

**AGRIAUTO INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**1. THE COMPANY AND ITS OPERATIONS**

Agriauto Industries Limited (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, motor cycles and agricultural tractors. The registered office of the Company is situated at 5<sup>th</sup> Floor, House of Habib, Main Shahrah-e-Faisal, Karachi.

**2. STATEMENT OF COMPLIANCE**

**2.1** 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 (IASB) 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, interpretations and amendments to approved accounting standards that are not yet effective**

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

<b>Standards, interpretation or amendment</b>	<b>Effective date (accounting periods beginning on or after)</b>
IFRS 2    Share-based Payments: Amendments relating to Group Cash-settled Share-based Payment Transactions	January 01, 2010
IAS 24    Related Party Disclosures (Revised)	January 01, 2011
IAS 32    Financial Instruments: Presentation - Amendments related to Classification of Rights Issues	February 01, 2010
IFRIC 14    Prepayments of a Minimum Funding Requirement (Amendment)	January 01, 2011
IFRIC 19    Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010

The Company expects that the adoption of the above revisions, interpretations and amendments of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project in April 2009. Such improvements are generally effective for accounting periods beginning on or after January 01, 2010. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

**3. BASIS OF MEASUREMENT**

**3.1** These financial statements have been prepared under the historical cost convention except for available-for-sale investment which is valued as stated in note 13 to the financial statements.

**3.2** These financial statements are presented in Pak Rupees which is the Company's functional and presentation currency.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 4.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous year except as follows:

##### **IAS-1 “Presentation of Financial Statements (Revised)”**

The Company has adopted IAS-1 “Presentation of Financial Statements (Revised)” which became effective during the year. The revised standard introduces the statement of comprehensive income which presents all items of income and expenses either in one single statement or two linked statements. Accordingly, the Company has elected to present two statements; profit and loss account and statement of comprehensive income. As a result of the introduction of statement of comprehensive income, the statement of changes in equity will now include only the details of transactions with owners and items of other comprehensive income will be presented as a single line in such statement.

##### **IAS-23 “Borrowing Costs (Revised)”**

The Company has adopted IAS-23 “Borrowing Costs (Revised)” which became effective during the year. The revised standard requires the Company to capitalize borrowing costs attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale). In order to comply with the requirements of the revised standard, the Company has changed its accounting policy related to borrowing costs. Previously, all borrowing costs were charged to the profit and loss account as incurred. This change in policy does not have any affect on these financial statements for the reason that during the year the Company has not incurred any borrowing costs directly attributable to the acquisition of or construction of qualifying assets.

##### **IFRS-7 – “Financial Instruments: Disclosures (Amendments)”**

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurement related to items recorded at fair value are to be disclosed by source of input using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. The fair value measurement disclosures are presented in note 32 to the financial statements. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 31.3 to the financial statements.

#### **4.2 Property, plant and equipment**

##### **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 at the rates specified in note 6 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.

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

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.

##### **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.

### 4.3 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.

### 4.4 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.

### 4.5 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.

### 4.6 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 not classified in the above 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.

#### **4.7 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.

#### **4.8 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 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.

#### **4.9 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.

#### **4.10 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.

#### **4.11 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.

#### **4.12 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.

#### **4.13 Warranty obligations**

The Company recognises the estimated liability to repair or replace products under warranty at the balance sheet date on the basis of historical experience.

#### **4.14 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.

#### 4.15 Revenue recognition

Sales are recorded when goods are dispatched to the customers.

Profit on term deposit receipts is recognised on constant rate of return to maturity.

Profit on deposit accounts is recognised on accrual basis

Dividend income is recognised when the right to receive the dividend is established.

