

## CHAIRMAN'S REVIEW

It gives me great pleasure to present you the report for the half year ended September 30, 2004 along with limited review by the Auditors.

### The Economy

Pakistan is passing through a critical stage in the economic recovery. Both the domestic commodity price rise and the foreign oil prices are creating inflationary pressures. At this point, thus, economic prudence will demand to combat effectively the twin devaluation and deficit scenarios. The positive sign is the continuous improvement in the manufacturing output. Even the trade numbers indicate large raw material and machine import. This is helping to maintain growth rate target achievement. The GDP growth has exceeded six percent. Growth rate accompanied by a stellar rise in industrial production, strong upsurge in domestic investment, sharp increase in consumption of electricity & gas reflect a rising level of economic activity. On the domestic front, an anticipated shortage of water for irrigation purposes poses risk for winter crops that may decrease yields significantly. Experience, however, shows that overall economic inherent strength prevails in the long run if not short or medium term.

### The Industry

Despite the reduction in import duty on CBU cars, liberalization of import of used cars and imposition of NTN condition, the car production in the six months period under review- from April 01, 2004 to September 30, 2004 - increased to 57,816 units against 40,661 units in the same period last year, up 42.2%. The sales rose to 57,523 units against 41,329 units, up 39.2%. During the first quarter of fiscal year 2004-05, the production and sales were recorded at 27,983 units and 28,850 units respectively against 20,408 and 20,944 units in the same corresponding period last year. The production in the 1300cc and above segment increased to 22,567 units during the six months period under review against 16,603 units in the corresponding period last year, up 35.9%.

During the second quarter, the extension in paint booth started earlier at the plant was successfully completed and commissioned by August 2004, enabling double shift from September 2004 to increase production capacity in all to 30,000 units per year as against previous capacity at 12,000 units and cater rising market demand.

During the period under review, the company produced 8,178 units against 4,645 units in the same period last year, up 76.1%. The sales increased to 8,072 units against 4,712 units last year, up 71.3%. The delivery period is being successfully reduced with enhanced production and sales during this quarter. We plan to deliver around 2,000 units per month in the second half of the year against about 1300 units in the first half.

### Company Performance

During the first half of the year, the sales increased to Rs. 6,599.1 million, up 66.3% against Rs. 3,968.3 million in the same corresponding period, last year. The cost of goods sold grew to Rs. 6,249.8 million against Rs. 3,586.0 million as compared to last corresponding period. The gross profit was reduced to Rs. 349.4 million against Rs. 382.2 million in the first half of last year, the GP declined from 9.6% to 5.3% mainly due to adverse rupee-yen & rupee-dollar parity, yen at Re. 0.572 and dollar at Rs. 60.90 against Re. 0.522 and Rs. 57.95 respectively last year, which could not be passed on to the customers in the prevailing circumstances. The administration and selling expenses increased to Rs. 91.0 million against Rs. 77.0 million in the same corresponding period

last year, because of increase in salaries & wages cost for production enhancement and double shift operations, though reduced in percentage from 1.9% of sales to 1.4% due to corresponding increase in sales. The other income increased to Rs. 49.8 million against Rs. 28.9 million owing to better return on bank deposits. The financial & other charges reduced to Rs. 22.1 million from Rs. 23.2 million in the same corresponding period, last year.

The profit before tax thus stood at Rs. 286.1 million against Rs. 310.9 million in the corresponding period last year. The profit net of taxes was accordingly Rs. 183.0 million against Rs. 191.9 million. The return on equity before tax was 13.5% and earning per share was Rs. 6.81 against 16.4% and Rs. 7.4 respectively during last corresponding period.

#### Future Outlook

The economy is likely to grow over 6 % in the current fiscal year as evident by the economic indicators. The higher oil prices may result in rise in inflation and affect adversely the imports and fiscal deficit. The dollar and yen have started moving upward against rupee which may have an effect on overall profitability.

On the other hand, the latest development in the government policy regarding booking and delivery of cars only to NTN holders seemed to have been absorbed by the market forces. Additionally, a prudent customer favours buying locally made car for appropriate after sales service and availability of relatively cheaper spare parts freely. Import of built-up cars and used ones practically is now put to verification of their C&F prices by the local representatives to combat menace of under invoicing. The demand of the locally made cars accordingly has gone up in the first quarter of the fiscal year which we expect will rise further. The company will continue to focus on quality of management, quality of product and quality of service, increased deletion, deliveries and cost control measures in the second half of the year and thus hopefully makeup short fall of the first six months if not improved due to higher volume resulting in lower overheads. We thus foresee a brighter future of your company.

ع مجھت مجھے اُن جوانوں سے ہے  
ستاروں پہ جو ڈالتے ہیں کمند

( Let us keep our flag flying higher )

I would like to thank the customers, dealers, vendors, financial institutions, shareholders for their support and trust in the company product. I would also thank the Government for its assistance and Honda Motor Company for their technical support for growth of the company. I also thank the President of the company, Mr. Mamoru Suwama for his able leadership and staff members for their commitment and hard work.



Yusuf H. Shirazi  
Chairman

Lahore,  
November 24, 2004.