

SAZGAR ENGINEERING WORKS LIMITED




Sazgar

ANNUAL
REPORT
2 0 0 8



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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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.



BOARD OF DIRECTORS

Executive Directors

Mrs. Saira Hameed

Mr. Mian Asad Hameed

Mr. Saeed Iqbal Khan

Chairperson

Chief Executive

Director

Non-Executive Directors

Mr. Mian Zafar Hameed

Mr. Ishtiaq Ahmed Roomi

Mrs. Khadija Nilofer Ishtiaq

Mr. Mian Muhammad Ali Hameed

Director

Director

Director

Director

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.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 17th Annual General Meeting of **Sazgar Engineering Works Limited** will be held at 171-Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore on Friday, October 31, 2008 at 10:30 A.M. to transact the following businesses:

ORDINARY BUSINESSES:

1. To confirm the minutes of Extra ordinary General Meeting of the Company held on March 18, 2008.
2. To receive, consider and adopt the Annual Audited Accounts of the Company for the year ended 30th June, 2008 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 2008-2009 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 BUSINESSES:


5. **To consider and, if thought fit, to pass the following resolutions as "Special Resolutions" with or without modifications for the approval of replacement of Clause 67 of the Articles of Association of the Company:**
 - (i) **"Resolved** that the Clause 67 of Articles of Association of the Company be and is hereby replaced with new Clause as per enclosed comparative statement in order to rationalize the same for the smooth running of the Company's business."
 - (ii) **"Further resolved** that the Directors and Company Secretary of the Company be and are hereby authorized individually to complete all the necessary corporate and legal formalities to give legal effect to the above said change."
6. **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. 17,334,460/- out of the Company's profits available for appropriations as at June 30, 2008 be capitalized and be applied for the issue of 1,733,446 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, 2008 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:

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

Lahore
October 10, 2008

By order of the Board


Arshad Mahmood
(Company Secretary)



Notes:

- a. The share transfer books of the company will remain closed from October 25, 2008 to October 31, 2008 (both days inclusive). Transfers received in order at 171- Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore at the close of business on 24th October, 2008 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. Member 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.

**COMPARATIVE STATEMENT OF EXISTING AND PROPOSED / REPLACED
CLAUSE OF ARTICLES OF ASSOCIATION**

EXISTING CLAUSE	PROPOSED / REPLACED CLAUSE
<p>67. A resolution passed without any meeting of the Directors and signed by all the Directors shall be valid and effectual as if it had been passed at the meeting of the Directors duly called or constituted. Such resolution may be contained in one document or several documents in like form each signed by all or any one of the Director(s). A facsimile transmission of a document setting out the same resolution and purporting to be signed by a director shall be deemed to be a document signed by him for the purpose of this article.</p>	<p>67. A resolution passed without any meeting of the Directors or a committee of Directors and signed by majority of Directors (or in their absence their Alternate Directors) for the time being in Pakistan, being not less than the quorum required for meetings of Directors, or as the case may be of the members of the committee, shall be valid and effectual as if it had been passed at the meeting of the Directors, or as the case may be of such committee, duly called or constituted. Such resolution may be contained in one document or several documents in like form each signed by one or more of the Directors or members of the committee concerned. A facsimile transmission of a document setting out the resolution and purporting to be signed by a Director or a member of the committee shall be deemed to be a document signed by him for the purpose of this Article.</p>

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

This statement sets out the material facts pertaining to the special businesses to be transacted at the Annual General Meeting of the Company to be held on Friday, October 31, 2008.

ITEM NO. 5 & 6 OF THE AGENDA

The Board has recommended the replacement of Clause 67 of Articles of Association of the Company for the purpose of rationalization and smooth running of the business of the Company. After approval, this Clause will facilitate the Board for passing of resolutions through circulation signing by majority of directors being not less than the quorum required for the meetings of directors.

Moreover, the Board of Directors has also recommended 20% bonus shares from the profits available for appropriations as at June 30, 2008 by capitalization of a sum of Rs. 17,334,460/- for the issuance of 1,733,446 fully paid bonus shares.

The Directors of the Company have no interest directly or indirectly in the Special Businesses and / or in the Special Resolutions except to the extent that they are members of the Company.



DIRECTORS' REPORT

The directors of your Company are pleased to present the 17th Annual Report along with the audited accounts of the Company for the year ended 30th June 2008:

BUSINESS OVERVIEW:

ALHAMD U LILLAH. Your Company has made a record sale during the period under review and has become a Billion Rupee Revenue Company. This achievement would have not been possible without the Grace of Almighty Allah. Sazgar brand in Auto Rickshaw has become a market leader not only with respect to its quality but also with regard to the population of Rickshaws plying on the roads throughout the country. The production facilities of CNG Auto Rickshaws has fully supported to meet the marvellous demand of the product owing towards the "President Rozgar Scheme." Unfortunately the prices of steel were unstable during the current period and its rising trend has adversely affected the profitability of the Company.

FINANCIAL RESULTS:

	2008 (Rupees)	2007 (Rupees)
Profit before taxation	208,830,307	82,286,103
Provision for taxation	73,475,107	28,819,620
Profit after taxation	<u>135,355,200</u>	<u>53,466,483</u>
Un appropriated Profit brought forward	75,392,676	37,684,793
Profit available for appropriation	<u>210,747,876</u>	<u>91,151,276</u>
Appropriations:		
Cash dividend @ Nil (2007: 10%)	-	7,879,300
Reserves for issuance of bonus shares @ 20%(2007: 10%)	17,334,460	7,879,300
	<u>17,334,460</u>	<u>15,758,600</u>
Un appropriated profit carried forward	<u>193,413,416</u>	<u>75,392,676</u>

Sales Revenue:

The overall net sales revenue of the Company has increased by 149.71 % from Rupees 618.614 million to Rupees 1,544.715 million during the period under review. Segment wise: The net sales of Auto Rickshaws has increased from Rupees 256.223 million to Rupees 1,291.036 million reflecting an increase of 403.87% whereas the net sales of auto parts and home appliances has declined from Rupees 348.164 million to Rupees 247.325 and Rupees 14.228 million to Rupees 6.353 million respectively compared with the corresponding period of last year. The reduction in sales of auto parts is due to reduced orders placed by the tractor assemblers while the sale of home appliances has dropped due to shortage of stocks available for sale during the period under review.

Gross Profit:

The prices of input materials has risen exorbitantly, particularly the prices of steel which has increased more than 100% during the current period. The margins on wheel rims has dropped significantly due to insufficient increase in prices thereof given by the Tractor Assemblers and decrease in their orders.

However, due to increased sales volume of Auto Rickshaws, the gross profit has jumped from Rupees 119.682 million to Rupees 302.947 million showing an increase of 153.13%. The gross profit ratio has increased from 19.35% to 19.61% despite of the increase in input costs. This reflects a tremendous growth in earnings of the Company.



Operating Expenses:

The increase in operating expenses is normal due to rise in sales revenue of the Company. Other increase reflects hiring of more staff, rise in salary rate and inflation factor.

Earnings Per Share:

The Earning per share of the Company for the period under review has increased from Rupees 6.17 to Rupees 15.62 indicating a 153.16 % increase in profits available for distribution to shareholders.

Production:

During the period, the Company produced 9,696 units of Auto Rickshaws compared with 2,046 units produced during the corresponding period of last year reflecting a 96.96 % utilization of production capacity.

Whereas the production of wheel rim was 82,161 compared with 129,795 during the same corresponding period. The decrease in production of wheel rim is on account of reduced orders from Millat Tractors Limited who has purchased wheel rims from other manufacturer of wheel rim during the current period.

