

## Notes to the Accounts

for the year ended March 31, 2004

### 1. Company background, operation and legal status

The company was incorporated on November 4, 1992. The company is listed on the Karachi, Islamabad and Lahore Stock Exchanges and its principal activities are the assembly and progressive manufacture and sale of Honda vehicles and spare parts. The company commenced commercial production from July 1994.

### 2. Summary of significant accounting policies

#### 2.1 Basis of measurement

These financial statements have been prepared on the basis of 'historical cost' convention, except for certain financial instruments which have been recognized at fair value and recognition of certain staff retirement benefits at present value.

#### 2.2 Statement of compliance

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

#### 2.3 Staff retirement benefits

The main feature of the schemes operated by the company for its employees are as follows:

- (a) The company operates a funded gratuity scheme for all its employees. Under the scheme gratuity is payable on the basis of last drawn basic salary at the following rates:

Service in the company	Per completed year of service
0-4 years and 364 days	Nil
5-9 years and 364 days	15 days
10 years or more	30 days

Monthly contributions are made to this fund on the basis of actuarial recommendation at the rate of 6.1 percent per annum of basic salary. The actuarial valuation for the scheme was carried out as at March 31, 2004.

The actual return on the plan assets during the year was Rs 0.39 million (March 31, 2003: Rs 0.44 million). The actual returns on plan asset represents the difference between the fair value of plan assets at the beginning of the year and as at the end of the year after adjustments for contributions made by the company as reduced by benefits paid during

the year.

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

Discount rate	8%
Expected increase in eligible pay	7%
Expected rate of return on plan assets	8%

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

(b) There is an approved contributory provident fund for all employees.

## 2.4 Taxation

### Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

### Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the year when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

## 2.5 Fixed capital expenditure and depreciation / amortization

### 2.5.1 Operating fixed assets

#### Tangible

Operating fixed assets except land are stated at cost less accumulated depreciation. Land and capital work-in-progress are stated at cost.

Depreciation on all operating fixed assets except land is charged to income applying the diminishing balance method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions during the year while no depreciation is charged on disposals or retirement of fixed assets during the year. Depreciation is being charged at the rates given in note 9.1.

Profit and loss on disposal of fixed assets is included in income currently. Maintenance and normal repairs are charged to income. Major renewals and improvements are capitalized.

### **Intangible**

Intangible fixed assets are stated at cost less accumulated amortization and represents the cost of licences for the right to manufacture Honda vehicles in Pakistan.

Amortization is charged to income on the straight line method so as to write off the cost of an asset over its estimated useful life. Amortization on additions is charged from the month in which an asset is acquired or capitalised. Amortization is being charged at the rate given in note 9.4.

### **2.5.2 Capital work-in-progress**

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

### **2.6 Stores and spares**

These are valued at cost determined on moving average basis. Items in transit are valued at cost comprising invoice values and other incidental charges thereon.

### **2.7 Stock in trade**

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

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

### **2.8 Long term investments**

The investment made by the company is classified for the purpose of measurement into the following category:

### **Available for sale**

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

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

## **2.9 Foreign currency transactions**

All monetary assets and liabilities in foreign currencies are translated into Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Rupees at exchange rate prevailing at the date of transaction. All non-monetary items are translated into Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

Exchange differences are included in income currently.

## **2.10 Revenue recognition**

Sales of vehicles and spare parts are recognized on dispatch to the customers.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

## **2.11 Mark up, interest, profit and other charges**

Mark up, interest, profit and other charges are charged to income.

## **2.12 Provisions**

Provisions are recorded when the company has a present obligation as a result of past event which it is probable will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

## **2.13 Related party transactions**

Related party transactions are stated at arm's length prices principally substantiated in the manner given in Note 31.

## 2.14 Derivative financial instruments

These are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

## 2.15 Financial instruments

Financial instruments are recognised when the company becomes a party to the contractual provisions of the instrument. The financial instruments include long term deposits, receivables, cash and cash equivalents and creditors, accrued and other liabilities. The particular measurement methods adopted are disclosed in individual policy statements associated with each item.

### (a) Long term deposits

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

### (b) Receivables

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

### (c) Creditors, accrued and other liabilities

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

## 2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

	2004	2003
	(Rupees in thousand)	
	_____	_____
<b>3. Issued, subscribed and paid up capital</b>		
40,000,000 ordinary shares of Rs 10 each fully paid in cash	400,000	400,000
2,000,000 ordinary shares of Rs 10 each issued as fully paid bonus shares	20,000	20,000
	_____	_____
<u>42,000,000</u>	<u>420,000</u>	<u>420,000</u>

21,420,000 (March 31, 2003: 21,420,000) ordinary shares of the company are held by Honda Motor Company Ltd., Japan, the holding company.

