

Directors' Report

TO THE SHAREHOLDERS

FOR THE YEAR ENDED JUNE 30, 2014

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, 2014.

The Board of Directors is pleased to recommend a cash dividend of 100% i.e. Rs. 5.00 per share. The Board has also recommended appropriation of Rs. 170.0 million from un-appropriated profits to General Reserve.

PAKISTAN'S ECONOMY

The GDP growth registered an increase from last year's 3.7 per cent to 4.1 percent in the year 2013-14, against the targeted 4.4 per cent for the year. The agriculture sector grew by 2.1% against growth of 2.9% last year and the Large Scale Manufacturing grew by 5.3% as compared to 4.1% of last year.

The preceding year witnessed some major successes such as economic growth, containment of inflation at single digit, improvements in the tax collection, reduction in the fiscal deficit and strengthening of Rupee in view of rising foreign exchange reserves. Still, the factors hampering growth and foreign investment like the power related issues and war in the northern part of the country are yet to be resolved.

AUTOMOTIVE SECTOR

Auto Industry, in particular the tractor industry was badly affected due to the sharp increase in the general sales tax from 10% to 16%. There were few months during the year under review where the supply of tractor parts remained zero.

In the passenger car segment, the year under review was dull, as the much expected Auto Industry Development Plan (AIDP) could not be finalized. The discussions on opening up of trade with India also remained uncertain. Resultantly, this segment showed a 3% negative growth.

Summarized automobile production figures comparing 2014 with 2013 appears below:

	2014	2013	Change
Passenger Cars	116,281	120,332	(3%)
Light Commercial Vehicles	18,694	15,992	17%
Trucks & Buses	3,232	2,445	32%
Tractors	34,521	50,856	(32%)
Motorcycles (2 & 3 Wheelers)	1,728,137	1,675,071	3%

Source : PAMA

1. SUMMARY OF FINANCIAL RESULTS

Following are the summarized financial results of the Company for the year 2014:

	(Rs. '000)	
	2014	2013
Turnover	3,158,800	3,503,624
Gross Profit	510,937	574,603
Profit before Taxation	403,565	439,134
Taxation	(95,327)	(129,714)
Profit after Taxation	308,238	309,420
Earnings Per Share (Rs.)	10.70	10.74

Sales for the year 2014 are 10% less than last year. Major contributors for this reduction are the negative growth in the passenger car segment and a substantial decline in the sale of tractor parts. The profit after tax has marginally reduced.

Despite the inflationary pressures the distribution and administrative costs remained under control. Other Income increased due to the reversal of provision for impairment amounting to Rs. 49.2 million on account of the sale of Makro Habib Pakistan Limited shares to Thal Limited.

2. NEW PRODUCTS

Your Company always strives to add new products to cater for the demand of the auto industry. During the year under review, Manual type Window Regulator was successfully developed with technical assistance from Shiroki Corporation, Japan and the commercial production has started. This successful implementation will pave the way for the development of power type window regulator.

The Company has also started the development of front shock absorbers for an upcoming new Japanese motorcycle assembler in Pakistan. The Company will be signing a Technical Service Agreement with KYB Motorcycle Suspension Co Ltd, Japan for the technical assistance for development of this shock absorber assembly.

The Company has also started development of shock absorbers for the major auto assembler.

3. PROCESS IMPROVEMENT ACTIVITIES

The Company during the year has also signed a Technical Assistance Agreement with M/s. Sannou Riken, Japan for the improvement of Hard Chrome Plating Process. Hard Chrome is the basic requirement for the piston rod of the shock absorber. We are very hopeful that with the assistance and support from the Japanese Consultant, the technical level of our processes and the efficiency will increase to cater for the higher demand in the future.

Quarterly TPM (Total Productivity Management) Consultancy sessions by a Japanese expert were held during the year under review. These trainings have been very effective for the maintenance of the machines and improvement of various processes. These sessions will continue for the next year as well.



4. AGRIAUTO STAMPING COMPANY (PRIVATE) LIMITED

The Company established a wholly owned subsidiary by the name of Agriauto Stamping Company (Private) Limited (ASC) in the year 2012. Technical Assistance Agreement was signed with Ogihara Thailand Company Limited (OTC). The commercial production commenced from July 2014.

With the help of the technical partner and the untiring efforts of all our team members, the project was completed in-time within the budgeted project cost. The project was inaugurated on June 09, 2014 in an impressive gathering of all our customers, dealers and the representative of the auto parts manufacturers association. This is a great achievement as this project will pave the way for development of complex high tensile sheet metal parts at competitive prices.



Commercial supplies from the new plant started on July 02, 2014. The plant is running since then with no major problems.



5. SAFETY, HEALTH AND ENVIRONMENT (SHE)

Throughout the year, our SHE Department has continued its mission to prevent injury and ill health at work place. We have focused our efforts in inculcating and motivating behavioral change and improving health and safety standards.

