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SAZGAR

# ANNUAL REPORT 2009



**SAZGAR ENGINEERING WORKS LIMITED**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



# Sazgar Engineering Works Limited

## CONTENTS

Vision, Mission and Corporate Strategy	1
Company Information	2
Notice of Annual General Meeting	3
Directors' Report	5
Statement of Compliance with Best Practices of Corporate Governance	12
Auditors' Review Report on Statement of Compliance with Best Practices of Corporate Governance	13
Auditor's Report to the Members	14
Balance Sheet	15
Profit and loss Account	17
Cash Flow Statement	18
Statement of Changes in Equity	19
Notes to the Accounts	20
Form of Proxy	46



**Vision**

*Dynamic, quality conscious and ever progressive.*

**Mission**

- *To be market leader in providing safe, economical, durable, comfortable and environment friendly means of transportation of international quality at competitive prices*
- *To achieve market leadership in automotive wheel-rims of all types and sizes*
- *Grow through innovation of new products and*
- *Give higher return to the stakeholders.*

**Corporate Strategy**

*Achieve optimal performance in production and sale; continuously add value added products at competitive prices by maintaining "quality" as core element; focus on customers' satisfaction regarding sale, spares and service; explore new markets and enhance customers' base; ensure right usage of company's resources; create employment opportunities; protect the interest of stakeholders; and be a part of the country's development.*

# Sazgar Engineering Works Limited

## BOARD OF DIRECTORS

### Executive Directors

Mrs. Saira Hameed

Mr. Mian Asad Hameed

Mr. Saeed Iqbal Khan

### Non-Executive Directors

Mr. Mian Zafar Hameed

Mr. Ishtiaq Ahmed Roomi

Mrs. Khadija Nilofer Ishtiaq

Mr. Mian Muhammad Ali Hameed

Mr. Amjad Wazir

(Alternate Director of Mr. Mian Muhammad Ali Hameed)

Chairperson/Director

Chief Executive/Director

Director

Director

Director

Director

Director

Alternate Director (ceased on September 16, 2009)

## BOARD AUDIT COMMITTEE

Mr. Ishtiaq Ahmed Roomi

Mr. Mian Zafar Hameed

Mr. Mian Muhammad Ali Hameed

Mr. Arshad Mahmood

Chairman

Member

Member

Secretary

## COMPANY SECRETARY

Arshad Mahmood

## AUDITORS

Kabani Saeed Kamran Patel & Co.  
Chartered Accountants

## BANKERS

Allied Bank Limited  
National Bank of Pakistan  
Bank Alfalah Limited  
Faysal Bank Limited  
Habib Bank Limited  
The Bank of Punjab  
Atlas Bank Limited

## REGISTERED OFFICE

171- Ali Town, Thokar Niaz Baig,  
Raiwind Road, Lahore.

## FACTORY

18-KM, Raiwind Road, Lahore.

# Sazgar Engineering Works Limited

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 18<sup>th</sup> Annual General Meeting of **Sazgar Engineering Works Limited** will be held at 171-Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore on Saturday, October 31, 2009 at 10:30 A.M. to transact the following businesses:

### ORDINARY BUSINESSES:

1. To confirm the minutes of Annual General Meeting of the Company held on October 31, 2008.
2. To receive, consider and adopt the Annual Audited Accounts of the company for the year ended 30<sup>th</sup> June, 2009 together with the Directors' and Auditors' Reports thereon.
3. To approve the issue of bonus shares @ 20% (i.e. 20 ordinary shares for every 100 ordinary shares held) as recommended by the Board of Directors.
4. To appoint Auditors for the year 2009-2010 and to fix their remuneration. The present auditors M/S Kabani Saeed Kamran Patel & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

### SPECIAL BUSINESS:

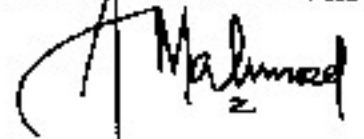
5. To consider and, if thought fit, to pass the following resolutions as ordinary resolutions with or without modification:
  - (i) **Resolved** that a sum of Rs. 20,801,350/- out of the Company's profits available for appropriations as at June 30, 2009 be capitalized and be applied for the issue of 2,080,135 fully paid ordinary shares of Rs. 10/- each as bonus shares to be allotted to those shareholders whose names appear in the register of members at the close of the business on October 24, 2009 in the proportion of twenty (20) ordinary shares for every hundred (100) ordinary shares held by a member. The said shares shall rank pari passu with the existing shares of the Company as regard future dividend and all other respects."
  - (ii) **Further resolved** that all the fractional Bonus Shares shall be consolidated into whole shares and sold in the Stock Market. The proceeds of sale of consolidated fractional shares when realized shall be paid to a charitable institution approved under the Income Tax Ordinance, 2001."
  - (iii) **Further resolved** that Directors and Company Secretary individually be and are hereby authorized and empowered to give effect to these resolutions and to do or cause to be done all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of bonus shares."

### OTHER BUSINESS:

6. To transact any other business which may be placed before the meeting with the permission of the Chairman.

Lahore  
October 10, 2009

By order of the Board

  
Arshad Mahmood  
(Company Secretary)

# Sazgar Engineering Works Limited

## Notes:

- a. The share transfer books of the company will remain closed from October 25, 2009 to October 31, 2009 (both days inclusive). Transfers received in order at 171-Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore at the close of business on 24 October 2009 will be treated in time for entitlement of bonus shares and to attend the Annual General Meeting.
- b. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for his/her behalf. Proxies in order to be effective must be received at the registered office of the company duly stamped and signed not less than 48 hours before the time of holding the meeting.
- c. Members are requested to promptly communicate change in their addresses, if any.

**CDC Account Holders will further have to follow the guidelines as laid down in Circular 1 dated January 26, 2000 issued by Securities and Exchange Commission of Pakistan for attending the meeting and appointment of proxies.**

## **STATEMENT U/S 160(1)(b) OF THE COMPANIES ORDINANCE, 1984**

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on Saturday, October 31, 2009.

### **ITEM NO. 5 OF THE AGENDA**

The Board of Directors has recommended 20% bonus shares from the profits available for appropriations as at June 30, 2009 by capitalization of a sum of Rs. 20,801,350/- for the issuance of 2,080,135 fully paid bonus shares.

**The directors of the Company have no interest directly or indirectly in the Special Business except to the extent that they are members of the Company.**



# Sazgar Engineering Works Limited

## DIRECTORS' REPORT

The directors of your company are pleased to present the 18<sup>th</sup> Annual Report along with the audited accounts of the Company for the year ended 30<sup>th</sup> June 2009:

### BUSINESS OVERVIEW:

Unfortunately the economic conditions of the country during the period under review were not supportive for the Automobile industry. Political uncertainty, terrorism, inflation rate, load-shedding and rate of mark up were at their peak. The sales of your Company was particularly affected by the discontinuation of "NBP President Rozgar Scheme" due to change in Government. The buyers of Auto Rickshaws had been waiting for the re-start of NBP financing scheme for half a year thereby Cash market of Auto Rickshaw could not established and sales volume remained at the lowest level during this period. Under these circumstances it was imperative for your Company to take such measures and decisions that help to survive and pass successfully through the difficult time. Your Company focused on the research and development and introduced a new model of Auto Rickshaw in the beginning of calendar year 2009. By the Grace of Almighty Allah, the results of launching of new model of "Sazgar Minicab" are encouraging so far and sales volume is increasing gradually.

### FINANCIAL RESULTS:

	2009 (Rupees)	2008 (Rupees)
Profit before taxation	25,947,824	208,830,307
Provision for taxation	11,717,844	73,475,107
Profit after taxation	14,229,980	135,355,200
Un appropriated Profit brought forward	193,413,416	75,392,676
Profit available for appropriation	207,643,396	210,747,876

### Appropriations:

Reserves for issuance of bonus shares (@ 20%(2008: 20%)	20,801,350	17,334,460
	20,801,350	17,334,460
Un appropriated profit carried forward	186,842,046	193,413,416

### Sales Revenue:

The overall net sales revenue of the Company has decreased by 38.34 % from Rupees 1,544.715 million to Rupees 952.540 million during the period under review. Segment wise: The net sales of Auto Rickshaws has dropped from Rupees 1,291.036 million to Rupees 580.561 million reflecting a decrease of 55.031% whereas the net sales of auto parts has increased from Rupees 247.325 to Rupees 366.355 showing a rise of 48.127%. The net sales of home appliances has declined from Rupees 6.353 million to Rupees 5.623 million compared with the corresponding period of last year. The decline in sale of Auto Rickshaw was due to lower demand on account of non commencement of "NBP Rozgar Scheme" during the period under review. Whereas the reduction in sales of home appliances was due to shortage of stocks available for sale. The increase in sale of auto parts was due to more orders placed by the Tractor Assemblers on account of reduction in selling prices of wheel rims.

### Gross Profit:

The gross profit margin for the current period has declined substantially due to rise in input costs and reduction in selling prices of Auto Rickshaw and wheel rims due to tough market competition.

# Sazgar Engineering Works Limited

The amount of gross profit has dropped from Rupees 302.947 million to Rupees 103.819 million showing a decline of 65.73% and gross profit ratio from 19.61% to 10.90%.

## Operating Expenses:

The operating expenses are normal, increase in Administrative expenses is due to rise in salary rate and inflation factor.

## Earning Per Share:

The Earning per share of Rupees 1.37 for the current period is significantly lower compared with last corresponding period of Rupees 13.01.

## Production:

During the period, the Company produced 4,690 units of Auto Rickshaws compared with 9,696 units produced during the corresponding period of last years reflecting a 46.90% utilization of production capacity.

Whereas the production of wheel rim was 90,530 compared with 82,161 during the same corresponding period of last year showing an increase of 10.19%.

## PRODUCTION CAPACITY OF AUTO RICKSHAW:

The Company is making some modifications and improvements in manufacturing facilities without incurring substantial financial cost to increase the production capacity of Auto Rickshaw from 10,000 units per annum to 13,500 units per annum for the financial year 2009-10.

## BONUS SHARES:

The Board of Directors has recommended 20% bonus shares (2008: 20%) i.e. 20 ordinary shares for every 100 ordinary shares in its meeting held on October 05, 2009 subject to the approval of shareholders in the 18<sup>th</sup> Annual General Meeting. Thus a total of Rupees 20.801 million will be capitalised resulting in an increase of paid up share capital to Rupees 124.808 million.

