

Chairman's Review

It gives me a great pleasure in presenting you the report for the nine months period ended December 31, 2005.

The Economy

The economic growth decelerated in the first half of the year, due to slowdown in agriculture sector, cotton output at 11.2 million bales against 13.0 million bales and sugarcane production projected at 2.8 million tons against 3.0 million tons, down 13.8% and 6.7% respectively, in the same period last year. The industry sector also slowed down as indicated by lower growth of 8.7% in production of large scale manufacturing as compared to 24.9% in the corresponding period, last year. The revenue collection however, during the first half of the year was Rs. 322.0 billion against Rs. 262.5 billion in the same period of last year, up by 22.7%, but mainly from imports. The exports for the first five months however, were US\$ 6.6 billion against US\$ 5.4 billion, up by 22.2%, but the imports increased at higher pace to US\$ 11.2 billion against US\$ 7.2 billion, showing an unprecedented growth of 55.6%, due to import of petroleum products, machinery, raw materials and surged-up CBU and reconditioned automobiles. The remittances from overseas Pakistani's were up, US\$ 2.0 billion and grew by 5.3% over the same period last year. The foreign exchange reserves were US\$ 11.6 billion. The inflation declined marginally to 9.0% from 9.3% recorded in June 05. The exchange rate parity of Rupee : US\$ at Rs. 59.95 and Rupee : Yen at Re. 0.5110 remained stable during the period under review.

The Automobile Industry

The automobile industry continued to grow during the period under review, however at a lower pace. The total production for the period of April 01, 2005 to December 31, 2005 was 112,537 units against 86,502 units in the same period of last year, up 30.1% against 35.2% during the last year. The sale also grew to 110,234 units against 85,683 units in the same period of last year. Since the announcement of budget last year, the quarterly production was lowered by 8.5% and up with only 1.7% in quarters ending September and December respectively. The growth in the 1300cc & above category however was higher to 40.2% among others at 33.2% in 801cc ~ 1000cc and 15.5% in 800cc & lower category.

Your company continued to produce more and more, a total of 23,484 units were produced against 13,497 units during the period under review, up 74.0% as compared with the last corresponding period. The company had achieved 69.2% and 21.5% growth in the same periods of 2004 and 2003 respectively. The sales were 22,041 units in the period under review against 13,524 units in the same period of last year. The company maintained momentum with market share at 48.4% in 1200cc & above category.

Honda is used to introducing latest technology all over the world. Your company has also the privilege of introducing many 'First' in the automobile industry in Pakistan. Since start of production in 1994, HACPL have introduced six different models of Honda Civic and Honda City. On January 14, 2006, the company launched new model of Honda City in 1300cc and 1500cc categories. The new addition of 1500cc Honda City Steermatic - CVT + 7 speed mode - is the first Euro 3 compliant car in Pakistan. The Euro 3 emission standards are applicable in Europe and are considered to be amongst the strictest standards worldwide. The market response has been encouraging.

The Company

The sales during the nine months of the year were Rs. 18,585.0 million against Rs. 11,182.8 million in the same corresponding period last year- up 66.2%. The gross profit increased to Rs. 610.7 million against Rs. 498.9 million in the same period last year, up by 22.4%. The administrative and selling expenses were increased to Rs. 205.1 million against Rs. 138.2 million of the last year due to adjustment in salaries, increase in advertising & warranty costs and donation for earthquake relief activities. The operating profit was Rs. 405.6 million against Rs. 360.7 million. The other income increased to Rs. 270.6 million against Rs. 98.2 million due to better cash management and rise in scrape sale. The financial and other charges were also increased to Rs. 63.6 million against Rs. 33.7 million in the same corresponding period of last year.

The profit before tax was Rs. 612.5 million against Rs. 425.2 million in the same period last year. The after tax profit was Rs. 376.1 million against Rs. 273.0 million. The after tax return on average equity increased to 16.8% in the period under review against 13.2% in the same period last year. The earning per share was Rs. 8.96 against Rs. 6.50 of last year.

In the last quarter the company had started civil work for manufacturing capacity expansion. The work is in full swing now and the company is confident to complete expansion work by the end of this year.

Future Outlook

Based on the financial indicators for the first two quarters, the performance of the economy is expected to slowdown and inflation to remain close to 8%. The trade deficit has increased by US\$ 4.6 billion during first five months of the year due to more than expected growth in import bill. After the earthquake, the rehabilitation and reconstruction cost may led to increase in fiscal deficit for the current year.

Since the liberalization of import in CBU and used cars through gift scheme, transfer of residence etc., a total of 9,757 units were imported against 2,058 units in the same period of last year. At this critical junction, when the industry is investing huge amounts in the capacity expansion and the productions are increasing gradually, such policies will adversely effect the long term growth of the automobile sector. We need to redress this issue. However, we hope to maintain growth due to better models - Euro engine now and aggressive marketing:

؎ محبت مجھے اُن جوانوں سے ہے
ستاروں پہ جو ڈالتے ہیں کمنڈ
(Let us keep our flag flying)

I would like to thank the Honda Motor Company and Atlas Group for their help in steering clear through difficult times, customers, vendors, financial institutions, dealers and the shareholders who have reposed trust and confidence in the company. I also thank the President Mr. Mamoru Suwama and his team for their commitment and hard work.



Yusuf H. Shirazi
Chairman

Lahore
January 27, 2006