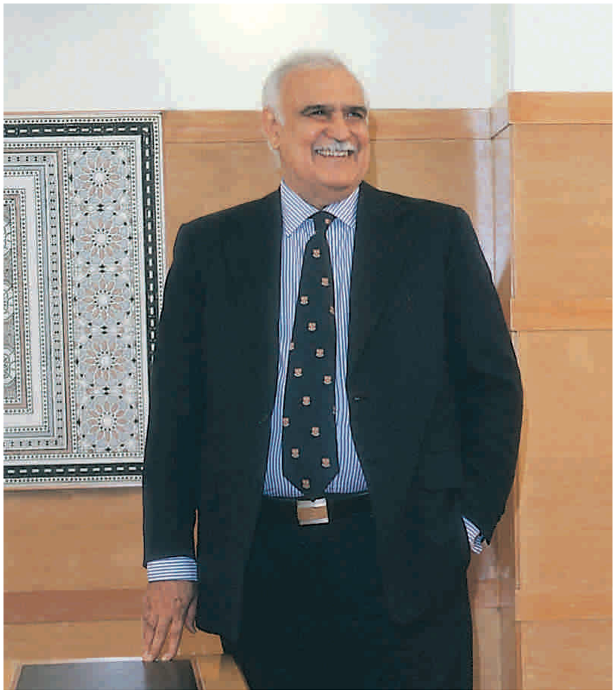
Chairman's Review



It is a pleasure to present you the annual audited account for the year ended March 31, 2006 alongwith auditors report.

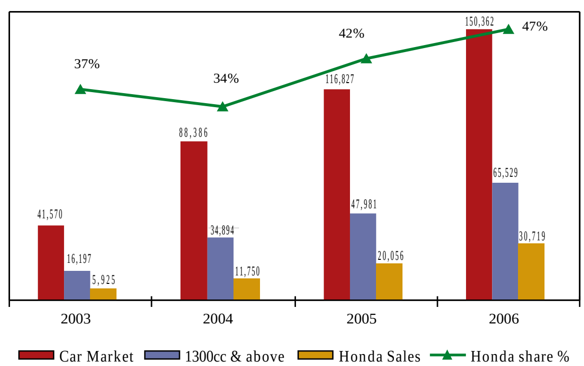
Economy

The Pakistan economy continued to expand despite the impact of earthquake and rising energy prices. It is expected to maintain growth during the current financial year - around 6% as compared to last years' 8.4% GDP, due to under performance of agriculture and large scale manufacturing. The inflation was 8.3% and the balance of payment deficit widened to US$ 8.6 billion. However, the service sector performed better at 6.5% than anticipated due to market expansion in the telecommunication and financial sectors.

The exports for the first nine months were US$ 12.1 billion, up 18.6%. Imports were higher at 18.6%, US$ 20.7 billion, due perhaps, also because of petroleum prices, import of machinery and new & reconditioned vehicles. The remittances improved to US$ 3.2 billion. The foreign exchange reserves increased to US$ 12.0 billion. The Foreign Direct Investment stood at US$ 2,224 million from US$ 793 million compared with corresponding period last year. The revenue collection improved 20.2% at Rs. 482.4 billion. The continued bank credit expansion is the reflection of the positive business sentiment and sustained recovery.

Automobile Industry

The automobile industry continued double digit growth for the fourth successive year. However, when growth started taking momentum, the budget for the year 2005-06 announced third consecutive reduction in import duties on CBU vehicles, to 50% ~ 75% on different engine capacities - coupled with 2% depreciation allowance against 1% on cars imported on transfer of residence and gift schemes - at the cost of the local productions. This resulted in a lower growth of automobile industry as compared to last couple of years.

