NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

for the quarter and half year ended September 30, 2013 (Un-audited)

1. Legal status and nature of business

Honda Atlas Cars (Pakistan) Limited (the 'company') is a public limited company incorporated in Pakistan on November 4, 1992. The company is a subsidiary of Honda Motor Co., Ltd., Japan. The company's ordinary shares are listed on the Karachi, Islamabad and Lahore Stock Exchanges. The registered office of the company is situated at 1-Mcleod Road, Lahore. Its principal activities are assembling and progressive manufacturing and sale of Honda vehicles and spare parts. The company commenced commercial production from July 1994.

2. Basis of preparation

This condensed interim financial information is un-audited and is being submitted to the members in accordance with section 245 of the Companies Ordinance, 1984. It has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed. The figures for the half year ended September 30, 2013 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance. This condensed interim financial information does not include all the information required for annual financial statements and therefore, should be read in conjunction with the annual financial statements for the year ended March 31, 2013.

3. Significant accounting policies

3.1 The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of preceding annual published financial statements of the company for the year ended March 31, 2013 except for the adoption of a new accounting policy referred to in note 3.2.1.

3.2 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the company's financial statements covering annual periods, beginning on or after the following dates:

3.2.1 Amendments to published standards effective in current year

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on April 01, 2013 but are considered not to be relevant or to have any significant effect on the company's operations and are, therefore, not detailed in this condensed interim financial information except for IAS 19 (Amendment), 'Employee Benefits'. The impact of this amendment on the condensed interim financial information is as follows:

IAS 19 (revised) 'Employee Benefits': IAS 19 (revised) has eliminated the corridor approach and requires to calculate finance cost on net funding bases. The company has applied this change in accounting policy retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and recorded unrecognised actuarial losses net of taxes associated with retirement benefit plan by adjusting the opening balance of accumulated loss and retirement benefit for the prior period presented. No actuarial assessment has been carried out for preparation of this condensed interim financial information.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

for the quarter and half year ended September 30, 2013 (Un-audited)

Effects of change in accounting policy are as follows:

Effect on balance sheet:

	As at March 31, 2013			As at March 31, 2012		
	Before restatement	As re-stated	Re-statement	Before restatement	As re-stated	Re-statement
	(Rupees in thousand)					
Staff gratuity	–	(37,835)	(37,835)	–	(26,394)	(26,394)
Deferred tax asset	1,029,553	1,042,795	13,242	1,144,790	1,154,028	9,238
Accumulated loss	(114,733)	(139,326)	(24,593)	(532,520)	(549,676)	(17,156)

Effect on other comprehensive income:

	For the year ended March 31, 2013			For the year ended March 31, 2012		
	Before restatement	As re-stated	Re-statement	Before restatement	As re-stated	Re-statement
	(Rupees in thousand)					
Actuarial losses recognised - net of tax	–	7,437	7,437	–	17,156	17,156

The effect of the change in accounting policy on the statement of cash flows was immaterial.

4. Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

5. The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim financial information, the significant judgements made by management in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended March 31, 2013, with the exception of changes in estimates that are required in determining the provision for income taxes as referred to in note 4 and useful lives of its property, plant and equipment and intangible assets as given below.

5.1 Change in accounting estimate

The company, during the period, has reviewed the useful lives of its property, plant and equipment and intangible assets. This has resulted into revision of useful lives of certain items of plant and machinery and intangible assets from five years to four years. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in the accounting estimate, the profit before tax for the half year ended September 30, 2013 would have been higher by Rs 18.732 million and carrying value of property, plant and equipment and intangible assets as at that date would have been higher by Rs 14.963 million and Rs 3.769 million respectively. Consequently, due to the above change in accounting estimate, future profits before tax would increase by Rs 18.732 million.

6. Contingencies and commitments

6.1 Contingencies

There is no significant change in contingencies from the preceding annual published financial statements of the company for the year ended March 31, 2013 except for letters of guarantees issued to various parties aggregating to Rs 85.044 million (March 31, 2013: 36.580 million).

