Organisation
development
through
self development

AN ATLAS GROUP COMPANY

# Allwin Engineering Industries Limited

ISO 9002 Certified

LLOYD'S REGISTER QUALITY ASSURANCE · ISO9002

UKAS QUALITY MANAGEMENT 001

PISTON & RADIATOR
MANUFACTURING FACILITIES

## CONTENTS

Allwin Engineering Industries Limited

## Vision

A reliable manufacturer and supplier of good quality automobile parts in Pakistan and abroad.

## Mission

A dynamic growth oriented company through market leadership and exports ensuring quality, service and product value; to ensure attractive returns to associates and shareholders; to foster a network of researchers and engineers guaranteeing unique contribution to the product development, ensuring customer satisfaction and healthy working environment, and generally a good corporate citizen to fulfill its social responsibilities in all respects.

# COMPANY INFORMATION

## BOARD OF DIRECTORS

| | |
|---|---|
| Chairman | Yusuf H. Shirazi |
| Chief Executive Officer | Mohammad Atta Karim |
| Directors | Ali H. Shirazi |
| | Frahim Ali Khan |
| | H. Masood Sohail |
| | Iftikhar H. Shirazi |
| | Mohammad Habib-ur-Rahman |
| Company Secretary | Fida Hussain Zahid |

## AUDIT COMMITTEE

| | |
|---|---|
| Chairman | H. Masood Sohail |
| Members | Frahim Ali Khan |
| | Iftikhar H. Shirazi |
| Chief Internal Auditor | Syed Abdul Majid |
| Secretary | Shah Jalaluddin |

## GROUP EXECUTIVE COMMITTEE

| | |
|---|---|
| President | Aamir H. Shirazi |
| Members | Frahim Ali Khan |
| | Iftikhar H. Shirazi |
| | Jawaid Iqbal Ahmed |
| | Saquib H. Shirazi |
| Secretary | Theresa Dias |

## GROUP HUMAN RESOURCE COMMITTEE

| | |
|---|---|
| Chairman | Yusuf H. Shirazi |
| Members | Aamir H. Shirazi |
| | Bashir Makki |

## GROUP SYSTEMS & TECHNOLOGY COMMITTEE

| | |
|---|---|
| Chairman | Iftikhar H. Shirazi |
| Members | M. Shamim Khan |
| | Zia Ullah Begg |
| Secretary | Sarfraz Hassan |

## MANAGEMENT COMMITTEE

| | |
|---|---|
| Chief Executive Officer | Mohammad Atta Karim |
| General Manager Plant | Col. ® Mir Moatazid |
| Chief Financial Officer | Syed Naushad Ali |
| General Manager Human Resources | Khalid Perwez Raja |

## COMPANY INFORMATION

| | |
|---|---|
| **AUDITORS** | Ford Rhodes Sidat Hyder & Co.<br>Chartered Accountants |
| **LEGAL ADVISORS** | Mohsin Tayebaly & Co.<br>Advocate Incorporation |
| **TAX ADVISOR** | Ford Rhodes Sidat Hyder & Co.<br>Chartered Accountants |
| **BANKERS** | Atlas Investment Bank Limited<br>Bank Alfalah Limited<br>Habib Bank Limited<br>Metropolitan Bank Limited<br>Muslim Commercial Bank Limited<br>National Bank of Pakistan<br>Standard Chartered Bank |
| **REGISTERED OFFICE (FACTORY)** | 15th Mile, National Highway, Landhi, Karachi-75120<br>Tel: 5016921-24, 5015525 Fax: 5011709<br>E-mail: aeil@aeilkhi.atlasgrouppk.com |
| **BRANCH OFFICES** | Lahore Office:<br>Salam Chamber, 21 Link Mcleod Road., Lahore<br>Phones: 7227075-7354245 Fax: 7352724<br>Mobile: 0333-4239003 |
| | Multan Office:<br>Atlas House,<br>Azmat Wasti Road, Multan<br>Phone: 512181, 548017 Fax: 541690 |
| | Faisalabad Office:<br>No. 54, Chanab Market, Madina Town, Faisalabad.<br>Phone: 549376 Fax: 726628 |
| | Rawalpindi Office:<br>312, R-A-Bazar, Kashmir Road., Rawalpindi<br>Phone: 5567423 Fax: 5567423<br>Mobile: 0333-5129411 |

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 43rd Annual General Meeting of Allwin Engineering Industries Limited will be held at Corporate Office at 8th Floor Adamjee House, I. I. Chundrigar Road, Karachi on 26th October 2005 at 2:00 p.m. to transact the following business:

1. To confirm the minutes of the Extra Ordinary General Meeting held on 12th May 2005.

2. To receive, consider and adopt the Audited Accounts of the Company together with the Directors' and Auditors' Reports for the year ended 30th June 2005.

3. To consider and approve the cash dividend Rs. 1/= per share i.e. 10% for the year ended 30th June 2005.

4. To appoint Auditors for the year 2005-06 and to fix their remuneration.

5. To transact any other ordinary business as may be placed before the meeting with the permission of the Chair.

By order of the Board

Fida Hussain Zahid
Company Secretary

Karachi: 28th September 2005

**NOTES:**

i) The Share Transfer Books of the company will remain closed from 20 October 2005 to 26 October 2005 (both days inclusive) the transfers received in order at the registered office of the company by 19 October 2005 will be in time for the purpose of entitlement for payment of dividend.

ii) A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. The instrument appointing a proxy must be received at the company's Registered Office not less than 48 hours before the time of holding of the meeting.

iii) No person shall act as proxy unless he is member of the Company.

iv) Signature of shareholder on Proxy Application must agree with the specimen signature registered with the Company. Appropriate revenue stamp should be affixed on the Proxy Application.

v) For the convenience of the shareholder a Proxy Application Form is attached with this report.

vi) Shareholders are requested to immediately notify the Company of any change in their addresses.

vii) Any individual Beneficial Owner of the Central Depository Company, entitle to vote at this meeting must bring his/her National Identity Card with him/her to prove his/her identity and in case of proxy, must enclose an attested copy of his/her National Identity Card. Representative of corporate members should bring their usual documents required for such purpose.

## KEY PERFORMANCE AND FINANCIAL DATA

(Rupees in '000's)

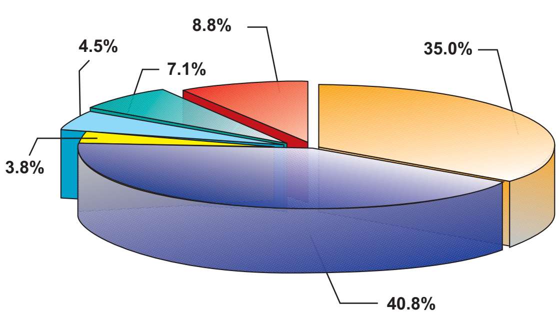
| Particulars | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| Sales | 692,724 | 504,984 | 379,980 | 382,249 | 405,835 | 414,180 |
| Gross profit | 122,598 | 91,470 | 58,189 | 46,908 | 54,437 | 61,866 |
| Operating profit | 88,293 | 49,667 | 28,766 | 22,788 | 27,080 | 31,896 |
| Profit Before Taxation | 69,849 | 36,861 | 13,929 | 3,505 | 8,092 | 7,949 |
| Profit After Taxation | 40,825 | 24,788 | 6,443 | (5,392) | 6,028 | 5,904 |
| Share Capital | 123,367 | 49,347 | 49,347 | 49,347 | 49,347 | 49,347 |
| Shareholders' Equity | 253,534 | 213,624 | 188,836 | 184,860 | 189,106 | 183,078 |
| Fixed Assets Net | 503,471 | 302,418 | 269,409 | 269,127 | 280,925 | 283,753 |
| Total Assets | 714,600 | 501,131 | 410,687 | 404,903 | 433,703 | 430,427 |
| Current Assets | 207,750 | 191,472 | 132,746 | 126,575 | 150,988 | 144,852 |
| Long Term Liabilities | 261,656 | 118,875 | 93,269 | 81,701 | 78,473 | 68,672 |
| Ratios: | | | | | | |
| Profitibility ( % ) | | | | | | |
| Gross Profit | 17.70 | 18.11 | 15.31 | 12.27 | 13.41 | 14.94 |
| Profit Before Tax | 10.08 | 7.30 | 3.67 | 0.92 | 1.99 | 1.92 |
| Profit After Tax | 5.89 | 4.91 | 1.70 | (1.41) | 1.49 | 1.43 |
| Return to Shareholders | | | | | | |
| Dividend % | 10.00 | 10.00 | 5.00 | 5.00 | | |
| ROE - Before Tax % | 27.55 | 17.26 | 7.38 | 1.90 | 4.28 | 4.34 |
| ROE - After Tax % | 16.10 | 11.60 | 3.41 | (2.92) | 3.19 | 3.22 |
| Return on Capital Employed % | 6.31 | 5.76 | 1.82 | (1.55) | 1.74 | 1.89 |
| E.P.S. - After Tax - Rs. | 3.74 | 2.56 | 1.31 | (1.09) | 1.22 | 1.20 |
| Price Earning Ratio | 8.82 | 10.12 | 11.45 | (5.95) | 4.09 | 5.85 |
| Market Price (June 30) | 33.00 | 25.90 | 15.00 | 6.50 | 5.00 | 7.00 |
| Activity (Times) | | | | | | |
| Sales to Total Assets | 0.97 | 1.01 | 0.93 | 0.94 | 0.94 | 0.96 |
| Sales to Fixed Assets | 1.38 | 1.67 | 1.41 | 1.42 | 1.44 | 1.46 |
| Inventory Turnover | 4.84 | 4.28 | 5.48 | 6.37 | 4.59 | 5.82 |
| Interest Cover Ratio | 5.73 | 4.38 | 1.94 | 1.18 | 1.46 | 1.36 |
| Liquidity / Leverage | | | | | | |
| Current Ratio (Times) | 1.86 | 1.42 | 1.17 | 1.09 | 1.10 | 0.97 |
| Break up Value per Share (Rs) | 10.93 | 7.96 | 5.88 | 5.93 | 5.90 | 5.40 |
| Long Term debts to Equity (Times) | 0.54 | 0.37 | 0.32 | 0.33 | 0.35 | 0.34 |
| Total Liabilities to Equity (Times) | 0.65 | 0.57 | 0.54 | 0.54 | 0.56 | 0.57 |

