

Chairman's Review

It gives me pleasure to present to you the financial statements of the Company for the first quarter ended June 30, 2006.

THE ECONOMY

The economy grew 6.6% during the year against over 8% in the last year due to energy prices and a damaging earthquake. This growth was, however, achieved despite fall in growth of agriculture and large scale manufacturing sectors. On the other hand, the service sector performed rather well. The foreign direct investment reached US\$ 3.5 billion during the first eleven months of the year. The exports grew 14.4% to US\$ 16.5 billion whereas imports registered increase of 38.8% to US\$ 28.6 billion. The increase in import bill is mostly due to higher oil prices and import of used and new luxury cars, cement, sugar and some eatables.

The revenue collections, however, surpassed 19.0% at Rs. 700.1 billion against Rs. 588.1 billion, last year. The remittances from expatriates grew 8.6% at US\$ 4.1 billion for first 11 months of the year. Inflation fell to 8%.

THE INDUSTRY

The automobile industry continued to grow. A total of 48,164 units were produced and 44,360 units were sold during the quarter under review, up 21.8%, and 13.1%, respectively, over the same period, last year. The quarterly production growth of 1.7%, 7.2% and 22.0% in the last three quarters shows sustained growth of the industry. During the financial year 2005-06, a total of 160,642 units were produced against 126,461 units produced during the same period, last year, an increase of 27.0%.

The sales were 155,514 units against 127,361 units sold during the same period last year, up 22.1%. The highest growth of 43.4% was witnessed in the cars ranging from 801cc to 1000cc followed by 1300cc & above with production growth of 30.3%.

During the quarter ended June 2006, the Honda Atlas Cars produced 6,696 units against 8,292 units in the same period last year. The sales were 5,276 units against 8,232 units in the same period, last year. The decline in production and sales were due to a planned shut down during June for project expansion activities coupled with phase out of existing model of Honda Civic. The new model of Honda Civic is being introduced in the market in the last week of July 2006.

COMPANY PERFORMANCE

The quarter under review thus recorded reduced sales of Rs. 4,461.3 million against Rs. 6,736.3 million during the same period, last year. The cost of goods sold also decreased in sympathy with sales to Rs. 4,176.4 million against Rs. 6,453.6 million in the same period, last year. Despite lower sales, the gross profit improved to Rs. 284.9 million against Rs. 282.8 million during the



corresponding period, last year. This improved the GP margin to 6.4% against 4.2% over the same period, last year. The administrative and selling expenses increased during the quarter to Rs. 78.1 million against Rs. 56.4 million last year, due to increase in advertising and promotion expenses.

The operating profit was Rs. 206.8 million against Rs. 226.3 million. Other income decreased to Rs. 42.2 million from Rs. 103.8 million during the same quarter, last year due to shrinkage of customers deposits. The financial and other charges escalated to Rs. 67.4 million against Rs. 26.0 million due to increased bank borrowings for expansion of capacity. The profit before tax thus reduced to Rs. 181.7 million against Rs. 304.1 million in the same quarter last year and net profit after tax to Rs. 120.8 million against Rs. 195.6 million, last year. After tax earnings per share (EPS) thus reduced to Rs. 1.7 against restated EPS of Rs. 2.7 per share during the same quarter last year.

The capacity expansion project, which started in September last year, is as per plan and the company will be able to achieve its target of increasing daily production capacity beyond the present constraints by the end of the last quarter of this calendar year.

FUTURE OUTLOOK

The industry continued to record sustained growth since over several years. The industry produced around 40,000 units during 2000-01, while production for the year 2005-06 has been over 160,000 units with additional capacity available and that is in the process of being added with an investment over tens of billion rupees. Some of the government decisions, however, in the recent past like relaxation in import policy for CBU and used cars, softening the conditions for new entrants with permission to import 100% CKD at 35% custom duty for three years for selected players are not in line with the vision of value addition through manufacturing and technology transfer. Due to this shift in policy, 45,479 units of used and new cars have been imported in 2005-06 against just 11,877 units last year. This one policy shift alone has caused an ill affordable drain on foreign exchange reserves which the industry could preserve only if the policy continue!

The auto Industry is now set to not only save but earn the foreign exchange leading Pakistan to a hub of investment, production and export. Higher volumes with higher localization will make the industry internationally compatible. Exports are dependent on volumes and costs on indigenization. Honda believes in 'glocalization' i.e. to produce where to sell – and ensure quality, cost and delivery -- QCD. Let us encourage this in Pakistan too.



العمل يبرهن

(Merit speaks itself)

Acknowledgement

I would like to thank our valued customers for their trust and confidence in our product. I thank Messer 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. Mamoru Suwama, President & CEO and his team members for their commitment, contribution and hard work.

Yusuf H. Shirazi
Chairman

Lahore, July 29, 2006