#### 4.16 Dividends and appropriation to reserve

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

#### 4.17 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.

#### 4.18 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

#### 4.19 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".

### 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:

	<b>Notes</b>
- determining the residual values and useful lives of property, plant and equipment	4.2 & 6
- valuation of inventories	4.3, 4.4, 9 & 10
- provision against trade debts	4.5 & 11
- provision for tax and deferred tax	4.11, 17 & 27
- warranty obligations	4.13 & 18.2

### 6. PROPERTY, PLANT AND EQUIPMENT

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rs. in 000')</b>	
Operating assets – tangible	6.1	<b>331,661</b>	344,480
Capital work-in-progress – dies and tools		<b>13,775</b>	-
		<b>345,436</b>	<b>344,480</b>

## 6.1 Operating assets – tangible

	C O S T				DEPRECIATION / AMORTIZATION			WRITTEN DOWN VALUE	
	As at July 01, 2009	Additions/ (disposals)/ adjustments*	As at June 30, 2010	Depreciation/ Amortization rate	As at July 01, 2009	Charge/ adjustments* for the year	Disposals/ adjustments* for the year	As at June 30, 2010	As at June 30, 2010
	(Rs. in 000')			%	(Rs. in 000')				
<b>Owned</b>									
Freehold land	1,652	-	1,652	-	-	-	-	-	1,652
Leasehold land	29,040	-	29,040	3.03	1,248	880	-	2,128	26,912
Building on freehold land	88,615	3,137	91,752	10	34,072	5,606	-	39,678	52,074
Plant and machinery	434,280	17,727 (15,664)	436,343	10 – 20	200,666	30,128	(5,462)	225,332	211,011
Furniture and fittings	3,983	602	4,585	15	2,138	330	-	2,468	2,117
Vehicles	16,399	15,833 4,705* (5,010)	31,927	20	6,851	2,784 2,393*	(2,564)	9,464	22,463
Office equipment	1,400	148	1,548	20	771	129	-	900	648
Computer equipment	5,797	2,598	8,395	33	2,984	1,208	-	4,192	4,203
Dies and tools	7,975	2,578	10,553	40	1,595	2,914	-	4,509	6,044
	589,141	42,623 (20,674) 4,705*	615,795		250,325	43,979 2,393*	(8,026)	288,671	327,124
<b>Leased assets</b>									
Vehicles	9,939	2,950 (4,705)*	8,184	20	4,275	1,765	(2,393)*	3,647	4,537
<b>2010</b>	<b>599,080</b>	<b>45,573</b> <b>(20,674)</b>	<b>623,979</b>		<b>254,600</b>	<b>45,744</b> <b>2,393*</b>	<b>(8,026)</b> <b>(2,393)*</b>	<b>292,318</b>	<b>331,661</b>

\* Represents assets transferred from leased assets to owned assets.

	C O S T				DEPRECIATION / AMORTIZATION			WRITTEN DOWN VALUE	
	As at July 01, 2008	Additions/ (disposals)/ adjustments*	As at June 30, 2009	Depreciation/ Amortization rate	As at July 01, 2008	Charge/ adjustments* for the year	Disposals/ adjustments* for the year	As at June 30, 2009	As at June 30, 2009
	(Rs. in 000')			%	(Rs. in 000')				
<b>Owned</b>									
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 fittings	3,650	333	3,983	15	1,847	291	-	2,138	1,845
Vehicles	10,691	734 (4,177) 9,151*	16,399	20	5,400	1,336 2,729*	(2,614)	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	7,975	40	-	1,595	-	1,595	6,380
	405,167	180,802 (16,679) 19,851*	589,141		219,227	33,263 6,102*	(8,267)	250,325	338,816
<b>Leased assets</b>									
Plant and machinery	10,700	(10,700)*	-	10- 20	2,900	473	(3,373)*	-	-
Vehicles	15,205	3,885 (9,151)*	9,939	20	5,328	1,676	(2,729)*	4,275	5,664
	25,905	3,885 (19,851)*	9,939		8,228	2,149	(6,102)*	4,275	5,664
<b>2009</b>	<b>431,072</b>	<b>184,687</b> <b>(16,679)</b>	<b>599,080</b>		<b>227,455</b>	<b>35,412</b> <b>6,102*</b>	<b>(8,267)</b> <b>(6,102)*</b>	<b>254,600</b>	<b>344,480</b>

**6.2 Depreciation charge for the year has been allocated as follows :**

	Note	2010 (Rs. in 000')	2009
Cost of sales	21	41,804	32,636
Distribution costs	22	728	503
Administrative expenses	23	3,212	2,273
		<u>45,744</u>	<u>35,412</u>

