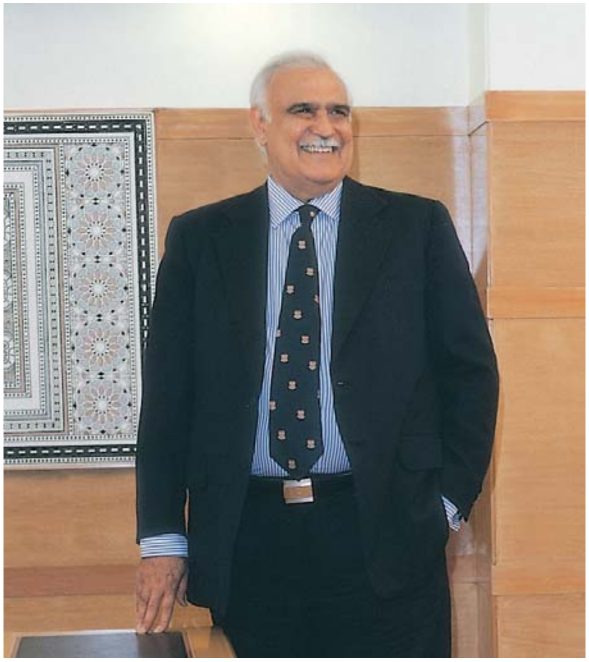
Chairman's Review



It is my privilege to present you the annual audited financial statements for the year ended March 31, 2007 alongwith auditors report.

Economy

The Pakistan economy continued to grow in the first half of the year. The GDP is likely to achieve the set target of 7.0% surpassing the previous year's GDP of 6.6%. The agriculture sector is expected to grow to 4.6% due to increased water availability- owing to the extended rainy season and snowfall. The large scale manufacturing showed marginal improvement to 11.0% whereas service sector, which helped the GDP grow in the preceding years, is also expected to remain strong at 8.0% in the current fiscal year.

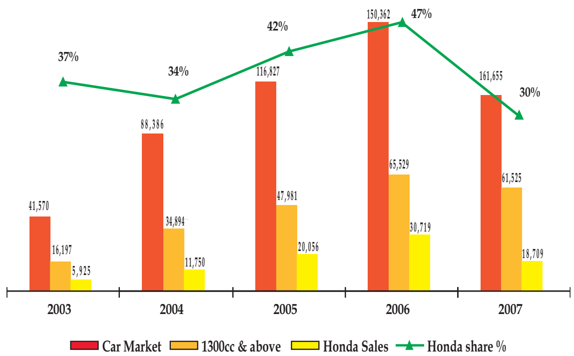
The significant improvement in the macroeconomic fundamentals - high growth rates in the recent years, sustained policy focus on implementation of reforms and relative stability of the exchange rates continued to attract investors, resulting in a substantial rise in Foreign Direct Investment, which is expected to cross five billion dollars by the end of the fiscal year.

However, the economy faces the challenges of high inflation rate at 7.5%, staggering current account deficit of 4.5% of GDP, lower tax to GDP ratio of 10% and low savings at 16.5%. On the other hand, the growth in remittances from expatriate Pakistanis and FDI has helped to mitigate the adverse impacts of high current account deficit. The recent fiscal developments show that the economy is comfortably placed to meet the fiscal year's revenue collection targets, with high direct tax collections and non tax revenues collections, offsetting the impact of substantial increase in expenditure.

Automobile Industry

The automobile industry is facing various challenges. The introduction of Tariff Based System (TBS) seems quite indifferent to protecting local industry. In the new system there is preferential treatment for new auto manufacturers, which is counter productive to the overall development of auto industry. At the same time, the liberalization of import of used and new cars through gift scheme, transfer of residence and rising auto financing rates have restricted the growth of the industry.

After the healthy double digit growth for the last few years, the industry showed a modest growth of 8.1%. During the period under review, a total of 164,340 units were produced against 152,010 units



Car Market Growth (Units)

in the same corresponding period of last year. The sales were 161,655 units against 150,362 units in the same twelve months period of last year, up 7.5%. The highest growth was witnessed in the middle category cars which grew 27.3%, whereas small car segment showed increase of 10.8% and 1300cc & above segment, reduced by 5.7% over the same period of last year. The data of last one year industry production shows downward trend. The first two quarters ending June 2006 and September 2006 grew by 21.8% and 12.8% respectively, over the same corresponding quarters of last year, whereas the next two quarters ending December 2006 and March 2007 showed decline of 0.5% and 1.9% respectively over the same quarters of last year. In other segments, the tractor production grew 8.1%, due to improvement in agriculture output, with 51,748 tractors produced in the period under review against 48,248 tractors in the same period last year. The LCV, Buses and Trucks posted healthy growth of 27.3%, and a total of 46,008 units were produced against 36,155 units in the same period last year. The motorcycle sector witnessed sluggish demand, due to un-organized sector competition, with decline of 3.8% as a total of 476,820 units were produced against 495,636 units in the same twelve months period of last year.

