

## Chairman's Review for the year ended March 31, 2009



It is my pleasure to present to you the Audited Accounts of your Company for the year ended March 31, 2009.

### **ECONOMY**

Pakistan did not face a major setback from the global crisis. The economic hardship by the country has mostly been the result of domestic issues - internal strife, political instability and poor governance has slowed down an otherwise a viable economy. As a result the GDP growth rate for the year 2008-09 initially projected at 5.5 percent has now been revised downward to 2.5 percent compared to 5.8 percent of last year. The major pressure in the economy has stemmed from inflation. The SBP has projected inflation to slow down in the final quarter of FY08-09. Controlled inflation may usher in lower interest rate and improved liquidity, so necessary for growth of industry.

IMF has disbursed the first two tranches of \$ 3.1 billion. The World Bank and ADB have pledged support and an independent overseas support group, Friends of democratic Pakistan have decided a support of \$ 5.28 billion. Eased out political situation in the country will help in an improvement in business environment. The stock market has exhibited a growth of 36 percent post March 16. Foreign exchange reserves have crossed US \$11 billion. The commodity prices are reflective of an inherent demand in the economy. A bumper wheat crop is being projected and it will provide a boost to demand. What is needed is right policies that reassure economic dynamism.

### **Automobile Industry**

The current economic recession has hit the world economy generally and automobile industry particularly, with some of the world renowned companies facing hardships. However, Honda Motor Company is among the few automakers with positive bottom line of 162 billion Yen in the year ending March 2009.

The automobile industry depends on economic

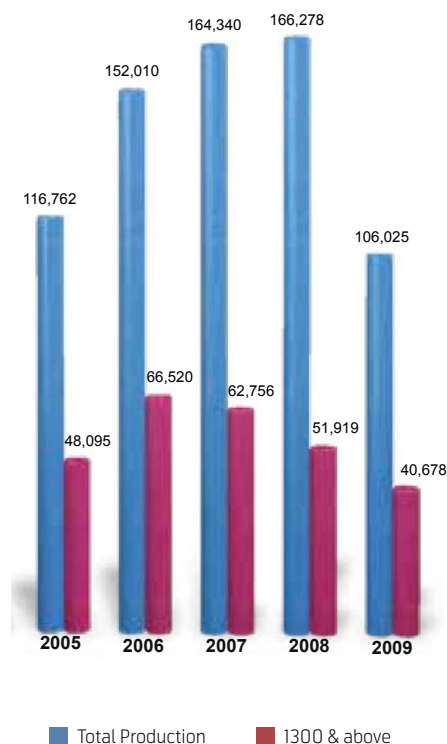
uplift, availability of auto financing at favourable terms and sustainable consistent industry friendly policies. In the recent past, with the help of these factors, the automobile production surged four times from 39,167 units in the year 2002 to 164,340 units in 2007. Responding to the increasing demand and the government target to produce 500,000 units by the year 2011, all OEMs expanded their production capacity to meet the target set by the Government.

However, following the emergence of financial crises in early 2008 and increase in interest rates, the financial institutions tightened the auto financing policy, which coupled with the upward surge in exchange rates have pulled the auto sector down to four years ago i.e. 2004-2005 level.

In addition to above, the auto industry had to face the challenges of un-favourable budgetary impacts of increase in sales tax by 1%, levy of Federal Excise Duty of 5% and additional taxes at the time of registration of vehicles. In addition, 35% cash margin on imports was also levied, though reversed later.

All these factors resulted in sharp decline in auto production in all segments of the industry i.e. passenger cars, buses, trucks and motorcycles. The quarterly analysis of the production data of the industry is as under:

### Auto Industry Production



2007-08	Category	Q1	Q2	Q3	Q4	2008-09	Change %
62,292	Up to 800cc	16,988	10,798	7,359	4,454	39,599	-36.4%
52,067	801cc to 1299cc	12,709	6,528	4,365	2,146	25,748	-50.5%
51,919	1300cc & above	13,055	6,648	10,032	10,943	40,678	-21.7%
166,278	Total Passenger Cars	42,752	23,974	21,756	17,543	106,025	-36.2%
51,725	Tractors	16,030	12,216	14,498	9,354	52,098	0.7%
34,735	LCV, Buses, Trucks etc	8,114	8,603	6,751	2,380	25,848	-25.6%
592,822	Motorcycles	166,982	127,224	113,721	71,429	479,356	-19.1%
845,560	Total 2008-09	233,878	172,017	156,726	100,706	663,327	-21.6%