2004  
2003  
(Rupees in thousand)

**4. Reserves**

Movement in and composition of reserves is as follows:

**Capital**

Share premium

76,000

76,000

**Revenue**

General reserve

- At the beginning of the year

1,206,000

1,006,000

- Transfer from profit and loss account

230,000

200,000

1,436,000

1,206,000

1,512,000

1,282,000

**5. Staff retirement benefits**

Staff gratuity

- note 5.1

-

-

Statutory gratuity

- note 5.2

-

-

-

-

**5.1 Staff gratuity**

Present value of defined benefit obligation

21,308

16,218

Fair value of plan assets

(19,392)

(15,104)

Un-recognised actuarial losses

(1,477)

(235)

Un-recognised past service cost

(439)

(879)

Liability as on March 31

-

-

Opening balance

-

7,484

Charge to profit and loss account

4,014

7,366

Contributions by the company

(4,014)

(14,850)

Liability as at March 31

-

-

2004  
2003  
(Rupees in thousand)

## 5.2 Statutory gratuity

Opening balance	-	2,391
Expense for the year	-	462
	-	2,853
Less: Payments during the year	-	2,853
	-	-

## 6. Short term running finances and other credit facilities - secured

**6.1** Short term running finances available from commercial banks under mark-up arrangements amount to Rs 714.60 million (March 31, 2003: Rs 849.60 million). Mark-up is charged at rates ranging from Re 0.0753 to Re 0.2054 per Rs 1,000 per diem or part thereof on the balances outstanding. The aggregate short term running finances are secured by a first hypothecation charge on current assets of the company.

**6.2** Of the aggregate facility of Rs 1,405.97 million (March 31, 2003: Rs 1,301.60 million) for opening letters of credit, the amount utilized at March 31, 2004 was Rs 950.01 million (March 31, 2003: Rs 323.78 million).

## 7. Creditors, accrued and other liabilities

Creditors	- note 7.1	175,633	184,427
Accrued liabilities		17,196	15,138
Bills payable		814,516	178,208
Security deposits from dealers and contractors	- note 7.2	2,103	1,428
Workers' profit participation fund	- note 7.3	-	524
Advances from customers	- note 7.4	3,709,194	615,558
Licence fee, technical fee and royalties	- note 7.5	103,782	26,870
Provision for custom duties		41,611	-
Unclaimed dividend		4,037	3,197
Workers' welfare fund		-	9,215
Others		20,353	10,009
		4,888,425	1,044,574

	2004	2003
	(Rupees in thousand)	
<b>7.1 Trade creditors include Rs 9.45 million (March 31, 2003: Rs 9.36 million) due to the following associated undertakings:</b>		
Allwin Engineering Industries Limited	312	2,908
Atlas Battery Limited	817	589
Atlas Honda Limited	-	63
Muslim Insurance Company Limited	8,254	5,490
Honda Motor Company Limited, Japan	-	267
Honda Automobile (Thailand) Company Limited	52	-
Honda Trading (Thailand) Company Limited	-	35
Asian Honda Motor Company, Thailand	18	-
Honda Autoparts Manufacturing (M) SDN. BHD. Malaysia	-	8
	<u>9,453</u>	<u>9,360</u>
<b>7.2</b> These security deposits are interest free and are repayable on termination of dealership/contract.		
<b>7.3 Workers' profit participation fund</b>		
Opening balance	524	3,301
Provision for the year	33,280	25,441
Interest for the year	5	59
	<u>33,285</u>	<u>25,500</u>
	33,809	28,801
Less: Payments made during the year	33,809	28,277
	<u>-</u>	<u>524</u>
<b>7.4</b> Advances from customers include Rs 3,705 million (March 31, 2003: Rs 611 million) which are against the sale of vehicles. These advances carry mark-up @ 1.53 % per annum, being the weighted average rate of three months market treasury bills as at the end of the year, in accordance with the directive issued by the Engineering Development Board, Government of Pakistan on September 17, 2002. The mark-up is calculated and payable after a period of sixty days from the receipt of such advances.		
<b>7.5</b> Licence fee, technical fee and royalties include Rs 103.57 million (March 31, 2003: Rs 24.48 million) due to the holding company, Honda Motor Company Ltd., Japan.		

