

## Chairman's Review for the period ended March 31, 2003



*Sitting from left to right: Mr. Hiroyuki Yoshino, Mr. Yusuf H. Shirazi  
Standing from left to right: Mr. Jawaid Iqbal Ahmed, Mr. Motohide Sudo,  
Mr. Yukihiro Aoshima, Mr. Shinichi Nakayama, Mr. Katsuro Suzuki*

It is a pleasure to present to you Audited Report and review on the performance of the Company for the period ended March 31, 2003.

### Economy

The GDP growth is targeted at 4.5% by the end of the fiscal year against 3.6% actual during the last year - 2.7% in agriculture and 6.5% in large-scale manufacturing sector. The growth in sugarcane was 7.6%, rice 8.9% and wheat 13.2%. Exports continued to grow. By the end of March 2003 it was at US \$ 7.9 billion, an increase of 20.2% against the corresponding period of last year. The rise in export was comprised of 20% increase in textile exports. It is but evident that export for the whole year will cross the US \$ 10 billion mark for the first time. Imports were at US \$ 9.0 billion, up 22.8% over the same period last year, depicting an increase in economic activity in the country and higher oil prices in the international markets. The revenue collection for the first nine months was at target of Rs.309.2 billion, a growth of 14.6%.

The foreign exchange reserves grew to US \$ 10.3 billion by the end of March 2003. The reasons for the increase were higher remittances from overseas Pakistanis at US \$ 3.2 billion against US \$ 1.6 billion last year, greater foreign direct investments at US \$ 594 million against US \$ 225 million in the same

corresponding period last year and write off and grants or credit at about US \$ 2 billion.

### Automotive Industry

The increased liquidity with the banks and lower interest rates – single digit against double digit - has resulted in attracting car financing schemes by financial institutions. The industry is supported by a number of new models introduced over last couple of years, in all categories of cars, and increase in foreign remittances, which played major role in the growth of the automotive sector. In the period under review, the automobile market showed impressive growth; cars grew by 50.2%, motorcycles 36.6%, tractors 17.5% and buses/trucks 57.1% over the same period last year – with whatever base. The production figures in each quarter for the period have been given below:

Category	Q1	Q2	Q3	2003 Jul-Mar	2002 Jul-Mar	%age increase
Cars	12,673	12,858	16,289	41,820	27,848	50.2%
Motorcycles	35,432	43,071	38,631	117,134	85,773	36.6%
Tractors	4,572	6,297	6,730	17,599	14,975	17.5%
Buses, Trucks LCV	3,473	3,806	4,056	11,335	7,214	57.1%
Total	56,150	66,032	65,706	187,888	135,810	38.3%
Honda Cars	2,407	1,869	1,837	6,113	5,713	7.0%

The total production of cars stood at 41,820 against 27,848 units in the same period last year, up 50.2%. The sales at 41,570 units were up 42.8% against 29,106 units in the same corresponding period last year. After sustained growth in first two quarters of the year, the third quarter production increased by 26.7%.

The production of 1300cc and above category, where your company belongs, was up 35.1%. The major part of the market expansion went to small cars from 800cc to 999cc, which grew 64.1%. However, the middle range of car segment - 1000cc to 1299cc- constantly grew over each quarter of the year under review.

The production for each quarter, category wise, is as below:

Category	Q1	Q2	Q3	2003 Jul-Mar	2002 Jul-Mar	%age increase
1300 cc & above	5,670	4,858	5,767	16,295	12,060	35.1%
1000 cc~1299 cc	2,669	3,802	4,835	11,306	7,121	58.8%
800 cc~999 cc	4,334	4,198	5,687	14,219	8,667	64.1%
Total	12,673	12,858	16,289	41,820	27,848	50.2%

During the period, your company produced a total of 6,113 units against 5,713 units in the same nine months period last year, up 7.0%. The sales were 5,923 units against 5,528 units in the same period last year, up 7.1%. The production of Honda City improved 11.5%. The growth in Honda Civic production was lower at 3.1% as compared to City. The reason for decrease was the phase out period of Honda Civic, as the company launched its new Civic-03 model in February 2003, featuring multi-reflecting tail lights, beige color interior, standard 14 inches tyre in all Exi models and optitron meter with illumination control. The model has been well accepted in the market. It will go a long way to dominate in its category of cars. Due to phase out of the old Civic model, the production of Honda Civic was lower in the months of February and March 2003, which ultimately led to lower sales.

During the year, the company has expanded its paint shop which will enhance its production capacity from existing 8,500 units to about 12,000 units (with double shift at bottle neck processes). It will help the company to meet rising demand, with increase in production capacity and continued

process efficiency.

### Company Performance

As the company has chosen to close its financial year at March 31, 2003, so the current period is of nine months as compared to full year ended June 2002.

