis of preparation

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

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as

follows:

- a) Retirement benefit obligation - (note 4.1)
- b) Provision for taxation - (note 4.2)
- c) Useful life and residual values of property, plant and equipment - (note 4.3)

#### 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 Gratuity scheme

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 6.0% (2006: 6.1%) per annum of basic salary and are charged to profit and loss account. The actuarial valuation for the scheme was carried out as at March 31, 2007.

The actual return on the plan assets during the year was Rs 3.5 million (2006: Rs 7.3 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 gain and losses and as reduced by the fair value of the plan assets.

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

Discount rate	10%
Expected increase in eligible pay	9%
Expected rate of return on plan assets	9%

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

###### 4.1.2 Provident fund

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.

#### **4.1.3 Employees compensated absences**

Accrual is made for employees compensated absences on the basis of accumulated leaves and the last drawn salary.

## **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 is charged to income applying the diminishing balance method whereby the cost of an asset is written off over its estimated useful life. Depreciation is being charged at the rates given in note 12.

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

The company 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 income currently. 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.

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

#### **4.3.1 Intangible assets**

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

Amortization is charged to income on the straight line method so as to write off the cost of an asset over its estimated useful life. Amortization on additions is charged from the month in which an asset is acquired or capitalized while no amortization is charged for the month in which the asset is disposed off. Amortization is being charged at the rate given in note 13.

The company 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 income currently. 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.

#### **4.3.2 Capital work-in-progress**

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

### **4.4 Investments**

The investments made by the company are classified for the purpose of measurement into the following categories:

#### **a) Held to maturity**

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortized cost using the effective yield method.

#### **b) Investment at fair value through profit or loss**

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

Investments intended to be held for less than twelve months from the balance sheet date are included in current assets, all other investments are classified as non-current asset. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation periodically.

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

At each reporting date, the company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment. A reversal of the impairment loss is recognized in income.

#### **4.5 Stores and spares**

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

#### **4.6 Stock in trade**

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

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

#### **4.7 Borrowings**

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

#### **4.8 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.

#### **4.9 Revenue recognition**

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

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

#### **4.10 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 upto the date of its' commissioning.

#### **4.11 Provisions**

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

#### **4.12 Financial instruments**

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

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

#### **4.13 Long term deposits**

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

#### **4.14 Receivables**

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

#### **4.15 Trade and other payables**

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

#### **4.16 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, 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 short term running finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

#### **4.17 Dividend**

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

			2007	2006
			(Rupees in thousand)	
<b>5. Issued, subscribed and paid up capital</b>				
	2007	2006		
	(Number of shares)			
	40,000,000	40,000,000	ordinary shares of Rs 10 each fully paid in cash	400,000
	31,400,000	2,000,000	ordinary shares of Rs 10 each issued as fully paid bonus shares	314,000
	<u>71,400,000</u>	<u>42,000,000</u>		<u>714,000</u>
				<u>420,000</u>

36,414,000 (2006: 21,420,000) ordinary shares of the company are held by Honda Motor Company Ltd., Japan, the holding company.

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

	2007	2006
	(Number of shares)	
Atlas Insurance Limited	425,000	250,000
Shirazi Investments (Private) Limited	139,825	82,250
	<u>564,825</u>	<u>332,250</u>

## 6. Reserves

Movement in and composition of reserves is as follows:

			2007	2006
			(Rupees in thousand)	
<b>Capital</b>				
Share premium	- note 6.1		76,000	76,000
<b>Revenue</b>				
General reserve				
- At the beginning of the year			1,503,500	1,436,000
- Transferred from unappropriated profit			411,500	67,500
			<u>1,915,000</u>	<u>1,503,500</u>
			<u>1,991,000</u>	<u>1,579,500</u>

6.1 This reserve can be utilized by the company only for the purposes specified in Section 83(2) of the Companies Ordinance, 1984.

## 7. Long-term finances - secured

The Bank of Tokyo - Mitsubishi UFJ, Limited	- note 7.1	666,667	1,000,000
MCB Bank Limited	- note 7.2	750,000	-
ABN AMRO Bank N.V.	- note 7.3	375,000	-
Standard Chartered Bank (Pakistan) Limited	- note 7.4	750,000	-
		<u>2,541,667</u>	<u>1,000,000</u>
Less: Current portion shown under current liabilities		(583,333)	(333,333)
		<u>1,958,334</u>	<u>666,667</u>



- 7.1 It carries mark-up at six month's Karachi Inter Bank Offer Rate (KIBOR) plus 0.50 percent per annum payable semi annually. It is secured by first pari passu equitable mortgage over all the current and future immovable assets of the company amounting to Rs 1,335 million and is repayable in six equal semi annual installments commencing September 30, 2006. The effective mark-up charged during the year was 10.37%.
- 7.2 It carries mark-up at three month's KIBOR plus 0.85 percent per annum payable quarterly. It is secured by first pari passu equitable mortgage charge over all the current and future immovable assets of the company amounting to Rs 1,000 million and is repayable in lump sum on June 2008. The effective mark-up charged during the year was 10.99%.
- 7.3 It carries mark-up at six month's KIBOR plus 0.75 percent per annum payable semi annually. It is secured by first pari passu equitable mortgage over all the current and future immovable assets of the company amounting to Rs 667 million and is repayable in four equal semi annual installments commencing January 2007. The effective mark-up charged during the year was 10.50%.
- 7.4 It carries mark-up at three month's KIBOR plus 0.85 percent per annum payable quarterly. It is secured by first pari passu hypothecation charge over stocks and book debts of the company amounting to Rs 750 million and is repayable in lump sum on June 2008. The effective mark-up charged during the year was 11.04%.