**6.3 The following property, plant and equipment were disposed off during the year:**

Particulars	Cost	Accumulated depreciation	Book value (Rs. in 000')	Sales proceeds	(Loss) / gain	Mode of disposal	Particulars of buyer
<b>Plant and machinery</b>							
Machinery	5,980	3,722	2,258	1,812	(446)	Auction	ABC Neelam Ghar, Karachi
Machinery	9,684	1,740	7,944	2,330	(5,614)	Auction	Pioneer Auctioneers, Karachi
	<u>15,664</u>	<u>5,462</u>	<u>10,202</u>	<u>4,142</u>	<u>(6,060)</u>		
<b>Vehicles</b>							
Suzuki Cultus	590	190	400	516	116	Company policy	Mr. Aqeel Loon, Employee
Daihatsu Cuore	424	268	156	287	131	Company policy	Mr. Mian M. Saeed, Employee
Daihatsu Cuore	424	273	151	287	136	Company policy	Mr. Tanveerul Hassan, Employee
Daihatsu Cuore	665	33	632	665	33	Insurance claim	Habib Insurance Company Limited, Karachi
Toyota Altis	1,309	871	438	438	-	Company policy	Mr. Qazi Ebadullah Khan, Ex-Director
Toyota Altis	1,319	767	552	1,114	562	Trade-off	Muhammad Waris c/o Toyota Southern Motors, Karachi
Honda CD-70	54	39	15	54	39	Company policy	Mr. Syed Rafaquat Ali, Employee
Honda CD-70	54	39	15	54	39	Company policy	Mr. Khurshheed Alam, Employee
Honda CD-70	54	39	15	54	39	Company policy	Mr. Salhuddin, Employee
Honda CD-70	54	38	16	54	38	Company policy	Mr. Aqeel Ahmed, Employee
Honda CD-70	63	7	56	63	7	Insurance claim	Habib Insurance Company Limited, Karachi
	<u>5,010</u>	<u>2,564</u>	<u>2,446</u>	<u>3,586</u>	<u>1,140</u>		
	<u>20,674</u>	<u>8,026</u>	<u>12,648</u>	<u>7,728</u>	<u>(4,920)</u>		

Note 2010 2009  
(Rs. in 000')

**7. LONG TERM INVESTMENT – available-for-sale**

In an unquoted company –

Makro-Habib Pakistan Limited (MHPL)	7.1	-	210,375
-------------------------------------	-----	---	---------

**7.1** During the year, the Company has sold its shareholding in MHPL to Thal Limited (TL), a related party under a Share Purchase Agreement (SPA) dated May 14, 2010, at an aggregate consideration of Rs.157.658 million. In terms of the SPA, the Company has received an amount of Rs.108.405 million from TL towards the purchase consideration of the said shares. However, the balance consideration amounting to Rs. 49.253 million shall only be payable by TL subject to the following:

- TL determines that the Group tax relief for the years 2008-2010, as claimed by TL, can be fully sustained or is unable to make such determination by June 2014; and
- TL determines that MHPL will not incur an impairment loss in case of closure of its Sadder store or is unable to make such determination about the impairment by June 2014.

Accordingly, the contingent balance payment for (a) and (b) above, amounts to Rs. 28.710 million and Rs. 20.543 million respectively. The management, as a matter of prudence, has made a full provision against the said contingent receivable in these financial statements.

