



## Half Yearly Report 2011



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# COMPANY INFORMATION

## **Board of Directors**

Kunwar Idris

**Chairman**

Hideya Iijima

**Managing Director & Chief Executive**

Tsutomu Mori

**Deputy Managing Director**

Hiroshi Kokaji

Hirofumi Wachi

Haruo Komatsu

Koji Tsubouchi

## **Company Secretary**

Fahim Aijaz Sabzwari

## **Bankers**

Allied Bank Limited

Bank Alfalah Limited

Citibank, N.A.

Habib Metropolitan Bank Ltd.

Habib Bank Ltd.

National Bank of Pakistan

Standard Chartered Bank (Pakistan) Limited

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

United Bank Ltd.

Barclays Bank PLC, Pakistan

Bank Al-Habib Limited

## **Auditors**

A.F. Ferguson & Co. Chartered Accountants

## **Legal Advisor**

Sayeed & Sayeed

## **Registered Office**

D-2, S.I.T.E., Manghopir Road

P.O. Box No. 10714, Karachi - 75700, Pakistan

Tel: 021- 32563510-9, Website: [www.hinopak.com](http://www.hinopak.com)

Email: [info@hinopak.com](mailto:info@hinopak.com)

## **Share Registrar**

Technology Trade (Pvt.) Limited

Dagja House 241-C, Block-2

P.E.C.H.S., Off Shahrah-e-Quaideen, Karachi

Tel: 021-34391316-7 & 9, 021-34387960-1

Fax: 021-34391318

**HINOPAK MOTORS LIMITED  
DIRECTORS' REVIEW  
FOR THE HALF YEAR ENDED SEPTEMBER 30, 2011**

**Greetings to the Shareholders!**

In the first half of the Company's financial year 2011 (April to September) the sale of trucks of all makes in the country declined to 1316 units from 1693 in the first half of last year. The sale of buses also fell from 286 units to 202.

**SALES**

In line with the decline in the national market, the sale of Hinopak's trucks and buses fell to 620 units from 1130 units in the corresponding six months of last year with a market share of 41%.

**SALES REVENUE**

The sales revenue for the half year is Rs. 2.6 billion and gross profit Rs. 137 million. As a percentage of sales it declined from 7% to 5%.

**FINANCE COST**

The finance cost of Rs. 188 million includes a net exchange loss of Rs. 150 million mainly due to the appreciation of Japanese Yen against US dollar. The Company closed the first half of the financial year with a bank borrowing of Rs. 1.6 billion.

**PROFIT & LOSS**

The loss after tax rose to Rs. 258 million from Rs. 124 million of last year's first half and the loss per share increased to Rs. 20.77.

**OUTLOOK FOR THE SECOND HALF**

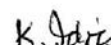
The sales generally tend to improve in the first quarter of calendar year. So, we expect, it would be this year. However margins are unlikely to improve because of growing competition from cheaper makes.

The Management is making every possible effort to keep the loss to the minimum by cutting costs and increasing sales.



**Managing Director &  
Chief Executive**

Dated: November 14, 2011



**Chairman**



A.F.FERGUSON & CO.

**AUDITORS' REPORT TO THE MEMBERS  
ON REVIEW OF INTERIM FINANCIAL INFORMATION**

**Introduction**

We have reviewed the accompanying condensed interim balance sheet of Hinopak Motors Limited as at September 30, 2011 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming part thereof for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended September 30, 2011 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended September 30, 2011.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended September 30, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Chartered Accountants  
Karachi

Date: November 14, 2011

Name of Engagement Partner: Farrukh Rehman

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A. F. FERGUSON & CO., Chartered Accountants, a member firm the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
Tel: + 92 (21) 32426682-6/32426711-5; Fax: + 92 (21) 32415007/32427938; < www.pwc.com/pk >

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54660; Tel: + 92 (42) 35715864-71; Fax: + 92 (42) 35715872  
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000; Tel: + 92 (51) 2273457-60; Fax: + 92 (51) 2277924  
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: + 93 (779) 315320, + 93 (799) 315320

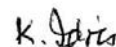
**CONDENSED INTERIM BALANCE SHEET  
AS AT SEPTEMBER 30, 2011**