## 8. Contingencies and commitments

### 8.1 Contingencies

- (i) Claims against the company not acknowledged as debt by the company amount to Rs 9.79 million (March 31, 2003: Rs 9.79 million). As the management is confident that the matter would be settled in its favour, consequently no provision has been made in these accounts in respect of the above mentioned disputed liabilities.
- (ii) During the year based on a routine audit conducted by the Engineering Development Board (EDB) for the year 2001-2002 a shortfall in percentages ranging from 0.9721 to 2.9156 has been identified in the company's deletion programme. The CBR has forwarded instructions to the Collector of Customs to subject the imports representing such shortfalls to statutory rate of duty chargeable for import of Completely Built Units.

As the company and custom authorities have only been intimated of the shortfall in deletion in percentage terms, it is not possible at this point of time to determine the financial impact of these shortfalls. The management has taken up this matter with the custom authorities to determine the financial impact. According to the management, the amount involved will not be material and hence no provision has been made in these accounts.

- (iii) During the year the company received notices from custom authorities for payment of custom duty and sales tax in respect of certain components of Honda Cars imported during prior years. Custom authorities have interpreted that CBU rate of duty is applicable on such components and have thus raised a demand of Rs. 110 million. This includes Rs. 96 million on account of custom duty and Rs. 14 million on account of sales tax.

The company has also approached custom authorities on the grounds that the components mentioned in the above mentioned notices includes certain components which are duly appearing in the indigenization program of the company for the relevant period. Hence CBU rate of duty is not applicable on import of these components. However, out of the total demand on account of custom duty the company has made a provision of Rs. 42 million in these accounts. As the management is confident that the matter would be settled in its favour, consequently no provision for the balance amount has been made in these accounts in respect of the above mentioned notices.

### 8.2 Commitments in respect of

- (i) Letters of credit and purchase commitments other than capital expenditure Rs. 106.57 million (March 31, 2003: Rs. 322.46 million).
- (ii) Letters of credit and purchase commitments for capital expenditure Rs. 69.55 million (March 31, 2003: Rs. 1.32 million).

## 9. Operating fixed assets - tangible

### 9.1 The following is a statement of the operating fixed assets

(Rupees in thousand)

	Cost as at March 31, 2003	Additions/ (deletions)	Cost as at March 31, 2004	Accumulated depreciation as at March 31, 2003	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at March 31, 2004	Book value as at March 31, 2004	Annual depreciation rate %
Freehold Land	51,553	-	51,553	-	-	-	51,553	-
Buildings on freehold land	350,803	14,074	364,877	198,917	16,596	215,513	149,364	10
Plant and machinery	630,089	169,031 (14,105)	785,015	481,434	87,799 (10,406)	558,827	226,188	20-35
Furniture and office equipment	14,181	5,379	19,560	5,910	2,730	8,640	10,920	20
Vehicles	45,636	20,637 (4,554)	61,719	24,214	8,072 (2,854)	29,432	32,287	20
Tools and equipments	36,406	5,749 (25)	42,130	22,662	3,565 (19)	26,208	15,922	20
Computers	8,422	5,940 (92)	14,270	4,972	3,282 (79)	8,175	6,095	35
March 31, 2004	1,137,090	220,810 (18,776)	1,339,124	738,109	122,044 (13,358)	846,795	492,329	
March 31, 2003	1,108,470	31,834 (3,214)	1,137,090	687,371	52,656 (1,918)	738,109	398,981	

Plant and Machinery includes Seat Dyes, which have a book value of Rs 1.96 million (March 31, 2003: Rs 1.96 million), in the possession of M/s Procon Engineering (Private) Limited and Bumper & Instrument Panel Dyes, which have a book value of Rs 79.51 million (March 31, 2003: Rs 16.87 million), in the possession of M/s Omer Jibrán Engineering Industries (Private) Limited.

Fixed assets include assets which have a book value of Rs 8.75 million (March 31, 2003: Rs 8.95 million) of the company which are not in operation.

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

		2004 (Rupees in thousand)	2003
Cost of goods sold	- note 20	105,930	43,109
Administration and selling expenses	- note 21	16,114	9,547
		<u>122,044</u>	<u>52,656</u>

### 9.3 Disposal of operating fixed assets

(Rupees in thousand)