	Note	2010 (Rs. in 000')	2009
<b>8. LONG TERM DEPOSITS AND OTHER RECEIVABLE</b>			
Security deposits		2,252	1,975
Other receivable	8.1	-	-
		<u>2,252</u>	<u>1,975</u>
<b>8.1 Other receivable</b>			
Long term receivable		49,252	-
Provision against long term receivable	7.1	(49,252)	-
		<u>-</u>	<u>-</u>
<b>9. STORES, SPARES AND LOOSE TOOLS</b>			
Stores		25,972	20,141
Spares		13,561	13,745
Loose tools		7,171	7,609
		<u>46,704</u>	<u>41,495</u>

9.1 Includes stores, spares and loose tools carried at NRV amounting to Nil (2009: Rs. 0.122 million).

	2010 (Rs. in 000')	2009
<b>10. STOCK-IN-TRADE</b>		
Raw material	390,527	307,135
Packing material	3,071	3,420
Work-in-process	63,370	33,998
Finished goods	25,420	23,737
Goods-in-transit	148,351	80,396
	<u>630,739</u>	<u>448,686</u>

10.1 Includes stock-in-trade carried at NRV amounting to Rs. 14.641 million (2009: Rs. 7.294 million).

	Note	2010 (Rs. in 000')	2009
<b>11. TRADE DEBTS – unsecured</b>			
Considered good		309,221	237,009
Considered doubtful		3,574	4,641
Less : Provision for impairment	11.1	3,574	4,641
		<u>-</u>	<u>-</u>
		<u>309,221</u>	<u>237,009</u>
<b>11.1 Reconciliation of provision for impairment</b>			
Balance at the beginning of the year		4,641	3,263
Charge for the year	22	300	1,378
Write-offs during the year		(1,367)	-
Balance at the end of the year		<u>3,574</u>	<u>4,641</u>
<b>11.2 The aging of trade debts at June 30 is as follows</b>			
Neither past due nor impaired		276,135	229,963
Past due but not impaired		33,086	7,046
		<u>309,221</u>	<u>237,009</u>



	Note	2010 (Rs. in 000')	2009
<b>12. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
<b>Advances – unsecured, considered good</b>			
Suppliers		1,293	239
Contractors		865	860
Employees		768	252
		<u>2,926</u>	<u>1,351</u>
<b>Deposits</b>		<b>351</b>	<b>472</b>
<b>Prepayments</b>			
Insurance		3,940	3,210
Others		830	58
		<u>4,770</u>	<u>3,268</u>
<b>Other receivables – unsecured, considered good</b>			
Insurance claim receivable		141	17
Excise duty receivable		653	101
Claim from foreign supplier		-	35
Freight charges receivable from a customer		-	3,578
		<u>794</u>	<u>3,731</u>
		<u><b>8,841</b></u>	<u><b>8,822</b></u>

### 13. SHORT TERM INVESTMENTS

#### Held- to- maturity

Term deposit receipts	13.1	450,000	150,000
Accrued profit thereon		7,761	2,038
		<u>457,761</u>	<u>152,038</u>

#### Available-for-sale

Atlas Money Market Fund		50,900	-
NAFA Government Securities Liquid Fund		50,442	-
UBL Liquidity Plus Fund		25,015	-
Meezan Cash Fund		25,034	-
		<u>609,152</u>	<u>152,038</u>

13.1 Represents three months term deposit receipts with a commercial bank carrying expected profit rate of 11.75% (2009: 12%) per annum and will mature by September 2010.

	Note	2010 (Rs. in 000')	2009
<b>14. CASH AND BANK BALANCES</b>			
In hand		20	26
<b>With banks in</b>			
- current accounts		32,470	18,039
- deposit accounts	14.1	160,568	207,586
		<u>193,038</u>	<u>225,625</u>
		<u><b>193,058</b></u>	<u><b>225,651</b></u>

14.1 These carry profit rates ranging from 6% to 8% (2009: 6% to 10%) per annum.

2010                      2009  
(Rs. in 000')

**15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

Ordinary shares of Rs. 5/- each

Number of shares in (000')				
2010	2009		2010	2009
22,800	22,800	Fully paid in cash	114,000	114,000
6,000	6,000	Issued as fully paid bonus shares	30,000	30,000
<u>28,800</u>	<u>28,800</u>		<u>144,000</u>	<u>144,000</u>

Related parties held 2,115,600 (2009: 2,115,600) ordinary shares of Rs. 5/- each in the Company at year end.