	Note	Unaudited September 30, 2013 (Rupees in thousand)	Audited March 31, 2013
6.2 Commitments in respect of			
Letters of credit and purchases other than capital expenditure		242,852	687,130
Letters of credit and purchases for capital expenditure		2,409	–
		245,261	687,130
7. Property, plant and equipment			
Opening book value		3,355,778	3,255,755
Additions during the period / year	7.1	102,803	684,313
		3,458,581	3,940,068
Disposals during the period / year (at book value)		(9,551)	(29,252)
Assets written off during the period / year (at book value)		(347)	(2,331)
Depreciation charged during the period / year		(311,112)	(552,707)
		(321,010)	(584,290)
Closing book value		3,137,571	3,355,778

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

for the quarter and half year ended September 30, 2013 (Un-audited)

		Unaudited September 30, 2013	Audited March 31, 2013
		(Rupees in thousand)	
7.1	**Additions during the period / year**		
	Buildings on freehold land	–	1,984
	Plant and machinery	14,601	526,531
	Furniture and office equipment	14,906	14,176
	Vehicles	47,762	116,409
	Tools and equipments	15,322	9,493
	Computers	10,212	15,720
		102,803	684,313

		July – September 2013	July – September 2012	April – September 2013	April – September 2012
		(Rupees in thousand)		(Rupees in thousand)	
8.	**Sales**				
	Sales - Own manufactured goods	12,107,461	7,619,002	24,499,248	14,320,208
	Sales tax	(1,759,446)	(1,050,733)	(3,467,982)	(1,974,300)
	Commission to dealers	(173,537)	(109,525)	(354,365)	(210,233)
	Discounts to customers	–	(80)	–	(29,030)
		10,174,478	6,458,664	20,676,901	12,106,645
	Sales - Trading goods	343,048	430,133	813,982	799,446
	Sales tax	(51,928)	(58,993)	(117,668)	(109,942)
	Commission to dealers	(200)	(2,050)	(1,900)	(3,130)
		290,920	369,090	694,414	686,374
		10,465,398	6,827,754	21,371,315	12,793,019

	July – September 2013	July – September 2012	April – September 2013	April – September 2012
	(Rupees in thousand)		(Rupees in thousand)	
9. Cost of sales				
Raw material consumed	9,185,273	6,597,348	18,667,090	12,542,430
Stores and spares consumed	22,224	23,048	42,526	39,677
Salaries, wages and benefits	110,695	100,203	184,133	164,960
Fuel and power	43,012	30,767	73,916	59,467
Insurance	9,644	8,346	19,382	17,504
Travelling and vehicle running	20,605	17,223	37,657	31,115
Freight and handling	(471)	6,686	4,504	13,441
Repairs and maintenance	8,923	6,903	13,865	11,348
Technical assistance	5,293	5,001	11,196	9,393
Depreciation on property, plant and equipment	147,421	124,110	293,446	238,736
Amortization on intangible assets	16,181	9,917	32,355	17,768
Royalty	238,768	144,826	485,829	270,413
Canteen subsidy	5,600	3,823	13,186	9,103
Other expenses	416	327	630	518
	9,813,584	7,078,528	19,879,715	13,425,873
Opening stock of work-in-process	429,335	270,654	288,108	323,572
Closing stock of work-in-process	(426,846)	(278,647)	(426,846)	(278,647)
	2,489	(7,993)	(138,738)	44,925
Cost of goods manufactured	9,816,073	7,070,535	19,740,977	13,470,798
Own work capitalised	–	(70,608)	(19,438)	(71,912)
Cost of damaged cars	(7,394)	(1,650)	(10,975)	(1,650)
	9,808,679	6,998,277	19,710,564	13,397,236
Opening stock of finished goods	1,072,860	1,136,810	940,662	334,006
Closing stock of finished goods	(1,338,102)	(2,044,381)	(1,338,102)	(2,044,381)
	(265,242)	(907,571)	(397,440)	(1,710,375)
Cost of sales - Own manufactured	9,543,437	6,090,706	19,313,124	11,686,861
Cost of sales - Trading goods	199,821	289,949	508,700	556,873
	9,743,258	6,380,655	19,821,824	12,243,734

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

for the quarter and half year ended September 30, 2013 (Un-audited)

10. Transactions and balances with related parties

	Relationship with the company	Nature of transaction	September 30, 2013 (Rupees in thousand)	September 30, 2012 (Rupees in thousand)
i.	Holding company	Purchase of goods	2,215,351	2,775,843
		Purchase of property, plant and equipment	–	16,825
		License and technical assistance fee	374	80,770
		Royalty	414,131	244,519
ii.	Associated undertakings	Sale of goods	29,068	67,447
		Purchase of goods	9,996,644	7,079,744
		Purchase of property, plant and equipment	2,451	155,838
		Insurance premium	174,297	144,062
		License and technical assistance fee	10,946	14,548
		Royalty	2,447	616
		Insurance claims	17,644	3,606
iii.	Key management personnel	Salaries and other employee benefits	42,148	42,154
iv.	Post employment benefit plans	Expense charged in respect of retirement benefit plans	19,031	17,601

