

DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED JUNE 30, 2011

Dear Shareholders,

The Directors of your Company have the pleasure of presenting the annual report based on the results of its operations along with the audited accounts for the year ended June 30, 2011.

The year 2011 was full of challenges. At the beginning of the current financial year the auto industry was concerned about the allowing of the import of used cars aging up to 5 years, the Tsunami in Japan effecting the procurement of parts from Japan and then in March 2011 imposition of Sales Tax on tractors perturb this industry and finally the burden of additional tax in the name of Flood Surcharge @15% on the income earned from March 15 – June 30. The depleting law and order situation and the shortfall of electricity remained major causes of concern for productivity enhancement and brought lot of pressure on expenses.

The Company's earnings per share increased from Rs. 13.69 to Rs. 15.24.

The Board of Directors' is therefore pleased to recommend a highest ever cash dividend of 100% i.e. Rs. 5 per share. The Board has also recommended appropriation of Rs. 290 million from un-appropriated profits to General Reserve.

1. PAKISTAN'S ECONOMY

The economy of Pakistan has been undergoing stabilization phase since the last three years. The restoration of macroeconomic stability is important and necessary to provide the platform for generating growth, jobs, and improving the quality of life of the people.

The GDP growth for the year was around 2.4 percent compared to the target of 4.5 percent. The set back was due to the agriculture sector which was badly affected by floods. However, the strong performance of services sector which grew at 4.1 percent has kept the overall growth in a reasonable range.

The most significant development during the year was the historic performance of the external sector, which is heading to register a surplus in the current account. First, exports crossing the \$20 billion mark for the first time, exports are set to exceed \$24 billion. Second, the remittances have also recorded a strong performance by crossing the double digit mark and are set to reach the historic level of more than \$11.2 billion. Third --and this is partly attributable to moderated demand for imports --the current account shows a surplus of nearly \$748 million.

In the years ahead the government is determined to sustain macroeconomic stability however, the law & order situation and the energy in the country would be biggest hurdle.

2. AUTOMOTIVE SECTOR

The auto sector which has lot of potential of growth, has been very steady for the last 3 years. Current year volumes are lower than expected due to massive earthquake in Japan whereby the passenger car assemblers curtailed their production. Tractor segment was initially hit by the floods in the earlier part of the year and later the imposition of the sales tax in the middle of the year hampered the sales of this segment. Motorcycle and 3 wheeler rickshaw is growing at a fast pace and is expected that this segment would further grow in the next 5 years.

Summarized automobile production figures comparing 2010-11 with 2009-10 appears below:

| | 2010-11 | 2009-10 | Change |
|-------------------------------|----------------|----------------|---------------|
| Passenger Cars | 133,972 | 121,647 | 10.13% |
| Light Commercial Vehicles | 20,025 | 16,940 | 18.21% |
| Trucks & Buses | 3,300 | 4,053 | (18.5%) |
| Tractors | 70,770 | 71,607 | (1.16%) |
| Motorcycles (2 & 3 Wheelers)* | 1,637,450 | 1,389,047 | 17.88% |

Source : Statistical Bureau of Pakistan

3. SUMMARY OF FINANCIAL RESULTS

Following are the summarized financial results of the Company for the year 2010-11:

| | <u>2010-11</u> | <u>2009-10</u> |
|--------------------------|--------------------------|-----------------------|
| | <u>(Rs. '000)</u> | |
| Turnover | 3,980,258 | 3,906,482 |
| Gross Profit | 809,331 | 956,234 |
| Profit before Taxation | 672,581 | 685,273 |
| Taxation | (233,621) | (291,031) |
| Profit after Taxation | 438,960 | 394,242 |
| Earnings Per Share (Rs.) | 15.24 | 13.69 |

4. OPERATIONS

Sales: Sales during the year 2011 were Rs. 3.980 billion as compared with last year's Rs. 3.906 billion, a modest increase of 1.9%.

Cost of Sales : The Gross Profit margin has declined from 24.48% to 20.33% of the current year. The main reason for the decline in the margin is due the ever increasing cost burden which our Customers are not absorbing. The major cost increases have been on account of Electricity & Fuel costs on account of self generation of power.

Distribution Cost: This cost has increased from Rs. 50.786 million of last year to Rs. 57.830 million this year, an increase of 13.8%. These costs are under control and the increase is on account of increase in freight costs and the provision for the warranty.

Administrative Expenses: The administrative cost has increased from Rs. 70.293 million to Rs. 89.192 million, an increase of 26.9%. The increase is mainly on account of legal & professional charges, inflationary trend in salary and the computer supplies.

Other Operating Income: Your Company earned Rs. 69.306 million during the year on its excess liquidity. (2010 : Rs. 52.464 million) through prudent investments.

5. **UP-GRADATION OF MANUFACTURING FACILITIES**

During the year under review the Company added new equipment worth Rs. 44.86 million to its facilities. New buffing & polishing machines were imported from Japan, Spot & Seam welding machines, CNC machines and other miscellaneous fixtures to improve its efficiency and quality of the products. The Company has plans for next year to add more machines & equipment to better equip itself for the higher volumes of shock absorbers, both for the passenger cars and motorcycles.

The Company during the year also sold the redundant machines having a book value of Rs. 15.4 million (including sleeves) through public auction. The sale of this un-used machinery created additional space for useful utilization and proper organization of the production floor.

