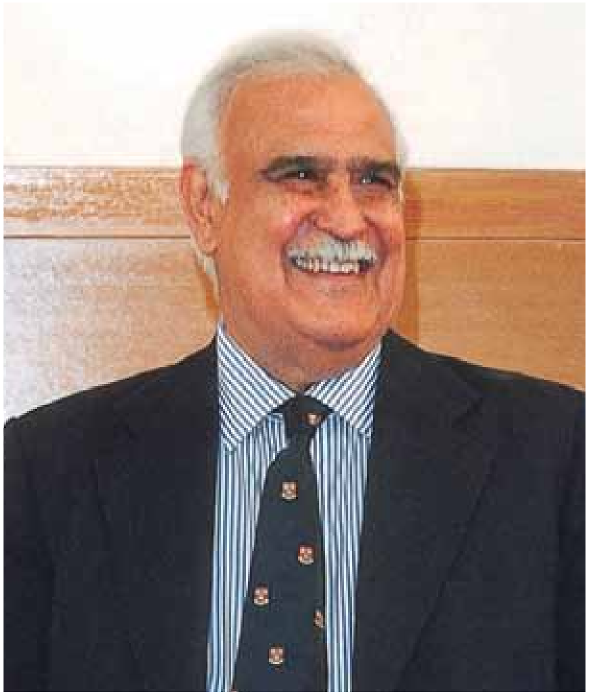
Chairman's Review



It is my pleasure to present you the Annual Report of the company for the year ended March 31, 2010.

Economy

The World economy has started showing improvement. Pakistan economy is also on the revival path. There was above target recovery in manufacturing sector, mixed growth in the agriculture and service sector and increase in domestic consumer demand.

The Gross Domestic Product growth will remain in the range of 3.0% to 3.5%. Pakistan's economy has always shown resilience during unfavorable business environment. During the last 62 years the average GDP has been over 5% with a positive GDP growth among the few countries of the world during the current year. The exports for the first three quarters of the fiscal year have shown better results at US$ 14.4 billion, up 6%, over the same period, last year. The imports declined over the corresponding period, last year, at US$ 22.4 billion, resulting in decline in trade deficit to 21.8% over the same period, last year. The revenue collection was Rs 910 billion in first six months, up 9.1% over the same six months period, last year. The inflation remained at 12%, however decelerated significantly as compared to last year over 15%. The remittances from overseas Pakistanis improved to 15.8% at US$ 6.5 billion, which helped to narrow down the current account deficit ratio to GDP. Although the agriculture sector remained mixed due to negative contribution by two major crops i.e. sugar-cane and rice; but on the whole, all the economic indicators are better than last year.

The confidence of foreign as well as local investors is improving. The country is moving towards the political maturity. Despite the severe gas and electricity shortages, the export and revenue collections exceeded the target for the period. It proves the strength of Pakistan economy, and if given the level playing business conditions, it can compete with any growing economy of the region. What is needed most is to bring the 57% underground economy to taxes and, in fact, access to our own economy to ourselves – due to imports - illegal and irregular - smuggling, under invoicing and misdeclarations.

On the other hand, 184 companies registered with Overseas Chamber of Commerce & Industry – OICCI contribute about 29% to the GNP and 22% to the revenue.

Automobile Industry

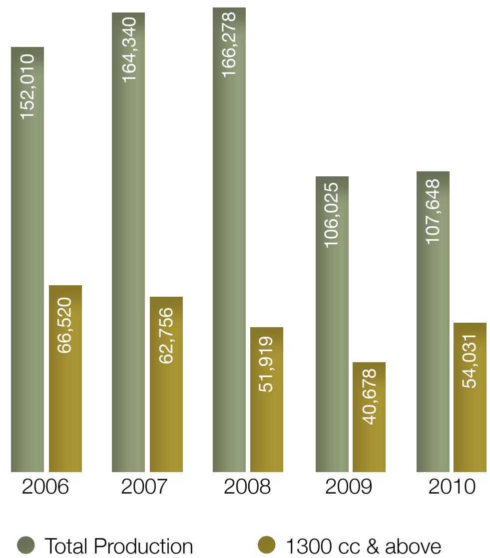
The automobile sector is on recovery path. Last year, the demand in the auto industry eroded on account of low consumer demand, high car financing cost, and increase in cost of production. However, due to better economic condition and rise in domestic consumer demand, the industry showed positive result. The quarter over quarter analysis shows the gradual increase in production; 20% in Apr-Jun 2009 quarter, 22% in Jul-Sep 2009 quarter, 10% in Oct-Dec 2009 and 16% in Jan-Mar 2010 quarter. In the last quarter ending March 2010, the total production was recorded at 32,639 units. On Year-on-Year basis, though there was marginal growth of

