

## Selected Notes to the Financial Statements

for the half year ended September 30, 2006 (Un-audited)

- These financial statements are un-audited and are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984.
- The accounting policies adopted for the preparation of these half yearly financial statements are the same as those applied in the preparation of preceding annual published financial statements of the company for the year ended March 31, 2006.
- These financial statements have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' and have been reviewed by the auditors as required by the Code of Corporate Governance.

	September 30, 2006	March 31, 2006
Note	(Rupees in thousand)	
<b>4. Property, Plant and equipment</b>		
Opening book value	1,051,723	649,244
Add: Additions during the period	-note 4.1 1,782,604	557,098
	<u>2,834,327</u>	<u>1,206,342</u>
Less: Disposals during the period (at book value)	-note 4.2 (3,881)	(11,728)
Depreciation charged during the period	<u>(116,751)</u>	<u>(142,891)</u>
	<u>(120,632)</u>	<u>(154,619)</u>
	<u>2,713,695</u>	<u>1,051,723</u>
<b>4.1</b> Following is the detail of additions during the period:		
- Free hold land	-	365,766
- Buildings on freehold land	828,278	5,500
- Plant and machinery	901,153	106,275
- Furniture and office equipment	10,468	10,827
- Vehicles	18,511	47,363
- Tools and equipments	17,875	12,447
- Computers	6,319	8,920
	<u>1,782,604</u>	<u>557,098</u>
<b>4.2</b> Following is the detail of disposals during the period:		
- Plant and machinery	-	1,477
- Furniture and office equipment	-	17
- Vehicles	3,792	9,050
- Tools and equipments	-	1,177
- Computers	89	7
	<u>3,881</u>	<u>11,728</u>
<b>5. Long term finances - secured</b>		
Opening balance	1,000,000	-
Add: Disbursements during the period	<u>1,250,000</u>	<u>1,000,000</u>
	2,250,000	1,000,000
Less: Repaid during the period	<u>(166,667)</u>	-
	2,083,333	1,000,000
Less: Current portion shown under current liabilities	<u>(1,333,333)</u>	<u>(333,333)</u>
Closing balance	<u>750,000</u>	<u>666,667</u>

	September 30 2006	March 31 2006
	(Rupees in thousand)	
<b>6. Short term borrowings</b>		
Short term running finance - secured	979,084	304,873
Term finance	<u>1,429,408</u>	<u>1,150,000</u>
	<u>2,408,492</u>	<u>1,454,873</u>

**7. Contingencies and Commitments**

**7.1 Contingencies**

- i) Claims against the company not acknowledged as debt by the company amount to Rs. 9.79 million (March,31, 2006: 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 financial statements in respect of the above mentioned disputed liabilities.
- ii) 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. Customs authorities interpreted that CBU rate of duty was applicable on such components and thus raised a demand of Rs. 110 million. It included Rs. 96 million on account of custom duty and Rs. 14 million on account of sales tax.

The company approached custom authorities on the grounds that the components specified in the above mentioned notices included certain components which were duly appearing in the indigenization program of the company for that relevant period. Hence CBU rate of duty was not applicable on import of these components. In the year 2004, the company made a provision of Rs. 42 million against the total demand of Rs. 110 million. 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 financial statements in respect of above mentioned notices.

**7.2 Commitments in respect of**

- i) Letters of credit and purchase commitments other than capital expenditure Rs. 132.32 million (March 31,2006: Rs. 181.24 million).
- ii) Letters of credit and purchase commitments for capital expenditure Rs. 266.27 million (March 31, 2006: Rs. 1,276.32 million).
- iii) Letters of guarantee issued in favour of collector of customs Rs. Nil (March 31, 2006: Rs. 13.55 million)

