AGRIAUTO INDUSTRIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 5th 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, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 01, 2012
IFRS 7 – Financial Instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets	July 01, 2011
IAS 12 – Income Tax (Amendment) – Deferred Taxes : Recovery of Underlying Assets	January 01, 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	January 01, 2013
IAS 24 – Related Party Disclosures (Revised)	January 01, 2011
IFRIC 14 – Prepayments of a Minimum Funding Requirement (Amendment)	January 01, 2011

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not have any material effect on 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. Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The Company expects that such improvements to the standards will not have any material effect on the Company's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

Standard	IASB Effective date (accounting periods beginning on or after)
IFRS 9 – Financial Instruments	January 01, 2013
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention except for available-for-sale investments which are valued as stated in note 4.6 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 New and amended standards and interpretations

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

The Company has adopted the following new and amended IFRS and related interpretations which became effective during the year:

IFRS 2 - Share-based Payments: Amendments relating to Group Cash-settled Share-based Payment Transactions

IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues (Amendment)

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

Improvements to various standards issued by IASB

Issued in 2009

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations
IFRS 8 – Operating Segments
IAS 1 – Presentation of Financial Statements
IAS 7 – Statement of Cash Flows
IAS 17 – Leases
IAS 36 – Impairment of Assets
IAS 39 – Financial Instruments: Recognition and Measurement

Issued in 2010

IFRS 3 – Business Combinations
IAS 27 – Consolidated and Separate Financial Statements

The adoption of the above standards, amendments and interpretations did not have any effect on 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 related 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 recorded as 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 weighted 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.

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.

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 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, 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 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

4.18 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:

	Notes
- determining the residual values and useful lives of property, plant and equipment	4.2 & 6
- valuation of inventories	4.3, 4.4, 8 & 9
- provision against trade debts	4.5 & 10
- provision for tax and deferred tax	4.11, 16 & 26
- warranty obligations	4.13 & 17.2

6. PROPERTY, PLANT AND EQUIPMENT

	Note	**2011**	**2010**
		(Rs. in 000')	
Operating assets – tangible	6.1	**348,031**	331,661
Capital work-in-progress			
– Plant and machinery		**34,735**	2,399
– Civil works		**5,876**	1,723
– Dies and tools		**2,655**	9,653
		43,266	13,775
		391,297	345,436

6.1 Operating assets

	COST				DEPRECIATION				WRITTEN DOWN VALUE
	As at July 01, 2010	**Additions/ (disposals)/ transfers***	**As at June 30, 2011**	**Depreciation rate**	**As at July 01, 2010**	**Charge/ transfers* for the year**	**Disposals for the year**	**As at June 30, 2011**	**As at June 30, 2011**
	(Rs. in 000')			%	(Rs. in 000')				
Owned									
Freehold land	1,652	-	1,652	-	-	-	-	-	1,652
Leasehold land	29,040	378	29,418	3.03	2,128	893	-	3,021	26,397
Building on freehold land	91,752	1,608	93,360	10	39,678	5,262	-	44,940	48,420
Plant and machinery	436,343	44,861 (30,354)	450,850	10 – 20	225,332	28,281	14,954	238,659	212,191
Furniture and fittings	4,585	1,483	6,068	15	2,468	390	-	2,858	3,210
Vehicles	31,927	23,804 (12,096) 2,580*	46,215	20	9,464	5,957 656*	5,663	10,414	35,801
Office equipment	1,548	379	1,927	20	900	133	-	1,033	894
Computer equipment	8,395	2,057	10,452	33	4,192	1,617	-	5,809	4,643
Dies and tools	10,553	13,117	23,670	40	4,509	5,815	-	10,324	13,346
	615,795	87,687 (42,450) 2,580*	663,612		288,671	48,348 656*	(20,617)	317,058	346,554
Leased									
Vehicles	8,184	- (2,580)*	5,604	20	3,647	1,136 (656)*	-	4,127	1,477
2011	**623,979**	**87,687 (42,450) - ***	**669,216**		**292,318**	**49,484 - ***	**(20,617)**	**321,185**	**348,031**

	COST				DEPRECIATION				WRITTEN DOWN VALUE
	As at July 01, 2009	Additions/ (disposals)/ transfer*	As at June 30, 2010	Depreciation rate	As at July 01, 2009	Charge/ transfer* for the year	Disposals for the year	As at June 30, 2010	As at June 30, 2010
	-------------(Rs. in 000')		--------------	%	------------------------------ (Rs. in 000')			---------------------	
Owned									
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
Leased assets									
Vehicles	9,939	2,950 (4,705)*	8,184	20	4,275	1,765 (2,393)*	-	3,647	4,537
2010	599,080	45,573 (20,674) -*	623,979		254,600	45,744 -*	(8,026)	292,318	331,661