## FUTURE OUTLOOK:

### 4-Stroke CNG Motor Cab Auto Rickshaw:

The size of cash market of CNG Auto Rickshaws is growing day by day particularly in major cities of the country. Moreover, the private money lenders who were shy for investment in CNG Auto Rickshaws have gained confidence about the quality and useful life of this product and have started financing of CNG Auto Rickshaws. This has created a huge size of market for the buyers who want to purchase Auto Rickshaw on instalments. By the Grace of Almighty Allah the demand of "Sazgar Minicab" is increasing day by day. It is hoped that the Company will capture a major share of this market.

The production of Company's new product (3-wheels loader) "Sazgar Tempo" has started during last quarter of period under review. Currently the demand of this product is slow but it will increase gradually and soon it would also contribute to the profitability of the Company.

### Wheel Rims:

Due to reduction in prices of wheel rims the tractor assemblers have increased the ordered quantities during the period under review. The size of order will further increase due to increase in demand of tractors. Hopefully the Company would regain its sales volume in the year to come.



# Sazgar Engineering Works Limited

## Export:

For export, the Company has registered itself in Kenya with Registrar of Companies and taxation department during the current period to find markets for Auto Rickshaw in Kenya as well as in its surrounding region. So far, the Company has not made any investment in Kenya except expenditures for registration purposes. The Company is looking for establishment of its office in Kenya and soon it will be operational.

## COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE:

The directors of your company are pleased to state that your Company is in compliance with the provisions of Code of Corporate Governance as are applicable for the current year. The various statements, as required by the Code, are given below:

- **Presentation of Financial Statements** The financial statements prepared by the management present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity;
- **Books of Account** Proper books of account have been maintained;
- **Accounting Policies** Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement;
- **Compliance with International Accounting Standards (IAS)** International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements;
- **Internal Control System** The system of internal control is sound in design and has been effectively implemented and is being monitored continuously. The review will continue in future for the improvement in controls;
- **Going Concern** There are no significant doubts upon the Company's ability to continue as a going concern;
- **Best Practices of Corporate Governance** There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations wherever applicable to the Company for the year ended June 30, 2009.
- **Financial Data of Last Years** Key operating and financial data of last six years is annexed as per annexure "A"

**Dividend** The Board has recommended bonus shares @ 20% for the period under review.

**Outstanding Statutory Dues** The outstanding statutory dues are given in notes to the accounts.

**Significant Plans and Decisions** The Company is looking for continuous diversification in automobile sector in order to add more products into production line.

**Board Meetings** During the year five (5) board meetings were held. The attendance by each director is given below:

Name of Directors	Number of meetings attended
Mr. Mian Asad Hameed	4
Mr. Mian Zafar Hameed	5
Mr. Saeed Iqbal Khan	5
Mrs. Saira Hameed	5
Mr. Ishtiaq Ahmad Roomi	4
Mr. Mian Muhammad Ali Hameed	0 (The Director was on leave)
Mrs. Khadija Nilofer Ishtiaq	5
Mr. Amjad Wazir	2
(Alternate director of Mian Muhammad Ali Hameed)	

# Sazgar Engineering Works Limited

Leave of absence was granted to the Directors who could not attend the Board Meetings.

**Pattern of shareholding** The pattern of shareholding is annexed as per annexure "B".

**Trading in Company's Shares by** Directors, CEO, CFO, Company Secretary and their spouse and minor children during the year:

Purchase, sale of Shares and change in beneficial ownership:	Purchase/Gift	Sale/Gift
Mian Asad Hameed	726,585 (bonus shares)	6,000
Mian Zafar Hameed	75,730 (including bonus shares 25,330)	-
Saeed Iqbal Khan	71,334 (bonus shares)	-
Mrs. Saira Hameed	106,286 (bonus shares)	-
Mian Muhammad Ali Hameed	210,364 (bonus shares)	44,400
Ishtiaq Ahmad Roomi	1,338 (bonus shares)	-
Khadija Nilofer Ishtiaq	12,100 (bonus shares)	-
Arshad Mahmood	1,210 (bonus shares)	-
Wajahat Ahmed	Nil	550
Amjad Wazir (Alternate director)	100 (bonus shares)	-

## AUDITORS:

The present auditors, M/S Kabani Saeed Kamran Patel & Co, Chartered Accountants retire and being eligible offer themselves for reappointment.

## EMPLOYEES RELATIONS:

The management and employees relationship is very cordial and it is hoped that both will work with the same spirit to achieve the desired goals of the Company.

## ACKNOWLEDGEMENT:

We would like to place on record our appreciation for the untiring efforts, teamwork and dedication shown by the Company's employees during the year under review.

We would also like to express our gratitude to our valued shareholders, customers, suppliers and financial institutions for their co-operation, constant support and trust reposed in your Company that has enabled us to achieve the desired targets.

For and on behalf of the Board

Lahore:  
October 05, 2009

  
**MIAN ASAD HAMEED**  
CHIEF EXECUTIVE

# Sazgar Engineering Works Limited

ANNEXURE-A

## SUMMARY OF LAST SIX YEARS' FINANCIAL RESULTS

Description	2009	2008	2007	2006	2005	2004
	<b>Rupees</b>					
<b>Profit and Loss Account:</b>						
Turnover	952,539,933	1,544,715,036	618,614,292	376,919,915	290,486,881	217,022,743
Gross Profit	103,819,131	302,947,580	119,682,153	78,263,121	45,685,233	43,415,936
Operating Profit / (Loss)	40,107,931	220,117,355	87,577,286	56,630,246	32,735,685	32,550,962
Profit / (Loss) before taxation	25,947,824	208,830,307	82,286,103	51,520,555	29,676,810	29,038,260
Profit / (Loss) after taxation	14,229,980	135,355,200	53,466,483	34,024,537	25,875,468	18,797,794
<b>Balance Sheet:</b>						
Paid up share capital	104,006,760	86,672,300	78,793,000	71,630,000	71,630,000	71,630,000
Accumulated Profit / (Loss)	207,643,396	210,747,876	91,151,276	44,847,793	10,833,257	(15,052,212)
Fixed Capital Expenditure	223,939,154	211,667,703	127,681,222	106,155,037	89,376,233	67,892,311
Other long term assets	816,457	771,457	771,457	723,525	723,525	718,025
Net current assets / (liabilities)	134,489,810	132,739,785	76,063,321	32,109,743	15,088,380	2,631,467
Long term liabilities	47,595,264	47,758,769	34,571,724	22,510,512	22,734,882	14,664,015
<b>Significant Ratios:</b>						
Gross profit ratio %	10.90	19.61	19.35	20.76	15.73	20.01
Profit / (loss) before tax ratio %	2.72	13.52	13.30	13.67	10.22	13.38
Fixed assets turnover ratio %	425.36	729.78	484.50	355.07	325.02	319.66
Price earning ratio - times	16.99	8.44	11.61	11.21	7.37	8.28
Return on capital employed % (Before tax)	11.16	63.85	42.87	40.76	31.12	45.69
Market value per share (KSE) Rs.	23.25	109.87	71.65	44.00	22.00	17.95
Long term Debt : Equity ratio	13:87	14 : 86	13 : 87	16 : 84	22 : 78	21 : 79
Current ratio	1.54 : 1	1.39 : 1	1.46 : 1	1.28 : 1	1.17 : 1	1.04 : 1
Interest cover ratio - times	2.69	19.04	16.23	11.04	10.70	9.27
Earnings per share Rs.	1.37	13.01	5.14	3.27	2.49	1.81

**Note:** Earnings Per Share, consequently Price Earning ratio, has been adjusted to reflect the effect of bonus shares.



# Sazgar Engineering Works Limited

ANNEXURE-B

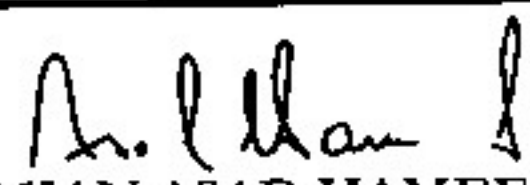
FORM -34

## THE COMPANIES ORDINANCE, 1984 (SECTION 236) PATTERN OF SHAREHOLDING AS ON JUNE 30, 2009

Registration Number: 0025184

NUMBER OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD
	FROM	TO	
108	1	100	6,088
146	101	500	40,625
182	501	1,000	135,044
131	1,001	5,000	298,692
26	5,001	10,000	176,900
14	10,001	15,000	172,770
2	15,001	20,000	33,200
4	20,001	25,000	88,560
6	25,001	30,000	171,920
2	35,001	40,000	72,300
5	40,001	45,000	209,116
3	45,001	50,000	139,964
3	50,001	55,000	154,320
3	55,001	60,000	179,070
1	60,001	65,000	61,440
2	70,001	75,000	146,600
2	75,001	80,000	157,700
1	100,001	105,000	102,000
1	105,001	110,000	108,174
1	125,001	130,000	129,445
1	175,001	180,000	179,103
1	200,001	205,000	202,382
1	205,001	210,000	207,850
1	275,001	280,000	275,968
1	310,001	315,000	314,420
1	425,001	430,000	428,005
1	635,001	640,000	637,718
1	1,215,001	1,220,000	1,217,789
1	4,350,001	4,355,000	4,353,513
652			10,400,676

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHAREHOLDING
I Directors, Chief Executive Officer, Their Spouse And Minor Children	7,099,864	68.26 %
II Associated Companies, Undertakings & Related Parties	-	-
III NIT and ICP	-	-
IV Banks, Development Financial Institutions, Non Banking Financial Institutions	60	0.00 %
V Insurance Companies	-	-
VI Modarabas and Mutual Funds	156,440	1.50 %
VII Shareholders Holding Ten Percent and above	5,571,302	53.57 %
VIII General Public		
a. Local	3,022,583	29.06 %
b. Foreign	-	-
IX Others (to be specified)		
- Joint Stock Companies	121,792	1.17 %

