AGRIAUTO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan on June 25, 1981 as a public limited company, under the Companies Act, 1913 (now the Companies Ordinance, 1984), and is listed on the Karachi and Lahore stock exchanges of Pakistan since June 1984. The Company is engaged in the manufacture and sale of components for automotive vehicles, motorcycles and agricultural tractors. The registered office of the Company is situated at 5th Floor, House of Habib, Main Shahrah-e-Faisal, Karachi.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Standards issued but not yet effective:

The following revised standards with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective revised standard:

	Standards	Effective date (accounting periods beginning on or after)
IAS 1 -	Presentation of Financial Statements (Revised)	January 01, 2009
IAS 23 -	Borrowing Costs (Revised)	January 01, 2009
IAS 32 -	Financial Instruments (Amended)	January 01, 2009
IAS 39 -	Financial Instruments: Recognition and Measurement (Amended)	January 01, 2009

The Company expects that the adoption of the above standards will not have any material impact on the Company's financial statements in the period of initial application other than to the extent of certain changes and/ or enhancements in the presentation and disclosures in the financial statements resulting from the application of the following:

IAS – 01 'Presentation of Financial Statements' (effective from January 1, 2009). The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only detail of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.

IAS – 23 (Amendment) 'Borrowing cost' (effective from January 1, 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (on that take substantial period of time to get ready for use or sale) as part of the cost of the asset. On adoption of the above amendment, the option of immediately expensing those borrowing costs will be withdrawn and will result in change in accounting policy. This amendment is not expected to have a significant effect on the Company's financial statements, as the Company does not have any borrowing for acquisition, construction or production of qualifying asset.

The other standards, amendments and interpretations effective from the accounting periods beginning on July 01, 2009 are not stated here as these are considered not to be relevant or to have any significant effect on the Company's operations.

2.3 Adoption of new accounting standards:

The Company has adopted the following new and amended IFRS and IFRIC interpretations as of July 01, 2008:

IFRS 7 - Financial Instruments: Disclosures

IFRIC 12 - Service concession arrangements

IFRIC 13 - Customer loyalty programmes; and

IFRIC 14 - IAS 19 – The limit on defined benefit asset, minimum funding requirement and their interactions

Adoption of these standards and interpretations did not have any material effect on the financial statements of the Company except for certain additional disclosures in respect of IFRS 7 included in the relevant notes to the financial statements.

2.4 Accounting convention

These financial statements have been prepared under the historical cost.

2.5 Significant accounting judgements and estimates

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 judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the process of applying the accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

(a) determining the residual values and useful lives of property, plant and equipment (Note 2.6);
(b) Impairment of inventories / adjustment of inventories to their Net Realizable Value (Note 2.8);
(c) Impairment of assets (Note 2.17);
(d) recognition of taxation and deferred tax (Note 2.15); and
(e) warranty obligations (Note 2.18)

2.6 Property, plant and equipment

a) Owned

These are stated at cost less accumulated depreciation and impairment loss except for freehold land and capital work in progress which are stated at cost.

Depreciation on fixed assets is charged to the profit and loss account applying the reducing balance method except for computer equipments which are depreciated on straight line method at the rates specified in note 3 to the financial statements. Depreciation on additions is charged from the month of addition and in case of deletion up to the month of disposal. Maintenance and normal repairs are charged to profit and loss account as and when incurred, while major renewals and improvements are capitalised. Gains or losses on disposals of fixed assets, if any, are included in income currently.

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Leasehold land is amortised in equal installments over the lease period.

b) Finance leases

Assets held under finance leases are initially recorded at the lower of the present value of minimum lease payments under the lease agreements and the fair value of the leased assets. The related obligations under the lease less financial charges allocated to future periods are shown as a liability.

The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of interest on the outstanding liability.

Depreciation is charged to income on the same basis as for the Company's owned assets.

2.7 Stores, spares and loose tools

These are stated at the lower of cost and Net Realisable Value (NRV) except for goods-in-transit which are stated at invoice price plus other charges incurred thereon upto the date of the balance sheet. Cost is determined on moving average basis.

Stores, spares and loose tools are regularly reviewed by the management and any obsolete items are brought down to their NRV.

2.8 Stock-in-trade

Stock-in-trade, except goods-in-transit, is stated at the lower of NRV and cost determined as follows:

Raw and packing materials	-	Moving average basis.
Work-in-process	-	Cost of direct materials plus conversion cost is valued on the basis of equivalent production units.
Finished goods	-	Cost of direct materials plus conversion cost is valued on time proportion basis.

Goods-in-transit are valued at purchase price, freight value and other charges incurred thereon upto the balance sheet date.