1.5% in April 2009 to March 2010, as 107,648 units were produced against 106,025 units in the year 2008-09. The trend of last four quarters depicts good growth in the coming quarters.

In other segments of auto industry, motorcycle sector increased by 41.9% over the same twelve months period of last year, due good performance of agriculture sector in 2009. The tractors sector also showed healthy improvement of 36.6% in the year under review.

The last twelve months production starting from April 01, 2009 to March 31, 2010 is given below:

Auto Industry Production (Units)



2008-09	Category	Q1	Q2	Q3	Q4	2009-10	Inc/Dec %
39,599	Up to 800cc	6,070	7,982	9,397	9,976	33,425	-15.6%
25,748	801cc to 1299cc	3,110	5,504	6,229	5,349	20,192	-21.6%
40,678	1300cc & above	11,855	12,236	12,626	17,314	54,031	32.8%
106,025	Total Passenger Cars	21,035	25,722	28,252	32,639	107,648	1.5%
52,098	Tractors	18,307	15,171	18,856	18,851	71,185	36.6%
25,848	LCV, Buses, Trucks etc	3,939	4,574	5,213	5,502	19,228	-25.6%
479,356	Motorcycles	145,473	164,679	185,607	184,511	680,270	41.9%
663,327	Total	188,754	210,146	237,928	241,503	878,331	32.4%

Source: PAMA

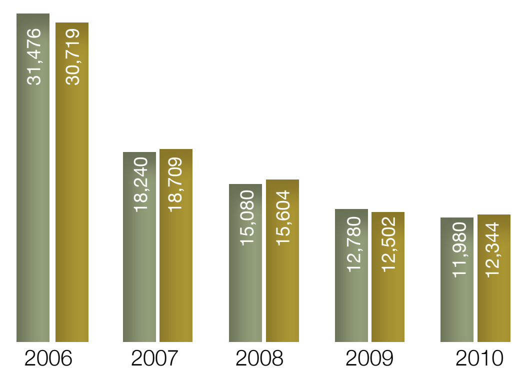
The production of cars up to 800cc was 33,425 units against 39,599 units in the same period of last year. The production of cars of 801cc to 1299cc was 20,192 units against 25,748 units in the same corresponding, last year. The production of 1300cc & above segment cars showed improvement from 40,687 units last year to 54,031 units in 2009-10, up by 32.8%.

The industry has experienced positive development at the start of the current fiscal year. In the budget of 2009-10, the government withdrew 5% Federal Excise Duty (FED) on locally assembled cars. The company responded generously to the government decision and passed on the benefits to the customer more than the actual impact.

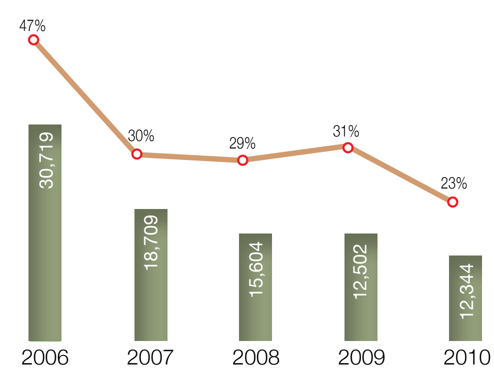
The company tries to absorb the external cost pressures through in-house cost down activities, however due to the exchange rate impact, coupled with other inflationary cost pressures, the company had to increase the car prices in October 2009 and March 2010. The increase was not enough to pass on the full cost to the customers.

he company produced 11,980 units during the fiscal year ending March 31, 2010 against 12,780 units in the same period, last year. The sales were 12,344 units against 12,502 units last year. The industry has started showing improvement and the company hopes to increase sales volumes in the coming quarters.