	2007	2006
	(Rupees in thousand)	
<b>8. Deferred taxation</b>		
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 35%		
Opening balance	5,428	(17,814)
Charged to profit	(256,436)	23,242
Deferred tax (asset)/liability as at March 31	(251,008)	5,428
The deferred tax (asset)/liability comprises of temporary differences arising due to:		
Accelerated tax/(accounting) depreciation	569,968	5,428
Minimum tax carried forward	(62,706)	-
Unused tax losses carried forward	(758,270)	-
	(251,008)	5,428
<b>9. Short term borrowings</b>		
Short term running finance - secured	-	304,873
Term finance - secured	-	1,150,000
	-	1,454,873

9.1 Short term running finances available from commercial banks under mark-up arrangements amount to Rs 3,610 million (2006: Rs 1,790 million). Mark-up for the finances utilized during the year is charged at rates ranging from 10.00% to 12.13% per annum on the balances outstanding. The aggregate short term running finances are secured by a first pari passu hypothecation charge over current assets of the company.

Of the aggregate facility of Rs 3,945.00 million (2006: Rs 3,471.00 million) for opening letters of credit, the amount utilized at March 31, 2007 was Rs 496.67 million (2006: Rs 1,206.90 million).

9.2 Term finances available from commercial banks under mark up arrangement amounts to Rs Nil (2006: Rs. 1,150). These carried mark up ranging from 10.00% to 12.13% per annum. Finances utilized during the year were secured by first pari passu hypothecation charge over current assets of the company and lien on PIB's.



		2007	2006
		(Rupees in thousand)	
<b>10. Trade and other payables</b>			
Creditors	- note 10.1	275,419	517,024
Accrued liabilities		32,854	24,950
Bills payable	- note 10.2	424,794	544,068
Security deposits against display cars	- note 10.3	1,196,631	867,636
Workers' profit participation fund	- note 10.4	-	729
Workers' welfare fund		-	20,309
Employees' retirement benefits and other obligations	- note 10.5	14,165	16,015
Advances from customers	- note 10.6	889,182	1,194,154
Licence fee, technical fee and royalties	- note 10.7	111,296	315,119
Provision for custom duties	- note 10.8	273,449	429,601
Unclaimed dividends		4,940	5,026
Others		60,425	58,416
		<u>3,283,155</u>	<u>3,993,047</u>

10.1 Creditors include amount due to related parties of Rs 23.82 million (2006: Rs 32.14 million).

10.2 Bills payable include amount due to related parties of Rs. 384.58 million (2006: Rs 522.24 million). These are in the normal course of business and are interest free.

10.3 These represent interest free security deposits from dealers and are repayable on demand.

		2007	2006
		(Rupees in thousand)	
<b>10.4 Workers' profit participation fund</b>			
Opening balance		729	4,142
Provision for the year	- note 26	-	60,729
Interest for the year		39	23
		<u>39</u>	<u>60,752</u>
Less: Payments made during the year		768 (768)	64,894 (64,165)
		<u>-</u>	<u>729</u>
<b>10.5 Employees' retirement benefits and other obligations</b>			
Accumulating compensated absences	- note 10.5.1	14,165	10,731
Staff gratuity	- note 10.5.2	-	5,284
		<u>14,165</u>	<u>16,015</u>
<b>10.5.1 Accumulating compensated absences</b>			
Opening balance		10,731	8,038
Provision for the year		10,390	8,090
Less: Payments made during the year		(6,956)	(5,397)
Closing balance		<u>14,165</u>	<u>10,731</u>

2007  
(Rupees in thousand)

2006

### 10.5.2 Staff gratuity

**The amounts recognized in the balance sheet are as follows:**

Fair value of plan assets	(39,884)	(31,074)
Present value of defined benefit obligation	45,268	34,405
Deficit	5,384	3,331
Un-recognized actuarial (loss)/gain	(5,384)	1,953
Net liability as at March 31, 2007	-	5,284
Net liability as at April 01, 2006	5,284	-
Charge to profit and loss account	3,824	5,284
Payments to fund during the year	(9,108)	-
Net liability as at March 31, 2007	-	5,284

**The movement in the present value of defined benefit obligation is as follows:**

Present value of defined benefit obligation	34,405	26,760
Current service cost	5,953	3,529
Interest cost	3,097	2,141
Benefits paid	(408)	(1,393)
Actuarial loss	2,221	3,368
Present value of defined benefit obligation	45,268	34,405

**The movement in the fair value of plan assets is as follows:**

Fair value of plan asset as at April 1, 2006	31,074	25,135
Expected return on plan asset	3,273	2,011
Contributions	9,108	-
Benefits paid	(408)	(1,393)
Actuarial (loss)/gain	(3,163)	5,321
As at March 31, 2007	39,884	31,074