## STATEMENT OF VALUE ADDITION

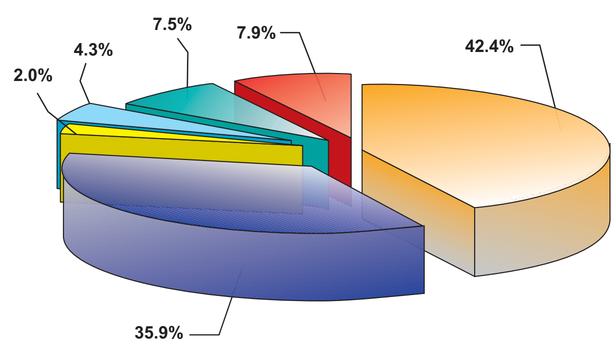
(Rupees in '000's)

| | 2005 Amount | 2005 % Age | 2004 Amount | 2004 % Age |
|---|---|---|---|---|
| **WEALTH GENERATED** | | | | |
| Total Revenue | 805,966 | | 582,949 | |
| Bought in Material & Services | (480,837) | | (333,536) | |
| | 325,129 | 100% | 249,413 | 100% |
| **WEALTH DISTRIBUTED** | | | | |
| To Employees | | | | |
| Salaries & other related costs | 113,876 | 35.0% | 105,660 | 42.4% |
| To Government | | | | |
| Taxes | 132,502 | 40.8% | 89,476 | 35.9% |
| To Providers of Capital | | | | |
| Dividend to Shareholders | 12,337 | 3.8% | 4,935 | 2.0% |
| Markup/Interest | 14,768 | 4.5% | 10,897 | 4.3% |
| | 27,105 | 8.3% | 15,832 | 6.3% |
| Retained in the Business | | | | |
| For replacement of Fixed Assets: Depreciation | 23,158 | 7.1% | 18,592 | 7.5% |
| To provide for Growth: Retained Profit | 28,488 | 8.8% | 19,853 | 7.9% |
| | 51,646 | 15.9% | 38,445 | 15.4% |
| | 325,129 | 100% | 249,413 | 100% |

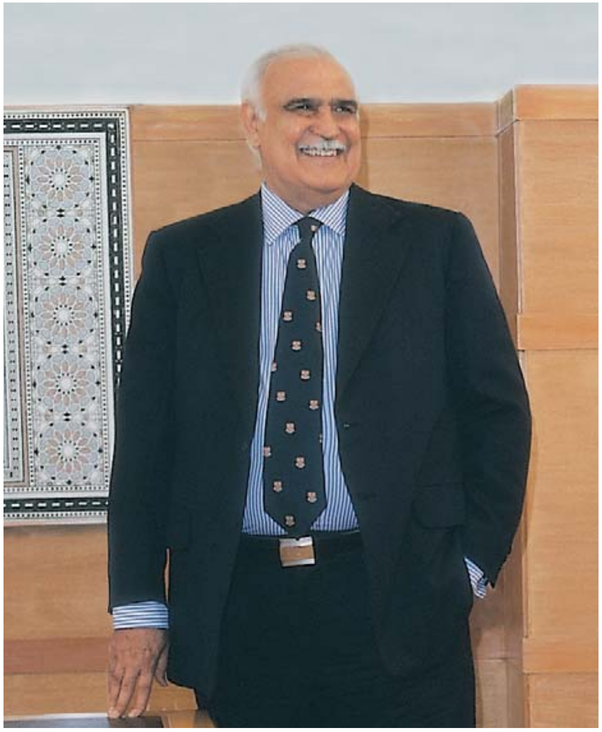
**WEALTH DISTRIBUTION 2005**




**WEALTH DISTRIBUTION 2004**




Employees | Shareholders | Depreciation | Government | Markup/Interest | Retained in Business



## CHAIRMAN'S REVIEW

It is my pleasure to present to you the 43rd Annual Report and review of the performance of the Company for the year ended 30 June 2005.

### The Economy

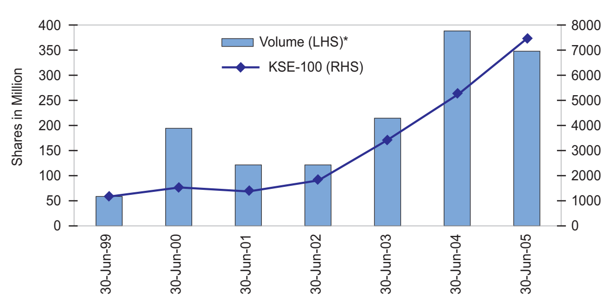
Pakistan economy maintained its growth during the fiscal year 2004-05 - on account of second-generation reforms, liberal policies towards foreign investors, privatization and geopolitical harmony.

The GDP registered growth of 8.4%, as compared to 6.4%, last year. The agriculture saw a growth of 7.5% mainly due to adequate rainfall, upward revision of support prices of various crops, subsidy to fertilizer and availability of credit to farmers. The manufacturing registered a growth of 12.5%. The automobile, telecom, textile and cement were the key factors in pushing the manufacturing sector upward to over 18%, a unique achievement. Improvement was also witnessed in services sector, which grew by 7.9%. Investment gained a stronger footing at 15.3% of GDP. Consequently, per capita income rose 13% to US$ 736.

Imports during 2005 upped 32% to US$ 20.6 billion compared to US$ 15.6 billion during the last year. The exports increased 17% to US$ 14.4 billion from US$ 12.3 billion in the previous year. As a result, the trade deficit soared by 89% to US$ 6.2 billion as against US$ 3.2 billion, last year. This was mainly the result of higher oil import bill due to higher oil prices and import of further textile machinery.

The Karachi stock exchange witnessed volatility; it touched its highest level of 10,300 points and then went down sharply - more than 3,000 points, within 15 days. Daily average volumes during the last 52 weeks fell by 11% to 344 million shares, as compared to 387 million shares last year. It is still going through ups and downs mainly due to lack of in-depth knowledge of market mechanism and introduction of reform strategy.

**Performance of the KSE-100 Index**




*Volume represents average turnover of the year*

### Monetary Developments

Inflation for the year doubled to 9.28% compared to 4.57%, last year. This led the Central Bank to tighten the Monetary Policy. It raised interest rates sharply. The benchmark 6-month T-Bill cut off yields during the year rose 575 basis points to 7.98% as against 2.23% at the end of last year. The weighted average lending rates increased 148 basis points to 7.97% in May 2005 compared to 6.49% at the end of fiscal year 2003-04. The money supply grew 17% leading the private sector to raise credit off-take to Rs.400 billion.