Stock-in-trade is regularly reviewed by the management and any obsolete items are brought down to their NRV.

NRV signifies the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.9 Trade debts and other receivables

Trade debts originated by the Company are recognised and carried at original invoice amount less provision for impairment. Other receivables are carried at cost less provision for impairment. Provision for impairment is based on the management's assessment of customers' outstandings and creditworthiness. Bad debts are written-off as and when identified.

2.10 Investments

Held-to-maturity

Investments with fixed maturity where management has both the intent and ability to hold to maturity are classified as held-to-maturity.

Available-for-sale

Investments which are neither classified in any other category and which the management intends to hold for indefinite period, but may be sold in response to the need for liquidity or changes in interest rates are classified as available-for-sale.

All investments are initially recognised at cost, being the fair value of the consideration given including transaction costs associated with the investment. Transaction costs in the case of held-for-trading investments are charged to income when incurred. After initial recognition, investments classified as available-for-sale are remeasured at fair values and held-to-maturity investments are measured at amortised cost.

For investments traded in active market, fair value is determined by reference to quoted market price and the investments for which a quoted market price is not available, or the fair value cannot be reasonably calculated, are measured at cost, subject to review for impairment at each balance sheet date.

Gains or losses on revaluation of available-for-sale investments are recognised in equity until the investment is sold, collected or otherwise disposed off, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income. Gains or losses on held-to-maturity investments are recognised in income when the investments are derecognised or impaired.

2.11 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, bank balances and short term investments with a maturity of three months or less from the date of acquisition net of short-term running finance. The cash and cash equivalents are readily convertible to known amount of cash and are therefore subject to insignificant risk of changes in value.

2.12 Financial instruments

All financial assets and liabilities are recognised at the time when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights under the instruments are realised, expired or surrendered. Financial liabilities are derecognised from the balance sheet when the obligation is extinguished, discharged, cancelled or expired. Any gain or loss on recognition or derecognition of the financial assets and financial liabilities is taken to the profit and loss account.

2.13 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously. Corresponding income and expenditure is also netted off and reported on a net basis in the profit and loss account.

2.14 Employees' benefits

Provident fund

The Company operates a recognised provident fund scheme (defined contribution plan) for all its employees who are eligible for the scheme in accordance with the Company's policy. Contributions in respect thereto are made in accordance with the terms of the scheme.

Compensated absences

The Company accounts for these benefits in the period in which the absences are earned.

2.15 Taxation

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any, or one half of one per cent of turnover, whichever is higher. Tax on export sales is calculated under final tax regime under Section 154 of the Income Tax Ordinance, 2001.

Deferred

Deferred tax is provided, proportionate to local sales, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of recognised or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

2.16 Provisions

Provision is recognised in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event, 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 obligation.

2.17 Impairment

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

2.18 Warranty obligations

The Company recognises the estimated liability to repair or replace products under warranty at the balance sheet date.

2.19 Foreign currency transactions

Transactions denominated in foreign currencies are recorded on initial recognition in Pak. Rupees, by applying to the foreign currency amount the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Pak. Rupees equivalents using the exchange rate at the balance sheet date. Exchange differences are included in income currently.

2.20 Revenue recognition

Sales are recorded when goods are dispatched to the customers.

Profit on Term Deposit Receipts are recognised on constant rate of return to maturity.

2.21 Dividends and appropriation to reserve

Dividend and appropriation to reserve are recognised in the financial statements in the period in which these are approved.

2.22 Related party transactions

All transactions with related parties are priced on an arm's length basis. Prices for these transactions are determined on the basis of admissible valuation methods.

2.23 Borrowing costs

Borrowing costs is recognised as an expense in the period in which it is incurred.

2.24 Research and development costs

Research and development costs are expensed as incurred, except for development costs that relate to the design of new or improved products which are recognised as an asset to the extent that it is expected that such asset will meet the recognition criteria mentioned in IAS – 38 “Intangible Assets”.

2.25 Functional and presentation currency

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

3. PROPERTY, PLANT AND EQUIPMENT

	Note	2009	2008
		(Rupees in 000')	
Operating assets – tangible	3.1	**344,480**	203,617
Capital work-in-progress		**-**	99,757
		344,480	303,374