Year	Q1	Q2	Q3	Q4	Total
Honda 2008-09	3,480	3,881	2,283	3,136	12,780
Honda 2007-08	5,022	3,967	2,798	3,813	15,600
%age change	-30.7%	-2.2%	-18.4%	-17.8%	-18.1%

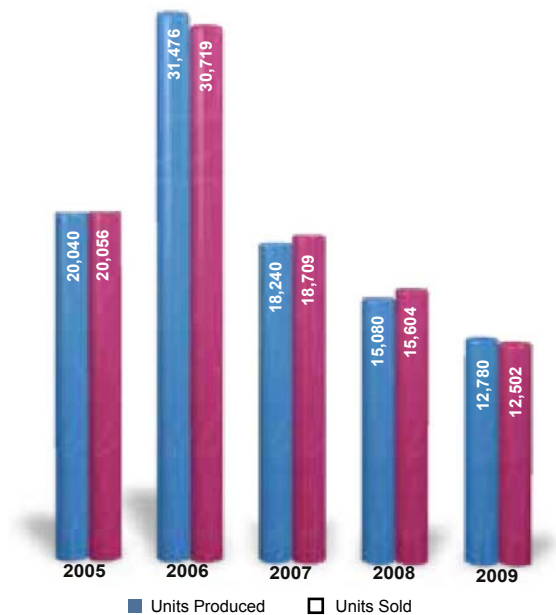
Source: PAMA



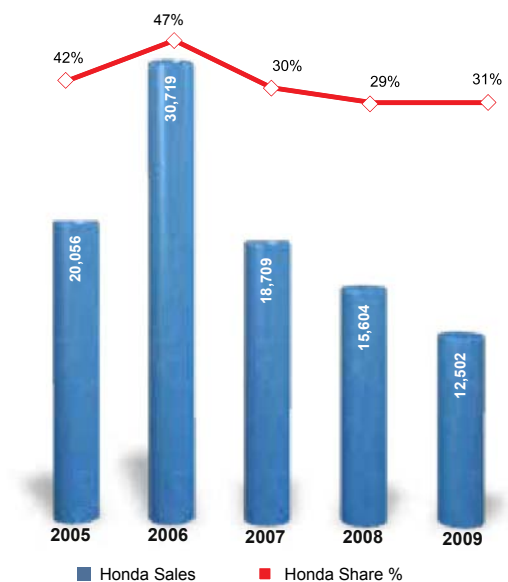
Following the inflationary and exchange rates impact, the prices of all vehicles were increased during the year, which contracted the demand of locally manufactured vehicles. However, unlike the previous years, 21.7% decline was witnessed in the category of 1300cc & above and in the category of 1000cc, it was 50.5% over the corresponding period last year. In the category up to 1000cc the decline was 32.3% and 43.7% in Dec-08 and Mar-09 quarters respectively. Other sectors of auto industry also witnessed decline. Motorcycles production was reduced by 19.1%, LCV, Buses & Trucks were down by 25.6% whereas production of tractors was marginally improved by 0.7% over same period last year.

During the year under review, your company produced 12,780 units against 15,080 units in the corresponding period last year. The sales were 12,502 units against 15,604 units of last year. The decline in production and sales was due to overall decline in the 1300cc & above category segment by 21.7% and 24.8% respectively. It however combined with the phase out period of old City when only Honda Civic 1800cc was produced and sold.