BONUS SHARES:

The Board of Directors has recommended 20% bonus shares (2007: 10%) i.e. 20 ordinary shares for every 100 ordinary shares in its meeting held on September 30, 2008 subject to the approval of shareholders in the 17th Annual General Meeting. Thus a total of Rupees 17.334 million will be capitalised resulting in an increase of paid up share capital to Rupees 104.00 million.

AGREEMENT WITH NATIONAL BANK OF PAKISTAN:

The Company has signed a fresh Agreement dated August 27, 2008 with National Bank of Pakistan (NBP) to provide CNG 4-Stroke Auto Rickshaws to its customers under the "Peoples Rozgar Programme". Under this scheme, the NBP will provide financing facilities at subsidized rate of mark up to the eligible customers with repayment in easy monthly instalments. The NBP Rozgar Scheme has already been popular in general public due to its attractive and soft terms, therefore, Company expects substantial orders of Auto Rickshaws under this scheme. This Agreement will expire on June 14, 2009.

FUTURE OUTLOOK:

The Company has purchased 214 Kanals 10 marlas of land in Mauza Bhai Kot near Tiblighi Markaz, Lahore to meet the future needs of expansion of project. In this regard, the Company is looking for a foreign partner for the technical assistance and technology transfer in automobile sector.

4-Stroke CNG Motor Cab Auto Rickshaw:

In order to strengthen the market leadership in sale of "Sazgar" Auto Rickshaw, the Company is continually intact with research and development work to further improve the quality and performance of the product. So far the Company has been successful in its target by making lot of changes in engine and some mechanical parts that has substantially improved the durability and fuel efficiency of "Sazgar" Auto Rickshaws.

During the period under review the Company has also developed a CNG three-wheeler loader with carrying capacity of 450 Kgs. The approval from the concerned departments is in progress and soon it will be launched under the brand "Sazgar Tempo". The Company is receiving lot of inquiries from various customers regarding its features and time of availability. The Company expects substantial orders of loader.

The NBP "Peoples Rozgar Programme" is about to restart throughout the country, that would generate huge demand of "Sazgar" products in the periods to come.



Wheel Rims:

Despite the fact the sales volume of wheel rims remained lower than previous year, the Company hopes that supply of wheel rims will increase to tractor assemblers in the foreseeable future due to increase in production of tractors.

Export:

The Company is also looking for the export of "Sazgar" Auto Rickshaw and Wheel Rims. In this regard the Company has made shipment of some sample consignments of Auto Rickshaws and wheel rims to Sri Lanka, Bangladesh and Dubai. The initial response is positive, however, it will take time to establish the export market.

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, 2008.
- **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. Some improvements / extension in assembly line of Auto Rickshaw is also planned to increase the production capacity to 13,500 units.

Board Meetings During the year seven (7) board meetings were held. The attendance by each director is given below:



Name of Directors	Number of meetings attended
Mr. Mian Asad Hameed	7
Mr. Muhammad Shaffi	3 (Retired)
Mr. Mian Zafar Hameed	7
Mr. Saeed Iqbal Khan	7
Mr. Zahid Hussain Shaffi	5 (Retired)
Mrs. Saira Hameed	7
Mr. Zubair Shaffi	3 (Retired)
Mr. Ishtiaq Ahmad Roomi	1
Mr. Mian Muhammad Ali Hameed	2
Mrs. Khadija Nilofer Ishtiaq	1

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		Sale
Mian Asad Hameed	655,152	(including bonus shares 298,902)	-
Muhammad Shaffi (Retired)	90,064	(including bonus shares 88,564)	610,037
Mian Zafar Hameed	16,968	(bonus shares)	71,250
Saeed Iqbal Khan	32,424	(bonus shares)	-
Zahid Hussain Shaffi (Retired)	31,444	(bonus shares)	345,890
Mrs. Saira Hameed	48,312	(bonus shares)	-
Zubair Shaffi (Retired)	22,055	(bonus shares)	242,605
Mian Muhammad Ali Hameed	1,051,825	(including bonus shares 9,075)	-
Ishtiaq Ahmad Roomi	Nil		15,000
Khadija Nilofer Ishtiaq	5,500	(bonus shares)	-
Arshad Mahmood	550	(bonus shares)	-
Wajahat Ahmed	50	(bonus shares)	-

ELECTION OF DIRECTORS AND THEIR REMUNERATION:

During the financial year the following directors have been elected for a period of three years with effect from March 20, 2008:

Mian Asad Hameed	Mrs. Saira Hameed	Mian Zafar Hameed
Ishtiaq Ahmad Roomi	Mrs. Khadija Nilfor Ishtiaq	Saeed Iqbal Khan
Mian Muhammad Ali Hameed		

The Board has revised the remuneration of Chief Executive and Working Directors during the period under review.

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:
September 30, 2008

Mrs. Saira Hameed
(Chairperson)

ANNEXURE-A

**SUMMARY OF LAST SIX YEARS'
FINANCIAL RESULTS**

Description	2008	2007	2006	2005	2004	2003
	R u p e e s					
Profit and Loss Account:						
Turnover	1,544,715,036	618,614,292	376,919,915	290,486,881	217,022,743	127,335,013
Gross Profit	302,947,580	119,682,153	78,263,121	45,685,233	43,415,936	27,647,879
Operating Profit / (Loss)	220,117,355	87,577,286	56,630,246	32,735,685	32,550,962	20,622,311
Profit / (Loss) before taxation	208,830,307	82,286,103	51,520,555	29,676,810	29,038,260	14,132,444
Profit / (Loss) after taxation	135,355,200	53,466,483	34,024,537	25,875,468	18,797,794	13,316,083
Balance Sheet:						
Paid up share capital	86,672,300	78,793,000	71,630,000	71,630,000	71,630,000	71,630,000
Accumulated Profit / (Loss)	210,747,876	91,151,276	44,847,793	10,823,257	(15,052,212)	(33,850,006)
Fixed Capital Expenditure	211,667,703	127,681,222	106,155,037	89,376,233	67,892,311	62,336,323
Other long term assets	771,457	771,457	723,525	723,525	718,025	1,726,525
Net current assets / (liabilities)	132,739,785	76,063,321	32,109,743	15,088,380	2,631,467	(16,740,916)
Long term liabilities	47,758,769	34,571,724	22,510,512	22,734,882	14,664,015	9,541,938
Significant Ratios:						
Gross profit ratio %	19.61	19.35	20.76	15.73	20.01	21.71
Profit / (loss) before tax ratio %	13.52	13.30	13.67	10.22	13.38	11.10
Fixed assets turnover ratio %	729.78	484.50	355.07	325.02	319.66	204.27
Price earning ratio - times	7.04	11.61	11.21	7.37	8.28	9.44
Return on capital employed % (Before tax)	63.85	42.87	40.76	31.12	45.69	43.58
Market value per share (KSE) Rs.	109.87	71.65	44.00	22.00	17.95	14.50
Debt : Equity ratio	14 : 86	13 : 87	16 : 84	22 : 78	21 : 79	20 : 80
Current ratio	1.39 : 1	1.46 : 1	1.28 : 1	1.17 : 1	1.04 : 1	0.68 : 1
Interest cover ratio - times	19.04	16.23	11.04	10.70	9.27	3.18
Earnings per share Rs.	15.62	6.17	3.93	2.99	2.17	1.54

