

**SELECTED NOTES TO THE ACCOUNTS  
FOR THE PERIOD OF NINE MONTHS ENDED DECEMBER 31, 2004**

1. These accounts are unaudited 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 accounts are the same as those applied in the preparation of preceding annual accounts of the company for the period ended March 31, 2004 except for item mentioned below:

**2.1 Long Term Investments**

**Held to maturity**

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortized cost using the effective yield method.

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, 2004: 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 accounts in respect of the above mentioned disputed liabilities.
- (ii) Based on a routine audit conducted by the Engineering Development Board for preceding years, a shortfall in percentages has been identified in the company's deletion program. The Central Board of Revenue has forwarded instructions to the Collector of Customs to subject the imports representing shortfalls in respect of deletion program to statutory rate of duty chargeable for import of Completely Built Units.

As the company and custom authorities have not yet agreed upon the financial impact of the short fall in deletion, consequently no provision has been made in these accounts. The management and custom authorities are in the process of finalization of the financial impact.

- (iii) 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 have interpreted that CBU rate of duty is applicable on such components and have thus raised a demand of Rs. 110 million. This includes Rs. 96 million on account of customs duty and Rs. 14 million on account of sales tax.

The company has also approached custom authorities on the grounds that the components mentioned in the above mentioned notices includes certain components which are duly appearing in the indigenization program of the company for the relevant period. Hence CBU rate of duty is not applicable on import of these components. However, out of the total demand on account of custom duty the company made a provision of Rs. 42 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 accounts in respect of the above mentioned notices.

**Commitments in respect of**

- (i) Letters of credit and purchase commitments other than capital expenditure Rs. 135.69million (March 31, 2004: Rs. 106.57 million)
- (ii) Letters of credit and purchase commitments for capital expenditure Rs. 39.06 million (March 31, 2004: Rs. 69.55 million)

	December 31, 2004	March 31, 2004
	Rupees in '000'	
<b>5. Fixed assets - tangible</b>		
Opening book value	492,329	398,981
Add: Additions during the period	-note 5.1 789,090	220,810 619,791
Less: Disposals/Scrap during the period (at book value)	-note 5.2 3,358	5,418
Depreciation charged during the period	108,254	122,044
	111,612	127,462
	<u>677,478</u>	<u>492,329</u>
<b>5.1 Following is the detail of additions during the period</b>		
-Building	45,562	14,074
-Plant and machinery	214,174	169,031
-Furniture and office equipments	12,379	5,379
-Vehicles	17,062	20,637
-Tools and equipments	4,556	5,749
-Computers	3,028	5,940
	<u>296,761</u>	<u>220,810</u>
	-	-
<b>5.2 Following is the detail of disposals/scrap during the period</b>		
-Plant and machinery	158	3,699
-Furniture and office equipments	38	-
-Vehicles	3,135	1,700
-Tools and equipments	24	6
-Computers	3	13
	<u>3,358</u>	<u>5,418</u>
<b>6. Long Term Investments</b>		
<b>Held to maturity</b>		
Pakistan Investment Bonds	513,559	-
Atlas Stock Market Fund	100,000	-
Atlas Income Fund	50,000	-
Atlas Fund of Funds	100,000	-
<b>Available for sale</b>		
<b>Unquoted</b>		
Automotive Testing and Training Centre (Private) Limited 75,000 (March 31, 2004: 75,000) ordinary shares of Rs. 10 each	750	750
	<u>764,309</u>	<u>750</u>

