

## Chairman's Review

It is my pleasure to present you the financial statements for the quarter ended December 31, 2007.

### **The Economy**

After an extended stretch of growth spread over several years the economy has entered into a period of consolidation. The first quarterly report of the SBP on the state of the economy emphasizes focus on continuance of economic policies. In a situation of inflationary pressure and a tight monetary policy, the industry needs apt handling by the economic managers. On its part the industry does recognize that it is a correction period. However, even if the growth forecast is scaled down from the present 7.2 percent to the projected 6.6 percent it will still be growth of a high magnitude considering the wider base of the economy as compared with several years ago. Average growth has been to the order of 5-14% since 1951 despite several difficult periods. I assume it will be maintained in all possibility.

On the other hand, agriculture sector will do well again. With bumper sugar production - over 4 million tons, improved wheat and rice production forecast and with better prices for agro based products this important sector is poised to perform well. The manufacturing industry has registered growth of 6.9 percent during the 1<sup>st</sup> QTR FY08. LSM sector recorded a growth rate of 10.4 percent during the same period last year. Import growth is 18.4 percent. Exports grew 7.5 percent. The revenue collection for the first half was Rs. 430 billion - quite good in the circumstances! Remittances remained high at US\$ 3.2 billion for the first six months, mitigating the impact of adverse current account deficit.

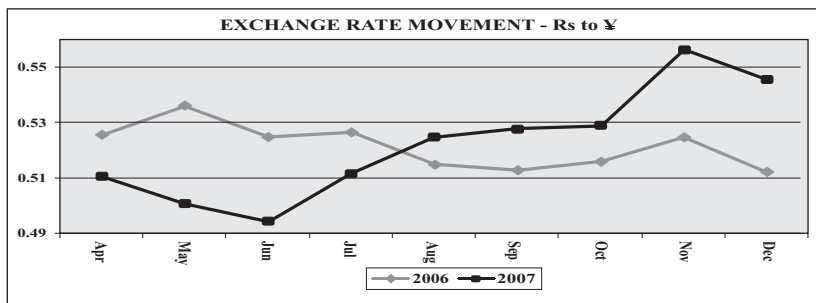
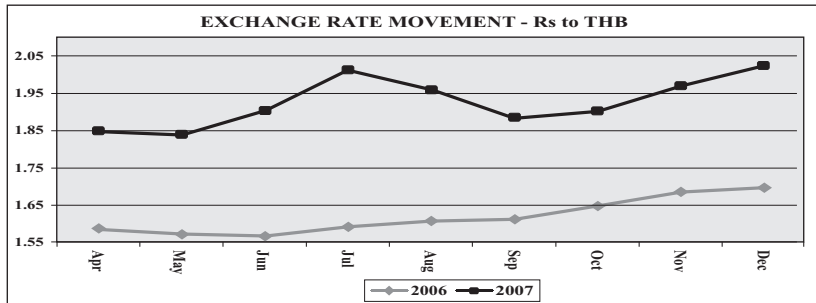
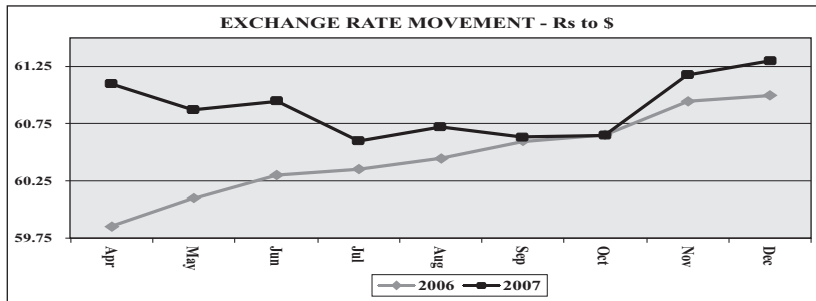
### **The Industry**

The automobile industry showed growth of 2.3% during the period of April 1, 2007 to December 31, 2007. A total of 128,492 units were produced against 125,616 units in the same period last year. The sales were 126,732 units during the same period of nine months, up 5.5%, a shift in customer preference from higher category cars to lower priced category cars. Thus there was a decline in the production of 1300cc & above category cars. A total of 42,477 units were produced in the period under review against 48,548 units in the same period last year, from 800cc to 1000cc the growth was 21.8% over the same period, last year. Car leasing is getting unattractive due to higher rates of interest. Defaultage also shying away the finance to an extent.

Thus during the period under review, your company, which produces 1800cc Civic and 1300cc City, produced 12,240 units against 13,800 units last year. The sales were at 11,847 units against 13,555 units during the same period last year. We hope to compensate losses and in fact improve – more so with new models – productivity and apt marketing – and assure a fairer return to the shareholders – sooner than later.

**Company's Performance**

The sale revenue was Rs. 11,064.4 million against Rs. 12,004.9 million over the same nine months period of last year. During the period under review, your company undertook significant cost control measures. Benefits from these cost control measure were largely mitigated against adverse exchange rate parity prevailing through out the current period as compared to the same period last year and increase in depreciation charge by Rs 280.7 million i.e. from Rs 260.2 million to Rs 540.9 million.



In spite of the adverse exchange rate parity and increased depreciation charge, due to the cost

control measures of the company the cost of goods sold was restricted to Rs 10,721.8 million against Rs 11,855.4 million. The gross profit improved to Rs 342.6 million, up from Rs 149.5 million of the same period of last year showing an improvement in GP margins.

The general administration & selling expenses were Rs. 273.9 million against Rs. 269.2 million in the same corresponding period of last year. Due to improved gross profit margin, the operating loss of the last period led to operating profit of Rs. 68.6 million. The other income was Rs. 94.7 million against Rs. 100.9 million. The financial & other charges were reduced to Rs.187.2 million as compared with Rs. 200.7 million of the same period last year. With operating to capacity the higher depreciation and financial charges will absorb and thus better results.

The loss before tax was however reduced to Rs. 23.9 million against loss of Rs. 219.4 million in the same period last year. After tax adjustments, the loss after tax was Rs. 0.5 million against loss of Rs. 126.4 million of last year. We hope to improve results by the year end and through various productivity measures, among others.

#### **Future Outlook**

The economy is going through a correction phase. The changing global economic conditions and the socio-political situation are bound to improve. Your company has been focusing on cost efficient operations to reduce the overall cost of production and improve margins. The company is set on new makes and models in not too distant a future befitting the market and customers demand and I thus foresee a brighter future for your company:

شاپین کا جہاں اور

(Let us continue to fly our flag high)

#### **Acknowledgement**

I would like to thank the customers, dealers, vendors, financial institutions and shareholders for their continued trust & support in the company. I thank M/s Honda Motor Company for their assistance in the growth of the company. I thank Mr. Atsushi Yamazaki, President/CEO of the company for ably leading the company in the challenging environment and the staff members for their commitment and hard work.

  
Yusuf H. Shirazi  
Chairman

Lahore, January 28, 2008.