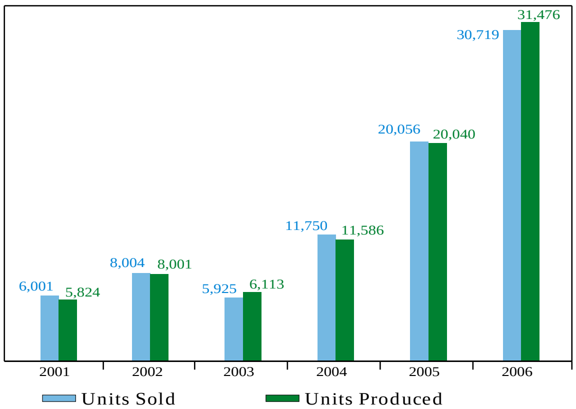


Car Market Growth (Units)

Total production of passenger cars stood at 152,010 units during the year under review against 116,762 units in the corresponding period, last year, up 30.2%. The sales grew to 150,362 units against 116,827 units, up 28.7%. Unlike previous years, a change in the customer buying pattern was witnessed and 36.8% growth in the 1300cc & above category cars was observed, whereas the increase in the category of cars upto 800cc was 14.8% and upto 1000cc was 33.5%. Other sectors - Tractors, LCV & Buses / Trucks and Motorcycles grew 15.2%, 45.9% and 26.9% respectively. The detail of quarterly production figures for the year is as under:

2004-05	Category	Q1	Q2	Q3	Q4	2005-06	Increase
116,762	Cars	39,532	36,189	36,816	39,473	152,010	30.2%
41,893	Tractors	11,865	11,127	13,101	12,155	48,248	15.2%
25,293	LCV, Buses, Trucks	9,795	8,400	8,856	9,104	36,155	42.9%
390,446	Motorcycles	114,296	132,643	127,226	121,471	495,636	26.9%
574,394	Total 2005-06	175,488	188,359	185,999	182,203	732,049	27.4%
	Total 2004-05	135,240	138,562	145,381	155,211	574,394	
	%age Increase	29.8%	35.9%	27.9%	17.4%	27.4%	
	Honda 2005-06	8,292	8,080	7,112	7,992	31,476	
	Honda 2004-05	4,202	3,976	5,319	6,543	20,040	
	%age Increase	97.3%	103.2%	33.7%	22.1%	57.1%	

Your company continued to increase its monthly production, through extended working hours and increase in production efficiency. A total of 31,476 units were produced against 20,040 units in the corresponding period, last year, up 57.1%. The sales were 30,719 units against 20,056 units of last year, up 53.2%.

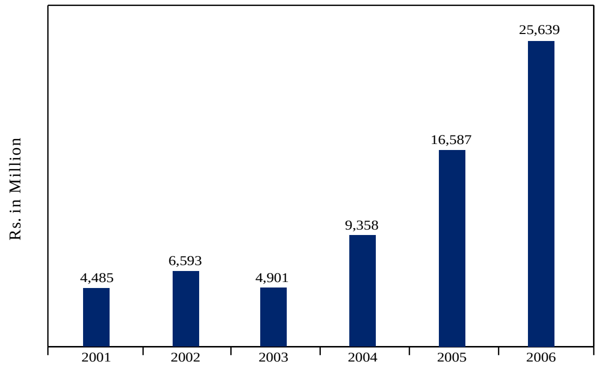


Units Produced and Sold

On the other hand, reduction in CBU tariff announced in the last budget resulted in influx of new and reconditioned cars. This is creating unfavourable business conditions for Original Equipment Manufacturers at this critical point of time, when the OEMs have already started huge investment in capacity expansions. From January 2005 to January 2006, a total of 23,149 cars were imported, which included 13,165 used cars under transfer of residence and gift schemes and 9,984 new units due to lower tariff attraction. The local industry is losing its share to imported cars due to downward reduction in duties, lowest in the region as compared to India and Thailand. With the steadily increasing production, the demand and supply gap has reduced substantially. Most of the vehicles are now available on normal delivery time. If the liberal import policy continued, soon the manufactures will face unprecedented rise in production costs due decreasing demand of locally built units, followed by low capacity utilization and rise in fixed costs, an issue which needs to be addressed sooner than later!

Company Performance

The sales increased to Rs. 25,638.7 million, up 54.6%, for the year under review against Rs. 16,587.2 million last year. The cost of goods sold increased to Rs.