### Units Produced and Sold



### Honda Share (Units)



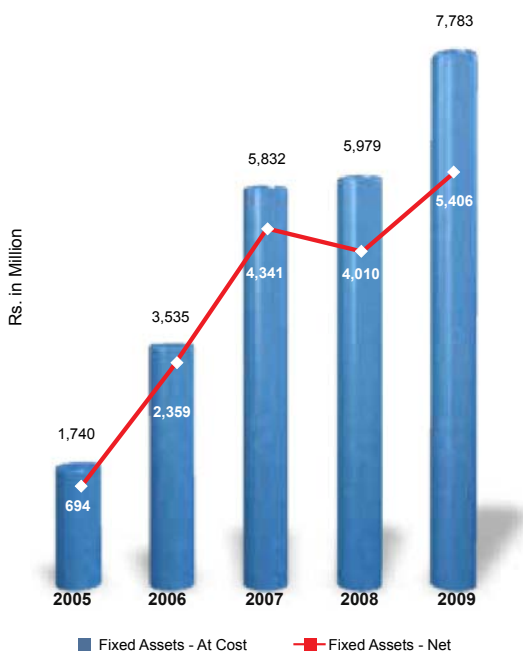
## New Models

Your company has always followed the tradition of introducing new technology and providing global cars of international quality to its customers, since the launch of its first model in 1994. During the short span of 15 years, your company has introduced 4 new models of Honda Civic and 4 new models of Honda City –the highest among the other car makers in Pakistan. Many features and specifications were introduced first time in Pakistan.

Your company introduced the 3rd Generation Honda City on January 31, 2009. It has V-tech Engine, Anti Lock Braking System (ABS) and Euro-4 emission systems, which are considered to be the strictest emission standard worldwide. The new City has Drive-By-Wire (DBW) control technology for fuel efficiency. It has also enhanced G-CON collision safety which reduces the impact on passenger cabin. To maintain the global quality standards, the Company has invested Rs 2.1 billion on development of local parts, dies and fixtures of Honda City. However, the new features increased its cost and so the selling price.

Your Company produces cars of highest quality with high specifications of Honda to its global customers. Your company has the pride of providing the environment - friendly, Euro IV compliant cars to its customers, which no other maker has in Pakistan. On the strength of our confidence in our products, the company with new City launch effective February 2009, increased warranty of new City to 70,000 Km or 3 years from the date of purchase, whichever comes earlier, increasing Joy of Buying of new Honda City.

Fixed Assets Vs. Capital Expenditure





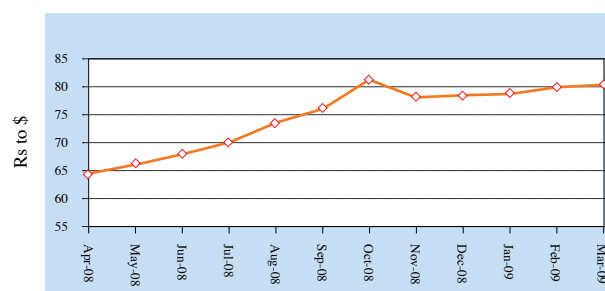
## Financial Results

During the year under review, the upward exchange rate movements were enormous as Japanese Yen depreciated by 30.5% during April 08 to March 09 and US Dollar by 28.2% in the same period. The impact of rupee depreciation was further aggravated by the rising inflation and putting pressure on cost structure of our products. The Company passed on minimum possible impact to the New City price.

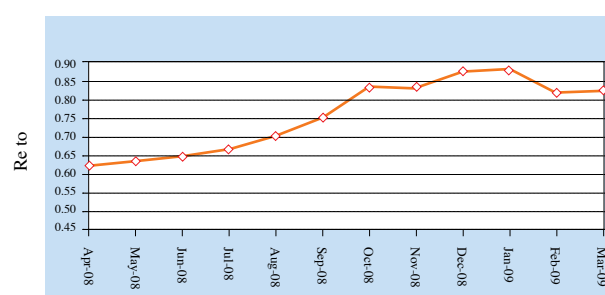
Due to the factors mentioned above, the company suffered loss after tax of Rs 401.8 million during the year against the profit of Rs 75.0 million in the last year.

