

Chairman's Review

It gives me a great pleasure to presents you the financial statements for the half year ended September 30, 2005.

The Economy

The economic performance in the first quarter of the financial year 05-06 remained satisfactory. The exports for the first quarter were US\$ 4.2 billion, up by 19.9%. The imports grew to US\$ 6.6 billion, up 52.0% over the same period last year, due mainly to the higher oil prices in the international market, import of machinery for textile and raw material. The revenue collections improved to Rs. 147.7 billion, up 19.8% over the same period last year. The remittances from overseas Pakistani's continued to pour-in at US\$ 1.0 billion, showing a growth of 2.0%. The foreign investment amounted to US\$ 473.6 million against US\$ 201.8 million in the same period, last year. The foreign exchange reserves were down slightly below US\$ 12.0 billion. The average exchange rate parity of Rupee:US\$ at Rs. 59.71 and Rupee:Yen at Re. 0.5431 remained under pressure. Inflation was 8.5% against 9.3% recorded earlier. It is expected that interest rates may increase in the near future, perhaps, marginally.

The Industry

The automobile industry continued to grow. The total production of passenger cars during the period April 01, 2005 to September 30, 2005 were 75,721 units against 57,816 units in the same period, last year, up 31.0%. The sales during the same period also grew to 75,449 units against 57,523 units, up 31.2%. Unlike the previous quarters, the growth in the 1300cc and above category witnessed highest, at 44.4%, as 32,570 units were produced against 22,567 units in the same period last year. The growth, in the same comparable period, in other two categories was 30.5% in 801cc ~ 1000cc cars and 15.8% in the lower category upto 800cc cars.

Your company had started second shift a year ago with a target to double its production in the existing manufacturing facilities, using extended working hours and increase in production efficiency. The company lived up to its promise; a total of 16,372 units were produced against 8,178 units in the same period, last year. The sales grew in the same proportion, at 16,476 units against 8,072 units in the same half year of the last year. The company has achieved unmatched market share over 50% in its category of makes and models against 36% in the same six months period, last year.

The reduction in CBU tariff in the last fiscal budget has resulted in increase of imported vehicles in the country and thus enhanced competition for the local producers. The company also made

an entry into the CBU business; it launched Honda Accord in August 05. The new Accord embraces an array of technological advantages, including 2.4 liter i-VTEC engines, five-speed automatic transmission and other safety and environmental features. The response has been overwhelming and the company ensured delivery within a fortnight on booking.

In September 05, the company announced its Manufacturing Capacity Expansion. The company has embarked factory expansion, at a total cost of Rs. 3.0 billion, to produce 50,000 units by the end of next calendar year in order to cater the ever rising market demand. The company has also purchased additional land of 30 acres adjacent to the factory premises for its future requirements, totaling 93 acres. The Prime Minister of Islamic Republic of Pakistan, Mr. Shaukat Aziz graced the occasion. Mr. Satoshi Toshida, Sr. Managing Director, Honda Motor Company, Japan attended the occasion among several guests from all walk of life.

Company's Performance

The sales revenue during the first half was Rs. 13,704.5 million against Rs. 6,599.1 million in the same period last year. The cost of goods sold also increased to Rs. 13,276.2 million against Rs. 6,249.8 million. The gross profit was Rs. 428.3 million against Rs. 349.4 million, up 22.6%. The gross profit margin, however was reduced from 5.3% last year to 3.1% in the period under review, mainly due to expected demand of custom duties of Rs. 167.0 million, increase in salaries from Rs. 55.8 million to Rs. 103.1 million due to increase in manpower and adjustment of entry level salaries of associates. The administrative and selling expenses also increased to Rs. 135.6 million against Rs. 91.0 million in the same period, last year. However, in term of percentage, it reduced from 1.4% last year to 1.0% in the period under review.

The operating profit increased to Rs. 292.7 million against Rs. 258.3 million. Other income increased to Rs. 203.0 million against Rs. 49.8 million, mainly due to increase in income from interest and investments owing to better placement of excess liquidity and scrap sales due to increase in production activities. The financial and other charges were Rs. 44.2 million against Rs. 22.1 million. The profit before tax stood at Rs. 451.5 million against Rs. 286.1 million in the same period, last year. After tax provisions, the profit was Rs. 280.1 million against Rs. 183.0 million during last corresponding period.

The after tax return on equity for the period improved to 12.3% against 8.6%. The earning per share was Rs. 6.7 against Rs. 4.4 in same period last year.

Future Outlook

The upward momentum of economic indicators over the last couple of years reflects the stability of the economic policies. The first quarter indicators are prospective for another good economic year. However, there are some challenges which the country has to cope with in order to

maintain its growth momentum such as a high inflation rate of 8.5%, due shortage of essential food items, high oil prices and strong domestic demand, increase in fiscal deficit for the year and less than last year growth in the manufacturing and agriculture sectors. In the last month, earth quake tremors, which has badly affected Northern Areas, AJ Kashmir and some parts of Punjab is another unforeseen challenge for the country.

The reduction in the tariff rates, liberalization of import of second hand cars with a higher depreciation advantage in the budget and trade policy are ongoing challenge. These measures will give a short term advantage to fill temporary demand-supply gap, though at the cost of long term over all national interest. However, the company is fully committed to improve its production capacity, grow its sales volumes, introduce new technologies and improve quality of vehicles and quality of after sales services and cost reduction and as such live upto the expectations of the stakeholders:

کریں گے اہل نظر تازہ بستیاں آباد

(Those with vision and foresight will continue to build sounder and stronger)

Acknowledgement

I would like to thank the customers, dealers, vendors, financial institutions, shareholders for their continued 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 21, 2005