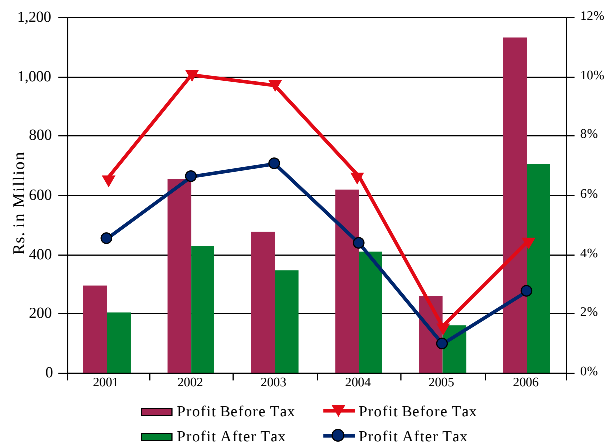


Sales Growth

24,471.2 million against Rs. 16,304.2 million. The gross profit was up to Rs. 1,167.5 million against Rs. 283.0 million previous year, showing an improved gross profit margin of 4.6% against 1.7% of last year, attributed to higher production and sales and upward adjustment in price of New Honda City model to reduce escalating inflationary pressure. The administrative and selling expenses were Rs. 284.4 million against Rs. 199.5 million in the same period of last year. However, these expenses were reduced in proportionate of sales from 1.2% of the last year to 1.1%. The company increased its manpower to meet extended production targets and adjusted the entry level salaries of associates last year, which resulted in 47.0% increase in the overall wage bill to Rs. 284.8 million in the current year. The advertising and promotion expenses also increased to Rs. 44.0 million, up 68.0%, due to launch of Honda Accord and new model of Honda City in August 2005 and January 2006 respectively.

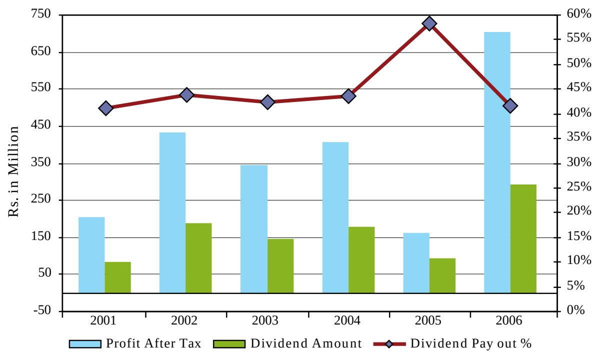
The company had invested a part of its funds in Pakistan Investment Bonds and open-end and close-end mutual funds last year. This year the company further invested Rs. 300 million in mutual funds, making a total investment of Rs. 1,042 million. The company earned an income of Rs. 258.5 million during the year against Rs. 131.4 million in the last year. The scrap sale also increased in proportionate to production. The other income increased to Rs. 377.9 million over the same period of last year, up 91.6%. The financial and other charges increased to Rs. 127.3 million against Rs. 22.1 million, mainly due to mark-up on short term running finances and customer advances. The increase in WPPF and WWF provisions were in proportion to profitability for the year.

Thus, the profit before tax improved to Rs. 1,133.7 million against Rs. 258.6 million of the last year. After tax provisions, the profit increased to Rs. 705.3 million against Rs. 162.2 million, last year. The after tax earnings per share was Rs. 16.8 and return on equity 29.4% against Rs. 3.9 and 7.7% respectively last year.



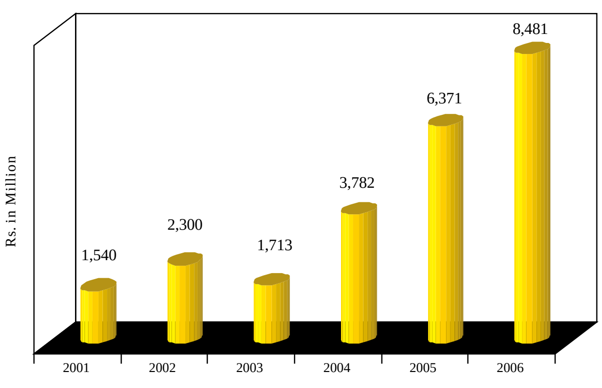
Profit Growth

The Board of Directors in its meeting held on April 29, 2006 recommended 70% bonus shares (i.e. 70 ordinary shares for every 100 ordinary shares) subject to the approval of shareholders in the 14th Annual General Meeting. Thus, a total of Rs 294.0 million will be capitalized and Rs 411.5 million will be transferred to general reserves out of profit of the year, resulting in an increase of shareholders equity to Rs 2,705 million.



