

Chairman's Review

It is a pleasure presenting to you the unaudited financial statements for the quarter ended June 30, 2008.

The Economy

The Pakistan economy is inherently viable. According to a research from 1951 up to date, the average GDP growth has been 5.14 percent despite several changes in systems and governments. This also shows the country's entrepreneurialism, professionalism and workmanship. With right sense of direction, GDP growth has been higher - up to 7 percent.

In spite of a recent absence of a sense of direction on the political front, the GDP growth, last year, was 5.8 percent. Growth in the service sector was 8.2 percent, while growth in the manufacturing and agriculture sectors was 5% and 1.5% respectively. Despite slow growth in agriculture and reduced crops size, the cash flow was quite improved due to perhaps, escalation in commodity prices. Remittances were at a record high and reached US\$ 6.5 billion. It was on the back of this development, among others, that the per capita income crossed the US dollar 1000 mark for the first time in the history of the country. The inherent strength in the viability of economy has always remained as the guiding factor for localization of Investment, Production and Export and vice versa. In that only lies the welfare for the masses.

The Industry

Overall industrial production increased though marginally at 2.6%. This growth is commendable in view of inconsistencies of policies and instability in over all political, economic and social order.

The Automobile Industry is the 5th largest revenue earner for the country. In the past few years it had phenomenal growth. The country is now aiming production of 500,000 units as planned by the year 2011 with proper incentivization. This target is not impossible to achieve despite the lower growth - a decrease of 3.5% in automobile production in the last quarter under review. It should be possible as influx of the Completely Built Up -CBUs - and used vehicles import has been discouraged through increase of 3 years old import of used cars and increase of duty on import of CBU cars from 90% to 100%. The government's approach in the changed circumstances is also seen through its due emphasis on growth of agriculture, investment and production and export and restriction on import of luxury goods. Accordingly, the government has come out with more incentives for local production than encouraging CBU import as in the past. The duty for the local production - CKD - has been reduced from 35% to 32.5%. All other things remaining equal, this will encourage investment, GDP growth and employment highly desirable - more than ever before - and also because of 5% FED and 1% additional sales tax on all cars with higher effect on higher CCs - more so on CBU.



There are issues like food inflation and increase in the prices of oil - over all inflation - but it is an international phenomena. Pakistan cannot escape the international impact. In fact, sooner it is absorbed - prudently indeed, the better.

On the other hand, local inflation caused by increase in oil prices and rupee devaluation will serve as incentive for localization vis-à-vis import - at the cost of higher deficit financing and current account. Entrepreneurialism demands to rely more upon positives than negatives. In that alone lies the solution.

Company Performance

The Company earned Profit before tax of Rs.55.2 million as against Rs.30.9 million in the same period last year. This was possible due to control on overheads, among others. The administrative and selling expenses remained constant at 1.9% of total sales. The other income increased from Rs. 36.6 million to Rs. 55.2 million including from higher return on the bank deposits. Since the last year, the company focussed to improve liquidity through reduced short term and long term loans which resulted in Rs. 0.5 billion at the end of the quarter as against Rs. 2 billion in June, last year. This positive result was in spite of the reduced sales at Rs. 3,706.6 million during the quarter ended June 2008 against Rs. 4,535.6 million in the same quarter last year, and the reduced gross profit to Rs. 94.5 million from last year's Rs. 156.7 million - due to increase in material cost and depreciation of currency.

We look forward to improved results, quarter after quarter, due to traditional Honda approach - Quality, Cost, Delivery and Management - QCDCM. Your company is constantly in process of re-evaluating its products and processes. Relying on its international resource of R&D and global experience, the Honda product line up is in a constant process of evolution. Honda is proud to have introduced pioneering products in Pakistan. We will continue our tradition of innovativeness and offer our valued customer global technology and quality, year after year.

Future Outlook

Honda Atlas Cars set up its manufacturing facilities during 1993 with installed capacity of 5,000 units. It increased over 30,000 units a year before last. The installed capacity now is 50,000 units. This shows the fulfilment of Honda's traditional approach towards, 'Glocalization', that is, Investment and Production (based on Quality, Cost, Delivery and Management - QCDCM). Honda has established manufacturing facilities all over the world and exporting to their member countries to countries and even back to Japan.



Government's approach of localization of Investment and Production and Exports fits in to the Honda WAY - Glocalization. The increase in oil prices or currency devaluation, in fact, may serve as an incentive for localization for those having developed local manufacturing facilities as Honda Atlas has done compared with high duty on CBUs and restriction on import of used car.

Honda is going to launch new models in CBU. It has already introduced two new CBU models - Accord and CRV to fill in the gaps of demand and supply of Honda Cars which are always in demand because of the quality and service back up.

With renewed vigour and strength, I am of the view that Honda Atlas Cars will continue to do very well, in whatsoever circumstances.

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(Entrepreneurial ability and management always grows and grows better)

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
July 25, 2008