Foreign remittances rose 9% to US$ 4.2 billion from US$ 3.9 billion previously; Foreign Direct Investment (FDI) rose to US$ 1.52 billion, up 60% over last year's level of US$ 0.95 billion. These inflows helped in offsetting the negative impact of the trade deficit through containing the overall balance of payments deficit to US$ 0.93 billion. This also helped the rupee's stability vis-à-vis other currencies, particularly the US Dollar; the average exchange rate during the year stood at Rs.59.5/US$ as against Rs.57.6/US$ last year.

In view of the State Bank's inflation target for the fiscal year 2005-06, set at 8% against 9.27% recorded this year, it is anticipated that interest rates in the near future may change- perhaps marginally. However, any inflationary pressure could well be followed by a hike in interest rates.

**The Automobile Industry**

The automotive sector witnessed impressive growth during the year under review – over an already high based set in the previous year due to combination of availability of credit and leasing facilities at low rate of interest and increased remittances. Production of cars increased 28%, Motorcycles 37%, Tractors 21% and LCV & Buses 50%.

Following are the comparative production figures relating to the automotive industry:

| Particulars | 2004 | 2005 | Inc./(Dec.) | %age |
|---|---|---|---|---|
| Cars | 98,461 | 126,403 | 27,942 | 28 |
| Motorcycle | 303,262 | *416,189 | 112,927 | 37 |
| Tractors | 35,770 | 43,200 | 7,430 | 21 |
| Bus/Trucks & LCVS | 19,100 | 28,579 | 9,479 | 50 |
| Total | 456,593 | 614,371 | 157,778 | 35 |

- Source PAMA.
- *An other 100,000 units or so produced and not reported to PAMA.

The surge in demand has resulted in the undertaking of expansion projects by nearly every Original Equipment Manufacturer (OEM). This growth is a good omen for the industry as well as for the country. Your Company being the one in the field of automotive parts making availed full share of the industry growth by following a prudent policy of investment in technology, new projects and balancing, and modernization and expansion of the existing facilities.

**Market Review**

Because of growth trends in automotive industry, the demand for components and parts in OEM sector are increasing. In the year under review, sales to OEM was Rs.564.72 million as compared to Rs.374.98 million in the previous year, over 50%. Well equipped iron and aluminum foundries, in house tool making and machining facilities, chemical and metallurgical laboratories, and good quality assurance system have enabled Allwin to earn the reputation of a reliable manufacturer and supplier of good quality automotive parts.

In replacement market, your Company faced severe competition due to easily available low quality, low price imported auto parts partly used as 'pass through' parts by counterfeit manufacturers, one way or another through smuggling and under invoicing. Due to these reasons, commercial sales at Rs.128 million was 1.80% lower than the previous year's. The management of the Company is taking actions to minimize the efforts of these negative influences by implementing various marketing actions to achieve the desired results.

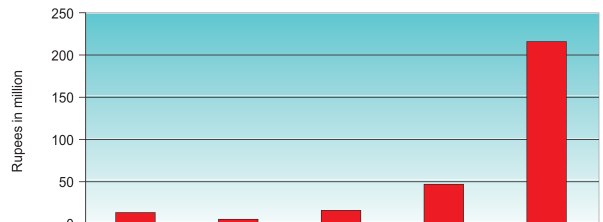
**Investment**

In order to avail full share of the industry growth, the company has been following a prudent policy of investment in technology and balancing and modernization and replacement of production facilities. We have concluded a technical assistance agreement with a leading electrical parts manufacturing company of Japan for providing know how and technical assistance for producing CDI & Regulators required in the assembly of motorcycles. Following the agreement, the machinery for manufacturing of CDI & Regulators arrived and installed under the supervision of engineers from the suppliers. They trained our engineers and workers too. Commercial production is schedule beginning October 2005. We hope, these additional parts will contribute to better performance during the year.

*View of CDI & Regulator Project*

In the year, 2004-05, your company made total investment of Rs.216.40 million totaling over Rs. 298 million since 2001, in acquiring and up-gradation of machinery and equipment and technology in order to meet the demand. It will also help to improve overall internal efficiency and quality of work leading to tangible savings and customers satisfaction.

**Investment**

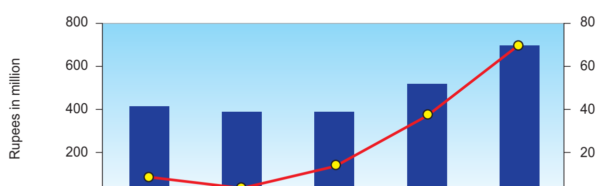



| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Investment | 12.66 | 5.88 | 15.60 | 47.56 | 216.40 |

## Operating Results

The sales for the year ended June 30, 2005 increased to Rs. 692.72 million 37.17% up compared to Rs. 504.98 million, last year. The cost of goods sold also increased to Rs. 570.13 million up 37.87% against Rs. 413.51 million in the last year. The gross profit was recorded at Rs.122.60 million against Rs. 91.47 million in the same corresponding period. As percentage of sales the gross profit dropped from 18.11% of the previous year to 17.70% mainly due to inflationary pressure and increase in cost of materials. The operating expenses were Rs. 44.07 million in the current year compared to Rs. 42.37 million in the previous year or 6.36% and 8.39% respectively. Financial charges increased to Rs. 14.77 million against Rs. 10.90 million in the same period previous year due to increase in long term loan to finance capital expenditure.

**Sales & Profit Before Tax (PBT)**




| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Sales | 405.84 | 382.25 | 379.98 | 504.98 | 692.72 |
| PBT | 8.09 | 3.51 | 13.93 | 36.86 | 69.85 |

The profit before tax was thus Rs. 69.85 million against Rs. 36.86 million in the last year. After making provision for current and deferred tax, the profit after tax stood at Rs. 40.83 million as compared to Rs. 24.79 million, last year. The earnings per share worked out to Rs. 3.74 per share against Rs. 2.56 for the previous year, quite 'satisfactory' in the circumstances the market operated.

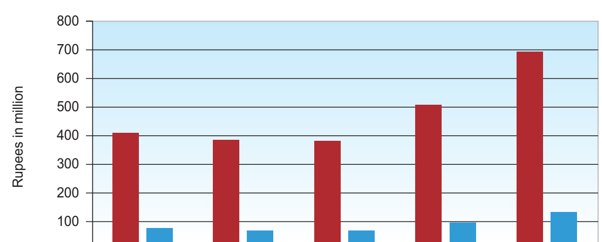
## Cash Flow

During the year under review, the operations of your Company generated a net cash flow of Rs. 50.54 million compared to Rs. 32.22 million in the corresponding last period. The Company made capital investment of Rs. 216.40 million, which was partially financed through long term bank borrowing of Rs. 170.54 million. Overall there was a net decrease of Rs. 2.858 million in cash and cash equivalents as compared to increase of Rs. 12.25 million of the last year mainly due to incurrence of major capacity expansion to meet the increased parts demand.

## Contribution to Exchequer

Your company contributed a sum of Rs. 133.73 million to the government revenues in the form of custom duty, sales tax, income tax and other government levies being 19.30% of the sale value during the year.

**Sales vs Government Taxes**




| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Sales | 405.84 | 382.25 | 379.98 | 504.98 | 692.72 |
| Govt. Taxes | 72.41 | 67.99 | 68.88 | 94.45 | 133.73 |

The Atlas Group of which your company is a constituent member, paid taxes of Rs. 12.0 billion, which is about 2.0% of the Government's total revenues. The Group performances also relies in how much each entity pays taxes – a social responsibility.

**HUMAN RESOURCE**

Your Company's focus is always on improving the quality of its staff through education, training and over all development in consonance with the challenges. During the year 23 outdoor and 13 in door training courses were conducted benefiting 238 employees. Three Managers of your Company attended the "Managerial Grid Seminar" which is conducted annually on group basis. Another three employees are currently attending the two years spread ATLAS-LUMS Diploma in business management programme. Syed Naushad Ali your CFO is doing Ex. MBA – on his own accord.

A number of production engineers were sent abroad to Japan, Korea, Taiwan and China for training and skill development. The exposure will improve overall operational efficiency and the morale and commitment of the employees as we grow. Succession plan for key jobs in the Company is periodically reviewed and individual development Profiles developed. Mr. Khalid Perwez Raja has joined the Company as General Manager Human Resources in place of Mr. M.H. Tabassum-retired after a successful career in the Group, which is recognized. He is now practicing law and I wish him a great career which undoubtedly he rightly deserves. Mr. Khalid Perwez Raja has 30 years experience in Human Resource Management.