<b>ASSETS</b>	<b>Note</b>	<b>(Unaudited) September 30, 2011</b>	<b>(Audited) March 31, 2011</b>
		(Rupees '000)	
<b>Non-Current Assets</b>			
Property, plant and equipment	5	1,811,091	1,788,255
Intangible assets		1,287	2,038
Investments		-	-
Long-term loans and advances		6,700	3,908
Long-term deposits		6,249	5,881
Deferred taxation		4,000	-
		<u>1,829,327</u>	<u>1,800,082</u>
<b>Current Assets</b>			
Stores, spares and loose tools		20,896	19,794
Stock-in-trade		4,044,678	1,677,525
Trade debts		483,109	482,570
Loans and advances		40,405	83,382
Trade deposits and prepayments		45,204	27,253
Refunds due from the government		476,277	225,479
Other receivables		28,074	28,876
Taxation - payments less provisions	6	240,704	144,567
Cash and bank balances		21,491	63,416
		<u>5,400,838</u>	<u>2,752,862</u>
<b>Total Assets</b>		<u><b>7,230,165</b></u>	<u><b>4,552,944</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Share capital		124,006	124,006
Reserves		1,110,451	1,355,480
		<u>1,234,457</u>	<u>1,479,486</u>
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>		1,039,640	1,049,014
<b>LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
Deferred taxation		-	47,372
Retirement benefits obligations		77,184	73,105
		<u>77,184</u>	<u>120,477</u>
<b>Current Liabilities</b>			
Trade and other payables	7	3,232,997	1,597,894
Short-term borrowings		1,619,319	296,310
Accrued mark-up		26,568	9,763
		<u>4,878,884</u>	<u>1,903,967</u>
<b>Total Liabilities</b>		<u>4,956,068</u>	<u>2,024,444</u>
<b>CONTINGENCY AND COMMITMENTS</b>	8	<u>7,230,165</u>	<u>4,552,944</u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.



Managing Director &  
Chief Executive



Chairman

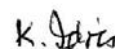
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT  
FOR THE HALF YEAR ENDED SEPTEMBER 30, 2011 - (UNAUDITED)**

	Note	Quarter ended		Half year ended	
		September 30,	September 30,	September 30,	September 30,
		2011	2010	2011	2010
		<b>(Rupees '000)</b>			
Revenue		1,265,953	2,503,635	2,591,561	5,084,619
Cost of sales		<u>(1,199,059)</u>	<u>(2,269,100)</u>	<u>(2,454,331)</u>	<u>(4,719,285)</u>
Gross profit		66,894	234,535	137,230	365,334
Distribution expenses		(46,001)	(73,395)	(103,891)	(150,294)
Administration expenses		(48,803)	(43,261)	(92,853)	(84,865)
Other operating income		12,975	10,804	19,993	38,663
Other operating expenses		<u>-</u>	<u>-</u>	<u>(1,023)</u>	<u>-</u>
(Loss) / Profit from operations		(14,935)	128,683	(40,544)	168,838
Finance cost	9	<u>(144,501)</u>	<u>(142,198)</u>	<u>(187,970)</u>	<u>(245,949)</u>
Loss before taxation		(159,436)	(13,515)	(228,514)	(77,111)
Taxation		<u>(14,177)</u>	<u>(20,743)</u>	<u>(29,045)</u>	<u>(46,553)</u>
Loss after taxation		(173,613)	(34,258)	(257,559)	(123,664)
Other comprehensive income / (loss)		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive loss		<u>(173,613)</u>	<u>(34,258)</u>	<u>(257,559)</u>	<u>(123,664)</u>
Loss per share - basic and diluted		<u>Rs. (14.00)</u>	<u>Rs. (2.76)</u>	<u>Rs. (20.77)</u>	<u>Rs. (9.97)</u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.



Managing Director &  
Chief Executive



Chairman

**CONDENSED INTERIM CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED SEPTEMBER 30, 2011 - (UNAUDITED)**

	September 30, 2011	September 30, 2010
	Note	
	<b>(Rupees '000)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash used in operations	10 (1,118,492)	(548,607)
Increase in long-term loans and advances	(2,792)	(1,523)
(Increase) / decrease in long-term deposits	(368)	91
Retirement benefits obligations paid	(10,837)	(14,264)
Mark-up paid on short-term borrowings	(16,083)	(37,954)
Return on saving accounts	992	847
Taxes paid	(139,829)	(57,270)
Net cash used in operating activities	<u>(1,287,409)</u>	<u>(658,680)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditure incurred	<u>(85,228)</u>	<u>(97,417)</u>
Proceeds form sale of property, plant and equipment	<u>7,703</u>	<u>16,200</u>
Net cash used in investing activities	<u>(77,525)</u>	<u>(81,217)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	-	(6)
Net decrease in cash and cash equivalents	<u>(1,364,934)</u>	<u>(739,903)</u>
Cash and cash equivalents at the beginning of the period	<u>(232,894)</u>	<u>(430,941)</u>
Cash and cash equivalents at the end of the period	11 <u><u>(1,597,828)</u></u>	<u><u>(1,170,844)</u></u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