Net sales for the nine months period ended March 31, 2003 were Rs. 4,901.1 million as compared to the last full year sales of Rs. 6,519.1 million. The cost of goods sold was slightly higher as compared to sales at Rs. 4,333.7 million. The gross profit was Rs. 567.4 million against Rs. 771.4 million. The GP margin was down from 11.8% in 2002 to 11.6%, due to inflationary effect and change in sales mix. Further, the company has not increased prices of its model since September 2001, not even at the launch of new Civic-03 model. The administrative and selling expenses, for nine months period were Rs. 107.4 million against Rs. 133.3 million for the last full year. These expenses if compared with sales of respective year were 2.05% in 2002 as compared to 2.19% in this period. The increase was mainly due to promotional expenses, which exceeded 24.8% due to new model launching.

The operating profit thus was Rs. 460.0 million or 9.4% of sales against Rs. 638.0 million or 9.8% last year. The other income was Rs. 51.3 million, which remained static as compared to sales mainly due to fall of bank deposit rates.

Over the years, the company has made good progress in controlling the financial expenses which continually reduced from Rs. 106.9 million in 1997 to Rs. 0.5 million this year. The other charges of Rs. 35.0 million contained provision of WPPF of Rs. 25.4 million for this period's profit. The profit before tax was Rs. 475.8 million against Rs. 656.1 million of last full year. After necessary tax provision, the profit after tax for nine months period ended March 2003 is thus Rs. 346.1 million against Rs. 431.6 million of full financial year 2002.

The net profit improved from 6.6% of sales during last year to 7.1% for the period under review. The after tax return on equity for the nine months period was 21.6% against 31.2% in full year, 2002. Earning per share, after deduction of tax, was Rs. 8.24 against Rs. 10.28 per share for full year. The company

maintained its liquidity with current ratio of 1.94 for the period under review.

The Board of directors in their meeting held on May 14, 2003 has proposed Rs. 147 million (35%-annualized 47%) dividend for the period of nine months ended March 31, 2003 against 45% of last year. The balance of Rs. 200 million will be transferred in the general reserves, which will mount to Rs. 1,282 million.

Since the start of commercial production in 1994, the company has adopted a prudent dividend and retained earning policy, which over the years has led the shareholders' equity at Rs. 1,702.0 million against Rs. 583.4 million in 1995 when the company started operations.

During the period under review, the company has contributed a sum of Rs. 1,713 million towards government revenue - in the shape of sales tax, customs duty, income tax and other government levies. Over last nine years of operation, we have so far paid a sum of Rs. 10.9 billion to government treasury, equal to first four years' net sales of the company.

#### Human Resources

In order to carry on 'Spirited Independence' system of management in associates, last year thirteen associates got in-house trainers' training course conducted by Global Human Resource Division of Honda Japan. The company has prepared one-year plan to complete this training for all associates of the company, by the year-end 2003. A total of 71 associates have already completed this training session. This course is a series of several other courses to be conducted at all levels of the Company.

An in-house training program Honda Manager Learning Program - HMLP - for Managers was conducted by Honda Japan in September last year. The course will help the Company to enhance operational capabilities of employees to achieve highest standards of quality and productivity.

Mr. Motohide Sudo who joined as Director on May 03, 2000 has been replaced by Mr. Yukihiro Aoshima on the Board of Directors. Mr. Yasuhide Uchiyama, General Manager Vendor Development has been replaced by Mr. Makoto Namba. The Board welcome Mr. Aoshima and Mr. Namba and thanks their

predecessors for services rendered.

#### Future Outlook

Despite the tangible improvement in the economic situation, numerous challenges continue to be ahead including risks posed by uncertain geo-political climate and other regional issues. In addition, the global demands and the local priorities and aspirations are a challenge to be met.

Last year, government reduced custom duty on import of Complete Built-up Unit. Any further cut will pose a threat to auto industry.

The industry, however, has shown growth potential since the last quarter of financial year 2002, thanks to the foreign remittances, car financing schemes and lower interest rates. With the existing economic policies, the market will maintain its growth in future also. The company is committed to deliver high-value innovative products and services to the complete customer satisfaction. Although exchange rate parity has been quite stable since July last year, our sales and profit will be compatible with currencies fluctuations. Notwithstanding the fact, we look forward to continue to play leading role in the industry.

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(One gets what one deserves)

#### Acknowledgement

May I thank our customers for their trust in the company product. May I also thank Honda Motor Company Japan and Atlas Group for their continuous support and cooperation. I would also like to thank the Government, vendors, dealers, bankers and our shareholders for their support and Mr. Mamoru Suwama, President/CEO, his team and all associates for sustained growth of the company.

  
Yusuf H. Shirazi  
Chairman