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



FORM -34 **ANNEXURE-B**
THE COMPANIES ORDINANCE, 1984 (SECTION 236)
PATTERN OF SHAREHOLDING AS ON JUNE 30, 2008

Registration Number: L- 04010

NUMBER OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD	
	FROM	TO		
102	1	-	100	7,277
168	101	-	500	56,037
190	501	-	1,000	137,520
119	1,001	-	5,000	279,824
20	5,001	-	10,000	144,575
4	10,001	-	15,000	45,100
6	15,001	-	20,000	109,850
5	20,001	-	25,000	119,150
2	25,001	-	30,000	59,055
4	30,001	-	35,000	127,630
3	35,001	-	40,000	110,520
1	40,001	-	45,000	42,000
1	45,001	-	50,000	50,000
2	50,001	-	55,000	106,200
1	55,001	-	60,000	55,200
1	60,001	-	65,000	60,500
2	65,001	-	70,000	133,295
1	80,001	-	85,000	80,060
1	90,001	-	95,000	90,145
1	105,001	-	110,000	107,871
1	125,001	-	130,000	126,652
1	145,001	-	150,000	149,253
1	220,001	-	225,000	222,850
1	225,001	-	230,000	225,800
1	355,001	-	360,000	356,671
1	445,001	-	450,000	448,010
1	530,001	-	535,000	531,432
1	1,051,001	-	1,056,000	1,051,825
1	3,632,001	-	3,637,000	3,632,928
643				8,667,230

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHAREHOLDING
I Directors, Chief Executive Officer, Their Spouse And Minor Children	5,916,556	68.26 %
II Associated Companies, Undertakings & Related Parties	-	-
III NIT and ICP	-	-
IV Banks, Development Financial Institutions, Non Banking Financial Institutions	50	0.00 %
V Insurance Companies	-	-
VI Modarabas and Mutual Funds	500	0.01 %
VII Shareholders Holding Ten Percent and above	4,684,753	54.05 %
VIII General Public		
a. Local	2,401,579	27.71 %
b. Foreign	-	-
IX Others (to be specified)		
- Joint Stock Companies	325,995	3.76 %
CDC-Trustee Faysal Balanced Growth Fund	22,550	0.26 %

MRS. SAIRA HAMEED
(Chairperson)



ANNEXURE-B/1

PATTERN OF SHAREHOLDING

CATEGORIES OF SHAREHOLDERS		NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
I	Associated Companies Undertakings & Related Parties	Nil	-
II	NIT/ICP	Nil	-
III	Directors, Chief Executive, Their Spouse And Minor Children	9	5,916,556
	i. Mian Asad Hameed	1	3,632,928
	ii. Mian Zafar Hameed	1	126,652
	iii. Mian Muhammad Ali Hameed	1	1,051,825
	iv. Mr. Saeed Iqbal Khan	1	356,671
	v. Mr. Ishtiaq Ahmed Roomi	1	6,690
	vi. Mrs. Saira Hameed	1	531,432
	vii. Mrs. Khadija Nilofer Ishtiaq	1	60,500
	viii. Mrs. Naghmana Saeed W/o Mr. Saeed Iqbal Khan	1	149,253
	ix. Mrs. Amberen Zafar Hameed W/o Mian Zafar Hameed	1	605
IV	Executives	1	6,050
V	Public Sector Companies and Corporation	Nil	
VI	Banks, Development Financial Institutions, Non Banking Financial Institutions, Insurance Companies, Modarabas, Mutual Funds	4	47,300
VII	Shareholders Holding Ten Percent or More Voting Interests	2	4,684,753
	i. Mian Asad Hameed	1	3,632,928
	ii. Mian Muhammad Ali Hameed	1	1,051,825

MRS. SAIRA HAMEED
(Chairperson)



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2008

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulation No. 37 of Karachi Stock Exchange, Chapter XIII of Listing Regulations of Lahore Stock Exchange and Chapter - XI of Listing Regulations of 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 (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 NBFII 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 Chairman and in his absence by the Chief Executive. 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. There was no change in the office of Chief Financial Officer, Company Secretary and Internal Auditors of the Company during the year 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.
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 company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed a Board Audit Committee. Presently, it comprises 3 members including Chairman, of whom all are non- executive directors.
16. 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.
17. The company has an effective internal audit function.



18. 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.
19. 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.
20. We confirm that all material principles contained in the Code have been complied with.

For and on behalf of the Board

Lahore: September 30, 2008

MRS. SAIRA HAMEED
(Chairperson)

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 No. 37 of the Karachi Stock Exchange (Guarantee) Limited, Chapter XIII of the Listing Regulations of Lahore Stock Exchange (Guarantee) Limited and Chapter- XI of Listing Regulations of Islamabad Stock Exchange (Guarantee) Limited, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to that extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company's personnel 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 systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes 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 as applicable to the company for the year ended **June 30, 2008**.

September 30, 2008
Lahore

Kabani Saeed Kamran Patel & Co.
Chartered Accountants



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Sazgar Engineering Works Limited** as at **June 30, 2008** 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 Auditing Standards 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, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980. (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

September 30, 2008
Lahore

Kabani Saeed Kamran Patel & Co.
Chartered Accountants



BALANCE SHEET AS

	Note	2008 Rupees	2007 Rupees
CAPITAL AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital 50,000,000 (June 2007: 11,000,000) ordinary shares of Rupees 10 each		<u>500,000,000</u>	<u>110,000,000</u>
Issued, subscribed and paid-up share capital	5	86,672,300	78,793,000
Un-appropriated Profit		<u>210,747,876</u>	<u>91,151,276</u>
		297,420,176	169,944,276
NON CURRENT LIABILITIES			
Long term finances	6	6,600,000	9,000,000
Liabilities against assets subject to finance lease	7	10,098,212	4,788,273
Deferred Liabilities	8	31,060,557	20,783,451
CURRENT LIABILITIES			
Trade and other payables	9	190,175,956	127,922,424
Interest and mark-up accrued on loans and other payables	10	1,297,835	436,917
Short term finances and advances	11	63,549,229	2,139,465
Current maturity of long term liabilities	12	12,067,919	10,741,869
Provision for taxation		68,573,796	24,193,223
		335,664,735	165,433,898
CONTINGENCIES AND COMMITMENTS	13	-	-
TOTAL EQUITY AND LIABILITIES		<u>680,843,680</u>	<u>369,949,898</u>

Statement under section 241 (2) of the Companies Ordinance, 1984

These accounts have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not, for the time being, in Pakistan.

MRS. SAIRA HAMEED
DIRECTOR



AT JUNE 30, 2008

	Note	2008 Rupees	2007 Rupees
ASSETS			
NON CURRENT ASSETS			
Fixed Assets			
Property, Plant and Equipment	14	209,943,302	125,334,683
Intangible Assets	15	1,724,401	2,346,539
LONG TERM SECURITY DEPOSITS	16	771,457	771,457
 CURRENT ASSETS			
Stores, spares and loose tools	17	3,668,373	3,264,719
Stock in trade	18	193,317,850	125,159,030
Trade debts	19	202,015,093	43,643,092
Advances, deposits, prepayments and other receivables	20	57,452,299	51,047,528
Cash and bank balances	21	11,950,905	18,382,850
		468,404,520	241,497,219
 TOTAL ASSETS		<u>680,843,680</u>	<u>369,949,898</u>

The annexed notes 1 to 43 form an integral part of these financial statements.


SAEED IQBAL KHAN
DIRECTOR



**PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
SALES - Net	22	1,544,715,036	618,614,292
COST OF SALES	23	1,241,767,456	498,932,139
GROSS PROFIT		302,947,580	119,682,153
Distribution cost	24	33,923,385	8,238,244
Administrative expenses	25	33,394,825	17,669,682
Other operating expenses	26	15,512,015	6,196,941
		82,830,225	32,104,867
		220,117,355	87,577,286
OTHER OPERATING INCOME	27	269,852	104,138
		220,387,207	87,681,424
FINANCE COST	28	11,556,900	5,395,321
PROFIT BEFORE TAXATION		208,830,307	82,286,103
TAXATION	29	73,475,107	28,819,620
PROFIT AFTER TAXATION		135,355,200	53,466,483
 EARNINGS PER SHARE	 30	 15.62	 6.17

The appropriations from profits are set out in the statement of changes in equity.

