

## Directors' Report

The directors have pleasure in presenting the Annual Audited Accounts of the company together with the Auditors' Report thereon for the year ended March 31, 2006.

Financial results for the year are as follows:

	Year ended March 31, 2006	Year ended March 31, 2005
	(Rupees in thousand)	
Profit before tax for the year	1,133,704	258,629
Taxation	428,410	96,450
Profit after tax	705,294	162,179
Un-appropriated profit brought forward	414	235
Profit available for appropriation	705,708	162,414
Appropriations*:		
Transfer to general reserves	411,500	67,500
Reserve for issue of bonus shares (2005: 22.5% cash)	294,000	94,500
	705,500	162,000
Un-appropriated profit carried forward	208	414
Earnings per share	16.79	3.86
	(Rupees)	

\* The Board of Directors have proposed 70% bonus shares i.e. 70 ordinary shares for every 100 ordinary shares for the year ended March 31, 2006. The financial statements do not reflect these appropriations in compliance with the Fourth Schedule of the Companies Ordinance, 1984.

### Code of Corporate Governance

In compliance with the provisions of the listing regulations of Stock Exchanges, the Board of Directors are pleased to place the following statements on record:

- The financial statements for the year ended March 31, 2006 present fairly its state of affairs, the results of its operations, cash flow and changes in equity;
- Proper books of accounts have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements for the year ended March 31, 2006 and accounting estimates are based on reasonable and prudent judgement;
- International Accounting Standards (IAS's), as applicable in Pakistan, have been followed in preparation of financial statements;
- The systems of internal control is sound in design and has been effectively implemented and monitored;
- There are no significant doubts about the company's ability to continue as a going concern;



- There has been no material departure from the best practices of corporate governance, as detailed in listing regulations;
- The book value of the Employees Provident Fund and Employees Gratuity Fund as on March 31, 2006 was Rs 89.6 million and Rs 28.6 million respectively.
- The key operating and financial data for last ten years is given on page number 30 & 31.

#### Board Meetings

During the year, three casual vacancies occurred on the Board of Directors which were appropriately filled in by the Board. Mr. Sardar Abid Ali Khan assumed the responsibilities of Vice President (HR & Admin) and Company Secretary on July 01, 2005 in place of out-going Mr. Raffat Iqbal.

During the year under review, five meetings of the Board of Directors were held from April 01, 2005 to March 31, 2006. The attendance of the Board members was as follows:

Sr. No.	Name of Director	Meetings attended
1.	Mr. Yusuf H. Shirazi	4
2.	Mr. Mamoru Suwama	4
3.	Mr. Aamir H. Shirazi	3
4.	Mr. Jawaid Iqbal Ahmed	4
5.	Mr. Keizaburo Otaki *	2
	Mr. Mr. Kenichi Ozeki #	1
6.	Mr. Toshitsugu Kaneko *	1
	Mr. Masaaki Suzuki #	2
7.	Mr. Koji Nakazono *	-
	Mr. Motohide Sudo #	-
	Mr. Raffat Iqbal (Company Secretary) *	1
	Mr. Sardar Abid Ali Khan (Company Secretary) #	3
	Mr. Asad Murad (CFO)	4

\* *Resigned during the year*

# *Appointed during the year*

The leave of absence was granted to the members not attending the Board meeting.

During the year, the qualification shares were transferred in the name of new directors, who filled the casual vacancies, according to the requirements of Articles of Association of the Company. Apart from this, there was no trading in the shares of the company reported to have been carried out by Directors, CEO, Company Secretary, CFO and their spouses and minor children.

#### Changes in the Audit Committee

Following the changes in the Board of Directors, Mr. Keizaburo Otaki and Mr. Koji Nakazono were replaced by Mr. Kenichi Ozeki and Mr. Motohide Sudo respectively in the Audit Committee. The Committee welcomes the new members and appreciates for the contributions made by the outgoing members. The statutory composition of the Committee remained intact with these changes.

The Audit Committee held eight meetings during the year, each before the Board of Directors meeting to review the financial statements, internal audit reports and compliance of corporate governance requirements. These meetings included meeting with external auditors before and after completion of external audit, meeting with external auditors in absence of CFO & head of internal auditor and meeting with internal auditors without CFO & external auditors being present in the meeting.

#### Honda Code of Corporate Governance

The company continued to comply with the requirements of the Code of Honda Corporate Governance, based on the fundamental corporate philosophy of Honda. The quarterly self audits were done by each division followed by verification audit by the Internal Auditor. The reports were prepared and presented in the Audit Committee meetings for its review and approval.

#### Chairman's Review

The accompanied Chairman's review deals with the performance of the company during the year and future outlook. The directors of the company endorse the contents of the review.

#### Market Share Price

During the year, the maximum and minimum market price of our share was Rs 136.9 & Rs 56.0 respectively.

#### Holding Company

M/s Honda Motor Company Limited is the holding company with 51% shares and is incorporated in Japan.

#### Statement of Compliance with the Best Practices on Transfer Pricing

The company has fully complied with the best practices on transfer pricing as contained in the Listing Regulation of the Stock Exchanges.

#### Pattern of Shareholding

The pattern of shareholding as on March 31, 2006 and its disclosure, as required by the Code of Corporate Governance is annexed with this report.

#### Auditors

As recommended by the Audit Committee, the present auditors Messer's A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

For and on behalf of  
The Board of Directors



Mamoru Suwama  
President/Chief Executive Officer

April 29, 2006  
Lahore.

