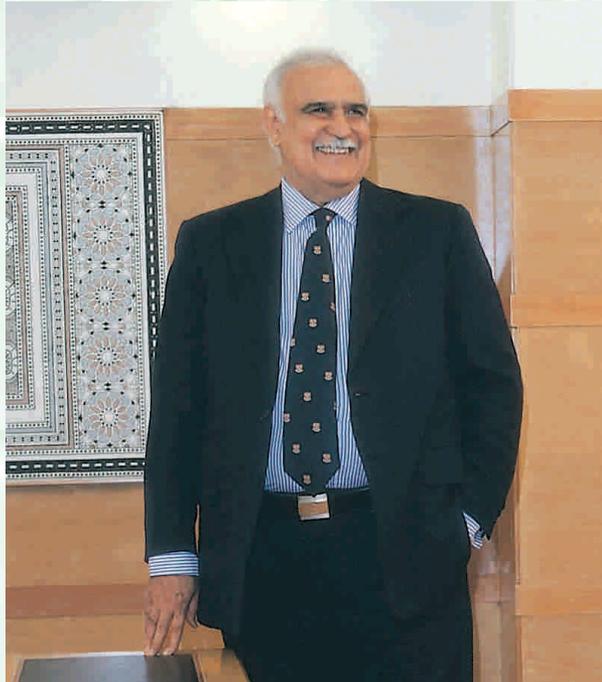


Chairman's Review



It's my pleasure to present you the annual audited report for the year ended March 31, 2005 along with auditors report.

Economy

The performance of the economy in the first three quarters of the fiscal year 2004-05, including agriculture, industry and service sectors are stimulating high domestic demand. A bumper cotton, rice and wheat crops will help to exceed agricultural growth target of 4.0% for the year. The manufacturing sector posted growth of 12.6% in the first eight months, with auto sector maintaining the leading role followed by textiles.

On the other hand, trade deficit widened at US\$ 4.2 billion, as export increased to US\$10.2 billion or 14.6% and imports at US\$ 14.5 billion or 37.8% in the same corresponding period, last year. The sharp rise in import bill was mainly due to higher oil prices in the international market and import of machinery and industrial inputs. The remittances from overseas Pakistanis were US\$ 2.9 billion against US\$ 3.0 billion in the same period, last year. The revenue collection for the first nine months of the fiscal year also grew

to Rs. 398.2 billion, showing an increase of 12.7% over the same period last year. Inflation is estimated at about 10.0%, raising the domestic production cost. However, foreign exchange reserves were at US\$ 12.9 billion. The Foreign Direct Investment is expected to cross one billion dollars by the end of the current fiscal year.

The Automobile Industry

The automobile sector witnessed impressive growth during the year under review - over an already high based set during the corresponding year of 2003-04 - due to combination of low interest rates, easy availability of credit & leasing facilities and increased remittances. The un-precedent rise in demand of cars has allowed the middleman to charge premiums, despite the State Bank of Pakistan debarring financing the premium - perhaps not properly implemented!

The total production of the passenger cars which is your company's business stood at 116,762 units against 88,881 units in the same corresponding, last year, up 31.4%. The sales also increased to 116,827 units against 88,386 units, up 32.2%. The tractors,

LCV & Busses and motorcycles in the organized sector (with over 100,000 in the unorganised sector) grew by 23.7%, 45.0% and 48.6% respectively over the last year. The category wise break up of quarterly production of all sectors is given below:

2004	Category	Q1	Q2	Q3	Q4	Total 2005	Increase over 2004
88,881	Cars	29,833	27,981	28,688	30,260	116,762	31.4%
33,853	Tractors	10,558	9,349	11,803	10,183	41,893	23.7%
17,439	LCV, Buses, Trucks	6,296	5,346	6,731	6,920	25,293	45.0%
262,680	Motorcycles	88,553	95,886	98,159	107,848	390,446	48.6%
	Total 2004-05	135,240	138,562	145,381	155,211	574,394	
	Total 2003-04	81,507	95,391	110,217	115,738	402,853	
	Increase	65.9%	45.3%	31.9%	34.1%	42.6%	
	Honda						
	2004-05	4,202	3,976	5,319	6,543	20,040	
	2003-04	2,283	2,362	3,333	3,608	11,586	
	Increase	84.1%	68.3%	59.6%	81.3%	73.0%	

Completely Built Unit's rate of custom duty at Rs 400.0 million, increase in salaries and wages, by Rs 34.7 million due to increase in manpower for starting double shift, increased royalty by Rs 134.2 million because of increased sales and adverse Rupee

The auto industry maintained growth in each quarter of the year, and on average, the quarterly production improved 31.4% as compared to the corresponding period last year.

