

Chairman's Review

It gives me pleasure to present you the financial statements for the period ended December 31, 2009.

THE ECONOMY

The world economy in general and American & Japanese economy in particular are on revival path. The Pakistan economy was marginally affected by external imbalances, now showing signs of improvement. The process of restoring macro-economic stability improved in the first six months of fiscal year 2009-10. Most of the economic indicators are showing positive trends. The Large Scale Manufacturing (LSM) sector showed improvement of 0.67% after 20% decline in March 2009. The trade deficit improved significantly during the period and reached the level of US\$ 9.11 billion in November 2009 from US\$ 17.0 billion in the previous year, a decline of 46.41%. CPI inflation averaged at 14.26% till November 2009 as compared to 19.87% in the same period last year.

The country continued to face the power and gas shortage which adversely affects the industrial output. The efforts to increase exports were constrained by power supply shortage and weak international demand due to on-going security concerns, these were down by 14.62%. The imports were down by 24.42%. The remittances were showing healthy growth and increased by 29.20% over same corresponding period last year.

The GDP is likely to grow around 3.3% for the fiscal year 2009-10 against last year growth of 2.0%. The foreign exchange reserves were high at US\$ 13.73 billion as on November 2009. The rupee value is adjusting against the

international currencies and was depreciated to Rs 84.5 to a US\$ which had adverse impact on our cost of production.

THE INDUSTRY

The automobile industry is showing sign of recovery after rock bottom production and sales in 2008-09. The first two quarters of 2009-10 financial year, showed improvement over the same corresponding quarters of last year. The Jul-Sep quarter production improved by 7.3% and Oct-Dec quarter showed healthy improvement of 29.9% over the corresponding quarter. The overall production for the nine months period under review was 75,009 units against 88,482 units in the same period of last year. The sales were 75,224 units in current period against 86,376 units in the Apr-Dec 2008.

Your company produced 8,305 units during the period under review against 9,644 units in the same period last year. The sales were 8,191 units against 9,129 units.

The other sectors like tractors and motorcycles also showed improvements due to good performance of agriculture sector and increase in remittances from overseas Pakistanis. The government policy to increase duties on CBU to discourage imports will also push demand in locally assembled vehicles.

In October 2009, the company increased prices of cars from 1.5% to 2.5% on different variants of Honda Civic & City, due to depreciating value of rupee. The company have utilized all available resources to absorb the increasing cost and only some part of the cost has been passed on to the customers.

In the wave of changing models, better fuel economy and efficient cost of production, the increase in automobile demand is a challenge to the automobile industry. The under-utilization of installed capacity, which exposes to major financial burden on cost of production, is another challenge faced by the industry. The industry needs attention of policy makers to form consistent and long term auto policy.

COMPANY PERFORMANCE

During the period under review, the company suffered after tax loss of Rs 695.9 million against after tax loss of Rs 154.1 million in the same period last year, mainly due to low sales, exchange rate impact of Pak Rupee against US\$ and Japanese Yen and other inflationary impacts.

The net sale was Rs 10,500.0 million against Rs 9,900.4 million of the same last corresponding period. Due to reasons mentioned above, the company had gross loss of Rs 219.9 million against gross profit of Rs 282.0 million of the same period of last year.

The company had reduced general administrative and selling expenses, from 2.4% of sales of last year to 1.9% of sales in the period under review. However, financial charges were increased to Rs 374.3 million from Rs 109.5 million in the same period last year.

FUTURE OUTLOOK

The first two quarters of automobile industry have been very encouraging on the basis of sales growth over last year. The macro-economic indicators are also encouraging despite ongoing law and order situation and inflationary pressures. r

The gradual increase in economic activity will lead to improved performance of auto industry. The inflation is lower than last year, thus having less pressure on purchasing power. However the government should continue to extend its strong support to the industry with greater restriction on used car import, relaxation on import duty and lower taxes on registration stage to fully capitalize the potential of auto industry.

With all internal and external challenges, the company will continue to focus on cost effectiveness to absorb exchange rate and inflationary pressures and will emphasize on quality and ingenuity to offer best value for money to its customers:

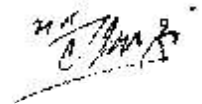
(انسان کو اتنا ہی ملے گا جتنی اُس نے محنت کی)

(A man will get only what he deserves)

ACKNOWLEDGEMENT

I would like to thank Honda Motor Company and Atlas Group for their continued support. I would also thank the customers, dealers, vendors, bankers and our shareholders for keeping faith in the Company. I also thank Mr. Atsushi Yamazaki, CEO and his team for their hard work and dedication in the ever challenging business environment.

Karachi,
January 30, 2010



Yusuf H. Shirazi
Chairman