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

	Note	2011	2010
		(Rs. in 000')	
Cost of sales	21	**43,579**	41,804
Distribution costs	22	**811**	728
Administrative expenses	23	**5,094**	3,212
		49,484	45,744

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

Particulars	Cost	Accumulated depreciation	Book value	Sales proceeds	(Loss) / gain	Mode of disposal	Particulars of buyer
	-------------------------------		(Rs. in 000')	-------------------------------			
Plant and machinery							
Machinery	2,473	2,299	174	390	216	Auction	ABC Neelam Ghar, Karachi
Machinery	18,529	5,053	13,475	3,673	(9,802)	Auction	Pioneer Auctioner, Karachi
Machinery	1,618	808	810	300	(510)	Trade-off	Adnan Compressor Works, Karachi
Machinery	7,734	6,794	941	1,500	559	Negotiation	Bukshi Industries Co., Karachi
	30,354	**14,954**	**15,400**	**5,863**	**(9,537)**		
Vehicles							
Toyota Corolla	915	459	456	711	255	Company Policy	Mr. Faisal Jalal, Employee
Toyota Corolla	879	615	264	290	26	Company Policy	Mr. Saeed Ahmed, Employee
Toyota Corolla	879	615	264	290	26	Company Policy	Mr. M. Kalimullah, Employee
Toyota Corolla	879	615	264	290	26	Company Policy	Mr. M. Noman Khan, Employee
Toyota Corolla	894	465	429	775	346	Company Policy	Col Shahid Abbas, Employee
Toyota Corolla	1,462	122	1,340	1,462	122	Insurance Claim	Habib Insurance Co., Karachi
Toyota Camry	784	101	683	1,550	867	Trade-off	Toyota Central Motors, Karachi
Suzuki Cultus	662	244	418	600	182	Company Policy	Mr. Asim Abro, Employee
Suzuki Bolan	367	287	80	332	252	Negotiation	Mr. Ali Hasan, Lasbella, Hub
Daihatsu Cuore	419	311	108	138	30	Company Policy	Mr. Muhammed Saleem, Employee
Daihatsu Cuore	456	198	258	344	86	Company Policy	Mr. Owais Alvi, Employee
Daihatsu Cuore	456	233	223	357	134	Company Policy	Mr. Shahid Sattar, Employee
Daihatsu Coure	505	214	291	592	301	Negotiation	Car Advisor Co. Karachi
Daihatsu Coure	671	130	541	671	130	Insurance Claim	Habib Insurance Co. Karachi
Daihatsu Coure	434	318	116	143	27	Company Policy	Mr. Khalid Hussain, Employee
Dong Feng Truck	700	486	214	200	(14)	Negotiation	Mr. Abdullah Saboor, Karachi
Santro	734	250	484	577	93	Negotiation	Car Advisor Co., Karachi
	12,096	**5,663**	**6,433**	**9,322**	**2,889**		
	42,450	**20,617**	**21,833**	**15,185**	**(6,648)**		

	Note	2011	2010
		(Rs. in 000')	

7. LONG TERM DEPOSITS AND OTHER RECEIVABLE

	Note	2011	2010
Security deposits – considered good		**4,249**	2,252
Other receivable - considered doubtful		**49,252**	49,252
Less: Provision for impairment	7.1	**(49,252)**	(49,252)
		-	-
		4,249	2,252

7.1 During the year ended 30 June 2010, Company sold its shareholding in Makro-Habib Pakistan Limited (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 received an amount of Rs.108.406 million from TL towards the purchase consideration of the said shares. However, the balance consideration amounting to Rs. 49.252 million shall only be payable by TL subject to the following:

a) 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

b) 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. 20.542 million respectively. The management, as a matter of prudence, has made a full provision against the said contingent receivable in these financial statements.

During the months of June 2011 and July 2011, TL's tax assessments with respect to Group tax relief for the years 2008-2010 have been finalized by the Commissioner Inland Revenue (Appeals), whereby such relief has been allowed to TL. However, the tax department has filed an appeal with the Income Tax Appellant Tribunal against the said Order of the Commissioner Inland Revenue (Appeals).