The annexed notes 1 to 43 form an integral part of these financial statements.

Statement under section 241 (2) of the Companies Ordinance, 1984

These accounts have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not, for the time being, in Pakistan.

MRS. SAIRA HAMEED
DIRECTOR


SAEED IQBAL KHAN
 DIRECTOR



**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	31	67,391,525	98,217,139
Financial charges paid		(10,695,982)	(5,570,504)
Income tax paid/deducted at source		(19,610,992)	(27,185,531)
Employees retirement benefit - Gratuity		(779,050)	(781,850)
WPPF & WWF		(4,414,970)	(2,655,363)
Net cash inflow from operating activities		31,890,531	62,023,891
CASH FLOW FROM INVESTING ACTIVITIES			
Property, Plant and Equipment		(96,838,928)	(31,394,892)
Intangible Assets		-	(162,500)
(Increase)/decrease in long term security deposits		-	(47,932)
Sale proceeds from sale of fixed assets		750,000	190,000
Security deposits with leasing companies		(4,093,825)	(655,650)
Net cash used in investing activities		(100,182,753)	(32,070,974)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from / (repayment of) long term finances		(2,400,000)	11,400,000
Proceeds of short term finances and advances		144,870,113	18,683,823
Repayment of short term finances and advances		(108,548,309)	(24,393,698)
Repayment of finance lease		(11,615,244)	(7,871,145)
Proceeds from finance lease		22,560,500	4,571,000
Dividend Paid		(7,879,300)	-
Net cash inflow from financing activities		36,987,760	2,389,980
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(31,304,463)	32,342,897
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		16,243,385	(16,099,512)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	32	(15,061,078)	16,243,385

The annexed notes 1 to 43 form an integral part of these financial statements.

Statement under section 241 (2) of the Companies Ordinance, 1984

These accounts have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not, for the time being, in Pakistan.

MRS. SAIRA HAMEED
DIRECTOR


SAEED IQBAL KHAN
DIRECTOR



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2008**

	Share Capital Rupees	Accumulated Profit Rupees	Total Rupees
Balance as at June 30, 2006	71,630,000	44,847,793	116,477,793
Issuance of bonus shares	7,163,000	(7,163,000)	-
Profit for the year ended June 30, 2007	-	53,466,483	53,466,483
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
Balance as at June 30, 2008	86,672,300	210,747,876	297,420,176

The annexed notes 1 to 43 form an integral part of these financial statements.

Statement under section 241 (2) of the Companies Ordinance, 1984

These accounts have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not, for the time being, in Pakistan.

MRS. SAIRA HAMEED
DIRECTOR


SAEED IQBAL KHAN
DIRECTOR



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

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 and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after July 01, 2008 are either not relevant to Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures.

IFRS 2 (amendment)-Share-based payments (effective for annual periods beginning on or after January 01, 2009). IFRS 2 clarifies the vesting conditions and cancellations in the Share-based payment arrangement.

IFRS 3 (amendment)-Business Combinations and consequential amendments to IAS 27- Consolidated & separate financial statements, IAS 28- Investment in associates and IAS 31- Interest in Joint Venture. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 01, 2009).

IFRS 7- Financial Instruments: Disclosures (effective for annual periods beginning on or after July 01, 2008).

IFRS 8- Operating Segments: (effective for annual periods beginning on or after July 01, 2008).

Revised IAS 1 -(Presentation of financial statements (effective for annual periods beginning on or after January 01, 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.

Revised IAS 23-Borrowing Costs (effective from January 01, 2009). Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.

IAS 29 - Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after July 01, 2008).

IAS 32 (amendment)- Financial Instruments: Presentation and consequential amendment to IAS 1-Presentation of Financial Statements (effective for annual periods beginning on or after January 01, 2009). IAS 32 amended classification of puttable Financial Instruments.

IFRIC 12- Service Concession Arrangements (effective for annual periods beginning on or after January 01, 2008).



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

IFRIC 13- Customer Loyalty Programmes (effective for annual periods beginning on or after July 01, 2008).

IFRIC 14- I AS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after January 01, 2008).

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 01, 2009).

IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 01, 2008).

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.

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.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

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.

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.



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

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.

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.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

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.

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 by the shareholders.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

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 requires 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

2008 Number	2007 Number		2008 Rupees	2007 Rupees
7,163,000	7,163,000	Ordinary shares of Rupees 10 each fully paid up in cash	71,630,000	71,630,000
1,504,230	716,300	Ordinary shares of Rupees 10 each allotted as bonus shares	15,042,300	7,163,000
<u>8,667,230</u>	<u>7,879,300</u>		<u>86,672,300</u>	<u>78,793,000</u>

6- LONG TERM FINANCES

Note

Secured

Demand Finance facility	6.1	9,000,000	11,400,000
Less: Current portion shown under current liabilities	12	<u>2,400,000</u>	<u>2,400,000</u>
		<u>6,600,000</u>	<u>9,000,000</u>

- 6.1 -** This balance represents the amount of long term loan obtained from Habib Bank Limited. This finance is secured by equitable mortgage charge on Company's land, building and machinery, present and future, to the extent of Rs. 190 million, and personal guarantees of all the directors. It carries mark-up at the rate of three months average ask side KIBOR+ 3 % (June 30, 2007: three month average ask side KIBOR + 2.5 %) per annum, payable on quarterly basis. This finance is repayable in 20 equal quarterly installments commencing June 2007.



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

7 - LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	Note	2008 Rupees	2007 Rupees
Present value of minimum lease payments		19,766,131	13,130,142
Less: Current portion shown under current liabilities	12	<u>(9,667,919)</u>	<u>(8,341,869)</u>
		<u>10,098,212</u>	<u>4,788,273</u>

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

due not later than one year:			
Minimum lease payments		11,724,001	9,687,030
Financial charges		<u>2,056,082</u>	<u>1,345,148</u>
Present value		9,667,919	8,341,882
due later than one year and not later than five years:			
Minimum lease payments		11,103,132	5,230,997
Financial charges		<u>1,004,920</u>	<u>442,737</u>
Present value		<u>10,098,212</u>	<u>4,788,260</u>
		<u>19,766,131</u>	<u>13,130,142</u>

The minimum lease payments have been discounted using the interest rates implicit in leases ranging from 8.64% to 16.01% 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 8 million, leased assets and personal guarantees of 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	12,304,593	7,912,840
Deferred taxation	8.2	<u>18,755,964</u>	<u>12,870,611</u>
		<u>31,060,557</u>	<u>20,783,451</u>

8.1 - Employee benefits

Net liability recognized in the balance sheet

Present value of defined benefit obligations	13,827,364	9,015,389
Unrecognized actuarial losses	<u>(1,522,771)</u>	<u>(1,102,549)</u>
	<u>12,304,593</u>	<u>7,912,840</u>

Movement in the net liability recognized in the balance sheet

Net liability as at 1st July	7,912,840	5,445,780
Expense recognized in the income statement	5,017,222	3,093,074
Amount allocated to capital work in progress	153,581	126,271
Amount allocated to development work	-	29,565
Liability discharged during the year	<u>(779,050)</u>	<u>(781,850)</u>
	<u>12,304,593</u>	<u>7,912,840</u>



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
Expense recognized in the income statement			
Current service cost		4,249,163	2,711,746
Interest cost		901,539	537,164
Actuarial loss recognised		20,101	-
		<u>5,170,803</u>	<u>3,248,910</u>
Amount allocated to capital work in progress		(153,581)	(155,836)
		<u>5,017,222</u>	<u>3,093,074</u>

The expense is recognized in the following line items in the income statement under the head salaries, wages and other benefits.

