DIRECTORS' REPORT TO THE **SHAREHOLDERS**

FOR THE YEAR ENDED JUNE 30, 2020

Dear Shareholders,

The Directors of your Company are pleased to present their Report along with the Audited Financial Statements for the year ended June 30, 2020.

THE BOARD OF DIRECTORS

The Board of Directors of the Company as at the Balance Sheet date is as follows:

1.	Mr. Yutaka Arae – Chairman	Non-executive Director
2.	Mr. Fahim Kapadia – Chief Executive	Executive Director
3.	Mr. Hamza Habib	Non-executive Director
4.	Mr. Sohail P. Ahmed	Non-executive Director
5.	Mr. Salman Burney	Non-executive Director
6.	Ms. Ayesha T. Haq	Independent Director
7.	Mr. Muhammad Ali Jameel	Independent Director

PRINCIPAL ACTIVITIES OF THE COMPANY

The Company is engaged in the manufacture and sale of components for automotive vehicles, motorcycles and agricultural tractors.

PAKISTAN's ECONOMY

The economy of Pakistan received a severe hit from the coronavirus pandemic and subsequent lockdown measures in the final quarter of FY 2020 (Apr-Jun). Industrial production contracted, exports plummeted owing to falling demand for textiles. After witnessing massive devaluation of currency, Pak Rupee largely remained stable during the year; but due to higher inflation, SBP kept its policy rate in double digits.

However, last quarter witnessed a sharp decrease in policy rate to mitigate the impact of COVID-19 pandemic on the economy. During the year, the growth rate declined by 0.4% primarily due to negative growth in the industrial sector.

To revitalize the growth, the Government of Pakistan (GoP) announced a Rs 1.24 trillion relief package to stimulate and boost overall economic growth. State Bank of Pakistan (SBP) took various steps including reduction in interest rate percentage, low rate refinancing for retaining workforce, BMR & expansion financing for manufacturing sector and refinance scheme for health sector. SBP also extended the availability of deferment for principal payments on certain loans and advancement.

Apart from the above initiatives GoP announced the Naya Pakistan Housing Scheme to jump start the ailing economy.

FINANCIAL & BUSINESS PERFORMANCE

This was the first time in last many years that company incurred a loss before tax. Financial year started off slowly and as a result inventory levels went all time high. Nonetheless, management used the available resources efficiently and managed to operate without any bank finance.

Start of the 2nd half of the year was very positive and economy was seen to accelerate but then the pandemic of COVID-19 literally stopped all the economic activities and month of Apr-20 recorded zero sales in the history of automobile industry.

Despite these challenges, the Company managed to achieve sales of Rs. 3.77 billion (2019: Rs. 7.12 billion) resulting in a decline of 47% over last year. The Gross Profit of the Company shrunk by 84% (2020: 170 millions v 2019 1,079 millions) predominantly due to loss of revenue during the Covid-19 Lockdown and decline in customer demand during the first half of the year.

Following are the summarized financial results of the Company for the year 2019-20:

STANDALONE	2020	(Rs. '000) 2019
Turnover	**3,768,756**	7,122,487
Gross Profit	**169,946**	1,078,665
Profit before Taxation*	**10,416**	805,391
Taxation	**(40,214)**	(202,379)
(Loss)/Profit after Taxation	**(29,798)**	603,012
(Loss)/Earnings Per Share (Rs.)	**(1.03)**	20.94

* Includes dividend from subsidiary company of Rs.114 mil

CONSOLIDATED	2020	(Rs. '000) 2019
Turnover	**5,244,651**	10,128,569
Gross Profit	**251,466**	1,681,151
(Loss)/Profit before Taxation	**(24,969)**	1,256,752
Taxation	**(83,469)**	(202,054)
(Loss)/Profit after Taxation	**(108,438)**	1,054,698
(Loss)/Earnings Per Share (Rs.)	**(3.77)**	36.62

DIVIDEND

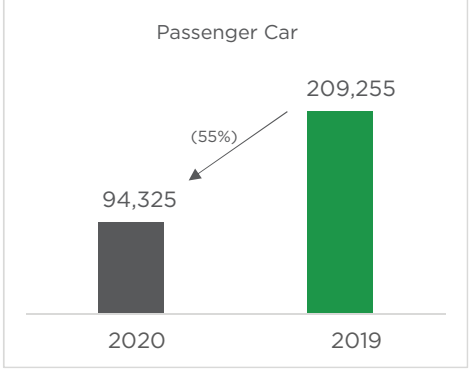
The Board of Directors is pleased to recommend a final cash dividend of Rs. 1.0 per share (20%) for the approval of the shareholders at the Annual General Meeting of the Company to be held on October 22, 2020.