3.1 Operating assets – tangible

	C O S T				DEPRECIATION				WRITTEN DOWN VALUE
	As at July 01, 2008	Additions/ (disposals)/ adjustments*	As at June 30, 2009	Rate of depreciation	As at July 01, 2008	Charge/ adjustments* for the year	Disposals/ adjustments*	As at June 30, 2009	As at June 30, 2 0 0 9
	---------------------(Rs. in 000') --------------			%	------------------------------ (Rs. in 000') --------------------------				
OWNED									
Freehold land	1,652	-	1,652	-	-	-	-	-	1,652
Leasehold land	36,127	(7,087)	29,040	3.03	1,011	1,007	(770)	1,248	27,792
Building on freehold land	35,819	52,796	88,615	10	30,748	3,324	-	34,072	54,543
Plant and machinery	312,488	116,507 (5,415) 10,700*	434,280	10 - 20	177,522	24,654 3,373*	(4,883)	200,666	233,614
Furniture and fixture	3,650	333	3,983	15	1,847	291	-	2,138	1,845
Vehicles	10,691	734 (3,307) 8,281*	16,399	20	5,400	1,336 2,444*	(2,329)	6,851	9,548
Office equipment	907	493	1,400	20	612	159	-	771	629
Computer equipment	3,833	1,964	5,797	33	2,087	897	-	2,984	2,813
Dies and tools	-	7,975	7975	40	-	1,595	-	1,595	6,380
	405,167	180,802 (15,809) 18,981*	589,141		219,227	33,263 5,817*	(7,982)	250,325	338,816
LEASED ASSETS									
Plant and machinery	10,700	(10,700)*	-	10- 20	2,900	473	(3,373)*	-	-
Vehicles	15,205	3,885 (870) (8,281)*	9,939	20	5,328	1,676	(285) (2,444)*	4,275	5,664
	25,905	3,885 (870) (18,981)*	9,939		8,228	2,149	(285) (5,817)*	4,275	5,664
2009	**431,072**	**184,687** **(16,679)**	**599,080**		**227,455**	**35,412** **5,817***	**(8,267)** **(5,817)***	**254,600**	**344,480**

	COST				DEPRECIATION				WRITTEN DOWN VALUE
	As at July 01, 2007	Additions/ (disposals)	As at June 30, 2008	Rate of depreciation	As at July 01, 2007	Charge for the year	Disposals	As at June 30, 2008	As at June 30, 2 0 0 8
	---(Rs. in 000') ---			%	--- (Rs. in 000') ---				
OWNED									
Freehold land	1,652	-	1,652	-	-	-	-	-	1,652
Leasehold land	7,087	29,040	36,127	3.03	430	581	-	1,011	35,116
Building on freehold land	35,819	-	35,819	10	30,184	564	-	30,748	5,071
Plant and machinery	275,319	38,009 (840)	312,488	10 – 20	163,541	14,757	(776)	177,522	134,966
Furniture and fixture	4,442	338 (1,130)	3,650	15	2,487	318	(958)	1,847	1,803
Vehicles	10,707	2,354 (2,370)	10,691	20	5,753	842	(1,195)	5,400	5,291
Office equipment	1,196	- (289)	907	20	772	84	(244)	612	295
Computer equipment	4,132	1,361 (1,660)	3,833	33	2,902	751	(1,566)	2,087	1,746
Dies and tools	209	- (209)	-	40	201	3	(204)	-	-
	340,563	71,102 (6,498)	405,167		206,270	17,900	(4,943)	219,227	185,940
LEASED ASSETS									
Plant and machinery	10,700	-	10,700	10- 20	2,033	867	-	2,900	7,800
Vehicles	13,729	4,212 (2,736)	15,205	20	4,056	2,318	(1,046)	5,328	9,877
	24,429	4,212 (2,736)	25,905		6,089	3.185	(1,046)	8,228	17,677
2008	**364,992**	**75,314 (9,234)**	**431,072**		**212,359**	**21,085**	**(5,989)**	**227,455**	**203,617**

3.2 Depreciation charge for the year has been allocated as follows :

	Note	2009	2008
		(Rs. in 000')	
Cost of sales	18	**32,636**	18,657
Distribution costs	19	**503**	698
Administrative expenses	20	**2,273**	1,730
		35,412	21,085

