

## Chairman's Review

It gives me pleasure to present you the un-audited financial statements for the quarter ended June 30, 2009.

### **The Economy**

The global economic pressure did have impact on Pak economy however, the fact that the Pakistan economy, a predominantly agriculture based, showed reasonably good performance on account of record wheat and rice harvests together with the reasonable production of minor crops. The initial shocks of global crises were absorbed, which speaks of the resilience of economy.

During last year, the negative growth in the Large Scale Manufacturing sector 7.6% remained a major drag of improving real GDP growth. The decline in LSM growth was a reflection of weaker domestic and international demand. The service sector is also expected to record below target growth in the year under review. The slow down in the economy was largely due to internal problems like deteriorating law & order situation, on-going military operation in northern areas, power crises, inflationary pressures and overall recession in the world economy. For the fiscal year, 2008-09, the exports are expected to decline by 3.0% and imports by 12.8% over the same period of last year. The remittances from overseas Pakistanis were record high at US\$ 7.6 billion whereas tax revenue was increased by 14% over the same fiscal, last year. All these factors led to GDP growth around 2.5% against the target of 5.5%. However, challenges are still there, while one needs to approach the future with hope and courage and important to plan well for the shock that may still be in the offing!

### **The Industry**

The contradiction of overall demand in the country had substantial impact on the auto industry, which experienced steep slump in production and sales. The demand eroded

on account of low consumer demand. The inconsistent government policies and imposition of different taxes & levies further aggravated the situation. Other causes for slow down of auto industry were rising material prices, declining Pak Rupee value against major international currencies, rising inflation and low consumption of personal financing owing to high mark-up rates. All these factors led to increase the car prices and decreased demand.

In the budget 2009-10, the government withdrew the 5% Federal Excise duty on locally manufactured cars, imposed last year. The rapidly depreciating Pak Rupee, among others, overall increased cost. The industry responded to the government gesture and reduced the car prices, thus passing the due benefit to the customers. Your company, however, responded generously and decreased the prices of Honda City MT & AT by 8.4% and 7.7% respectively. The Civic prices were reduced in the range of 4.74% on all models. However, at the same time, the government increased the with-holding tax on imports from 2% to 3%. The company expect that decrease in prices will have positive effect on the industry and will help to ease pressure on sales.

During the period of last twelve months, the auto industry production declined by 48.8% as 84,271 units were produced against 164,710 units in the same period of last year. The sales also declined to 82,693 units against 164,650 units in the same period last year, down 49.8%. The 1300cc and above category was least effected by this decline as sale was down 23.7% in this category, against 67.3% in the category of 801cc to 1000 cc and 57.0% in the cars up to 800cc.

During this quarter, your company produced 2,440 units against 3,480 units in the same corresponding quarter last year. The sales were also down to 2,506 units against 3,705 units in the same quarter of last year. The decline in production and sales of the company was due to decline in the overall industry.

### **Company Performance**

During the period under review, the company suffered loss after tax of Rs 155.9 million against profit after tax of Rs 35.6 million in the same period last year. The reason for the loss in the quarter was drop in unit sales and exchange rate impact. The Rupee depreciated against Japanese Yen by 32.4% over June 2008 and 19.5% against US Dollar in the same corresponding period. In absolute terms, the exchange loss alone had an impact of Rs 185 million during the period under review. Further, the company made capital investment of Rs 2.1 billion for launch of new model of Honda City which increased the fixed cost per car and put pressure on sale price of the new car. However, the recent downward revision of car prices would have positive impact on unit sales in the coming quarters of the year.

The net sale for the period under review was Rs 3,223.8 million against Rs 3,706.7 million in the same period last year. Due to factors mentioned above, the company suffered gross loss for the period of Rs 29.6 million against gross profit of Rs 140.4 million in the same period, last year. The general administrative and selling expenses were Rs 64.1 million against Rs 70.9 million in the same quarter, last year. Other income was Rs 9.5 million against Rs 27.4 million of last year. There was large impact of financial charges of Rs 159.2 million against Rs 19.2 million in the same period, last year, mainly due to mark up paid on short term and long term loans availed for working capital and capital investment for new model, respectively. Thus, the company had loss before tax of Rs 249.5 million for the period against profit before tax of Rs 55.1 million in the same period of last year.

### **Future Outlook**

This year's budget is focused to revive the industry with multiple investor friendly measures. With consistent agriculture sector growth, and due support from service & large scale manufacturing, the business environment is likely to improve in near future.

However, the key challenges would remain, law & order situation, energy crises and inflation, though declining, effecting the customer and the industry on the whole. However, the support from IMF and other donor countries for rehabilitation of Internally Displaced Persons - IDP - will help ease the pressure on the budget. Further, economic consolidation expected will stabilize inflation & interest rates, exchange rates and solve energy crises. All this will reflect an increased pace of recovery of the economy. The auto industry too would consolidate in the coming quarters and will show better results:

ستاروں سے آگے جہاں اور بھی ہیں

(There is a world beyond the world)

### **Acknowledgment**

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

Lahore,  
July 29, 2009



Yusuf H. Shirazi  
Chairman