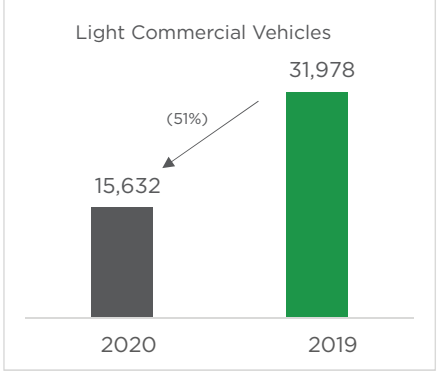
PERFORMANCE OF AUTOMOTIVE SECTOR

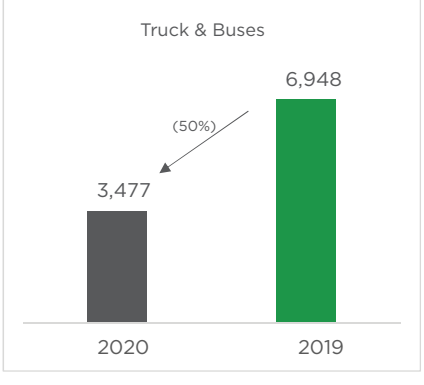
Auto sector felt the brunt of the double blow in the financial year 2019-20. Firstly, due to GoP fiscal measures such as increased rate of Additional Custom Duty, and imposition of FED on all locally manufactured vehicles and devaluation of PKR against USD, which resulted in cost hike and increase in price of vehicles thus contracted the demand for automobiles.

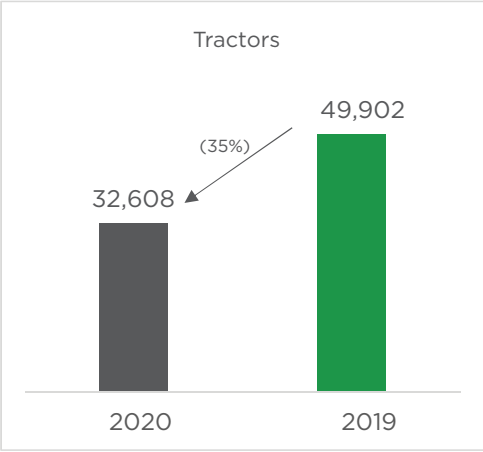
Secondly, COVID-19 pandemic halted the wheel of life around the globe and in Pakistan. Auto industry was shut down for over 2 months due to nationwide lockdown.

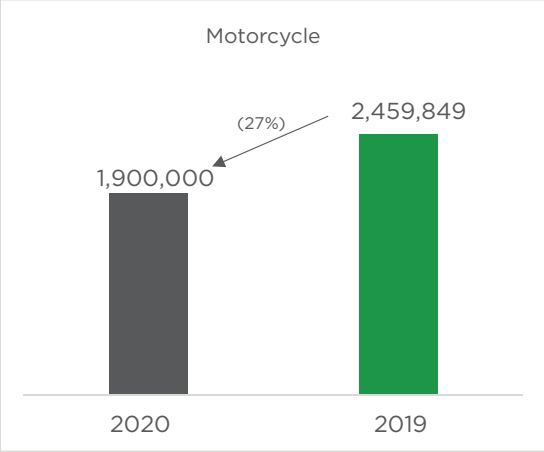
Following is the volumetric comparison of different auto segments.











NEW INITIATIVES:

The Board is pleased to share the new initiatives taken by the Company during the fiscal year 2019-20:

ED Paint Facility:

The Company is in the process of investing more than Rs.200 million for the development of automatic ED paint line. The ED Paint Facility will cater all existing struts and Sub Assembly Parts for McPherson. The Plant commissioning was delayed but we are hopeful that it will be commissioned in the next year.

NEW DEVELOPMENT

The company is developing shock absorbers, struts, press parts for new models planned by the existing automakers. Although, there have been certain delays in the development but the management is confident that supply will commence as per the agreed plan.