Your company produced 20,040 units in the year under review against 11,586 units in the last year, up 73.0%. The sales also improved to 20,056 units against 11,750 units in the last year, up 70.7%.

Company Performance

The sales for the year ended March 31, 2005 increased to Rs. 16.6 billion or 76.6% compared to Rs. 9.4 billion, last year. The cost of goods sold also increased to Rs. 16.3 billion or 89.5% against Rs. 8.6 billion in the last year. The gross profit reduced to Rs. 283.0 million against Rs. 755.9 million in the same corresponding period. The decrease in gross profit was mainly due to provision for custom duty on certain CKD components, which were subject to

Dollar and Yen Dollar parity resulting in a total adverse impact of Rs 576.0 million. The administration and selling expenses were in line with increase in sales, at Rs. 199.5 million against Rs. 160.9 million in the same corresponding period, up 23.9%. However, in terms of sales, the expenses reduced from 1.7% last year to 1.2% of sales in the current year under review. The increase in cost could not be passed on to the customers, until February 2005, when prices of all Honda Civic models were increased by Rs. 39,500 and all City models by Rs. 40,000 in order to absorb some increase.

During the year, the company invested the excess liquidity in the long term venture of Pakistan Investment Bonds (PIB), Rs. 500.0 million, at 6.2% against normal bank rate of 2.6% and in open-end and closed-end mutual funds, Rs. 227.5 million, at 20.3%, in order to ensure greater yields on its surplus funds. Thus, other income was Rs. 197.2 million against Rs. 73.1 million. Other operating expenses

were reduced to Rs. 16.1 million against Rs. 45.6 million last year. The financial cost however increased to Rs. 5.9 million against Rs. 2.3 million last year, mainly due to interest paid on customers advances owing to delivery after stipulated time period.

The profit before tax was thus Rs. 258.6 million against Rs. 620.2 million in the last year. After provision of taxation, the profit after tax was Rs. 162.2 million against Rs. 408.7 million last year. The earnings per share thus also reduced to Rs. 3.9 against Rs. 9.7 per share, last year. The return on equity after tax was 8.1% for the current year against 22.5% for the last year.

The company has effective cash flow management systems. Since the start of operation, the company has always relied on internal source of financing for working capital and long term capital requirements and has seldom borrowed funds. The management project cash inflows and outflows on regular basis to forecast the future cash needs and maximum utilisation of excess funds through diversified investments opportunities. The gross cash flow from operating activities during the year was Rs. 3.9 billion against Rs 3.1 billion last year.

The Board of Directors in its meeting held on May 05, 2005 proposed 22.5% cash dividend (Rupee 2.25 for every ordinary share of Rs 10/-) for the year ended March 31, 2005. Thus the company continues to pay dividend to the shareholders, since the very second year of its start of production in 1994. The company has the privilege to have made profit in the very first year of its operation.

The company contributes to the national exchequer through sales tax, excise duty, income tax and other levies each year. In the year under review, the company deposited a sum of Rs. 6.4 billion in the government treasury, 68.4% more than the last year, totalling to Rs. 21.1 billion since the start of commercial production in 1994.

During the year renovation work was started at all 3S dealerships and 2S Pitstops to upgrade infrastructure facilities for customers' convenience and comfort.

The company celebrated its 10th anniversary on July 16, 2004. Mr. Koji Nakazono General Manager of ASEAN, East Asia & Oceania Operations, Honda Motor Co. Ltd flew from Tokyo to grace the occasion.

In continuation to our services to the local community, your company has renovated the operation theatre of the Manga Hospital and have provided them Ultra Sound Machine and various surgical instruments to meet emergencies of local people.

Safety and Environment

The company believes in improvement in quality of life of people through conservation, protection and improvement in the safety and environment conditions. The plant operates under strict safety and environmental controls with immaculate monitoring. Last year, your company got certification of Environment Management Systems (EMS) ISO14001 and continues to follow the EMS standards. During the year, the surveillance audit of Environment Management Systems (EMS) and Quality Management Systems (QMS) were held successfully. Your company hosted 5th South West Asia Environment meeting at the factory premises, 27 representatives of different Honda companies in the region participated. The purpose of the meeting was to share ideas and integrate the activities of each company towards safe and green factory image.

Human Resources

Mr. Hiromitsu Yatsumonji - General Manager After Sales Division, Mr. Haruhiko Kasai and Mr. Kazuei Azuma, Technical Coordinators after serving the company for three years returned to Japan. I would like to acknowledge their contribution towards the

growth of the company. I would like to welcome the new members, Mr. Tetsuo Noguchi, General Manager Press Shop, Mr. Masami Nishimura and Mr. Takayuki Irifune, Technical Coordinators and Mr. Masakatsu Narita, Business Coordinator. I look forward to their contribution towards the growth of your company.

