

Directors' Report to the Shareholders for the year ended June 30, 2012

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, 2012.

The year 2012 started with un-certainties and remained indeterminate throughout . The influx of the used cars, ban on the import of CNG kits, threats of opening up trade with India, imposition of sales tax on tractors coupled with the adverse effects of continued power shortages made the year even more challenging.

Inspite of these challenges, the Company unflinchingly managed to increase its profit after taxation by 33% over the last year.

The Board of Directors' is therefore pleased to recommend a highest ever cash dividend of 150% i.e. Rs. 7.50 per share. The Board has also recommended appropriation of Rs. 345.0 million from un-appropriated profits to General Reserve.



1. SUMMARY OF FINANCIAL RESULTS

Following are the summarized financial results of the Company for the year 2012:

		Rs. '000
	2012	2011
Turnover	4,286,674	3,980,258
Gross Profit	925,703	809,331
Profit before Taxation	830,446	672,581
Taxation	(245,382)	(233,621)
Profit after Taxation	585,064	438,960
Earnings Per Share (Rs.)	20.31	15.24

2. PAKISTAN'S ECONOMY

The year 2012 remained a difficult year for the Pakistan economy as GDP growth slowed down and the fiscal deficit widened amid increase in the current account deficit. GDP expanded by 3.7% ,slightly less than the targeted 4.2% .This was primarily driven by growth in the Agriculture and Services sectors , as growth in manufacturing sectors remained subdued due to severe shortage of electricity/gas. Pak Rupee depreciated by 9% during the year as the country's foreign exchange reserves depleted.

Next year is again going to be as challenging for us as all the impediments of the last year have been carried forward without any solution. It includes uncertain policies, energy crisis, deteriorating law and order situation.

3. AUTOMOTIVE SECTOR

The importance of the auto industry for a country cannot be understated. In Pakistan especially, the automobile sector has contributed handsomely to the GDP and is always a popular

destination for Foreign Direct Investment. There are apprehensions that the potential this sector offers vis-a-vis poor decision-making at the top always ends up hurting the local industry.

The main objective of the government is to provide economic protection to its industries and offer incentives such as capital, tax benefits etc thereby creating employment opportunities for the well being of its people. It is however felt that the current government, instead of providing incentives to its local industries has relaxed the conditions for the import of used cars which is adversely affecting the local auto part manufacturers. Last year alone, 55,000 used vehicles were imported which accounts for almost 25% of the market.

Tractor segment was badly hit last year due to the imposition of sales tax and increased prices. Resultantly the demand fell. However, the Government realized this situation and reduced the incidence of tax immediately with a progressive increase over a period of three years. After this change the demand has stabilized.

Summarized automobile production figures comparing 2012 with 2011 appears below:

	2012	2011	Change
Passenger Cars	154,255	133,972	15.14%
Light Commercial Vehicles	21,380	20,025	6.76%
Trucks & Buses	3,165	3,300	(4.0%)
Tractors	48,120	70,770	(32.0%)
Motorcycles (2 & 3 Wheelers)	1,602,702	1,637,450	(2.12%)

Second-hand cars dominate market

By Aamir Shafaat Khan

KARACHI, July 27: A leading car manufacturer has cut down on production in July due to an increased buyers' interest in used cars coupled with reduced working hours in Ramazan.

An official in Indus Motor Company (IMC) told Dawn that the company has been observing non-production day (NPD) in Toyota Corolla and Toyota Hilux during the current month.

"We will not assemble 1,400-1,500 vehicles in July from the total monthly production of 4,500 units," the official said.

The company is actually feeling the pinch of huge influx of used cars which is eroding the market share of locally produced vehicles, he added.

Out of total import of 55,703 units in July-June 2012, the share of cars up to 1,000cc is 24,530 units, followed by arrival of 17,872 units of 1,300-1,500cc used cars.

According to Pakistan Bureau of Statistics (PBS), total import of cars (over 90 per cent used vehicles) rose by 145 per cent to \$371 million in 2011-2012 from \$151 million in 2010-2011.