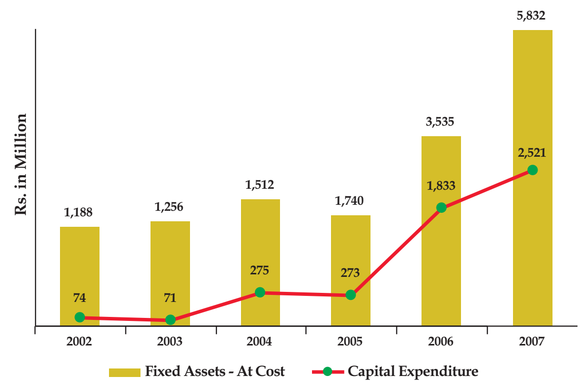
The Quarter wise production data of various sectors of 2006-07 is as under:

2005-06	Category	Q1	Q2	Q3	Q4	2006-07	Increase
	Passenger Cars:						
43,471	- Up to 800cc	11,752	12,014	12,459	11,926	48,151	10.8%
42,019	- 801cc to 1299cc	16,063	12,054	12,726	12,590	53,433	27.2%
66,520	- 1300cc & above	20,349	16,747	11,452	14,208	62,756	-5.7%
152,010	Total Passenger Cars	48,164	40,815	36,637	38,724	164,340	8.1%
48,248	Tractors	12,504	12,131	12,923	14,190	51,748	7.3%
36,155	LCV, Buses, Trucks etc	12,286	10,138	12,344	11,240	46,008	27.3%
495,636	Motorcycles	135,916	106,291	118,994	115,619	476,820	-3.8%
732,049	**Total 2006-07**	**208,870**	**169,375**	**180,898**	**179,773**	**738,916**	**0.9%**
	Total 2005-06	175,488	188,359	185,999	182,203	732,049	
	%age increase	19.0%	-10.1%	-2.7%	-1.3%	0.9%	
	Honda Car 2006-07	6,696	4,454	2,650	4,440	18,240	
	Honda Car 2005-06	8,292	8,080	7,112	7,992	31,476	
	%age increase	-19.2%	-44.9%	-62.7%	-44.4%	-42.1%	

Source: PAMA

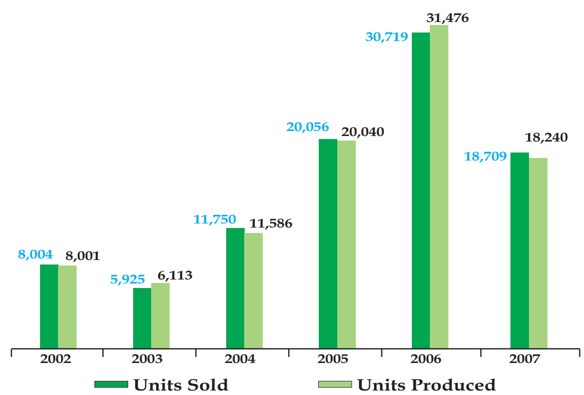
Your company has always set standards of quality & innovation with continuous improvement and up-gradation of its model line up. Since the roll out of its first Honda Civic in May 1994, your company has introduced so far four new models of Honda Civic and three new models of Honda City. The company has a policy to provide global models to its local customers at regular intervals that encompasses the strengths of Honda R&D. Since the start of operations, your company has changed the landscape of Pakistan automobile industry with introduction of several firsts in the local auto industry, like PGMF-I (Programmed Fuel Injection), Vtech (Variable Valve Timing & Lift Electronic Control), Oriel (Sunroof), Automatic & Prosmatec Transmissions, Metallic Colours, 4-Wheel Disk Brakes, ABS (Anti Lock Braking System), 16 Valve Engine in 1300cc cars, G-CON (G-Force Control Technology) for maximum passenger cabin security and Euro III & IV Compliant Standards to name a few. As a policy, Honda does not develop low specs and region specific models. The introduction of state of the art technology has always remained hallmark of the Company.