**16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

	Minimum Lease Payments	Present value of MLP	Minimum lease payments	Present value of MLP
	2010		2009	
----- (Rs. in 000') -----				
Not later than one year	2,916	2,441	3,748	3,156
Later than one year but not later than five years	2,621	2,434	2,907	2,612
Total minimum lease payments	5,537	4,875	6,655	5,768
Less : Financial charges allocated to future periods	662	-	887	-
Present value of minimum lease payments	4,875	4,875	5,768	5,768
Less: Current portion shown under current liabilities	2,441	2,441	3,156	3,156
	<u>2,434</u>	<u>2,434</u>	<u>2,612</u>	<u>2,612</u>

Represents finance lease entered into with a modaraba for vehicles. The balance of the liability is payable by September 2012 in quarterly installments. The liability is partly secured by deposits of Rs. 0.812 million (2009: Rs. 0.995 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 (2009: KIBOR+2% to KIBOR+3%), which is used as a discounting factor. There are no financial restrictions in the lease agreements.

Note                      2010                      2009  
(Rs. in 000')

**17. DEFERRED TAXATION**

Deferred taxation comprises temporary differences relating to:

c) Accelerated tax depreciation		45,039	42,334
d) Assets subject to finance lease		(118)	(37)
e) Provisions		<u>(18,285)</u>	<u>(11,573)</u>
		<u>26,636</u>	<u>30,724</u>

**18. TRADE AND OTHER PAYABLES**

Creditors		105,477	66,857
Royalty payable		10,533	6,611
Accrued liabilities		51,625	44,958
Advance from customers		3,275	921
Payable to provident fund		935	882
Workers' Profit Participation Fund	18.1	36,972	723
Workers' Welfare Fund		17,329	8,972
Unclaimed and unpaid dividends		5,155	4,512
Guarantee bond payable	19(i)	1,111	-
Infrastructure cess payable	19(ii)	37,023	22,512
Tax deducted at source		1,223	212
Warranty obligation	18.2	17,471	8,720
Others		3,250	2,810
		<u>291,379</u>	<u>168,690</u>

		2010	2009
		(Rs. in 000')	
<b>18.1 Workers' Profit Participation Fund</b>			
Balance at the beginning of the year		723	(522)
Allocation for the year	26	<u>36,972</u>	<u>21,583</u>
		<b>37,695</b>	21,061
Less: Payment made during the year		<u>723</u>	<u>20,338</u>
Balance at end of the year		<u><b>36,972</b></u>	<u>723</u>
<b>18.2 Warranty obligations</b>			
Balance at the beginning of the year		8,720	5,286
Provision for the year	22	<u>12,976</u>	<u>8,980</u>
		<b>21,696</b>	14,266
Less: Claims paid during the year		<u>4,225</u>	<u>5,546</u>
Balance at end of the year		<u><b>17,471</b></u>	<u>8,720</u>

## 19. 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 (2009: Rs. 1.237 million). However, the Company, as a matter of prudence, has made a provision of Rs. 1.111 million (2009: Rs. Nil) against such import duty.
- (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. 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. 2.977 million (2009: Rs. 1.488 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. 37.023 million (2009: Rs. 22.512 million) is shown under infrastructure cess payable in note 18 to the financial statements.

- (iii) The Additional Commissioner of Income Tax (Audit Division) has amended the deemed assessment order in respect of the tax year 2005, whereby the tax liability for the said tax year has been enhanced by Rs. 14.08 million. The Company preferred an appeal against the aforesaid amended order before the Commissioner of Income Tax (Appeals). The Commissioner of Income Tax (Appeals) decided in favour of the Income Tax Department and has upheld the deemed revised order of Additional Commissioner of Income Tax (Audit Division). The Company has filled an appeal in Appellate Tribunal to contest the order of the Commissioner of Income Tax (Appeals). The Appellate Tribunal has reserved the decision/order against the impugned order of the Commissioner of Income Tax (Appeals). The Company based on the view of its tax consultant, is confident that the outcome of the appeal will be in its favour and, therefore, no provision in respect of the enhanced tax liability has been made in these financial statements.

