Selected Notes to the Financial Statements
for the period of nine months ended December 31, 2005 (Un-audited)

1. These financial statements are un-audited and are being submitted to the shareholders in accordance with the requirements of the Companies Ordinance, 1984.

2. The accounting policies adopted for the preparation of these quarterly financial statements are the same as those applied in the preparation of preceding audited financial statements of the company for the year ended March 31, 2005.

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 amounting to Rs. 9.79 million (March 31, 2005: 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. Custom authorities interpreted that CBU rate of duty was applicable on such components and have 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 indegenization program of the company for that relevant period. Hence CBU rate of duty was not applicable on import of these components. The company has already made a provision of Rs. 42 million in previous years 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 the above mentioned notices.

Commitments in respect of

i) Letters of credit and purchase commitments other than capital expenditure Rs. 830.52 million (March 31, 2005: Rs. 708.19 million).

ii) Letters of credit and purchase commitments for capital expenditure Rs. 988.96 million (March 31, 2005: Rs. 14.75 million).
### 5. Property, plant and equipment

<table>
<thead>
<tr>
<th>Note</th>
<th>December 31, 2005</th>
<th>March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in thousand)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>649,244</td>
<td>492,329</td>
</tr>
<tr>
<td>Add: Additions during the period</td>
<td>-note 5.1</td>
<td>534,440</td>
</tr>
<tr>
<td>Less: Disposals / scrap during the period</td>
<td>-note 5.2</td>
<td>12,368</td>
</tr>
<tr>
<td>Depreciation charged during the period</td>
<td>1,183,684</td>
<td>806,413</td>
</tr>
</tbody>
</table>

#### 5.1 Following is the detail of additions during the period:

- Free hold land: 365,766
- Building: 5,127
- Plant and machinery: 97,262
- Furniture and office equipments: 6,871
- Vehicles: 43,361
- Tools and equipments: 8,417
- Computers: 8,417

#### 5.2 Following is the detail of disposals/scrap during the period:

- Plant and machinery: 2,898
- Furniture and office equipment: 18
- Vehicles: 9,445
- Tools and equipments: 7
- Computers: 235

### 6. Sales

<table>
<thead>
<tr>
<th>Month</th>
<th>October to December</th>
<th>April to December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rupees in thousand)</td>
<td>(Rupees in thousand)</td>
</tr>
<tr>
<td>Sales - Vehicles</td>
<td>5,366,493</td>
<td>5,343,431</td>
</tr>
<tr>
<td>Less: Sales Tax</td>
<td>699,860</td>
<td>696,990</td>
</tr>
<tr>
<td>Commission to dealers</td>
<td>124,989</td>
<td>128,477</td>
</tr>
<tr>
<td>Total</td>
<td>4,541,644</td>
<td>4,517,964</td>
</tr>
<tr>
<td>Sales - Completely built units</td>
<td>295,027</td>
<td>-</td>
</tr>
<tr>
<td>Less: Sales tax</td>
<td>38,489</td>
<td>-</td>
</tr>
<tr>
<td>Commission to dealers</td>
<td>4,810</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>251,728</td>
<td>-</td>
</tr>
<tr>
<td>Sales - Spare parts</td>
<td>100,187</td>
<td>75,454</td>
</tr>
<tr>
<td>Less: Sales tax</td>
<td>13,068</td>
<td>9,788</td>
</tr>
<tr>
<td>Total</td>
<td>87,119</td>
<td>65,666</td>
</tr>
<tr>
<td>Total</td>
<td>4,880,491</td>
<td>4,583,630</td>
</tr>
<tr>
<td>Note</td>
<td>October to December 2005 (Rupees in thousand)</td>
<td>April to December 2005 (Rupees in thousand)</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>----------------------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td></td>
</tr>
<tr>
<td>7. Cost of goods sold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw material consumed</td>
<td>5,573,144</td>
<td>4,110,173</td>
</tr>
<tr>
<td>Stores and spares consumed</td>
<td>15,166</td>
<td>9,037</td>
</tr>
<tr>
<td>Salaries, wages and benefits</td>
<td>54,442</td>
<td>35,613</td>
</tr>
<tr>
<td>Fuel and power</td>
<td>7,880</td>
<td>6,401</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,674</td>
<td>2,528</td>
</tr>
<tr>
<td>Travelling and vehicle running</td>
<td>18,099</td>
<td>11,294</td>
</tr>
<tr>
<td>Freight and handling</td>
<td>15,046</td>
<td>10,137</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>2,192</td>
<td>3,282</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>4,136</td>
<td>1,453</td>
</tr>
<tr>
<td>Depreciation</td>
<td>44,364</td>
<td>35,747</td>
</tr>
<tr>
<td>Royalty</td>
<td>91,091</td>
<td>67,873</td>
</tr>
<tr>
<td>Amortization - licence fee</td>
<td>3,248</td>
<td>778</td>
</tr>
<tr>
<td>Canteen subsidy</td>
<td>3,606</td>
<td>2,708</td>
</tr>
<tr>
<td>Others</td>
<td>597</td>
<td>375</td>
</tr>
<tr>
<td></td>
<td>5,836,685</td>
<td>4,297,399</td>
</tr>
<tr>
<td>Opening stock of work-in-process</td>
<td>135,776</td>
<td>119,399</td>
</tr>
<tr>
<td>Closing stock of work-in-process</td>
<td>(90,656)</td>
<td>(115,571)</td>
</tr>
<tr>
<td></td>
<td>45,120</td>
<td>3,828</td>
</tr>
<tr>
<td>Cost of goods manufactured</td>
<td>5,881,805</td>
<td>4,301,227</td>
</tr>
<tr>
<td>Less: Own work capitalized</td>
<td>-</td>
<td>4,572</td>
</tr>
<tr>
<td>Cost of damaged cars</td>
<td>-</td>
<td>624</td>
</tr>
<tr>
<td></td>
<td>5,881,805</td>
<td>4,296,031</td>
</tr>
<tr>
<td>Opening stock of finished goods</td>
<td>170,937</td>
<td>153,457</td>
</tr>
<tr>
<td>Closing stock of finished goods</td>
<td>(1,660,103)</td>
<td>(69,098)</td>
</tr>
<tr>
<td></td>
<td>(1,489,166)</td>
<td>84,359</td>
</tr>
<tr>
<td></td>
<td>4,392,639</td>
<td>4,380,390</td>
</tr>
<tr>
<td>Cost of completely built units purchased for resale</td>
<td>227,685</td>
<td>-</td>
</tr>
<tr>
<td>Cost of spare parts purchased for resale **</td>
<td>77,767</td>
<td>53,640</td>
</tr>
<tr>
<td></td>
<td>4,698,091</td>
<td>4,434,030</td>
</tr>
</tbody>
</table>