Cost of sales	3,771,846	2,389,452
Administrative expenses	801,964	523,316
Distribution Cost	443,412	180,306
	<u>5,017,222</u>	<u>3,093,074</u>

Principal actuarial assumptions

The company has carried out actuarial valuation as at June 30, 2008 under the 'Projected Unit Credit Method'. The main assumptions used for actuarial valuation are as follows:

Discount rate	12% p.a.	10% p.a.
Expected rate of future salary increase	11% p.a.	9% p.a.
Average expected remaining working life time of employees	10 years	10 years

8.2- Deferred taxation

The liability for deferred taxation comprises of temporary differences relating to:

Accelerated depreciation for tax purposes	25,648,513	17,362,302
Liabilities under finance lease that are deducted for tax purposes only when paid	(6,892,549)	(4,491,691)
	<u>18,755,964</u>	<u>12,870,611</u>

9- TRADE AND OTHER PAYABLES

Creditors		157,765,039	111,585,706
Advance from customers		1,549,621	526,319
Accrued expenses and others		12,938,836	9,145,007
Sale tax payable		1,807,615	-
Special excise duty payable		84,507	-
Income tax deducted at source		868,323	923,502
Payable towards:			
Workers' Profit Participation Fund	26	11,222,632	4,415,272
Workers' Welfare Fund		3,939,383	1,326,618
		<u>190,175,956</u>	<u>127,922,424</u>



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
10 - INTEREST AND MARK-UP ACCRUED ON LOANS AND OTHER PAYABLES			
Long term finances		-	240,722
Short term finances- secured		1,062,512	54,010
Liabilities against assets subject to finance lease		235,323	142,185
		1,297,835	436,917
11- SHORT TERM FINANCES AND ADVANCES			
Secured			
Running finance under mark-up arrangements			
Allied Bank Limited	11.1	16,390,358	-
Habib Bank Limited	11.2	10,621,625	2,139,465
Finance against trust receipts			
Allied Bank Limited	11.3	16,417,776	-
Habib Bank Limited	11.4	19,904,028	-
Un- Secured			
Payable against purchase of fixed asset	11.5	215,442	-
		63,549,229	2,139,465

11.1 - Total amount of finance available under this facility is Rs. 45.00 million (June 30, 2007: Rs. 37.00 million). The mark-up is charged at the rate of three months average ask side Kibor plus 2.5% (June 30, 2007: three months average ask side Kibor plus 3.5 %) with Floor rate of 12% (June 30, 2007: 14%) per annum. This facility is secured against First Hypothecation Charge of Rs.140 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. 28.61 million. (June 30, 2007: Rs. 37 million).

11.2 - Total amount of finance available under this facility is Rs. 50.00 million (June 30, 2007: Rs. 40.00 million). The mark-up is charged at the rate of three months average ask side Kibor + 2.5% (June 30, 2007: three months average ask side Kibor + 2%), with floor rate of 11% (June 30, 2007: 11%) per annum. This facility is secured against First Hypothecation Charge of Rs. 190.00 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. 39.38 million. (June 30, 2007; 37.86 million).

11.3 - Total amount available under this facility is Rs. 20.00 million (June 30, 2007: Rs. 15.00 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, 2007: three months average ask side Kibor plus 3.5%) with floor rate of 12% per annum. (June 30, 2007: 14%). This facility is secured against First Hypothecation Charge of Rs. 140 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. 3.59 million. (June 30, 2007: 15 million).



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

- 11.4-** Total amount available under this facility is Rs. 20.00 million (June 30, 2007: 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, 2007 three months average ask side Kibor plus 2%) with floor rate of 11% per annum. (June 30, 2007: 11%). This facility is secured against First Hypothecation Charge of Rs. 190 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 0.096 million. (June 30, 2007: 20 million).
- 11.5-** This represents the balance amount payable against purchase of Generator from M/S Millat Tractors Limited on instalment basis. Total invoice value is payable in 13 monthly instalments along with mark up calculated @ 14.45% per annum commencing from March 2008. Upto the balance sheet date the company has paid 4 instalments.

12- CURRENT MATURITY OF LONG TERM LIABILITIES

	Note	2008 Rupees	2007 Rupees
Long term finances	6	2,400,000	2,400,000
Liabilities against assets subject to finance lease	7	9,667,919	8,341,869
		12,067,919	10,741,869

13- CONTINGENCIES AND COMMITMENTS

13.1- Contingencies

Liabilities, if any, which may arise from the outstanding warranties and guarantees to the customers as to performance, free of charge replacement of faulty materials or bad workmanship etc. are not ascertainable. Based on past experience, however, the amount of contingent loss, if any, arising from these warranties and guarantees is not likely to be material and no provision has, therefore, been made in these accounts.

13.2- Commitments

The facilities for opening Letters of Credits and Guarantees as at June 30, 2008 aggregate Rs. 80 million and Rs. 8 million respectively (June 30, 2007: Rs. 65 million and Rs. Nil. respectively) of which the amounts utilised as at June 30, 2008 were Rs. 11.87 million and Rs. Nil. respectively. (June 30, 2007: Rs. 52.3 million and Nil respectively)

14- PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets	14.1	185,395,421	108,883,984
Capital work in progress	14.3	19,547,881	16,055,699
Assets subject to finance lease	14.4	-	395,000
Advance for purchase of land	14.5	5,000,000	-
		209,943,302	125,334,683



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

14.1 - OPERATING FIXED ASSETS - Tangible

2 0 0 8									Rupees
PARTICULARS	COST			Rate %	DEPRECIATION			W.D.V. as at 30-06-2008	
	As at 01-07-2007	Additions / (Deletions)	As at 30-06-2008		As at 01-07-2007	For the year	Adjustment		As at 30-06-2008
Freehold land	8,348,504	46,928,750	55,277,254	-	-	-	-	55,277,254	
Buildings and Civil Works									
on freehold land	41,735,649	10,933,804	52,669,453	5 to 10	14,292,792	2,697,610	-	16,990,402	
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	408,776	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 (611,209)	2,041,668	
Assets subject to Finance Lease	141,466,768	68,797,174 (1,103,000)	209,160,942		58,927,687	7,896,012	1,085,568 (611,209)	67,298,058	
Plant and Machinery	25,157,903	12,630,034	37,787,937	10	5,768,629	2,149,428	-	7,918,057	
Vehicles	9,471,500	10,087,500 (2,107,000)	17,452,000	20	2,515,872	2,359,039	(1,085,568)	3,789,343	
	34,629,403	22,717,534 (2,107,000)	55,239,937		8,284,501	4,508,467	- (1,085,568)	11,707,400	
TOTAL 2008	176,096,171	91,514,708 (3,210,000)	264,400,879		67,212,188	12,404,479	1,085,568 (1,696,777)	79,005,458	

Details of property, plant and equipment sold are given in Note No. 39.