Profit and Dividend

The company has paid an amount of Rs. 8.5 billion to the government exchequer in the form of custom duty, sales tax, income tax and other duties, which is 33.1% more than the last year. In total, the company has contributed Rs. 29.5 billion to the government revenues since the start of commercial production in 1994.



Contribution to National Exchequer

In December last year, the company celebrated 100,000th car rolling out. The company started its operations in July 1994 and completed first 50,000 production units of cars in September 2003 in 9 years of operation. The second lot of 50,000 units were produced and sold in less than two and half years, reflecting also growth in the ensuing years.

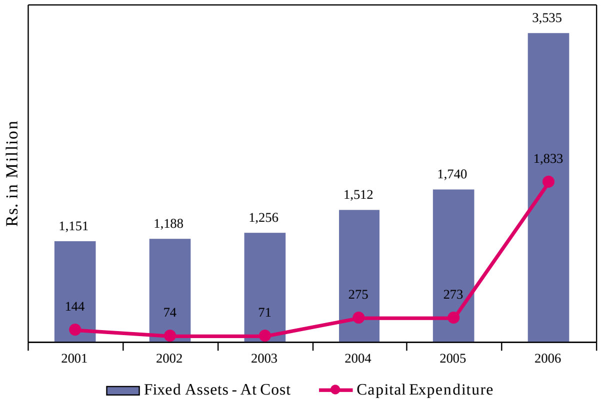
New Models

Following the government policy – contrary to Honda's policy of globalization – whereby it has its own localization programme, the company also entered into the CBU business with launching of Honda Accord in August 2005. The new accord embraces an array of technological advantages, including 2.4 litre i-VTEC engine, five-speed automatic transmission and other safety and environmental features. The response was overwhelming and the company ensured delivery within a few days of booking.

Honda is committed to innovations and keeping abreast its customers with the latest technology. Following its tradition, the company launched new model of Honda City in January 2006 in 1300cc and 1500cc categories. The addition of new 1500cc Honda City Steermatic – CVT + 7 speed modes is the first Euro 3 compliant car in Pakistan. The Euro 3 emission standards are applicable in Europe and are considered to be among the strictest standards worldwide.

Capacity Expansion

In September 2005, the company inaugurated its Manufacturing Capacity Expansion activities. In order to meet the growing market needs and expected future growth, the company has embarked on production capacity expansion and in-house value addition at a total cost of Rs. 3.0 billion to be completed by the end of the year 2006. The honourable Prime Minister of Islamic republic of Pakistan, Mr. Shaukat Aziz graced the occasion together with Mr. Satoshi Toshida, Sr. Managing Director of Honda Motor Company.



Fixed Assets Vs Capital Expenditure

The company is now adding press shop and injection moulding facilities to manufacture in-house sheet metal and plastic parts. These developments would be helpful to improve quality of local parts, increase localization and reduce costs.

Soon after completion of current expansion work, the company will be able to produce 50,000 units a year. The company has purchased 39 acres new land adjacent to existing factory at the cost of Rs. 366 million for future capacity expansion to 100,000 units, if favourable business environment continues. The company has purchased another 18 acres of land at a cost of Rs. 66.2 million in Sunder Industrial Estate to accommodate some of our vendors – particularly from overseas.

Human Resources

During the year, Mr. Motohide Sudo and Mr. Masaaki Suzuki joined the Board of Directors to replace Mr. Koji Nakazono and Mr. Toshitsugu Kaneko respectively. Mr. Kenichi Ozeki replaced Mr. Keizaburo Otaki as Director / Vice President (Production). Similarly, Sardar Abid Ali Khan replaced Mr. Raffat Iqbal as Vice President, HR & Admin and Company Secretary. Mr. Razi-ur-Rahman replaced Sardar Abid Ali Khan as General Manager, Logistics. The Board place on record the valuable contributions made by the outgoing gentlemen and welcome their successors.

