

SELECTED NOTES TO THE ACCOUNTS  
FOR THE HALF YEAR ENDED SEPTEMBER 30, 2004 (UNAUDITED)

1. These financial statements are un-audited and are being submitted to the shareholders as required by section 245 of the Companies Ordinances 1984.
2. The accounting policies adopted for the preparation of these half yearly accounts are the same as those applied in the preparation of preceding audited accounts of the company for the year ended March 31, 2004 except for the item mentioned below;
  - 2.1 Long-term investment  
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 amortised cost using the effective yield method.
3. These financial statements have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' and have been reviewed by the auditors as required by the Code of Corporate Governance.
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 ranging from 0.9721 to 2.9156 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 exact formula to determine the financial impact of the shortfall in deletion, therefore it is not possible at this point of time to determine the exact financial impact of these shortfalls, consequently no provision has been made in these accounts. The management and custom authorities are in the process of finalization of the financial impact through a mutually agreed formula.
  - (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 custom 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.

# HONDA

The Power of Dreams

Commitments in respect of

- (i) Letters of credit and purchase commitments other than capital expenditure Rs. 238.44 million (March 31, 2004: Rs. 106.57 million).
- (ii) Letters of credit and purchase commitments for capital expenditure Rs. 13.17 million (March 31, 2004: Rs. 69.55 million).

	September 30, 2004	March 31, 2004
	(Rupees in thousand)	
5. Fixed assets - tangible		
Opening book value	492,329	398,981
Add: Additions during the period	-note 5.1 199,152	220,810
	691,481	619,791
Less: Disposals during the period (at book value)	-note 5.2 2,895	5,418
Depreciation charged during the period	64,408	122,044
	67,303	127,462
	624,178	492,329
5.1 Following is the detail of additions during the period		
-Building	3,483	14,074
-Plant and machinery	168,698	169,031
-Furniture and office equipments	11,432	5,379
-Vehicles	9,888	20,637
-Tools and equipments	3,261	5,749
-Computers	2,390	5,940
	199,152	220,810
5.2 Following is the detail of disposals/scrap during the period		
-Plant and machinery	158	3,699
-Furniture and office Equipment	38	-
-Vehicles	2,675	1,700
-Tools and equipments	24	6
-Computers	-	13
	2,895	5,418
6. Long-term investments		
Held to maturity		
Pakistan Investment Bonds		
5,000,000 (March 31, 2004: Nil) bonds of Rs. 100 each -note 6.1	514,456	-
Available for sale		
Unquoted		
Automotive Testing and Training Centre (Private) Limited		
75,000 (March 31, 2004: 75,000) ordinary shares of		
Rs. 10 each	750	750
	515,206	750
6.1 Investment in Pakistan Investment Bonds has been made in accordance with the terms of issue of the bonds. The effective interest rate on these bonds is 6.20% per annum receivable semiannually.		