2 0 0 7									Rupees
PARTICULARS	COST			Rate %	DEPRECIATION			W.D.V. as at 30-06-2007	
	As at 01-07-2006	Additions / (Deletions)	As at 30-06-2007		As at 01-07-2006	For the year	Adjustment		As at 30-06-2007
Freehold land	6,078,504	2,270,000	8,348,504	-	-	-	-	8,348,504	
Buildings and Civil Works									
on freehold land	26,588,248	15,147,401	41,735,649	5 to 10	12,526,774	1,766,018	-	14,292,792	
Plant and Machinery	74,805,974	7,017,600	81,823,574	10	35,883,637	4,192,366	359,702	40,435,705	
Electric Fittings	3,291,216	294,724	3,585,940	10	1,491,412	206,977	-	1,698,389	
Furniture and Fixture	1,127,468	86,296	1,213,764	10	324,209	84,567	-	408,776	
Office Equipment	1,425,914	267,978	1,693,892	10	496,567	102,520	-	599,087	
Electric Installations	629,240	271,526	900,766	10	203,523	56,159	-	259,682	
Vehicles	1,819,579	743,100 (398,000)	2,164,679	20	1,110,542	167,329	213,523 (258,138)	1,233,256	
Assets subject to Finance Lease	115,766,143	26,098,625 (398,000)	141,466,768		52,036,664	6,575,936	573,225 (258,138)	58,927,687	
Plant and Machinery	26,507,903	(1,350,000)	25,157,903	10	3,921,846	2,206,485	(359,702)	5,768,629	
Vehicles	4,973,500	4,894,000 (396,000)	9,471,500	20	1,594,775	1,134,620	(213,523)	2,515,872	
	31,481,403	4,894,000 (1,746,000)	34,629,403		5,516,621	3,341,105	- (573,225)	8,284,501	
TOTAL 2007	147,247,546	30,992,625 (2,144,000)	176,096,171		57,553,285	9,917,041	573,225 (831,363)	67,212,188	



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
14.2 - Depreciation for the year has been allocated as follows:			
Cost of sales	23	8,976,958	7,869,052
Distribution cost	24	988,608	534,550
Administrative expenses	25	1,926,533	1,035,112
Capital work in progress		512,381	478,327
		<u>12,404,480</u>	<u>9,917,041</u>
14.3 - CAPITAL WORK-IN-PROGRESS			
Tangible			
Plant and machinery			
Opening balance		12,765,452	7,181,122
Additions made during the year		<u>6,271,777</u>	<u>9,149,330</u>
		19,037,229	16,330,452
Transferred to operating fixed assets		-	3,565,000
	14.3.1	<u>19,037,229</u>	<u>12,765,452</u>
Civil works			
Opening balance		2,904,590	5,774,366
Additions made during the year		<u>8,029,214</u>	<u>12,277,625</u>
		10,933,804	18,051,991
Transferred to operating fixed assets		<u>10,933,804</u>	<u>15,147,401</u>
	14.3.2	-	<u>2,904,590</u>
Electric Fitting / Installations			
Opening balance		385,657	14,781
Additions made during the year		<u>405,267</u>	<u>370,876</u>
		790,924	385,657
Transferred to operating fixed assets		<u>790,924</u>	-
		-	<u>385,657</u>
Intangible			
Development work			
Opening balance		-	-
Additions made during the year		<u>510,652</u>	-
		510,652	-
Transferred to Intangible Assets		-	-
		<u>510,652</u>	-
		<u>19,547,881</u>	<u>16,055,699</u>

14.3.1- This includes Rs. 0.97 million (June 30, 2007:Rs. 1.19 million) on account of advances paid to suppliers of machinery.

14.3.2- This includes Rs. Nil (June 30, 2007: Rs.1.05 million) on account of advances paid to contractor of civil works.

14.4- This balance represents the amount of advance paid by the leasing companies for the purchase of vehicles.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

- 14.5 -** During the year, the company has purchased a piece of land measuring 214 kanals 10 marlas at Mauza Bhai Kot, Lahore, out of which 150 kanals 10 marlas have been registered in the name of the Company through sale deed dated June 19, 2008. Whereas for 64 kanals, the Company has entered into an agreement to sell as on June 19, 2008 and paid a sum of Rs. 5 million as an advance. The land was subsequently purchased on August 22, 2008.

15 - INTANGIBLE ASSETS

(Rupees)

Particulars	Cost			Amortization			Book Value As at 30-06-2008
	As at 01-07-2007	Additions/ (deletion)	As at 30-06-2008	As at 01-07-2007	For the period	As at 30-06-2008	
Development Cost	3,051,300	-	3,051,300	704,761	622,138	1,326,899	1,724,401
Jun-08	3,051,300	-	3,051,300	704,761	622,138	1,326,899	1,724,401
Jun-07	2,888,800	162,500	3,051,300	96,293	608,468	704,761	2,346,539

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

- 15.2-** The amortization cost is included in cost of sales.

	Note	2008 Rupees	2007 Rupees
16- LONG TERM SECURITY DEPOSITS			
Deposit with Pakistan Steel Mill		400,000	400,000
Utilities and others		371,457	371,457
		771,457	771,457
17 - STORES, SPARES AND LOOSE TOOLS			
Stores		2,252,651	1,168,244
Spares		689,523	1,344,496
Loose tools		726,199	751,979
		3,668,373	3,264,719
18 - STOCK IN TRADE			
Raw materials and components		153,149,756	84,177,906
Work-in-process		16,247,744	26,663,717
Finished goods		8,035,421	14,311,987
Stock in transit		15,879,600	-
Packing and other material		5,329	5,420
		193,317,850	125,159,030
19 - TRADE DEBTS - Unsecured		202,015,093	43,643,092
Trade debts are considered good, hence, no provision has been made for doubtful debts.			



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
20 - ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances - considered good			
to employees (including Rs. 150,000/- (June 30, 2007: Rs. 150,000) to executives)	20.1	484,120	386,725
to suppliers		7,975,565	5,541,306
Advance income tax		23,498,658	28,423,766
Advance sales tax		-	707,115
Contract securities		300,000	300,000
Prepaid expenses		661,850	389,989
Letter of credit margin		8,268,638	8,881,778
Letter of credit in process and other receivable		16,263,468	6,416,849
		<u>57,452,299</u>	<u>51,047,528</u>

20.1- Maximum aggregate balance due from the Executives during the period was Rs. 150,000/- (June 30, 2007: Rs. 150,000). These advances are secured against retirement benefits of the employees.

21 - CASH AND BANK BALANCES

Cash in hand	39,100	180,472
Balance with banks on current accounts	<u>11,911,805</u>	<u>18,202,378</u>
	<u>11,950,905</u>	<u>18,382,850</u>

22 - SALES - NET

Gross sales	22.1	1,943,722,984	724,168,424
Less: Sales tax		253,324,049	94,456,843
Sales returns		22,754,278	8,697,971
Commission		122,929,621	2,399,318
		<u>399,007,948</u>	<u>105,554,132</u>
		<u>1,544,715,036</u>	<u>618,614,292</u>

22.1 This includes Rs. 0.79 million on account of export sales



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

23 - COST OF SALES	Note	2008 Rupees	2007 Rupees
Raw materials and components consumed		1,065,632,052	411,931,446
Salaries, wages and other benefits		80,075,112	46,132,507
Stores, spares and loose tools consumed		17,368,384	9,334,122
Power and fuel charges		26,760,197	15,529,512
Repair and maintenance		18,486,806	12,322,820
Other expenses		4,497,570	3,099,980
Depreciation	14.2	8,976,958	7,869,052
Amortization	15	622,138	608,468
		<u>1,222,419,217</u>	<u>506,827,907</u>
Opening work-in-process		26,663,717	11,929,808
		<u>1,249,082,934</u>	<u>518,757,715</u>
Closing work-in-process		16,247,744	26,663,717
Cost of goods manufactured		1,232,835,190	492,093,998
Opening finished goods		14,311,987	14,137,519
		<u>1,247,147,177</u>	<u>506,231,517</u>
Cost of finished goods purchased during the year		2,655,700	7,012,609
		<u>1,249,802,877</u>	<u>513,244,126</u>
Closing finished goods		8,035,421	14,311,987
		<u>1,241,767,456</u>	<u>498,932,139</u>
 24 - DISTRIBUTION COST			
Salaries and other benefits		6,845,641	2,034,783
Freight and octroi		18,437,305	3,020,368
Traveling and conveyance		1,204,790	677,104
Packing material consumed		82,161	130,853
Advertisement and sale promotion		3,496,116	1,384,893
Insurance		158,479	62,221
After sales service		1,884,506	393,472
Printing & Stationery		825,779	-
Depreciation	14.2	988,608	534,550
		<u>33,923,385</u>	<u>8,238,244</u>