The net sales for the year were Rs 14,149.6 million against Rs 14,715.5 million of last year. The administrative and selling expenses were Rs 329.8 million against Rs 348.8 million in the same period of last year. Other income improved to Rs. 64.8 million against Rs 23.6 million of last year, mainly due to increasing interest rates on bank deposits. Other operating expenses increased to Rs. 311.0 million as compared to Rs. 4.9 million last year, mainly because of Exchange loss (Rs 231 million) and write-off (Rs 80 million) of Plant & Machinery

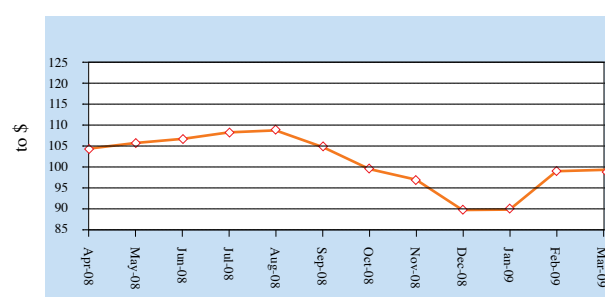
**Rs to \$ Movement**



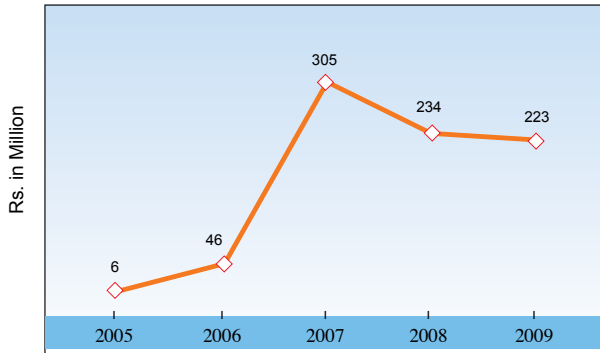
**Re to ¥ Movement**



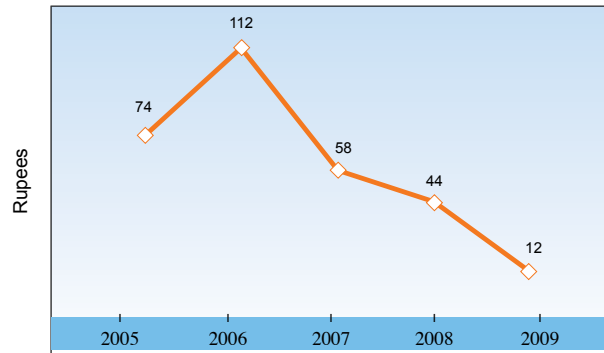
**¥ to \$ Movement**



### Financial Charges



### Share Price Movement

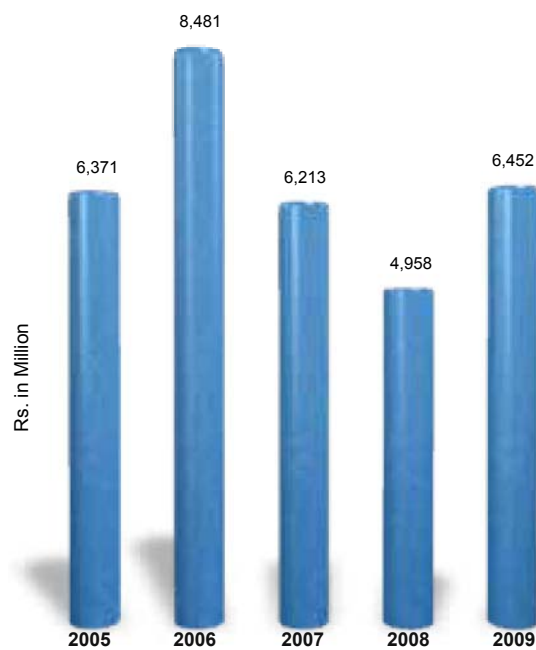


items of old model of Honda City. During the year, the company had to resort to bank borrowing to finance capital expenditure of new City and pressure on working capital requirement, thus financial cost was Rs 222.8 million for the year against Rs 233.7 million of last year. The company, therefore, suffered a loss before tax of Rs 622.3 million against profit of Rs 63.6 million in the last year. The company is focusing on cost effective measures to reduce the running cost of business and to improve sales.

During the year, the company paid Rs 6.4 billion to the government revenue in the shape of sales tax, custom duty and other government levies. Since the start of commercial operations in 1994, the company has contributed Rs. 47.1 billion to the government exchequer so far.