	Note	2011	2010
		(Rs. in 000')	

8. STORES, SPARES AND LOOSE TOOLS

	Note	2011	2010
Stores		**23,900**	25,972
Spares		**24,331**	13,561
Loose tools		**13,125**	7,171
		61,356	46,704

9. STOCK-IN-TRADE

	Note	2011	2010
Raw material		**415,846**	390,527
Packing material		**2,900**	3,071
Work-in-process		**45,484**	63,370
Finished goods		**36,583**	25,420
Goods-in-transit		**104,954**	148,351
	9.1	**605,767**	630,739

9.1 The amount of written down to NRV in respect of stock-in-trade was Rs. 4.751 million (2010: Rs. 14.641 million).

	Note	2011	2010
		(Rs. in 000')	

10. TRADE DEBTS – unsecured

	Note	2011	2010
Considered good		**355,221**	309,221
Considered doubtful		**3,874**	3,574
Provision for impairment	10.1	**(3,874)**	(3,574)
		-	-
		355,221	309,221

10.1 Reconciliation of provision for impairment is as follows:

	Note	2011	2010
Balance at the beginning of the year		**3,574**	4,641
Charge for the year	21	**300**	300
Write-offs during the year		**-**	(1,367)
Balance at the end of the year		**3,874**	3,574

11. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2011	2010
Advances – unsecured, considered good			
Suppliers		**121**	1,293
Contractors		**1,347**	865
Employees		**646**	768
		2,114	2,926
Deposits		**365**	351
Prepayments			
Insurance		**2,248**	3,940
Others		**739**	830
		2,987	4,770
Other receivables – unsecured, considered good			
Insurance claim receivable		**141**	141
Excise duty receivable		**-**	653
		141	794
		5,607	8,841

12. SHORT TERM INVESTMENTS

	Note	2011	2010
Held- to- maturity			
Term deposit receipts	12.1	**510,000**	450,000
Accrued profit thereon		**9,377**	7,761
		519,377	457,761
Available-for-sale			
Atlas Money Market Fund		**107,876**	50,900
NAFA Government Securities Liquid Fund		**118,683**	50,442
UBL Liquidity Plus Fund		**122,875**	25,015
Meezan Cash Fund		**27,792**	25,034
		896,603	609,152

12.1 Represents three months term deposit receipts with a commercial bank carrying profit rate of 12.25% (2010: 11.75%) per annum and will mature by September 2011.

	Note	2011	2010
		(Rs. in 000')	

13. CASH AND BANK BALANCES

	Note	2011	2010
In hand		**11**	20
With banks in			
- current accounts		**25,035**	32,470
- deposit accounts	13.1	**101,495**	160,568
		126,530	193,038
		126,541	193,058

13.1 These carry profit rates ranging from 6% to 10.25% (2010: 6% to 8%) per annum.

14. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Ordinary shares of Rs. 5/- each

Number of shares in (000') 2011	2010		2011	2010
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
28,800	28,800		**144,000**	144,000

14.1 Related parties held 2,115,600 (2010: 2,115,600) ordinary shares of Rs. 5/- each in the Company at year end.

15. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011		2010	
	Minimum lease payments	Present value of MLP	Minimum lease payments	Present value of MLP
	(Rs. in 000')			
Not later than one year	**2,080**	**1,885**	2,916	2,441
Later than one year but not later than five years	**569**	**558**	2,621	2,434
Total minimum lease payments	**2,649**	**2,443**	5,537	4,875
Less : Financial charges allocated to future periods	**206**	**-**	662	-
Present value of minimum lease payments	**2,443**	**2,443**	4,875	4,875
Less: Current portion shown under current liabilities	**1,885**	**1,885**	2,441	2,441
	558	**558**	2,434	2,434

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. 0.560 million (2010: Rs. 0.812 million). The above lease contracts contain a bargain purchase option. Quarterly lease payments include finance charges ranging from KIBOR+2% to KIBOR+3% (2010: KIBOR+2% to KIBOR+3%) per annum. which is used as a discounting factor. There are no financial restrictions in the lease agreements.