**Plan assets comprises:**

Debt	8,152	5,409
Equity	26,309	22,169
Cash	5,423	3,496
	39,884	31,074

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:

	2007	2006	2005	2004	2003
Present value of defined benefit obligation	(45,268)	(34,405)	(26,760)	(21,308)	(16,362)
Fair value of plan assets	39,884	31,074	25,135	19,392	15,121
Surplus/(Deficit)	(5,384)	(3,331)	(1,625)	(1,916)	(1,241)
Experience adjustment on obligation	-5%	10%	3%	4%	2%
Experience adjustment on plan assets	-8%	17%	-3%	-7%	0%

- 10.6** Advances from customers include Rs 885 million (2006: Rs 1,190 million) against the sale of vehicles including sales tax amounting to Rs.115 million (2006: Rs 155 million). These advances carry mark-up @ 8.64% per annum, being the weighted average rate of three months market treasury bills as at the end of the year, in accordance with the directive issued by the Engineering Development Board, Government of Pakistan on September 17, 2002. The mark-up is calculated and payable only if vehicles are delivered after sixty days from the receipt of such advances.
- 10.7** License fee, technical fee and royalties include Rs 108.70 million (2006: Rs 313.70 million) due to the holding company, Honda Motor Company Limited, Japan.

	2007	2006
	(Rupees in thousand)	
<b>10.8 Provision for custom duties</b>		
Opening balance	429,601	441,611
Provision for the year	-	167,000
	429,601	608,611
Less: Payments made during the year	(156,152)	(179,010)
	273,449	429,601

This represents expected demand of custom duties for possible shortfall in the deletion targets in respect of certain components of vehicles manufactured by the company during previous years in accordance with SRO 436(I)/2001 dated June 18, 2001 and SRO 453(I)/2004 dated June 12, 2004.

## 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 (2006: 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) 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 CBU rate of duty was applicable on such components and thus raised a demand of Rs. 110 million. It included Rs. 96 million on account of custom duty and Rs. 14 million on account of sales tax.

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

### 11.2 Commitments in respect of

- (i) Letters of credit and purchase commitments other than capital expenditure Rs 89.65 million (2006: Rs 181.24 million).
- (ii) Letters of credit and purchase commitments for capital expenditure Rs 11.73 million (2006: Rs 1,276.32 million).
- (iii) Letters of guarantees issued in favour of collector of customs Rs 13.55 million (2006: Rs 13.55 million).

## 12. Property, plant and equipment

(Rupees in thousand)

	Cost as at April 01, 2006	Additions/ (deletions)	Cost as at March 31, 2007	Accumulated depreciation as at April 01, 2006	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at March 31, 2007	Book value as at March 31, 2007	Annual depreciation rate %
Freehold land	417,319	-	417,319	-	-	-	417,319	-
Buildings on freehold land	417,388	1,565,704 (34,066)	1,949,026	253,061	97,358 (22,267)	328,152	1,620,874	10
Plant and machinery	1,090,362	1,864,958 (171,272)	2,784,048	744,281	323,502 (148,006)	919,777	1,864,271	20-35
Furniture and office equipment	45,801	38,802 (199)	84,404	19,040	8,331 (62)	27,309	57,095	20
Vehicles	95,020	30,458 (8,611)	116,867	33,058	15,188 (3,880)	44,366	72,501	20
Tools and equipments	47,175	25,225 (10,016)	62,384	23,123	7,620 (6,576)	24,167	38,217	20
Computers	26,014	7,359 (224)	33,149	14,793	5,813 (135)	20,471	12,678	35
March 31, 2007	2,139,079	3,532,506 (224,388)	5,447,197	1,087,356	457,812 (180,926)	1,364,242	4,082,955	
March 31, 2006	1,620,338	557,098 (38,357)	2,139,079	971,094	142,891 (26,629)	1,087,356	1,051,723	

### a) Plant and Machinery includes:

- Dies and moulds having book value of Rs 135.94 million (2006: Rs 79.83 million) are in possession of a vendor, M/s Omer Jibran Engineering Industries (Private) Limited.
- Dies and moulds having book value of Rs. 1.21 million (2006: 1.87 million) are in possession of a vendor, M/s Thermosole Industries (Private) Limited.
- Dies and moulds having book value of Rs 29.76 million (2006: Rs 14.17) are in possession of a vendor, M/s Synthetic Products Enterprises (Private) Limited.

b) Property, plant and equipment include assets of book value of Rs Nil (2006: Rs 2.17 million) which are not in operation.

c) Borrowing costs of Rs 143.31 million (2006: Rs Nil) were capitalized during the year and are included in additions in buildings and plant and machinery.

