Chairman's Review

It is my pleasure to present to you the financial statements for the first quarter ended June 30, 2005.

The Economy

The economic recovery which started a couple of years before, gained momentum during the fiscal year 2004-05, the GDP growth being at 8.4%. The growth in agriculture sector was 7.5%, manufacturing sector at 12.5% and services sector at 7.9%.

The revenue collection of Rs. 590 billion surpassed the target. The exports at US$ 14.4 billion increased 17.0%. Imports witnessed growth at US$ 20.6 billion or 32.3%, mainly due to increase in oil prices and import of raw material & capital machinery. The foreign direct investment exceeded US$ 1.5 billion. The exchange rates remained stable for the quarter under review. However, inflation crossed 11% during the quarter.

The Industry

The automobile industry continued to grow during the quarter under review. The total production of cars for the quarter ended was 39,532 against 29,833 units in the same quarter last year, up 32.5%. The sales rose to 39,207 units against 28,673 units, up 36.7%. The total production for the year July 04 to June 05 grew 28.4% at 126,403 units against 98,461 units last year. The sales registered increase to 127,309 units against 96,674 units in the same twelve months period of July 04 to June 05 or 31.7%. The growth in the quarter under review was highest at 30.9% for the year as compared to 5.3% in 3rd quarter and 2.5% in the 2nd quarter.

Your company has accepted a challenging target for the current year started from April 01, 2005. During the April 05 to June 05 quarter, the production was further improved with extended production hours and a total of 8,292 units were produced against 4,202 units in the same quarter, last year. The sales also improved to 8,232 units against 4,236 units in the same quarter, last year. The market share for the quarter was 48.8% against 36.6% in the same period last year.

Company's Performance

During the quarter, the sales revenue of the company was Rs. 6,736.3 million against Rs. 3,523.7 million in the same quarter last year. The cost of sales was Rs. 6,453.6 million against Rs. 3,325.0 million. The gross profit increased to Rs. 282.8 million against Rs. 198.6 million. The gross profit margin was 4.2% against 5.6% last quarter. The administration and selling expenses were Rs. 56.4 million against Rs. 51.0 million. However in terms of sales the expenses were reduced from 1.4% to 0.8% in the quarter under review. The other income rose substantially to Rs. 103.8 million against Rs. 24.2 million, mainly due to better working capital management and investment of excess liquidity in more profitable ventures. The financial and other charges were Rs. 26.0 million against Rs. 12.6 million. Thus, the profit before tax was increased to Rs. 304.1 million against Rs. 159.3 million in the same last quarter. After tax provisions, the net profit for the quarter was Rs. 195.6 million against Rs. 103.3 million in the same quarter last year.

The profit margin remained static at 2.9% for the quarter. The return on equity after tax for the quarter was 9.1% against 5.2% for the same quarter last year. The earning per share after tax was improved to Rs. 4.7 against Rs. 2.5 last quarter.

Future Outlook

Despite the growth and expansion potential, the automobile industry is going through a critical period. The budget 2005-06 has resulted in further reduction in duties on Completely Built Units from 100%~50% to 75%~50% on different engine capacities and 2% depreciation against 1% on cars imported on transfer of residence at the cost of the sale of the locally made cars for no cogent reasons.

On the other hand, your company has started next leg of expansion, to produce 50,000 units against the current facility of 30,000 units. The company has decided to set up press shop to improve localization. Recently, with the support of Honda Motor Company Limited, Japan, the company has established a new department, "Technical Support Centre", headed by experts from HMC. It will be responsible to give all-out possible technical support to our vendors to ensure indigenization and quality parts. The ongoing plant expansion will be completed by the year end.

The low cost leasing facilities had played important role to increase demand of cars. The State Bank of Pakistan has now increased mark up rates which will ultimately lead to pressure on new car leasing. Apart from this there is increase in the costs of inputs such as steel and inflation which is around 11%.

The only way to cope with such situation is to indigenize which leads to cost cuts. It is thus high time to promote vending industry further to accept future challenges of localization, increase in production facilities and development of high-tech parts to be cost effective as compared to CBU imported at low tariff in the country. However cars are in demand where after sales service and supplies of parts are abundant and the management is ready to fulfill the customer needs. Your company will continue to play its role for the development of vending industry, impart technical skills & know-how, indigenize and rely more and more on customer satisfaction. We have a team of great experts to rely on the any eventuality. I therefore foresee a bright future for your company year after year.

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

(Let us keep our flag flying higher)

Acknowledgement
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 support in the progress of the company. I would also thank the Government, vendors, bankers, dealers and our shareholders for their support. Deep acknowledgement is due to Mr. Mamoru Suwama, President & CEO and his team for their commitment to the task of building this company.

Yusuf H. Shirazi
Chairman

Karachi,
July 26, 2005