16. DEFERRED TAXATION

	2011	2010
	(Rs. in 000')	
Taxable temporary differences arising due to:		
- accelerated tax depreciation	**50,569**	45,039
- unrealized gain on available for sale investments	**1,938**	-
	52,507	45,039
Deductable temporary differences arising due to:		
- assets subject to finance lease	**(184)**	(118)
- provisions	**(32,492)**	(18,285)
	(32,676)	(18,403)
	19,831	26,636

	Note	2011	2010
		(Rs. in 000')	

17. TRADE AND OTHER PAYABLES

	Note	2011	2010
Creditors		**92,336**	105,477
Royalty payable		**9,757**	10,533
Accrued liabilities		**58,417**	51,625
Advance from customers		**1,735**	3,275
Payable to provident fund		**968**	935
Workers' Profit Participation Fund	17.1	**1,120**	36,972
Workers' Welfare Fund		**14,231**	17,329
Warranty obligations	17.2	**24,346**	17,471
Infrastructure cess payable	17.3	**53,746**	37,023
Unclaimed and unpaid dividends		**6,516**	5,155
Guarantee bond payable	18(i)	**1,111**	1,111
Tax deducted at source		**1,449**	1,223
Others		**2,253**	3,250
		267,985	291,379

17.1 Workers' Profit Participation Fund

	Note	2011	2010
Balance at the beginning of the year		**36,972**	723
Allocation for the year	25	**36,148**	36,972
		73,120	37,695
Less: Payment made during the year		**72,000**	723
Balance at end of the year		**1,120**	36,972

17.2 Warranty obligations

	Note	2011	2010
Balance at the beginning of the year		**17,471**	8,720
Provision for the year	21	**15,796**	12,976
		33,267	21,696
Less: Claims paid during the year		**8,921**	4,225
Balance at end of the year		**24,346**	17,471

17.3 During the financial year 2009, the Honourable High Court of Sindh 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. However, the levy subsequent to December 27, 2006 was declared as valid and constitutional. The Company had filed an appeal before the Honourable Supreme Court of Pakistan against the above order of High Court and as per the directions of the Supreme Court, approached the High Court by filing a fresh constitution petition during the current year. The High Court has granted stay on said petition on the following terms:

- Any bank guarantee/security furnished for consignment released upto December, 27, 2006 shall be discharged and returned; and
- Any bank guarantee/security furnished for consignment released after December 27, 2006 shall be encashed to the extent of 50% of the guaranteed/secured amount only and the bank guarantee/security for the balance amount will be kept alive till the disposal of the petitions.

In view of the interim nature of arrangement as provided in the above referred order of the High Court, the Company has retained full provision against the infrastructure cess fee payable for the period from December 2006 till June 2011.

The Company has provided a bank guarantee in favour of Excise and Taxation Department, amounting to of Rs. 57 million (2010: Rs. 40 million), out of which Rs. 3.254 million (2010: 2.977 million) remain un-utilized as of the year end.

18. 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 (2010: Rs. 1.237 million). However, the Company, as a matter of prudence, has made a provision of Rs. 1.111 million (2010: Rs. 1.111 million) against such import duty.

(ii) 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. The Company has filed 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 preferred an appeal against the aforesaid order before the High Court, and 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. 186.277 million (2010: Rs. 189.633 million).

(ii) Commitments in respect of capital expenditure amount to Rs. 27.891 million (2010: Rs. 22.865 million).

(iii) Outstanding bank guarantees issued to Sui Southern Gas Company Limited amounts to Rs. 0.385 million (2010: Rs. 0.385 million)

	Note	2011	2010
		(Rs. in 000')	
19. TURNOVER – net			
Local			
Sales		**4,709,564**	4,573,587
Less: Sales tax		**675,691**	625,099
Special excise duty		**53,423**	38,140
Trade discount		**192**	3,866
		729,306	667,105
		3,980,258	3,906,482

	Note	2011	2010
20. COST OF SALES			
Raw material consumed			
Opening stock		**390,527**	307,135
Purchases		**2,685,219**	2,654,049
		3,075,746	2,960,507
Closing stock		**(415,846)**	(390,527)
		2,659,900	2,570,657
Manufacturing expenses			
Salaries, wages and benefits		**139,866**	122,283
Stores, spares and loose tools consumed		**101,668**	99,037
Packing material consumed		**16,954**	17,173
Fuel and power		**75,262**	38,579
Transportation and traveling		**33,606**	25,679
Depreciation	6.2	**43,579**	41,804
Repairs and maintenance		**52,377**	36,015
Royalty and technical fees		**21,510**	22,857
Research and development costs		**7,022**	654
Communications		**1,314**	799
Printing and stationery		**683**	721
Insurance		**2,914**	2,160
Rent, rates and taxes		**6,852**	2,342
Others		**697**	543
		504,304	410,646
Work-in-process			
Opening stock		**63,370**	33,998
Closing stock		**(45,484)**	(63,370)
Cost of goods manufactured		**3,182,090**	2,951,931
Finished goods			
Opening stock		**25,420**	23,737
Closing stock		**(36,583)**	(25,420)
		(11,163)	(1,683)
		3,170,927	2,950,248