3.3 The following Property, plant and equipment were disposed off during the year:

Particulars		Cost	Accumulated depreciation	Book value	Sales Proceeds	Gain (Note 21)	Mode of Disposal	Particulars of buyer
		------------	------------	(Rs. in 000')	------------	------------		
Leasehold land								
Sundar Industrial Estate Plot No. 450, 451		7,087	770	6,317	7,087	770	Surrender	Punjab Industrial Estates
Plant and machinery								
Machinery		4,008	3,667	341	563	222	Auction	Pioneer Auctioneer
Generator		1,406	1,216	190	400	210	Auction	Pioneer Auctioneer
		5,414	4,883	531	963	432		
Vehicles								
Zabardast truck	KM-5094	485	364	121	200	79	Negotiation	Mr. Saleemullah Ranjho
Master truck	JU-1508	519	317	202	290	88	Negotiation	Mr. Saleemullah Ranjho
Honda CD-70	KDO-3683	50	3	47	47	-	Insurance claim	Habib Insurance Company Limited
Honda CD-70	KAY-8725	59	40	19	59	40	Company policy	Mr. Sher Mohammad, Employee
Honda CD-70	KAG-2470	59	44	15	59	44	Company policy	Mr. M Ibrahim, Employee
Honda CD-70	KAG-2469	59	44	15	59	44	Company policy	Mr. Tanvir Ahmed, Employee
Honda CD-70	KAY-8726	59	39	20	59	39	Company policy	Mr. M. Aboobakar, Employee
Toyota Corolla	AFK-846	1,169	856	313	349	36	Company policy	Mr. Fahim Kapadia, Director
Toyota Corolla	AFN-923	849	622	227	269	42	Company policy	Col. Sarfaraz Ahmed Khan, Executive
Daihatsu-Coure	ALC-596	424	207	217	396	179	Negotiation	Mr. Ghulam Nabi
Daihatsu-Coure	AQH-914	446	78	368	456	88	Negotiation	Mr. M. Kaleemullah, Executive
		4,178	2,614	1,564	2,243	679		
		16,679	**8,267**	**8,412**	**10,293**	**1,881**		

	2009	2008
	(Rs. in 000')	
3.4 Capital work-in-progress		
Plant and machinery	-	75,335
Civil works	-	24,422
	-	99,757

3.4.1 During the year capital work-in-progress amounting Rs. 134.613 million (2008: Rs. Nil) was transferred to owned assets.

	Note	2009	2008
		(Rs. in 000')	
4. LONG-TERM INVESTMENT – Available-for-sale			
In an unquoted company – at fair value			
Makro-Habib Pakistan Limited	4.1	**210,375**	180,000

4.1 The Company holds 24.750 million (2008: 18.000 million) shares of Rs. 10/- each.

	2009	2008
	(Rs. in 000')	
5. STORES, SPARES AND LOOSE TOOLS		
Stores	**20,141**	23,054
Spares	**13,745**	5,506
Loose tools	**7,609**	8,588
	41,495	37,148

Includes stores, spares and loose tools carried at NRV amounting to Rs. 0.122 million (2008: Rs. 0.875 million).

	2009	2008
	(Rs. in 000')	

6. STOCK-IN-TRADE

	2009	2008
Raw material	**307,135**	182,105
Packing material	**3,420**	6,695
Work-in-process	**33,998**	35,089
Finished goods	**23,737**	19,286
Goods-in-transit	**80,396**	41,841
	448,686	285,016

Includes stock-in-trade carried at NRV amounting to Rs. 7.294 million (2008: Rs. 14.596 million).

7. TRADE DEBTS – unsecured

	Note	2009 (Rs. in 000')	2008 (Rs. in 000')
Considered good		**237,009**	190,395
Considered doubtful		**4,641**	3,263
Less : Provision for impairment	7.1	**4,641**	3,263
		-	-
		237,009	190,395

7.1 Reconciliation of provision for impairment

	Note	2009	2008
Balance at the beginning of the year		**3,263**	2,963
Charge for the year	19	**1,378**	300
Balance at the end of the year		**4,641**	3,263

7.2 The aging of trade debts at June 30 is as follows

	2009	2008
Neither past due nor impaired	**190,945**	127,752
Past due but not impaired		
- 31 to 60 days	**34,760**	36,129
- over 61 days	**11,304**	26,514
	237,009	190,395

8. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2009	2008
Loans and advances – Unsecured, considered good			
Loans to employees		**70**	87
Advances			
- Suppliers		**239**	3,694
- Contractors		**860**	3,325
- Employees		**182**	120
		1,281	7,139
		1,351	7,226
Deposits and prepayments			
Deposits		**472**	1,941
Prepayments		**3,268**	1,379
Margin against letters of credit		-	25,587
		3,740	28,907
Other receivables – Unsecured, considered good			
Insurance claim receivable		**17**	8
Claim from foreign supplier		**35**	-
Excise duty		**101**	-
Freight charges receivable from a customer		**3,578**	-
Receivable from Workers' Profit Participation Fund	15.1	**-**	522
Net unrealised gain on revaluation of forward foreign exchange contracts (Cash flow hedges)		**-**	654
		3,731	1,184
		8,822	37,317

	Note	2009	2008
		(Rs. in 000')	
9. SHORT TERM INVESTMENTS			
Held- to- maturity - at cost			
Term Deposit Receipts	9.1	**150,000**	200,000
Accrued profit thereon		**2,038**	301
		152,038	200,301
Available-for-sale- at fair value			
Money market fund		**-**	59,230
		152,038	259,531

9.1 Represents three months Term Deposit Receipts of Habib Metropolitan Bank Limited carrying expected profit rate of 12% (2008: 11.53% – 13.50%) per annum and have maturity up to September 12, 2009.

