

Chairman's Review

It gives me pleasure to present you the financial statements for the half year ended September 30, 2009.

The Economy

The world economy and particularly of America and Japan are on revival path. The Pakistan economy, inherently viable, which was not affected by the world meltdown, is showing further signs of improvement. Accordingly, Pakistan economy, among others, witnessed improvement in the last quarter. There was sufficient liquidity in the system due to unprecedented remittances of US\$7 billion and agriculture growth at 4.7%. It led to purchasing power to the rural economy in addition to the urban customer.

The cumulative effect led the GDP growth rate to 2%. The inflation declined from ever highest rate of 25.3% in August 2008 to 10.5% in October 2009. With the assistance of International Monetary Fund, also, the overall adverse situation is easing out. The exchange rate is stabilising. State Bank of Pakistan reserves strengthened to about US \$ 14 billion. The overall fiscal deficit was reduced to 4.3 percent.

The Industry

Despite the contraction of demand in the economy on the whole, auto industry witnessed improvement in sale of cars, motorcycles and tractors in particular. This was partly due to the removal of 5% excise duty on automobiles and particularly because of reviving demand due to cash flow from remittances and agriculture. There has been a check in CBUs and reconditioned automobiles also which will give further push for local manufacture.

The changing models, improved fuel efficient, cutting manufacturing cost and enhancing the user comfort without compromising on quality are the challenges for the auto industry. It is a mother industry for technology development and employment. The

policy makers would do well to provide further a conducive environment for restoring confidence of industry and the customer when the demand is rising.

Company Performance

Your company produced 5,320 units for the half year ended September 2009 The sale was 5,776 units.

During the period under review, the company continued to absorb depreciating Rupee US\$ & Japanese Yen, coupled with inflationary impacts and decline in unit sales. The loss after tax for the first half of the year was Rs 536.4 million.

The net sale was Rs 7,326.1 million. The cost of sales was Rs 7,489.9 million which resulted in gross loss for the period of Rs 163.8 million.

Administrative and selling expenses were reduced from 2.2% of sales of last year to 1.8% of sales in the period under review. However, financial charges were increased to Rs 277.4 million from 46.5 million in the same period of last year due to mark up on short term and long term loans obtained for expansion of capacity for long term growth.

Future Outlook

The next quarter though a challenging one, but the economy, on the whole, is getting better. The macro economic stabilisation programme of the Government and the improving economic indicators show expectations of lower inflation and a better GDP growth rate. The industry has seen growth in the sale and so the HACPL, among others, due to bumper wheat crop, rice, and now cotton accompanied by a good price. This is likely to continue for the whole year.

In spite of the challenges, prudent economic management and favourable external dynamics augur well for the company to regain its previous growth pattern. The

company will emphasize its areas of strength in quality, ingenuity and cost management to offer best value for money to its customers:

بازیچہ اطفال بے دنیا میرے آگے
(We succeed in all situations)

Acknowledgment

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

Lahore,
November, 12, 2009



Yusuf H. Shirazi
Chairman