

SELECTED NOTES TO THE ACCOUNTS
FOR THE PERIOD OF 3 MONTHS ENDED JUNE 30, 2004

1. These accounts are unaudited and are being submitted to the shareholders in accordance with the requirements of the Companies Ordinances 1984.
2. The accounting policies adopted for the preparation of these quarterly accounts are the same as those applied in the preparation of preceding annual accounts of the company for the period ended March 31, 2004.
3. These accounts have been prepared in accordance with the requirements of the International Accounting Standard 34 "Interim Financial Reporting".
4. Contingencies and commitments

Contingencies

- (i) Claims against the company not acknowledged as debt by the company amounts to Rs. 9.79 million (March 31, 2004: 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) 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, hence no provision has been made in these accounts.

- (iii) The company has 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 amount of Rs. 110 million includes Rs. 96 million on account of customs duty and Rs. 14 million on account of sales tax.

The company has 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 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 has been made in these accounts in respect of the above mentioned notices.

Commitments in respect of

- (i) Letters of credit and purchase commitments other than capital expenditure Rs. 47.00 million (March 31, 2004: Rs. 106.57 million)
- (ii) Letters of credit and purchase commitments for capital expenditure Rs. 85.82 million (March 31, 2004: Rs. 69.55 million)

	June 30, 2004	March 31, 2004
	(Rupees in thousand)	
5. Fixed assets - tangible		
Opening book value	492,329	398,981
Add: Additions during the period	-note 5.1 <u>13,336</u>	<u>220,810</u>
	505,665	619,791
Less: Disposals during the period (at book value)	-note 5.2 <u>1,384</u>	<u>5,418</u>
Depreciation charged during the period	<u>23,028</u>	<u>122,044</u>
	<u>24,412</u>	<u>127,462</u>
	<u>481,253</u>	<u>492,329</u>
5.1 Following is the detail of additions during the period		
-Building	100	14,074
-Plant and machinery	2,356	169,031
-Furniture and office equipments	931	5,379
-Vehicles	6,455	20,637
-Tools and equipments	2,316	5,749
-Computers	1,178	5,940
	<u>13,336</u>	<u>220,810</u>
5.2 Following is the detail of disposals during the period		
-Plant and machinery	-	3,699
-Vehicles	1,384	1,700
-Tools and equipments	-	6
-Computers	-	13
	<u>1,384</u>	<u>5,418</u>
	April to June 2004	2003
	(Rupees in thousand)	
6. Sales		
Sales: Vehicles	3,562,922	2,022,798
Less: Commission to dealers	<u>97,381</u>	<u>55,858</u>
	3,465,541	1,966,940
Spare parts	<u>58,112</u>	<u>43,579</u>
	<u>3,523,653</u>	<u>2,010,519</u>

	April to June	
	2004	2003
	(Rupees in thousand)	
7. Cost of goods sold		
Raw material consumed	3,125,009	1,558,282
Stores and spares consumed	4,460	3,722
Salaries, wages and benefits	29,559	19,731
Fuel and power	5,848	5,061
Insurance	2,219	1,843
Traveling & vehicle running	7,574	4,528
Freight and handling	8,252	2,904
Repairs and maintenance	2,215	1,066
Printing & stationery	136	56
Technical assistance	2,713	7,182
Depreciation	18,883	12,284
Royalty	52,192	29,598
Amortization - licence fee	3,230	1,230
Others	2,196	1,437
	<u>3,264,486</u>	<u>1,648,924</u>
Opening stock of work-in-process	68,653	74,078
Closing stock of work-in-process	(70,085)	(42,989)
	<u>(1,432)</u>	<u>31,089</u>
Cost of goods manufactured	3,263,054	1,680,013
Less: Own work capitalized	3,414	-
Cost of damaged cars	796	-
	<u>3,258,844</u>	<u>1,680,013</u>
Opening stock of finished goods	73,056	176,189
Closing stock of finished goods	(50,624)	(139,030)
	<u>22,432</u>	<u>37,159</u>
	3,281,276	1,717,172
** Cost of spare parts purchased for resale	43,768	37,014
	<u>3,325,044</u>	<u>1,754,186</u>

** Includes depreciation charge of Rs. 504 (2003: Rs. Nil)

	April to June	
	2004	2003
	(Rupees in thousand)	
8. Transactions with associated companies		
Sales	3,675	4,910
Purchases	1,535,815	797,738
Fixed assets	54,389	74,676
Insurance premium	29,330	16,007
Insurance claims	1,899	188
Technical assistance	3,817	5,899
Royalty	52,049	29,504
	<u>1,680,974</u>	<u>928,922</u>
9. Cash generated from operations		
Profit before taxation	159,298	219,542
Adjustment for non cash charges and other items:		
Depreciation	23,028	15,450
Gain on sale of fixed assets	(193)	(88)
Interest income	(12,884)	(8,467)
Financial charges	782	271
Provision for staff gratuity	799	631
Amortization	3,230	1,230
Royalty	52,192	29,598
Worker's profit participation fund	8,555	11,790
Worker's welfare fund	3,251	4,480
Working capital changes	- note 9.1 (116,767)	479,688
	<u>121,291</u>	<u>754,125</u>
9.1 Working capital changes		
(Increase)/decrease in current assets		
-Stores and spares	(61)	851
-Stock in trade	73,693	52,064
-Loans, advances, deposits, prepayments and other receivables	281,698	(182,496)
Increase/(decrease) in current liabilities		
-Creditors, accrued and other liabilities	(472,097)	609,269
	<u>(116,767)</u>	<u>479,688</u>

April to June
2004 2003
(Rupees in thousand)

10. Cash and cash equivalents

Cash and bank balances 3,322,231 1,680,792

11. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison.



YUSUF H. SHIRAZI
Chairman



MAMORU SUWAMA
Chief Executive