	Note	2009	2008
		(Rs. in 000')	
10. CASH AND BANK BALANCES			
In hand		**26**	4
With banks in			
- current accounts		**18,039**	21,729
- deposit accounts	10.1	**207,586**	141,620
		225,625	163,349
		225,651	163,353

10.1 These carry profit ranging from 6% to 10% (2008: 7% to 8.75%) per annum.

11. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Ordinary shares of Rs. 5/- each

Number of shares in (000') 2009	2008		2009 (Rs. in 000')	2008
22,800	22,800	**Fully paid in cash**	**114,000**	114,000
		Issued as fully paid bonus shares		
1,200	1,200	Opening balance	**6,000**	6,000
4,800	-	Issued during the year	**24,000**	-
6,000	1,200	Closing balance	**30,000**	6,000
28,800	24,000		**144,000**	120,000

Related parties held 2,115,600 (2008: 1,763,000) ordinary shares of Rs. 5/- each in the Company at year end.

12. RESERVES

	2009	2008
	(Rs. in 000')	
Capital reserve		
Share premium	**12,598**	12,598
(Loss)/gain on change in fair value of available for sale investments	**(37,125)**	6,940
Revenue reserve		
General reserve	**1,045,000**	800,000
Unappropriated profit	**277,695**	297,324
	1,322,695	1,097,324
Net gain on cash flow hedge	**-**	425
	1,298,168	1,117,287

13. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Minimum Lease Payments	Present Value of MLP	Minimum Lease Payments	Present Value of MLP
	2009		2008	
	---------------------- (Rs. in 000') ----------------------			
Not later than one year	**3,748**	**3,156**	9,105	8,301
Later than one year but not later than five years	**2,907**	**2,612**	2,887	2,691
Total minimum lease payments	**6,655**	**5,768**	11,992	10,992
Less : Financial charges allocated to future periods	**887**	**-**	1,000	-
Present value of minimum lease payments	**5,768**	**5,768**	10,992	10,992
Less: Current portion shown under current liabilities	**(3,156)**	**(3,156)**	(8,301)	(8,301)
	2,612	**2,612**	2,691	2,691

This represents finance lease entered into with a modaraba for vehicles. The balance of the liability is payable by January 2012 in quarterly installments. The liability is partly secured by deposits of Rs. 0.995 million (2008: Rs. 2.60 million). The above lease contracts contain a bargain purchase option. Quarterly lease payments include finance charges ranging from KIBOR+2% to KIBOR+3% per annum (2008: KIBOR+2% to KIBOR+3%), which is used as a discounting factor. There are no financial restrictions in the lease agreements.

14. DEFERRED TAXATION

	2009	2008
	(Rs. in 000')	
Deferred taxation comprises temporary differences relating to:		
- Accelerated tax depreciation	**42,334**	23,186
- Assets subject to finance lease	**1,982**	2,340
- Provisions	**(13,592)**	(6,970)
- Fair value of forward exchange contract	**-**	229
	30,724	18,785

	Note	2009	2008
		(Rs. in 000')	

15. TRADE AND OTHER PAYABLES

	Note	2009	2008
Creditors		**66,857**	87,220
Excise duty payable		**-**	622
Royalty payable		**6,611**	2,813
Accrued liabilities		**44,958**	54,172
Advance from customers		**921**	990
Payable to provident fund		**882**	665
Workers' Profit Participation Fund	15.1	**723**	-
Workers' Welfare Fund		**8,972**	9,220
Unclaimed dividends		**4,512**	4,281
Guarantee bond payable	21.1	**-**	18,086
Infrastructure cess payable	16(ii)	**22,512**	13,262
Tax deducted at source		**212**	667
Warranty obligations	15.2	**8,720**	5,286
Others		**2,810**	3,506
		168,690	200,790

15.1 Workers' Profit Participation Fund

	Note	2009	2008
Balance at the beginning of the year		**(522)**	36
Allocation for the year	23	**21,583**	22,978
		21,061	23,014
Less: Payment made during the year		**20,338**	23,536
Balance at end of the year		**723**	(522)

15.2 Warranty obligations

	Note	2009	2008
Balance at the beginning of the year		**5,286**	5,160
Provision for the year	19	**11,491**	4,282
		16,777	9,442
Less: Claims paid during the year		**5,546**	4,156
Warranty no longer required – written back	21.1	**2,511**	-
		8,057	4,156
Balance at end of the year		**8,720**	5,286

16. CONTINGENCIES AND COMMITMENTS

Contingencies

(i) Outstanding bank guarantees issued to Collector of Customs as a security against differential import duty amount to Rs. 1.237 million (2008: Rs. 6.568 million) and to Sui Southern Gas Company Limited amount to Rs. 0.385 million (2008: Rs. 0.385 million).