A leading vendor of IMC said the company had already cut the parts procurement from July 27 till August 7 (A Shift Morning). The IMC official also asked the vendors not to dispatch any supplies during the above mentioned time duration. He added that the company also plans to change its sales mechanism.

Meanwhile, an official at Honda Atlas Pakistan said that the company had not altered its planned production plan for July 2012.

"However, the import of used cars is retarding the growth of local industry," he added. Honda Atlas produces average 2,000 units of Civic and City per month.

An official in Pak Suzuki Motor Company Limited (PSMCL) said that the company is facing 20-30 per cent reduced sales in July 2012 as huge stocks of used cars lure prospective buyers.

He did not confirm about slowing down production but said that the company had enough stocks in the market and plant for sale up to one and a half months.

The official said that the company had dispatched 20,000 Suzuki Mehran Bolan to Punjab government for taxi scheme from 2011 to June 2012 which caused overall impact in car sales figures in June 2011-2012. Sales in 2011-12 were 157,325 units, while in 2010-11 it was 157,325 units.

On the other hand, the company's sales are suffering a 32 per cent YoY decline, going down to 3,087 units in July 2012, from 4,551 units sold in the same period last year.

Largely anticipated, these declines in sales figures come principally off the back of mounting pressure from imports which have been made even more attractive due to the price differentials between local and foreign manufactured vehicles.

Continuing to remain a thorn in the side of the local auto manufacturing industry, foreign imports of CBU's rose by 25 per cent from last month to 4,950 units in July 2012, catering to roughly 32 per cent of the consumer demand in the market.

On the other hand, making the situation worse is the Engineering Development Board, which is responsible for the drafting of the much awaited AIDP-II policy.

Managing to strike fear into the hearts of the local auto industry's stakeholders, EDB is expected to lay the stamp on further import tariff reductions, which according to EDB's officials has long been monopolised by the existing giants.

Used car importers accused of violating anti-money laundering law

B.R. 11-08-2012

KARACHI: Used car importers are violating anti-money laundering regulations as most of the payments are being made through "Hundi" and "Hawala" and other informal channels, according to stakeholders.

Informal sources in banking industry stated that most of the funds to import used cars are made through illegal channels. They alleged that payment through affecting exchange rate negatively is damaging our country's economy for this fiscal year.

They are also contributing to the revenue generation, they said.

They explained that the SRO 577 (issued in Pakistan) gives special dispensation (fixed day justification) for which there is no legal US dollars some six years ago (and are not applied as percent of CBU's value).

leads to idle industrial production capacities and closure of small vendors bankruptcy. This illegal practice is not only affecting domestic auto industry but also causing loss of revenues to the government as unscrupulous importers do not pay income tax and other related duties," they said.

The domestic auto and vendor industries are fully documented and pay their shares of taxes, they said, adding that these industries are among the top taxpayers in the country. These fully documented industries are contributing huge share in government revenue generation, they said.

They explained that the SRO 577 (issued in Pakistan) gives special dispensation (fixed day justification) for which there is no legal US dollars some six years ago (and are not applied as percent of CBU's value).

Local market sources revealed that the selling ratio of these imported cars from general public is very thin. The person who purchases any imported car is bound to use it for the entire remaining life as there is no buyer to purchase it.

The buyers are attracted to used cars because of gadgets/gimmicks installed in Japanese cars, which have no practical value/use in the country as against rugged cars manufactured in Pakistan to suit local road conditions.

In the long run, buyers suffer losses due to non-availability of parts/service and low resale value of these imported cars. Some of these imported cars are either very expensive.

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TheNation, Lahore | Wednesday, August 1, 2012

Car plants closure to render thousands jobless

LAHORE - The closure of car plants by major assemblers will render hundreds of thousands of skilled workforce jobless, as Pak Suzuki and Indus Motor Companies are considering to shut down their factories in view of constant decline in demand for their vehicles.

The auto parts manufacturers demanded the government to intervene and ask the local car assemblers to resume their productions. The association, showing grave concern over shutting down of main car manufacturing plants, observed that production of auto parts has also come to a massive slowdown as a result of the flawed policies of the government, resulting in well as unskilled workers, employed directly and indirectly by this vendor industry.