PROCESS IMPROVEMENT ACTIVITIES

Process improvement activities are part of the culture at Agriauto, following the KAIZEN philosophy. In order to manage the manufacturing operations, daily ASAKAI (morning meetings) are conducted where all departmental heads join to discuss current operational issues & progress related to safety, quality, production, maintenance, suppliability, projects, etc. and take immediate countermeasures.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management process includes identification of strategic, financial, operational and legal risks affecting the performance of the Company and to ensure appropriate measures to mitigate these risks. At Agriauto, an effective risk management strategy is in place to detect these risks at an early stage and to devise action plans to address and mitigate the same.

The Board believes that the current pressure on the exchange rate carries a high risk and any further devaluation of Pak Rupee or increase in interest rates shall have a significantly adverse impact on the automotive industry in Pakistan.

Board further believes that although the impact of COVID-19 has subsided but this risk cannot be written-off altogether as some countries have witnessed its second wave. However, keeping in account the measures adopted and implemented by the company's management, Board considers that this can be managed effectively.

AGRIAUTO STAMPING COMPANY (PRIVATE) LIMITED (ASC)

This was the first year where the plant was operating under its capacity due to sudden drop in production volumes. Production improved slightly from Jan'20 due to increase in demand but was again hampered abruptly due to the enforcement of lockdown in light of COVID-19. The plant resumed its operational activities by implementing all protocols and guidelines of COVID-19.

During the year, the company received business from automakers for their new models.

The tax credit has expired on June 30th, 2019. Hence, the Company is now liable to pay income tax.

The following are the major achievements of the subsidiary company during the fiscal year 2019-20:

1. Realization of new stamping part business from other automakers.
2. Surveillance audit of all ISO certifications (ISO 9001-2015, ISO 1400, TS 16949)
3. In house tooling of critical assemblies realizing cost savings.

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HEALTH, SAFETY AND **ENVIRONMENT (HSE)**

The commitment towards Health, Safety and Environment is fully reflected by the effective controls implemented by the company. During the COVID-19 outbreak, the company showed full responsibility to prevent the spread of COVID-19 among its employees. Following are the key highlights of the control measures implemented:

COVID-19 Outbreak Control

In order to prevent the spread of COVID-19 and to ensure smooth operations, the HSE Department developed and implemented a set of protocols based on Baluchistan/Sindh government Notifications, Requirements from customers, World Health Organization (WHO) and Centers for Disease Control & Prevention (CDC) recommendations. The protocols implemented were the provision of surgical safety masks (daily basis), hand sanitizer dispensers, enforcing of social distancing in operational activities, disinfecting of vehicles and creating awareness among employees, contractors and visitors through signage and training.

Disinfecting of Vehicles

Temperature monitoring of employees

Safety

a) The company achieved the target of 'Zero' (0) Lost Work Day (LWD) incident.
b) Inspection of Lifting Equipment (forklift truck, Overhead bridge Cranes, Scissors Lifts, etc.) from third party inspectors.
c) Training on the use of Rapid Intervention Vehicle and fire extinguishers were provided by the Emergency Response team members.
d) Surveillance Audit from external Auditors on ISO14001:2015 and OHSAS18001:2007 were conducted and no major non-conformance was reported.

Training on the use of RIV

In-house training session on firefighting

Environment

e) The 'No Objection Certificate' (NOC) was issued from the Baluchistan Environmental Protection Agency to the factory located at Hub.
f) All environmental monitoring, e.g. effluents, gaseous emissions, drinking water, etc. were carried out in accordance with government notifications.

CORPORATE SOCIAL **RESPONSIBILITY (CSR)**

Agriauto believes giving back to society is an essential duty for the business. CSR is embedded into the company's core business strategy. The company continues to spend 1% of its profit before tax over community welfare and development initiatives. Our objective remains, to support the local community for the welfare of all our stakeholders. The activities undertaken during the year include:

- Distribution of ration hampers to all workers during the Covid-19 pandemic
- Donation to various educational institutions especially in the Hub vicinity focusing on supporting provision of medical facilities to the underprivileged.
- Donation to different hospitals and welfare trusts
- Arranged general Medical & Eye Camp for staff
- Literacy program arranged for local workers
- Plantation at HUB/Port Qasim

CONTRIBUTION TO NATIONAL EXCHEQUER

During the year under review, the Company contributed Rs. 1.04 billion (2019: Rs.2.11 billion) to the National Exchequer.