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
<b>Vehicles</b>	<b>Employees</b>					
	- Mr. Ayaz Hafeez	890	578	312	354	Employees car sale scheme
	- Mr. Arif Hamid Dar	890	578	312	354	Employees car sale scheme
	- Mr. Aamir H. Shirazi	1,086	613	473	432	Employees car sale scheme
	- Mr. Yusuf H. Shirazi	981	554	427	399	Employees car sale scheme
	<b>Outsiders</b>					
	- Mr. Abid Ansar, Lahore	640	520	120	327	Negotiation
	- M/s Muslim Insurance Company Limited, Karachi	67	10	57	55	Insurance claim
<b>Computers</b>		92	79	13	-	Assets written off
<b>Tools and equipments</b>		25	20	5	-	Assets written off
<b>Plant and machinery</b>		14,105	10,406	3,699	-	Assets written off
		<b>18,776</b>	<b>13,358</b>	<b>5,418</b>	<b>1,921</b>	

### 9.4 Fixed assets - intangible

(Rupees in thousand)

	Cost as at March 31, 2003	Additions	Cost as at March 31, 2004	Accumulated amortization as at March 31, 2003	Amortization charge for the year	Accumulated amortization as at March 31, 2004	Book value as at March 31, 2004	Annual Amortization rate %
Licence fee	67,596	31,945	99,541	56,912	8,973	65,885	33,656	25
March 31, 2004	67,596	31,945	99,541	56,912	8,973	65,885	33,656	
March 31, 2003	65,347	2,249	67,596	52,097	4,815	56,912	10,684	25

The amortization charge has been allocated to cost of goods sold.

Intangible assets include assets amounting to Rs Nil (March 31, 2003: Rs 2.25 million) on which amortization is not charged in the accounts.

		2004 (Rupees in thousand)	2003
<b>10. Capital work-in-progress</b>			
Civil works		16,108	50
Plant and machinery		55,532	39,255
Others	-note 10.1	2,045	11,829
		<u>73,685</u>	<u>51,134</u>
<b>10.1</b>	Others include furniture, tools and equipment.		
<b>10.2</b>	Plant and machinery includes goods in transit amounting to Rs 27.05 million (March 31, 2003: Rs Nil).		
<b>11. Long term investments</b>			
<b>Unquoted</b>			
<b>Automotive Testing &amp; Training Centre (Private) Limited</b>			
75,000 (2003: Nil) fully paid ordinary shares of Rs 10 each		750	-
Convener of Managing committee: Mr. Muhammad Ilyas Suri			
		<u>750</u>	<u>-</u>
<b>12. Long term loans and deposits</b>			
Security deposits	- note 12.1	1,445	1,545
Loans to employees - considered good			
- Executives		24,534	839
- Others	- note 12.2	4,979	1,196
		29,513	2,035
Less: Receivable within one year			
- Executives		4,478	570
- Others		1,251	602
		5,729	1,172
		<u>25,229</u>	<u>2,408</u>
Outstanding for periods			
- Less than three years		15,457	2,035
- Three years and more		14,056	-
		<u>29,513</u>	<u>2,035</u>

**12.1** These are interest free.

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

Staff welfare loans carry interest at the rate of 1.3 % and are recoverable within a period of 7 years commencing from the date of disbursement through monthly deductions from salaries and are secured against retirement benefits of employees and their guarantors. All the loans are granted to the employees of the company in accordance with their terms of employment.

Loans for purchase of furniture are interest free and are repayable between one to four years. All the loans are granted to the employees of the company in accordance with their terms of employment. These loans are unsecured.

The maximum aggregate amount due from executives at the end of any month during the period was Rs 27.87 million (March 31, 2003: Rs 0.93 million).

	2004	2003
	(Rupees in thousand)	
	<u>          </u>	<u>          </u>
<b>13. Deferred taxation - net</b>		
Deferred tax is calculated in full on temporary difference under the liability method using a tax rate of 35%.		
Opening balance	32,979	-
Included in profit	11,625	32,979
Deferred tax as at March 31	<u>44,604</u>	<u>32,979</u>
Deferred tax comprises timing differences relating to:		
Accelerated accounting depreciation	30,040	32,979
Provision for custom duty	14,564	-
	<u>44,604</u>	<u>32,979</u>

**14. Stores and spares**

Most of the items of stores and spares are of interchangeable nature and can be used as machine spares or consumed as stores. Accordingly it is not practicable to distinguish stores from spares until their actual usage.

Spares amounting to Rs 1.90 million (March 31, 2003: Rs 1.90 million) are in the possession of M/s Omer Jibran Engineering Industries (Private) Limited.

2004  
(Rupees in thousand)      2003

**15. Stock in trade**

Raw materials including in transit Rs 889.55 million (March 31, 2003: Rs 327.20 million)	1,453,269	602,747
Spare parts purchased for resale including in transit Rs 19.18 million (March 31, 2003: Rs 9.58 million)	113,561	87,911
Work in process	68,653	74,078
Finished goods	73,056	176,189
	<u>1,708,539</u>	<u>940,925</u>

Raw materials amounting to Rs 42.94 million (March 31, 2003: Rs 13.47 million) are in the possession of various vendors of the company.

