

Selected Notes to the Financial Statements for the half year ended September 30, 2005 (Un-audited)

1. These financial statements are un-audited and are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984.
2. The accounting policies adopted for the preparation of these half yearly 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 (IAS) 34 'Interim Financial Reporting' and have been reviewed by the auditors as required by the Companies Ordinance, 1984.
4. Contingencies and Commitments

Contingencies

- i) Claims against the company not acknowledged as debt by the company amount 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 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. 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 above mentioned notices.

Commitments in respect of

- i) Letters of credit and purchase commitments other than capital expenditure Rs. 314.64 million (March 31, 2005: Rs. 708.19 million).
- ii) Letters of credit and purchase commitments for capital expenditure Rs. 55.93 million (March 31, 2005: Rs. 14.75 million).

		September 30, 2005	March 31, 2005
	Note	(Rupees in thousand)	
5. Property, Plant and equipment			
Opening book value		649,244	492,329
Add: Additions during the period	-note 5.1	402,548	314,084
		<u>1,051,792</u>	<u>806,413</u>
Less: Disposals during the period (at book value)	-note 5.2	12,251	10,758
Depreciation charged during the period		69,048	146,411
		<u>81,299</u>	<u>157,169</u>
		<u>970,493</u>	<u>649,244</u>
5.1 Following is the detail of additions during the period:			
- Free hold land		318,030	-
- Building		1,090	47,011
- Plant and machinery		24,669	218,034
- Furniture and office equipment		6,216	15,897
- Vehicles		41,093	21,857
- Tools and equipments		4,359	6,471
- Computers		7,091	4,814
		<u>402,548</u>	<u>314,084</u>
5.2 Following is the detail of disposals during the period:			
- Plant and machinery		1,614	1,350
- Furniture and office equipment		18	76
- Vehicles		9,328	8,001
- Tools and equipments		1,284	1,096
- Computers		7	235
		<u>12,251</u>	<u>10,758</u>

	July to September 2005 2004		April to September 2005 2004	
	(Rupees in thousand)		(Rupees in thousand)	
6. Sales				
Sales - Vehicles	7,636,612	3,563,882	15,490,312	7,660,934
Less: Sales Tax	996,116	464,870	2,020,464	999,000
Commission to dealers	168,401	82,795	341,160	180,176
	<u>6,472,095</u>	<u>3,016,217</u>	<u>13,128,688</u>	<u>6,481,758</u>
Sales - Completely built units	484,598	-	484,598	-
Less: Sales tax	63,208	-	63,208	-
Commission to dealers	7,990	-	7,990	-
	<u>413,400</u>	<u>-</u>	<u>413,400</u>	<u>-</u>
Sales - Spare parts	95,111	68,225	186,809	135,129
Less: Sales tax	12,406	8,952	24,366	17,744
	<u>82,705</u>	<u>59,273</u>	<u>162,443</u>	<u>117,385</u>
	<u>6,968,200</u>	<u>3,075,490</u>	<u>13,704,531</u>	<u>6,599,143</u>

Note	July to September		April to September	
	2005	2004	2005	2004
(Rupees in thousand)(Rupees in thousand)				
7. Cost of goods sold				
Raw material consumed	6,193,881	2,887,850	12,404,035	6,012,859
Stores and spares consumed	8,605	3,776	15,572	8,236
Salaries, wages and benefits	50,142	26,206	103,129	55,765
Fuel and power	9,807	6,411	20,327	12,259
Insurance	3,159	2,173	6,443	4,392
Travelling & vehicle running	15,408	7,356	29,561	14,930
Freight and handling	17,042	7,499	34,777	15,751
Repairs and maintenance	2,645	3,958	6,009	6,173
Technical assistance	1,348	1,023	9,537	3,736
Depreciation	27,013	36,755	55,671	55,638
Royalty	129,672	45,544	263,042	97,736
Amortization - licence fee	1,651	3,256	3,302	6,486
Canteen subsidy	4,557	2,456	8,832	4,439
Others	1,090	642	1,617	991
	6,466,020	3,034,905	12,961,854	6,299,391
Opening stock of work-in-process	111,364	70,085	68,701	68,653
Closing stock of work-in-process	(135,776)	(119,399)	(135,776)	(119,399)
	(24,412)	(49,314)	(67,075)	(50,746)
Cost of goods manufactured	6,441,608	2,985,591	12,894,779	6,248,645
Less: Own work capitalized	-	1,527	22,281	4,941
Cost of damaged cars	3,276	9,031	7,338	9,827
	6,438,332	2,975,033	12,865,160	6,233,877
Opening stock of finished goods	110,505	50,624	68,400	73,056
Closing stock of finished goods	(170,937)	(153,457)	(170,937)	(153,457)
	(60,432)	(102,833)	(102,537)	(80,401)
	6,377,900	2,872,200	12,762,623	6,153,476
Cost of completely built units purchased for resale	374,322	-	374,322	-
Cost of spare parts purchased for resale	7.1 70,455	52,544	139,293	96,312
	6,822,677	2,924,744	13,276,238	6,249,788

7.1 It includes depreciation charge of Rs. 0.66 million (2004: Rs. 1.01 million).

	April to September	
	2005	2004
	(Rupees in thousand)	
8. Transactions with related parties		
Sale of goods	30,643	11,487
Purchase of goods	6,549,983	3,275,024
Fixed capital expenditure	134,275	59,121
Long term investments	300,000	-
Insurance premium	115,598	61,448
Technical assistance	23,793	8,316
Royalty	263,212	97,464
9. Cash generated from operations		
Profit before taxation	451,506	286,063
Adjustment for non cash charges and other items:		
- Depreciation	69,048	64,408
- Gain on sale of property, plant and equipment	(3,800)	(80)
- Profit accrued on bank deposits/investments	(141,865)	(28,696)
- Finance cost	11,993	2,457
- Property, plant and equipment written off	2,898	-
- Provision for staff gratuity	2,999	1,668
- Provision for custom duties	167,000	-
- Royalty	263,042	97,736
- Amortization of intangible assets	3,445	6,606
- Worker's profit participation fund	24,185	15,284
- Worker's welfare fund	8,012	4,335
Working capital changes	- note 9.1 (3,931,716)	270,678
	<u>(3,073,253)</u>	<u>720,459</u>
9.1 Working capital changes		
(Increase)/decrease in current assets		
- Stores and spares	467	(3,995)
- Stock in trade	(206,907)	(284,808)
- Advances, deposits, prepayments and other receivables	(125,030)	258,363
Increase/(decrease) in current liabilities		
- Trade and other payables	<u>(3,600,246)</u>	<u>301,118</u>
	<u>(3,931,716)</u>	<u>270,678</u>

	September 30, 2005	March 31, 2005
	(Rupees in thousand)	

10. Cash and cash equivalents

Cash and bank balances	<u>1,599,710</u>	<u>5,873,987</u>
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11. Date of authorization for issue

These financial statements were authorized for issue on November 21, 2005 by the Board of Directors of the company.

11. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant reclassification has been done.



Yusuf H. Shirazi
Chairman



Mamoru Suwama
Chief Executive