	Note	2011	2010
		(Rs. in 000')	

21. DISTRIBUTION COSTS

	Note	2011	2010
Salaries and benefits		**10,227**	9,332
Advertisement and sales promotion		**9,163**	9,900
Carriage and forwarding		**17,408**	14,441
Traveling and conveyance		**1,711**	1,421
Depreciation	6.2	**811**	728
Provision for warranty claims	17.2	**15,796**	12,976
Provision for impairment of trade debts	10.1	**300**	300
Rent, rates and taxes		**309**	87
Communications		**304**	190
Insurance		**219**	196
Repairs and maintenance		**575**	395
Others		**1,007**	820
		57,830	50,786

22. ADMINISTRATIVE EXPENSES

	Note	2011	2010
Salaries and benefits		**34,331**	30,254
Legal and professional charges		**18,498**	15,491
Repairs and maintenance		**4,493**	3,872
Depreciation	6.2	**5,094**	3,212
Printing and stationery		**830**	819
Computer supplies		**6,364**	1,716
Rent, rates and taxes		**2,217**	1,159
Traveling and conveyance		**8,315**	5,809
Communications		**2,022**	1,765
Utilities		**1,247**	834
Security services		**3,353**	2,269
Insurance		**666**	414
Auditors' remuneration	22.1	**630**	635
Advertisement		**515**	116
Others		**617**	1,928
		89,192	70,293

22.1 Auditors' remuneration

		2011	2010
Audit fee		**500**	500
Fee for review of half yearly financial statements		**50**	50
Other certifications		**60**	60
Out of pocket expenses		**20**	25
		630	635

23. OTHER OPERATING INCOME / (EXPENSES)

	Note	2011	2010
Income from financial assets			
Profit on:			
- term deposit receipts		**58,561**	42,380
- deposit accounts		**10,745**	10,084
		69,306	52,464
Loss on disposal of available for sale investments		**-**	(89,843)
Provision against long-term receivable		**-**	(49,252)
Liabilities no longer payable - written back		**1,378**	-
		1,378	(139,095)
Income from non-financial assets			
Loss on disposal of property, plant and equipment	6.3	**(6,648)**	(4,920)
Scrap sales		**4,149**	3,326
		(2,499)	(1,594)
		68,185	(88,225)

Note	2011	2010
	(Rs. in 000')	

24. FINANCE COSTS

Mark-up on finance lease		**494**	661
Bank charges		**343**	426
		837	1,087

25. OTHER CHARGES

Workers' Profit Participation Fund	17.1	**36,148**	36,972
Workers' Welfare Fund		**14,231**	17,197
Donations	25.1	**6,697**	6,401
		57,076	60,570

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

26. TAXATION

	2011	2010
	(Rs. in 000')	
Current	**246,399**	294,984
Prior	**(4,036)**	135
Deferred	**(8,742)**	(4,088)
	233,621	291,031

26.1 Relationship between tax expense and accounting profit

Profit before taxation	**672,581**	685,273
Tax at the rate of 35%	**235,403**	239,846
Tax effects of:		
Expenses that are not taken into account for determining taxable profit	**8,936**	56,301
Income taxed at reduced rate	**97**	59
Temporary differences	**(8,742)**	(4,088)
Prior year	**(4,036)**	135
Tax rebates	**(8,092)**	-
Additional tax surcharge	**10,328**	-
Workers' Welfare Fund on tax profit exceeding accounting profit	**(273)**	(1,222)
	233,621	291,031

27. EARNINGS PER SHARE – basic and diluted

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

	2011	2010
Profit after taxation (Rs. in 000')	**438,960**	394,242
Weighted average number of ordinary shares outstanding during the year (in 000')	**28,800**	28,800
Basic earnings per share (Rs.)	**15.24**	13.69

		2011	2010
		(Rs. in 000')	

