

**Selected Notes to the Accounts**  
for the period of three months ended June 30, 2005

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 financial statements 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. Customs authorities interpreted that CBU rate of duty is 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 ground 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. Last year the company has 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 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. 120.42 million (March 31, 2005: Rs. 708.19 million).
- ii) Letters of credit and purchase commitments for capital expenditure Rs. 28.82 million (March 31, 2005: Rs. 14.75 million).

		June 30, 2005	March 31, 2004
	Note	(Rupees in thousand)	
<b>5. Property, Plant and equipment</b>			
Opening book value		649,244	492,329
Add: Additions during the period	-note 5.1	67,444	314,084
		<u>716,688</u>	<u>806,413</u>
Less: Disposals during the period (at book value)	-note 5.2	1,622	10,758
Depreciation charged during the period		35,210	146,411
		<u>36,832</u>	<u>157,169</u>
		<u>679,856</u>	<u>649,244</u>
<b>5.1 Following is the detail of additions during the period</b>			
- Building		-	47,011
- Plant and machinery		19,167	218,034
- Furniture and office equipment		1,425	15,897
- Vehicles		41,703	21,857
- Tools and equipments		1,320	6,471
- Computers		3,829	4,814
		<u>67,444</u>	<u>314,084</u>
<b>5.2 Following is the detail of disposals during the period</b>			
- Plant and machinery		-	1,350
- Furniture and office equipments		-	76
- Vehicles		1,615	8,001
- Tools and equipments		-	1,096
- Computers		7	235
		<u>1,622</u>	<u>10,758</u>

	April to June	
	2005	2004
	(Rupees in thousand)	
6. Sales		
Sales - vehicles	6,829,352	3,562,922
Less: Commission to dealers	172,759	97,381
	<u>6,656,593</u>	<u>3,465,541</u>
Spare Parts	79,738	58,112
	<u>6,736,331</u>	<u>3,523,653</u>
7. Cost of goods sold		
Raw material consumed	6,210,154	3,125,009
Stores and spares consumed	6,967	4,460
Salaries, wages and benefits	52,987	29,559
Fuel and power	10,520	5,848
Insurance	3,284	2,219
Travelling & vehicle running	14,153	7,574
Freight and handling	17,735	8,252
Repairs and maintenance	3,364	2,215
Printing & stationery	155	136
Technical assistance	8,189	2,713
Depreciation	28,658	18,883
Royalty	133,370	52,192
Amortization - licence fee	1,651	3,230
Others	4,647	2,196
	<u>6,495,834</u>	<u>3,264,486</u>
Opening stock of work-in-process	68,701	68,653
Closing stock of work-in-process	(111,364)	(70,085)
	<u>(42,663)</u>	<u>(1,432)</u>
Cost of goods manufactured	6,453,171	3,263,054
Less: Own work capitalized	22,281	3,414
Cost of damaged cars	4,062	796
	<u>6,426,828</u>	<u>3,258,844</u>
Opening stock of finished goods	68,400	73,056
Closing stock of finished goods	(110,505)	(50,624)
	<u>(42,105)</u>	<u>22,432</u>
	<u>6,384,723</u>	<u>3,281,276</u>
* Cost of spare parts purchased for resale	68,838	43,768
	<u>6,453,561</u>	<u>3,325,044</u>

\* Include depreciation charge of Rs. 327K (June 30, 2004: Rs 504K)

	April to June	
	2005	2004
	(Rupees in thousand)	
<b>8. Transactions with related parties</b>		
Sales	14,232	3,675
Purchases	3,436,067	1,535,815
Fixed assets	14,917	54,389
Investment in Atlas Asset Management Co.	300,000	-
Insurance premium	64,728	29,330
Technical assistance	11,201	3,817
Royalty	133,699	52,049
	<u>3,974,844</u>	<u>1,679,075</u>
<b>9. Cash generated from operations</b>		
Profit before taxation	304,137	159,298
Adjustment for non cash charges and other items:		
Depreciation	35,210	23,028
Gain on sale of fixed assets	(1,016)	(193)
Interest income	(72,130)	(12,884)
Financial charges	3,673	782
Provision for staff gratuity	1,500	799
Amortization	1,723	3,230
Royalty	133,370	52,192
Worker's profit participation fund	16,322	8,555
Worker's welfare fund	5,972	3,251
Working capital changes	- note 9.1	
	<u>(1,541,497)</u>	<u>(116,767)</u>
	<u>(1,112,736)</u>	<u>121,291</u>
<b>9.1 Working capital changes</b>		
(Increase)/decrease in current assets		
- Stores and spares	(1,583)	(61)
- Stock in trade	(196,615)	73,693
- Loans, advances, deposits, prepayments and other receivables	(137,133)	281,698
Increase/(decrease) in current liabilities		
- Creditors, accrued and other liabilities	<u>(1,206,166)</u>	<u>(472,097)</u>
	<u>(1,541,497)</u>	<u>(116,767)</u>

April to June  
2005                      2004  

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(Rupees in thousand)

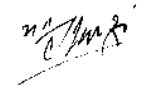
10. Cash and cash equivalents


Cash and bank balances

4,004,710                      3,322,231

11. Corresponding figures

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

  
Yusuf H. Shirazi  
Chairman

  
Mamoru Suwama  
Chief Executive