

DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED JUNE 30, 2010

Dear Shareholders,

The Directors have the pleasure of presenting the annual report of your company based on the results of its operations along with the audited accounts for the year ended June 30, 2010.

Fiscal 2010 was comparatively a better year for the manufacturing industry and especially for the automotive sector. These better results of auto sector are evidently reflected in company's sales and operating profitability wherein company has prospered yielding a sales growth of 61.87% and a after tax profit growth of 44.21% which has created value for its stake holders.

The Board of Directors' is therefore pleased to recommend a highest ever cash dividend of 90% i.e. Rs 4.50 per share. The Board has also recommended appropriation Rs. 280 million from un-appropriated profits to General Reserve.

PAKISTAN'S ECONOMY

Pakistan's macroeconomic indicators witnessed a moderate recovery after 2 years of sluggishness. The economy grew by a provisional 4.1% after a modest growth of 1.2% in the year 2008-2009. Agriculture sector grew by 2%, large scale manufacturing posted a growth rate of 4.4%. The service sector grew by 4.6%.

The macroeconomic condition remains difficult due to the energy crisis and deteriorating law & order situation. The recent floods across Pakistan poses an additional challenge for the year 2010-11.

AUTOMOTIVE SECTOR

The auto sector remained steady and locally produced passenger cars are in demand because of the quality and cost effectiveness. More-specifically the passenger car & tractor segment has shown a robust growth during the year under review.

Summarized automobile production figures comparing 2009-10 with 2008-09 appears below:

	2009-10	2008-09	Change
Passenger Cars	121,647	84,308	44.29%
Light Commercial Vehicles	16,940	17,092	(0.88%)
Trucks & Buses	4,053	3,797	6.88%
Tractors	71,607	59,968	19.40%
Motorcycles (2 & 3 Wheelers)*	736,861	509,054	49.29%

Source : PAMA report June 2010

** Does not include non-PAMA members*

SUMMARY OF FINANCIAL RESULTS

Following are the summarized financial results of the Company for the year 2009-10 :

	<u>(Rs. '000)</u>	
	<u>2009-10</u>	<u>2008-09</u>
Turnover	3,906,482	2,413,309
Gross Profit	956,234	485,166
Profit before Taxation	685,273	401,878
Taxation	(291,031)	(128,507)
Profit after Taxation	394,242	273,371
Earnings Per Share (Rs.)	13.69	9.49

OPERATIONS

Sales: Sales during the year 2010 remained steady with a turnover of Rs. 3.906 billion, an increase of Rs. 1.493 billion or 61.87% over previous year. Sales in the after-market did reflect significant improvement over previous year and it is expected that the growth trend will Inshallah be maintained.

Cost of Sales : Cost of sales of Rs. 2.950 billion increased by Rs. 1.022 billion or 53.01% over the last year. The Gross Profit margin has increased from 20.1% of last year to 24.5% during financial year 2010. The main reason for this increase was the overall increase in turnover and timely adjustment of prices from the customers due to decline in Rupee parity.

Distribution Cost : This cost has increased from Rs. 43.459 million of last year to Rs. 50.786 million this year, an increase of 16.9%. This increase is primarily due to increase in transportation charges & other costs related to sales.

Administrative Expenses: This cost has increased by Rs. 22.531 million from Rs. 47.762 million last year to Rs. 70.293 million this year, an increase of 47.2%. This increase is largely due to induction of new team members, increase in security services due to conditions in Hub area, general inflation etc.

Other Operating Income: Your Company earned Rs. 52.46 million during the year on its excess liquidity. (2009 : Rs. 14.26 million) through prudent investments.

DISINVESTMENT OF SHARES OF MAKRO HABIB PAKISTAN LIMITED (MHPL)

During the period your Company received a non-binding expression of interest from Thal Limited for acquiring the entire shareholding of MHPL the Company owned 24.75 million shares in the capital of MHPL.

Pursuant to the receipt of the aforementioned offer for disposal of its shareholding in MHPL to Thal Limited (TL), a related party, a Share Purchase Agreement (SPA) dated May 14, 2010 was signed, at an aggregate consideration of Rs.157.658 million. In terms of the SPA, the Company has received an amount of Rs.108.405 million from TL towards the purchase consideration of the said shares. However, the balance consideration amounting to Rs. 49.253 million shall only be payable by TL subject to the following:

a) TL determines that the Group tax relief for the years 2008-2010, as claimed by TL, can be fully sustained or is unable to make such determination by June 2014; and

b) TL determines that MHPL will not incur an impairment loss in case of closure of its Sadder store or is unable to make such determination about the impairment by June 2014.