  
**MIAN ASAD HAMEED**  
 CHIEF EXECUTIVE

# Sazgar Engineering Works Limited

ANNEXURE-B/1

## PATTERN OF SHAREHOLDING

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
<b>I Associated Companies Undertakings &amp; Related Parties</b>	Nil	-
<b>II NIT/ICP</b>	Nil	-
<b>III Directors, Chief Executive, Their Spouse And Minor Children</b>	<b>9</b>	<b>7,099,864</b>
i. Mian Asad Hameed	1	4,353,513
ii. Mian Zafar Hameed	1	202,382
iii. Mian Muhammad Ali Hameed	1	1,217,789
iv. Mr. Saeed Iqbal Khan	1	428,005
v. Mr. Ishtiaq Ahmed Roomi	1	8,028
vi. Mrs. Saira Hameed	1	637,718
vii. Mrs. Khadija Nilofer Ishtiaq	1	72,600
viii. Mrs. Naghmana Saeed W/o Mr. Saeed Iqbal Khan	1	179,103
ix. Mrs. Amberen Zafar Hameed W/o Mian Zafar Hameed	1	726
<b>IV Executives</b>	1	7,260
<b>V Public Sector Companies and Corporation</b>	Nil	
<b>VI Banks, Development Financial Institutions, Non Banking Financial Institutions, Insurance Companies, Modarabas, Mutual Funds</b>	6	156,500
<b>VII Shareholders Holding Ten Percent or More Voting Interests</b>	<b>2</b>	<b>5,571,302</b>
i. Mian Asad Hameed	1	4,353,513
ii. Mian Muhammad Ali Hameed	1	1217,789

*Mian Asad Hameed*

**MIAN ASAD HAMEED**  
**CHIEF EXECUTIVE**

**STATEMENT OF COMPLIANCE WITH THE CODE OF  
CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2009**

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes four (4) non-executive directors.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy was occurred in the Board during the current year.
5. The company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision and mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they are approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board.
8. The meetings of the Board were presided over by the Chairperson. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged inhouse orientation course for its directors during the year to apprise of their duties and responsibilities.
10. The change in office of Chief Financial Officer of the Company was duly approved by the Board during the period under review.
11. The Directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board. While in absence of CFO the financial statements were endorsed by the Chief Accountant.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The related parties transactions have been placed before the Audit Committee for review and approved by the Board of Directors.
15. The company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed a Board Audit Committee. Presently, it comprises 3 members including Chairman, of whom all are non-executive directors.
17. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the code. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The Company has an effective internal audit function.

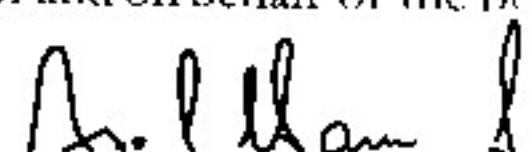


## Sazgar Engineering Works Limited

19. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all material principles contained in the Code have been complied with.

Lahore:  
October 05, 2009

For and on behalf of the Board

  
**MIAN ASAD HAMEED**  
CHIEF EXECUTIVE

### REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE.

We have reviewed the statement of compliance with the best practices contained in the code of Corporate Governance prepared by the Board of Directors of **Sazgar Engineering Works Limited** to comply with the Listing Regulation of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for the compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified whether the Statement of Compliance reflects the status of the Company's compliance with the provision of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquire of the Company's personal and review of various documents prepared by the Company to comply with the code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub Regulation (xiiiia) of listing regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which cause us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

October 5, 2009  
Lahore

**Kabani Saeed Kamran Patel & Co**  
Chartered Accountants  
Muhammad Yousaf

## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of **Sazgar Engineering Works Limited** as at **June 30, 2009** and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's Management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and the statement of changes in equity together with the notes forming part thereof conform with approved Accounting Standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980. (XVIII of 1980).

October 5, 2009  
Lahore

**Kabani Saeed Kamran Patel & Co.**  
Chartered Accountants

Muhammad Yousaf



# Sazgar Engineering Works Limited

## BALANCE SHEET AS

	Note	2009 Rupees	2008 Rupees
<b>CAPITAL AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital 50,000,000 (June 2008: 50,000,000) ordinary shares of Rupees 10 each		<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid-up share capital	5	104,006,760	86,672,300
Revenue reserve-Un-appropriated Profit		<u>207,643,396</u>	<u>210,747,876</u>
		311,650,156	297,420,176
<b>NON CURRENT LIABILITIES</b>			
Long term financing	6	4,200,000	6,600,000
Liabilities against assets subject to finance lease	7	2,912,070	10,098,212
Deferred Liabilities	8	40,483,194	31,060,557
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	202,749,806	190,175,956
Mark-up accrued on loans and other payables	10	1,123,167	1,297,835
Short term borrowings	11	21,595,128	63,549,229
Current portion of long term liabilities	12	9,572,935	12,067,919
Provision for taxation	13	12,459,999	68,573,796
		247,501,035	335,664,735
<b>CONTINGENCIES AND COMMITMENTS</b>	14	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>606,746,455</u>	<u>680,843,680</u>

  
**MIAN ASAD HAMEED**  
 CHIEF EXECUTIVE

# Sazgar Engineering Works Limited

**AT JUNE 30, 2009**

	Note	2009 Rupees	2008 Rupees
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
<b>Fixed Assets</b>			
Property, Plant and Equipment	15	222,833,683	209,943,302
Intangible Assets	16	1,105,471	1,724,401
<b>LONG TERM DEPOSITS</b>	17	816,457	771,457
 <b>CURRENT ASSETS</b>			
Stores, spares and loose tools	18	5,438,528	3,668,373
Stock in trade	19	194,767,287	193,317,850
Trade debts	20	96,341,775	202,015,093
Loans & Advances	21	10,845,620	8,459,685
Trade Deposits and short term prepayments	22	33,232,978	25,493,956
Other receivables	23	21,532,093	23,498,658
Cash and bank balances	24	19,832,563	11,950,905
		381,990,844	468,404,520
 <b>TOTAL ASSETS</b>		606,746,455	680,843,680

The annexed notes 1 to 45 form an integral part of these financial statements.

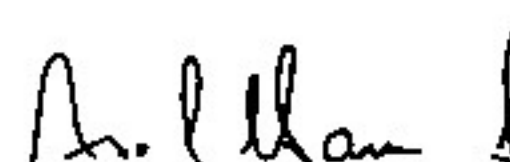
  
**SAEED IQBAL KHAN**  
 DIRECTOR

# Sazgar Engineering Works Limited

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
SALES - Net	25	952,539,933	1,544,715,036
COST OF SALES	26	848,720,802	1,241,767,456
<b>GROSS PROFIT</b>		103,819,131	302,947,580
Distribution cost	27	25,390,880	33,923,385
Administrative expenses	28	35,020,533	33,394,825
Other operating expenses	29	3,299,787	15,512,015
		63,711,200	82,830,225
		40,107,931	220,117,355
OTHER OPERATING INCOME:	30	1,178,199	269,852
		41,286,130	220,387,207
FINANCE COST	31	15,338,306	11,556,900
<b>PROFIT BEFORE TAXATION</b>		25,947,824	208,830,307
TAXATION	32	11,717,844	73,475,107
<b>PROFIT AFTER TAXATION</b>		14,229,980	135,355,200
<b>EARNINGS PER SHARE - BASIC AND DILUTED</b>	33	1.37	13.01

The annexed notes 1 to 45 form an integral part of these financial statements.

  
**MIAN ASAD HAMEED**  
 CHIEF EXECUTIVE

  
**SAEED IQBAL KHAN**  
 DIRECTOR

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 Rupees	2008 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	34	183,883,840	67,391,525
Financial charges paid		(15,512,973)	(10,695,982)
Income tax paid/deducted at source		(63,788,198)	(19,610,992)
Employees retirement benefit - Gratuity		(2,907,840)	(779,050)
WPPF & WWT		(11,222,632)	(4,414,970)
<b>Net cash generated from operating activities</b>		90,452,199	31,890,531
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Property, Plant and Equipment		(29,082,843)	(96,838,928)
(Increase)/decrease in long term security deposits		(45,000)	-
Proceeds from sale of fixed assets		592,529	750,000
Security deposits with leasing companies		-	(4,093,825)
<b>Net cash used in investing activities</b>		(28,535,314)	(100,182,753)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from / (repayment of) long term financing		(2,400,000)	(2,400,000)
Proceeds of short term borrowings		94,810,436	144,870,113
Repayment of short term borrowings		(109,752,553)	(108,548,309)
Repayment of finance lease		(9,681,126)	(11,615,244)
Proceeds from finance lease		-	22,560,500
Dividend Paid		-	(7,879,300)
<b>Net cash generated/(used in) from financing activities</b>		(27,023,243)	36,987,760
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		34,893,641	(31,304,463)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		(15,061,078)	16,243,385
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	35	19,832,563	(15,061,078)

The annexed notes 1 to 45 form an integral part of these financial statements.

  
**MIAN ASAD HAMEED**  
CHIEF EXECUTIVE

  
**SAEED IQBAL KHAN**  
DIRECTOR

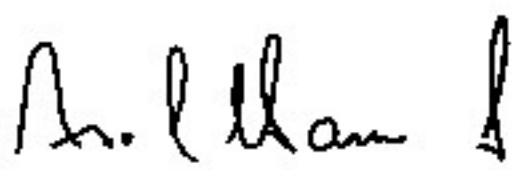


# Sazgar Engineering Works Limited

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2009

	Share Capital Rupees	Accumulated Profit Rupees	Total Rupees
Balance as at June 30, 2007	78,793,000	91,151,276	169,944,276
Issuance of bonus shares	7,879,300	(7,879,300)	
Final cash dividend for the year ended June 30, 2007 (@ Re. 1/- per share)	-	(7,879,300)	(7,879,300)
Profit for the year ended June 30, 2008	-	135,355,200	135,355,200
<b>Balance as at June 30, 2008</b>	86,672,300	210,747,876	297,420,176
Issuance of bonus shares	17,334,460	(17,334,460)	-
Profit for the year ended June 30, 2009	-	14,229,980	14,229,980
<b>Balance as at June 30, 2009</b>	104,006,760	207,643,396	311,650,156

The annexed notes 1 to 45 form an integral part of these financial statements.