2007                      2006  
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(Rupees in thousand)

### 12.1 The depreciation charge has been allocated as follows:

Cost of sales	- note 23	422,095	114,841
Cost of sales-Trading goods	- note 23	7,651	3,544
Distribution and marketing expenses	- note 24	12,039	10,550
Administrative expenses	- note 25	16,027	13,956
		457,812	142,891

## 12.2 Disposal of property, plant and equipment

(Rupees in thousand)

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
<b>Vehicles</b>	<b>Employees</b>					
	-Mr. Basharat Ali	991	663	328	395	Employee car sale scheme
	-Mr. Sohail Nawaz	979	503	476	487	- do -
	-Mr. Sami Shafi	1,001	392	609	622	- do -
	-Mr. Asad Murad	1,168	243	925	961	- do -
	-Mr. Rizwan Shafique	841	175	666	689	- do -
	-Mr. Mohammad Idrees	67	43	24	65	Employee motor cycle sale scheme
	-Mr. Sohail Nawaz	67	43	24	65	- do -
	-Mr. Arif Masood	67	43	24	65	- do -
	-Mr. Shahzad Younus	57	33	24	55	- do -
	-Mr. Aamir Bilal	54	19	35	50	- do -
	-Mr. Shafique Ahmed	67	43	24	65	- do -
	<b>Outsiders</b>					
	-Mr. Abdul Jabbar	220	206	14	52	Negotiation
	-Mr. Abdul Jabbar	438	299	139	282	- do -
	-Mr. Islam Akbar	626	423	203	372	- do -
	-Atlas Insurance Limited	846	28	818	818	Insurance
	-Atlas Insurance Limited	374	83	291	291	Insurance
	-National Institute of Science and Technical Education	748	641	107	-	Donation
<b>Furniture and office equipments</b>	-Honda Point, Lahore	167	46	121	123	Negotiation
<b>Furniture</b>		32	16	16	-	Assets written off
<b>Computers</b>		224	135	89	-	Assets written off
<b>Building</b>		34,066	22,267	11,799	-	- do -
<b>Tools and equipments</b>		10,016	6,576	3,440	-	- do -
<b>Plant and machinery</b>		171,272	148,006	23,266	-	- do -
		224,388	180,926	43,462	5,457	

## 13. Intangible assets

(Rupees in thousand)

	Cost as at April 01, 2006	Additions/ (Adjustments)	Cost as at March 31, 2007	Accumulated amortization as at April 01, 2006	Amortization charge for the year	Accumulated amortization as at March 31, 2007	Book value as at March 31, 2007	Annual Amortization rate %
Licence fee & drawings	121,878	65,189	187,067	88,676	37,418	126,094	60,973	20-25
Softwares	-	5,758	5,758	-	828	828	4,930	20-25
March 31, 2007	121,878	70,947	192,825	88,676	38,246	126,922	65,903	
March 31, 2006	91,313	30,565	121,878	75,386	13,290	88,676	33,202	

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

		2007	2006
Cost of sales	- note 23	37,365	13,004
Cost of sales - Trading goods	- note 23	595	-
Administrative expenses	- note 25	286	286
		38,246	13,290

		2007	2006
		(Rupees in thousand)	
<b>14. Capital work-in-progress</b>			
Civil works		1,335	741,890
Advance for land		-	66,171
Plant and machinery	- note 14.1	187,850	456,337
Others		2,657	9,832
		191,842	1,274,230
		191,842	1,274,230
<b>14.1</b>	Plant and machinery includes goods in transit amounting to Rs 109.43 million (2006: Rs 70.07 million).		
<b>15. Long term investments</b>			
	These represent investments in:		
Related parties	- note 15.1	-	634,843
Others	- note 15.2	-	509,039
		-	1,143,882
Less: investments shown under current assets		-	(634,843)
		-	509,039
		-	509,039
<b>15.1 Related parties</b>			
	<b>Investments at fair value through profit or loss</b>		
	<b>Quoted</b>		
	<b>Atlas stock market fund</b>		
	Nil (2006: 223,264) units of Rs 500 each	-	165,360
	<b>Atlas income fund</b>		
	Nil (2006: 712,037) units of Rs 500 each	-	386,102
	<b>Atlas fund of funds</b>		
	Nil (2006: 8,338,050) fully paid ordinary shares of Rs 10 each	-	83,381
		-	634,843
		-	634,843
<b>15.2 Others</b>			
	<b>Held to maturity</b>		
	<b>Pakistan Investment Bonds</b>		
	Nil (2006: 5,000,000) bonds of Rs 100 each	-	509,039
	<b>Available for sale - Unquoted</b>		
	<b>Automotive Testing and Training Centre (Pvt) Ltd.</b>		
	75,000 (2006: 75,000) ordinary shares of Rs 10 each	750	750
		750	509,789
Less: Provision for impairment		(750)	(750)
		-	509,039
		-	509,039

	2007 (Rupees in thousand)	2006
<b>16. Long term loans and advances</b>		
Loans to employees - considered good		
- Executives - note 16.1	10,380	7,550
- Others	26,371	34,822
	36,751	42,372
Less: Receivable within one year		
- Executives	(1,841)	(1,351)
- Others	(6,805)	(6,947)
	(8,646)	(8,298)
	<u>28,105</u>	<u>34,074</u>
<b>16.1 Executives</b>		
Opening balance	7,550	7,744
Disbursement during the year	5,750	4,710
	13,300	12,454
Less: Repayment during the year	(2,920)	(4,904)
	<u>10,380</u>	<u>7,550</u>

Loans to employees comprise of staff welfare loan and furniture loan.