### Contribution to National Exchequer

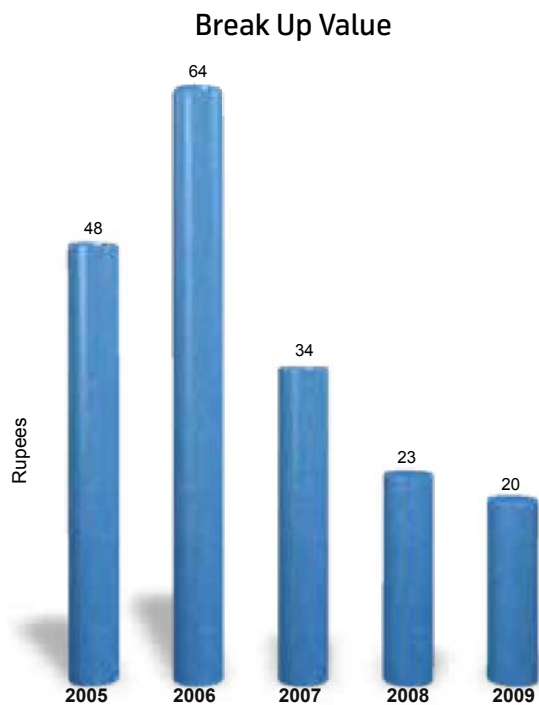


Being the ISO 9001 (Quality Management Systems) and EMS 14001 (Environment Management Systems) compliant organization, the company periodically goes through the surveillance audits conducted by independent auditors. In June 2008, both these audits were conducted successfully and re-certifications were accorded in both systems.

In September 2008, the company organized annual Vendors' Conference. The purpose of the conference was to closely liaise with the suppliers for improvement of quality, cost and delivery timing of locally manufactured parts and to motivate vendors to focus on key issues. The awards were also given to vendors with outstanding performance in quality improvement, cost reduction and timely delivery of parts.

### Human Resources Changes

During the year, Mr. Masaaki Suzuki who served as Director/GM Purchasing & Local Development Division returned to Japan after serving the company for almost three & half years. Mr. Masahiro Takedagawa has succeeded him as new Director



effective from April 01, 2009. The Board appreciated the contribution made by Mr. Masaaki Suzuki and welcome Mr. Masahiro Takedagawa on the Board. During the year, Mr. Razi-ur-Rahman General Manager Import, Purchase and Logistics Division also returned to Atlas Group Company after serving your company for more than three years. Mr. Maqsood-ur-Rehman Rehmani has succeeded him as new GM in the same position. Mr. Hiroshi Uo and Mr. Yasushi Ito from Honda Motor Company have also joined your company as Chief Engineers in Purchasing and Local Development Divisions respectively. The Board welcomes them and look forward to their high performance.

## Future Outlook

With the continuation of the current policies, current business environment is likely to improve, in addition to the increased external assistance from IMF, further economic consolidation is likely in the near future. The foreign exchange reserves are expected to continue to build-up on the back of imports contraction and stable growth in remittances. The positive indicators i.e. decreasing inflation and interest rates, stable exchange rates and performance of agriculture sector etc. suggest that economy on the whole is going to show stable performance soon. The oil and material prices are going down in the international market, which further, would have positive impact on the economy.

The automobile industry is going through the testing times and needs immediate policy reforms. The auto industry is considered to be the mother of all industries. When it flourishes, it leads to the growth in other ancillary industries as well.

Our government should review the adverse measures taken in the previous budgets, such as imposition of 5% Federal excise duty (FED), 1% increase in sales tax and additional with-holding tax of 5% at the time of registration of car. The auto industry needs long term, consistent and stable investment - friendly policy to help achieve the set target of 500,000 units.

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(We look toward - beyond horizon)

## Acknowledgement

I would like to thank the customers, dealers, vendors, financial institutions and shareholders for their trust in the company. I thank Honda Motor Company & Atlas Group for their continued assistance especially in the new model launching of the company. I also appreciate Mr. Atsushi Yamazaki, President and CEO of the company for his able leadership during the challenging business environment and the staff members for their commitment and continuous hard work.



Lahore  
May 05, 2009

Yusuf H. Shirazi  
Chairman