(ii) The Divisional Bench of the Honourable High Court of Sindh through its order dated September 17, 2008 has declared the levy of the Infrastructure cess/fee by the Excise and Taxation Department, Government of Sindh upto December 27, 2006 as ultra vires of the Constitution. The levy subsequent to December 27, 2006 has been declared as valid and constitutional.

The Company has filed an appeal before the Honourable Supreme Court of Pakistan against the above order of the Honourable High Court of Sindh whereby the Honourable High Court of Sindh had declared infrastructure cess/fee subsequent to December 27, 2006 as valid and constitutional. The Honorable Supreme Court of Pakistan has accepted the petition and granted stay order against the payment of levy subject to the submission of bank guarantees.

The Company has decided not to reverse the liability pertaining to the periods prior to December 27, 2006 as the Excise Department, Government of Sindh has also filed an appeal before the Honorable Supreme Court of Pakistan against the above order of the Honourable High Court of Sindh. Therefore, the Company continues to provide for additional liability of the charge until the matter is finally decided by the Supreme Court of Pakistan.

An amount of Rs. 1.488 million (2008: Rs. 0.738 million) is an un-utilised portion of a bank guarantee issued in favour of Excise and Taxation Department, Government of Sindh against the levy of infrastructure cess on the imported goods. The utilised portion of guarantee amounting to Rs. 22.512 million (2008: Rs. 13.262 million) is shown under infrastructure cess payable in note 15 to the financial statements.

Commitments

(iii) Commitments in respect of outstanding letters of credit for raw material amount to Rs. 101.584 million (2008: Rs. 178.345 million).

	Note	2009	2008
		(Rs. in 000')	

17. TURNOVER – net

Sales		**2,826,058**	2,484,873
Less: Sales tax		**387,968**	321,069
Special excise duty		**24,248**	21,405
Trade discount		**533**	2,138
		412,749	344,612
		2,413,309	2,140,261

18. COST OF SALES

	Note	2009	2008
Raw material consumed			
Opening stock		**182,105**	217,672
Purchases		**1,760,527**	1,359,604
		1,942,632	1,577,276
Closing stock		**(307,135)**	(182,105)
		1,635,497	1,395,171
Manufacturing expenses			
Salaries, wages and benefits		**97,965**	78,874
Stores, spares and loose tools consumed		**68,171**	71,319
Packing material consumed		**13,337**	8,996
Fuel and power		**30,112**	25,867
Transportation and traveling		**19,733**	19,390
Depreciation	3.2	**32,636**	18,657
Repairs and maintenance		**13,775**	10,480
Royalty and technical fees		**10,581**	5,639
Research and development costs		**1,343**	8,757
Communications		**610**	1,122
Cartage		**2,889**	3,659
Printing and stationery		**390**	453
Insurance		**2,167**	1,529
Rent		**726**	600
Others		**1,571**	983
		296,006	256,325
Work-in-process			
Opening stock		**35,089**	17,644
Closing stock		**(33,998)**	(35,089)
Cost of goods manufactured		**1,932,594**	1,634,051
Finished goods			
Opening stock		**19,286**	13,634
Closing stock		**(23,737)**	(19,286)
		1,928,143	1,628,399

	Note	2009	2008
		(Rs. in 000')	
19. DISTRIBUTION COSTS			
Salaries and benefits		**8,008**	6,057
Advertisement and sales promotion		**12,196**	18,433
Carriage and forwarding		**8,923**	7,801
Traveling and conveyance		**2,256**	2,164
Depreciation	3.2	**503**	698
Provision for warranty claims	15.2	**11,491**	4,282
Provision for impairment of trade debts	7.1	**1,378**	300
Communications		**194**	210
Insurance		**288**	201
Repairs and maintenance		**370**	609
Others		**363**	302
		45,970	41,057
20. ADMINISTRATIVE EXPENSES			
Salaries and benefits		**20,737**	16,852
Legal and professional charges		**10,324**	8,883
Repairs and maintenance		**2,364**	2,218
Depreciation	3.2	**2,273**	1,730
Printing and stationery		**860**	426
Computer supplies		**621**	931
Rent, rates and taxes		**748**	457
Traveling and conveyance		**4,212**	2,228
Communications		**1,740**	1,711
Utilities		**662**	572
Security services		**1,613**	647
Insurance		**315**	483
Auditors' remuneration	20.1	**536**	377
Advertisement		**272**	337
Others		**485**	409
		47,762	38,261
20.1 Auditors' remuneration			
Audit fee		**375**	220
Fee for review of half yearly financial statements		**50**	50
Other certifications		**80**	65
Out of pocket expenses		**31**	42
		536	377
21. OTHER OPERATING INCOME			
Income from financial assets			
Profit on:			
- term deposit receipts		**8,982**	13,519
- deposit accounts		**5,283**	8,221
Liabilities no longer payable - written back	21.1	**20,823**	6,206
Gain on disposal of available for sale investments		**7,902**	-
Claim received from a customer		**-**	2,326
Others		**117**	83
		43,107	30,355
Income from non-financial assets			
Gain on disposal of property, plant and equipment	3.3	**1,881**	1,051
Scrap sales		**3,888**	929
		5,769	1,980
		48,876	32,335