Staff welfare loans carry interest at the rate of 6.0% per annum and are recoverable within a period of 7 years commencing from the date of disbursement through monthly deductions from salaries and are secured against retirement benefits of employees and their guarantors. All the loans are granted to the employees of the company in accordance with their terms of employment.

Loans for purchase of furniture are interest free and are repayable between 2 to 4 years. These loans are secured against retirement benefits of employees and their guarantors. All the loans are granted to the employees of the company in accordance with their terms of employment.

The maximum aggregate amount due from executives at the end of any month during the year was Rs 10.75 million (2006: Rs 10.99 million).



## 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 4.72 million (2006: Rs 1.90 million) are in the possession of vendor M/s Omer Jibran Engineering Industries (Private) Limited.

Spares amounting to Rs 0.35 million (2006: Rs Nil) are in the possession of vendor M/s Synthetic Products Enterprises (Private) Limited.

		2007	2006
		(Rupees in thousand)	
<b>18. Stock in trade</b>			
Raw materials including in transit			
Rs 500.28 million (2006: Rs 1,749.26 million)	- note 18.1	1,485,871	2,830,354
Work in process		173,408	76,086
Finished goods	- note 18.2		
- Own manufactured		672,368	1,071,827
- Trading stock	- note 18.3 & 18.4	373,299	190,853
		<u>2,704,946</u>	<u>4,169,120</u>

**18.1** Raw materials amounting to Rs 153.60 million (2006: Rs 153.45 million) are in the possession of various vendors of the company.

**18.2** Finished goods amounting to Rs 680.44 million (2006: Rs 855.08) are in the possession of various dealers.

**18.3** Trading stock includes goods in transit amounting to Rs 40.58 million (2006: Rs 19.13 million).

**18.4** Trading stock amounting to Rs 30.45 million (2006: Rs 29.01 million) are valued at net realisable value.

		2007	2006
		(Rupees in thousand)	
<b>19. Trade debts - unsecured</b>			
Considered good		-	-
Considered doubtful		16,142	16,142
Less: Provision for doubtful debts		(16,142)	(16,142)
		-	-
		<u>-</u>	<u>-</u>

		2007	2006
		(Rupees in thousand)	
<b>20. Trade and other receivables</b>			
Current portion of loans to employees	- note 16	8,646	8,298
Advances - considered good:			
- to employees	- note 20.1	1,277	1,606
- to suppliers and contractors		39,530	67,320
		40,807	68,926
Due from related parties - considered good	- note 20.2	10,994	7,480
Recoverable from government authorities:			
- Income tax		86,308	6,044
- Sales tax		443,757	794,970
		530,065	801,014
Margin against letter of credit		31,014	104,166
Prepayments		26,208	19,566
Profit receivable on:			
- Long term investments - others		-	16,973
- Bank deposits		20	672
		20	17,645
Other receivables		58,338	48,505
		<u>706,092</u>	<u>1,075,600</u>
<b>20.1</b>	Included in advances to employees is an amount of Rs 0.71 million (2006: Rs. 0.35 million) due from executives.		
<b>20.2 Due from related parties - considered good</b>			
Honda Motor Company Limited, Japan		2,355	3,402
Honda Automobile (Thailand) Company Limited		4,167	1,633
Honda Trading (Thailand) Company Limited		288	116
Honda Cars Philippines, Inc.		2,603	500
Honda Trading Corporation, Japan		219	441
Honda Autoparts Manufacturing (M) SDN. BHD. Malaysia		27	9
PT Honda Prospect Motor, Indonesia		-	442
Asian Honda Motor Company, Thailand		1,335	921
Honda Parts Manufacturing Corporation, Philippines		-	16
		<u>10,994</u>	<u>7,480</u>
	These are in the normal course of business and are interest free.		
<b>21. Cash and bank balances</b>			
At banks			
- On current accounts		5,483	5,725
- On saving accounts [including US \$ 10,229 (2006: US \$ 94,742)]		213,475	354,836
Cash in hand		901	58
		<u>219,859</u>	<u>360,619</u>

The saving accounts bear mark-up which ranges from 2% to 9.5% per annum.