- Our proactive inspections are targeted in areas of highest risks and the countermeasures have been taken based on hazards identification activity in each plants.
- No major accident was reported during the year.
- Ensured provision and monitoring of safe drinking water for the Company employees and monthly check from the Laboratory.
- We are focusing on prevention of all types of emissions.

6. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company proactively follows the ten guiding principles of United Nation Global Compact (UNGC). Our CSR Policy envisages continuous support to the local community and wellness of its stakeholders. The projects under taken during the year under review are;

a. Support to Educational Institutes

- Construction of under-ground water tank for Government Girls Secondary School, Hub.
- Provision of books to various schools.
- Repair & renovation work for different educational institutions.

b. Support to Medical Institutes

- Contributed to Murshid Hospital for Janum Project, to increase the level of health services / training of the hospital staff through specialized personnel.

c. Provision of Rations

- To cater for the needs of community at Hub, the company distributed Ration Hampers to the widows/poor families at Hub during the month of Ramadan.

7. INDUSTRIAL HARMONY

Company remains committed to fulfilling its legal obligations towards the workforce and complies with regulations regarding their wages and benefits, thus leading to excellent industrial harmony and amicable management of labor relations.

a. Distribution of Rations

- The Company distributed Ration Hampers to all the workers as a Ramadan Gift.

b. Medical Camp

- Free medical and Eye Camp was carried out for all employees. The members with poor eye sight were provided with free eye glasses.

8. CONTRIBUTION TO NATIONAL EXCHEQUER

During the year under review, your Company contributed Rs. 0.798 billion to the National Exchequer.

9. HUMAN RESOURCE

As in the preceding years, our Human Resource Department remained committed to cultivating a participative culture, providing benefits to employees that promote health, wellness and work-life balance. Through employee's orientation and professional development, we foster the values of inclusiveness, camaraderie and continuous learning. In all areas of work our HR firmly upholds the tenets of accountability and trust.

a. Training & Development

A variety of Training and Development opportunities were offered to various tiers of Management:-

- Two of our executives were sent on Association for Overseas Technical Scholarship (AOTS) Training to Japan.
- Three executives were sent to Japan for one month training on Shiroki Project.
- One Executive sent for three months training to Thailand for High Tensile Welding.
- Three Executives attended training course on "Chrome Plating Process" conducted by Sannou Riken Co. Ltd at Japan.
- Active discussion on 'Values' and various in house training sessions for officers and junior team members remained a regular feature.

b. Reward & Recognition

As part of our Reward & Recognition Policy, long services recognition awards were given to the employees during the year.



10. FUTURE OUTLOOK

The outlook for local auto sector in terms of sales growth appears quite healthy in view of some decisions in the Federal and Provincial Budgets and the launching of the new models.

The most encouraging news was the cut in general sales tax on tractor industry from 16% to 10%. This reduction in sales tax will definitely give boost to the local tractor industry as the price of tractor would reduce between Rs. 30,000 to Rs. 90,000.

Another boost for the auto industry is the announcement by the Punjab government for allocating Rs. 25 billion for the tax scheme. We have got the orders for the supply of parts of 50,000 additional Van/Pickup starting Oct 2014.

We are also projecting increase in sales of parts for the new model of our largest customer which has been launched recently.

In the motorcycle segment, a new Japanese assembler is setting up its new plant in the Port Qassim area. They have extended us the development work for the front shock absorber. The supply is expected in the middle of 2015.

In all we are foreseeing a much better year ahead with a hope that political conditions in the country remain stable.

We urge the Government to finalize the Auto Industry Development Plan (AIDP) which has now been pending for long. This long term plan will encourage the vendors to introduce new products as the frequent changes always disturb the feasibility for the new products.

11. PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2014 is annexed.

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 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 for the year ended June 30, 2014 amounted to Rs. 146 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	5/5
4	Mr. Owaisul Mustafa	5/5
5	Mr. Asif Rizvi	4/5
6	Mr. Alireza M. Alladin *	3/5
7	Mr. Daneshwar F. Dinshaw *	5/5

* Subsequent to the year end, Mr. Zafar Iqbal Sobani and Mr. Muhammad Ali Jameel have been appointed as Directors on the Board upon resignation from Mr. Alireza M. Alladin and Mr. Daneshwar F. Dinshaw. The Board acknowledges the valuable contribution made by Mr. Alladin and Mr. Dinshaw during their association with the Company and welcomes Mr. Sobani and Mr. Jameel on to the Board.

14. 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.

15. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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



16. 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 Patrons, 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. Shiroki Corporation, Japan, M/s. Sannou Riiken Co Ltd, Japan and M/s. Ogihara (Thailand) Co. Ltd for their technical assistance and advice.

On behalf of the Board of Directors.

Fahim Kapadia
Chief Executive

KARACHI

DATED : August 29,2014