

Selected Notes to the Accounts
for the period of three months ended June 30, 2006

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, 2006.
3. These financial statements have been prepared in accordance with the requirements of the International Accounting Standard 34 "Interim Financial Reporting".

	June 30, 2006	March 31, 2006
(Rupees in thousand)		
4. Long Term finances		
Opening balance	1,000,000	-
Disbursement during the period	750,000	1,000,000
	<u>1,750,000</u>	<u>1,000,000</u>
Less: Current portion shown under current liabilities	333,333	333,333
	<u>1,416,667</u>	<u>666,667</u>
5. Short term borrowings		
Short term running finances	2,338,543	304,873
Term finance	1,300,000	1,150,000
	<u>3,638,543</u>	<u>1,454,873</u>
6. Contingencies and Commitments		

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. 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 indigenization program of the company for the 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 the above mentioned notices.

Commitments in respect of

- i) Letters of credit and purchase commitments other than capital expenditure Rs. 264.04 million (March 31, 2006: Rs. 181.24 million).
- ii) Letters of credit and purchase commitments for capital expenditure Rs. 632.47 million (March 31, 2006: Rs. 1,276.32 million).
- iii) Letters of guarantees issued in favour of collector of customs Rs. Nil (March 31, 2006: Rs. 13.55 million).

	June 30, 2006	March 31, 2006
	(Rupees in thousand)	
7. Property, Plant and equipment		
Opening book value	1,051,723	649,244
Add: Additions during the period	-note 7.1 37,710	557,098
	<u>1,089,433</u>	<u>1,206,342</u>
Less: Disposals during the period (at book value)	-note 7.2 196	11,728
Depreciation charged during the period	34,500	142,891
	<u>34,696</u>	<u>154,619</u>
	<u>1,054,737</u>	<u>1,051,723</u>
7.1 Following is the detail of additions during the period:		
- Land	-	365,766
- Building	6,898	5,500
- Plant and machinery	21,245	106,275
- Furniture and office equipments	591	10,827
- Vehicles	2,547	47,363
- Tools and equipments	2,428	12,447
- Computers	4,001	8,920
	<u>37,710</u>	<u>557,098</u>
7.2 Following is the detail of disposals during the period:		
- Plant and machinery	-	1,477
- Furniture and office equipments	-	17
- Vehicles	106	9,050
- Tools and equipments	-	1,177
- Computers	90	7
	<u>196</u>	<u>11,728</u>

	April to June	
	2006	2005
	(Rupees in thousand)	
8. Sales		
Sales - Own manufactured goods	5,128,080	7,853,700
Less: Sales tax	668,554	1,024,348
Commission to dealers	116,094	172,759
	<u>4,343,432</u>	<u>6,656,593</u>
Sales - Trading goods	136,009	91,699
Less: Sales tax	17,740	11,961
Commission to dealers	360	-
	<u>117,909</u>	<u>79,738</u>
	<u>4,461,341</u>	<u>6,736,331</u>
9. Cost of sales		
Raw material consumed	4,850,965	6,210,154
Stores and spares consumed	7,249	6,967
Salaries, wages and benefits	55,830	52,987
Fuel and power	10,326	10,520
Insurance	5,627	3,284
Travelling & vehicle running	17,116	14,153
Freight and handling	9,403	17,735
Repairs and maintenance	4,755	3,364
Printing & stationery	137	155
Technical assistance	15,860	8,189
Depreciation	27,253	28,658
Royalty	87,060	133,370
Amortization - licence fee	6,285	1,651
Others	4,616	4,647
	<u>5,102,482</u>	<u>6,495,834</u>
Opening stock of work-in-process	76,086	68,701
Closing stock of work-in-process	(75,276)	(111,364)
	<u>810</u>	<u>(42,663)</u>
Cost of goods manufactured	5,103,292	6,453,171
Less: Own work capitalized	6,171	22,281
Cost of damaged cars	-	4,062
	<u>5,097,121</u>	<u>6,426,828</u>
Opening stock of finished goods	1,071,827	68,400
Closing stock of finished goods	(2,097,233)	(110,505)
	<u>(1,025,406)</u>	<u>(42,105)</u>
	4,071,715	6,384,723
Cost of sales - Trading goods *	<u>104,709</u>	<u>68,838</u>
	<u>4,176,424</u>	<u>6,453,561</u>

* Includes depreciation charge of Rs.1.30 million (June 30, 2005: Rs 0.33 million).

	April to June	
	2006	2005
	(Rupees in thousand)	
10. Transactions with related parties		
Sales	3,940	14,232
Purchases	2,831,080	3,436,067
Fixed assets	75,395	14,917
Short term investments	-	300,000
Insurance premium	59,129	64,728
Technical assistance	43,732	11,201
Royalty	87,007	133,699
	<u>3,100,283</u>	<u>3,974,844</u>
11. Cash generated from operations		
Profit before taxation	181,708	304,137
Adjustment for:		
Depreciation on property, plant & equipment	34,500	35,210
Profit/(Loss) on disposal of property, plant & equipment	196	(1,016)
Unrealized gain/(loss) on investment in related parties	(8,111)	6,428
Profit on other long term investments	(7,822)	(7,775)
Profit on bank deposits	(232)	(70,150)
Interest on advances to suppliers	(1,648)	(632)
Finance cost	53,975	3,673
Provision for employees retirement benefits and other obligations	2,576	2,990
Amortization on intangible assets	6,357	1,723
Royalty	87,060	133,370
Worker's profit participation fund	9,736	16,322
Worker's welfare fund	3,274	5,972
Working capital changes	- note 11.1 (2,765,017)	(1,537,949)
	<u>(2,403,448)</u>	<u>(1,107,697)</u>
11.1 Working capital changes		
(Increase)/decrease in current assets		
- Stores and spares	(748)	(1,583)
- Stock in trade	(1,398,771)	(196,615)
- Loans, advances, deposits, prepayments and other receivables	(199,792)	(137,133)
Increase/(decrease) in current liabilities		
- Trade and other payables	(1,165,706)	(1,202,618)
	<u>(2,765,017)</u>	<u>(1,537,949)</u>

June 30, March 31,
2006 2005
(Rupees in thousand)


12. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements
comprise of the following balance sheet amounts:

Cash and bank balance		11,789	360,619
Short term running finances	- note 5	<u>(2,338,543)</u>	<u>(304,873)</u>
		<u>(2,326,754)</u>	<u>55,746</u>

13. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison.
However, no significant re-arrangements have been made.



Yusuf H. Shirazi
Chairman



Mamoru Suwama
Chief Executive