  
**MIAN ASAD HAMEED**  
 CHIEF EXECUTIVE

  
**SAEED IQBAL KHAN**  
 DIRECTOR

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**1- LEGAL STATUS AND OPERATIONS**

The Company was incorporated in Pakistan on September 21, 1991 as a Private Limited Company under the Companies Ordinance, 1984 and converted into a Public Limited Company on November 21, 1994. The Company is listed on all the Stock Exchanges of Pakistan. The Company is engaged in the manufacture and sale of automobiles, automotive parts and household electric appliances. The registered office of the Company is situated at 171 Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore.

**2- STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**2.1- New accounting standards, IFRIC interpretations and amendments to the published approved accounting standards that are effective in current year**

The following standards, interpretations and amendments have been published that are mandatory and relevant for the Company's accounting period beginning on July 1, 2008:

IFRS 7- "Financial Instruments: Disclosures"- The Securities & Exchange Commission of Pakistan (SECP) vide SRO 411(1)/2008 dated April 28, 2008 notified the adoption of IFRS 7 which is mandatory for the Company's accounting periods beginning on or after the date of notification i.e. April 28, 2008. Adoption of IFRS 7 has only impacted the format and extent of disclosures presented in the financial statements.

Other new standards, interpretations and amendments to existing standards that are mandatory for accounting periods beginning on or after July 1, 2008 which are not considered relevant nor have any significant effect on Company's operations are not detailed in these financial statements.

**2.2- New accounting standards, IFRIC interpretations and amendments to the published approved accounting standards that are not yet effective**

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation.

	Effective for period
IFRS 1 First time adoption of IFRS (Revised)	July 01, 09
IFRS 2 Share based payment (Amendments)	Jan 01, 09
IFRS 3 Business combinations (Revised)	July 01, 09
IFRS 4 Insurance contracts (Amendments)	Jan 01, 09
IFRS 5 Non current assets held for sale and discontinued operations (Amendments)	Jan 01, 09
IFRS 7 Financial instruments: Disclosure (Amendments)	Jan 01, 09
IFRS 8 Operating segments	Jan 01, 09
IAS 1 Presentation of financial statements (Revised)	Jan 01, 09
IAS 7 Statement of cash flows (Amendments)	Jan 01, 09
IAS 12 Income taxes (Amendments)	Jan 01, 09

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

IAS 16	Property, plant and equipment (Amendments)	Jan 01, 09
IAS 18	Revenue (Amendments)	Jan 01, 09
IAS 19	Employee benefits (Amendments)	Jan 01, 09
IAS 20	Government grants and disclosure of government assistance (Amendments)	Jan 01, 09
IAS 21	The effects of changes in foreign exchange rates (Amendments)	Jan 01, 09
IAS 23	Borrowing costs (Revised)	Jan 01, 09
IAS 27	Consolidated and separate financial statement (Amendments)	July 01, 09
IAS 28	Investment in associates (Amendments)	Jan 01, 09
IAS 31	Interests in joint venture (Amendments)	Jan 01, 09
IAS 32	Financial instruments: presentation (Amendments)	Jan 01, 09
IAS 33	Earnings per shares (Amendments)	Jan 01, 09
IAS 34	Interim financial reporting (Amendments)	Jan 01, 09
IAS 36	Impairment of assets (Amendments)	Jan 01, 09
IAS 38	Intangible assets (Amendments)	Jan 01, 09
IAS 39	Financial instruments: Recognition and measurement (Amendments)	Jan 01, 09
IAS 40	Investment property (Amendments)	Jan 01, 09
IAS 41	Agriculture (Amendments)	Jan 01, 09
IFRIC 1	Change in existing decommissioning, restoration and similar liabilities (Amendments)	Jan 01, 09
IFRIC 2	Member's share in corporate entities and similar liabilities (Amendments)	Jan 01, 09
IFRIC 4	Determining whether an arrangement contains a lease	July 01, 10
IFRIC 12	Services Concession Arrangements	Jan 01, 10
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction (Amendments)	Jan 01, 09
IFRIC 15	Agreements for the construction of real estate	Jan 01, 09
IFRIC 16	Hedges of a net investment in a foreign operation	Oct 01, 08
IFRIC 17	Distributions of non-cash assets to owners	July 01, 09

The above standards, amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statement except for increased disclosures in certain cases.

### 3- SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 - Basis of preparation

These financial statements have been prepared on the historical cost basis except for the recognition of employees retirement benefits at present value.

#### 3.2 - Employee benefits

##### Defined benefit plan

The Company operates an unfunded gratuity scheme for all its permanent employees. The provision is made on the basis of actuarial valuation by using the projected unit credit method.

In calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds ten percent of the present value of the defined benefit obligation, it is recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.



**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**3.3- Property, Plant and Equipment**

Operating fixed assets except land and capital work in progress are stated at cost less accumulated depreciation. Land and capital work in progress are stated at cost. Cost in relation to self manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads. Cost of tangible fixed assets consists of historical cost, borrowing cost pertaining to the construction/erection period and directly attributable cost of bringing the assets to working condition.

Depreciation on all property, plant and equipment except freehold land is charged by applying the reducing balance method whereby the cost of an asset is written off over its estimated useful life. Depreciation on additions is charged from the month the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

The assets' residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

Normal maintenance and repairs are charged to income as and when incurred. Major renewals and replacements are capitalized.

Profit or loss on disposal of operating fixed assets is included in the current income.

**3.4- Impairment of fixed assets**

The company assesses at each balance sheet date whether there is any indication that a fixed asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying value exceeds recoverable amount, assets are written down to the recoverable amount.

**3.5 - Intangible Assets**

The Intangible Assets are stated at cost less accumulated amortization and identified impairment loss, if any. The cost of intangible assets is amortized over a period of five (5) years using the straight line method.

Amortization on additions to the intangible assets is charged from the month in which an asset is capitalized and / or is available for use, while no amortization is charged for the month in which the asset is disposed off. The amortization expense is charged to the current year income.

International Accounting Standard (IAS) 38 "Intangible Assets" requires review of amortization period and the amortization method at least at each financial year end. Accordingly the management assesses at each balance sheet date the assets' residual values and useful lives in addition to considering any indication of impairment, and adjustments are made if impact on amortization is significant.

**3.6- Assets subject to finance lease**

Assets under finance lease are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of assets at the inception of the lease. The aggregate amount of obligation relating to these assets are accounted for at net present value of liabilities. Depreciation on these assets is charged in line with normal depreciation policy adopted for assets owned by the Company.

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**3.7 - Taxation**

**Current**

The charge for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any.

**Deferred**

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax is calculated by using the tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available and the credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**3.8 - Store, spares and loose tools**

These are valued at moving average cost except items in transit which are valued at cost comprising invoice value and other charges paid thereon.

**3.9 - Stock in trade**

Stock in trade is valued at the lower of weighted average cost and net realizable value. The average cost in relation to work in process and finished goods represents direct costs of raw materials, labour and appropriate portion of overheads. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make the sale.

**3.10 - Foreign currency conversion**

Transactions in foreign currencies are recorded in Pak rupees at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are reported in Pak rupees at the rates of exchange approximating those prevalent at the balance sheet date. All exchange differences are charged to Profit and Loss Account.

**3.11 - Revenue recognition**

Revenue from sales is recognised on dispatch of goods to customers. Goods are considered dispatched when risk and rewards are transferred to customers.

**3.12 - Borrowing Costs**

All borrowing costs are capitalized up to the date of commissioning of the respective asset acquired out of the proceeds of such borrowing. All other borrowing costs are charged to income.

**3.13 - Segment reporting**

A reportable segment is identified where it becomes a distinguishable component that is engaged in providing an individual product or service or a group of related products or services within a particular economic environment and that is subject to risks and returns that are different from those of other segments. Expenses which cannot be directly allocated activity-wise, are apportioned on appropriate basis.



**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**3.14- Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalent consists of cash in hand, balances with banks and short term running finance facilities.

**3.15- Trade and accrued liabilities**

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether billed or not to the Company.

**3.16- Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

**3.17- Financial instruments**

All the financial assets and financial liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account currently.

**3.18- Research and Development**

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labor, an appropriate proportion of overheads and other directly attributable expenditure. Other development expenditure is recognized in the income statement as an expense as incurred.

Expenditure on development activities, capitalized during the year, are classified under "Intangible Assets".

**3.19 - Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the company has legally enforceable right to set off the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.



# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

### 3.20 - Related party transaction

All transactions with related parties are at arm's length prices determined in accordance with the pricing method as approved by the Board of Directors.

### 3.21 - Dividends

Dividend distribution to the shareholders is recognised as a liability in the period in which it is approved.

### 3.22 - Warranty Expenses

Warranty expenses are recorded as and when valid claims are received from customers.

## 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards. These standards require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) Useful life of depreciable and amortizable assets.
- b) Staff retirement benefits.
- c) Deferred taxation.
- d) Provisions and contingencies.
- e) Stocks in trade.

Estimates and judgments are continually evaluated and are based on historic experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

## 5 - ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

2009 Number	2008 Number	Note	2009 Rupees	2008 Rupees
7,163,000	7,163,000	Ordinary shares of Rupees 10 each fully paid up in cash	71,630,000	71,630,000
3,237,676	1,504,230	Ordinary shares of Rupees 10 each allotted as bonus shares 5.1	32,376,760	15,042,300
10,400,676	8,667,230		104,006,760	86,672,300

- 5.1 These shares include 1,733,446 bonus share of Rs. 10 each (2008: bonus shares 787,930 of Rs. 10 each) issued by the Company during the current year.

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

6- LONG TERM FINANCING	Note	2009 Rupees	2008 Rupees
<b>Secured</b>			
Demand Finance facility	6.1	6,600,000	9,000,000
Less: Current portion shown under current liabilities	12	<u>2,400,000</u>	<u>2,400,000</u>
		<u>4,200,000</u>	<u>6,600,000</u>

6.1 - The Company has obtained a loan from Habib Bank Limited of Rs.12 million. This facility is secured against 1st pari passu charge over the fixed asset of the Company (land, building and machinery), to the extent of Rs. 190 million. It carries mark-up at the rate of three months average ask side KIBOR + 3 % Floor 13% (June 30, 2008: three months average ask side KIBOR + 3 % Floor 11%) per annum, payable on quarterly basis. This finance is repayable in 20 equal quarterly installments of Rs. 0.6 Million each, which commenced from June 2007.

