HONDA
The Power of Dreams

Chairman's Review

It gives me a great pleasure to present to you the financial statements for the third quarter ended December 31, 2004.

Economy

During the first half of the fiscal year 2005, both agriculture and industry sectors performed better than anticipated, laying a strong foundation for economy to exceed the GDP growth target for the year. Provisional estimates place value addition by Kharif crops slightly above target following robust cotton production. The growth of approximately 14% was recorded in Large Scale Manufacturing, exceeding the set target of 12%. The tax collection for first half of the year was Rs. 253 billion, up 15% over the same corresponding period last year. The exports for first five months of the year grew by 11% at US $ 5,371 million. Imports registered sharp increase of 49% to US$ 7,882 million as compared to the same period, last year, mainly due to increase in oil prices in international market and import of capital machinery. The remittances from expatriate Pakistani for first five months increased to US$ 1,610 million against US$ 1,488 million in the same corresponding period last year. During the period under review, rupee lost its value against US $ and Yen by 3.5% and 9.9% respectively. Inflation was the highest for the last couple of years at 8.8% against 5% envisaged for the year, which sounds caution.

The Industry

The performance of the automobile industry remained robust during the first nine months of our financial year 2004-05. The total production stood at 86,502 units against 63,959 units in the same corresponding period last year, up 35.2%. The sales increased to 85,683 units against 63,730 units, up 34.4 %. In the 1300 cc and above category, the production and sales grew to 34,572 units and 34,252 units as compared to 25,301 units and 25,061 units respectively, in the same corresponding period last year.

During the last quarter, the expansion in paint shop was inaugurated by the honorable Minister for Industries, Production and Special Initiative, Mr. Jehangir Khan Tareen on December 20, 2004. The company has now capacity to produce 30,000 units on double shift basis. In the last month of December, the company produced and delivered 2,402 units. The production for the first nine months of the fiscal year was 13,497 units against 7,978, up 69.2%. The sales were 13,524 units against 7,887 units, up 71.5%. The company maintained 70% growth in each of first three quarters as compared with the same corresponding periods, last year. The market share also improved from 31.5% to 39.0% in the period of April 01, 2004 to December 31, 2004. The company is set to achieve its production target for the current financial year with enhanced capacity utilization and production in double shifts.

Company's Performance

The sales for the first nine months of the year were Rs. 11,183 million against Rs. 6,434 million, up 73.8%. The cost of goods sold was Rs. 10,684 million against Rs. 5,854 million. The gross profit margin reduced from 9.0% to 4.5%, i.e Rs. 499 million against Rs. 580 million in the same corresponding period last year. The GP margin was cut to half of the last year mainly due to adverse exchange rate parity prevailing throughout the current year as compared to the same period last year and increase in salaries and wages due to increase in manpower, employed to start the double shift. The administrative and selling expenses were Rs. 138 million against Rs. 113 million in the same period last year for the same reasons. However, in terms of sales, it reduced from 1.8% of sales to 1.2% in the period under review for the obvious reasons.

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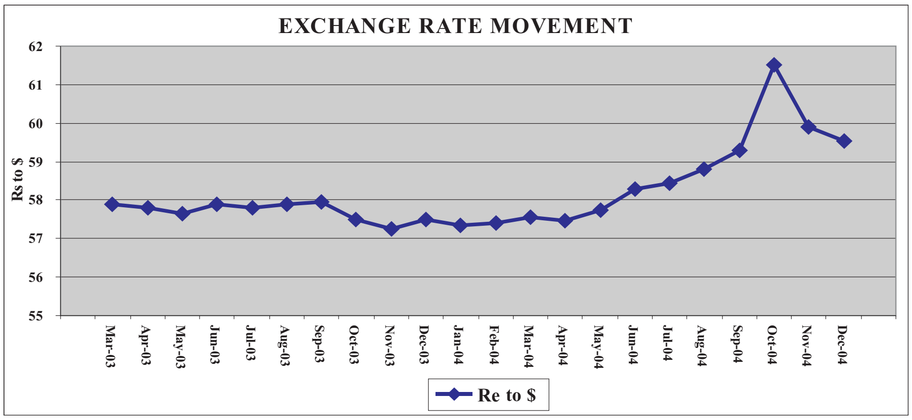