Relations between the management and workers of your Company remained cordial throughout the year. The management of your Company has successfully signed two years agreement with CBA ending on 30th November 2006.

**FUTURE OUTLOOK**

I foresee a challenging time ahead. Despite the growth and expansion potential the automotive industry is going through a critical period. In the budget 2005-06, the government has reduced the custom duty on CBU from 100% - 50% to 75% - 50% on different engine capacities and allowed 2% depreciation against 1% on Cars imported on gift and transfer of residence schemes, a set back to progressive local manufacturing, ultimately the vending industry. On the other hand, there is acute shortage of pig iron in the country, as Pakistan Steel Mills is not supplying it for the last three months. In order to keep the foundry running and meet customers demand, your Company is importing the material at much higher cost. Further, cost constraints arising from the inflationary market pressure, higher interest rate and progressive devaluation of rupee, will require the management and staff to rise to the occasion.

I am confident that the management will face the challenges successfully and ensure profitability through overall improvement, effectiveness and productivity of our men, machine and materials.

ع کریں گے اہلِ نظر تازہ بستیاں آباد

(Those with foresight will continue building
a new, better and better)

**ACKNOWLEDGEMENT**

I would like to thank the Group Executive Committee, Group President, Mr. Aamir H. Shirazi, Group Director Engineering, Mr. Jawaid Iqbal Ahmed, Chief Executive Officer, Mr. Mohammad Atta Karim and his team, staff and associates for their dedication and commitment to your company's growth. I also thank the CBA for their positive role and valuable contribution.

I am also thankful to the shareholders, banks, dealers and customers for the confidence reposed in us and their help and support extended to the company.

Yusuf H. Shirazi

**DIRECTORS' REPORT**

The Directors of your company take pleasure in presenting their report together with the Audited Accounts and Auditor's Report thereon for the year ended June 30, 2005.

**FINANCIAL RESULTS**

The financial results of your company for the year ended June 30, 2005 under review are summarized as follows:

| | (Rupees in '000's) | |
|---|---|---|
| | 2005 | 2004 |
| Profit before taxation | 69,849 | 36,861 |
| Taxation | | |
| Current | 3,508 | 2,525 |
| Deferred | 25,516 | 9,548 |
| | 29,024 | 12,073 |
| Profit after taxation | 40,825 | 24,788 |

**Earnings per Share**

Earnings per share after tax is Rs. 3.74 per share (2004: Rs. 2.56).

**Dividend**

The Board of Directors has recommended final cash dividend of Rs. 1/= per share (10%) for the year 2005. As discussed in Note 2.3.1 of the financial statements, dividends are now required to be recognised as a liability at the time of their declaration rather than at the balance sheet date. Therefore, appropriation for the final dividend for 2005 will be reflected in the financial statements for the year 2006.

**Chairman's Review**

The Chairman's review included in the Annual Report deals inter alia with the performance of the company for the year ended June 30, 2005 and future prospects. The directors endorse the contents of the review.

**Board of Directors**

The Board comprises of one Executive and six Non-Executive directors. All the non-executive directors are independent from management. During the year, election of Directors in accordance with Companies Ordinance 1984 was held, Mr. Yusuf H. Shirazi (Chairman), Mr. Mohammad Atta Karim (CEO), Mr. Ali H. Shirazi, Mr. Frahim Ali Khan, Mr. H. Masood Sohail, Mr. Iftikhar H. Shirazi and Mr. Mohammad Habib-ur-Rahman were unanimously elected Directors of the Company.

The Board approved the remuneration of the CEO Rs. 3.65 million, bonus and other benefits like free transportation, telephone facility, medical expenses etc. as per company's policy for the year 2005-2006. The Company also makes contributions to the provident and gratuity funds for CEO.

During the year six Board meetings were held. The attendance of the directors and number of directorship in listed companies including Allwin Engineering Industries Limited are as follows:

| S.No. | Name of Directors | Attendance | Number of directorships in listed companies including AEIL |
|---|---|---|---|
| 1. | Mr. Yusuf H. Shirazi | 6 | 6 |
| 2. | Mr. Mohammad Atta Karim | 6 | 2 |
| 3. | Mr. Ali H. Shirazi<br>(Appointed effective May 15, 2005) | - | 1 |
| 4. | Mr. H. Masood Sohail | 6 | 1 |
| 5. | Mr. Frahim Ali Khan | 6 | 3 |
| 6. | Mr. Habib-ur-Rahman | - | 1 |
| 7. | Mr. Iftikhar H. Shirazi | 4 | 2 |
| 8. | Mr. Jawaid Iqbal Ahmed<br>(Three years term of office expired on May 15, 2005) | 5 | - |
| 9. | Mr. Vazeer Ali<br>(Three years term of office expired on May 15, 2005) | 5 | - |

**Auditors**

The present Auditors M/s. Ford Rhodes Sidat Hyder & Co. Chartered Accountants retire and being eligible, offer themselves for re-appointment. The Audit Committee has recommended their re-appointment as auditors of the Company for the year 2005-06.

**Compliance with the Code of Corporate Governance**

The requirements of the Code of Corporate Governance set out by the Karachi and Lahore Stock Exchanges in their listing Rules, relevant for the year ended June 30, 2005 have been complied with. The directors confirm the compliance of Corporate Governance and a statement to this effect is annexed.

**Audit Committee**

The Audit Committee was established to assist the directors in discharging their responsibilities towards company. Audit Committee's responsibilities includes, reviewing reports of the company's financial results, monitoring internal audit functions and compliance with relevant statutory requirements, to assist the Board in discharging its responsibilities for safeguarding of Company's assets, development and implementation of effective internal control system.

The committee consists of three members. Including the Chairman of the Committee who are non-executive directors.

The Audit Committee meets at least four times in a year and additional meetings can be convened by the Chairman of the Committee whenever necessary.
During the year four Audit Committee meetings were held and attended as follows:

| | | | |
|---|---|---|---|
| Mr. H. Masood Sohail | - Chairman | 4 | |
| Mr. Frahim Ali Khan | - Member | - | (Appointed effective June 27, 2005) |
| Mr. Iftikhar H. Shirazi | - Member | 3 | |
| Mr. Vazeer Ali | - Member | 3 | (Resigned effective June 27, 2005) |

**Group Executive Committee**

The Group Executive Committee is responsible for setting overall corporate objectives and strategies, identifying opportunities, monitoring group business strategies and plans, and developing its group members as leaders of their respective fields.

**Group Human Resource Committee**

The Group Human Resource Committee determines the remuneration package for the management staff. The committee has also the responsibility to create and maintain conducive work environment that instills trust and ensures respect, fair treatment, development opportunities and grooming and make succession plan for all employees.

**Group Systems & Technology Committee**

The Group Systems and Technology Committee is responsible to provide an insight towards the various technological aspects of information systems. The objective of the Committee is to introduce leading edge technology and IT initiative to automate information delivery and accessibility of data for enhancement of time and cost efficiency.

**Management Committee**

The Management Committee acts at the operating level in an advisory capacity to the CEO, providing recommendations relating to the business and other corporate affairs. The Committee has responsibility for reviewing and forwarding long-term plans, capital and expense Budget development and stewardship of business plans. The committee is also responsible for maintaining healthy environment within and outside the company through its environment friendly products.

**Communication**

Communication with the shareholders is given a high priority. Annual, Half yearly and Quarterly Reports are distributed to them within the time specified in the Companies Ordinance, 1984. The company also has a website (www.atlasgrouppk.com), which contains up to date information of group activities.

**Further the Directors also confirm the following statements:**

a). The financial statements, prepared by the management of the company, fairly present its state of affairs, the results of its operations, cash flows and changes in equity.

b). The company has maintained proper books of accounts.

c). Appropriate accounting policies have been consistently applied, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d). International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.

e). The system of internal control is sound in design and has been effectively implemented and monitored. The process of monitoring internal controls will continue as an ongoing process with the objective to further strengthen the controls and bring improvements in the system.

f). There is no doubt about the company's ability to continue as a going concern.

g). There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

**Key Operating and Financial Data**

A summary of key operating and financial data of the company is annexed.

**Government Levies**

Information about taxes and levies is given in notes to the financial statements.

**Employees' Provident Fund & Gratuity Fund**

The Company operates a contributory provident fund scheme for all employees and non-contributory gratuity fund scheme for its management employees. The value of investment, based on their respective audited accounts are as follows:

- Provident Fund Rs. 107.602 million (30 June 2004)
- Gratuity Fund Rs. 4.845 million (30 June 2005)

**Pattern of Shareholding**

The pattern of shareholding of the company is annexed.