In the last calendar year, we have introduced two new models and have also completed a major expansion with financial exposure of over Rs. 3.5 billion. Now our plant is capable enough to produce 50,000 units per annum, on double shift basis against 5,000 units only a few years ago. The increase in fixed capital expenditure and bank borrowings, to support the long term and short term requirements, has increased depreciation and interest expenses respectively for the year under review, which has affected the financial results adversely.



Fixed Assets vs Capital Expenditure

The company rationalised its production according to decline in sales volumes and a total of 18,240 units were produced during the year under review against 31,476 units in the last year. The sales were also down to 18,709 units against 30,719 units of last year, catching up, of course, in the following years with better model line up.



Units Produced and Sold

New Model

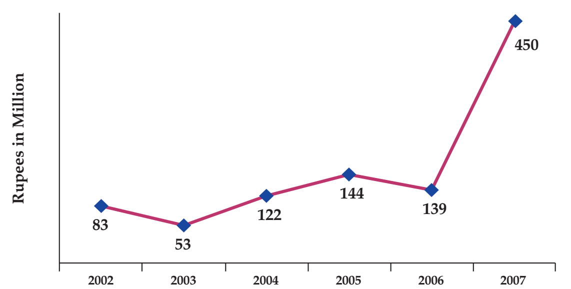
Your company, keeping abreast with the tradition of introducing latest technology to its customers, launched a new model of Honda Civic 're-born' in

1800cc category on July 29, 2006. The new model has completely replaced the previous Honda Civic models of 1500cc and 1600cc engine capacity. The new Civic carries Honda's next-generation 1.8-liter SOHC i-VTEC engine - the first entirely new Civic power plant in 17 years. Through Honda's advanced i-VTEC (Intelligent Variable Valve Timing and Lift Electronic Control) system and DBW (Drive By Wire) technology, it performs like two types of engines in one compact unit. At high engine loads, such as when starting from a standstill or stepping on the accelerator, DBW fully opens the throttle while VTEC optimizes intake valve timing to generate 2.0-liter-equivalent power. At low engine loads, such as during high-speed cruising, DBW narrows the throttle opening while VTEC delays valve closing to achieve 1.5-liter-equivalent fuel efficiency. Settings are intelligently switched in a seamless manner to ensure smooth, linear response at all revolutions. The sensitivity towards safety and environment is fully reflected in the new model with the use of high-tension steel panels, Supplemental Restraint System (SRS) and being Euro IV compliant car. The new model was offered in two different categories, both in manual and prosmatec transmissions, with price range of Rs. 1.329 million to Rs. 1.499 million, which narrowed the customer base for the new model.

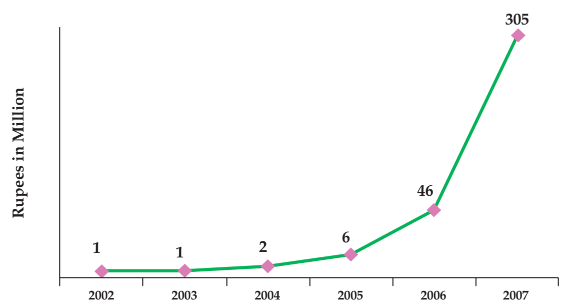
On July 07, 2006, Mr. Takeo Fukui, President & CEO of Honda Motor Company Limited, Japan visited your company to roll out the new Honda Civic model off the production line. Earlier, in 1994, Mr. N. Kawamoto, the then President, participated in the first car roll-out ceremony.

Company Performance

During the year under review, the company faced the challenges of increase in depreciation due to capacity expansion project, and increase in financial cost due to long term borrowing to support capacity expansion – in all Rs. 755.7 million against Rs. 185.7 million in the same period last year. The sales volumes could not fully absorb these fixed expenses which led to decrease in gross profit substantially and the company ended up with the net loss for the year.