Accordingly, the contingent balance payment for (a) and (b) above, amounts to Rs. 28.710 million and Rs. 20.543 million respectively. The management, as a matter of prudence, has made a full provision against the said contingent receivable in these financial statements.

RECONSTITUTION OF THE BOARD

During the period the following casual vacancies were created due to resignation of directors. These casual vacancies in the Board were filled up by the new director as follows:

<u>S#</u>	<u>Name of Director</u>	<u>Date of resignation</u>	<u>Date of appointment</u>
1.	Qazi Ebadullah Khan	December 31, 2009	
2.	Mr. Asif Rizvi		January 01, 2010
3.	Mr. Tariq Saud Quddusi	January 12, 2010	
4.	Mr. Alireza M. Alladin		January 13, 2010
5.	Mr. R. D. Minwalla	February 28, 2010	
6.	Mr. Yutaka Arae		March 01, 2010

During the year, the founder Chairman, Mr. R.D. Minwalla resigned and, in his place Mr. Yutaka Arae has been appointed as the new Chairman of the Company. The BOD recognizes with deep appreciation the efforts of the outgoing Chairman who actively contributed in nurturing the company in bringing it to this state. A hearty send-off was given to the outgoing Chairman by all the employees of the company by offering farewell lunch. Mr. Yutaka Arae, has been the Vice Chairman of Indus Motor Co. Ltd and involved in Pakistan Auto Industry for the last 14 years. He was also the Head of Operations with Toyota Tsusho Corporation.

During the year Mr. Fahim Kapadia was also appointed as the new CEO of the company in place of Mr. Qazi Ebadullah Khan. During a short span, Mr. Khan took the baton of the company forward successfully. He resigned on personal grounds.

Mr. Tariq Saud Quddusi, who was acting as Director Manufacturing resigned during the year. The Board acknowledges the services rendered by him during his tenure.

The Board welcomes the new Chairman, Chief Executive and the Directors namely, Mr. Alireza M. Alladin and Syed Asif Rizvi and expects the dedication from them to take the company to new heights.

CONTRIBUTION TO THE COMMUNITY (CSR)

As a responsible corporate citizen, your Company is fully committed towards helping the humanity through its different CSR activities. During the year 2010, your company has actively participated in the UN Global Compact, through implementation of its 10 Principles and has contributed Rs. 6.4 Million towards different social causes.

a) Community Development:

Agriauto has been supporting a Girls School at Hub wherein efforts are made to increase the educational standards and improve the facilities at the school. Assistance is being extended on a regular basis on improvement of training aids, teachers training and infrastructure development.

The company has also been supporting the Jam Ghulam Qadir Hospital at Hub to improve its medical facilities and infrastructure (ER and OT Room). Furthermore, training of Trained Birth Attendants (TBAs) of local community has also been provided.

The company provides regular assistance and help to the poor widows of Hub and surroundings, in the shape of rations/utility items every year (200 families)

b) Welfare Spending for under-privileged class:

The company recognizes its responsibility as a social partner with the rest of the community and the stakeholders and contributes actively towards the trust and NGOs working for human cause including health and social welfare.

c) Industrial Relations:

The company culture has been developed in a manner that all senior and junior team members work together towards achieving the vision of the company.

Distribution of ration to all Workers, Celebrating company successes and providing higher education to Workers as part of our Adult Literacy Program has contributed in strengthening the AIL family.

d) National Cause Donations:

Active contribution to the IDP's of Northern Areas and provided mixed dry fruit for troops in Waziristan.

e) Contribution to National Exchequer:

In year 2009-10, your company has contributed Rs. 1.2 billion to the National Exchequer.

Our focus areas will remain on improving the quality of education of the underprivileged class and uplifting the facilities of the local community through active participation in community investment and welfare schemes. Furthermore, in addition to Rs 3 Million provided for the relief activities of the flood affectees in year 2010-11, our AIL Family has also contributed their one day's salary for their rehabilitation.

HUMAN RESOURCE

The company has enhanced its focus on human capital, especially in the areas of human resource development and talent management. Accordingly employees were sent on various Management and Technical trainings abroad. Moreover, local and in-house trainings with emphasis on Leadership, strengthening and implementation of AIL Values, 5S and Kaizen remained a regular activity during the year. In the year 2010, 5,492 training hours against 5,230 hrs (2009) were carried out. Training evaluation mechanism through strengthening the Return on Training Investment (ROTI) remained a core focus area of HR.

Employee Reward activities were strengthened and social operating mechanism was enhanced to improve the morale and motivation of the team members.