For and on behalf of the
Board of Directors

Mohammad Atta Karim
Chief Executive Officer

Karachi: September 28, 2005

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi and Lahore Stock Exchanges 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. At present all the directors on the Board are non-executive except the Chief Executive of the Company.

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 taxpayers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBFI or, being a member of stock exchange, has been declared as defaulter by that stock exchange.

4. No casual vacancy occurred in the Board during the year.

5. The Company has adopted and circulated 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/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 were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and 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 had previously arranged an orientation course for its members to apprise them of their duties and responsibilities.

10. The CFO, Company Secretary and Head of Internal Audit were appointed prior to the introduction of Code of Corporate Governance. However, the Board has approved their remuneration and terms of employment, as determined by the CEO.

11. The directors' report for the year has been prepared in compliance with 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 an 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 an audit committee. It comprises three Members, of whom all are non-executive directors including the chairman of the committee.

16. The meetings of the audit committees 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 Board has set-up 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 programme 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 the 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.

20. We confirm that all other material principles contained in the Code have been complied.

For and on behalf of the
Board of Directors

Mohammad Atta Karim
Chief Executive Officer

Karachi: September 28, 2005

## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF 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 Allwin Engineering Industries Limited to comply with the Listing Regulation No. 37 and Chapter XIII of the Karachi and Lahore Stock Exchanges, 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 the 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 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 for the year ended June 30, 2005.

Ford Rhodes Sidat Hyder

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants.

Karachi: September 28, 2005

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ALLWIN ENGINEERING INDUSTRIES LIMITED as at June 30, 2005 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 except for the changes stated in note 2.3, with which we concur;

  (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 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, 2005 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;

Ford Rhodes Sidat Hyder

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants.

Karachi: September 28, 2005

## BALANCE SHEET
AS AT JUNE 30, 2005

| | Note | 2005 | 2004 (Restated) |
|---|---|---|---|
| | | (Rupees in '000's) | |
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | | | |
| Property, plant and equipment | 3 | 503,258 | 302,418 |
| Intangible assets | 4 | 213 | - |
| | | 503,471 | 302,418 |
| Long-term loans and advances | 5 | 1,466 | 1,035 |
| Long-term deposits and prepayments | 6 | 1,913 | 1,767 |
| Deferred cost | 7 | - | 4,439 |
| | | 506,850 | 309,659 |
| **CURRENT ASSETS** | | | |
| Stores, spares and loose tools | 8 | 28,270 | 25,213 |
| Stock-in-trade | 9 | 117,738 | 96,636 |
| Trade debts | 10 | 40,079 | 34,187 |
| Loans and advances | 11 | 11,520 | 3,847 |
| Deposits, prepayments and other receivables | 12 | 3,042 | 1,857 |
| Taxation - net | 13 | 183 | 601 |
| Cash and bank balances | 14 | 6,918 | 29,131 |
| | | 207,750 | 191,472 |
| **TOTAL ASSETS** | | 714,600 | 501,131 |
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Share capital | 15 | 123,367 | 49,347 |
| Deposits for right shares | 16 | - | 70,000 |
| Unappropriated profit / Accumulated (losses) | | 11,487 | (24,403) |
| | | 134,854 | 94,944 |
| **SURPLUS ON REVALUATION OF FIXED ASSET** | 17 | 118,680 | 118,680 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term loans | 18 | 205,959 | 89,375 |
| Deferred liability - non-management staff gratuity | 19 | 10,371 | 9,690 |
| Deferred taxation | 20 | 45,326 | 19,810 |
| | | 261,656 | 118,875 |
| **CURRENT LIABILITIES** | | | |
| Current maturity of long-term loans | 18 | 87,774 | 33,819 |
| Short-term finances | 21 | 34,441 | 19,796 |
| Short-term borrowings | 22 | 10,000 | 44,000 |
| Trade and other payables | 23 | 53,419 | 58,830 |
| Provisions and other liabilities | 24 | 13,776 | 12,187 |
| | | 199,410 | 168,632 |
| **CONTINGENCIES AND COMMITMENTS** | 25 | | |
| **TOTAL EQUITY AND LIABILITIES** | | 714,600 | 501,131 |

The annexed notes from 1 to 48 form an integral part of these financial statements.

| | | |
|---|---|---|
| **Mohammad Atta Karim** | **Yusuf H. Shirazi** | **Frahim Ali Khan** |
| Chief Executive Officer | Chairman | Director |

## PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2005

| | Note | 2005 (Rupees in '000's) | 2004 (Rupees in '000's) |
|---|---|---|---|
| **Sales** | 26 | 692,724 | 504,984 |
| Cost of goods sold | 27 | (570,126) | (413,514) |
| **Gross profit** | | 122,598 | 91,470 |
| Other operating income | 28 | 9,764 | 562 |
| | | 132,362 | 92,032 |
| Administrative expenses | 29 | (30,224) | (26,894) |
| Selling and distribution cost | 30 | (11,951) | (14,544) |
| Other operating charges | 31 | (1,894) | (927) |
| | | (44,069) | (42,365) |
| **Operating profit** | | 88,293 | 49,667 |
| Finance cost | 32 | (14,768) | (10,897) |
| Workers' Profit Participation Fund - allocation for the year | 24.3 | (3,676) | (1,909) |
| **Profit before taxation** | | 69,849 | 36,861 |
| Taxation | 33 | (29,024) | (12,073) |
| **Profit after taxation** | | 40,825 | 24,788 |
| **Basic earnings per share** | 34.1 | 3.74 | 2.56 |
| Diluted earnings per share | 34.2 | 2.79 | 1.49 |

The annexed notes from 1 to 48 form an integral part of these financial statements.

| | | |
|---|---|---|
| **Mohammad Atta Karim** | **Yusuf H. Shirazi** | **Frahim Ali Khan** |
| Chief Executive Officer | Chairman | Director |

## CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2005

| | Note | 2005 (Rupees in '000's) | 2004 (Rupees in '000's) |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 36 | 70,889 | 50,786 |
| Finance cost paid | | (11,493) | (13,041) |
| Gratuity paid | | (5,763) | (551) |
| Deferred cost paid | | - | (2,438) |
| Tax paid | | (3,090) | (2,539) |
| Net cash generated from operating activities | | 50,543 | 32,217 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Capital expenditure | | (225,083) | (52,777) |
| Long-term deposits - net | | (146) | 262 |
| Long-term loans and advances - net | | (431) | 83 |
| Proceeds from sale of fixed assets | | 2,584 | 1,642 |
| Net cash used in investing activities | | (223,076) | (50,790) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Long-term loans - net | | 170,539 | 33,336 |
| Short-term borrowings | | (34,000) | 44,000 |
| Proceed from Issuance of Right Shares | | 60,087 | - |
| Refund to sponsors / shareholders | | (56,067) | - |
| Dividend paid | | (4,884) | (2,512) |
| Net cash generated from financing activities | | 135,675 | 74,824 |
| Net (decrease) / increase in cash and cash equivalents | | (36,858) | 56,251 |
| Cash and cash equivalents at the beginning of the year | | 9,335 | (46,916) |
| Cash and cash equivalents at the end of the year | | (27,523) | 9,335 |
| CASH AND CASH EQUIVALENTS COMPRISE | | | |
| Cash and bank balances | 14 | 6,918 | 29,131 |
| Short-term finances | 21 | (34,441) | (19,796) |
| | | (27,523) | 9,335 |

The annexed notes from 1 to 48 form an integral part of these financial statements.

| | | |
|---|---|---|
| **Mohammad Atta Karim** | **Yusuf H. Shirazi** | **Frahim Ali Khan** |
| Chief Executive Officer | Chairman | Director |

## STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2005

| | Note | Issued, subscribed & paid up capital | Deposit for right shares | Unappropriated profit/Accumulated (losses) | Total |
|---|---|---|---|---|---|
| | | (Rupees in thousands) Restated | | | |
| Balance as at July 01, 2003 as previously reported | | 49,347 | 70,000 | (49,191) | 70,156 |
| Effect of change in accounting policy | 2.3.1 | - | - | 2,467 | 2,467 |
| Restated balance as at July 01, 2003 | | 49,347 | 70,000 | (46,724) | 72,623 |
| Profit after taxation | | - | - | 24,788 | 24,788 |
| Dividend declared during the year | | - | - | (2,467) | (2,467) |
| Restated balance as at June 30, 2004 | | 49,347 | 70,000 | (24,403) | 94,944 |
| Balance as at July 01, 2004 as previously reported | | 49,347 | 70,000 | (29,338) | 90,009 |
| Effect of change in accounting policy | 2.3.1 | - | - | 4,935 | 4,935 |
| Restated balance as at July 01, 2004 | | 49,347 | 70,000 | (24,403) | 94,944 |
| Subscription money received during the period against right issue. | | - | 60,087 | - | 60,087 |
| Amount refunded to sponsors/shareholders | | - | (56,067) | - | (56,067) |
| Right shares issued during the year | 15.2 | 74,020 | (74,020) | - | - |
| Profit after taxation | | - | - | 40,825 | 40,825 |
| Dividend declared during the year | | - | - | (4,935) | (4,935) |
| Balance as at June 30, 2005 | | 123,367 | - | 11,487 | 134,854 |

The annexed notes from 1 to 48 form an integral part of these financial statements.

| | | |
|---|---|---|
| **Mohammad Atta Karim** | **Yusuf H. Shirazi** | **Frahim Ali Khan** |
| Chief Executive Officer | Chairman | Director |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

## 1. THE COMPANY AND ITS OPERATIONS

The company was incorporated in Pakistan as a private limited company in 1963 and was converted into a public limited company on July 15, 1966. Its shares are listed on the Karachi and Lahore stock exchanges. It is engaged in manufacturing of components and parts for automotive vehicles and tractors. The registered office of the company is situated at 15th Mile, National Highway, Landhi, Karachi, Pakistan.

The company is a subsidiary of Shirazi Investment (Private) Limited.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for leasehold land which has been stated at revalued amount and recognition of certain staff retirement benefits at present value.

### 2.3 Change in accounting policies

During the year, the company changed its accounting policies in respect of the following:

2.3.1 In order to conform with the revised Fourth Schedule to the Companies Ordinance, 1984 and the treatment in IAS 10, 'Events after the balance sheet date', the company with effect from the current year recognises such dividend as a liability at the time of their declaration rather than at the balance sheet date. This change in accounting policy has been accounted for retrospectively in accordance with the benchmark treatment specified in International Accounting Standards (IAS) - 8 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies'. Accordingly the corresponding figures of balance sheet in respect of propose dividend and unappropriated profit / accumulated (losses) have been restated. The effect of change in accounting policy has been reflected in the statement of changes in equity. Had there been no change in the accounting policy, the balance of 'unappropriated profit' as of June 30, 2005 would have been lower and 'current liabilities' would have been higher by Rs. 12.337 million each. (2004: 'accumulated losses' and 'current liabilities' would have been higher by Rs. 4.935 million each).

2.3.2 Previously, the company had followed the Technical Release (TR) - 28 issued by the Institute of Chartered Accountants of Pakistan (ICAP) which allowed deferment of cost of Golden Handshake schemes. The said TR - 28 has withdrawn by the ICAP with effect from accounting years beginning on or after January 01, 2005. Accordingly, the management has charged-off completely the unamortised balance of deferred cost during the current year. Had there been no change in the accounting policy for deferred cost, the profit before tax for the year and total assets would have been higher by Rs. 1.252 million respectively.

**2.4 Property, plant and equipment and depreciation**

**2.4.1 Owned**

These are stated at cost less accumulated depreciation and impairment, if any, except leasehold land and capital work-in-progress which are stated at revalued amount and cost respectively.

Depreciation is charged to income, from the month of acquisition, applying the written down value method and no depreciation is charged in the month of disposal.

Normal repairs and maintenance costs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalised.

Gains and losses on disposal of fixed assets are taken to the profit and loss account.

The company assesses at each balance sheet date whether there is any indication that the carrying values of assets are reviewed for impairment. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed recoverable amount, assets are written down to the recoverable amount.

**2.4.2 Capital work-in-progress**

Capital work-in-progress is stated at cost. It consists of expenditure incurred in respect of tangible assets in the course of their construction and installation.

**2.4.3 Intangible**

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised on a straight-line basis over their estimated useful lives.

**2.5 Impairment**

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

**2.6 Stores, spares and loose tools**

Stores, spares and loose tools are valued at lower of cost and net realisable value. Cost is determined on average basis except for goods in transit which are valued at invoice price plus other charges paid thereon upto the balance sheet date. Provision is made for slow moving and obsolete items, if any.

Net realisable value signifies the estimated selling price in the ordinary course of business less estimated costs necessary to be incurred to make the sale.

### 2.7 Stock-in-trade

All stocks, except in transit, are valued at the lower of cost and net realisable value. Cost is determined on average basis and includes costs incurred in bringing raw material to its present location and condition.

Stock in transit is stated at invoice price plus other charges paid thereon upto the balance sheet date.

Work-in-process and finished goods consist of direct materials and labour and a proportion of manufacturing overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less estimated costs necessary to be incurred to make the sale.

### 2.8 Trade debts

Trade debts originated by the company are recognised and carried at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

### 2.9 Taxation

#### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any or minimum taxation at the rate of 0.5% of turnover, whichever is higher.

#### Deferred

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part for the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or subsequently enacted at the balance sheet date.

## 2.10 Staff retirement benefits

### Defined benefit plan

The company operates an unfunded gratuity scheme for workers and funded gratuity scheme for management staff as described in note 19 to the financial statements. Annual charge is based on actuarial recommendations. Actuarial valuation of the scheme is carried out annually, using Projected Unit Credit Method and the latest valuation was carried out as at June 30, 2005. Actuarial gains or losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for the plan exceed 10% of the defined benefit obligation or 10% of the fair value of plan assets which ever is higher. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

### Defined contribution plan

The company operates a recognised provident fund for its permanent employees. Equal monthly contributions are made to the fund by the company and the employees in accordance with the rules of the scheme.

## 2.11 Compensated absences

The company accounts for compensated absences on the basis of unavailed earned leave balance of each employee at the end of the year.

## 2.12 Trade and other payables

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 goods and services received, whether or not billed to the company.

## 2.13 Provisions

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

## 2.14 Foreign currency translation

Transactions in foreign currencies are translated into reporting currency at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date. Exchange differences on foreign currency translations are included in profit and loss account.

## 2.15 Operating leases

Lease payments under operating leases are recognised as an expense in the profit and loss account on a straight line basis over the respective lease term.

2.16 **Revenue recognition**

- Sales are recognised on dispatch of goods to customers.

- Return on bank deposits is accrued on a time proportion basis by reference to the principal outstanding on the applicable rate of return.

2.17 **Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, cheques in hand and bank balances net of running finance. The cash and cash equivalents are readily convertible to known amount of cash and are therefore subject to insignificant risk of changes in value.

2.18 **Related party transactions and transfer pricing**

The company enters into transactions with related parties on an arm's length basis and the transfer price is determined as per the methods prescribed under the Companies Ordinance, 1984.

2.19 **Financial instruments**

All financial assets and financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument. All the financial assets are derecognised at the time when the company loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on recognition/derecognition of the financial assets and financial liabilities is taken to profit and loss account currently.

2.20 **Offsetting of financial assets and financial liabilities**

A financial asset(s) and a financial liability(ies) is offset and the net amount reported in the balance sheet if the company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously, if any. Corresponding income and expenditure if any, are also netted off and reported on a net basis in the profit and loss account.