  
Managing Director &  
Chief Executive

  
Chairman



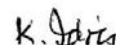
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED SEPTEMBER 30, 2011 - (UNAUDITED)**

	Share Capital	Reserves - Revenue		Total
		General	Unappropriated	
	← (Rupees '000) →			
Balance at April 1, 2010	124,006	291,000	1,088,973	1,503,979
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation - net of tax	-	-	2,847	2,847
Total comprehensive loss for the half year ended September 30, 2010	-	-	(123,664)	(123,664)
<b>Balance at September 30, 2010</b>	<u>124,006</u>	<u>291,000</u>	<u>968,156</u>	<u>1,383,162</u>
Balance at April 1, 2011	124,006	291,000	1,064,480	1,479,486
Transferred from surplus on disposal of fixed assets - net of tax	-	-	2,255	2,255
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation - net of tax	-	-	10,275	10,275
Total comprehensive loss for the half year ended September 30, 2011	-	-	(257,559)	(257,559)
<b>Balance at September 30, 2011</b>	<u>124,006</u>	<u>291,000</u>	<u>819,451</u>	<u>1,234,457</u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.



**Managing Director &  
Chief Executive**



**Chairman**

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION  
FOR THE HALF YEAR ENDED SEPTEMBER 30, 2011 - (UNAUDITED)**

**1. GENERAL INFORMATION**

Hinopak Motors Limited is incorporated in Pakistan as a public limited company and quoted on Karachi and Lahore stock exchanges. The Company's principal activity is the assembly and progressive manufacture and sale of Hino buses and trucks. The Company also sells buses and trucks in international market. The registered office of the Company is at D-2, S.I.T.E., Manghopir Road, Karachi.

The Company is a subsidiary of Hino Motors Limited Japan and the ultimate parent of the Company is Toyota Motors Corporation Japan.

This condensed interim financial information does not include all the information required for full financial statements and should be read in conjunction with the annual financial statements as at and for the year ended March 31, 2011.

This condensed interim financial information has been reviewed, not audited.

**2. BASIS OF PREPARATION**

This condensed interim financial information of the Company for the half year ended September 30, 2011 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34, Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

**3. ACCOUNTING POLICIES**

The accounting policies are consistent with those of the annual financial statements for the year ended March 31, 2011.

**Standards, interpretations and amendments to published approved accounting standards which have been effective in 2011**

- IAS 24 (revised), 'Related party disclosures', the standard is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The standard, however has no effect on this condensed interim financial information of the Company.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments are effective for annual periods beginning January 1, 2011. The amendments should be applied retrospectively to the earliest comparative period presented. The amendment is expected to have no effect on this condensed interim financial information of the Company.

**Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant to the Company**

- IAS 19 - Employee Benefits was amended in June 2011 which eliminated the corridor approach so as to recognise all actuarial gains and losses in other comprehensive income as they occur, to immediately recognise all past service costs and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the defined benefit liability / (asset).

The amendment is expected to affect the measurement and certain disclosure requirements in the annual financial statements of the Company. The amendment is effective for annual periods beginning January 1, 2013.

#### 4. ACCOUNTING ESTIMATES AND FINANCIAL RISK MANAGEMENT

4.1 The preparation of this condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim financial information, the significant judgements made by management in applying the Company's accounting policies and areas where assumptions and estimates are significant are the same as those applied to the financial statements as at and for the year ended March 31, 2011.

4.2 The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended March 31, 2011.

(Unaudited)                      (Audited)  
**September 30,**                      **March 31,**  
**2011**                                      **2011**  
(Rupees '000)

#### 5. PROPERTY, PLANT AND EQUIPMENT

Operating assets - note 5.1	1,794,887	1,692,262
Capital work-in-progress	16,204	95,993
	<b>1,811,091</b>	<b>1,788,255</b>

#### 5.1 Additions / disposals

	Additions (at cost)		Disposals (at net book value)	
	Half year ended			
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(Rupees '000)			
Building on leasehold land	100,630	2,416	4,243	7,577
Plant and machinery	23,921	9,742	129	25
Furniture and fittings	81	-	-	-
Vehicles	22,974	45,387	4,623	5,790
Electrical installations	10,066	1,122	-	28
Office and other equipments	7,345	4,375	-	-
	<b>165,017</b>	<b>63,042</b>	<b>8,995</b>	<b>13,420</b>

#### 6. TAXATION - PAYMENTS LESS PROVISIONS

During the period, Additional Commissioner Inland Revenue [ACIR] amended the assessment orders for tax years 2008, 2009 and 2010 and disallowed certain expenses claimed by the Company in the income tax returns raising tax demands of Rs 174.28 million. These tax demands were subsequently amended and rectified to Rs. 73.85 million by the department through rectification orders for respective years on account of tax credits for taxes already paid by the Company. The Company has filed appeal against the tax orders with the Commissioner Inland Revenue (Appeals) and based on lawyer's advice, the management is confident that the ultimate decision of the appeal will be in favour of the Company.