** Includes depreciation charge of Rs. 1.54 million (2004: Rs. 1.51 million).
8. **Transactions with related parties**

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of goods</td>
<td>37,383</td>
<td>19,018</td>
</tr>
<tr>
<td>Purchase of goods</td>
<td>9,854,087</td>
<td>6,001,798</td>
</tr>
<tr>
<td>Fixed capital expenditure</td>
<td>249,778</td>
<td>60,164</td>
</tr>
<tr>
<td>Long term investments</td>
<td>300,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Insurance premium</td>
<td>158,965</td>
<td>98,783</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>43,894</td>
<td>10,798</td>
</tr>
<tr>
<td>Licence Fee</td>
<td>29,775</td>
<td>-</td>
</tr>
<tr>
<td>Royalty</td>
<td>354,044</td>
<td>165,317</td>
</tr>
</tbody>
</table>

9. **Cash generated from operations**

Profit before taxation 612,536 425,217

Adjustment for non cash charges and other items:

- Depreciation 120,855 108,254
- Gain on sale of property, plant and equipment (3,943) (1,314)
- Assets written off 2,898 185
- Profit accrued on bank deposits / investments (188,587) (62,259)
- Finance cost 20,528 4,490
- Provision for staff gratuity 4,500 2,501
- Royalty 354,133 165,609
- Amortization of intangible assets 6,764 7,454
- Worker's profit participation fund 32,781 22,722
- Worker's welfare fund 10,333 6,511

Working capital changes - note 9.1 (4,187,290) 1,925,999

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Increase)/decrease in current assets</td>
<td>(3,214,492)</td>
<td>2,605,369</td>
</tr>
<tr>
<td>- Stores and spares</td>
<td>(2,300)</td>
<td>(4,776)</td>
</tr>
<tr>
<td>- Stock in trade</td>
<td>(1,621,634)</td>
<td>(849,469)</td>
</tr>
<tr>
<td>- Advances, deposits, prepayments and other receivables</td>
<td>(225,179)</td>
<td>47,753</td>
</tr>
<tr>
<td>Increase/(decrease) in current liabilities</td>
<td>(4,187,290)</td>
<td>1,925,999</td>
</tr>
<tr>
<td>- Trade and other payables</td>
<td>(2,338,177)</td>
<td>2,732,491</td>
</tr>
</tbody>
</table>
10. **Cash and cash equivalents**

<table>
<thead>
<tr>
<th>December 31, 2005</th>
<th>March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and bank balances</td>
<td>851,738</td>
</tr>
</tbody>
</table>

11. **Date of authorization for issue**

    These financial statements were authorized for issue on January 27, 2006 by the Board of Directors of the company.

12. **Corresponding figures**

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

Yusuf H. Shirazi  
Chairman

Mamoru Suwama  
Chief Executive