Business Forum of Punjab and PAAPAM chairman Syed Nabeel Hashmi stated that this grim situation arises has come to pass, because federal government has failed to pay heed to all the warnings about controlling the import of used cars. In addition to this flawed policy on used cars, government has clamped down on sale of CNG cars by car assemblers. Further more, without ensuring availability of Euro-II compliance, government has legislated that Euro-II vehicles be launched from 1st July 2012 thereby increasing the cost of cars.

interest rates and it is extremely unfair that the government is giving preference to imported used junk instead of promoting and supporting local employment generation.

The Vice Chairman Mung Bana appealed to the government that it should take immediate remedial actions by banning import of used vehicles (or at least bring the age limit down from 5 to 3 years) in order to bring stability to the auto industrial sector and save the employment of thousands of workers, employed by the vendor industry, who come on the scene.

Rising imports haunt local auto manufacturing

B.R. 13-08-2012

Plagued by the same old ghosts who have consistently been foraging away at the demand for locally manufactured automobiles, the auto industry has experienced a throwback yet again, posting worryingly dismal figures at the end of July 2012.

Plunging down by 46 percent over June alone, car sales stood at 10,435 units at the end of July 2012, according to figures released by PAMA, which highlights generally subdued buyer interest.

Compared year on year, industry's sales fell by 41 percent, clearly attributable to a high base effect witnessed as a result of below the line sales in Jul'11 when customers deferred buying in anticipation of a tariff cut expected to be announced in the FY12 budget.

Also compounding the effect was the phasing out of the Punjab Taxi Scheme, in lieu of which an additional 20,000 units had been sold during last year. As a result, PSMC - which was a market leader in terms of sales last year - witnessed a massive 53 percent YoY decline in units sold.

Indus Motors, while managing to post record year-end profits, suffered pretty much the same fate, with its total car sales suffering a 32 percent YoY decline, going down to 3,087 units in July 2012, from 4,551 units sold in the same period last year.

Largely anticipated, these declines in sales figures come principally off the back of mounting pressure from imports which have been made even more attractive due to the price differentials between local and foreign manufactured vehicles.

Continuing to remain a thorn in the side of the local auto manufacturing industry, foreign imports of CBU's rose by 25 percent from last month to 4,950 units in July 2012, catering to

While market voices differ in their opinion on the issue of rising imports and its affect on the local market dynamic, the consensus remains that policy-makers should not allow for unfair advantage against localised manufacturing.

"We don't need to have policies that essentially create win-lose situation" points out Ali Habib, Chairman Indus Motors, in a recent interview to Business Recorder. "We do not oppose imports at all", he reiterates.

"What we do oppose is this biased and flawed policy which is taxing local production more than it is taxing imports, without taking into consideration the millions of people in the auto industry workforce who are going to be directly affected by the extraordinary concession being afforded to the relatively undocumented used car sector".

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 Comments & feedback at: research@br-mail.com



Sales during the year 2012 remained at Rs. 4.28 billion as compared to last year's Rs. 3.98 billion, registering an increase of 7.7% over last year. The profit after tax for the period has also increased by 146.6 million as compared with last year. There has been an increase of 7.3% in distribution cost over corresponding last year on account of freight, advertising & sales promotion, which are in line with the increase in sales and on account of inflationary factor. The administrative costs have increased by 23.5% on account of depreciation, legal & professional charges and salaries.



There is a 116% growth in the other operating income as well. The Company, during the year realized the income on investments in the money market funds. The Management of the Company is very careful in investing its excess liquidity and lot of prominence is given on security rather than the returns.

4. UP-GRADATION OF MANUFACTURING FACILITIES

This year, plant & machinery worth Rs. 155.363 million were added mainly to increase the productivity and quality of our products. All investments are approved only after detailed scrutiny and cost / benefit analysis.

Key investments during the year were on the following :

Centralized Parting Cell

The Company used to part off its tubes & rods at two different locations without having storage facility in the past. Due to the similar nature of operation at these locations it was felt that these operations could be combined at one location along-with the material. The project was successfully completed during the year and there has been savings on account of manpower, efficiency and proper control over the material.