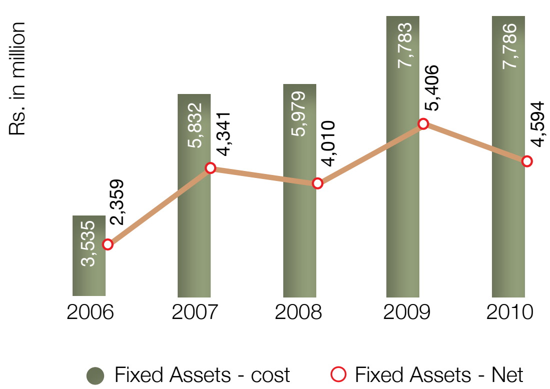
Production and Sale (Units)



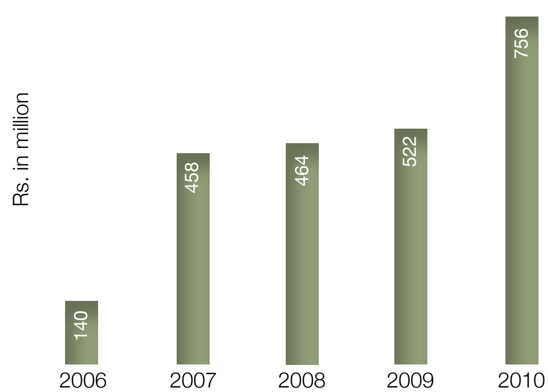
Market Share (Units)



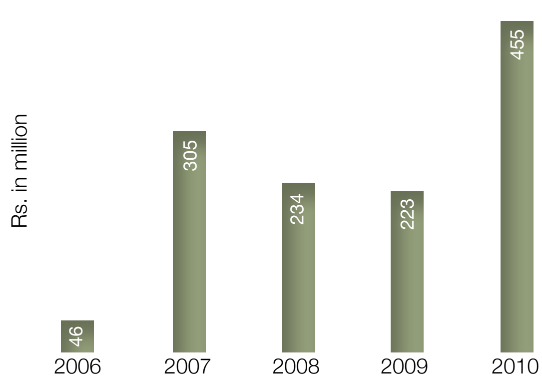
Fixed Assets



Depreciation



Finance Cost

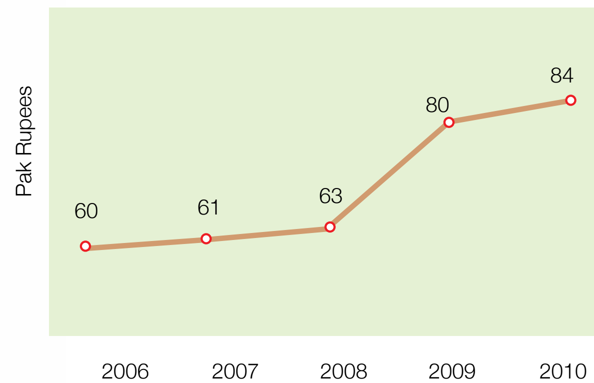


In the wave of changing models, better fuel economy and cost efficient production process, the increase in automobile demand is a challenge for the industry. The under utilization of installed capacity, which poses major financial burden on cost of production, is another challenge faced by the OEMs. The industry needs consistent and long term auto policy. The industry is going through the recovery stage. Any adventure to relax the import of used or CBU cars will seriously affect the recovery to continue for local production.