6. **IMPLEMENTATION OF SAP**

The Management of your Company has decided to go for the implementation of SAP Enterprise Resource Planning (ERP). This tool will help the Management to take timely decision based on live data fully integrated with all the sections of the Company. The Company has awarded the contract to M/s. IBM Pakistan for its implementation. The total software, hardware and implementation cost is estimated to Rs. 33 million. This will be incurred in the next year. The project is expected to go-live by the end of the next fiscal year.

7. **RECONSTITUTION OF THE BOARD**

During the period the following casual vacancy was created due to the resignation of a director. 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. | Syed Sikander Ahmed | June 15, 2011 | |
| 2. | Mr. Danesh Dinshaw | | June 29, 2011 |

The Board welcomes Mr. Danesh Dinshaw on the Board and places on record its appreciation to the outgoing Director for his valuable inputs.

8. **CONTRIBUTION TO THE COMMUNITY (CSR)**

Your Company remained committed in its efforts to help our environment and society. We continue to support the 10 principles of the United Nations Global Compact, and thus ensure that our corporate citizenship commitment and policies are deeply embedded in these principles. During the year Rs. 6.7 million had been contributed to various NGOs / Institutions / Trusts working towards human cause.

a. **Community Development**

The Company has sponsored the upgrading of Laboratory of Jam Ghulam Qadir Hospital Hub. We will continue our efforts to further equip the laboratory with modern facilities.

Agriauto takes immense pride in actively contributing towards enhancing education facilities. The class rooms of the Hub Degree College were furnished by giving them 100 Desk & Chairs.

The Company regularly provides assistance to the local community; this year ration was distributed to about 300 families in Hub.

b. Welfare spending for under privileged class

As responsible corporate citizen, the Company actively contributes to Trusts and NGOs working for human cause.

c. Industrial Relations

Agriauto fosters not only the culture of mutual respect amongst both officers and workers but also encourages them to share their valuable input towards improving the quality of work environment.

Distribution of ration to all Workers and caring for workers health and safety has greatly contributed towards strengthening the AIL family.

d. Donations National Cause

The Company actively contributed to the IDPs caused by flooding by donating Rs.3.1 million.

e. Contribution to National Exchequer

During the year your Company contributed Rs.1.25 billion to the National Exchequer.

9. HUMAN RESOURCE

Human Capital has always been the center of focus of your Company. Considerable efforts have been made in development of human resources. As part of employee development strategy employees were sent abroad to participate in several management and technical trainings. Ex-house and In-house trainings were imparted, emphasizing on furthering Leadership skills, inculcating and embracing values of the Company, as our success lies in adherence to them. Stress on Post Training Evaluation remained a core focus of HR team to determine the level of achievement of desired results, and to re-assess the training needs.

To boost up the morale of the employees, Motivational & Reward system has been improved. As a responsible corporate citizen, social operating mechanisms have been strengthened.

Management Association of Pakistan (MAP) has acknowledged our untiring efforts and your company was awarded Corporate Excellence Certificate in Automobiles & Parts Sector, an honor for us.

Initiatives have become a habit with the formation of Kaizen and 5S Teams within each plant, thus strengthening the role of Technical Department. Induction of two Senior Executives, Mr. Saeed Rizvi, DGM – Quality Assurance and Syed Nasruddin, Sr. Manager Information Technology in the management team would most certainly add to the efforts being made to achieve our corporate goals.

10. FUTURE OUTLOOK

Challenges lie ahead for the next year as well. During the first 2 months of the current year the major tractor assemblers have been closed as the tractors sales have been dropped by almost 90%. Upon the imposition of Sales Tax the prices of the tractors have increased by Rs. 100,000 – Rs. 200,000. The farmers are cash starved after the fall of commodity prices and agri related loan have been on halt by Zarai Taraqiti Bank Limited therefore the demand for new tractors is slow. We expect that this sector will remain sluggish in the next year.

Passenger Car segment largely depends on the Government policies towards the import of used cars and on granting preferential treatment to the new entrants. The other cause of concern is the law & order situation in the country and there is no immediate solution to this problem. We expect the volumes in the sector would remain at the same level.

The motorcycle and rickshaw segment is relatively neutral to the law & order situation and it is expected that the volumes in this sector will outgrow as there is lot of room available in this sector.

The Management of your Company is aggressively looking for a Joint Venture partner to strengthen its sheet metal press business for automobiles.

11. PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2011 is annexed.

During the year there were no transactions in the shares of the Company undertaken by its Directors.

12. CORPORATE AND FINANCIAL REPORTING

In compliance with the listing regulation # 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange, the Directors of the Company do hereby declare the 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, 2010 amounted to Rs. 73.86 million.

13. **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. Yutaka Arae | 5/5 |
| 2 | Mr. Fahim Kapadia | 5/5 |
| 3 | Mr. Sohail P. Ahmed | 4/5 |
| 4 | Mr. Owaisul Mustafa | 5/5 |
| 5 | Mr. Asif Rizvi | 4/5 |
| 6 | Mr. Alireza M. Alladin | 5/5 |
| 7 | Syed Sikander Ahmed | 4/5 |

14. **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.

15. **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE**

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

16. **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 9, 2011