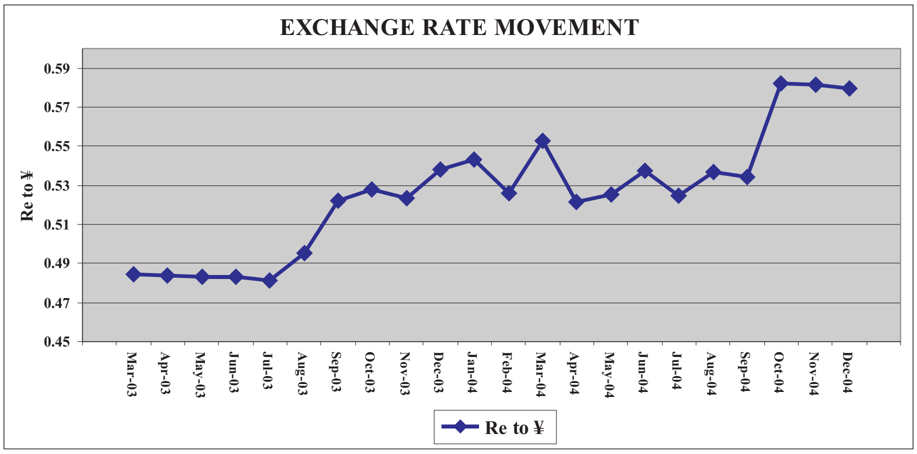

During this period, the company invested the excess liquidity in the long term venture of Pakistan Investment Bonds (PIB) and some open end and closed end mutual funds, to ensure greater yield on its funds. Thus the other income improved to Rs. 98 million against Rs. 52 million in the same corresponding period last year. The increase was attributed to return from PIB and improvement in bank interest rates. The other expenses were Rs. 34 million against Rs. 36 million. The profit before tax was down to Rs. 425 million against Rs. 483 million. After tax provisions, the profit was Rs. 273 million as compared to Rs. 304 million in the same corresponding period last year. The earnings per share was thus Rs. 6.5 against Rs. 7.2 last year. The return on equity after tax was 13.2% against 16.4% in the same corresponding period last year, the decline was due to reasons explained above.

Future outlook

The performance of the economy is all set to achieve the GDP target for the financial year 2004-05. However, maintaining the momentum of the economic activity and building on the gains will be both vital and challenging. Sound macro economic policies, financial discipline and continuity of policies, political and regional stability will be the key to sustain the momentum.

While leading indicators suggest that the services sector will turn in a strong full year performance, the outlook for agriculture and industry during second half of the year remains uncertain, specially hopes of achieving the full year agri-growth target rest crucially on the wheat harvest, which may be substantially below target due to worsening water supply.

With all due challenges, threats, indigenization program and introduction of new CBU units, the demand for locally built cars will continue to grow in the second half of the year. The company will focus on cost reduction, product quality & innovation and after sales support to continue to lead in its segment and I thus look forward to better results by the year end - and in the long run.

ع   پرواز ہے دونوں کی اِسی ایک فضا میں
کرگس کا جہاں اور ہے شاہیں کا جہاں اور
(Let us continue to fly our flag high)

I would like to thank our valued customers for their confidence in the company's product. I thank M/s Honda Motor Company Ltd., Japan and the Atlas Group for their help and assistance in the progress of the company. I would also thank the Government, vendors, bankers, dealers and our shareholders for their support. Acknowledgements are due to Mr. Mamoru Suwama, President & CEO and his team for their commitment to the task of building this company.

Yusuf H. Shirazi
Chairman

Lahore,
January 18, 2005.