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
25 - ADMINISTRATIVE EXPENSES			
Salaries and other benefits		19,524,641	10,440,824
Electricity, gas and water charges		230,854	202,845
Communication expenses		1,985,080	1,132,059
Vehicle running expenses		598,085	236,010
Legal and professional		2,009,427	1,034,931
Travelling and conveyance		1,680,324	379,110
Fee and subscription		1,823,736	353,788
Insurance		311,510	270,228
Rent, rates and taxes		455,030	432,714
Printing and stationery		1,616,722	1,032,914
Entertainment		590,789	467,500
Office supplies		20,257	98,443
Research expenses		165,886	-
Miscellaneous expenses		455,951	553,204
Depreciation	14.2	1,926,533	1,035,112
		33,394,825	17,669,682
 26 - OTHER OPERATING EXPENSES			
Auditors' remuneration	26.1	350,000	362,500
Debit balances written off		-	92,551
Contribution towards:			
Workers' profit participation fund		11,222,632	4,415,272
Workers' welfare fund		3,939,383	1,326,618
		15,512,015	6,196,941
 26.1- Auditors' remuneration			
 Viqar A. Khan			
Workers' Profit Participation Fund Audit		10,000	7,500
Tax services		100,000	195,000
		110,000	202,500
 Kabani Saeed Kamran Patel & Co.			
Statutory audit		150,000	100,000
Half yearly review		75,000	50,000
Certificate fee		15,000	10,000
		240,000	160,000
		350,000	362,500



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	2008 Rupees	2007 Rupees
27 - OTHER OPERATING INCOME		
Profit on sale of fixed asset	258,209	104,138
Exchange Gain/(Loss)	11,643	-
	269,852	104,138
28 - FINANCE COST		
Interest/mark-up on:		
Long term finances	1,285,287	1,191,028
Short term finances and advances - secured	5,998,860	1,188,132
Workers' Profit Participation Fund	460,316	277,455
Financial charges on finance lease	2,553,351	1,857,924
Bank charges, commission & others	1,259,086	880,782
	11,556,900	5,395,321
29 - TAXATION		
Current		
For the period	67,589,754	23,209,181
Deferred		
For the period	5,885,353	5,610,439
	73,475,107	28,819,620
a) The income tax assessments of the company have been finalized upto and including tax year 2007.		
b) Provision for taxation is considered adequate to discharge the expected liability.		
29.1 - Tax charge reconciliation		
Profit before taxation	208,830,307	82,286,103
Tax charge on accounting profit at applicable tax rate as per Income Tax Ordinance, 2001	73,090,607	28,800,136
Tax effect of amounts that are:		
- not deductible for tax purposes	7,049,473	1,643,651
- allowable deductions for tax purposes	(6,435,684)	(1,546,256)
Tax effect of profit attributable to presumptive income	(258,619)	(535,598)
Effect of presumptive tax	29,331	457,688
	73,475,107	28,819,620
Taxation for the year		



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
30 - EARNINGS PER SHARE			
Basic earnings per share			
Net profit for the year attributable to ordinary share holders	Rupees	135,355,200	53,466,483
Weighted average number of ordinary shares outstanding during the year - Note 30.1	Numbers	8,667,230	8,667,230
Earnings per share	Rupees	15.62	6.17
30.1- 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, 2008.			
Diluted earnings per shares			
There is no dilution effect on the basic earnings per share of the company as the company has no such commitments.			
31 - CASH GENERATED FROM OPERATIONS			
Profit before taxation		208,830,307	82,286,103
Adjustment for non cash charges and other items:			
Depreciation		11,892,099	9,438,714
Amortization		622,138	608,468
Provision for gratuity		5,017,222	3,093,074
Financial and other charges		26,718,915	11,229,762
Other income		(258,209)	(104,138)
		43,992,165	24,265,880
		252,822,472	106,551,983
Working capital changes	31.1	(185,430,947)	(8,334,844)
		67,391,525	98,217,139
31.1 - Working capital changes			
(Increase) / decrease in current assets:			
Store, spares and loose tools		(403,654)	(1,642,506)
Stock-in-trade		(68,158,820)	(45,852,076)
Trade debts		(158,372,001)	(2,153,784)
Advances, deposits, prepayments and other receivables		(11,329,879)	(13,751,614)
Increase / (decrease) in current liabilities			
Trade and other payables		52,833,407	55,065,136
		(185,430,947)	(8,334,844)



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

	Note	2008 Rupees	2007 Rupees
32 - CASH AND CASH EQUIVALENTS			
Cash and cash equivalents include:			
Cash and bank balances	21	11,950,905	18,382,850
Short term running finances	11	(27,011,983)	(2,139,465)
		(15,061,078)	16,243,385

33- TRANSACTIONS WITH RELATED PARTIES

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 period the common directors retired and 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. Major transactions during the period the related parties relationship was existed are given as follows:

Purchases	29,446,478	6,169,048
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All transactions were carried out on commercial terms and conditions and were valued at arm's length price using Comparable Uncontrollable Price method.

34- 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	
	2008	2007	2008	2007	2008	2007	2008	2007
Managerial Remuneration	4,872,727	1,464,000	4,436,364	1,419,000	5,355,455	1,857,600	14,664,545	4,740,600
House rent allowance	-	585,600	-	567,600	-	743,040	-	1,896,240
Utilities allowance	-	146,400	-	141,900	-	185,760	-	474,060
Medical allowance	487,273	244,000	443,636	236,500	535,545	309,600	1,466,454	790,100
Bonus & leave encashment	-	-	-	-	1,316,762	697,000	1,316,762	697,000
	5,360,000	2,440,000	4,880,000	2,365,000	7,207,762	3,793,000	17,447,761	8,598,000
Number of persons	1	1	2	3	4	3	7	7

The Company also provides free use of Company maintained cars to some of the directors and executives. During the year number of executive directors were reduced from 4 to 2, however the amount of remuneration paid to all executive directors have been disclosed.