Straightening & CNC Grinding Machine

In order to improve the quality of the Front Pipe Forks being supplied to Atlas Honda Motorcycles and anticipating a healthy growth in the two wheeler segment this investment was initiated. After the induction of these machines your Company would be able to produce 60,000 pipe forks in a month which can cater for the monthly production of 30,000 motorcycles.

Damping Force Testing Machine

This machine is used for final checking of the shock absorbers for passenger cars. The machine clears the shocks for onward supply to customer after evaluating the damping in accordance with the standards. This is the additional machine as a back-up of the existing machine which is 5years old.

Welding Machines

The entire welding line for the passenger car shock absorbers was changed in the year with new and power efficient machines.

Torquing & Riveting Machine

There was an abnormal in-house rejection of shock absorbers on account of riveting. After assessment it was revealed that the problem is with the torquing and riveting machine. The matter was then discussed with the Technical partner, KYB and this machine has been added on their recommendation.

5. SAFETY, HEALTH AND ENVIRONMENT (SHE)

Your management firmly believes that effective management and implementation of workplace safety, health and environment programs add significant value to individuals and companies by reducing the work-related injuries and illnesses. To achieve this objective, a SHE Steering Committee comprising of Top Management and Head of Departments has been formed, responsible for monitoring progress of "Risk Assessment Activities" and actions taken after assessments.

Provision of Safety Walk Ways, Fire Assembly Points and Weekly Safety Walks are recent achievements of SHE Department. A dedicated person has also been hired to monitor the accidents and to devise countermeasures. Your Company aggressively pursued the 5S activities throughout the year to clean-up and uplift the conditions of the facility. The work place is now more worker friendly and the customers visiting our facility are appreciating the efforts we made.

6. BUSINESS PROCESS AUTOMATION THROUGH SAP

During the year your Company has successfully launched SAP (ECC 6.0) which has been duly implemented w.e.f 1st Feb 2012 within record period of six months. The Management is committed to embrace Information Technology advancements for the sake of maintaining competitive edge and preserving its market leadership position.



Future is Tomorrow

7. AGRIAUTO STAMPING COMPANY (PRIVATE) LIMITED

We are pleased to inform that the Company has established a wholly owned subsidiary by the name of Agriauto Stamping Company (Private) Limited (ASC). This new Company has signed a Technical Assistance, Service & Consultancy Agreement with Ogihara Thailand Company Limited (OTC). OTC is the subsidiary of world renowned die & tool maker, M/s. Ogihara International, Japan.

We are keenly viewing this new venture positively, as a viable project which is expected to yield sustainable revenue, and which would set forth a renewed pace for the development and localization of automobile parts in Pakistan. The new Company would be initially engaged in the production of sheet metal stamping parts, primarily for automobiles. The production facility is under construction at Port Qasim and the commercial production is going to roll out from July 2014.

The total project cost is estimated to be Rs. 1.05 billion, and till June 2012 an investment of Rs. 50 million has already been made. The most important milestone was to search for the presses. After an extensive search, a tandem line of Komatsu presses has been procured. The Company has also sent its team to Thailand for a long term on-job training in the field of die designing, die maintenance, production processes & control and machine maintenance. The Company would also hire the services of the dedicated foreign technical expert to oversee the operations.

The project timeline is very tight and the Management is making all out effort to meet its deadline and make this project a bench mark model for all the vendors in Pakistan.



8. CORPORATE SOCIAL RESPONSIBILITY (CSR)

As a responsible corporate entity, Agriauto has contributed Rs.8.3 million to various NGOs / Institution working towards betterment of humanity. The company contributes 1% of PBT towards CSR.

a. Continued Support to Medical and Educational Institutes at Hub.

The company has made concerted efforts to improve the medical facilities of Jam Ghulam Qadir Hospital at Hub with mutual consultation of the hospital authorities. To better equip the laboratory, Hematology Analyzer was donated. In addition, Operation Theatre and laboratory were also renovated.