	Note	2009	2008
		(Rs. in 000')	

21.1 Liabilities no longer payable - written back

	Note	2009	2008
Guarantee bonds	21.1.1	**18,086**	-
Provision for warranty	15.2	**2,511**	-
Custom duty		**-**	6,206
Others		**226**	-
		20,823	6,206

21.1.1 The Collector of Customs in the year 2006 started loading the declared value on account of the royalty payment as part of imported material from the technical partners. The company opposed the view of the Customs and instead of paying additional duty submitted the bank guarantee for release of goods. The company filed the review with the Director General-Custom Valuation that royalty payment should be part of motor car.

During the year, the Director General-Valuation issued an order in favor of the company. Hence, the amount of Rs.18.06 million on account of bank guarantee stands reversed.

	Note	2009	2008
		(Rs. in 000')	
22. FINANCE COSTS			
Mark-up on:			
- short term borrowings		**3,442**	176
- finance lease		**1,040**	1,630
Bank charges		**266**	154
		4,748	1,960
23. OTHER CHARGES			
Workers' Profit Participation Fund	15.1	**21,583**	22,978
Workers' Welfare Fund		**8,201**	8,732
Donations	23.1	**3,900**	3,357
		33,684	35,067

23.1 None of the directors or their spouses had any interest in any of the donees to whom donations were made during the year.

	2009	2008
	(Rs. in 000')	
24. TAXATION		
Current	**115,941**	143,460
Prior	**398**	96
Deferred	**12,168**	7,115
	128,507	150,671

	2009	2008
	(Rs. in 000')	

24.1 Relationship between tax expense and accounting profit

	2009	2008
Profit before taxation	**401,878**	427,852
Tax at the income tax rate of 35%	**140,658**	149,748
Tax effect of expenses that are admissible in determining taxable profit	**(22,370)**	(3,289)
Tax effect of temporary differences	**12,169**	7,115
Prior year	**398**	96
Tax effect of lower rate applicable to certain income	**19**	57
Workers' welfare fund	**(2,367)**	(3,056)
	128,507	150,671

25. BASIC AND DILUTED EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2009	2008
Profit after taxation (Rs. in 000')	**273,371**	277,181
		(Restated)
Weighted average number of ordinary shares outstanding during the year (in 000')	**28,800**	28,800
Basic and diluted earnings per share (Rs.)	**9.49**	9.62

	2009	2008
	(Rs. in 000')	

26. CASH GENERATED FROM OPERATIONS

	2009	2008
Profit before taxation	**401,878**	427,852
Adjustments for		
Depreciation	**35,412**	21,085
Finance costs	**4,748**	1,960
Liabilities written back	**(20,823)**	(6,206)
Provision for impairment of trade debts	**1,378**	300
Profit on short-term investments	**(16,884)**	(13,519)
Profit on deposit accounts	**(5,283)**	(8,221)
Gain on disposal of property, plant and equipment	**(1,881)**	(1,051)
	(3,333)	(5,652)
	398,545	422,200
Increase in stores, spares and loose tools	**(4,347)**	(2,177)
(Increase)/ decrease in stock-in-trade	**(163,670)**	25,038
(Increase)/ decrease in trade debts	**(47,991)**	32,082
Decrease/ (increase) in loans, advances, deposits prepayments and other receivables	**27,840**	(31,581)
	(188,168)	23,362
(Decrease)/ increase in trade and other payables	**(3,067)**	75,148
Increase/ (decrease) in sales tax payable	**11,338**	(3,760)
	8,271	71,388
	218,648	516,950

	Note	2009	2008
		(Rs. in 000')	

27. CASH AND CASH EQUIVALENTS

	Note	2009	2008
Cash and bank balances	10	**225,651**	163,353
Short term investments	9	**150,000**	200,000
		375,651	363,353