Period end balances are as follows:	Unaudited September 30, 2013 (Rupees in thousand)	Audited March 31, 2013 (Rupees in thousand)
Receivable from related parties	50,962	38,739
Payable to related parties	8,590,689	7,539,180

	Note	September 30, 2013	September 30, 2012
		(Rupees in thousand)	

11. Cash generated from operations

	Note	September 30, 2013	September 30, 2012
Profit before taxation		751,137	5,087
Adjustment for:			
- Depreciation on property, plant and equipment		311,112	250,095
- Profit on disposal of property, plant and equipment		(2,436)	(443)
- Assets written off		3,407	1,326
- Profit on bank deposits, loans to employees and advances to suppliers		(118,038)	(15,260)
- Finance cost		18,461	131,536
- Provision for employee's retirement benefits and other obligations		23,724	20,652
- Liabilities no longer payable written back		(35,472)	–
- Amortisation on intangible assets		32,766	17,966
- Royalty		418,818	245,830
Working capital changes	11.1	(3,898,182)	761,968
		(2,494,703)	1,418,757

11.1 Working capital changes

	September 30, 2013	September 30, 2012
Decrease / (increase) in current assets		
- Stores and spares	4,554	2,202
- Stock-in-trade	(1,124,234)	(3,764,324)
- Trade debts	(460,512)	–
- Loans, advances, prepayments and other receivables	(243,044)	(232,777)
(Decrease) / increase in current liabilities		
- Trade and other payables	(2,074,946)	4,756,867
	(3,898,182)	761,968

12. Cash and cash equivalents

Cash and cash equivalents included in the condensed cash flow statement comprise of the following amounts:

	September 30, 2013	September 30, 2012
	(Rupees in thousand)	
Cash and bank balances	439,628	924,229
Short term borrowings - secured	–	(390,301)
	439,628	533,928

13. Segment information

	Manufacturing				Trading				Total			
	July – September		April – September		July – September		April – September		July – September		April – September	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	(Rupees in thousand)											
Segment revenue	10,174,478	6,458,664	20,676,901	12,106,645	290,920	369,090	694,414	686,374	10,465,398	6,827,754	21,371,315	12,793,019
Segment expenses												
- Cost of sales	(9,543,437)	(6,090,706)	(19,313,124)	(11,686,861)	(199,821)	(289,949)	(508,700)	(556,873)	(9,743,258)	(6,380,655)	(19,821,824)	(12,243,734)
Gross profit	631,041	367,958	1,363,777	419,784	91,099	79,141	185,714	129,501	722,140	447,099	1,549,491	549,285
Distribution and marketing costs									(58,391)	(55,097)	(132,972)	(95,536)
Administrative expenses									(61,916)	(55,322)	(106,333)	(96,268)
Other income									107,658	15,930	190,501	28,528
Other expenses									(606,425)	(41,850)	(731,089)	(249,386)
Profit from operations									103,066	310,760	769,598	136,623
Finance cost									(4,807)	(56,139)	(18,461)	(131,536)
Profit before taxation									98,259	254,621	751,137	5,087
Taxation									(111,415)	(104,498)	(436,750)	(75,989)
(Loss) / profit after taxation									(13,156)	150,123	314,387	(70,902)

13.1 Segment wise assets and liabilities are not being reviewed by the Chief Operating Decision Maker.

14. Financial risk management

14.1 Financial risk factors

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements as at March 31, 2013.

There have been no changes in the risk management department or in any risk management policies since the year end.

14.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

14.3 Fair value estimation

During the period, there were no significant changes in the business or economic circumstances that affect the fair value of the company's financial assets and financial liabilities. Furthermore, there were no reclassifications of financial assets.

15. Date of authorisation for issue

This condensed interim financial information was authorised for issue on November 26, 2013 by the Board of Directors of the company.

16. Corresponding figures

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet and condensed interim statement of changes in equity have been compared with the balances of annual audited financial statements of preceding financial year, whereas, the condensed interim profit and loss account, condensed interim statement of comprehensive income and condensed interim cash flow statement have been compared with the balances of comparable period of immediately preceding financial year.

Yusuf H. Shirazi
Chairman

Takeharu Aoki
Chief Executive