Agriauto continues its efforts in uplifting educational facilities at Hub. The classrooms of Girls School, Hub were furnished by providing Desk-chairs. For the new academic year, books, stationary and uniforms were donated to the needy students of the School.

b. Contribution to Educational institute for underprivileged

The Garage school is devoted toward providing better education to the underprivileged, residing in Karachi. To support them in this noble cause, following donations were made for:

- purchase of desk and chairs for the classrooms.
- setting up of a lab with basic chemistry practical facilities
- for purchase of new building

c. Provision of Rations

The Company regularly provides assistance to the local community. This year rations were distributed to over 200 poor / needy families and widows in Hub.



Future is Tomorrow

9. Industrial Harmony

At Agriauto workforce is not only respected but is encouraged to make full use of their diverse knowledge and talents.

Distribution of ration to all Workers, celebrating company successes and recognizing contribution of employees has strengthened the Agriauto as a Team.

10. CONTRIBUTION TO NATIONAL EXCHEQUER

During the year your Company contributed 1.2 billion to the National Exchequer.

11. HUMAN RESOURCE

Our employees come from diverse backgrounds. Such a workforce must be supported by an environment that encourages innovative and strategic thinking at all levels. The HR department is consistently and creatively meeting this objective. Employee training and development remained the prime focus, and several foreign, Ex-house and In-house trainings were imparted to Officers and workers, aiming towards establishing higher standards and expectations pertaining to their respective roles. The feedback from participants was overwhelmingly positive.

To enhance and optimize the productivity levels of our team members, Motivational and Reward and recognition strategies continue to be implemented religiously.

The bar for Kaizen and 5S has been raised with the implementation of 'Step-up' plan. An excellent way to develop the disciplines necessary for lean implementation and to make improvements by involving employees at all levels.

Mr. Masaki Ota, who joined the Company in the year 2010 as a Technical Advisor, left the Company after completing his term for two years. During his association with us, he made significant changes in the appearance of the plants and motivated all members to focus on the 5S and Kaizen activities. We all thank him for his valuable contribution to the Company and wish him good luck in his future endeavors.

With the incorporation of Agriauto Stamping Company (Private) Limited (ASC), efforts are being made to recruit best available talent for the Company.



12. FUTURE OUTLOOK

Next year seems to be another difficult year. The beginning of the year has already witnessed a drop in the passenger cars volumes thus affecting our sales and profitability; as the major portion of our sales is attributed to that segment. The sales of passenger cars have dropped because of un-restricted import of used cars in the market. The import of used cars are taking away the employment and foreign exchange of the country and also hurting the local vendor industry which has invested heavily, to meet the increasing demands of the local assemblers.

In order to offset this decline in the passenger car segment, our focus this year would primarily be on the tractors and motor cycle segments, as their volumes are continuously increasing. However, meeting the increasing volumes of the two wheelers and greater focus on the tractors, would in no way compensate for the loss which is likely to accrue due to the decline in the production and sale of the passenger cars.

We, therefore urge the Government to restrict this import of used cars so the local industry survives and becomes more competitive with reasonable volumes.

13. PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2012 is annexed.

14. 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 judgement.
- 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, 2011 amounted to Rs.74.27 million.

15. NUMBER OF BOARD MEETINGS

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

SL #	Names	No of meetings Attended/ held
1	Yutaka Arae	5/6
2	Fahim Kapadia	6/6
3	Sohail P. Ahmed	5/6
4	Owaisul Mustafa	4/6
5	Asif Rizvi	4/6
6	Alireza M. Alladin	5/6
7	Daneshwar F. Dinshaw	5/6

16. AUDITORS

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

17. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

18. ACKNOWLEDGMENT

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 Customers, Dealers, Suppliers and Employees for their valuable help, steady support and contribution to the Company. We are also thankful to all our overseas technical collaborators, M/s Gabriel Ride Control Products (GRC), Inc. USA, M/s KYB Corporation, Japan, M/s Aisin Seiki Co. Ltd, Japan, M/s Ogihara (Thailand) Co. Ltd for their technical assistance and advice.



On behalf of the Board of Directors.

Fahim Kapadia
Chief Executive Officer

KARACHI
DATED : August 29, 2012