### Commitments

- (i) Commitments in respect of outstanding letters of credit for raw material amount to Rs. 189.633 million (2009: Rs. 101.584 million).
- (ii) Commitments in respect of capital expenditure amount to Rs. 22.865 million (2009: Nil).
- (iii) Outstanding bank guarantees issued to Sui Southern Gas Company Limited amounts to Rs. 0.385 million (2009: Rs. 0.385 million)

	Note	2010 (Rs. in 000')	2009
<b>20. TURNOVER – net</b>			
Sales		4,573,587	2,826,058
Less: Sales tax		625,099	387,968
Special excise duty		38,140	24,248
Trade discount		3,866	533
		667,105	412,749
		<b>3,906,482</b>	<b>2,413,309</b>
<b>21. COST OF SALES</b>			
<b>Raw material consumed</b>			
Opening stock		307,135	182,105
Purchases		2,653,372	1,763,416
		2,960,507	1,945,521
Closing stock		(390,527)	(307,135)
		<b>2,569,980</b>	<b>1,638,386</b>
<b>Manufacturing expenses</b>			
Salaries, wages and benefits		122,283	97,965
Stores, spares and loose tools consumed		99,037	68,171
Packing material consumed		17,173	13,337
Fuel and power		38,579	30,112
Transportation and traveling		25,679	19,733
Depreciation	6.2	41,804	32,636
Repairs and maintenance		36,015	13,775
Royalty and technical fees		22,857	10,581
Research and development costs		654	1,343
Communications		799	610
Printing and stationery		721	390
Insurance		2,160	2,167
Rent		2,342	726
Others		1,220	1,571
		411,323	293,117
<b>Work-in-process</b>			
Opening stock		33,998	35,089
Closing stock		(63,370)	(33,998)
<b>Cost of goods manufactured</b>		<b>2,951,931</b>	<b>1,932,594</b>
<b>Finished goods</b>			
Opening stock		23,737	19,286
Closing stock		(25,420)	(23,737)
		(1,683)	(4,451)
		<b>2,950,248</b>	<b>1,928,143</b>
<b>22. DISTRIBUTION COSTS</b>			
Salaries and benefits		9,332	8,008
Advertisement and sales promotion		9,900	12,196
Carriage and forwarding		14,441	8,923
Traveling and conveyance		1,421	2,256
Depreciation	6.2	728	503
Provision for warranty claims	18.2	12,976	8,980
Provision for impairment of trade debts	11.1	300	1,378
Communications		190	194
Insurance		196	288
Repairs and maintenance		395	370
Others		907	363
		<b>50,786</b>	<b>43,459</b>

	Note	2010	2009
		(Rs. in 000')	
<b>23. ADMINISTRATIVE EXPENSES</b>			
Salaries and benefits		30,254	20,737
Legal and professional charges		15,491	10,324
Repairs and maintenance		3,872	2,364
Depreciation	6.2	3,212	2,273
Printing and stationery		819	860
Computer supplies		1,716	621
Rent, rates and taxes		1,159	748
Traveling and conveyance		5,809	4,212
Communications		1,765	1,740
Utilities		834	662
Security services		2,269	1,613
Insurance		414	315
Auditors' remuneration	23.1	635	536
Advertisement		116	272
Others		1,928	485
		<u>70,293</u>	<u>47,762</u>
<b>23.1 Auditors' remuneration</b>			
Audit fee		500	375
Fee for review of half yearly financial statements		50	50
Other certifications		60	80
Out of pocket expenses		25	31
		<u>635</u>	<u>536</u>
<b>24. OTHER OPERATING (EXPENSES) / INCOME</b>			
<b>Income from financial assets</b>			
Profit on:			
f) term deposit receipts		42,380	8,982
g) deposit accounts		10,084	5,283
		<u>52,464</u>	<u>14,265</u>
(Loss) / gain on disposal of available for sale investments		(89,843)	7,902
Provision against long-term receivable	8.1	(49,252)	-
Liabilities no longer payable - written back		-	18,312
Others		-	117
		<u>(139,095)</u>	<u>26,331</u>
<b>Income from non-financial assets</b>			
(Loss) / gain on disposal of property, plant and equipment	6.3	(4,920)	1,881
Scrap sales		3,326	3,888
		<u>(1,594)</u>	<u>5,769</u>
		<u>(88,225)</u>	<u>46,365</u>
<b>25. FINANCE COSTS</b>			
Mark-up on			
- finance lease		661	1,040
- short term borrowings		-	3,442
		<u>661</u>	<u>4,482</u>
Bank charges		426	266
		<u>1,087</u>	<u>4,748</u>
<b>26. OTHER CHARGES</b>			
Workers' Profit Participation Fund	18.1	36,972	21,583
Workers' Welfare Fund		17,197	8,201
Donations	26.1	6,401	3,900
		<u>60,570</u>	<u>33,684</u>