Finished goods amounting to Rs 32.98 million (March 31, 2003: Rs 59.97 million) are in the possession of various dealers.

Spare parts purchased for resale amounting to Rs 14.17 million (March 31, 2003: Rs 3.66 million) are valued at NRV.

**16. Trade debts - unsecured**

Considered good	-	-
Considered doubtful	16,142	16,142
Less: Provision for doubtful debts	16,142	16,142
	-	-
	<u>-</u>	<u>-</u>

**17. Loans, advances, deposits, prepayments and other receivables**

**Considered good:**

- Advances to suppliers and contractors	- note 17.1	29,290	14,202
- Advances to employees		242	84
- Due from associated undertakings	- note 17.2	6,727	2,060
- Current maturity of loans to employees	- note 17.3	5,729	1,172
Income tax recoverable		140,753	139,352
Prepayments		314,694	10,866
Sales tax recoverable		574,596	91,320
Accrued interest		2,280	2,572
Other receivables - considered good		11,602	7,560
		<u>1,085,913</u>	<u>269,188</u>

**17.1** Included in advances to suppliers and contractors is an amount of Rs 0.58 million (March 31, 2003: Rs Nil) due from Honda Motor Company Limited, Japan, the holding company and Rs 0.96 million (March 31, 2003: Rs 1.07 million) due from an associated undertaking M/s Allwin Engineering Industries Limited.

	2004 (Rupees in thousand)	2003
<b>17.2 Due from associated undertakings - considered good</b>		
Honda Motor Company Limited, Japan	176	116
Honda Automobile (Thailand) Company Limited	2,144	98
Honda Trading (Thailand ) Company Limited	227	1,551
Honda Cars Philippines, Inc.	3,742	2
PT Honda Prospect Motor, Indonesia	-	234
Honda Trading Corporation, Japan	198	14
Honda Autoparts Manufacturing (M) SDN. BHD. Malaysia	72	45
Asian Honda Motor Company, Thailand	155	-
Honda Parts Manufacturing Corporation, Philippines	13	-
	<u>6,727</u>	<u>2,060</u>

These are in the normal course of business and are interest free. The maximum aggregate amount due from associated undertakings at the end of any month during the year was Rs 7.17 million (March 31, 2003: Rs 2.06 million).

**17.3** These include Rs 4.48 million (March 31, 2003: Rs 0.57 million) due from executives.

**18. Cash and bank balances**

At banks		
- On current accounts	3,352	2,488
- On deposit account	2,000,000	-
- On saving accounts [including US \$ 182,334 (March 31, 2003: US \$ 124,293)]	1,511,172	1,260,068
Cash in hand	385	420
	<u>3,514,909</u>	<u>1,262,976</u>

The deposit and saving accounts bear mark-up which ranges from 0.30 % to 1.30 % per annum.

	Year to March 31, 2004	9 months ended March 31, 2003
	(Rupees in thousand)	
<b>19. Sales</b>		
Sales - vehicles	9,425,343	4,936,959
Less: Commission to dealers	251,982	134,530
	9,173,361	4,802,429
Spare parts	185,008	98,637
	<u>9,358,369</u>	<u>4,901,066</u>

Sales of vehicles and spare parts are exclusive of sales tax amounting to Rs 1,441.00 million (March 31, 2003: Rs 759.29 million).

	Year to March 31, 2004	9 months ended March 31, 2003
	(Rupees in thousand)	
<b>20. Cost of goods sold</b>		
Raw material consumed	7,832,155	4,127,081
Stores and spares consumed	24,045	12,439
Salaries, wages and benefits	89,717	58,606
Fuel and power	20,247	14,636
Insurance	7,616	5,149
Travelling and vehicle running	25,062	14,471
Freight and handling	20,418	7,525
Repairs and maintenance	4,929	2,434
Printing and stationery	304	203
Technical assistance	21,800	9,048
Depreciation	105,930	43,109
Royalty	138,199	72,322
Amortization - licence fee	8,973	4,815
Canteen subsidy	5,398	2,712
Provision for custom duties	41,611	-
Others	1,067	276
	<u>8,347,471</u>	<u>4,374,826</u>
Opening stock of work-in-process	74,078	61,312
Closing stock of work-in-process	(68,653)	(74,078)
	<u>5,425</u>	<u>(12,766)</u>
Cost of goods manufactured	8,352,896	4,362,060
Less: Own work capitalized	5,264	-
Cost of damaged cars	7,202	1,484
	<u>8,340,430</u>	<u>4,360,576</u>
Opening stock of finished goods	176,189	67,908
Closing stock of finished goods	(73,056)	(176,189)
	<u>103,133</u>	<u>(108,281)</u>
Cost of spare parts purchased for resale	8,443,563	4,252,295
	158,828	81,373
	<u>8,602,391</u>	<u>4,333,668</u>

