

Chairman's Review

It is pleasure to present you the financial statements for the half year ended September 30th, 2012 with limited review report by Auditors.

The Economy

The Pakistan economy has endured several challenges to achieve economic stability. However, the current year is displaying signs of improvement, despite being faced with various global and domestic challenges.

The GDP growth target for financial year 2012-13 has been set at 4.3% which seems quite challenging in the present scenario. However, the SBP's policy to reduce discount rate may help in spurring the requisite economic growth. The latest reduction by 50 bps will, to some extent, help to lessen the burden of increasing cost of doing business. The inflation continued to ease to 9.1% in July-September 2012 period as against to 11.5% during the corresponding period, last year. Overseas Pakistani workers' remittances continued to increase at US\$ 3,599.1 million during July-September 2012 quarter as against US\$ 3,297.2 million during the same period last year, showing a growth of 9.1%. The trade deficit contracted 10% to US\$ 4.7 billion from July-September 2012 as against US\$ 5.2 billion during the same corresponding period. Exports grew 4.3% year-on-year basis to US\$ 6.2 billion, while imports decreased 2.4% to US\$ 10.9 billion, which are US\$ 264 million less than the import bill of corresponding period. Meanwhile, foreign exchange reserves fell to US\$ 14.4 billion at the end of first quarter as against US\$ 17.3 billion in September 2011.

Automobile Industry

The growth of automobile industries has been hijacked by the influx of used cars. In the fiscal year 2011-12, more than 55,000 units of used cars were imported under the schemes of transfer of residence, personal baggage and gift schemes, which have been widely misused by the commercial importers. The government may have to take concrete measures to check this practice for long term consistent growth of local automotive industry. The total car production of the industry for the quarter under review was 29,253 units as against 33,158 units in comparable quarter, decreased by 11.8%. Similarly, the sales units for the quarter were 26,806 as against 38,065 units of the last comparable quarter.

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The Company

During the period under review, the company's production and sales increased 31.9% and 11.9% respectively. The growth in sales was lower than production due to lesser demand in automobile market in Jul-Sep 2012 quarter. The company produced 9,856 units in first half of 2012-13 against 7,475 units during the corresponding period of last year, whereas sale was 8,570 units against 7,659 units in the same period, last year.

On September 18, 2012, the company launched 9th generation of new Honda Civic. The new model has many features which have been introduced first time in Pakistan automobile industry - like Econ for better fuel economy, intelligent Multi-Information Display (i-MID), audio and cruise control in steering wheel with many other safety and performance features. The model has been accepted very well by the customers.

Financial Results

During first half of the year, your company posted 20% increase in sales revenue and recorded net sales of Rs 12,793.0 million. The company earned gross profit of Rs 549.2 million. The GP margin increased from 2.54% of last year to 4.29% in the period under review.

The administrative and selling expenses increased to Rs 191.8 million against Rs 142.8 million last period. The increase was due to marketing and promotional expenses on launching new model of Honda Civic. The operating profit was Rs 136.6 million as compared to Rs 151.5 million of last year. Other income was Rs 28.5 million. The financial charges were increased to Rs 131.5 million as against Rs 54.2 million in 1H of last year due to markup on bank borrowing.

The Pakistani currency continued to be under pressure against major international currencies and thus increased the cost of production during the half year. The company passed on a part of the exchange rate impact to customers with increase in retail price of Honda Civic and City. As a result, the profit before tax was Rs 5.1 million and after necessary tax adjustments the company had loss after tax of Rs 70.9 million for the half year 2012-13.

The second quarter of July-September 2012, posted profit before tax of Rs 254.6 million and profit after tax of Rs 150.1 million. So the company had improvement in bottom line results in Q2 as compared with Q1 of the first half of the year.

Future Outlook

The key challenges facing Pakistan's economy emanates from long standing structural issues which have continued to stifle economic activity and growth. The macroeconomic outlook is largely dependent on government's ability to control fiscal deficit while addressing energy shortage to revitalize large scale industry manufacturing and GDP growth. A protracted power and gas shortage is affecting the economy. Agriculture, with 21% contribution to the GDP, holds the key to economic revival. Support price and subsidies to former will create liquidity in the rural areas which in turn will benefit the manufacturing industry. With a population of more than 180 million people and significant resources at the country's disposal, we believe that the economy has the potential of taking strides towards growth and promising future:

ملت کے ساتھ رابطہ استوار رکھ
پیوستہ رہ شجر سے اُمیدِ بہار رکھ

(We believe in Societal Development in whatsoever case)

Acknowledgement

I would like to acknowledge the continued support of Honda Motor Company Ltd., Japan and Atlas Group, our customers, vendors, bankers and shareholders for their continued support and confidence in the company. I also thank Mr. Takeharu Aoki, President & CEO of the Company, along with his team, for his inspiring leadership & dedication in the challenging business environment.

November 27, 2012
Lahore



Yusuf H. Shirazi
Chairman