	October - December		April - December	
	2004	2003	2004	2003
	Rupees in '000'		Rupees in '000'	
<b>7. Sales</b>				
Sales - vehicles	4,646,441	2,488,044	11,308,375	6,473,026
Less: Commission to dealers	128,477	65,926	308,653	176,323
	4,517,964	2,422,118	10,999,722	6,296,703
Spare parts	65,666	43,336	183,051	137,018
	4,583,630	2,465,454	11,182,773	6,433,721
<b>8. Cost of goods sold</b>				
Raw material consumed	4,110,173	2,246,378	10,123,032	5,499,600
Stores and spares consumed	9,037	5,982	17,273	14,890
Salaries, wages and benefits	35,613	24,252	91,378	63,464
Fuel and power	6,401	4,953	18,660	15,385
Insurance	2,528	1,989	6,920	5,571
Traveling & vehicle running	11,294	7,240	26,224	17,308
Freight and handling	10,137	5,840	25,888	12,703
Repairs and maintenance	3,282	958	9,455	3,408
Printing & stationery	108	98	297	226
Technical assistance	1,453	4,044	5,189	12,701
Depreciation	35,747	25,049	91,385	70,020
Royalty	67,873	36,437	165,609	94,740
Amortization - licence fee	778	2,742	7,264	6,739
Provision for custom duties	-	-	-	39,251
Others	2,975	1,275	8,216	4,508
	4,297,399	2,367,237	10,596,790	5,860,514
Opening stock of work-in-process	119,399	93,817	68,653	74,078
Closing stock of work-in-process	(115,571)	(103,813)	(115,571)	(103,813)
	3,828	(9,996)	(46,918)	(29,735)
Cost of goods manufactured	4,301,227	2,357,241	10,549,872	5,830,779
Less: Own work capitalized	4,572	4,482	9,513	5,264
Cost of damaged cars	624	1,210	10,451	1,210
	4,296,031	2,351,549	10,529,908	5,824,305
Opening stock of finished goods	153,457	140,298	73,056	176,189
Closing stock of finished goods	(69,098)	(259,643)	(69,098)	(259,643)
	84,359	(119,345)	3,958	(83,454)
	4,380,390	2,232,204	10,533,866	5,740,851
Spare parts purchased for resale note 8.1	53,640	35,773	149,952	113,145
	4,434,030	2,267,977	10,683,818	5,853,996

8.1 Includes depreciation charge of Rs.1,510 (2003: Rs. Nil)

	<b>April - December</b>	
	<b>2004</b>	<b>2003</b>
	<b>Rupees in '000'</b>	
<b>9. Transactions with associated companies</b>		
Sales	19,018	10,003
Purchases	6,001,798	3,366,001
Fixed assets	60,164	-
Investment in Atlas Asset Management Co.	250,000	-
Insurance premium	98,783	58,969
Technical assistance	10,798	9,519
License fee	-	11,590
Royalty	165,317	94,451
	<u>6,605,878</u>	<u>3,550,533</u>
<b>10. Cash generated from operations</b>		
Profit before taxation	425,217	482,585
Adjustment for non cash charges and other items:		
Depreciation	108,254	80,606
Gain on sale of fixed assets	(1,314)	(9)
Interest income	(62,259)	(36,426)
Financial charges	4,490	939
Assets written off	185	-
Provision for staff gratuity	2,501	2,031
Amortization	7,454	6,739
Royalty	165,609	94,740
Worker's profit participation fund	22,722	25,905
Worker's welfare fund	6,511	9,618
Working capital changes <span style="float: right;">note 10.1</span>	1,925,999	2,705,130
	<u>2,605,369</u>	<u>3,371,858</u>
<b>10.1 Working capital changes</b>		
<b>(Increase)/decrease in current assets</b>		
Stores and spares	(4,776)	(930)
Stock in trade	(849,469)	(644,971)
Loans, advances, deposits, prepayments and other receivables	47,753	(572,092)
<b>Increase/(decrease) in current liabilities</b>		
Creditors, accrued and other liabilities	2,732,491	3,923,123
	<u>1,925,999</u>	<u>2,705,130</u>

April - December  
2004      2003  
Rupees in '000'

**11. Cash and cash equivalents**

Cash and bank balances

4,632,656      4,097,714

**12. Corresponding figures**

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



YUSUF H. SHIRAZI  
Chairman



MAMORU SUWAMA  
Chief Executive