



Sitting (Left to Right): Mr. Atsushi Yamazaki (Chief Executive Officer), Mr. Yusuf H. Shirazi (Chairman).
Standing (Left to Right): Mr. Yukimitsu Miyagi (Director), Mr. Asad Murad (CFO), Mr. Aamir H. Shirazi (Director),
Mr. Sardar Abid Ali Khan (Company Secretary), Mr. Jawaid Iqbal Ahmed (Director).

CHAIRMAN'S REVIEW

It is pleasure presenting to you the annual audited financial statements for the year ended March 31, 2008, along with auditors report.

The Economy

During the year under review, the national political and economic scene underwent radical changes. This volatility affected the overall environment. Some key indicators point towards a correction phase for the economy. A relatively long stretch of growths show average growth rate of GDP being over 7 percent during the last 5 years, against an average of 5.14% since 1951. The growth rate is still encouraging with projected growth for the year being 6 percent. The net imports are exceeding exports leading to a trade deficit of US\$ 16 billion by the end of current financial year.

The agriculture sector is expected to perform rather well during the fiscal year. During the first half FY08, LSM recorded slowdown in 11 out of 15 industrial groups, underlining a broad based reduction in growth. The service sector contributes almost 50 percent to the GDP. All indications are that Year on Year performance of this sector will be quite satisfactory. Cellular penetration in the country has increased phenomenally. Banking sector is again performing well and so is the retail and whole sale business which accounts for more than half of the value addition in this sector.

The foreign exchange reserves in the first half of the FY08 were US\$ 14 billion. The home remittances

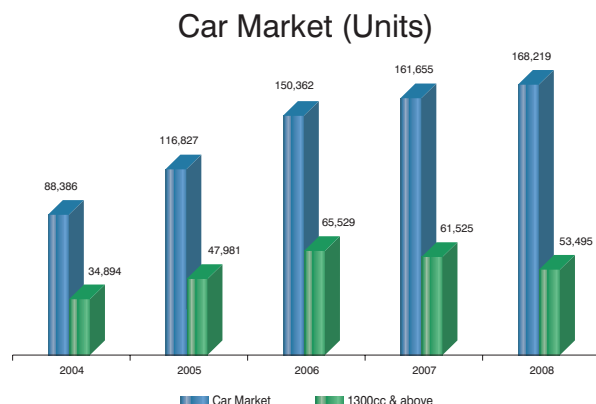
increased to US\$ 3.6 billion in the same period. The Foreign Direct Investment, which traditionally concentrated in the oil sector, has been diversified and communication & financial sectors have attracted foreign inflows in last couple of years.

Automobile Industry

The auto industry is going through a phase of consolidation. After registering an average growth rate of 40 percent from 2003 to 2006, the industry growth decelerated to 9 percent in 2007 and a marginal growth of 2.8 percent in 2008. Over the last couple of years, the auto policy has experienced many twists. The liberal policy to import re-conditioned cars affected the growth rate. However, the terms of imports were tightened last year.

During the period under review, a total of 166,278 units were produced against 164,340 units in the same period of last year. The sales were 168,219 units as compared to 161,655 units.

The total production of 1300cc & above cars was reduced by 5.7 percent in 2006-07 and further declined



2006-07	Category	Q1	Q2	Q3	Q4	2007-08	%age
48,151	Up to 800cc	13,375	16,943	15,191	16,783	62,292	29.4%
53,433	801cc to 1299cc	16,281	13,387	12,207	10,192	52,067	-2.6%
62,756	1300cc & above	14,664	15,574	10,870	10,811	51,919	-17.3%
164,340	Total Passenger Cars	44,320	45,904	38,268	37,786	166,278	1.2%
51,748	Tractors	14,854	11,574	13,283	12,014	51,725	0.0%
46,008	LCV, Buses, Trucks etc	13,437	6,211	6,962	8,125	34,735	-24.5%
262,096	Total 2007-08	72,611	63,689	58,513	57,925	252,738	-3.6%
	Total 2006-07	72,954	63,084	61,904	64,154	262,096	
	%age increase	-0.5%	1.0%	-5.5%	-9.7%	-3.6%	
	Honda 2007-08	4,527	4,533	3,180	3,240	15,480	
	Honda 2006-07	5,276	4,678	3,601	5,154	18,709	
	%age increase	-14.2%	-3.1%	-11.7%	-37.1%	-17.3%	

