

# Selected Notes to and Forming Part of the Condensed Interim Financial Information

## for the quarter and half year ended September 30, 2012 (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, 2012 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, 2012.

### 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, 2012.

#### 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, 2012 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.

##### 3.2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

There are certain standards, amendments to the approved accounting standards and interpretations that are mandatory for the company's accounting periods beginning on or after 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' which is applicable on accounting periods beginning on or after January 01, 2013. The amendment shall eliminate the corridor approach and calculate finance costs on a net funding basis. The company shall apply this amendment from April 01, 2013 and its impact will be an increase in accumulated loss by Rs 26.39 million due to recognition of current unrealised actuarial losses on its defined benefit plans.

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, 2012, with the exception of changes in estimates that are required in determining the provision for income taxes as referred to in note 4.

	Unaudited September 30, 2012 (Rupees in thousand)	Audited March 31, 2012
<b>6. Long term finances - secured</b>		
Opening balance	166,667	833,334
Repayment during the period / year	-	(666,667)
Closing balance	166,667	166,667
Current portion shown under current liabilities	(166,667)	(83,334)
	-	83,333

## 7. Contingencies and commitments

### 7.1 Contingencies

There is no significant change in contingencies from the preceding annual published financial statements of the company for the year ended March 31, 2012, except for letters of guarantees issued to various parties aggregating to Rs 28.87 million (March 31, 2012: Rs 12.29 million).

	Unaudited September 30, 2012 (Rupees in thousand)	Audited March 31, 2012
<b>7.2 Commitments in respect of</b>		
Letters of credit and purchases other than capital expenditure	396,031	732,540
Letters of credit and purchases for capital expenditure	849	-
	396,880	732,540

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	Note	Unaudited September 30, 2012 (Rupees in thousand)	Audited March 31, 2012
<b>8. Property, plant and equipment</b>			
Opening book value		3,255,755	3,847,016
Additions during the period / year	8.1	648,738	51,304
		3,904,493	3,898,320
Disposals during the period / year (at book value)		(11,539)	(4,220)
Assets written off during the period / year (at book value)		(1,326)	-
Depreciation charged during the period / year		(250,095)	(638,345)
		(262,960)	(642,565)
Closing book value		3,641,533	3,255,755

### 8.1 Additions during the period / year

-Building on free hold land	1,562	-
-Plant and machinery	524,325	14,016
-Furniture and office equipment	10,072	5,727
-Vehicles	103,871	22,825
-Tools and equipments	5,107	5,020
-Computers	3,801	3,716
	648,738	51,304

	July - September 2012	2011	April - September 2012	2011
	(Rupees in thousand)		(Rupees in thousand)	

### 9. Sales

Sales - Own manufactured goods	7,619,002	6,822,903	14,320,208	12,151,280
Sales tax	(1,050,733)	(939,818)	(1,974,300)	(1,697,883)
Excise duty	-	-	-	(111,480)
Commission to dealers	(109,525)	(111,288)	(210,233)	(196,959)
Discounts to customers	(80)	-	(29,030)	-
	6,458,664	5,771,797	12,106,645	10,144,958
Sales - Trading goods	430,133	327,354	799,446	606,762
Sales tax	(58,993)	(45,152)	(109,942)	(85,880)
Commission to dealers	(2,050)	(600)	(3,130)	(750)
	369,090	281,602	686,374	520,132
	6,827,754	6,053,399	12,793,019	10,665,090

	July - September 2012		April - September 2011	
	(Rupees in thousand)		(Rupees in thousand)	
<b>10. Cost of sales</b>				
Raw material consumed	6,597,348	5,150,344	12,542,430	8,917,885
Stores and spares consumed	23,048	16,845	39,677	29,839
Salaries, wages and benefits	100,203	78,958	164,960	136,093
Fuel and power	30,767	20,925	59,467	38,421
Insurance	8,346	8,180	17,504	16,393
Travelling and vehicle running	17,223	14,987	31,115	27,324
Freight and handling	6,686	4,639	13,441	8,149
Repairs and maintenance	6,903	4,381	11,348	5,797
Technical assistance	5,001	6,492	9,393	12,788
Depreciation on property, plant and equipment	124,110	151,959	238,736	302,897
Amortization on intangible assets	9,917	7,937	17,768	15,874
Royalty	144,826	127,927	270,413	224,691
Canteen subsidy	3,823	2,606	9,103	6,198
Other expenses	327	292	518	490
	7,078,528	5,596,472	13,425,873	9,742,839
Opening stock of work-in-process	270,654	263,634	323,572	308,017
Closing stock of work-in-process	(278,647)	(237,368)	(278,647)	(237,368)
	(7,993)	26,266	44,925	70,649
Cost of goods manufactured	7,070,535	5,622,738	13,470,798	9,813,488
Own work capitalised	(70,608)	(12,943)	(71,912)	(12,943)
Cost of damaged cars	(1,650)	(1,130)	(1,650)	(1,130)
	6,998,277	5,608,665	13,397,236	9,799,415
Opening stock of finished goods	1,136,810	503,127	334,006	674,739
Closing stock of finished goods	(2,044,381)	(506,289)	(2,044,381)	(506,289)
	(907,571)	(3,162)	(1,710,375)	168,450
Cost of sales - Own manufactured	6,090,706	5,605,503	11,686,861	9,967,865
Cost of sales - Trading goods	289,949	233,853	556,873	426,022
	6,380,655	5,839,356	12,243,734	10,393,887

