Directors' Report to the Shareholders

FOR THE YEAR ENDED JUNE 30, 2015

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, 2015.

The Board of Directors is pleased to recommend a cash dividend of 150% i.e. Rs. 7.50 per share. The Board has also recommended appropriation of Rs. 170 million from un-appropriated profits to General Reserve.

PAKISTAN'S ECONOMY

Economy is improving quantitatively and qualitatively as GPD growth achieved 4.24 percent in 2014-15 against the growth of 4.03 percent recorded in the same period last year. The most encouraging sign is that all sectors namely agriculture, industry and services have supported economic growth. It is the highest achievement since 2008-09.

Major success of the outgoing fiscal year includes: economic growth, inflation contained at lowest level since 2003, improvement in tax collection, reduction in fiscal deficit, worker remittances touches new heights, successful launching of Sukook Bonds, foreign exchange reserves significantly enhanced, the rupee depreciation remained well under control.

China and Pakistan have signed agreements to establish Economic Corridor between the two countries. The corridor will serve as a driver for connectivity. By the completion of this project, trade in the world is expected to increase and Pakistan will take benefits through multiple dimensions.

AUTOMOTIVE SECTOR

There was a healthy growth in the Auto Industry last year as all segments viz. passenger cars, light commercial vehicles, trucks & buses and tractors recorded substantial growth. However, the motorcycle segment had minimal growth.

Summarized automobile production figures comparing 2015 with 2014 appears below:

	2015	2014	Change
Passenger Cars	152,524	116,281	31%
Light Commercial Vehicles	29,298	18,694	57%
Trucks & Buses	4,614	3,232	43%
Tractors	48,883	34,521	42%
Motorcycles	1,763,818	1,728,137	2%

Source:PAMA & PBS

The following is the overview of the auto industry :

Passenger Car Segment
This segment grew by 31% over last year, mainly on account of overwhelming response of a new launch by a major car assembler.

Light Commercial Vehicles
This segment got the boost from the announcement of Punjab Apna Rozgar Scheme wherein the Government of Punjab signed an agreement to purchase 50,000 van & pickups. During the year more than 20,000 vehicles have been supplied and the balance will be supplied in the next year.

Tractor Segment
This segment was under pressure due to the increase in the Sales Tax from 10% to 16% from January 2014. The Government realized the negative impact of the Sales Tax on this segment and reverted back to a 10% Sales Tax on tractors in the last year budget which substantially increased the bookings. The growth in the segment would have been much higher if timely payments were made to farmers by the Government.

1. SUMMARY OF FINANCIAL RESULTS

Following are the summarized financial results of the Company for the year 2015:

(Rs. '000)

	2015	2014
Turnover	4,923,276	3,158,800
Gross Profit	988,652	510,937
Profit before Taxation	733,399	403,565
Taxation	(248,338)	(95,327)
Profit after Taxation	485,061	308,238
Earnings Per Share (Rs.)	16.84	10.70

Sales for the year 2015 are higher by 56% compared to last year. This increase is the result of the increased volumes in all the segments of the auto industry. We were able to supply all the requisite supplies to our customers despite electricity breakdowns and law & order situation. This sales was also possible as a result of regular up-gradation and maintenance of the plant & machinery as we have lot of confidence in the growth of this industry.

As a result of the increased sales the profit after tax has also increased from Rs. 308 million to Rs. 485 million i.e. a growth of 57%. There was some cost hikes in the advertisement & sales promotion costs to promote our products in the after-market which is flooded with smuggled and under-invoiced products. Our focus will remain on the after-market as we believe that this segment has lot of potential with steady sales if these un-ethical practices are controlled/checked.

We would like to apprise the members that the 5% Regulatory Duty which was imposed in Jan 2014 on the import of Cold Rolled Steel & thereafter 12.5% - 15% regulatory duty on Hot Rolled Steel from March 2014. Despite of our several representations to the Ministries/Federal Board of Revenue the same has not been reversed. We were given assurances that the same will be reversed in the Federal Budget but no change was proposed. We pleaded to the Government that the steel material being imported by the automotive parts manufacturers is not locally produced and the same is certified by the Engineering Development Board. This duty is impacting the profitability of the Company as the impact of duty is not fully recoverable from the customers.

2. NEW PRODUCTS

During the year the manual type window regulator in technical assistance with Shiroki, Japan was successfully developed and supplied. We are now in the process of discussing with the technical partner to extend the agreement by adding the power type window regulators which will further increase the sales of this product.

The Company in order to strengthen itself in the manufacturing of motorcycle shock absorbers and its components is in negotiation with M/s. KYB Motorcycle Suspension Corporation, Japan for a Technical Assistance Agreement (TAA). Upon signing of the TAA, the technical partner will facilitate the localization of components of motorcycle shock absorbers which are currently being imported.

3. PROCESS IMPROVEMENT ACTIVITIES

Being an equal opportunity employer and in order to change the culture & enhance the productivity, the Company initiated to induct lady workforce in the Company. The induction of lady work force has contributed positively in productivity and quality. Currently more than 50 lady members are working in assembly and production areas.

The Company carries out regular training in assistance with a Japanese consultant on Total Productive Maintenance activities. The consultant is mainly involved in suggesting ways for the effective maintenance and improvement in production efficiency of the machines. By virtue of these practical training the human resource is also being developed.

The Company has also signed agreement with M/s. Sannou Riken, Japan for improving the quality of the hard chrome plating. The representatives of the Company regularly visits and are involved in monitoring the improvement based on their suggestions.

