

CHAIRMAN'S REVIEW

For the period ended June 30, 2004

It gives me great pleasure to present you the un-audited report for the first quarter ended June 30, 2004.

The Economy

The economy achieved the GDP growth rate of 6.4% against a target of 5.3% for the fiscal year ended June 30, 2004. All three major sectors contributed to achieve this target with 2.6% increase in agriculture, 17.1% in manufacturing sector and 5.2% in services sector. The export for the year ended June 30, 2004 exceeded the target at US\$ 12.3 billion, up 10.8% over last year. Import increased to US\$ 15.5 billion against US\$ 12.3 billion last year, up 26.0%. The CBR achieved the revenue target with collection of Rs. 510.6 billion, up 10.9%. The remittances from overseas Pakistani were at US\$ 3.9 billion. The foreign exchange reserves were at US\$ 12.2 billion.

The Industry

The automobile industry continued its growth during the period under review. The production for the year ended June 2004 was 98,461 units against 62,073 units last year, up 58.6%. The sales improved to 96,674 units against 61,955 units last year, up 56.0%. The attractive car financing schemes and remittances from overseas Pakistanis continued to be the main reason for the buying spree. Cars upto 800 cc, 1300 cc and more than 1300 cc grew 60.2%, 57.5% and 57.9% respectively. During the quarter under review of April 04 to June 04, the production was 29,833 units and sales 28,673 units, up 47.3% and 40.7% respectively, over the same period last year. An average growth of 10.4% was witnessed during the preceding four quarters of the year.

Your company produced 4,202 units in the period under review against 2,283 units in the same corresponding period last year. The sales also improved to 4,236 units against 2,383 units in the same period, last year. The company has reduced the back log and delivery period considerably on different models with increase in corresponding production.

Company's Performance

The sales stood at Rs. 3,523.6 million during the quarter under review against Rs. 2,010.5 million in the same corresponding period last year, up 75.3%. The cost of goods sold increased to Rs. 3,325.0 million against Rs. 1,754.2 million. The gross profit for the quarter was Rs. 198.6 million against Rs. 256.3 million. The GP margin decreased from 12.7% in the same period last year to 5.6% in the period under review due to adverse Rupee -Yen parity. The admin and selling expenses increased to Rs. 51.0 million against Rs. 33.2 million mainly due to advertising and inaugurating expenses of Civic 04. However, these expenses reduced from 1.7% last year to 1.4% in terms of sales during this period. The operating profit thus was Rs. 147.6 million against Rs. 223.1 million. The other income improved to Rs. 24.2 million and other expenses reduced

to Rs. 12.6 million. Accordingly, the profit before tax during the quarter under review was Rs. 159.3 million against Rs. 219.5 million. After provision for taxation, the net profit stood at Rs. 103.3 million against Rs. 142.7 million in the same corresponding quarter last year.

The earnings per share was Rs. 2.5 against Rs. 3.4 per share. The return on equity after tax was 5.2% against 8.0% in the same period last year.

I envisage better results with increased sales during the next quarters.

Future Outlook

The budget 2004-05 spelled out investment growth strategy. In the engineering industry, there are several incentives and relief measures attracting direct investment particularly strengthening indigenization. The custom duty has been reduced to 5% on import of plant and machinery along with exemption from Sales Tax and Withholding Tax.

There are, however, some threats as well, particularly in that the rate of custom duty on CBU cars has been reduced from previous 150% to 75% as upper & lower limit to 100% upper and 50% lower on different cars. The provision of NTN number for every buyer of locally manufactured car has been made mandatory, whereas the buyer of imported cars, it seems, is exempted from this condition. The Government has assured to improve upon the growth of the industry and save from unfair competition. I am optimistic about the growth of the industry, on the whole, year after year:

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یہی ہے رخت سفر میر کارواں کے لئے

(Let us keep our flag flying high)

Thanks

I would like to thank the customers, dealers, vendors, financial institutions and shareholders for their continued trust in the company. I thank the Government and Honda Motor Company for their assistance in the growth of the company. I thank Mr. Mamoru Suwama, President of the company for leading the company well and the staff members for their commitment and hard work.

Lahore
July 27, 2004


Yusuf H. Shirazi
Chairman