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for the quarter and half year ended September 30, 2012 (Un-audited)

September 30, September 30,  
2012                      2011  
(Rupees in thousand)

### 11. Transactions and balances with related parties

Relationship with the company	Nature of transaction		
i. Associated companies	Sale of goods	67,447	26,993
	Purchase of goods	9,855,587	5,567,398
	Purchase of property, plant and equipment	172,663	216,351
	Insurance premium	144,062	97,983
	License and technical assistance fee	95,318	27,325
	Royalty	245,135	203,683
	Insurance claims	3,606	3,181
ii. Key management personnel	Salaries and other		
	employee benefits	34,753	31,590
iii. Post employment benefit plans	Expense charged in respect of retirement		
	benefit plans	17,601	15,152

All transactions with related parties have been carried out on commercial terms and conditions.

Unaudited                      Audited  
September 30,                      March 31,  
2012                                      2012  
(Rupees in thousand)

Period end balances are as follows:		
Receivable from related parties	30,112	31,440
Payable to related parties	8,117,290	2,864,182

These are in the normal course of business and are interest free.

	Note	September 30, 2012 (Rupees in thousand)	September 30, 2011
<b>12. Cash generated from operations</b>			
Profit before taxation		5,087	97,316
<b>Adjustment for:</b>			
- Depreciation on property, plant and equipment		250,095	317,770
- Profit on disposal of property, plant and equipment		(443)	(4,261)
- Assets written off		1,326	-
- Profit on bank deposits, loans to employees and advances to suppliers		(15,260)	(102,988)
- Finance cost		131,536	53,769
- Provision for employee's retirement benefits and other obligations		20,652	19,567
- Amortisation of intangible assets		17,966	15,958
- Royalty		245,830	204,264
Working capital changes	12.1	761,968	2,052,277
		<b>1,418,757</b>	<b>2,653,672</b>

### 12.1 Working capital changes

<b>Decrease / (increase) in current assets</b>			
-Stores and spares		2,202	2,274
-Stock in trade		(3,764,324)	260,065
-Loans, advances, prepayments and other receivables		(232,777)	62,017
<b>Increase in current liabilities</b>			
-Trade and other payables		4,756,867	1,727,921
		<b>761,968</b>	<b>2,052,277</b>

### 13. Cash and cash equivalents

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

Cash and bank balances	924,229	903,708
Short-term investments	-	1,252,409
Short term borrowings - secured	(390,301)	-
	<b>533,928</b>	<b>2,156,117</b>

14. Segment Information	Manufacturing			Trading			Total		
	July - September 2012	April - September 2012	July - September 2011	July - September 2012	April - September 2012	July - September 2011	July - September 2012	April - September 2012	July - September 2011
	(Rupees in thousand)								
Segment revenue	6,458,664	12,106,645	10,144,958	369,090	686,374	520,132	6,827,754	12,793,019	10,665,090
Segment expenses									
- Cost of sales	(6,090,706)	(11,686,861)	(9,967,865)	(289,949)	(556,873)	(426,022)	(6,380,655)	(12,243,734)	(10,393,887)
Gross profit	367,958	419,784	177,093	79,141	129,501	94,110	447,099	214,043	271,203
Distribution and marketing cost							(5,097)	(34,213)	(60,927)
Administrative expenses							(5,322)	(44,828)	(81,916)
Other operating income							15,930	83,699	142,239
Other operating expenses							(4,850)	(83,015)	(119,068)
Profit from operations							310,760	136,623	151,531
Finance cost							(56,139)	(22,281)	(54,215)
Profit before taxation							254,621	113,405	97,316
Taxation							(104,498)	(89,441)	(124,451)
Profit / (loss) after taxation							150,123	23,964	(27,135)


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

15. **Date of authorisation for issue**

This condensed interim financial information was authorised for issue on November 27, 2012 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