Source: PAMA

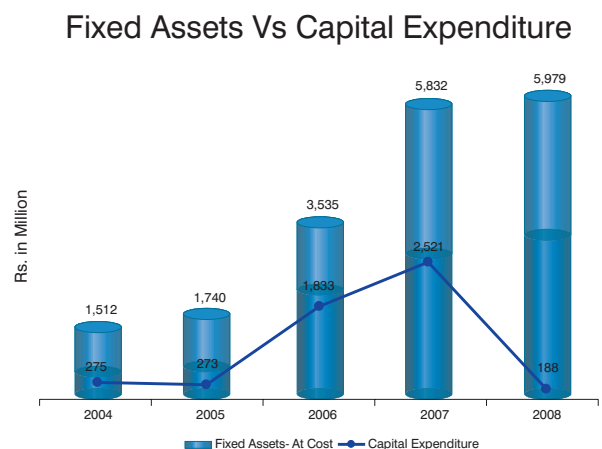
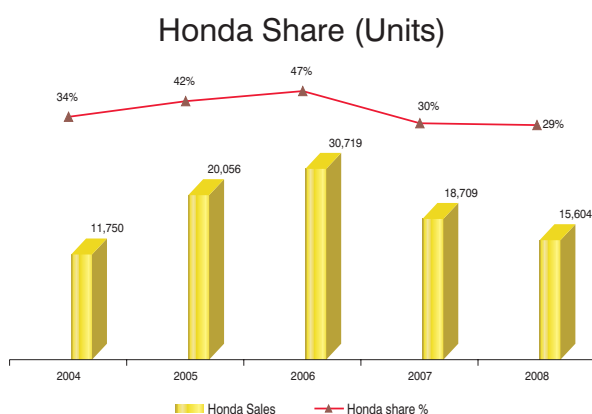
by 17.3 percent in 2007-08. In the period under review, the second half production of this category was decreased by 28.3 percent as compared to the first half of the year. The low price cars category was the beneficiary of this shift in customer preference. The cars with engine capacities of 801cc to 1299cc registered a decline of 2.6 percent, compared with last year.

The tractors production was static and almost remained same as last year. Whereas, production of LCV, buses and trucks too has declined by 24.5 percent over the same period last year.

Your company produced 15,080 units during the year against 18,240 units in the preceding year. This shortfall was mainly due to overall decline in production of 1300cc & above. The company took certain initiatives to improve sales volume; however it closed at 15,604 units for the year against 18,709 units in the last year.

Right Issue

The company started capacity expansion in 2005, when the demand for our cars among others was growing. But soon after our kick-off of Rs 3.5 billion



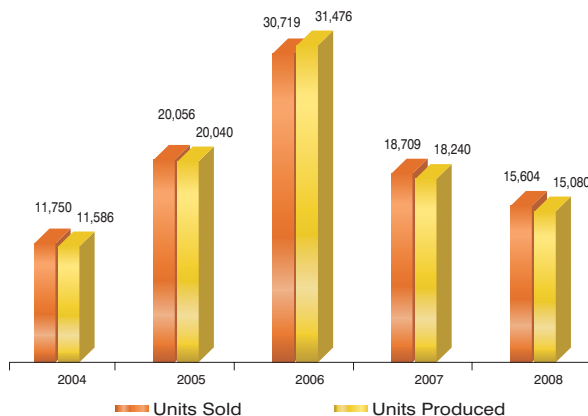
capacity expansion project, the government liberalized the car import policy and stalled the growth momentum resulting in a gradual decline of the industry. The drop in sales and pressure on cash-flow forced the company to borrow from the banks.

The Board of Directors decided to inject fresh equity to finance capacity expansion project and approved the issue of 100% right shares at par value of Rs 10/- each in July 2007. The process was completed in early December 2007 and the proceeds were used for repayment of long term loans. The paid up capital of the company has now increased to Rs 1,428 million against Rs 714 million a year earlier.