**7- LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

Present value of minimum lease payments		10,085,005	19,766,131
Less: Current portion shown under current liabilities	12	<u>(7,172,935)</u>	<u>(9,667,919)</u>
		<u>2,912,070</u>	<u>10,098,212</u>

The amounts of future payments and the periods in which these payments will become due are as under:

<b>Due not later than one year:</b>			
Minimum lease payments		8,079,050	11,724,001
Financial charges		906,115	2,056,082
Present value		<u>7,172,935</u>	<u>9,667,919</u>
<b>Due later than one year and not later than five years:</b>			
Minimum lease payments		3,011,980	11,103,132
Financial charges		99,910	1,004,920
Present value		<u>2,912,070</u>	<u>10,098,212</u>
		<u>10,085,005</u>	<u>19,766,131</u>

The minimum lease payments have been discounted using the effective interest rates implicit in leases ranging from 10.50% to 18.52% per annum to arrive at the present value. Rentals are payable in monthly installments. Repairs and maintenance costs are to be borne by the lessee. The liability is secured by deposit of Rupees 4.65 million, leased assets and personal guarantees of some directors of the Company. The Company intends to exercise its option to purchase the leased assets at the termination of lease period.

**8- DEFERRED LIABILITIES**

Employee benefits	8.1	16,353,642	12,304,593
Deferred taxation	8.2	<u>24,129,552</u>	<u>18,755,964</u>
		<u>40,483,194</u>	<u>31,060,557</u>

# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

8.1 - Employee benefits	2009 Rupees	2008 Rupees
<b>Net liability recognized in the balance sheet</b>		
Present value of defined benefit obligations	19,049,337	13,827,364
Unrecognized actuarial losses	(2,695,695)	(1,522,771)
	16,353,642	12,304,593
<b>Movement in the net liability recognized in the balance sheet</b>		
Net liability as at 1st July	12,304,593	7,912,840
Expense recognized in the income statement	6,956,889	5,017,222
Amount allocated to capital work in progress		153,581
Liability discharged during the year	(2,907,840)	(779,050)
	16,353,642	12,304,593
<b>Expense recognized in the income statement</b>		
Current service cost	5,291,087	4,249,163
Interest cost	1,651,118	901,539
Actuarial loss recognised	14,684	20,101
	6,956,889	5,170,803
Amount allocated to capital work in progress	-	(153,581)
	6,956,889	5,017,222
<p>The expense is recognized in the following line items in the income statement under the head salaries, wages and other benefits.</p>		
Cost of sales	5,115,689	3,771,846
Administrative expenses	1,430,600	801,964
Distribution Cost	410,600	443,412
	6,956,889	5,017,222
<b>Principal actuarial assumptions</b>		
<p>The company has carried out actuarial valuation as at June 30, 2009 under the 'Projected Unit Credit Method'. The main assumptions used for actuarial valuation are as follows:</p>		
Discount rate	12% p.a.	12% p.a.
Expected rate of future salary increase	11% p.a.	11% p.a.
Average expected remaining working life time of employees	10 years	10 years



**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

			2009 Rupees	2008 Rupees
<b>8.2- Deferred taxation</b>	<b>Note</b>			
The liability for deferred taxation comprises of temporary differences relating to:				
Accelerated depreciation for tax purposes			27,639,538	25,648,513
Liabilities under finance lease that are deducted for tax purposes only when paid			(3,509,985)	(6,892,549)
			24,129,552	18,755,964
 <b>9- TRADE AND OTHER PAYABLES</b>				
Creditors			179,195,643	157,765,039
Advances from customers			3,238,385	1,549,621
Accrued expenses and others			11,514,548	12,938,836
Sales tax payable			4,513,438	1,807,615
Special excise duty payable			485,634	84,507
Income tax deducted at source			1,347,370	868,323
Payable towards:				
Workers' Profit Participation Fund	9.1		1,470,565	11,222,632
Workers' Welfare Fund	9.2		984,223	3,939,383
			202,749,806	190,175,956
 <b>9.1 Workers' Profits participation Fund</b>				
Balance at beginning			11,222,632	4,415,272
Add: Charged during the year	29		1,470,565	11,222,632
			12,693,197	15,637,904
Less: payment made during the year			(11,222,632)	(4,415,272)
			1,470,565	11,222,632
 <b>9.2 Workers' Welfare Fund</b>				
Balance at Beginning			3,939,383	1,326,618
Add: Charge during the year	29		529,547	3,939,383
			4,468,930	5,266,001
less: Payment made during the year			(3,484,707)	(1,326,618)
			984,223	3,939,383
 <b>10 - MARK-UP ACCRUED ON LOANS AND OTHER PAYABLES</b>				
Long term financing			278,561	-
Short term borrowing- secured			731,408	1,062,512
Liabilities against assets subject to finance lease			113,198	235,323
			1,123,167	1,297,835

# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

11- SHORT TERM BORROWINGS	Note	2009 Rupees	2008 Rupees
<b>Secured</b>			
Running finance under mark-up arrangements			
Allied Bank Limited	11.1	-	16,390,358
Habib Bank Limited	11.2	-	10,621,625
Finance against trust receipts			
Allied Bank Limited	11.3	16,671,652	16,417,776
Habib Bank Limited	11.4	4,923,476	19,904,028
<b>Un- Secured</b>			
Payable against purchase of fixed asset	11.5	-	215,442
		21,595,128	63,549,229

**11.1-** Total amount of finance available under this facility is Rs. 45.00 million (June 30, 2008: Rs. 45.00 million). The mark-up is charged at the rate of three months average ask side Kibor plus 2.5% (June 30, 2008: three months average ask side Kibor plus 2.5%) with Floor rate of 13% (June 30, 2008: 12%) per annum. This facility is secured against First charge on the present and future fixed assets for Rs.140 million and First Hypothecation Charge of Rs. 110 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company. The un utilized amount of this facility as at balance sheet date is Rs. 45.00 million. (June 30, 2008: Rs. 28.61 million).

**11.2-** Total amount of finance available under this facility is Rs. 50.00 million (June 30, 2008: Rs. 50.00 million). The mark-up is charged at the rate of three months average ask side Kibor + 2.5% (June 30, 2008: three months average ask side Kibor + 2.50%), with floor rate of 13% (June 30, 2008: 11%) per annum. This facility is secured against First pari passu charge on fixed assets for Rs. 190.00 million and First pari passu Hypothecation Charge of Rs. 90.00 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company. The un utilized amount of this facility as at balance sheet date is Rs. 50.00 million. (June 30, 2008; 39.38 million).

**11.3-** Total amount available under this facility is Rs. 20.00 million (June 30, 2008: Rs. 20.00 million). for a maximum period of 90 days (June 30, 2008: 120days). The mark-up is charged at the rate of three months average ask side Kibor plus 2.5% (June 30, 2008: three months average ask side Kibor + 2.5%) with floor rate of 13% (June 30, 2008: 12%). This facility is secured against First charge on present and future fixed assets for Rs. 140.00 million and First Hypothecation Charge of Rs. 110 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company and Trust Receipts. The un utilized amount of this facility as at balance sheet date is Rs. 3.33 million. (June 30, 2008: 3.59million).

**11.4-** Total amount available under this facility is Rs. 20.00 million (June 30, 2008: Rs. 20.00 million) for a maximum period of 120 days. The mark-up is charged at the rate of three months average ask side Kibor plus 2.5% (June 30, 2008: three months average ask side Kibor plus 2.50%) with floor rate of 13% per annum. (June 30, 2008: 11%). This facility is secured against First pari passu charge on fixed assets for Rs. 190 million and First pari passu Hypothecation Charge of Rs. 90 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company and Trust Receipts. The un utilized amount of this facility as at balance sheet date is Rs 15.077 million. (June 30, 2008: 0.096 million).

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

11.5- The finance has been paid completely during the current year previously it was payable against purchase of Generator from M/S Millat Tractors Limited on instalment basis. Total invoice value was payable in 13 monthly instalments along with mark up calculated @ 14.45% per annum commencing from March 2008.

**12- CURRENT PORTION OF LONG TERM LIABILITIES**

	Note	2009 Rupees	2008 Rupees
Long term financing	6	2,400,000	2,400,000
Liabilities against assets subject to finance lease	7	7,172,935	9,667,919
		<u>9,572,935</u>	<u>12,067,919</u>

**13- PROVISION FOR TAXATION**

Balance at beginning	68,573,796	24,193,223
Add: Provision for the year		
-Current Year	3,648,921	67,589,754
-Prior year	2,695,335	-
Less: Payment during the Year	<u>(62,458,053)</u>	<u>(23,209,181)</u>
	<u>12,459,999</u>	<u>68,573,796</u>

**14- CONTINGENCIES AND COMMITMENTS**

**14.1- Contingencies**

14.1.1 Cases have been filed by some customers against the Company for the claim of auto parts under warranty. These cases are still pending in different courts. The management and Company's lawyer are of the opinion and are confident that the outcome of these cases will be settled in the favour of the Company. Hence no provision is made

14.1.2 The Company has filed an appeal against an order u/s 122(5A) passed by the taxation officer, challenging the tax losses amounting Rs. 1,503,939/- for tax year 2003 in the opinion of the tax consultant, favourable outcome of the appeal is expected.

14.1.3 The Income Tax department has filed an appeal against the Company in the income tax appellate tribunal, challenging the tax losses amounting Rs. 5,313,321/- for the tax year 2004. In the opinion of the tax consultant, favourable outcome of the appeal is expected.

14.1.4 The Company has been selected for Tax Audit u/s 177(4) for the tax Year 2008. The proceedings are in progress.

**14.2- Commitments**

The facilities for opening Letters of Credits and Guarantees as at June 30, 2009 aggregate Rs. 80 million and Rs. 8.00 million respectively (June 30, 2008: Rs. 80 million and Rs. 8.00 million respectively) of which the amounts utilized as at June 30, 2009 were Rs. 56.31 million and Rs. Nil. respectively. (June 30, 2008: Rs. 11.87 million and Nil respectively).



# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>15- PROPERTY, PLANT AND EQUIPMENT</b>			
Operating fixed assets	15.1	218,278,804	185,395,421
Capital work in progress	15.3	4,554,879	19,547,881
Advance for purchase of land	15.4	-	5,000,000
		222,833,683	209,943,302

### 15.1 - OPERATING FIXED ASSETS - Tangible

PARTICULARS	COST				Rate %	DEPRECIATION			W.D.V. as at 30-06-2009
	As at 01-07-2008	Additions / (Deletions)	Transfer	As at 30-06-2009		As at 01-07-2008	For the year	Adjustment	
Freehold land	55,277,254	22,309,700		77,586,954					77,586,954
Buildings and Civil Works									
on freehold land	52,669,453	6,675,167		59,344,620	5 to 10	16,990,402	3,650,510		20,640,912
Plant and Machinery	86,819,378	18,720,632		105,540,010	10	44,680,416	5,308,392		49,988,808
Electric Fittings	5,798,627	710,370		6,508,997	10	1,971,456	417,556		2,389,012
Furniture and Fixture	1,635,074	188,900		1,823,974	10	517,284	126,591		643,875
Office Equipment	2,163,609	38,000		2,201,609	10	737,436	145,716		883,152
Electric Installations	1,381,634	197,345		1,578,979	10	359,396	110,254		469,650
Vehicles	3,415,913	235,726	(1,676,500)	3,890,639	20	2,041,668	319,489	(1,085,568)	2,136,135
		(1,437,500)						(1,085,568)	
	209,160,942	49,075,840	(1,676,500)	258,475,782		67,206,058	10,087,168	(1,085,568)	77,460,444
<b>Assets subject to Finance Lease</b>									
Plant and Machinery	37,787,937	-		37,787,937	10	7,918,057	2,086,988		10,005,045
Vehicles	17,452,000	-	(1,676,500)	15,775,500	20	3,789,343	2,595,193	(1,085,568)	5,394,730
	55,239,937		(1,676,500)	53,563,437		11,707,400	4,682,181	(2,171,136)	16,299,735
<b>TOTAL 2009</b>	264,400,879	49,075,840	(1,676,500)	312,039,219		79,005,458	15,669,349	(3,256,704)	93,791,419

Details of property, plant and equipment sold are given in Note No. 15.5

PARTICULARS	COST				Rate %	DEPRECIATION			W.D.V. as at 30-06-2008
	As at 01-07-2007	Additions / (Deletions)	Transfer	As at 30-06-2008		As at 01-07-2007	For the year	Adjustment	
Freehold land	55,277,254	46,928,750		102,206,004					102,206,004
Buildings and Civil Works									
on freehold land	41,735,649	10,933,804		52,669,453	5 to 10	14,292,792	3,607,610		16,900,402
Plant and Machinery	81,823,574	4,995,804		86,819,378	10	40,435,705	4,244,711		44,680,416
Electric Fittings	3,585,940	2,212,687		5,798,627	10	1,698,389	273,067		1,971,456
Furniture and Fixture	1,213,764	421,310		1,635,074	10	405,776	108,508		517,284
Office Equipment	1,693,892	469,717		2,163,609	10	599,087	138,349		737,436
Electric Installations	900,766	480,868		1,381,634	10	259,682	99,714		359,396
Vehicles	2,164,679	2,354,234	(1,103,000)	3,415,913	20	1,233,256	334,053	(1,085,568)	2,041,668
		(1,103,000)						(1,085,568)	
	141,466,768	68,797,174	(1,103,000)	209,160,942		58,927,687	7,896,012	(1,085,568)	67,738,131
<b>Assets subject to Finance Lease</b>									
Plant and Machinery	25,157,903	(2,630,034)		22,527,869	10	5,768,629	2,149,428		7,918,057
Vehicles	9,471,500	(1,087,500)	(2,107,000)	7,276,500	20	2,515,872	2,359,039	(1,085,568)	3,789,343
	34,629,403	(2,717,534)	(2,107,000)	30,804,869		8,284,501	4,508,467	(2,171,136)	11,707,400
<b>TOTAL 2008</b>	176,096,171	91,514,708	(3,210,000)	264,400,879		67,212,188	12,404,479	(3,256,704)	93,791,419

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 Rupees	2008 Rupees
<b>15.2 - Depreciation for the year has been allocated as follows:</b>			
Cost of sales	26	12,520,067	8,976,958
Distribution cost	27	1,109,883	988,608
Administrative expenses	28	2,039,399	1,926,533
Capital work in progress		-	512,381
		15,669,349	12,404,480
 <b>15.3 - CAPITAL WORK-IN-PROGRESS</b>			
<b>Tangible</b>			
<b>Plant and machinery</b>			
Opening balance		19,037,229	12,765,452
Additions made during the year		2,381,512	6,271,777
		21,418,714	19,037,229
Transferred to operating fixed assets	15.3.1	18,070,115	-
		3,348,626	19,037,229
 <b>Civil works</b>			
Opening balance		-	2,904,590
Additions made during the year		7,165,140	8,029,214
		7,165,104	10,933,804
Transferred to operating fixed assets		6,536,753	10,933,804
		628,351	-
 <b>Electric Fitting / Installations</b>			
Opening balance		-	385,657
Additions made during the year		-	405,267
		-	790,924
Transferred to operating fixed assets		-	790,924
		-	-
 <b>Intangible</b>			
<b>Development work</b>			
Opening balance		510,652	-
Additions made during the year		67,250	510,652
		577,902	510,652
Transferred to Intangible Assets		-	-
		577,902	510,652
		4,554,879	19,547,881

**15.3.1-** This includes Rs. 2.45 million (June 30, 2008:Rs. 0.97 million) on account of advances paid to suppliers of machinery.

**15.4-** This balance represents the amount of advance paid on 19-06-2008 for the purchase of land measuring 64 Kanals at Mauza Bhai Kot, Lahore, the sale deed of which was registered in the name of the Company on August 22, 2008.

# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

### 15.5- DETAIL OF PROPERTY, PLANT AND EQUIPMENT DISPOSAL

The detail of property, plant and equipment disposal, having net book value in excess of Rs. 50,000 is as follows:

Particulars	Cost	Net Book Value	Sale price	Mode of Disposal	Particulars of purchaser
-----Rupees-----					
Honda CIVIC VTI LZU 1237	1,272,500	512,529	512,529	Negotiation	Muhammad Shaffi 27 KM Multan Road Lahore
Suzuki Bolan CE 1769	165,000	10,583	80,000	Negotiation	Dr. Aliya 05 Clifton Jigar Murabadi Road Karachi-74800

### 16 - INTANGIBLE ASSETS

Particulars	Cost			Amortization			Book Value As at 30-06-2009
	As at 01-07-2008	Additions/ (deletion)	As at 30-06-2009	As at 01-07-2008	For the period	As at 30-06-2009	
Development Cost	3,051,300	-	3,051,300	1,326,899	618,931	1,945,830	1,105,471
Jun-09	3,051,300	-	3,051,300	1,326,899	618,931	1,945,830	1,105,471
Jun-08	3,051,300	-	3,051,300	704,761	622,138	1,326,899	1,724,401

16.1- Development cost represents cost incurred on patents, copyrights, trade marks and designs.

16.2- The amortization cost is included in cost of sales.

	Note	2009 Rupees	2008 Rupees
<b>17- LONG TERM DEPOSITS</b>			
Deposit with Pakistan Steel Mill		400,000	400,000
Utilities and others		416,457	371,457
		<u>816,457</u>	<u>771,457</u>
<b>18 - STORES, SPARES AND LOOSE TOOLS</b>			
Stores		4,956,654	2,252,651
Spares		320,121	689,523
Loose tools		161,753	726,199
		<u>5,438,528</u>	<u>3,668,373</u>



**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

			<b>2009</b>	<b>2008</b>
		<b>Note</b>	<b>Rupees</b>	<b>Rupees</b>
<b>19 -</b>	<b>STOCK IN TRADE</b>			
	Raw materials and components		140,161,113	153,149,756
	Work in process		21,179,856	16,247,744
	Finished goods		33,360,733	8,035,421
	Stock in transit		-	15,879,600
	Packing and other material		65,585	5,329
			<u>194,767,287</u>	<u>193,317,850</u>
<b>20 -</b>	<b>TRADE DEBTS - Unsecured</b>	20.1	<u>96,341,775</u>	<u>202,015,093</u>
<b>20.1 -</b>	<b>Classification:</b>			
	Considered Good		96,341,775	202,015,093
	Considered Doubtful		522,533	-
	Considered Bad		44,622	-
			<u>96,908,950</u>	<u>202,015,093</u>
	Less			
	Provision for Doubtful debts		(522,553)	-
	Bad debts		(44,622)	-
			<u>96,341,775</u>	<u>202,015,093</u>
	Debts which are considered doubtful and Bad are charged to current year income and are shown under other operating expenses.			
<b>21 -</b>	<b>LOANS &amp; ADVANCES</b>			
	Advances - considered good			
	to employees	21.1	808,319	484,120
	to suppliers		10,037,301	7,975,565
			<u>10,845,620</u>	<u>8,459,685</u>
	21.1- Maximum aggregate balance due from the Executives during the period was Rs. 205,000/- (June 30, 2008: Rs. 150,000). These advances are secured against retirement benefits of the employees.			
<b>22 -</b>	<b>TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
	Contract securities		600,000	300,000
	Prepaid expenses		567,632	661,850
	Letter of credit margin		13,238,114	8,268,638
	Letter of credit in process		18,827,232	16,263,468
			<u>33,232,978</u>	<u>25,493,956</u>
<b>23 -</b>	<b>OTHER RECEIVABLES</b>			
	Advance income tax		21,344,093	23,498,658
	Other Receivable		188,000	-
			<u>21,532,093</u>	<u>23,498,658</u>

# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>24 - CASH AND BANK BALANCES</b>			
Cash in hand		39,331	39,100
Balance with banks on current accounts		19,793,232	11,911,805
		<u>19,832,563</u>	<u>11,950,905</u>
<b>25 - SALES - NET</b>			
Gross sales	25.1	1,140,685,970	1,943,722,984
Less: Sales tax		157,130,672	253,324,049
Sales returns		17,506,070	22,754,278
Commission		13,509,295	122,929,621
		<u>188,146,037</u>	<u>399,007,948</u>
		<u>952,539,933</u>	<u>1,544,715,036</u>
25.1	This includes Rs. 1.48 million (June 30, 2008: Rs. 0.79 million) on account of export sales.		
<b>26 - COST OF SALES</b>			
Raw materials and components consumed		719,401,373	1,065,632,052
Salaries, wages and other benefits	26.1	75,371,800	80,075,112
Stores, spares and loose tools consumed		13,400,263	17,368,384
Power and fuel charges		25,740,080	26,760,197
Repair and maintenance		18,357,790	18,486,806
Other expenses		4,358,474	4,497,570
Depreciation	15.2	12,520,067	8,976,958
Amortization	16	618,931	622,138
		<u>869,768,778</u>	<u>1,222,419,217</u>
Opening work-in-process		16,247,744	26,663,717
		<u>886,016,522</u>	<u>1,249,082,934</u>
Closing work-in-process		21,179,856	16,247,744
Cost of goods manufactured		864,836,666	1,232,835,190
Opening finished goods		8,035,421	14,311,987
		<u>872,872,087</u>	<u>1,247,147,177</u>
Cost of finished goods purchased during the year		9,209,448	2,655,700
		<u>882,081,535</u>	<u>1,249,802,877</u>
Closing finished goods		33,360,733	8,035,421
		<u>848,720,802</u>	<u>1,241,767,456</u>

26.1 Salaries, wages and other benefits include Rs. 5,115,689 (2008: 3,771,846) in respect of retirement benefits.

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 Rupees	2008 Rupees
<b>27 - DISTRIBUTION COST</b>			
Salaries and other benefits	27.1	7,653,998	6,845,641
Freight and octroi		9,823,143	18,437,305
Traveling and conveyance		1,233,717	1,204,790
Packing material consumed		-	82,161
Advertisement and sale promotion		2,678,581	3,496,116
Insurance		381,234	158,479
After sales service		1,737,840	1,884,506
Printing & Stationery		772,484	825,779
Depreciation	15.2	1,109,883	988,608
		<u>25,390,880</u>	<u>33,923,385</u>

27.1 Salaries and other benefits include Rs. 410,600 (2008: 443,412) in respect of retirement benefits.

**28 - ADMINISTRATIVE EXPENSES**

Salaries and other benefits	28.1	21,928,396	19,524,641
Electricity, gas and water charges		301,113	230,854
Communication expenses		2,426,591	1,985,080
Vehicle running expenses		799,428	598,085
Legal and professional	28.2	1,431,644	2,009,427
Travelling and conveyance		1,915,196	1,680,324
Fee and subscription		524,179	1,823,736
Insurance		378,109	311,510
Rent, rates and taxes		705,186	455,030
Printing and stationery		1,468,377	1,616,722
Entertainment		561,338	590,789
Office supplies		32,537	20,257
Research expenses		143,834	165,886
Miscellaneous expenses		365,207	455,951
Depreciation	15.2	2,039,399	1,926,533
		<u>35,020,533</u>	<u>33,394,825</u>

28.1 Salaries and other benefits include Rs. 1,430,600 (2008: 801,964) in respect of retirement benefits.

28.2 These include a sum of Rupees 251,667 incurred for the registration of Company with registrar of Companies and taxation department in Kenya as a foreign Company.

**29 - OTHER OPERATING EXPENSES**

Auditors' remuneration	29.1	732,500	350,000
Bad debts		44,622	-
Provision for doubtful debts		522,553	-
Contribution towards:	9.1	1,470,565	11,222,632
Workers' profit participation fund	9.2	529,547	3,939,383
Workers' welfare fund		<u>3,299,787</u>	<u>15,512,015</u>



# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>29.1- Auditors' remuneration</b>			
<b>Viqar A. Khan</b>			
Workers' Profit Participation Fund Audit		12,500	10,000
Tax services		200,000	100,000
		212,500	110,000
<b>Kabani Saeed Kamran Patel &amp; Co.</b>			
Statutory audit		375,000	150,000
Half yearly review		125,000	75,000
Certificate fee		20,000	15,000
		520,000	240,000
		732,500	350,000
<b>30 - OTHER OPERATING INCOME</b>			
<b>Income from financial assets</b>			
Exchange Gain/(Loss)		91,297	11,643
<b>Income from non financial assets</b>			
Profit on sale of fixed assets		69,417	258,209
Miscellaneous Income	30.1	1,017,485	
		1,178,199	269,852
<b>30.1</b> Miscellaneous Income includes credit balances outstanding for long period written off during the year.			
<b>31 - FINANCE COST</b>			
Mark-up on:			
Long term finances		1,396,996	1,285,287
Short term borrowings - secured		9,501,745	5,998,860
Interest on Workers' Profit Participation Fund		1,463,357	460,316
Financial charges on finance lease		2,311,048	2,553,351
Bank charges, commission & others		665,160	1,259,086
		15,338,306	11,556,900
<b>32 - TAXATION</b>			
<b>Current</b>			
For the period		3,648,921	67,589,754
Prior Year	32.1	2,695,335	-
<b>Deferred</b>			
For the period		5,373,588	5,885,353
		11,717,844	73,475,107

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

- a) The income tax assessments of the company have been finalized upto tax year 2007, except as mentioned in note 14.1.2 and 14.1.3
- b) The Company has been selected for Tax Audit u/s 177 (4) for the Tax Year 2008. The proceedings are in progress.
- c) Provision for taxation is considered adequate to discharge the expected liability for current year.

**32.1** This balance represents an amount paid as additional tax in respect of order passed by DCIT u/s 205 (1B) of the Income Tax Ordinance, 2001. The Company is in appeal against this order.

	Note	2009 Rupees	2008 Rupees
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**32.2 - Tax charge reconciliation**

Profit before taxation		<u>25,947,824</u>	<u>208,830,307</u>
Tax charge on accounting profit at applicable tax rate as per Income Tax Ordinance, 2001		9,081,739	73,090,607
Tax effect of amounts that are:			
not deductible for tax purposes		(24,697)	7,049,473
allowable deductions for tax purposes		(24,142)	(6,435,684)
Tax effect of profit attributable to presumptive income		(21,707)	(258,619)
Effect of presumptive tax		11,317	29,331
Adjustment of prior year taxation		2,695,335	-
Taxation for the year		<u>11,717,844</u>	<u>73,475,107</u>

**33 - EARNINGS PER SHARE - BASIC AND DILUTED**

**Basic & diluted earnings per share**

Profit after taxation for the year	Rupees	14,229,980	135,355,200
Weighted average number of ordinary shares outstanding during the year - Note 33.1	Numbers	10,400,676	10,400,676
Basic & diluted earnings per share	Rupees	1.37	13.01

**33.1-** Number of ordinary shares outstanding at the close of corresponding period presented has been increased to reflect the bonus shares issued during the current period ended June 30, 2009.

**Diluted earnings per share**

There is no dilution effect on the basic earnings per share of the company as the company has no such commitments.

# Sazgar Engineering Works Limited

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>34 - CASH GENERATED FROM OPERATIONS</b>			
Profit before taxation		25,947,824	208,830,307
Adjustment for non cash charges and other items:			
Depreciation		15,669,349	11,892,099
Amortization		618,931	622,138
Provision for gratuity		6,956,889	5,017,222
Financial and other charges		17,905,593	26,718,915
Other income		(1,086,902)	(258,209)
		<u>40,063,860</u>	<u>43,992,165</u>
Working capital changes	34.1	<u>117,872,156</u>	<u>(185,430,947)</u>
		<u>183,883,840</u>	<u>67,391,525</u>
<b>34.1 - Working capital changes</b>			
(Increase) / decrease in current assets:			
Store, spares and loose tools		(1,770,155)	(403,654)
Stock-in trade		(1,449,437)	(68,158,820)
Trade debts		105,106,143	(158,372,001)
Loans & Advances		(2,385,935)	(2,531,654)
Trade Deposits and short term prepayments		(7,739,022)	(8,798,225)
Other receivables		(188,000)	-
Increase / (decrease) in current liabilities			
Trade and other payables		<u>26,298,562</u>	<u>52,833,407</u>
		<u>117,872,156</u>	<u>(185,430,947)</u>
<b>35 - CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents include:			
Cash and bank balances	24	19,832,563	11,950,905
Short term borrowings	11	-	(27,011,983)
		<u>19,832,563</u>	<u>(15,061,078)</u>
<b>36- TRANSACTIONS WITH RELATED PARTIES</b>			

The related parties comprise directors, key management personnel and associated company. The nature of relationship with associated company was that both companies had common management personnel. During the financial year ending on June 30, 2008 the common directors were retired and had resigned from the respective companies. Therefore the relationship with M/s Ciba Enterprises (Pvt.) Ltd. is no more existed as related party at the Balance Sheet date. The remuneration of Directors and key management personnel is shown in note 37. Other major transactions during the year with the associated Company are as follows:

Purchases	29,446,478
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As the related party relationship with associated Company was not existed during the year and at the balance sheet date of current year, therefore no transaction was accounted for during the current year as related party. Disclosure is made for comparative purposes only.



**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**37- REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

The aggregate amount charged in these accounts for the year for remuneration, including certain benefits to the Chief Executive, Directors and Executives of the Company is as follows:

(Rupees)

	Chief Executive		Directors		Executives		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Managerial Remuneration	5,127,273	4,872,727	4,363,636	4,436,364	7,373,227	5,355,455	16,864,136	14,664,545
Medical allowance	512,727	487,273	436,364	443,636	737,323	535,545	1,686,414	1,466,454
Bonus & leave encashment	-	-	--	--	518,723	1,316,762	518,723	1,316,762
	5,640,000	5,360,000	4,800,000	4,880,000	8,629,273	7,207,762	19,069,273	17,447,761
Number of persons	1	1	2	2	4	4	7	7

The Company also provides free use of Company maintained cars to some of the directors and executives.