In order to comply with growing requirements of the company plant & machinery we have invested in new MIG welding machine, shocks testing machine, oil & gas filling machines and equipment related to new motorcycle assembler. Additional storage area was also built in anticipation of enhanced volumes.

4. AGRIAUTO STAMPING COMPANY (PRIVATE) LIMITED (ASC)

The wholly owned subsidiary which was established in the year 2012 successfully started commercial production from July 2014 as planned. The plant also started the supply of the 2nd phase which mainly consists of high tensile steel material from March 2015.

The plant is now running at its capacity due to the increased orders from the customers. The Company also got the award from its customer for timely development of all the parts. The company has achieved a "zero" rejection during the its first year of commercial production. We are very hopeful that with assistance from our technical partner, M/s. Ogihara Thailand, this company will become the benchmark in the auto vendor industry in Pakistan.

The subsidiary Company contributed Rs. 708 million (net of sales to parent company) in sales and Rs. 60.6 million in profit after tax.

We are getting inquiries from auto assemblers for the development of parts which are difficult to develop and have not been localized yet. In order to cater the future needs we have initiated the process of procuring an additional 650 ton press from Japan. This press will be in addition to the 4 presses currently in operation, ranging from 800 ton to 500 ton.

In order to cater for the needs for future expansion, the company issued shares amounting to Rs. 115.7 million which was fully subscribed by the parent company in July 2015. The parent company has now invested Rs. 1.144 billion till to-date in the subsidiary company.

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.

Corporate Social Responsibility

The Company remains committed to the ten guiding principles of United Nation Global Compact (UNGC). Our primary focus is to enhance the local educational and medical facilities, and general welfare of the community, particularly the downtrodden and the under privileged. The company contributes 1% of PBT toward CSR initiatives.

a. Support to Educational Institutes
   - Supported local Govt. School in the form of Educational Fees, Premises Maintenance, Uniform, Water Coolers and Computers.

b. Support to Medical Institutes
   - Contributed to nearby Hospital to increase the level of health services / training of the hospital staff through specialized personnel.
   - Donated Medicines to Rotary club of Hub to organize free Medical camp for poor and needy people at Hub.

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

The Company has maintained Industrial Harmony, concurrently complying with all its legal obligations. Important decisions on company's operations are disseminated to employees keeping them informed and making them feel as part of the team. Our focus remains on Social Operating Mechanism and motivation of workers through effective Reward & Recognition policy.

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

a. Establishment of Nursing Room
- Hired a qualified lady nurse for nursing room/medical facilities.

b. Medical Camp
- Free Eye & Medical camp was organized at factory premises and treated 268 employees. Eye Glasses given to 198 workers free of cost.

c. Medical Check-Up
- Medical Check-Up of Hazardous job performers.

d. Picnics and sports competition at the plant are regular features.

8. CONTRIBUTION TO NATIONAL EXCHEQUER

During the year under review, your Company contributed Rs. 1.194 billion to the National Exchequer.

9. HUMAN RESOURCE

HR remains committed to the professional development and training of the employees with emphasis on inculcating company values in employees and providing them an environment of team work and mutual respect. Following are the salients of HR initiatives:

a. Training & Development

A variety of Training and Development opportunities were offered to various tiers of Management both in-house and abroad:-

Foreign Training:
- In order to ensure that our Human Resources are in line with the latest development techniques, and current with the internationally followed best Management practices ,the Company sent Executives on various trainings to AOTS/HIDA, Japan, Safety and technical Training at Ogihara ,Thailand ,and Senior Management Program at National University, Singapore. Total Foreign Training carried out was over 1400 hrs.

- Value Sessions:
Regular value sessions are carried out during Orientation of new comers.

b. Award & Recognition
- Karachi Stock Exchange awarded the Company as one of the top 25 companies for the year 2012.
- Participated in UNGC's Communication on Progress Report & Achieved "Certificate of Participation".
- Appreciation Certificate has been awarded by UNGC Pakistan to AIL for participating in Living the UN Global Compact Principles Best Practices Award.
- Participated in EFP OSHE Award & won the "3rd Prize" in category "Processing & Allied Sector".

10. FUTURE OUTLOOK

The future outlook of the Company and the Industry is positive. The growth in the passenger car segment due to the successful launch of the new model will continue. The remaining supplies under the Punjab Apna Rozgar Scheme will give boost to the sale of Van/pickup parts.

The Governments of Punjab and Sindh announced in their respective budgets subsidized tractor schemes of 25,000 and 29,000 tractors respectively. These schemes are expected to have a positive impact on the sale of tractor parts.

The addition of a new player in the motorcycle will stimulate the two wheeler segment and we are positive that with this addition of new entrant, the overall two wheeler market will also grow.

Auto Development Policy 2015-20 which was supposed to be announced along-with the Federal Budget is still awaited. We are very hopeful that the Government will ensure the progress of the local industry while formulating the policy for the next 5 years.

11. PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2015 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, 2015 amounted to Rs. 166 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	5/5
6	Mr. Muhammad Ali Jameel	4/5
7	Mr. Zafar Iqbal Sobani *	4/4
8	Mr. Abbas ul Husaini	0/1

* During the year Mr. Zafar Iqbal Sobani resigned from the Board and upon his resignation Mr. Abbas ul Husaini was appointed to fill the casual vacancy. The Board acknowledges the valuable contribution made by Mr. Sobani during his association with the Company and welcomes Mr. Husaini 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 Riken 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 22, 2015