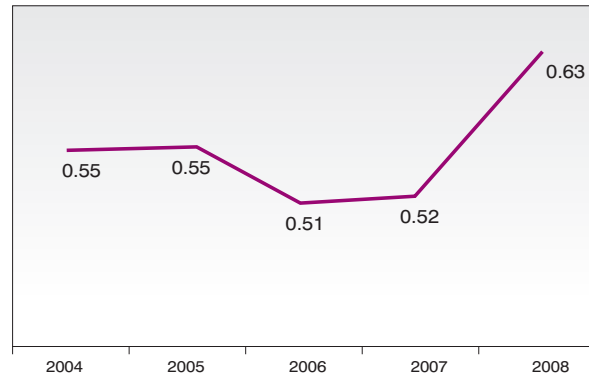
Company Performance

The company sales were Rs 14,715 million during the year under review against Rs.17,055 million achieved last year. The cost of goods sold was 14,088 million against Rs.16,882 million in the last year. The gross profit has improved to Rs. 627.5 million compared to a gross profit of Rs. 172.9 million last year. The gross profit margin has improved substantially to 4.3 percent

Units Produced And Sold

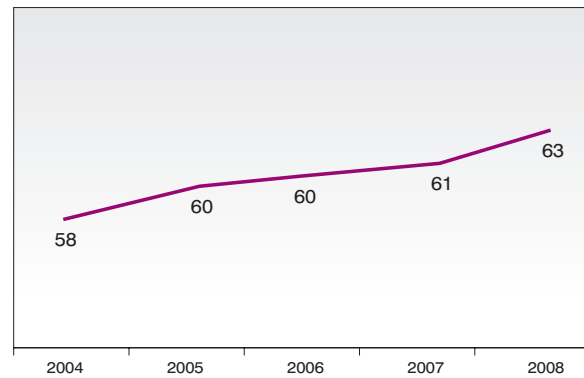


Re to ¥ Movement



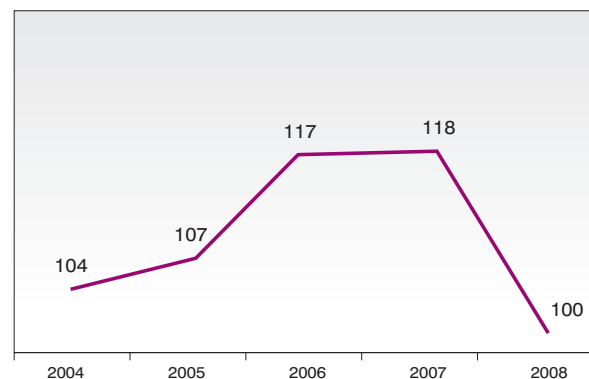
of sales against 1.0 percent of sales for last year. Last couple of months have seen rupee under extreme pressure against major currencies of the world. The Japanese Yen, which was at Rs 0.5078 at the

Rs to \$ Movement



beginning of the year, closed at Rs.0.6287 in March 2008. Likewise, the US\$ that was being traded at Rs.60.70 in March 2007 was as high as Rs. 62.77 at

¥ to \$ Movement

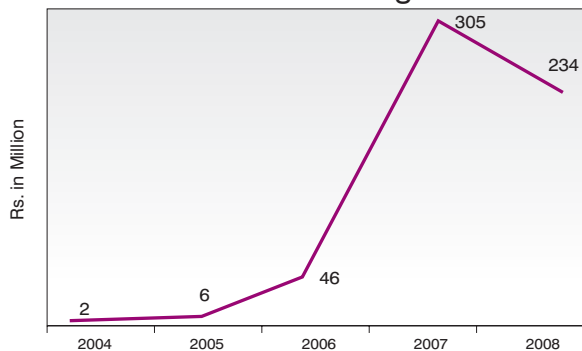


the close of our financial year. The Rupee has depreciated by 23.8% and 3.4% respectively against both currencies over the period. This sharp increase in exchange rates has adversely affected the cost of production and mitigated the favourable impact of cost saving efforts of the company.