		2007	2006
		(Rupees in thousand)	
<b>22. Sales</b>			
Sales - Own manufactured goods		19,295,373	28,931,488
Less: Sales tax		(2,516,418)	(3,773,556)
Commission to dealers		(424,987)	(638,721)
		16,353,968	24,519,211
Sales - Trading goods		810,947	1,304,597
Less: Sales tax		(105,745)	(170,175)
Commission to dealers		(4,055)	(14,935)
		701,147	1,119,487
		<u>17,055,115</u>	<u>25,638,698</u>
<b>23. Cost of sales</b>			
Raw material consumed	- note 23.1	14,678,457	23,427,780
Stores and spares consumed		43,131	49,552
Salaries, wages and benefits	- note 23.2	263,375	200,930
Fuel and power		40,962	36,797
Insurance		29,265	15,334
Travelling and vehicle running		69,126	64,468
Freight and handling		20,534	60,843
Repairs and maintenance		27,643	10,502
Technical assistance		44,970	17,313
Depreciation on property, plant and equipment	- note 12.1	422,095	114,841
Amortization on intangible assets	- note 13.1	37,365	13,004
Royalty		339,723	491,293
Canteen subsidy		13,951	17,355
Other expenses		1,192	1,306
		16,031,789	24,521,318
Opening stock of work-in-process		76,086	68,701
Closing stock of work-in-process		(173,408)	(76,086)
		(97,322)	(7,385)
Cost of goods manufactured		15,934,467	24,513,933
Less: Own work capitalized		(11,138)	(36,828)
Cost of damaged cars		(2,749)	(8,011)
		15,920,580	24,469,094
Opening stock of finished goods		1,071,827	68,400
Closing stock of finished goods		(672,368)	(1,071,827)
		399,459	(1,003,427)
		16,320,039	23,465,667
Cost of sales - Trading goods	- note 23.3	635,142	1,005,517
		<u>16,955,181</u>	<u>24,471,184</u>

**23.1** Included in raw material consumed is an amount of Rs Nil (2006: Rs. 167.00 million) on account of provision for custom duties as referred to in note 10.8.

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

	2007	2006
	(Rupees in thousand)	
Interest cost for the year	1,815	1,217
Current service cost	3,489	2,006
Actuarial (gain)/ loss for the year	(1,145)	924
Expected return on plan assets	(1,918)	(1,143)
	2,241	3,004

In addition to above salaries, wages and benefits include Rs 4.95 million (2006: Rs 3.70 million) on account of provident fund contributions.

**23.3** It includes depreciation charge of Rs 7.65 million (2006: Rs 3.54 million)

#### **24. Distribution and marketing costs**

Salaries, wages and benefits	- note 24.1	46,145	30,710
Fuel and power		3,246	2,979
Insurance		3,515	3,307
Travelling and vehicle running		13,050	10,946
Freight and handling		11,528	5,172
Repairs and maintenance		3,071	2,076
Printing and stationery		5,521	6,935
Warranty costs		16,359	13,969
Advertising		82,316	43,982
Depreciation on property, plant and equipment	- note 12.1	12,039	10,550
Training expenses		2,167	3,357
Canteen subsidy		1,289	1,319
Free service claims		6,437	7,479
Rent, rates and taxes		6,064	5,154
Other expenses		2,142	1,942
		214,889	149,877

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

Interest cost for the year	762	352
Current service cost	1,466	580
Actuarial (gain)/ loss for the year	(481)	267
Expected return on plan assets	(806)	(331)
	941	868

In addition to above salaries, wages and benefits include Rs 1.48 million (2006: Rs 1.14 million) on account of provident fund contributions.

		2007	2006
		(Rupees in thousand)	
<b>25. Administrative expenses</b>			
Salaries, wages and benefits	- note 25.1	73,563	53,146
Fuel and power		5,214	5,299
Insurance		2,177	2,018
Travelling and vehicle running		16,341	13,809
Repairs and maintenance		6,324	3,411
Printing and stationery		2,119	2,542
Communications		5,366	5,315
Postage		2,326	2,402
Advertising		771	5,402
Auditor's remuneration	- note 25.2	3,200	2,248
Legal and professional charges		3,299	1,643
Depreciation on property, plant and equipment	- note 12.1	16,027	13,956
Amortization on intangible assets	- note 13.1	286	286
Provision for impairment in investments		-	750
Canteen subsidy		3,085	3,865
Security expenses		1,974	1,634
Other expenses		5,202	3,002
		147,274	120,728
<b>25.1 Salaries, wages and benefits include following amounts in respect of employees' retirement benefits.</b>			
Interest cost for the year		519	572
Current service cost		998	943
Actuarial (gain)/ loss for the year		(327)	434
Expected return on plan assets		(548)	(537)
		642	1,412

In addition to above salaries, wages and benefits include Rs 2.15 million (2006: Rs 1.76 million) on account of provident fund contributions.

	2007	2006
	(Rupees in thousand)	
<b>25.2. Auditors remuneration</b>		
The audit fee and remuneration for other services included in the financial statements is as follows:		
Statutory audit	360	360
Half yearly review	90	90
Taxation services	2,511	1,510
Workers' profit participation fund audit, royalty audit and certificates for remittance of foreign currency	138	188
Out of pocket expenses	101	100
	3,200	2,248
<b>26. Other operating income</b>		
<b>Income from financial assets</b>		
Gain on sale of short term investments	23,883	-
Gain on remeasurement of investments at fair value through profit or loss	-	89,830
Dividend income	12,507	-
Profit on long term investments	28,055	31,338
Profit on bank deposits	306	137,367
Interest on loans to employees	2,182	2,400
Interest on advances to suppliers	4,719	1,737
Exchange Gain	-	574
	71,652	263,246
<b>Income from non-financial assets</b>		
Scrap sales	72,981	101,067
Profit on disposal of property, plant and equipment	712	4,456
Others	5,240	9,096
	78,933	114,619
	150,585	377,865
<b>27. Other operating expenses</b>		
Workers' profit participation fund	-	60,729
Workers' welfare fund	-	20,195
Loss on sale of long term investments	24,538	-
Assets written off	38,610	2,662
Donations	107	11,128
Exchange loss	1,259	-
	64,514	94,714
<b>28. Finance Cost</b>		
Interest and mark-up on:		
- Long term borrowings	81,702	-
- Short term borrowings	209,738	17,768
- Customer advances	13,109	27,641
- Workers' profit participation fund	39	23
Bank charges	903	924
	305,491	46,356