REMUNERATION POLICY OF NON-EXECUTIVE DIRECTORS

The fee of the Non-Executive and Independent Directors for attending the Board and Committee meetings of the Company is determined by the Board from time to time.

HUMAN RESOURCE (HR)

HR Department 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.

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. Following are the highlights of HR initiatives:

Training & Development:

A variety of Training and Development opportunities were offered to employees in-house, external and international. Total trainings carried out during the year were over 1,025 hours. In addition, multiple online trainings were conducted during the Covid-19 pandemic through to continuously develop employees to best utilize time. Following are the training highlights for the year:

- Advance Business Communication & Interpersonal Skills.
- Changing Behavior (Motivation) conducted by AOTS-Japan.
- The Program on Productivity Improvement (TPPI) conducted by AOTS-Japan.
- Corporate Treasury to Optimize Cash Resources
- Dashboard Reporting (Self Service Business Intelligence)
- Emotional Intelligence W/ Positive Thinking
- Leading Your Team-The Right Way
- Operational Excellence and Plant Maintenance Management Optimization
- Pakistan: Economy of an Elitist State conducted by ICAP
- Safe Lift
- Safety & Time Management
- SMART Objective Setting

Awards & Recognitions

Agriauto Industries Ltd received following award(s) during the year:

- Participated in 7th Employer of the year Award-2018 Special Recognition Shield in category "Large National Companies" on October 25, 2019.

PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2020 is annexed.

RELATED PARTY TRANSACTIONS

All transactions with related parties have been carried out in normal course of business at agreed terms and have been disclosed in the financial statements under relevant notes.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- The financial statements prepared by the Management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of account have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements.
- The Board has outsourced the internal audit function to M/s. Noble Computer Services (Pvt) Ltd., who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedure of the Company.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- All members of the Audit Committee are independent/ non-executive Directors.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations, except as disclosed in statement of compliance.
- The value of investment of provident fund stands at Rs. 222 million as at June 30, 2020.
- The key operating & finance data for the last 6 years are annexed to the report.

Following is the status of the attendance at meetings of the Board of Directors:

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. Salman Burney	4/5
5	Ms. Ayesha T. Haq	4/5
6	Mr. Muhammad Ali Jameel	3/5
7	Mr. Hamza Habib	5/5

During the year the Audit Committee met 4 times and attendance of the Directors was as follows:

SL #	Names	No of meetings Attended/Held
1	Mr. Muhammad Ali Jameel (Chairman)	2/4
2	Mr. Sohail P. Ahmed	4/4
3	Ms. Ayesha T. Haq	3/4

During the year the Human Resource and Remuneration Committee met once and attendance of the Directors was as follows:

SL #	Names	No of meetings Attended/Held
1	Mr. Muhammad Ali Jameel (Chairman)	1/1
2	Mr. Sohail P. Ahmed	1/1
3	Mr. Yutaka Arae	1/1
4	Mr. Salman Burney	1/1
5	Mr. Fahim Kapadia	1/1

AUDITORS

The existing Auditors; M/s. EY Ford Rhodes (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 with the Code of Corporate Governance is annexed herewith.

FUTURE OUTLOOK

Inflation and Interest rates are falling, current account deficit is in control and foreign exchange reserves are growing which are positive signs for the recovery of the auto sector. Financial support committed by multilateral agencies shall assist in fulfilling the potential financing gap. The low discount rate along with improving macro factors are likely to result in increased demand for automobiles.

Start of next financial year is quite uplifting. The projections being received from the auto makers are encouraging and we can expect a growth oriented year ahead.

Management further has a plan of introducing new products in aftermarket and exploring this segment more vigorously using existing capacity that has potential to meet demand.

ACKNOWLEDGMENT

We would like to express our sincere appreciation to all our employees for their untiring efforts and through a cordial and positive relationship during the year which helped us in meeting and overcoming our challenges due to which the company continued its year on year growth and we expect the same level of support from our employees in the year ahead.

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, continuous support and contribution to the Company. We are also thankful to all our overseas technical collaborators, M/s Ride Control, LLC. 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, M/s KMS (KYB Motorcycle Suspension, 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

Salman Burney
Non-Executive Director

KARACHI
DATED: August 27, 2020