General administration and selling expenses were Rs. 348.8 million against Rs. 362.2 million, a decline of 3.7 percent over last year. Financial & other charges also reduced by Rs. 131.4 million i.e. from 370.0

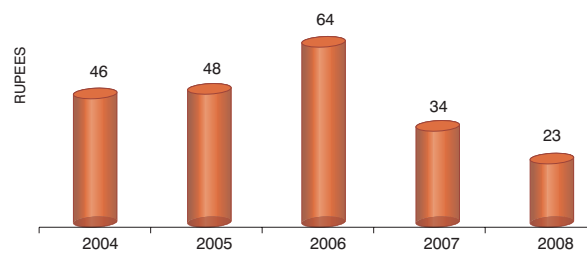
Thus in spite of very significant adverse exchange rate impact, drop in sale volumes, cost rationalization and optimum utilization of resources, the company was able to earn profit before tax of Rs.63.6 million against loss of Rs.481.6 million, last year. After adjustments for tax, the profit after tax was Rs. 75 million against a loss of Rs 264.5 million, last year. Earnings per share come to be Rs. 0.55 and return on equity is 2.65% against the negative earnings and ROE of preceding year.

Financial Charges



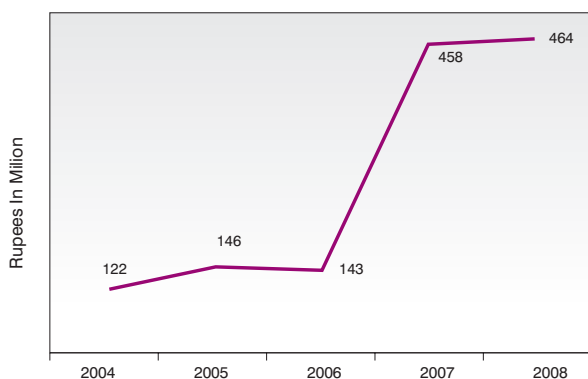
million last year to Rs. 238.6 million for the year under review. This reduction was mainly achieved through repayment of long term loans, partially through right issue proceeds and partially through internal cash generation.

Break Up Value

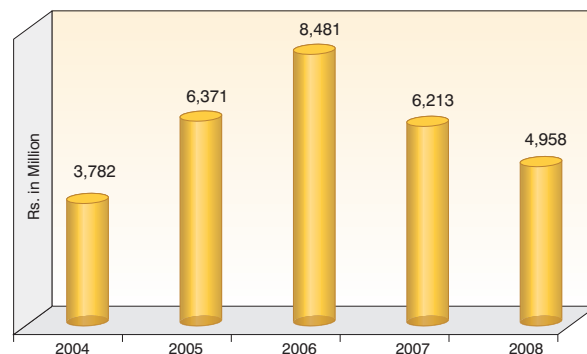


The company has contributed Rs.4.95 billion towards government revenue in shape of custom duty, sales tax and other levies against Rs.6.2 billion paid towards the same heads in last year. Since the start of operations, the company has paid Rs.40.65 billion towards government taxes. Over the years, the company has also paid significant returns to its valued shareholders. So far the company has paid 225%

Depreciation



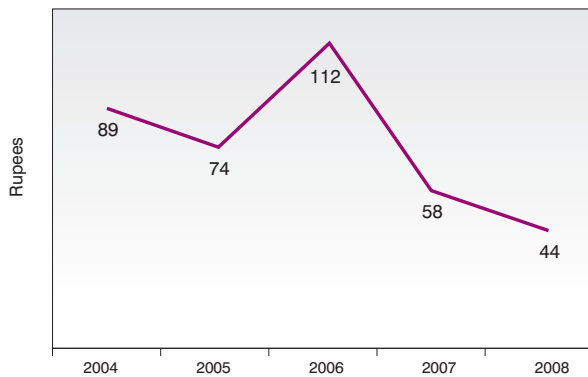
Contribution To National Exchequer



cash dividend and 75% bonus shares, in addition, 100% right shares at par.