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

	2010	2009
	(Rs. in 000')	
<b>27. TAXATION</b>		
Current	294,984	115,941
Prior	135	398
Deferred	<u>(4,088)</u>	<u>12,168</u>
	<u>291,031</u>	<u>128,507</u>

**27.1 Relationship between tax expense and accounting profit**

Profit before taxation	<u>685,273</u>	<u>401,878</u>
Tax at the income tax rate of 35%	239,846	140,658
<b>Tax effects of:</b>		
Expenses that are not taken into account for determining taxable profit	29,652	(22,370)
Loss on sale of investment not deductible for tax purposes	31,445	-
Income taxed at reduced rate	59	19
Temporary differences	(4,088)	12,169
Prior year	135	398
Workers' Welfare Fund on tax profit exceeding accounting profit	<u>(6,018)</u>	<u>(2,367)</u>
	<u>291,031</u>	<u>128,507</u>

**28. BASIC AND DILUTED EARNINGS PER SHARE**

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

	2010	2009
Profit after taxation (Rs. in 000')	<u>394,242</u>	<u>273,371</u>
Weighted average number of ordinary shares outstanding during the year (in 000')	<u>28,800</u>	<u>28,800</u>
Basic and diluted earnings per share (Rs.)	<u>13.69</u>	<u>9.49</u>
	2010	2009
	(Rs. in 000')	

**29. CASH GENERATED FROM OPERATIONS**

Profit before taxation	685,273	401,878
<b>Adjustments for</b>		
Depreciation	45,744	35,412
Finance costs	1,087	4,748
Provision for impairment of trade debts	300	1,378
Liabilities no longer payable - written back	-	(18,312)
Provision against long-term receivable	49,252	-
Profit on term deposit receipts	(42,380)	(16,884)
Profit on bank balances	(10,084)	(5,283)
Loss on disposal of available-for-sale investment	89,843	-
Loss / (gain) on disposal of property, plant and equipment	4,920	(1,881)
	<u>138,682</u>	<u>(822)</u>
	<u>823,955</u>	<u>401,056</u>
Increase in stores, spares and loose tools	(5,209)	(4,347)
Increase in stock-in-trade	(182,053)	(163,670)
Increase in trade debts	(72,512)	(47,991)
Increase in sales tax refundable	(19,076)	-
(Increase) / decrease in advances, deposits prepayments and other receivables	(19)	27,840
	<u>(278,869)</u>	<u>(188,168)</u>
Increase / (decrease) in trade and other payables	122,046	(5,578)
Increase in sales tax payable	-	11,338
	<u>122,046</u>	<u>5,760</u>
	<u>667,132</u>	<u>218,648</u>

	Note	2010 (Rs. in 000')	2009
<b>30. CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	14	<b>193,058</b>	225,651
Short term investments	13	<b>450,000</b>	150,000
		<b><u>643,058</u></b>	<u>375,651</u>

### **31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

#### **31.1 Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate and foreign exchange rates.

##### **(i) Interest rate risk**

Interest rate risk is the risk that the value of financial instrument will fluctuate due to the changes in market interest rates. The Company is exposed to interest rate risk in respect of bank deposits, term deposit receipts and investment in income based mutual funds. Management of the Company estimates that 1% increase in the market interest rate, with all other factor remaining constant, would increase the Company's profit by Rs. 6.014 million and a 1% decrease would result in the decrease in the Company's profit by the same amount. However, in practice, the actual result may differ from the sensitivity analysis.