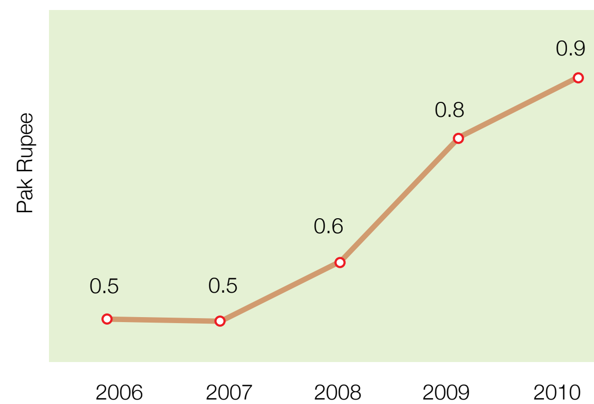
Financial Results

The company completed the capacity expansion project by the end of year 2006, when our plant attained the installed production capacity of 50,000 units on double shift basis having reached over 30,000 units of production and sales. However, soon after the expansion completed, the market started showing signs of saturation. The decline was more obvious in the segment of 1300cc and above cars where the industry production reduced by 6% in 2007, 17% in 2008 and 22% in 2009. The decline was primarily due to significant increase in sale prices and car financing rates. The car assemblers had to increase the sale prices because of cost up due to exchange rate pressure and under utilization of production capacity. During the year, your company had to absorb depreciation cost of Rs 756 million, financial charge of Rs 455 million and exchange loss of Rs 56 million on deferred foreign payables, had to suffer loss after tax of Rs 852 million.

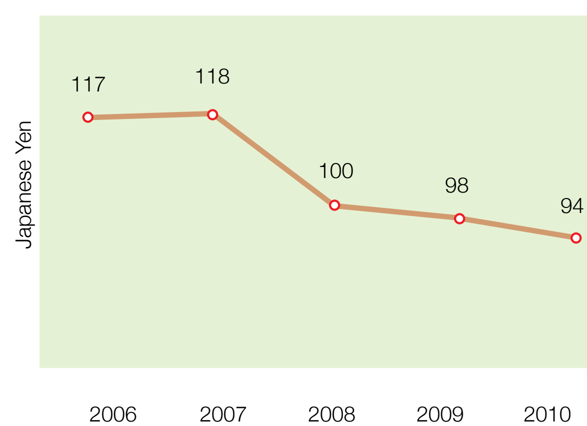
Rs to $ Movement



Re to ¥ Movement



¥ to $ Movement



For the year ending March 31, 2010, the total sales were Rs 15,854 million against Rs 14,150 million in the same period last year. The cost of sales was at Rs 16,094 million against Rs 13,973 million last year. Thus, the company suffered gross loss of Rs 240 million against gross profit of Rs 177 million in the same corresponding last year. The reasons for gross loss were adverse exchange rate parity and cost which could not be passed on to the customers due competition. The company focused on all areas of cost effectiveness and the selling and administrative expenses were reduced by 20.9%, from Rs 330 million last year to Rs 261 million this year. The finance cost was high at Rs 455 million against Rs 223 million last year. The increase in finance cost was due to mark-up on short term and long term loans availed by the company, despite some of the CKD material supplies on deferred payment basis by an associated company of Honda Motor, Japan and issue of 100% right capital two years back to meet the working capital requirement and capital investment of new model of Honda Cars. Thus the company suffered a loss before tax of Rs 988 million against loss of Rs 622 million in the same period last year.

During the year, the company paid Rs 6,316 million towards the government revenue in the form of custom duty, sales tax, income tax and other government levies. With this contribution, the company has crossed the figure of fifty billion rupees and now the total contribution towards government exchequer stands at Rs 53.4 billion from the year 1994 to 2010.

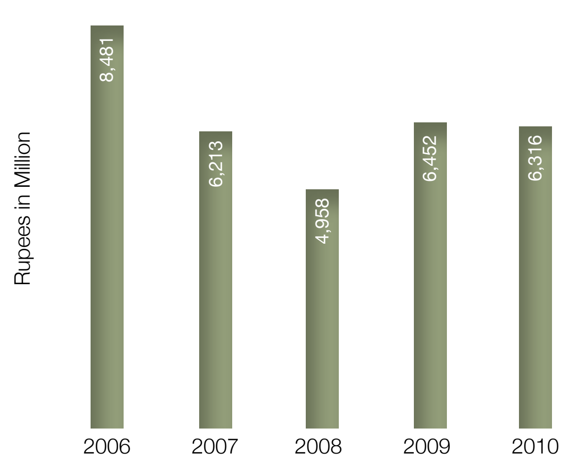
In August last year, the ISO 14001 re-certification and ISO 9001 Surveillance audits were conducted. The both systems were found in compliance with the international standards and were accredited accordingly.