Your Company traditionally produces cars of highest quality. The company is providing high specifications global models of Honda cars to its local customers. Your company has the pride of providing the most

Share Price Movement



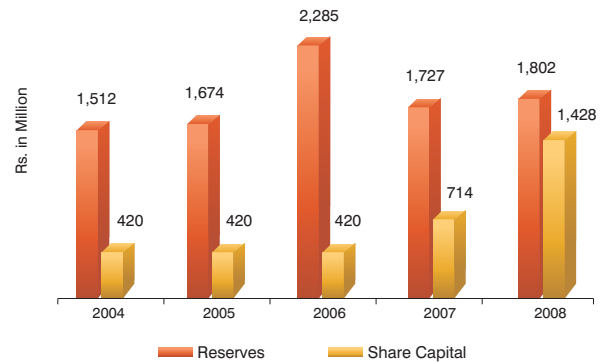
environment friendly, Euro III compliant City and Euro-IV compliant Civic cars to its customers, which none other have in the industry in Pakistan. On the strength of our confidence in our products, the company w.e.f. April 2007, increased warranty on all cars sold and now the customer enjoys warranty of 50,000 Km or 2 years from the date of purchase, whichever comes earlier. Thus, we have given one more reason to the loyal Honda customers to take pride in their product.

The company, being the ISO 9001 (Quality Management Systems) and EMS 14001 (Environment Management Systems) compliant organization, periodically goes through the surveillance audits conducted by independent auditors. In June 2007, both the audits were conducted successfully and re-certifications were accorded in both systems.

Long Term Loans

During the period under review the company was able to pay off all its short term running finances. A significant portion of long term loans was also settled. The year started with a cumulative borrowing position of Rs.2,542 million. It paid all but Rs.500 million of its loans through right issue and through internal generation of funds.

Reserves and Share Capital



The balance loan of Rs.500 million is under long term arrangements at very competitive rates. The management is planning to pay off this loan too in the current year through internal generation of funds. The management's cost savings efforts and cash management have resulted in reduction in financial charges by 23.5% over last year.

Human Resources

We welcome Mr. Fumihiko Ike as new member of our Board of Directors replacing Mr. Tatsuhiro Oyama who has taken up other assignment in Honda Motor Company. We are thankful to Mr. Oyama for his extraordinary contributions and wish him every success in future. We are confident that the company will

benefit from the rich international experience and proven leadership qualities of Mr. Fumihiko Ike.

Mr. Kenichi Ozeki, who joined this company as Director / Vice President in September 2005, has been transferred to Taiwan to take up new responsibilities from April 01, 2008. Mr. Yukimitsu Miyagi has replaced Mr. Ozeki as new Director / Vice President Production. Mr. Takayuki Irifune, GM/Chief Engineer Paint shop and Mr. Masami Nishimura, GM/Chief Engineer Engine Assembly shop have completed their three year term. Mr. Keishi Okamoto and Mr. Akihito Kamise have replaced them. Mr. Tetsuo Noguchi, GM Local Development and Mr. Masakatsu Narita, Business Coordinator has been given new assignments in Japan. The Board welcomes the new members and wish to place on record the valuable contributions made by out-going members.

Future Outlook

The economy has some inherent strength and we are confident that it will be able to withstand the emerging challenges of diverse nature.

The political situation is now getting stable after peaceful election and transfer of power to the new government. The new economic managers will give a new impetus to the growth inertia.

The automobile industry needs long term and consistent policy to achieve the vision of production of 500,000 units by 2011.

Living up to our tradition we will again be offering products that change the landscape of the auto industry in the country. The company will keep focusing on innovative products with renewed spirit to strive for effectively managing the company for all the shareholders as usual.

محبت مجھے اُن جوانوں سے ہے
ستاروں پہ جو ڈالتے ہیں کند

(Let us look beyond horizon)

Acknowledgement

I would like to thank the customers, dealers, vendors, financial institutions and shareholders for their trust and confidence in the company. I thank Honda Motor Company, Japan and Atlas Group for their assistance in the growth of the company. May I thank Mr. Atsushi Yamazaki, President / CEO of the company for leading the company successfully through the challenging phase and the staff members for their commitment and hard work.



Lahore
May 05, 2008

Yusuf H. Shirazi
Chairman