Depreciation

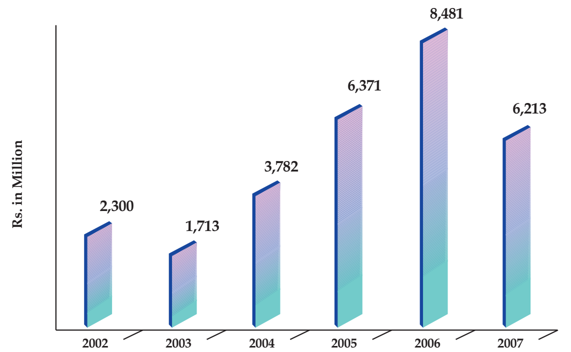


Financial Charges

The sales declined to Rs. 17,055.0 million against Rs. 25,638.7 million in the corresponding period last year. The cost of goods sold were Rs. 16,955.2 million against Rs. 24,271.2 million. The gross profit thus reduced to Rs. 99.9 million against Rs. 1,167.5 million of last year and GP margin reduced to 0.6% against 4.6% of last year due to reason mentioned above. The selling and distribution expenses were also increased to Rs. 362.2 million from last year's aggregate of Rs. 270.6 million, mainly due to increase in salaries, advertising & promotional expenses. The other income decreased to Rs. 150.6 million against Rs. 377.9 million last year. Other operating expenses were reduced to Rs. 64.5 million against Rs. 94.7 million last year, thus the company suffered operating loss of Rs. 176.2 million compared to profit of Rs. 1,180.1 million in the last year. Finance cost during the year increased to Rs. 305.5 million against Rs. 46.4 million in last year mainly due to mark up on long term and short term borrowings. The loss before tax was Rs. 481.6 million against profit of Rs. 1,133.7 million last year. After adjustment of tax provision, the net loss for the year reduced to Rs. 264.5 million.

During the year, the company has realized its investments in Pakistan Investment Bonds and mutual funds to support the capital expenditure of the company reducing the long term borrowings.

The company has contributed Rs. 6.2 billion to the government revenues in the form of sales tax, custom duty and other miscellaneous levies during the year. The company, so far has deposited an aggregate amount of Rs. 35.7 billion since the start of its production in 1994.



Contribution to National Exchequer

The company started the capacity expansion activities in September 2005 and the expansion work was completed by the end of December 2006. Now the plant is capable enough to produce 50,000 units per annum on double shift basis.

Your company, being the ISO 9000 (Quality Management Systems) and EMS 14000 (Environment Management Systems) compliant organization, periodically goes through the surveillance audits conducted by independent auditors. In September last year, these audits were conducted and the company was accredited recertification in both systems.

New Honda Circle (NHC) is a unique Honda activity focused to encourage associates to take initiatives which can improve product quality or reduce cost or improve working conditions at their work place. The associates are motivated to take part in these activities in Honda companies in the region. The circle winners of each company then participate in the regional NHC convention, held every year in the different countries.

During the year under review, the Asia-Oceania Regional convention of NHC was held in Pakistan successfully from November 12~16, 2006, which was jointly organized by Honda Atlas Cars (Pakistan) Limited and Atlas Honda Limited, an associated company. The convention was attended by more than 250 guests from 9 different countries of the region.

Human Resources

During the year, Mr. Mamoru Suwama who joined this company in April 2001 returned to Japan on April 01, 2007 after serving the company for six years. Mr. Atsushi Yamazaki has joined as new President and CEO of the company. The Board wish to place on record his valuable contributions for growth of the company and welcome the new President/CEO on the Board.

Mr. Yuji Shoyama who served as General Manager Quality Control Department also returned to Japan after serving the company for three years. Mr. Tsutomu Oe replaced him as new General Manager Q.C. Mr. Shigeo Yoshida joined the company on July 17, 2006 as General Manager of newly established Press Shop and to further strengthen Welding operations, Mr. Hidemitsu Takemura joined on January 25, 2007 as General Manager. The Board welcome all the new members and wish all the success for the outgoing General Managers for their future assignments.

Training plays an important role to develop the skills and motivation to take up new challenges. The company has always focused on Honda specific training programs for associates. A total 524 associates were given trainings during the year under review. In this year, the company has planed to extend these trainings to the higher levels. Apart from these in-house trainings, associates attended different trainings from Japan, Thailand and other Honda Plants to improve their technical skills.

Future Outlook

The economy is expected to perform well in the second half of the year. However it is exposed to the unprecedented challenges of current account deficit and lower than expected exports, due to rising competition in the international market and lack of technological advancement as compared to competing nations. Revenue collections are expected to be lower due to slow down in auto sales and reduction in petroleum prices. The political scenario will also be important since it has vast implications on macroeconomics policies.

The industry is experiencing under utilization of capacity after enhancement of production facilities and decline in the demand of locally produced cars, owing to continued import of new and old cars. The government has recently announced new five years auto policy which does not fully address the concerns of the industry. Since the industry has already increased its production capacity, to meet the domestic demand through locally built vehicles, the demand-supply gap has been reduced considerably. Now the focus should be shifted to achieve the long term goals of the industry, and import of used cars should be banned completely to increase self reliance and localization. The long standing demand of level playing field should also be maintained for local manufacturers and importers, as buyers of locally built vehicles have to produce CNIC whereas importers are exempted from this condition.

