

Chairman's Review

It gives me pleasure to present you the financial report for the half year ended September 2008.

The Economy

Pakistan's Economy showed resilience despite the global slow down in economic activities. It managed to register a growth of 5.8% for the year ended 2007-08 in spite of worsening law & order situation and political uncertainty. During the period under review, the inflationary pressure continued to increase in the face of rising fuel and commodity prices. Pak Rupee has lost almost 25% of its value against US\$ since March 2008 as trade balance turned negative sharply. However, on positive note, there were record remittances from overseas Pakistani's of US\$ 6.4 billion in last fiscal year, 17.9% increase over the same period last year. During the Jul-Sep 08 quarter, the exports increased to US\$ 5.3 billion against US\$ 4.4 billion in the same quarter last year. The revenue collection during this period was Rs 253 billion, up by 23.5% over same corresponding quarter. In the budget 2008-09, the government emphasised on local investments, productions & exports and discouraged imports of luxury goods and completely built units. These measures will have positive impacts on economy, sooner than later.

Agriculture sector remains the main stay of Pakistan economy. Government has fixed the support price of wheat at Rs 925 per mound. The rice production is expected to be around 6.3 million tons during the year 2008-09 and exports were made to the tune of 1.3 million ton during first quarter. The price of the main commodities has helped the sector to play an important role in economic activity.

The Industry

The automobile industry heavily depends on imports in the shape of raw material, CKD, and spare parts; therefore it is vulnerable to exchange rate fluctuations. The recent hike in utility prices, general inflation and above all, about 25% depreciation of Pak Rupee against US\$ and Yen since Mar 2008 has effected the automobile market. The total production for the period of Apr-Sep 08 was down by 26% at 66,726 units against 90,224 units in the same period, last year. The sales were also down by 27.6% at 66,358 units against 91,613 units in the same corresponding period. The production and sale have decreased by 43.9% and 50.6% respectively in Jul-Sep 08 quarter over the preceding quarter of Apr-Jun 08.

Your company produced 7,361 units against 9,060 units in the same six months period last year. The sales were also down to 7,051 units against 9,029 units in the same corresponding period.

Company's Performance

A couple of years before, the industry experienced enormous demand of automobiles and all OEMs invested heavily to expand their production capacities to realize the government plan of producing 500,000 units by 2011 through incentivization. However, in the following months, due to frequent changes in the auto policy and softened terms of import of reconditioned cars, the auto industry saturated and the demand of locally assembled vehicles reduced sharply.

During the period under review, the liquidity crisis and hike in interest rates further made car leasing expensive. The overall market size decreased by 50% mainly due to depreciation of Pak Rupee by 25% against dollar, imposition of 5% federal excise duty on cars, restrictions of LC margin coupled with the levy of with-holding tax at the time of vehicle registration have caused adverse impacts on automobile business. The rise in general inflation and low sale volumes placed unprecedented pressure on cost of doing business. All these factors have affected the overall profitability of the auto sector.

During the period under review, your company suffered after tax loss of Rs 52.1 million against profit of Rs 53.1 million last year. The sales revenue for the first half of the year was Rs 7,327 million against Rs 8,238 million of the same corresponding period last year. The gross profit remained under pressure and was reduced to Rs 290.6 million against Rs 342.5 million in the same period last year. Other income was increased to Rs 61.1 million against Rs 29.6 million. Focusing on maximum utilization of resources and overall cost effectiveness, the management successfully reduced distribution, administrative and financial expenses in proportion of sales during the quarter under review. However, other operating expenses were increased due to exchange loss suffered on certain foreign currency transactions during the quarter under review.

Future Outlook

The economy is facing another challenging period as slowdown in economic activities will be more pronounced. However, the fuel, general commodity prices and material prices have started showing declining trend which offers a silver lining. In spite of the continuing concern for law and order situation and the ongoing inflationary pressure, the inherent resilience in the national economy and the entrepreneurship skills will find new avenues for growth. A GDP growth of about 5% will still be achievable during the current financial year. Your company will continue to exploit its areas of strength, innovation and will focus on cost optimization and product quality to offer best value for money to its customers:



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(There is a horizon beyond horizons)

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Yusuf H. Shirazi
Chairman

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