Year to 9 months ended  
March 31, March 31,  
2004 2003  
(Rupees in thousand)

**20.1** Salaries, wages and benefits include following amounts in respect of staff retirement benefits:

Transitional liability	-	2,672
Interest cost for the year	977	615
Current service cost	1,450	916
Past service cost - non vested benefits	241	239
Expected return on plan assets	(469)	(438)
	<u>2,199</u>	<u>4,004</u>

In addition to above salaries, wages and benefits include Rs 2.34 million (March 31, 2003: Rs 1.58 million) and Rs Nil (March 31, 2003: Rs 0.27 million) on account of provident fund contributions and statutory gratuity respectively:

**21. Administration and selling expenses**

Salaries, wages and benefits	- note 21.1	57,679	42,180
Fuel and power		4,171	1,730
Insurance		3,583	2,604
Travelling and vehicle running		15,045	10,112
Freight and handling		1,628	538
Repairs and maintenance		2,058	1,484
Printing and stationery		4,433	2,255
Communications		4,606	2,596
Postage		2,047	1,299
Warranty costs		7,133	-
Advertising		22,098	23,360
Auditor's remuneration	- note 21.2	2,883	882
Legal and professional charges		2,169	1,330
Depreciation		16,114	9,547
Training expenses		1,118	711
Fee and subscription		410	293
Canteen subsidy		2,423	1,462
Security expenses		1,112	807
Free service claims		2,993	2,096
Rent, rates and taxes		1,220	825
Assets written off		3,717	-
Donations		1,866	790
Others		462	462
		<u>160,968</u>	<u>107,363</u>

Year to March 31, 2004  
9 months ended March 31, 2003  
(Rupees in thousand)

**21.1** Salaries, wages and benefits include following amounts in respect of staff retirement benefits.

Transitional liability	-	2,244
Interest cost for the year	807	517
Current service cost	1,197	769
Past service cost - non vested benefits	199	200
Expected return on plan assets	(387)	(368)
	<u>1,816</u>	<u>3,362</u>

In addition to above salaries, wages and benefits include Rs 2.10 million (March 31, 2003: Rs 1.45 million) and Rs Nil (March 31, 2003: Rs 0.19 million) on account of provident fund contributions and statutory gratuity respectively.

**21.2 Auditors remuneration**

The audit fee and remuneration for other services included in the accounts is as follows:

Statutory audit	275	275
Half yearly review	100	75
Taxation services	2,355	394
Workers' profit participation fund audit, royalty audit and certificates for remittance of foreign currency	78	63
Out of pocket expenses	75	75
	<u>2,883</u>	<u>882</u>

**22. Other income**

Return on bank deposits	44,984	37,783
Scrap sales	23,974	10,681
Gain on disposal of fixed assets	220	533
Interest on advances to suppliers	2,047	664
Interest on loans to employees	294	-
Liabilities written back	-	1,142
Others	1,564	535
	<u>73,083</u>	<u>51,338</u>

Year to 9 months ended  
March 31, March 31,  
2004 2003  
(Rupees in thousand)

**23. Financial charges**

Mark-up on short term running finances	55	40
Mark-up on customer advances	1,530	38
Interest on workers' profit participation fund	5	59
Bank charges	698	368
	<u>2,288</u>	<u>505</u>

**24. Other charges**

Workers' profit participation fund	33,280	25,441
Workers' welfare fund	12,136	9,205
Exchange loss	196	390
	<u>45,612</u>	<u>35,036</u>

**25. Provision for taxation**

For the year		
- Current	226,172	162,676
- Deferred	(11,625)	(32,979)
	<u>214,547</u>	<u>129,697</u>
Prior year		
- Current	(3,037)	-
- Deferred	-	-
	<u>(3,037)</u>	<u>-</u>
	<u>211,510</u>	<u>129,697</u>

Year to March 31, 2004	9 months ended March 31, 2003
------------------------------	-------------------------------------

## 25.1 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate.

Applicable tax rate as per Income Tax Ordinance, 2001

Tax effect of:

- Amounts that are not deductible for tax purposes
- Deferred tax asset
- Change in prior years' tax
- Presumptive tax regime and others

Average effective tax rate charged to profit and loss account

35.00	35.00
0.88	(0.87)
(1.87)	(6.93)
(0.50)	-
0.59	0.06
(0.90)	(7.74)
<u>34.10</u>	<u>27.26</u>

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

26.1 The aggregate amounts charged in the accounts for remuneration including certain benefits to the chief executive, working directors and other executives of the company were as follows:

(Rupees in thousand)

	Chief Executive		Directors		Executives	
	Year to March 31, 2004	9 months ended March 31, 2003	Year to March 31, 2004	9 months ended March 31, 2003	Year to March 31, 2004	9 months ended March 31, 2003
Managerial remuneration	347	399	3,366	2,657	53,667	33,713
House rent and utilities	654	536	2,143	1,699	17,628	13,393
Reimbursement of medical expenses	11	75	154	74	1,103	506
Staff retirement benefits	24	-	268	516	7,682	7,996
Other allowances and expenses	254	158	1,330	377	2,453	849
	<u>1,290</u>	<u>1,168</u>	<u>7,261</u>	<u>5,323</u>	<u>82,533</u>	<u>56,457</u>
<b>Number of persons</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>3</b>	<b>142</b>	<b>118</b>

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

## 26.2 Remuneration to other directors

Aggregate amount charged in the accounts for the period for fee to one director (March 31, 2003: one director) was Rs 2,500 (March 31, 2003: Rs 500).

	Year to March 31, 2004	9 months ended March 31, 2003
	(Rupees in thousand)	
<b>27. Cash generated from operations</b>		
Profit before taxation	620,193	475,832
Adjustment for non cash charges and other items:		
Depreciation	122,044	52,656
Gain on sale of fixed assets	(220)	(533)
Interest income	(47,031)	(38,447)
Assets written off	3,717	-
Financial charges	2,288	505
Provision for staff gratuity	4,014	7,366
Statutory gratuity	-	462
Provision for custom duties	41,611	-
Amortization	8,973	4,815
Royalty	138,199	72,322
Workers' profit participation fund	33,280	25,441
Workers' welfare fund	12,136	9,205
Working capital changes - note 27.1	2,157,852	344,330
	<u>3,097,056</u>	<u>953,954</u>
<b>27.1 Working capital changes</b>		
<b>Increase in current assets</b>		
- Stores and spares	(3,609)	(100)
- Stock in trade	(767,614)	(2,157)
- Loans, advances, deposits, prepayments and other receivables	(815,615)	(7,860)
<b>Increase in current liabilities</b>		
- Creditors, accrued and other liabilities	3,744,690	354,447
	<u>2,157,852</u>	<u>344,330</u>
<b>28. Cash and cash equivalents</b>		
Cash and cash equivalents comprise of the following items as included in the balance sheet.		
Cash and bank balances	<u>3,514,909</u>	<u>1,262,976</u>
<b>29. Earnings per share</b>		
<b>29.1 Basic earnings per share</b>		
Net profit after tax	408,683	346,135
Average ordinary share	42,000	42,000
Earnings per share	9.73	8.24
	<b>Numbers in thousands</b>	
	<b>Rupees</b>	

## 29.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the company as the company has no such commitments.

## 30. Financial assets and liabilities

(Rupees in thousand)