The company envisage difficult time ahead but the management is taking appropriate counter measures to come out of the situation. The company now has the capacity and ability to fulfil next surge in demand in the future. The company will continue to focus on cost effectiveness, quality standards and best after sales services to our valued customers.

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(One gets what one deserve)

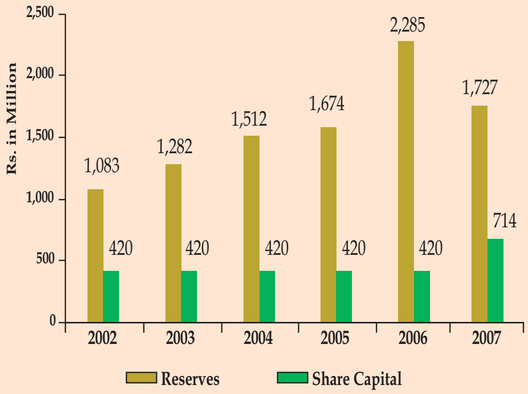
Acknowledgement

I would like to thank the customers, dealers, vendors, financial institutions and shareholders for their continued trust in the company. I thank Honda Motor Company & Atlas Group for their continued assistance specially in the capacity expansion of the company. I also appreciate Mr. Mamoru Suwama former President and CEO of the company for his contributions during his stay and the staff members for their commitment and hard work.

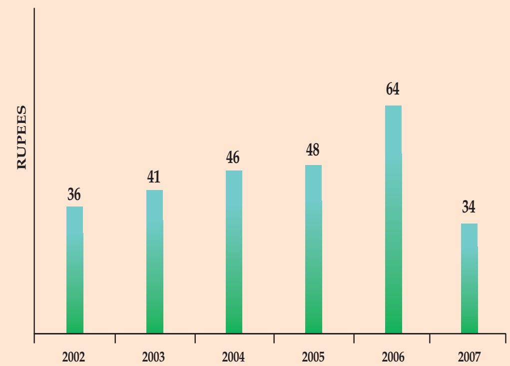
Lahore
April 30, 2007

Yusuf H. Shirazi
Chairman

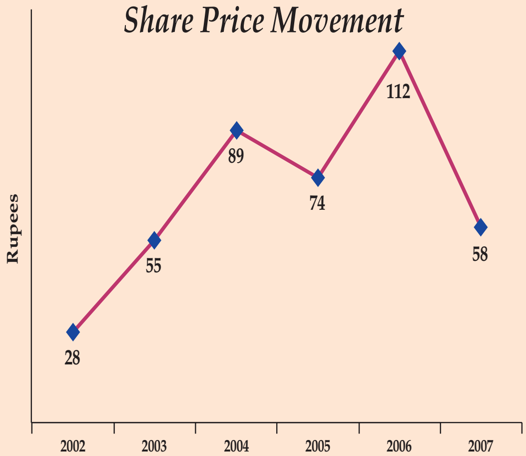
Reserves and Share Capital



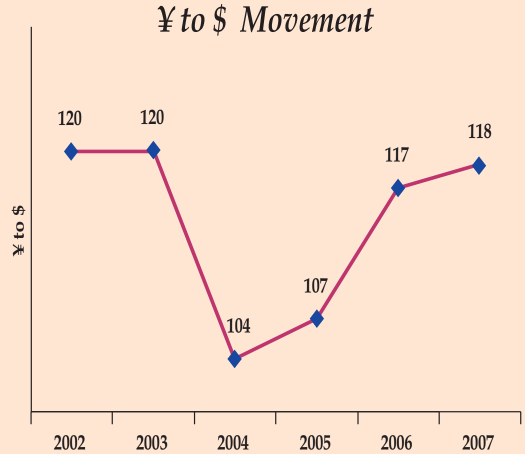
Break up Value



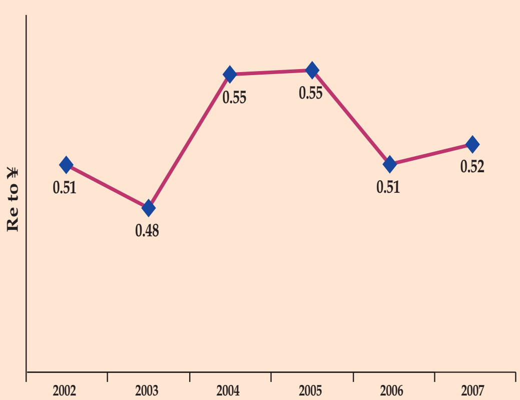
Share Price Movement



¥ to $ Movement



Re to ¥ Movement



Rs to $ Movement