**38 - SEGMENT REPORTING**

	Household appliances		Auto parts		Auto rickshaw		Total	
	2009 Rupees	2008 Rupees	2009 Rupees	2008 Rupees	2009 Rupees	2008 Rupees	2009 Rupees	2008 Rupees
Segment revenue-Net	5,623,436	6,353,490	366,354,971	247,325,124	580,561,526	1,291,036,422	952,539,933	1,544,715,036
Segment operating results	376,643	(126,513)	36,340,654	742,548	5,957,921	234,788,335	42,675,218	235,404,370
Segment assets	14,841,047	12,748,210	271,059,145	200,589,392	259,902,840	411,793,656	545,803,032	625,131,258
Unallocated assets							60,943,423	55,712,422
Total assets							<u>606,746,455</u>	<u>680,843,680</u>
Segment liabilities	28,868	31,427	126,227,690	65,404,203	136,406,013	196,158,577	262,662,571	261,594,207
Unallocated liabilities							32,433,728	121,829,297
Total liabilities							<u>295,096,299</u>	<u>383,423,504</u>
Capital expenditure	-	71,000	2,381,512	20,868,807	30,264,096	71,960,079	32,645,608	92,899,886
Depreciation and amortization	278,965	242,582	8,360,077	6,542,095	7,649,238	5,729,560		
Non cash charges other than depreciation and amortization	87,646	221,706	3,538,701	1,981,569	3,330,542	2,813,947		

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**39 - FINANCIAL INSTRUMENTS**

**39.1 - Concentration of credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	2009 Rupees	2008 Rupees
Long term Deposits	17	816,457	771,457
Trade debts	20	96,341,775	202,015,093
Loans and Advances	21	10,845,620	8,459,685
Trade Deposits	22	32,665,346	24,832,106
Other Receivables	23	188,000	-
Bank Balances	24	19,793,232	11,911,805
		<u>160,650,430</u>	<u>247,990,116</u>

Geographically there is no concentration of credit risk.

The maximum exposure to credit risk for trade debts, loans and Advances and other receivables at the reporting date by type of parties was:

Institutional Customers	21,334,547	153,854,574
Corporate Customers	52,947,842	37,595,662
Distributor	3,415,153	269,153
Dealers	5,626,870	2,633,552
Others	14,013,682	8,146,272
	<u>97,338,094</u>	<u>202,499,213</u>

The aging of trade debts, loans and advances and other receivable at the reporting date was:

Not past due	60,728,640	116,725,094
Past Due 0-30 days	14,349,016	78,778,382
Past Due 31-120 days	2,701,241	1,896,488
Past Due more than 120 days	19,559,197	5,099,249
	<u>97,338,094</u>	<u>202,499,213</u>

Based on historic record the Company believes that no impairment allowance is necessary in respect of loans and receivables past due more than 120 days.

**39.2- Foreign exchange risk management**

Foreign currency risk arises mainly where payable exist due to transaction with foreign undertakings. Payable exposed to foreign currency risk are identified as either creditors or bills payable. The Company does not view hedging as being financially feasible owing to the excessive costs involved.

**39.3- Capital Risk Management**

The Company's objective when managing capital is to safe guard the company's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholder; and to maintain a strong capital base support the sustained development of its business. The company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the company may adjust the amount of dividend paid to shareholders or issue new shares.

**39.4- Fair value of financial instruments**

The carrying value of all financial instruments i.e financial assets and liabilities reflected in the financial statements approximate their fair values.



### 39.5- Market Risk

Market risk is the risk that fair value of the future cash flows of a financial instruments may fluctuate as a result of changes in market prices. Market risk comprises of three type of risk: Currency risk, interest rate risk and price risk.

#### 39.5.1 Currency Risk

Currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate of changes in foreign change rates. The company is exposed to currency risk on import of raw materials and finished goods being denominated in US dollars. The Company's exposure to foreign currency risk for US dollars is on account of outstanding letter of credit of Rs. 56.31 million (2008: Rs. 11.87 million).

#### 39.5.2- Interest Rate Risk

Interest rate risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial liabilities include balance of Rs. 38.280 million (2008: Rs 92.315 million) which is subject to interest rate risk.

### Cash Flow Sensitivity for variable rate instruments

A change of 100 basis points in interest rates at the reporting date, with all other variables remaining constant, the net income for the year would have been lower or higher by Rs. 382,801 (2008: Rs. 923,154.)

#### 39.5.3 -Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market prices (Other than those arising from interest risk or risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. At present, the company is not exposed to price risk as there are no investments in marketable securities.

### 39.6 - Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

	<b>2009</b>						<b>(Rupees)</b>
	Carrying Amount	Contractual Cash Flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Long term financing	6,600,000	7,607,820	1,383,240	1,383,240	2,766,480	2,074,860	-
Liability under finance lease	10,085,005	11,091,030	4,039,525	4,039,525	3,011,980	-	-
Trade and other payables	202,749,806	202,749,806	202,749,806	-	-	-	-
Accrued Mark-up	1,123,167	1,123,167	1,123,167	-	-	-	-
Short term borrowing	21,595,128	21,595,128	21,595,128	-	-	-	-
	<b>242,153,106</b>	<b>244,166,951</b>	<b>230,890,866</b>	<b>5,422,765</b>	<b>5,778,460</b>	<b>2,074,860</b>	<b>-</b>

	<b>2008</b>						<b>(Rupees)</b>
	Carrying Amount	Contractual Cash Flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Long term financing	9,000,000	10,474,200	1,396,560	1,396,560	2,793,120	4,887,960	-
Liability under finance lease	19,766,131	22,827,133	5,862,000	5,862,000	8,049,600	3,053,533	-
Trade and other payables	190,175,956	190,175,956	190,175,956	-	-	-	-
Accrued Mark up	1,297,835	1,297,835	1,297,835	-	-	-	-
Short term borrowing	63,549,229	63,549,229	63,549,229	-	-	-	-
	<b>283,789,151</b>	<b>288,324,353</b>	<b>262,281,580</b>	<b>7,258,560</b>	<b>10,842,720</b>	<b>7,941,493</b>	<b>-</b>



**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>40 - PLANT CAPACITY AND ACTUAL PRODUCTION</b>	<b>2009 Numbers</b>	<b>2008 Numbers</b>
<b>Installed Capacity</b>		
Auto rickshaw (8 hours single shift basis)	<u>10,000</u>	<u>10,000</u>
<b>Auto Parts</b>		
The capacity of the plant and machinery relating to auto parts is indeterminable due to the versatility of production.		
<b>Actual Production</b>		
<b>Auto Rickshaw</b>	4,690	9,696
<b>Auto parts</b>		
Wheel - rims	90,530	82,161
Body front axle	-	41
Console panel	9,147	2,101
<b>41 - NUMBER OF EMPLOYEES</b>		
Average number of employees during the year	635	775

**42 - SUBSEQUENT EVENTS:**

The Board of Directors, at their meeting held on October 05, 2009, has recommended 20% bonus shares i.e. 20 ordinary shares for every 100 ordinary shares for the year ended June 30, 2009 (2008: 20% bonus shares) subject to the approval of the members at the 18th Annual General Meeting of the Company.

**43 - DATE OF AUTHORIZATION FOR ISSUE**

The Board of Directors of the Company has authorized these financial statements for issue on October 05, 2009.

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**44 - CORRESPONDING FIGURES**

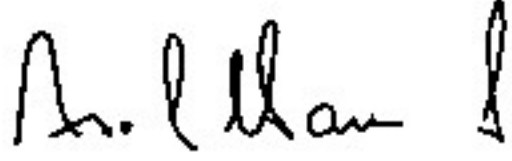
Corresponding figures have been re-arranged/reclassified(if necessary) for the purpose of comparison.

Following figures have been re-arranged/reclassified:

<b>Nature</b>	<b>Amount</b>	<b>Note</b>	<b>Previously classified under</b>	<b>Reclassified under</b>
Revenue Reserve	207,643,396		Un-appropriated profit	Revenue reserve Un-appropriated profit
Current Liabilities	1,123,167	10	Interest and mark-up accrued on loans and other payables	Mark-up accrued on loans and other payables
Current Liabilities	21,595,128	11	Short term finances and advances	Short term borrowings
Current Liabilities	9,572,935	12	Current Maturity of long term liabilities	Current portion of long term liabilities
Non Current Assets	816,457	17	Long term Security Deposits	Long term Deposits
Current Assets	10,845,620	21	Advances, deposits, prepayments and other receivables	Loans and Advances
Current Assets	33,232,978	22	Advances, deposits, prepayments and other receivables	Trade Deposits and short term prepayments
Current Assets	21,532,093	23	Advances, deposits, prepayments and other receivables	Other Receivables

**45 - GENERAL**

The figures have been rounded off to the nearest rupee.

  
**MIAN ASAD HAMEED**  
CHIEF EXECUTIVE

  
**SAEED IQBAL KHAN**  
DIRECTOR

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## FORM OF PROXY

I / We \_\_\_\_\_  
of \_\_\_\_\_  
a member of **SAZGAR ENGINEERING WORKS LIMITED**  
hereby appoint Mr. / Mrs. / Ms. \_\_\_\_\_  
of \_\_\_\_\_  
or failing him Mr. / Mrs. / Ms. \_\_\_\_\_  
of \_\_\_\_\_

Who is / are also member/s of Sazgar Engineering Works Limited to act as my / our proxy and to vote for me/us and on my/our behalf at the 18th Annual General Meeting of the shareholders of the Company to be held on Saturday October 31, 2009 at 10:30 A.M. at 171-Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2009

Folio No.	CDC Participant ID No.	CDC Account/ Sub-Account No.	No. of shares held

**Signature over  
Revenue Stamp of  
Rupees 5/-**

Witness 1

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
CNIC No. \_\_\_\_\_  
Address \_\_\_\_\_

Witness 2

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
CNIC No. \_\_\_\_\_  
Address \_\_\_\_\_

- Notes:**
1. The proxy must be a member of the Company.
  2. The signature must tally with the specimen signature/s registered with the Company.
  3. If a proxy is granted by a member who has deposited his/her shares in Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and CDC account/sub-account number alongwith attested photocopies of Computerized National Identity Card or the Passport of the beneficial owner. Representatives of corporate members should bring the documents required for such purpose.
  4. The proxy shall produce his / her original (CNIC) or original passport at the time of the meeting.
  5. The instrument of Proxy properly completed should be deposited at the Registered Office of the Company not less than 48 hours before the time of holding the meeting.

\_\_\_\_\_