Your company was awarded 'HR Excellence Award' by the Employer's Federation of Pakistan for good HR practices in the National Company Category and was Runners Up in 'Living the Global Compact' Responsive Business Award 2009 – SME Category - UNGC Local Chapter & Responsive Business Initiative (RBI)

In order to strengthen the Technical Department, a Japanese Technical Advisor has been hired on a full time basis during the year. Mr. Masaki Ota has 25 years of practical experience in different organizations in Japan. He is now being consulted on all Technical issues and also for the implementation of 5S. Furthermore, to streamline the SHE activities, Mr. Aslam Khan has recently joined our senior management team in the capacity of General Manager, Product Development and SHE having extensive experience in Development and implementation of SHE initiatives in the automotive sector.

NEW PRODUCT

New product development and adding value to the existing product line is a regular feature in your Company. During the year two additional parts for tractors have been successfully developed and their supply would commence in the 2nd half of next year. We have also successfully developed the shock absorbers for Suzuki Swift and got it certified from KYB Corporation, Japan. Supply of the shock absorbers is expected to commence shortly.

We are also under the process of developing sheet metal press parts for Passenger cars and are expecting to supply in the year 2010 – 2011.

FUTURE OUTLOOK

The Ministry of Industry has recommended to the Govt. to relax the age limit of used cars from 3 to 5 years and increase depreciation from 1 to 2%. The trade Policy for the year 2010-11 is still awaited. The apprehensions of relaxing the import of used cars still remain a threat to the industry. Any change in the import procedure will have a detrimental effect on the high end user in the passenger car segment.

The recent devastating floods will have a severe toll on auto sector. Power outages which posed a big challenge in maintaining regular supplies will also be a challenge.

In August 2010 some key assemblers have revised their production schedule downwards. We believe that main effect will be in the two wheeler segment as the ultimate user of these products have been the worst hit segment.

Nevertheless, we are striving for gradual improvement in capacity utilization and greater investments in technology. The motorization level of Pakistan is one of the lowest in the world, we optimistically feel that the auto sector will maintain a steady growth in the foreseeable future.

PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2010 is annexed.

The following transactions in the shares of the Company were undertaken by its Directors:

Shares Sold by Mr. R. D. Minwalla	5,000 shares
Shares Purchased by Mr. Alireza M. Alladin	1,000 shares
Shares Purchased by Syed Asif Raza Rizvi	1,000 shares
Shares Purchased by Mr. Yutaka Arae	1,000 shares

CORPORATE AND FINANCIAL REPORTING

The board members are pleased to state that the management of the company is committed to good corporate governance and complying with the best practices. In compliance with the Code of Corporate Governance, the directors are pleased to state as following:

- a. The financial statements prepared by the Management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b. Proper books of account have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Company's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

The value of investments made by the Provident Fund base on the audited accounts for the year ended June 30, 2009 amounted to Rs. 17.2 million.

NUMBER OF BOARD MEETINGS

During the year, five Board meeting were held and attendance is given hereunder:

SL #	Names	No of meetings Attended/held
1	Mr. R. D. Minwalla	3/3
2	Mr. Yutaka Arae (Chairman)	2/2
3	Mr. Sohail P. Ahmed	4/5
4	Qazi Ebadullah Khan	2/2
5	Mr. Owais ul Mustafa	5/5
6	Syed Sikander Ahmed	3/5
7	Mr. Fahim Kapadia (Chief Executive)	5/5
8	Mr. Tariq Saud Quddusi	1/2
9	Mr. Asif Rizvi	3/3
10	Mr. Alireza M. Alladin	3/3

AUDITORS

The existing Auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder (Chartered Accountants) retired and have offered themselves for re-appointment. The reappointment has also been recommended by the Audit Committee of the Board.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The statement of compliance to the Code of Corporate Governance is annexed herewith.

Acknowledgement

We are pleased to acknowledge that the relations with employees remained cordial and harmonious throughout the year. The Management recognizes and records its sincere appreciation to all employees for

their continued dedication, commitment and hard work for the growth and prosperity of the company, without which this performance would not have been possible. Once again we expect the same zeal and commitment to continue and prevail.

On behalf of the Board of Directors, we would like to place on record our appreciation to all our Patrons, Dealers, Suppliers and Employees for their valuable help, unflinching support and contribution to the Company. We are also thankful to all our overseas Technical Collaborators, M/s Gabriel Ride Control Products, Inc. USA, M/s KYB Corporation, Japan and M/s Aisin Seiki Co. Ltd, Japan for their technical assistance and advice.

On behalf of the Board of Directors.

Fahim Kapadia
Chief Executive Officer

KARACHI
DATED : September 8, 2010