HONDA
The Power of Dreams

Chairman's Review

It gives me great pleasure to present you the half yearly financial statements for the period ended September 30, 2007.

The Economy

The growth rate of 7 percent for the FY'06-07 was one of the fastest in Asian economies. It was surpassed only by China and India. The five year average growth rate is also around 7 percent. The high rate of growth, year after year, perhaps, is likely to heat up the economy with high inflation as one of the side effects. In September the economy witnessed food based inflation of over 13 percent, the highest in last 7 years. This points out towards possibility of tightening of monetary policy in the future perhaps, not amenable to the economy as a whole, particularly the slowing down textiles. On the other hand, economy will benefit from a strong performance by the agriculture and service sector during '07-08.

During the quarter ended September'07, the exports were US$ 4.456 billion against US$ 4.253 billion in the corresponding quarter, last year, up 4.77%. The imports increased to US$ 8.058 billion, i.e. an increase of 8.51% over the import of US$ 7.426 billion achieved during the same period last year. As a result the trade gap has widened by 13.53% over the same quarter, last year. However, the strong inflow of Foreign Direct Investment and remittances from overseas Pakistani is expected to counter the foreign trade imbalance in whatsoever circumstances.

The Industry

The automobile industry progressed marginally. The production was 90,224 units in the six months period of April to September'07, up 1.4%. The sale was 91,613 units in the same period as compared to 84,404 units of the corresponding last period, up 8.5%. This increase was attributed to lower segment of cars, upto 1000cc, which showed a growth of 15% as compared to same period, last year. The 1300cc and above segment, in which your company operates, showed a decline of 2% compared with same period, last year. We hope it will stabilize, sooner than later!

Company's Performance

The sale revenue during the first half of the year was Rs.8,237.9 million against Rs 8,696.6 million in the corresponding period, last year. The cost of goods sold was Rs 7,941.2 million against Rs 8,394.0 million during the same period, last year. The gross profit margin, however, improved to 3.60% as compared to 3.48%, last year. The main reason for higher cost of goods sold was increase in depreciation allowance which was Rs 336.3 million for the period as against Rs 100.9 million for the corresponding period, last year, due expansion of capacity to 50,000 units from the previous 30,000 units. The fixed assets, which were under construction last year, were fully capitalized during the period under review. The distribution and marketing expenses, administrative expenses, other operating income and financial & other operating expenses were in line with the corresponding quarter, last year. After providing for the tax on income due, the company posted a net profit of Rs 53.2 million against Rs 46.9 million during the last period, an improvement indeed. The EPS was Rs 0.74 against Rs 0.66 in the same period last year.

In 2005, the company started the expansion of capacity with a commitment of investment of Rs 3.0 billion. The company decided to finance this project through long term loans from financial institutions. In order to rationalize debt servicing costs in the changed higher interest market and thus to improve financial position of the company, the Board of Directors decided issuance of 100% right shares. The sponsors have subscribed their portion of right shares and the proceeds have already been used for repayment of long term loans. The total borrowing has been reduced from Rs 1,958.3 million in September 2006 to of Rs 1,330.4 million September 2007. A large portion of the remaining debt will be paid-off within next twelve months through internal resources.

Future Outlook

The economy continues to be in the growth momentum with GDP projected to grow at 7 percent during 07-08. The auto industry has stood the test of time and is expected to grow with consistent policy - 2.5% withholding tax effective from September'07 and rising interest rates coupled with strict car leasing policy not with standing. Your company will continue to focus on cost reduction and improve sales through innovative product, quality and after sales backup, thus optimizing performance, usual with the company:

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(We look forward to beyond horizon)

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Acknowledgement

I would like to thank the Board of Directors for their guidance and support and Honda Motor Company Limited, Japan for their continued support and cooperation in maintaining high standards of excellence. I thank the financial institutions, dealers, vendors and customers for their confidence and the shareholders for the trust they have reposed in your company. I must also thank the management team – to build an even greater company in order to serve our valued customers better.

Yusuf H. Shirazi
Chairman

Lahore, November 20, 2007