The total manpower strength as on March 31, 2006 was 1,198 associates as compared to 1,032 associates a year ago. The increase of 16.1% in manpower was injected to support enhanced production, sustain quality and other administrative activities. The turnover per employee, which was Rs. 16.1 million for the year ended March 2005, increased by 32.9% to Rs. 21.4 million per employee in the year under review, showing improvement in manpower efficiency and maximum utilization of the most valuable assets of the company.

The Company has spent more than Rs. 13.7 million on the training & development of its associates as against Rs. 1.4 million last year.

Community Welfare

The company contributed Rs. 10 million to the President's Relief Fund for Earthquake Victims to support relief activities after the unfortunate disaster hit in October 2005. Our regional office in Thailand contributed about Rs. 3.7 million – totalling Rs 13.7 million. The associates of the company also participated in this cause through voluntarily contributions.

Each year your company, contribute to the welfare of the local community. This year the company provided water pipelines worth of Rs. 1.0 million to ensure supply of clean and hygienic drinking water to the residents of the Manga Mandi.

Future Outlook

Last year, the economy grew with the fastest rate of growth in last two decades, but inflation and current account deficit have emerged as big challenges in future. The GDP growth rate for the current year is likely to be around 6%.

Over the last couple of months, the rise in local productions have gradually defused the premium and waiting period phenomenon. Now all of our models are available without any premium and waiting period.

The industry has been under pressure with gradually decreasing import duty on CBU - without proportionate reduction in other input cost - which has resulted in availability of imported cars at lower prices. The customers are tempted with the low price difference of local and imported cars. This situation is not only depriving the local industry from its market share but also causing burden on foreign exchange reserves with rise in imports.

The industry depends on consistent government policies. Any changes in the priorities, to address short term issues, not only affect long-term growth but also discourage investment. In last one and half decade, the industry has experienced more than two dozens policy and tariff changes.

It is expected that existing penalty driven localization policy will be replaced by new Tariff Based System, encouraging value addition and localization. The high tariff rates would be applicable for components being manufactured in Pakistan, while low tariff rates would be applicable for components not manufactured locally.

The management of your company will deepen its focus on localization - plant expansion and improve upon productivity of men, machines and materials and play proper role of logistics for cost control. Among others, company's 5S formula – productivity approach – Sorting, Sweeping, Straightening, Standardizing, Sustaining – coupled with 3Rs Respect, Recognition and Rewards, six basics of employee motivation – image of the company, job security, career planning, competitive compensation, interpersonal relationship and team spirit will further help. With economic stability and handsome growth in demand of automobiles and motorcycle, your company is expected to perform satisfactorily in the ensuing periods:

ع کریں گے اہل نظر تازہ بستیاں آباد

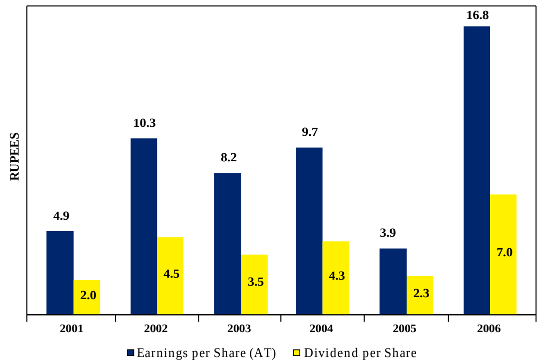
(Those with Vision will continue to build, rebuild and build aptly)

Acknowledgement

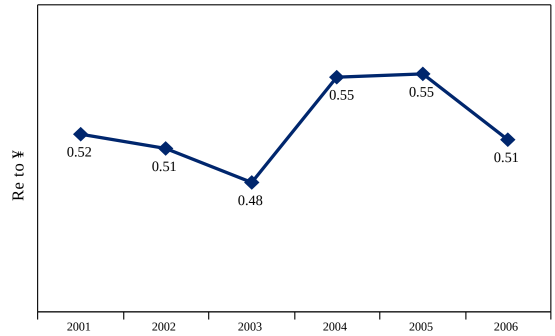
I would like to express my sincere gratitude to our valued customers for their trust and confidence in the company product. I would like to thank Honda Motor Company and Atlas Group for their continued support and implementation of capacity expansion project and cooperation in maintaining high standards of excellence. I thank bankers, dealers, vendors, shareholders and Board members. I also thank Mr. Mamoru Suwama and his team for their countless hours of work to build an even greater company in order to serve our customers better.