#### 7. TRADE AND OTHER PAYABLES

These include bills payable to Toyota Tsusho Corporation, Japan - associated company amounting to Rs 1.77 billion (March 31, 2011: Rs 532.28 million) and advances from customers amounting to Rs 861.49 million (March 31, 2011: Rs 357.38 million).

#### 8. CONTINGENCY AND COMMITMENTS

##### 8.1 Contingency

As at September 30, 2011 the Company has received provisional refunds of Rs. 519.05 million (March 31, 2011: Rs. 519.05 million) from the sales tax authorities against bank guarantees and other undertakings by the Company.

##### 8.2 Commitments

Commitments for capital expenditures as at September 30, 2011 amounted to Rs. 27.80 million (March 31, 2011: Rs. 71.50 million).

	(Unaudited) September 30, 2011 (Rupees '000)	(Unaudited) September 30, 2010
<b>9. FINANCE COST</b>		
Mark-up on short-term borrowings	32,888	72,002
Exchange loss - net	150,128	169,610
Bank charges	4,894	4,337
Interest on Workers' Profits Participation Fund	60	-
	<u>187,970</u>	<u>245,949</u>

#### 10. CASH USED IN OPERATIONS

Loss before taxation	(228,514)	(77,111)
Add / (less): Adjustments for non cash charges and other items		
Depreciation and amortisation	54,148	51,397
Mark-up on short-term borrowings	32,888	72,002
Retirement benefits charge	14,916	13,670
Loss / (Gain) on sale of property, plant and equipment	1,292	(6,490)
Return on saving accounts	(992)	(847)
	<u>102,252</u>	<u>129,732</u>
(Loss) / Profit before working capital changes	(126,262)	52,621

#### EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES

(Increase) / Decrease in current assets		
Stores, spares and loose tools	(1,102)	(2,279)
Stock-in-trade	(2,367,153)	(115,623)
Trade debts	(539)	49,364
Loans and advances	42,977	(34,601)
Trade deposits and prepayments	(17,951)	2,439
Refunds due from the government	(284,367)	195,824
Other receivables	802	412
	<u>(2,627,333)</u>	<u>95,536</u>
Increase / (Decrease) in trade and other payables	1,635,103	(696,764)
	<u>(992,230)</u>	<u>(601,228)</u>
	<u>(1,118,492)</u>	<u>(548,607)</u>

	(Unaudited) September 30, 2011 (Rupees '000)	(Audited) March 31, 2011
<b>11. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	21,491	63,416
Short-term borrowings - Running finance under mark-up arrangements	(1,619,319)	(296,310)
	<u>(1,597,828)</u>	<u>(232,894)</u>

## 12. TRANSACTIONS WITH RELATED PARTIES

Disclosure of transactions with the related parties during the period are as follows:

Relationship	Nature of transactions	September 30,	September 30,
		2011	2010
		(Rupees '000)	
i. Holding Company	- Purchase of goods	70,140	93,337
	- Sale of goods	14,356	194,412
	- Royalty charge	18,730	27,428
	- Technical services fee	779	-
ii. Associated Companies	- Purchase of goods and services	3,322,533	3,324,394
	- Sale of goods	211,853	258,092
	- Purchase of property, plant and equipment	13,669	19,628
	- Commission earned	6,550	13,918
iii. Employees' Provident Fund	- Contribution paid	8,319	9,777
iv. Employees' Gratuity Fund	- Contribution paid	3,813	9,547
v. Employees' Pension Fund	- Contribution paid	7,666	11,979
vi. Key Management Personnel	- Salaries and other employee benefits	12,661	19,577
	- Post employment benefits	-	351

## 13. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was approved and authorised for issue by the Board of Directors of the Company on November 14, 2011.



Managing Director &  
Chief Executive



Chairman



**HINOPAK MOTORS LIMITED**

D-2, S.I.T.E., Manghopir Road, P.O. Box No. 10714, Karachi.  
Website: [www.hinopak.com](http://www.hinopak.com)