HONDA
The Power of Dreams

Chairman's Review

It is my privilege to present you the financial statements for the 1st quarter of the year ended June 30, 2007.

The Economy

The Economy is likely to post a growth for the fourth consecutive year. The GDP is expected to cross the target of 7.0% for the fiscal year 2006-07. The growth is supported by agriculture sector with largest ever wheat production, industrial output and continued growth of service sector. The exports were up only by 3.40% - at US$ 17.01 billion. The imports grew to US$ 30.54 billion against US$ 28.58 billion of last year, up 6.85% due to import of raw material, petroleum products and capital machinery. The current account deficit is expected to cross US$ 12 billion.

The exchange rate remained stable within a narrow band of Rs 60.40 to Rs 60.85 for US dollar. The net foreign investment crossed US$ 5.12 billion in the current fiscal year. The remittances from overseas Pakistanis were highest ever at US$ 5.5 billion, up by 19%. The inflow of foreign exchanges through FDI and remittances has helped to maintain the foreign exchange reserves high at US$ 15 billion.

The Industry

The industry showed mixed trend during the quarter under review. A total of 44,320 units were produced against 48,164 units in the same quarter, last year. However, the sales improved by 8.1% with 47,973 units produced during the quarter against 44,360 units produced during corresponding period last year. The annual production for the year July 06 to June 07 was static at 160,496 units against a production of 160,642 units in the previous year, indicating a marginal decline of 0.1%. The sales for the year ending June 2007 were 165,268 units against 155,514 units sold during the twelve months period of last year - an increase of 6.3%. However, the 1300cc & above segment, which is the segment which your company serves, suffered decline in production of 18.3%. The 800cc category production was up at 14.9% and 801cc to 1000cc category was up 13%. This indicates a shift in market from higher category to lower category cars. The higher category car market experienced a decline of 28% in the quarter ending Dec-06, 21.2% in Mar-07 quarter and 27.9% in Jun-07 quarter over the same periods last year. Your car is equipped with quality and has general acceptance and hope it will catch up with sale worthy of the period.

Your company produced 4,527 units during the quarter ended June 07 as compared to 6,696 units produced during the same period last year. The sales during the quarter were however 5,043 units, slightly lower than sales of 5,276 units achieved during the same quarter, last year.

Company Performance

The sale was Rs 4,535.6 million for the quarter ended June 2007 as compared to Rs 4,461.3 million in the same quarter, last year. The cost of sales was Rs. 4,378.9 million against Rs. 4,176.4 million. The gross profit was reduced by Rs 128.2 million, to Rs. 156.7 million against Rs 284.9 million, depicting declining gross profit margin of 3.5% during the quarter under review against 6.4% in the same quarter of last year. This decline in GP was mainly due to increase in depreciation expenses, from Rs 27.2 million for the quarter ended June 2006 to Rs 167.9 million in the quarter under review. The depreciation was charged as usual on the total fixed assets after completion of capacity expansion.

The operating profit was Rs 70.1 million against Rs 207.0 million for the period ended June 2006. Other income was Rs. 36.6 million. The financial & other charges were up by 12.5%, to Rs 75.8 million against in the quarter under review as compared to Rs. 67.6 million in the same quarter of last year. Thus profit before tax was Rs 30.9 million, better performance as we optimize the production and sales.

Future Outlook

There has been a slight decline in the production levels for the year ending June 2007 compared to those achieved during the year ending June 2006. However, the import of reconditioned cars was at a lower rate compared to last year. The levy of 2.5% with-holding tax on purchase of locally assembled cars and imposition of 1% special excise duty on imports as well as local manufacturing will add to the costs of production. The government, therefore, may focus on the long term policy options and impose complete ban on import of reconditioned cars so that the local automobile and vendor industry can maximize their capacity utilization.

Your company has earned profit in this quarter which is indicative of future prospects. It is focused on improving cost efficiencies and increase production volumes to optimum levels.

At present the company has Rs 2,016.1 million long and short term loans which attract interest. The management has decided, in overall interest of the company, to issue 100% right shares at par value. This will help meet the long and short term financial obligations of the company from its own resources and minimize financial cost at optimum level. The Company’s operations will be strong enough to service any liabilities left over after this fresh injection of equity. It will reinforce the company's focus on the future earning, indeed a bright future for the company.

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کریں گے اہل نظر تازہ بستیاں آباد

(Those with vision and foresight will continue to build sounder and stronger)

Acknowledgement

I would like to thank our valued customers for their continued trust and confidence in our product. I thank M/s Honda Motor Company and Atlas Group for their support and continue to look forward to their assistance to meet the future challenges. I am grateful to the Government, vendor industry, bankers, dealers and our shareholders. I am also thankful to Mr. Atsushi Yamazaki, President & CEO and his team members for their commitment, contribution and hard work.

Yusuf H. Shirazi
Chairman

Lahore
July 18, 2007