Directors’ Report

The directors feel privilege to present you the Annual Audited Accounts of the company for the year ended March 31, 2010 together with the Auditors’ Report thereon.

Financial results for the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year ended March 31, 2010</th>
<th>Year ended March 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Rupees in thousands)</td>
<td></td>
<td></td>
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<tr>
<td>Loss before tax for the year</td>
<td>(987,980)</td>
<td>(622,285)</td>
</tr>
<tr>
<td>Taxation</td>
<td>135,780</td>
<td>220,452</td>
</tr>
<tr>
<td>Loss after tax</td>
<td>(852,200)</td>
<td>(401,833)</td>
</tr>
<tr>
<td>Un-appropriated (loss) / profit brought forward</td>
<td>(1,655)</td>
<td>178</td>
</tr>
<tr>
<td>Loss available for appropriation</td>
<td>(853,855)</td>
<td>(401,655)</td>
</tr>
<tr>
<td>Appropriations *:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer from general reserves</td>
<td>853,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Proposed dividend (2009: Nil)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Un-appropriated loss carried forward</td>
<td>853,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Loss per share – basic and diluted (Rupees)</td>
<td>(5.97)</td>
<td>(2.81)</td>
</tr>
</tbody>
</table>

* The Board of Directors has proposed these appropriations, which are not reflected in the financial statements in compliance with the Fourth Schedule of the Companies Ordinance, 1984.
During the year, the Company incurred a loss after tax of Rs. 852.2 million. This loss is mainly attributed to under utilization of capacity along with continuous unfavourable exchange rate pressures. In addition to cost reduction measures, the company increased the sale prices during the year in line with the market conditions to mitigate the unfavourable impacts; however these measures were not enough for complete recovery.

Further, current liabilities of the company exceeded current assets by Rs. 2,125.4 million at the balance sheet date. In this regard, the holding company, Honda Motor Company, Japan through its associated company has provided and intends to continue to provide liquidity support to the company in the form of credit payment on some of the CKD material supplies. Based on the holding company’s commitment, the director’s do not see any curtailment of the company’s operations in the foreseeable future.

We expect the car market to stabilize leading towards improved capacity utilization in the next year although earnings to remain under pressure due to exchange rate and high cost of production.

**Corporate & Financial Reporting Framework**

In compliance with the provisions of the listing regulations of Stock Exchanges, the Board members are pleased to place the following statements on record:

- The financial statements for the year ended March 31, 2010 present fairly its state of affairs, the results of its operations, cash flow and changes in equity;
- Proper books of accounts have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements for the year ended March 31, 2010 and accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards (IAS), as applicable in Pakistan, have been followed in preparation of financial statements;
- The systems of internal control is sound in design and has been effectively implemented and monitored;
- There are no significant doubts about the company’s ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in listing regulations;
- The book values of the Employees Provident Fund and Employees Gratuity Fund as on March 31, 2010 were Rs.110.2 million and Rs. 64.4 million respectively.
- The key operating and financial data for last ten years is given in this report.
The leave of absence was granted to the members not attending the Board meeting.

During the year, one casual vacancy occurred on the Board of Directors when Mr. Masahiro Takedagawa replaced Mr. Masaaki Suzuki on April 01, 2009.

However, on April 01, 2010 two more changes took place on the Board. Due to global transfers of Human Resources of Honda Motor Company at the start of its fiscal year, Mr. Fumihiko Ike & Mr. Masahiro Takedagawa were assigned new responsibilities, hence resigned from the Board. Mr. Shigeru Yamazaki & Mr. Takashi Nagai respectively joined as their successors. Due to this change, 525 qualification shares were transferred in the name of new directors.

The Shirazi Family, local sponsors of this project, has decided to institutionalize its 30% shareholding in the company. In this context, shares held in the name of individual members of Shirazi Family are to be transferred to the wholly owned subsidiary companies, namely M/s Shirazi Investments (Pvt.) Limited and M/s Shirazi Capital (Pvt.) Limited.

During the year, two members of Shirazi family on the Board, Mr. Yusuf H. Shirazi, Chairman and Mr. Aamir H. Shirazi, Director, transferred 765,000 shares and 7,938,000 shares respectively in the name of M/s Shirazi Capital (Pvt.) Limited. There was no other reported transaction by Directors, CEO, Company Secretary, Chief Financial Officer (CFO) and their spouses or minor children except mentioned there above.

The Board approved remuneration of Chairman and Company Secretary at Rs. 11.85 million and Rs. 8.4 million (2010: Rs 10.60 million and Rs 7.65 million) respectively, which includes allowances and other benefits as per terms of their employment, for the year ending March 31, 2011.

President/CEO will be paid an amount of Rs. 10.5 million (2010: Rs 8.0 million) and one full-time director will be paid an amount of Rs. 16.0 million (2010: Rs 16.0 million for one director), which includes allowances and other benefits as per terms of their employment, for the year ending March 31, 2011.
Audit Committee
The Audit Committee held eight meetings during the year under review, each before the Board of Directors meeting to review the financial statements, internal audit reports and compliance of the Corporate Governance requirements. These meetings included meeting with external auditors before and after completion of audit and other statutory meeting as required by the Code of Corporate Governance.

Honda Code of Corporate Governance
The company continued to comply with the requirements of the Honda Code of Corporate Governance, based on the fundamental corporate philosophy of Honda.

Chairman's Review
The accompanied Chairman's review deals with the performance of the company during the year and future outlook. The directors of the company endorse the contents of the review.

Holding Company
M/s Honda Motor Company Limited is the holding company with 51% shares and is incorporated in Japan.

Statement of Compliance with the Code of Corporate Governance
The company has fully complied with the requirements of the Code of Corporate Governance as contained in the Listing Regulation of the Stock Exchanges. A statement to this effect is annexed with this report.

Pattern of Shareholding
The pattern of shareholding as on March 31, 2010 and its disclosure, as required by the Code of Corporate Governance is annexed with this report.

Auditors
As recommended by the Audit Committee, the present auditors M/s A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment for the year ending March 31, 2011.

For and on behalf of
The Board of Directors

Atsushi Yamazaki
President / Chief Executive
Lahore: May 12, 2010