	July to September		April to September	
	2006	2005	2006	2005
	(Rupees in thousand)		(Rupees in thousand)	
<b>8. Sales</b>				
Sales -Own manufactured goods	4,746,165	7,636,612	9,874,245	15,490,312
Less: Sales Tax	(619,143)	(996,116)	(1,287,697)	(2,020,464)
Commission to dealers	(99,059)	(168,401)	(215,153)	(341,160)
	4,027,963	6,472,095	8,371,395	13,128,688
Sales - Trading goods	240,074	579,709	376,083	671,407
Less: Sales tax	(31,308)	(75,614)	(49,048)	(87,574)
Commission to dealers	(1,495)	(7,990)	(1,855)	(7,990)
	207,271	496,105	325,180	575,843
	<u>4,235,234</u>	<u>6,968,200</u>	<u>8,696,575</u>	<u>13,704,531</u>
<b>9. Cost of sales</b>				
Raw material consumed	3,690,118	6,193,881	8,541,083	12,404,035
Stores and spares consumed	10,986	8,605	18,235	15,572
Salaries, wages and benefits	67,170	50,142	123,000	103,129
Fuel and power	12,144	9,806	22,470	20,327
Insurance	6,287	3,158	11,914	6,443
Travelling and vehicle running	19,670	15,408	36,786	29,561
Freight and handling	3,829	17,042	13,232	34,777
Repairs and maintenance	8,851	2,645	13,606	6,009
Technical assistance	8,692	1,348	24,552	9,537
Depreciation on property, plant & equipment	73,639	27,013	100,892	55,671
Royalty	80,681	129,672	167,741	263,042
Amortization - on intangible assets	10,252	1,651	16,537	3,302
Others expenses	4,431	5,649	9,184	10,450
	3,996,750	6,466,020	9,099,232	12,961,855
Opening stock of work-in-process	75,276	111,364	76,086	88,701
Closing stock of work-in-process	(180,186)	(135,776)	(180,186)	(135,776)
	(104,910)	(24,412)	(104,100)	(67,075)
Cost of goods manufactured	3,891,840	6,441,608	8,995,132	12,894,780
Less: Own work capitalized	3,305	-	9,476	22,281
Cost of damaged cars	-	3,276	-	7,339
	3,888,535	6,438,332	8,985,656	12,865,160
Opening stock of finished goods	2,097,233	110,505	1,071,827	68,400
Closing stock of finished goods	(1,961,747)	(170,937)	(1,961,747)	(170,937)
	135,486	(60,432)	(889,920)	(102,537)
	4,024,021	6,377,900	8,095,736	12,762,623
Cost of sales - Trading goods	193,577	444,777	298,286	513,615
	<u>4,217,598</u>	<u>6,822,677</u>	<u>8,394,022</u>	<u>13,276,238</u>

**April to September**  
**2006**                      **2005**  
**(Rupees in thousand)**

**10. Transactions with associated companies / related parties**

Sale of goods	41,427	30,643
Purchase of goods	4,647,680	6,549,983
Purchase of property, plant & equipment	416,072	134,275
Purchase of intangible assets	60,600	-
Short term investments	-	300,000
Insurance premium	99,601	115,598
Technical assistance fee	86,411	23,793
Royalty	167,639	263,212

**11. Cash generated from operations**

Profit before taxation	72,929	451,506
Adjustment for:		
- Depreciation on property, plant & equipment	116,751	69,048
- Profit on disposal of property, plant and equipment	(516)	(3,800)
- Assets written off	196	2,898
- Profit on bank deposits, investments, loans to employees and advances to suppliers	(22,302)	(141,865)
- Dividend	(12,507)	-
- Finance cost	127,583	11,993
- Provision for employee's retirement benefits & other obligations	6,716	2,999
- Provision for custom duties	12,003	167,000
- Amortization of intangible assets	16,680	3,445
- Royalty	167,741	263,042
- Worker's profit participation fund	3,920	24,185
- Worker's welfare fund	1,556	8,012
Working capital changes	- note 11.1 (578,083)	(3,926,396)
	<u>(87,333)</u>	<u>(3,067,933)</u>

**11.1 Working capital changes**

<b>(Increase)/decrease in current assets</b>		
- Stores and spares	252	467
- Stock in trade	(1,026,013)	(206,907)
- Trade & other receivables	(40,101)	(125,030)
<b>Increase/(decrease) in current liabilities</b>		
- Trade and other payables	487,779	(3,594,926)
	<u>(578,083)</u>	<u>(3,926,396)</u>

September 30, September 30,  
2006 2005  
(Rupees in thousand)

**12. Cash and cash equivalents**

Cash and bank balances	12,479	1,599,710
Short term running finance	<u>(979,084)</u>	<u>-</u>
	<u>(966,605)</u>	<u>1,599,710</u>

**13. Date of authorization for issue**

These financial statements were authorized for issue on November 22, 2006 by the Board of Directors of the company.

**14. Corresponding figures**

Following corresponding figures, for the half year have been re-arranged, for the purpose of comparison.

- Rs. 13.73 million previously included in administrative expenses have been reclassified as distribution and marketing expenses for more appropriate presentation.

  
**Yusuf H. Shirazi**  
Chairman

  
**Mamoru Suwama**  
Chief Executive