##### **(ii) Foreign 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, 2010, the Company is not exposed to currency risks in respect of financial assets or financial liabilities.

#### **31.2 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 mainly 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.

The table below provides the analysis of the credit quality of financial assets on the basis of external credit rating or the historical information about counter party default rates.

	2010	2009
	(Rs. in 000')	
<b>Trade debts</b>		
Customers with no defaults in the past one year	309,221	237,009
<b>Bank balances</b>		
<b>Ratings</b>		
A1+	192,047	224,770
A1	991	855
	<b>193,038</b>	<b>225,625</b>
<b>Short term investments</b>		
<b>Ratings</b>		
A1+	457,761	152,038
AA+	25,015	-
A+	50,442	-
AA	75,934	-
	<b>609,152</b>	<b>152,038</b>
	<b>1,111,411</b>	<b>614,672</b>

### 31.3 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.

	On demand	Less	3 to 12	1 to 5	Total
		than 3	months	months	
(Rupees)					
Trade and other payables	72,672	199,216	19,491	-	291,379
Liabilities against assets subject to finance lease	-	588	1,853	2,434	4,875
	<b>72,672</b>	<b>199,804</b>	<b>21,344</b>	<b>2,434</b>	<b>296,254</b>
<b>2009</b>					
	On demand	Less	3 to 12	1 to 5	Total
		than 3	months	months	
(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
	<b>52,126</b>	<b>101,697</b>	<b>18,023</b>	<b>2,612</b>	<b>174,458</b>

## 32. 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 fair value of the mutual fund units is determined by using the net asset value as disclosed by the Fund Manager at each balance sheet date. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

### Fair value hierarchy

The Company uses the following hierarchy for disclosure of the fair value of financial instruments by valuation technique:

Level 1: quoted prices in active market for identical assets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2010, the Company has only available-for-sale investments measured at fair value using level 1 valuation technique.



### 33. 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.

### 34. 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 disposal of investment and remuneration of key management personnel as disclosed in note 7 and 35 respectively, are as follows:

	2010 (Rs. in 000')	2009 (Rs. in 000')
Contribution to the provident fund	<u>3,325</u>	<u>2,771</u>

34.1 The outstanding balances due to / from related parties are included in the respective notes to the financial statements.

### 35. REMUNERATION OF THE CHAIRMAN, CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

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

	2010			2009		
	Chairman	Chief Executive	Executives	Chairman	Chief Executive	Executives
	(Rs. in 000')					
Managerial remuneration	2,570	7,482	19,028	540	5,977	13,688
Retirement benefits	-	310	876	-	315	716
Utilities	234	-	116	208	-	105
Medical expenses	18	29	245	13	10	136
Leave encashment	-	-	-	-	-	204
	<u>2,822</u>	<u>7,821</u>	<u>20,265</u>	<u>761</u>	<u>6,302</u>	<u>14,849</u>
Number of persons	<u>1</u>	<u>1</u>	<u>10</u>	<u>1</u>	<u>1</u>	<u>9</u>

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

35.3 1 director (2009: 2) have been paid fee of Rs. 20,000 (2009: Rs. 50,000) for attending the board meeting.

### 36. 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.

### 37. UNUTILIZED CREDIT FACILITIES

As of the balance sheet date, the Company has unutilized facilities for short term running finance available from various banks amounted to Rs. 160 million (2009: Rs. 140 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% (2009: 1 to 3 months KIBOR plus rates varying from 1.25% to 1.50%). The facilities are secured by way of pari passu hypothecation of Company's stock-in-trade, stores, spares, loose tools and trade debts.

### 38. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on September 08, 2010 (i) approved the transfer of Rs. 280 million from unappropriated profit to general reserve and (ii) proposed cash dividend of Rs. 4.50 per share for the year ended June 30, 2010 amounting to Rs. 129.60 million for approval of the members at the Annual General Meeting to be held on October 28, 2010.

### 39. GENERAL

**39.1** Figures have been rounded off to the nearest thousands.

**39.2** There were no material reclassifications to report.

**40. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on September 08, 2010 by the Board of Directors of the Company.

Chairman

Chief Executive