	2007 (Rupees in thousand)	2006
<b>29. Taxation</b>		
<b>For the year</b>		
- Current	87,785	420,688
- Deferred	(256,436)	9,927
	(168,651)	430,615
<b>Prior year</b>		
- Current	(48,458)	(15,521)
- Deferred	-	13,316
	(48,458)	(2,205)
	(217,109)	428,410
	<b>% age</b>	<b>% age</b>
<b>29.1 Tax charge reconciliation</b>		
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
<b>Tax effect of:</b>		
- Amounts that are not deductible for tax purposes	-	0.14
- Change in prior years' deferred tax liability	-	1.17
- Change in prior years' current tax	10.06	(1.37)
- Effect of lower tax rates / Presumptive tax regime and others	0.02	2.85
	10.08	2.79
Average effective tax rate charged to profit and loss account	45.08	37.79

### 30. Remuneration of Chief Executive, Directors and Executives

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

(Rupees in thousand)

	Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
Managerial remuneration	937	710	4,863	3,462	24,955	19,338
House rent and utilities	981	846	3,735	2,556	17,636	13,375
Bonus	-	-	1,954	642	13,178	3,692
Reimbursement of medical expenses	30	13	174	149	269	129
Employees' retirement benefits	-	-	455	479	2,833	2,484
Other allowances and expenses	3,593	341	5,498	1,862	12,765	7,764
	5,541	1,910	16,679	9,150	71,636	46,782
<b>Number of persons</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>28</b>	<b>25</b>

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

### 30.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to one director (2006: one director) was Rs 1,500 (2006: Rs 500).



	2007	2006
	(Rupees in thousand)	
<b>31. Cash generated from operations</b>		
(Loss)/profit before taxation	(481,649)	1,133,704
Adjustment for:		
Depreciation on property, plant and equipment	457,812	142,891
Profit on disposal of property, plant and equipment	(712)	(4,456)
Provision for impairment in investments	-	750
Profit on sale of short term investments	(23,883)	-
Profit/unrealised gain on investment in related parties	-	(89,830)
Profit on long term investments	(28,055)	(31,338)
Loss on sale of long term investments	24,538	-
Dividend income	(12,507)	-
Profit on bank deposits	(306)	(137,367)
Interest on advances to suppliers	(6,901)	(4,137)
Assets written off and donated	38,717	2,662
Finance cost	305,452	46,333
Provision for employees' retirement benefits and other obligations	14,214	13,374
Provision for custom duties	-	167,000
Amortization on intangible assets	38,246	13,290
Royalty	339,723	491,293
Working capital changes - note 31.1	1,335,263	(7,101,139)
	<u>1,999,952</u>	<u>(5,356,970)</u>
<b>31.1 Working capital changes</b>		
<b>Increase/(decrease) in current assets</b>		
- Stores and spares	(20,580)	(6,858)
- Stock in trade	1,464,174	(1,009,967)
- Trade and other receivables	432,495	(82,174)
	<u>1,876,089</u>	<u>(1,098,999)</u>
<b>Decrease/(increase) in current liabilities</b>		
- Trade and other payables	(540,826)	(6,002,140)
	<u>1,335,263</u>	<u>(7,101,139)</u>
<b>32. Cash and cash equivalents</b>		
Cash and cash equivalents included in the cash flow statements comprise of the following balance sheet amounts:		
Cash and bank balance	219,859	360,619
Short term borrowings - note 9	-	(304,873)
	<u>219,859</u>	<u>55,746</u>
<b>33. (Loss)/earnings per share</b>		
<b>33.1 Basic earnings per share</b>		
Net (loss)/profit for the year	<b>Rupees in thousand</b> (264,540)	705,294
Weighted average number of ordinary shares	<b>Number in thousands</b> 71,400	71,400
Basic (loss)/earnings per share	<b>Rupees</b> (3.71)	9.88
<b>33.2 Diluted earnings per share</b>		
There is no dilution effect on the basic earnings per share of the company as the company has no such commitments.		