	July to September		April to September	
	2004	2003	2004	2003
	(Rupees in thousand)		(Rupees in thousand)	
7. Sales				
Sales - vehicles	3,099,012	1,962,185	6,661,934	3,984,983
Less: Commission to dealers	82,795	54,539	180,176	110,397
	<u>3,016,217</u>	<u>1,907,646</u>	<u>6,481,758</u>	<u>3,874,586</u>
Spare parts	59,273	50,103	117,385	93,682
	<u>3,075,490</u>	<u>1,957,749</u>	<u>6,599,143</u>	<u>3,968,268</u>
8. Cost of goods sold				
Raw material consumed	2,887,850	1,694,941	6,012,859	3,253,222
Stores and spares consumed	3,776	5,186	8,236	8,908
Salaries, wages and benefits	26,206	19,480	55,765	39,212
Fuel and power	6,411	5,371	12,259	10,432
Insurance	2,173	1,740	4,392	3,583
Traveling & vehicle running	7,356	5,540	14,930	10,068
Freight and handling	7,499	3,959	15,751	6,863
Repairs and maintenance	3,958	1,384	6,173	2,450
Technical assistance	1,023	1,475	3,736	8,657
Depreciation	36,755	32,687	55,638	44,971
Royalty	45,544	28,705	97,736	58,303
Amortization - licence fee	3,256	2,767	6,486	3,997
Canteen subsidy	2,456	1,355	4,439	2,482
Provision for custom duties	-	39,251	-	39,251
Others	642	513	991	879
	<u>3,034,905</u>	<u>1,844,354</u>	<u>6,299,391</u>	<u>3,493,278</u>
Opening stock of work-in-process	70,085	42,989	68,653	74,078
Closing stock of work-in-process	(119,399)	(93,817)	(119,399)	(93,817)
	<u>(49,314)</u>	<u>(50,828)</u>	<u>(50,746)</u>	<u>(19,739)</u>
Cost of goods manufactured	2,985,591	1,793,526	6,248,645	3,473,539
Less: Own work capitalized	1,527	782	4,941	782
Cost of damaged cars	9,031	-	9,827	-
	<u>2,975,033</u>	<u>1,792,744</u>	<u>6,233,877</u>	<u>3,472,757</u>
Opening stock of finished goods	50,624	139,030	73,056	176,189
Closing stock of finished goods	(153,457)	(140,298)	(153,457)	(140,298)
	<u>(102,833)</u>	<u>(1,268)</u>	<u>(80,401)</u>	<u>35,891</u>
	<u>2,872,200</u>	<u>1,791,476</u>	<u>6,153,476</u>	<u>3,508,648</u>
Cost of spare parts purchased for resale -note 8.1	52,544	40,358	96,312	77,372
	<u>2,924,744</u>	<u>1,831,834</u>	<u>6,249,788</u>	<u>3,586,020</u>

8.1 It includes depreciation charge of Rs. 1.01 million (2003: Rs. Nil)

	April to September	
	2004	2003
	(Rupees in thousand)	
9. Transactions with related parties		
Sale of goods	11,487	7,003
Purchase of CKD/components and spare parts	3,275,024	1,835,643
Purchase of Fixed assets	59,121	-
Insurance premium	61,448	39,611
Technical assistance	8,316	6,924
License fee	-	11,590
Royalty	97,464	58,119
	<u>3,512,860</u>	<u>1,958,890</u>
10. Cash generated from operations		
Profit before taxation	286,063	310,893
Adjustment for non cash charges and other items:		
-Depreciation	64,408	51,558
-(Gain)/loss on sale of fixed assets	(80)	(15)
-Interest income	(28,696)	(19,327)
-Financial charges	2,457	437
-Provision for staff gratuity	1,668	1,330
-Provision for custom duties	-	39,251
-Royalty	97,736	58,303
-Amortization	6,606	3,997
-WPPF	15,284	16,684
-WWF	4,335	6,114
Working capital changes - note 10.1	270,678	3,931,139
	<u>720,459</u>	<u>4,400,364</u>
10.1 Working capital changes		
(Increase)/decrease in current assets		
-Stores and spares	(3,995)	920
-Stock in trade	(284,808)	(110,170)
-Loans, advances, deposits, prepayments and other receivables	258,363	(300,490)
Increase/(decrease) in current liabilities		
-Creditors, accrued and other liabilities	301,118	4,340,879
	<u>270,678</u>	<u>3,931,139</u>

	September 30, 2004	March 31, 2004
	(Rupees in thousand)	
11. Cash and cash equivalents		
Cash and bank balances	<u>3,081,922</u>	<u>3,514,909</u>

12. Date of authorisation for Issue

These financial statements were authorised for issue on November 24, 2004 by the Board of Directors of the company.

13. Corresponding figures

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



YUSUF H. SHIRAZI  
Chairman



MAMORU SUWAMA  
Chief Executive