28. SHORT TERM BORROWINGS – secured

The facilities for short term running finance available from various banks amounted to Rs. 140 million (2008: Rs. 90 million). The rate of mark-up on these finances ranges from 1 to 3 months KIBOR plus rates varying from 1.25% to 1.50% (2008: 1 to 3 months KIBOR plus rates varying from 0.75% to 1.25%). The facilities are repayable on various dates latest by March 31, 2010 and are secured by way of pari passu hypothecation of Company's stock-in-trade, stores, spares, loose tools and trade debts.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

29.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is exposed to credit risk on trade debts, short term investments and bank balances. The Company seeks to minimise the credit risk exposure through having exposure only to customers considered credit worthy and obtaining securities where applicable.

Quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by the reference to external credit ratings or the historical information about counter party default rates.

	Carrying Values	
	2009	2008
	------- (Rs. in 000') ------	
29.1.1 Trade debts		
Customers with no defaults in the past one year	**237,009**	190,395

29.1.2 Short term investments and bank balances

Out of the total bank balance of Rs.225.625 million placed with banks, amounts aggregating Rs.224.770 million and short term investments of Rs.150 million have been placed with banks having short term credit rating of A1+.

31.2. Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. To guard against the risk, the Company has diversified funding sources and assets are managed with liquidity in mind. The maturity profile is monitored to ensure that adequate liquidity is maintained.

Year ended 30 June 2009	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	Total
	----------	----------	(Rupees)	----------	----------
Trade and other payables	52,126	100,981	15,583	-	168,690
Liabilities against assets subject to finance lease	-	716	2,440	2,612	5,768
Total	**52,126**	**101,697**	**18,023**	**2,612**	**174,458**

Year ended 30 June 2008	On demand	Less than 3 months	3 to 12 Months	1 to 5 Years	Total
	----------	----------	(Rupees)	----------	----------
Trade and other payables	53,048	135,709	12,033	-	200,790
Liabilities against assets subject to finance lease	-	1,231	7,070	2,691	10,992
Total	**53,048**	**136,940**	**19,103**	**2,691**	**211,782**

29.3 Capital risk management

The Company's objectives when managing capital is to safeguard the Company's ability to continue to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is currently financing majority of its operations through equity and working capital. The capital structure of the Company is equity based with no financing through long term borrowings.

29.4 Currency risk

Foreign currency risk is the risk that the value of financial assets or a financial liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. As at June 30, 2009, the Company is not exposed to currency risks in respect of financial assets or financial liabilities.

29.5 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of June 30, 2009 the Company is not significantly exposed to interest rate risk.

29.6 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

30. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise companies with common directorship, retirement funds, directors and key management personnel. Detail of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2009	2008
	(Rs. in 000')	
Insurance premium	**-**	1,338
Contribution to the provident fund	**2,771**	2,257

30.1 There are no transactions with key management personnel other than under the terms of employment as disclosed in note 31.

31. REMUNERATION OF THE CHAIRMAN, CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

31.1 Aggregate amounts charged in the financial statements are as follows:

	2009				2008			
	Chairman	Chief Executive	Director	Executives	Chairman	Chief Executive	Director	Executives
	(Rs. in 000's)							
Managerial remuneration	**540**	**5,977**	**-**	**13,688**	390	5,828	-	10,406
Retirement benefits	**-**	**315**	**-**	**716**	-	282	-	503
Utilities	**208**	**-**	**-**	**105**	193	-	-	86
Medical expenses	**13**	**10**	**-**	**136**	14	8	-	141
Leave encashment	**-**	**-**	**-**	**204**	-	-	-	470
	761	**6,302**	**-**	**14,849**	597	6,118	-	11,606
Number of persons	**1**	**1**	**5**	**9**	1	1	5	7

31.2 The Chairman, Chief Executive and certain Executives are also provided with free use of Company maintained vehicles in accordance with the Company's policy.

31.3 2 directors (2008: 3) have been paid fee of Rs. 50,000 (2008: Rs. 75,000) for attending the board meeting.

32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 14, 2009 by the Board of Directors of the Company.

33. PRODUCTION CAPACITY

The production capacity of the Company can not be determined as this depends on the relative proportions of various types of vehicles and agricultural tractors produced by OEMs.

34. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on September 14, 2009 (i) approved the transfer of Rs. 200 million from unappropriated profit to general reserve and (ii) proposed cash dividend of Rs. 2.00 per share for the year ended June 30, 2009 amounting to Rs. 57.60 million for approval of the members at the Annual General Meeting to be held on October 26, 2009.

35. GENERAL

Figures have been rounded off to the nearest thousands.

Chairman — Executive Vice Chairman — Chief Executive