Changes on the Board

On April 01, 2010, Mr. Fumihiko Ike and Mr. Masahiro Takedagawa were replaced with Mr. Takashi Nagai and Mr. Shigeru Yamazaki. The Board appreciates the contribution made by the outgoing directors during the challenging period of last couple of years.

The Board welcome Mr. Takashi Nagai and Mr. Shigeru Yamazaki and hope that they will contribute and lead the company out of this difficult phase.

Contribution to National Exchequer

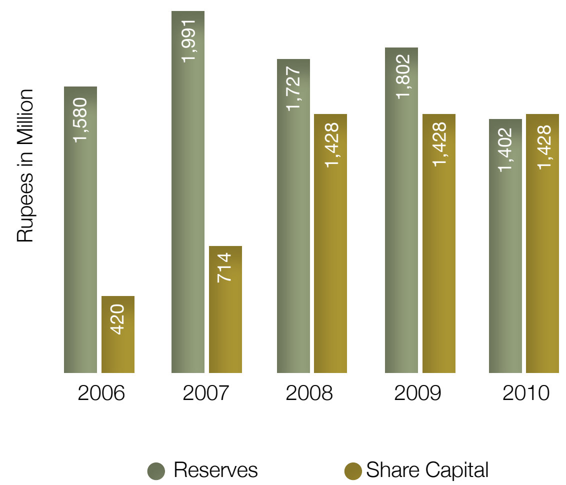


Future Outlook

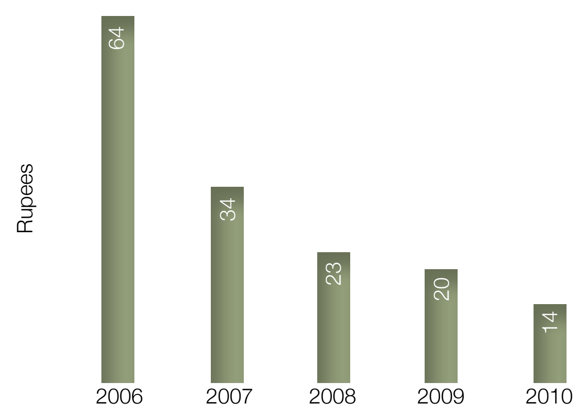
The world economy is reviving and also of Pakistan. The multinationals registered with OICCI have generally been highly profitable. The continuation of current auto policies is however pre-requisite for future growth. The long term growth of the industry lies in the long term supporting policies. The auto industry is mother of all industries; when it flourishes, it leads to the growth in many other ancillary industries as well.

On economic front, the trade deficit is reducing due to control on un-necessary import items, coupled with improvement in current account deficit to GDP due to increase in remittances from overseas Pakistanis. The large scale manufacturing has started showing positive signs due to production improvement in auto industry and strong demand by construction sector. The inflation is high, though much reduced.

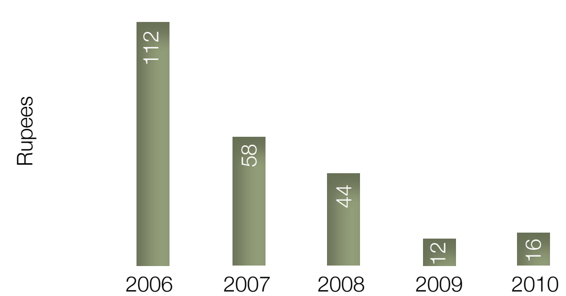
Reserve and Share Capital



Break up Value



Market Value



However, the company will try to absorb all possible cost pressures through in-house cost cut measures. We will continue to focus on our strengths i.e. quality, cost, innovation and best after sales service to improve sales and retain the customer confidence more and more.

محبت مجھے اُن جوانوں سے ہے
ستاروں پہ جو ڈالتے ہیں کمند

(We look forward to beyond horizons)

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 assistance. I also appreciate Mr. Atsushi Yamazaki, President & CEO of the company for his able leadership during the challenging business environment and the staff members for their commitment and continuous support.

Yusuf H. Shirazi
Chairman
Lahore: May 12, 2010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