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

35 - SEGMENT REPORTING

	Household appliances		Auto parts		Auto rickshaw		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Segment revenue-Net	6,353,490	14,227,736	247,325,124	348,163,849	1,291,036,422	256,222,707	1,544,715,036	618,614,292
Segment operating results	(126,513)	1,507,306	742,548	66,008,763	234,788,335	26,108,158	235,404,370	93,624,227
Segment assets	12,748,210	13,745,030	200,589,392	189,378,847	411,793,656	102,966,143	625,131,258	306,090,020
Unallocated assets							55,712,422	63,859,879
Total assets							<u>680,843,680</u>	<u>369,949,898</u>
Segment liabilities	31,427	115,408	65,404,203	77,758,644	196,158,577	78,889,206	261,594,207	156,763,258
Unallocated liabilities							121,829,297	43,242,364
Total liabilities							<u>383,423,504</u>	<u>200,005,622</u>
Capital expenditure	71,000	158,724	20,868,807	9,538,021	71,960,079	22,797,810	92,899,886	32,494,555
Depreciation and amortization	242,582	339,266	6,542,095	8,202,135	5,729,560	1,505,781		
Non-cash charges other than depreciation and amortization	221,706	90,153	1,981,569	1,590,297	2,813,947	1,505,175		

36 - FINANCIAL INSTRUMENTS

36.1 - Financial assets and liabilities

2 0 0 8									Rupees
	Interest / mark-up bearing				Non-interest bearing				Total 2008
	Maturity up to one year	Maturity over one year to five years	Maturity over five years	Sub Total	Maturity upto one year	Maturity over one year to five years	Maturity over five years	Sub Total	
Financial assets									
On balance sheet									
Security deposits	-	-	-	-	300,000	-	771,457	1,071,457	1,071,457
Trade debts	-	-	-	-	202,015,093	-	-	202,015,093	202,015,093
Advances, deposits, pre-payments and other receivables									
- Advances to employees	-	-	-	-	484,120	-	-	484,120	484,120
- Letter of credit margin	-	-	-	-	8,268,638	-	-	8,268,638	8,268,638
Cash and bank balances	-	-	-	-	11,950,905	-	-	11,950,905	11,950,905
	-	-	-	-	223,018,756	-	771,457	223,790,213	223,790,213
Financial liabilities									
On balance sheet									
Long term finances	2,400,000	6,600,000	-	9,000,000	-	-	-	-	9,000,000
Liabilities against assets subject to finance lease	9,667,919	10,098,212	-	19,766,131	-	-	-	-	19,766,131
Short term finances & advances	63,549,229	-	-	63,549,229	-	-	-	-	63,549,229
Trade and other payables	-	-	-	-	170,160,881	-	-	170,160,881	170,160,881
	75,617,148	16,698,212	-	92,315,360	170,160,881	-	-	170,160,881	262,476,241
Off balance sheet items									
Letters of credit other than capital expenses	-	-	-	-	11,877,821	-	-	11,877,821	11,877,821
	75,617,148	16,698,212	-	92,315,360	182,038,702	-	-	182,038,702	274,354,062



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

2 0 0 7									Rupees
	Interest / mark-up bearing				Non-interest bearing				Total 2007
	Maturity up to one year	Maturity over one year to five years	Maturity over five years	Sub Total	Maturity upto one year	Maturity over one year to five years	Maturity over five years	Sub Total	
Financial assets									
On balance sheet									
Security deposits	-	-	-	-	300,000	-	771,457	1,071,457	1,071,457
Trade debts	-	-	-	-	43,643,092	-	-	43,643,092	43,643,092
Advances, deposits, pre-payments and other receivables									
- Advances to employees	-	-	-	-	386,725	-	-	386,725	386,725
- Letter of credit margin	-	-	-	-	8,881,778	-	-	8,881,778	8,881,778
Cash and bank balances	-	-	-	-	18,382,850	-	-	18,382,850	18,382,850
	-	-	-	-	71,594,445	-	771,457	72,365,902	72,365,902
Financial liabilities									
On balance sheet									
Long term finances	2,400,000	9,000,000	-	11,400,000	-	-	-	-	11,400,000
Liabilities against assets subject to finance lease	8,341,869	4,788,273	-	13,130,142	-	-	-	-	13,130,142
Short term finances & advances	2,139,465	-	-	2,139,465	-	-	-	-	2,139,465
Trade and other payables	-	-	-	-	120,689,799	-	-	120,689,799	120,689,799
	12,881,334	13,788,273	-	26,669,607	120,689,799	-	-	120,689,799	147,359,406
Off balance sheet items									
Letters of credit other than capital expenses	-	-	-	-	39,687,462	-	-	39,687,462	39,687,462
Letters of credit for capital expenditures	-	-	-	-	12,611,850	-	-	12,611,850	12,611,850
Performance guarantee	-	-	-	-	8,000,000	-	-	8,000,000	8,000,000
	12,881,334	13,788,273	-	26,669,607	180,989,111	-	-	180,989,111	207,658,718

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

36.2 - 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 Company controls its credit risk by ascertainment of credit worthiness of its customers, monitoring of debts on a continuous basis and applying credit limits to its customers. The Company does not believe that it is exposed to major concentration of credit risk.

36.3 - Foreign exchange risk management

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

36.4 - 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 stakeholders; and to maintain a strong capital base to support the sustained development of its business. The Company manages its capital structure by monitoring return on net assets and makes adjustment 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.

36.5 - Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial liabilities include balance of Rupees 159.325 million (June 2007: Rupees 134.5 million) which is subject to interest rate risk. Other borrowing including long term and short term are at fixed rates.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

36.6 - Liquidity risk

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

36.7 - Fair value of financial instruments

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

37 - PLANT CAPACITY AND ACTUAL PRODUCTION	2008 Numbers	2007 Numbers
Installed Capacity		
Auto rickshaw (8 hours single shift basis)	10,000	10,000
Auto Parts		
The capacity of the plant and machinery relating to auto parts is indeterminable due to the versatility of production.		
Actual Production		
Auto Rickshaw	9,696	2,046
Auto parts		
Wheel - rims	82,161	129,795
Body front axle	41	-
Console panel	2,101	295

38 - NUMBER OF EMPLOYEES

Average number of employees during the year	775	589
---------------------------------------------	-----	-----

39- 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	Accumulated Depreciation	Sale price	Mode of Disposal	Particulars of purchaser
-----Rupees-----					
Vehicle	1,103,000	611,209	750,000	Negotiation	Hassan Jehangir House No. 50, Ali Town, Raiwind Road, Thokar Niaz Baig, Lahore.



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008**

40 - SUBSEQUENT EVENTS:

- 40.1 The Company has entered into a dealership agreement with National Bank of Pakistan (NBP) on August 27, 2008 to provide CNG 4-Stroke Auto Rickshaws under People's Rozgar Program to the eligible customers of NBP.
- 40.2 The Board of Directors, at their meeting held on September 30, 2008, has recommended 20% bonus shares i.e. 20 ordinary shares for every 100 ordinary shares for the year ended June 30, 2008 (2007: 10% bonus and 10% cash) subject to the approval of the members at the 17th Annual General Meeting of the Company.

41 - DATE OF AUTHORIZATION FOR ISSUE

The Board of Directors of the Company has authorized these financial statements for issue on September 30, 2008.

42 - CORRESPONDING FIGURES

Corresponding figures have been re-arranged for the purpose of comparison.

The following re-arrangement has been made:

The amount of commission on sale of rickshaws has been deducted from gross sales, instead of classifying it in 'Distribution Cost'.

43 - GENERAL

The figures have been rounded off to the nearest rupee.

Statement under section 241 (2) of the Companies Ordinance, 1984

These accounts have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not, for the time being, in Pakistan.

MRS. SAIRA HAMEED
DIRECTOR


SAEED IQBAL KHAN
DIRECTOR





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 17th Annual General Meeting of the shareholders of the Company to be held on Friday October 31, 2008 at 10:30 A.M. at 171-Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore and at any adjournment thereof.

Signed this _____ day of _____ 2008

Folio No.	CDC Participant ID No.	CDC Account/ Sub-Account No.	No. of shares held	Signature over Revenue Stamp of Rupees 5/-

Witness 1

Witness 2

Signature _____
Name _____
CNIC No. _____
Address _____

Signature _____
Name _____
CNIC No. _____
Address _____

- Notes:**
- The proxy must be a member of the Company.
 - The signature must tally with the specimen signature/s registered with the Company.
 - 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.
 - The proxy shall produce his / her original (CNIC) or original passport at the time of the meeting.
 - 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.