	Interest/mark-up bearing				Non Interest/mark-up bearing				Total 2004	Total 2003
	Maturity upto one year	Maturity more than year and less than five years	Sub-total 2004	Sub-total 2003	Maturity upto one year	Maturity more than year and less than five years	Sub-total 2004	Sub-total 2003		
<b>Financial assets</b>										
<b>On balance sheet</b>										
Long term investments	-	-	-	-	-	750	750	-	750	-
Loans to employees	4,672	22,620	27,292	-	1,057	1,164	2,221	2,035	29,513	2,035
Deposits	-	-	-	-	-	1,445	1,445	1,545	1,445	1,545
Other receivables (excluding advances to suppliers and contractors, advances to employees, income tax recoverable, prepayments and sales tax recoverable and including margin against LCs)	-	-	-	-	331,234	-	331,234	14,248	331,234	14,248
Cash and bank balances	3,511,172	-	3,511,172	1,260,068	3,737	-	3,737	2,908	3,514,909	1,262,976
	3,515,844	22,620	3,538,464	1,260,068	336,028	3,359	339,387	20,736	3,877,851	1,280,804
<b>Off balance sheet</b>										
	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3,515,844</b>	<b>22,620</b>	<b>3,538,464</b>	<b>1,260,068</b>	<b>336,028</b>	<b>3,359</b>	<b>339,387</b>	<b>20,736</b>	<b>3,877,851</b>	<b>1,280,804</b>
<b>Financial liabilities</b>										
<b>On balance sheet</b>										
Creditors (excluding WPPF, WWF, advances from customers and Provision for custom duties)	-	-	-	-	1,137,620	-	1,137,620	419,277	1,137,620	419,277
	-	-	-	-	1,137,620	-	1,137,620	419,277	1,137,620	419,277
<b>Off balance sheet</b>										
Letter of credits	-	-	-	-	136,136	-	136,136	323,774	136,136	323,774
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,273,756</b>	<b>-</b>	<b>1,273,756</b>	<b>743,051</b>	<b>1,273,756</b>	<b>743,051</b>
<b>On balance sheet gap</b>	<b>3,515,844</b>	<b>22,620</b>	<b>3,538,464</b>	<b>1,260,068</b>	<b>(801,592)</b>	<b>3,359</b>	<b>(798,233)</b>	<b>(398,541)</b>	<b>2,740,231</b>	<b>861,527</b>
<b>Off balance sheet gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(136,136)</b>	<b>-</b>	<b>(136,136)</b>	<b>(323,774)</b>	<b>(136,136)</b>	<b>(323,774)</b>

### 30.1 Financial risk management objectives

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

### 30.2 Concentration of credit risk

Out of the aggregate financial assets of Rs 3,877.85 million (March 31, 2003: Rs 1,280.80 million) the financial assets which may be subject to "credit risk" amount to Rs 3,877.47 million (March 31, 2003: Rs 1,280.38 million) in the event the counter parties are unable to meet the terms of the agreements. The company believes it is not exposed to any major credit risk as a significant portion of its financial assets represents balances with major international banks meeting established credit guidelines.

### 30.3 Currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings, especially group companies. The company believes that it is not exposed to major foreign exchange risk.

The following forward exchange contract has been entered into as at March 31, 2004 to hedge the foreign currency liability which is due within the next one month:

	(Rupees in thousand)
Forward exchange contract	
Purchase value	89,580
Fair value	95,656

### 30.4 Fair values of financial assets and liabilities

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

## 31. Transactions with related parties

The company in the normal course of business carries out transactions with various related parties which comprise of Honda Motor Company Ltd., Japan - the parent company, associated undertakings and directors. Amounts due from and to related parties are shown under the relevant notes to the accounts and remuneration of directors is disclosed in note 26. Other significant transactions with related parties are as follows:

Related party transactions are stated at prices considered equivalent to prices that would prevail in arm's length transactions principally substantiated in the following manner:

Method	Year to	9 months ended
	March 31, 2004	March 31, 2003
(Rupees in thousand)		
Purchase of CKD/ components and spare parts for resale from foreign suppliers	4,734,604	2,005,604
Purchase of car components and spare parts for resale from local suppliers	46,887	36,706
Purchase of fixed assets		
- from foreign suppliers	149,474	-
- from local suppliers	386	456
Sale of goods	13,816	18,329
Insurance premium	79,728	47,845
Royalty	137,805	72,036
Technical assistance fee	19,754	4,051
Licence fee	23,100	-

**Capacity (on single shift basis)**

**Actual production**

Year to March 31, 2004 Number	9 months ended March 31, 2003 Number	Year to March 31, 2004 Number	9 months ended March 31, 2003 Number
--	---	--	---

**32. Plant capacity and production**

Motor vehicles	11,880	3,750	11,586	6,113
----------------	--------	-------	--------	-------

The management has revised the plant capacity on single shift basis due to enhancement of the production facilities.

### 33. Rates of exchange

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

US \$ 1	=	Rupees	57.55
AUD 1	=	Rupees	43.66
¥ 1	=	Rupee	0.5526
THB 1	=	Rupees	1.458

2004	2003
------	------

### 34. Number of employees

Number of employees

625

477


### 35. Date of authorization for issue


These financial statements were authorized for issue on May 15, 2004 by the Board of Directors of the company.

### 36. Corresponding figures

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

Previous year the company was accorded approval by the Commissioner of Income Tax to adopt March 31, 2003 as its income year to facilitate consolidation of accounts with those of the parent company. The corresponding figures for profit and loss account, cash flow statement, statement of changes in equity and the related notes are for a period of nine months and are not comparable.

  
**Yusuf H. Shirazi**  
Chairman

  
**Mamoru Suwama**  
Chief Executive