

Chairman's Review

It gives me pleasure to present you the financial report for the third quarter ended December 31, 2008.

The Economy

The Pakistan Economy continued showing visible resistance on the internal and external challenges. The government moved to address immediate risk of default by entering into a Short Term Reform Program with International Monetary Fund (IMF). The initial tranche of US\$ 3.0 billion, received in November 2008, has eased the pressure on foreign reserves, which was further supported by substantial increase in foreign remittances from overseas Pakistanis. During the period under review, the exports showed marginal improvement at 12.7%, despite the prevailing facts of higher inflationary pressures and ongoing energy & power crises in the country. The imports grew by 16.5%, as compared to 18.4% in the same period of last year, mainly due to declining oil prices in the international market and as ease in the domestic demand. Due to these factors, there is a possibility that huge current account deficit would reduce. The inflation is likely to decline.

The initial estimates show that the agriculture growth would be better than in the same half of the last year. The rice crop is likely to be around 6.5 million tones, a marginal improvement in cotton production and possibly, a record wheat crop is expected, mainly due to better support price of Rs 925 per maund and higher agriculture credit to farmers for the current fiscal year to increase investment in crops.

However, the performance of the large scale-manufacturing sector preformed dismally and declined by 6.2% against reasonably good growth last year. The poor performance was mainly due to energy shortage, deterioration of law & order situation and impact of higher commodity and oil prices. The world economy is experiencing the worst financial crises and Pakistan being no exception, has been receiving its due share and external demands have declined as well.

The Industry

The automobile sector has been experiencing serious decline. As I mentioned above, the Large Scale Manufacturing sector showed poor performance during the quarter under review. The locally assembled automobile registered the highest decline in the recent years. The total production of vehicles declined by 33.8% during the period from April 01, 2008 to December 31, 2008, over the same period of last year. The industry has been facing multiple challenges of higher exchange rate, rising inflation and material prices and particularly, slow down in demand. To meet rising cost of production, we had to increase the prices a couple of times, which has further affected our sales.



The total automobile production during the period under review of nine months was 88,482 units against 128,492 units last year, down by 31.1%. The sale was 86,376 units against 126,732 units, down by 31.8%. However, your company's production and sales were 9,644 units & 9,129 units respectively during this period against production of 12,240 units and sale of 11,847 units in the same period of last year.

Company's Performance

During the period under review, the company suffered loss after tax of Rs 154.1 million against loss after tax of Rs 0.5 million in the same period of last year. The loss was mainly due to depreciation of Pak Rupee by 26.2% against US\$ and 39.7% against Japanese Yen since start of the year. The rising prices of steel and other metals in the world market also contributed in the loss. The leasing factor was almost halted due to strict terms & conditions and rising interest rates, coupled with inflationary impact forced to shrink the auto market by 45% from July 08 onward. However, in these testing times and difficult working conditions, the company has been focusing on cost effective measures to reduce the running cost of business.

The sales revenue was down at Rs 9,900.4 million against Rs 11,064.4 million in the same period of last year. Due to factors mentioned above, the cost of sales increased and the gross profit for the period under review was reduced to Rs 282.0 million against gross profit of Rs 404.9 million in the same period of last year. The company has been focusing on cost effectiveness. The administrative & selling expenses were reduced by 12.5%, at Rs 239.8 million against Rs 273.9 million. The other income was increased to Rs 63.1 million against Rs 32.4 million. The financial & other charges were also down by 41.5% at Rs 109.5 million against Rs 187.2 million in the same period of last year. However, other operating expenses were increased due to exchange loss suffered on certain foreign currency transactions during the period under review.

Future Outlook

The oil and material prices are decreasing in the international market. However, it would be a challenge for the government to pass down the benefit to consumers sooner than later, as it was done partially in fuel prices adjustments. The existing economic indicators show mix trends and overall the economy will continue to resist internal and external imbalances. To curb the inflow of reconditioned cars, the Government has further tightened the terms & conditions of import by decreasing depreciation allowance from 2% to 1% p.m. Further, any measure to do-away with 5% Federal Excise Duty, 1% additional Sales Tax and 5% with-holding tax at the



time of registration of new car would help control the declining trend.

The company is all set to launch its new Model of Honda City by the end of January 2009 which will help to push-up sales and improve our market share. The company will continue to focus on innovation, cost efficiency and product quality to offer best value for money to its customers:

کیا چھینے گا غنچے سے کوئی ذوق شکر قد

(We believe in doing best in adverse circumstances)

Acknowledgement

I would like to thank our valued customers, dealers, vendors, financial institutions and shareholders for their continued support and trust in the company products. I would also thank the Government for its assistance, Honda Motor Company & Atlas Group for their support. I also thank the President of the company, Mr. Atsushi Yamazaki and staff members for their commitment and hard work.

Lahore, January 30, 2009.

Yusuf H. Shirazi
Chairman