Lahore
April 29, 2006

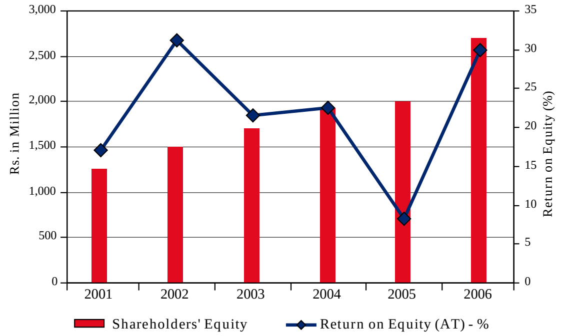
Earning and Dividend per Share



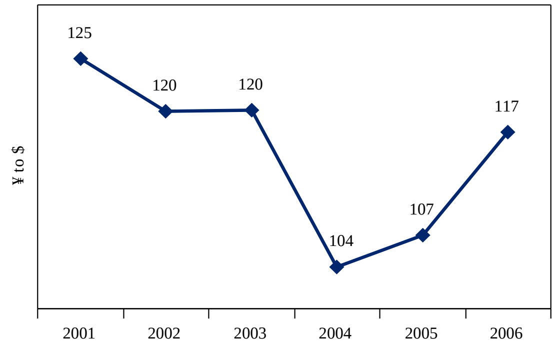
Re to ¥ Movement



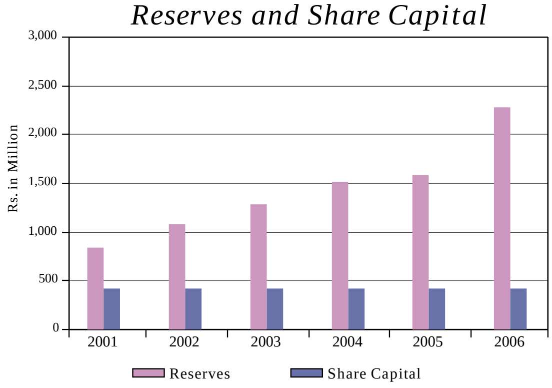
Shareholder's Equity and Return on Equity



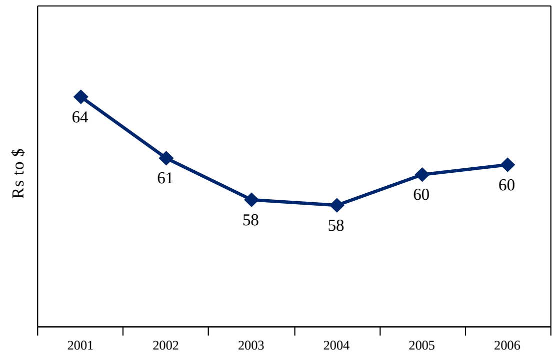
¥ to $ Movement



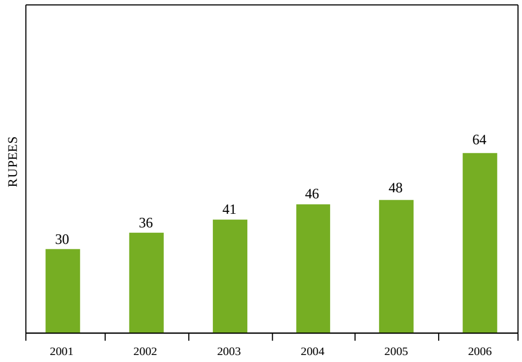
Reserves and Share Capital



Rs to $ Movement



Break up Value



Share Price Movement