2.21 **Borrowing costs**

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying assets. Such borrowing costs, if any, are capitalised as part of the cost of that asset.

| | Note | 2005 (Rupees in '000's) | 2004 |
|---|---|---|---|
| **3. PROPERTY, PLANT AND EQUIPMENT** | | | |
| Operating assets | 3.1 | 405,740 | 299,121 |
| Capital work-in-progress | 3.5 | 97,518 | 3,297 |
| | | 503,258 | 302,418 |

## 3.1 OPERATING ASSETS

| Description | Note | Cost | | | | Accumulated depreciation | | | | Net book value | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As at July 01, 2004 | Additions (Note 3.4) | (Disposals) | As at June 30, 2005 | As at July 01, 2004 | Charge for the year | (Disposals) | As at June 30, 2005 | As at June 30, 2005 | Depreciation rate |
| | | (Rupees in thousands) | | | | | | | | | % |
| Leasehold land | 3.2 | 118,840 | - | - | 118,840 | - | - | - | - | 118,840 | - |
| Buildings on leasehold land | | | | | | | | | | | |
| Factory | | 39,643 | 2,771 | - | 42,414 | 30,062 | 1,019 | - | 31,081 | 11,333 | 10 |
| Generator premises | | 3,741 | 1,114 | - | 4,855 | 2,224 | 174 | - | 2,398 | 2,457 | 10 |
| Residential | | 365 | - | - | 365 | 298 | 3 | - | 301 | 64 | 5 |
| Office | | 1,745 | - | - | 1,745 | 1,194 | 28 | - | 1,222 | 523 | 5 |
| Plant and machinery | | 260,930 | 101,200 | - | 362,130 | 146,004 | 12,483 | - | 158,487 | 203,643 | 10 |
| Power generators | | 57,027 | 8,590 | - | 65,617 | 30,971 | 3,002 | - | 33,973 | 31,644 | 10 - 35 |
| Electrical fittings | | 7,776 | 1,987 | - | 9,763 | 3,813 | 494 | - | 4,307 | 5,456 | 10 |
| Office equipment | | 2,218 | - | - | 2,218 | 1,917 | 45 | - | 1,962 | 256 | 15 |
| Computers | | 4,970 | 1,179 | - | 6,149 | 3,534 | 668 | - | 4,202 | 1,947 | 30 |
| Furniture and fixtures | | 3,611 | - | - | 3,611 | 2,990 | 62 | - | 3,052 | 559 | 10 |
| Vehicles | | 11,296 | 6,675 | (1,801) | 16,170 | 3,599 | 1,920 | (946) | 4,573 | 11,597 | 20 |
| Waterline and drainage | | 670 | - | - | 670 | 626 | 4 | - | 630 | 40 | 10 |
| Sui gas line | | 576 | - | - | 576 | 431 | 15 | - | 446 | 130 | 10 |
| Measuring instruments, dies, | | | | | - | - | | | - | | |
| jigs, patterns and other equipments | | 36,980 | 7,116 | - | 44,096 | 23,604 | 3,241 | - | 26,845 | 17,251 | 20 |
| Bicycles | | 2 | - | - | 2 | 2 | - | - | 2 | - | 20 |
| | | 550,390 | 130,632 | (1,801) | 679,221 | 251,269 | 23,158 | (946) | 273,481 | 405,740 | |
| 2004 | | 503,096 | 50,755 | (3,461) | 550,390 | 234,962 | 18,592 | (2,285) | 251,269 | 299,121 | |

Details of Property, plant and equipment disposed-of is given in Note 44.

3.2 Leasehold land is carried at revalued amount. Had the land been carried at cost, it would have been carried at Rs.0.16 million (refer note 17 to the financial statements).

### 3.3 Allocation of depreciation charge:

| | Note | 2005 (Rupees in '000's) | 2004 |
|---|---|---|---|
| Cost of goods sold | 27 | 21,797 | 18,313 |
| Administrative expenses | 29 | 953 | 186 |
| Selling and distribution costs | 30 | 408 | 93 |
| | | 23,158 | 18,592 |

3.4 Additions to fixed assets include Rs. 108.636 million transferred from capital work-in-progress in the following categories of fixed assets. This includes financial cost of Rs. 2.080 million capitalized as a part of cost of such assets.

| | (Rupees in '000's) |
|---|---|
| Factory building | 2,075 |
| Plant and machinery | 96,367 |
| Generator building | 713 |
| Power generator | 6,444 |
| Measuring instruments, dies, jigs, patterns and other equipments | 3,037 |
| | 108,636 |

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |
| **3.5 CAPITAL WORK-IN-PROGRESS** | | | |
| Factory building | | 284 | - |
| Suigas line | | 985 | - |
| Plant and machinery (including in transit of Rs. 0.994 million) | | 92,263 | 3,137 |
| Dies and jigs in process | | - | 160 |
| Advances to suppliers / contractor | 3.6 | 3,824 | - |
| Financial cost | | 162 | - |
| | | 97,518 | 3,297 |

3.6 The above balance includes amount paid to Honda Atlas Cars (Pakistan) Limited - an associated undertaking amounting to Rs. 0.824 million (2004: Nil).

## 4. INTANGIBLE ASSETS

| | Cost at July 1, 2004 | Additions | Cost at June 30, 2005 | Accumulated amortisation at July 1, 2004 | Charge for the year | Accumulated amortisation at June 30, 2005 | Net book value at June 30, 2005 | Amortisation rate on original cost % |
|---|---|---|---|---|---|---|---|---|
| Computer software | - | 230 | 230 | - | 17 | 17 | 213 | 30 |
| **2005** | - | 230 | 230 | - | 17 | 17 | 213 | |
| 2004 | - | - | - | - | - | - | - | |

4.1 The amortisation charge for the year has been charged to administrative expenses (note 29).

## 5. LONG-TERM LOANS AND ADVANCES

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |
| Secured, considered good | | | |
| Loans to employees - interest bearing | 5.1 | 810 | 871 |
| Less: current maturity shown under current assets | | 192 | 766 |
| | | 618 | 105 |
| Long-term advances to employees - non-interest bearing | 5.2 | 1,676 | 1,519 |
| Less: current maturity shown under current assets | | 828 | 589 |
| | | 848 | 930 |
| | | 1,466 | 1,035 |

5.1 These loans carry mark-up at the rate of 1.00% (2004: 1.00%) per month on the outstanding balance and is secured against employee's share of workers' profit participation fund and bonus payable, if any. The loan is due in 24 monthly installments. These are secured against the employee's or guarantor's gratuity, provident fund or any other dues, if any.

5.2 These represent non-interest bearing advances to employees for purchase of motorcycles and are payable by way of a 15.00% amount upfront and the remaining amount in 42 equal monthly installments adjusted against salary. These are secured against employee's or guarantor's gratuity, provident fund or any other dues, if any.

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |
| **6. LONG-TERM DEPOSITS AND PREPAYMENTS** | | | |
| Deposits with: | | | |
| Financial institution | | 410 | 605 |
| Utilities | | 751 | 751 |
| Suppliers | | 227 | 227 |
| Others | | 75 | 88 |
| | | 1,463 | 1,671 |
| Prepayments | | 738 | 179 |
| Less: current maturity shown within current assets-prepayments | | 288 | 83 |
| | | 450 | 96 |
| | | 1,913 | 1,767 |
| **7. DEFERRED COST** | | | |
| Opening balance | | 4,439 | 5,385 |
| Incurred during the year | | - | 2,438 |
| Written-off / amortised during the year | | (4,439) | (3,384) |
| | 2.3.2 | - | 4,439 |
| **8. STORES, SPARES AND LOOSE TOOLS** | | | |
| Stores and spares | | | |
| In hand | | 14,674 | 13,746 |
| In transit | | 1,313 | 14 |
| | | 15,987 | 13,760 |
| Loose tools | | 12,800 | 10,908 |
| Electrical goods | | 638 | 545 |
| | | 29,425 | 25,213 |
| Less: Provision for obsolescence | | 1,155 | - |
| | | 28,270 | 25,213 |
| **9. STOCK-IN-TRADE** | | | |
| Raw and ancillary materials | | | |
| In hand | | 60,020 | 37,492 |
| In transit | | 11,376 | 9,210 |
| | | 71,396 | 46,702 |
| Packing materials | | 824 | 712 |
| Work-in-process | 9.1 & 9.2 | 17,039 | 18,426 |
| Finished goods | 9.3 | 28,882 | 30,796 |
| | | 118,141 | 96,636 |
| Less: Provision for obsolescence | | 403 | - |
| | | 117,738 | 96,636 |

9.1 Included herein are stocks carried at net realisable value amounting to Rs. 0.767 million (2004: Rs. 0.864 million).

9.2 Included herein are stocks held by third parties amounting to Rs. 1.909 million (2004: Rs. 1.875 million).

9.3 Included herein are stocks carried at net realisable value amounting to Rs. 3.344 million (2004: Rs. 2.319 million).

## 10. TRADE DEBTS

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |
| Unsecured, considered good | | | |
| Associated undertaking - Honda Atlas Cars (Pakistan) Limited | 10.1 | 9,595 | 4,703 |
| Others | | 30,484 | 29,484 |
| | | 40,079 | 34,187 |

10.1 The maximum amount due from associated undertakings at the end of any month during the year was Rs. 72.866 million (2004: Rs.39.396 million).