### 34. Financial assets and liabilities

(Rupees in thousand)

	Interest/mark-up bearing				Non Interest/mark-up bearing				Total		Credit risk	
	Maturity more than		Sub-total	Sub-total	Maturity more than		Sub-total	Sub-total	2007	2006	2007	2006
	Maturity upto one year	year and less than five years			Maturity upto one year	year and less than five years						
<b>Financial assets</b>												
<b>On balance sheet</b>												
Investments	-	-	-	509,039	-	-	-	634,843	-	1,143,882	-	1,143,882
Loans to employees	6,503	25,114	31,617	37,100	2,143	2,991	5,134	5,272	36,751	42,372	36,751	42,372
Security deposits	-	-	-	-	-	4,091	4,091	2,089	4,091	2,089	4,091	2,089
Other receivables	-	-	-	-	100,366	-	100,366	73,630	100,366	73,630	100,366	73,630
Cash and bank balances	213,475	-	213,475	354,836	6,384	-	6,384	5,783	219,859	360,619	218,958	360,561
	219,978	25,114	245,092	900,975	108,893	7,082	115,975	721,617	361,067	1,622,592	360,166	1,622,534
<b>Off balance sheet</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	219,978	25,114	245,092	900,975	108,893	7,082	115,975	721,617	361,067	1,622,592	360,166	1,622,534
<b>Financial liabilities</b>												
<b>On balance sheet</b>												
Long term finances	583,333	1,958,334	2,541,667	1,000,000	-	-	-	-	2,541,667	1,000,000	-	-
Short term borrowings	-	-	-	1,454,873	-	-	-	-	-	1,454,873	-	-
Mark-up accrued on loans and other payables	-	-	-	-	39,627	-	39,627	15,719	39,627	15,719	-	-
Trade and other payables	-	-	-	-	2,120,524	-	2,120,524	2,348,254	2,120,524	2,348,254	-	-
	583,333	1,958,334	2,541,667	2,454,873	2,160,151	-	2,160,151	2,363,973	4,701,818	4,818,846	-	-
<b>Off balance sheet</b>												
Contracts for capital expenditure	-	-	-	-	11,734	-	11,734	1,276,316	11,734	1,276,316	-	-
Letters of credit	-	-	-	-	89,654	-	89,654	181,243	89,654	181,243	-	-
Letters of guarantees	-	-	-	-	13,550	-	13,550	13,550	13,550	13,550	-	-
	-	-	-	-	114,938	-	114,938	1,471,109	114,938	1,471,109	-	-
<b>Total</b>	583,333	1,958,334	2,541,667	2,454,873	2,275,089	-	2,275,089	3,835,082	4,816,756	6,289,955	-	-
<b>On balance sheet gap</b>	(363,355)	(1,933,220)	(2,296,575)	(1,553,898)	(2,051,258)	7,082	(2,044,176)	(1,642,356)	(4,340,751)	(3,196,254)	-	-
<b>Off balance sheet gap</b>	-	-	-	-	(114,938)	-	(114,938)	(1,471,109)	(114,938)	(1,471,109)	-	-

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

**34.1 Financial risk management objectives**

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

**34.2 Concentration of credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk is primarily attributable to its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. Out of the total financial assets of Rs 330.05 million (2006: Rs 1,622.59 million) the financial assets which are subject to credit risk amount to Rs 329.15 million (2006: Rs 1,622.53 million).

**34.3 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings, especially group companies. The company believes that it is not exposed to major foreign exchange risk.

**34.4 Fair values of financial assets and liabilities**

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

**35. Transactions with related parties**

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

	Holding company	Associated undertakings	Other related parties	Total
	(Rupees in thousand)			
<b>For the year ended March 31, 2007</b>				
Purchase of goods	1,959,850	5,347,110	-	7,306,960
Purchase of property, plant and equipment	1,073	613,305	-	614,378
Purchase of intangible assets	62,605	23,003	-	85,608
Sale of goods	-	83,632	-	83,632
Insurance premium	-	147,708	-	147,708
Royalty	327,381	-	-	327,381
Technical assistance fee	115,162	6,889	-	122,051
Sale of short term investments	-	66,704	592,022	658,726
	2,466,071	6,288,351	592,022	9,346,444
<b>For the year ended March 31, 2006</b>				
Purchase of goods	5,897,663	6,819,025	-	12,716,688
Purchase of property, plant and equipment	34,943	276,560	-	311,503
Purchase of intangible assets	29,975	322	-	30,297
Sale of goods	-	45,504	-	45,504
Insurance premium	-	208,977	-	208,977
Royalty	491,363	-	-	491,363
Technical assistance fee	60,118	8,897	-	69,015
Short term investments	-	-	300,000	300,000
	6,514,062	7,359,285	300,000	14,173,347

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

### 36. Plant capacity and actual production

	Capacity		Production	
	March 31, 2007 Number	March 31, 2006 Number	March 31, 2007 Number	March 31, 2006 Number
Motor vehicles	35,000	30,000	18,240	31,476

Pursuant to the completion of plant expansion during the year, the company has been operating at a capacity of 50,000 motor vehicles per annum on double shift basis from January 2007.

### 37. Rates of exchange

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

US \$ 1	=	Rupees	60.85
AUD 1	=	Rupees	49.24
¥ 1	=	Rupees	0.52
THB 1	=	Rupees	1.87

### 38. Date of authorization for issue

These financial statements were authorized for issue on April 30, 2007 by the board of directors of the company.

### 39. Events after the balance sheet date


The board has recommended following appropriations:

	2007	2006
	(Rupees in thousand)	
Transfers to/from unappropriated loss/profit:		
- (from)/to general reserves	(264,000)	411,500
- to reserve for issue of bonus shares	-	294,000

### 40. Corresponding figures

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

  
Yusuf H. Shirazi  
Chairman

  
Atsushi Yamazaki  
Chief Executive