Human resource capital of the company is the main driving force to integrate the other resources, materials and machinery - three Ms' approach - and technology to produce the desired results. The Company believes in providing healthy working environment to focus on developed, disciplined and trained workforce through in-house, out sourced and foreign trainings, for desired skills and overall capability, which has always been a crucial factor in achievement of desired results. Since the start of double shift operation, the company has created employment opportunities for local community - young engineers and skilled & semi skilled workers. The total manpower strength has increased from 625 associates in March 2004 to 1,032 associates i.e. 65.1% at the close of the year under review at increased monthly salary bill from Rs. 9.2 million last year to Rs. 12.0 million this year.

Capacity Expansion

In 1994, the plant was constructed with installed capacity of 5,000 units on single shift basis. This moderate capacity continued to cater to the business requirements for some years. For the last couple of years, due to rising demand, the immediate expansion was inevitable. Thus the paint shop, being bottleneck of the process, was expanded with installation of another paint booth at a capital cost of Rs 185.0 million in order to enhance the production capacity. Due to this expansion, coupled with the double shift operation and extended process efficiency, now the plant has annual capacity of 30,000 units on double shift basis against 12,000 units last year. The honourable Minister for Industries, Production and Special Initiatives, Mr.

Jehangir Khan Tareen inaugurated the expansion of the capacity on December 20, 2004.

After running on trial basis for a couple of weeks, the plant started operation on double shift basis from September 2004 and gradually monthly production was increased to 2,403 units in December 2004. Now onward, on an average, the company plans to produce 2,500 units monthly. The paint shop expansion yielded dividend, as the quarterly production showed 33.8% and 23.0% increase in the third and fourth quarters respectively. The market share in its product range which was 36.6% in the first quarter of the year under review, increased to 48.4% in the fourth quarter.

The company is on the next leg of expansion - 50,000 units by the year 2007 - with an increased emphasis on localization as per the law and the rules. An added facility will be a press shop for pressing locally hi-tech value added parts.

Future Outlook

The economy is set to achieve over 7% GDP for the ensuing year with appropriate increase year after year. With most of the economic indicators showing positive trends, the growth prospects have improved considerably. On the other hand, the rate of inflation, about 10%, fuelled by high liquidity growth, increase in oil prices and resultant overall cost increase in production poses major challenges to the economy. The SBP has increased the bank discount rates from existing 7.5% to 9% in order to soften the pressure on demand management.

Last year, the government reduced the rate of custom duty on CBU cars from 75%~150% to 50%~100% as lower and upper limit respectively on different cars. The provision of NTN number for every buyer of locally assembled car has been made mandatory. Despite these different measures the customer demands the recognized brands - also the locally manufactured brands, including Honda cars.

There are also the challenges from WTO and SAFTA. WTO, however, does not restrict protection of local industry as it is obvious in USA, India and other Asian countries. It only demands equal treatment for local and foreign supplies. However, government is clear on localization of the industry and is providing necessary incentives. The SAFTA agreement has yet to be activated and show what does it mean? Its implementation, however, is from the 6th year onwards. Negative list may have to be prepared as in other countries in same or similar circumstances in which the auto industry is obviously to be out of it, till it is in a position to compete effectively - nay export - regionally and intra-regionally - to say the least. There have been statements from relevant quarters guaranteeing "WTO or no WTO and SAFTA or no SAFTA", local investment, indigenization and employment will continue to be ensured in the national interest - as in other countries.

With all these challenges, including indigenization and import of CBU units, I foresee the demand for locally manufactured cars will continue to grow on brand to brand basis. Your company will be in the forefront in this respect. Your company will continue to focus on quality, cost, delivery, management and safety - QCDMS - increased deletion and sales and after sales service support befitting the society, on the whole.

اے اک گوناں بے خودی مجھے دن رات چاہئے

(We are committed to grow in whatsoever circumstances!)

Acknowledgement

I would like to thank our valued customers for their trust and confidence in our product. I thank M/s Honda Motor Company and Atlas Group of Companies for their support and continue to look forward to their assistance to meet the future challenges. I am grateful to the Government, vendors, bankers, dealers, our shareholders and Mr.

Mamoru Suwama, President and CEO and his team for their continued strategy to build the unit and performance in the best possible interest of society at large.



Lahore
May 05, 2005

Yusuf H. Shirazi
Chairman