28. CASH GENERATED FROM OPERATIONS

Profit before taxation		**672,581**	685,273
Adjustments for			
Depreciation		**49,484**	45,744
Finance costs		**837**	1,087
Provision for impairment of trade debts		**300**	300
Liabilities no longer payable - written back		**(1,378)**	-
Provision against long-term receivable		**-**	49,252
Profit on term deposit receipts		**(58,561)**	(42,380)
Profit on deposit accounts		**(10,745)**	(10,084)
Loss on disposal of available-for-sale investment		**-**	89,843
Loss on disposal of property, plant and equipment		**6,648**	4,920
		(13,415)	138,682
		659,166	823,955
Increase / (decrease) in current assets			
Stores, spares and loose tools		**(14,652)**	(5,209)
Stock-in-trade		**24,972**	(182,053)
Trade debts		**(46,300)**	(72,512)
Advances, deposits, prepayments and other receivables		**3,234**	(19)
Sales tax refundable		**-**	(19,076)
		(32,746)	(278,869)
Increase / (decrease) in current liabilities			
Trade and other payables		**(23,377)**	122,046
Sales tax payable		**5,129**	-
		(18,248)	122,046
		608,172	667,132

29. CASH AND CASH EQUIVALENTS

Cash and bank balances	13	**126,541**	193,058
Short term investments – term deposit receipts	12	**510,000**	450,000
		636,541	643,058

30. 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:

30.1 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 after tax by Rs. 3.975 million and other comprehensive income by Rs. 3.489 million and a 1% decrease would result in the decrease in the Company's profit after tax and other comprehensive income 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, 2011, the Company does not have any financial assets or financial liabilities which are denominated in foreign currencies.

30.2 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 mainly 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.

	2011	2010
	(Rs. in 000')	
Trade debts		
The analysis of trade debts is as follows:		
Neither past due nor impaired	**325,297**	276,135
Past due but not impaired – 30 to 90 days	**29,924**	33,086
	355,221	309,221
Bank balances		
Ratings		
A1+	**125,064**	192,047
A1	**1,466**	991
	126,530	193,038
Short term investments		
Ratings		
A1+	**519,377**	457,761
AA+	**230,752**	75,915
A+	**118,683**	50,442
AA	**27,791**	25,034
	896,603	609,152

30.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The management of the Company believes that is not exposed to any significant level of liquidity risk.

The management forecasts the liquidity of the Company on the basis of expected cashflow considering the level of liquid assets necessary to mitigate the liquidity risk.

2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	------------------------- (Rupees in '000) --------------------------				
Trade and other payables	**32,193**	**155,510**	**-**	**-**	**187,703**
Liabilities against assets subject to finance lease	**-**	**514**	**1,371**	**558**	**2,443**
	32,193	**156,024**	**1,371**	**558**	**190,146**

2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	------------------------- (Rupees in '000) --------------------------				
Trade and other payables	72,672	160,086	-	-	232,758
Liabilities against assets subject to finance lease	-	588	1,853	2,434	4,875
	72,672	160,674	1,853	2,434	237,633

31. 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 2011, the Company has only available-for-sale investments measured at fair value using level 1 valuation technique.

32. 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.

33. 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 disclosed elsewhere in the financial statements, are as follows:

	2011	2010
	(Rupees in '000)	
Purchases of goods	**13,963**	8,231
Contribution to the Provident fund	**3,537**	3,325

34. REMUNERATION OF THE CHAIRMAN, CHIEF EXECUTIVE AND EXECUTIVES

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

	2011			2010		
	Chairman	Chief Executive	Executives	Chairman	Chief Executive	Executives
	(Rs. in `000)					
Managerial remuneration	**7,759**	**6,647**	**26,404**	3,050	7,482	19,028
Retirement benefits	**-**	**287**	**1,262**	-	310	876
Utilities	**228**	**-**	**460**	234	-	116
Medical expenses	**141**	**20**	**260**	18	29	245
Leave encashment	**-**	**-**	**612**	-	-	-
	8,128	**6,954**	**28,998**	3,302	7,821	20,265
Number of persons	**1**	**1**	**15**	1	1	10

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

34.3 1 director (2010: 1) has been paid fee of Rs. 60,000 (2010: Rs. 20,000) for attending the board meeting.

35. PRODUCTION CAPACITY

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

36. 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 (2010: Rs. 160 million). The rate of mark-up on these finances ranges from 1 to 3 months KIBOR plus rates varying from 0.75% to 1.50% (2010: 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.

37. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on September 9, 2011 (i) approved the transfer of Rs. 290 million from unappropriated profit to general reserve and (ii) proposed cash dividend of Rs. 5.00 per share for the year ended June 30, 2011 amounting to 144 million for approval of the members at the Annual General Meeting to be held on October 17, 2011.

38. GENERAL

38.1 Figures have been rounded off to the nearest thousands.

38.2 There were no material reclassifications to report.

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on September 9, 2011 by the Board of Directors of the Company.

Chairman **Chief Executive**