## 11. LOANS AND ADVANCES - Unsecured, considered good

| | 2005 | 2004 |
|---|---|---|
| Loans to employees - non-interest bearing | 167 | 176 |
| Current maturity of: | | |
| long-term loans to the employees - interest bearing | 192 | 766 |
| advance to employees | 828 | 589 |
| | 1,020 | 1,355 |
| Advances: | | |
| against salary | 8 | 86 |
| against expenses | 493 | 259 |
| to suppliers | 9,832 | 1,971 |
| | 10,333 | 2,316 |
| | 11,520 | 3,847 |

## 12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2005 | 2004 |
|---|---|---|
| Security and trade deposits | 214 | 103 |
| L/C and guarantee margin deposits | 335 | 66 |
| Prepayments | 1,905 | 1,026 |
| Current maturity of long-term prepayments | 288 | 83 |
| Other receivables | 300 | 579 |
| | 3,042 | 1,857 |

## 13. TAXATION - NET

The income tax assessment of the company has been finalised by the Income Tax Department upto tax year 2004 (accounting year ended June 30, 2004).

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |

## 14. CASH AND BANK BALANCES

| | | | |
|---|---|---|---|
| Current accounts | | 1,839 | 1,141 |
| In hand | | | |
| Cheques | | 5,037 | 27,947 |
| Cash | | 42 | 43 |
| | | 6,918 | 29,131 |

## 15. SHARE CAPITAL

| Number of ordinary shares of Rs.10/- each 2005 | 2004 | | 2005 | 2004 |
|---|---|---|---|---|
| | | **Authorized Share Capital** | | |
| 20,000,000 | 10,000,000 | Ordinary shares | 200,000 | 100,000 |
| | | **Issued, Subscribed and Paid-up Capital** | | |
| 9,273,588 | 1,871,571 | Fully paid in cash | 92,736 | 18,716 |
| 49,800 | 49,800 | Issued for consideration other than cash | 498 | 498 |
| 3,013,307 | 3,013,307 | Issued as fully paid bonus shares | 30,133 | 30,133 |
| 12,336,695 | 4,934,678 | | 123,367 | 49,347 |

15.1 The authorized share capital of the company has been increased from Rs. 100 million to Rs. 200 million as approved by the share holders in their meeting held on October 25, 2004.

15.2 The paid-up share capital of the company has been increased from Rs. 49.347 million to Rs. 123.367 million by allotment of 7,402,017 right shares at nominal value of Rs. 10/- each as approved by the Board in its meeting held on February 02, 2005.

15.3 As at the balance sheet date, the shares in the company held by a holding company and an associated company were as follows:

| | | |
|---|---|---|
| - Holding company | 7,598,937 | 2,869,452 |
| - An associated company | 354,420 | 141,768 |
| | 7,953,357 | 3,011,220 |

## 16. DEPOSITS FOR RIGHT SHARES

| | | |
|---|---|---|
| Directors | - | 17,500 |
| Others | - | 52,500 |
| | - | 70,000 |

## 17. SURPLUS ON REVALUATION OF FIXED ASSET

| | Note | 2005 | 2004 |
|---|---|---|---|
| | 17.1 | 118,680 | 118,680 |

17.1 Leasehold land costing Rs.0.160 million was revalued by Razzaque Umrani & Co., Engineers and Surveyors on June 20, 1998 resulting in surplus amounting to Rs.118.680 million which has been credited to surplus on revaluation of fixed asset account. The basis of revaluation was market value.

17.2 In the year 2004, another revaluation of the above land was carried out by M/s. Surval - Engineers, Surveyors and Technical Consultants. The result of the said valuation was not materially different from the valuation carried out in 1998.

## 18. LONG-TERM LOANS

| | Note | 2005 (Rupees in '000's) | 2004 (Rupees in '000's) |
|---|---|---|---|
| Secured | | | |
| From financial institutions: | | | |
| From associated undertakings | | | |
| Local currency loan - I | 18.1 | 7,500 | 17,500 |
| From banking companies: | | | |
| Local currency loan - II | 18.2 | 10,417 | 18,750 |
| Local currency loan - III | 18.3 | 15,000 | 25,000 |
| Local currency loan - IV | 18.4 | 26,867 | 21,944 |
| Local currency loan - V | 18.5 | 93,949 | - |
| Local currency loan - VI | 18.6 | 100,000 | - |
| | | 246,233 | 65,694 |
| | | 253,733 | 83,194 |
| Less: Current maturity of long-term loans | | 87,774 | 33,819 |
| | | 165,959 | 49,375 |
| Unsecured | | | |
| From directors | | 20,000 | 10,000 |
| Others | | 20,000 | 30,000 |
| | 18.7 | 40,000 | 40,000 |
| | | 205,959 | 89,375 |

18.1 This represents the balance of a loan facility of Rs.30.000 million obtained from a financial institution (associated undertaking). The loan is repayable in 12 equal quarterly installments commencing April 30, 2003 and carries mark-up at the last 6 months KIBOR (ask side) prevailing at the beginning of each quarter plus 1.75% per annum, with no floor and cap. The loan is secured by a registered hypothecation on all present and future fixed assets of the company with a 25% margin.

18.2 This represents the balance of a loan facility of Rs.25.000 million obtained from a banking company. The loan is repayable in 12 equal quarterly installments commencing from December 22, 2003 and carries mark-up at 6 months Treasury Bill last auctioned rate plus 3.75% per annum with a floor of 6.25% per annum and a cap of 12.00% per annum. The loan is secured by first pari passu charge over fixed assets for Rs.34.000 million.

18.3 This represents a loan facility of Rs.30.000 million obtained from a banking company. The loan is repayable in 12 equal quarterly installments commencing March 30, 2004 and carries mark-up at 6 months Treasury Bill last auctioned cut-off rate plus 4.00% per annum with no floor and cap. The loan is secured by pari passu hypothecation charge over company's fixed assets and equitable mortgage over land and building for Rs.40.000 million.

18.4 This represents the disbursed amount of a loan facility of Rs.35.000 million obtained from a banking company. The loan is repayable in 12 equal quarterly installments commencing October 14, 2004 and carries mark-up at the last 3 months KIBOR (ask side) plus 0.80% per annum with no floor and cap. The loan is secured by first registered charge over fixed assets for Rs.59.820 million.

18.5 This represents the disbursed amount of a loan facility of Rs.100.000 million obtained from a banking company. The loan is repayable in 7 equal half yearly installments commencing October 23, 2005 and carries mark-up at 6 months KIBOR (ask side) rate plus 1.70% per annum with no floor and cap. The loan is secured by first pari passu charge over fixed assets for Rs.133.33 million.

18.6 This represents a loan facility of Rs.100.000 million obtained from a banking company. The loan is repayable in 14 equal quarterly installments commencing November 23, 2005 and carries mark-up at the last 3 months KIBOR (ask side) plus 0.80% per annum with no floor and cap. The loan is secured by first registered charge over fixed assets for Rs.167.00 million.

18.7 These represent interest free loans from directors and their relatives. The repayment terms are not yet finalised, however, these are not repayable in the next 12 months.

## 19. DEFERRED LIABILITY - GRATUITY

Defined benefit plan

### 19.1 General Description

The company operated an unfunded gratuity scheme for workers before the introduction of the provident fund in 1974. On introduction of the provident fund the employees were given the option to either continue with the gratuity scheme or join the provident fund. Those employees who opted to join the provident fund were entitled to gratuity upto the period of joining the provident fund and provision in this respect was duly made at that time. The company entered into an agreement with the Collective Bargaining Agent (CBA), whereby the workers who opted for the provident fund scheme are also entitled to gratuity for four days for each completed year of service.

The company also established funded gratuity scheme for its management staff with effect from July 01, 2003 which was approved by the Commissioner of Income Tax in October 2002.

| | Management 2005 | Management 2004 | Non-Management 2005 | Non-Management 2004 | Total 2005 | Total 2004 |
|---|---|---|---|---|---|---|
| | ------ Rupees in thousands ------ | | | | | |
| **19.2 Principal actuarial assumptions:** | | | | | | |
| Discount rate | 9% | 8% | 9% | 8% | | |
| Expected rate of increase in salary for management staff and non-management staff | 8% | 7% | 8% | 7% | | |
| Expected rate of return on investment | 9% | 8% | - | - | | |
| **19.3 Reconciliation of payable to defined benefit plan** | | | | | | |
| Present value of defined benefit obligation (actuarial liability) | 11,174 | 10,210 | 8,654 | 7,520 | 19,828 | 17,730 |
| Fair value of plan assets | (4,843) | - | - | - | (4,843) | - |
| Unrecognised actuarial gain | (728) | - | 1,717 | 2,170 | 989 | 2,170 |
| Unrecognised non-vested liability | (298) | (398) | - | - | (298) | (398) |
| Balance at end | 5,305 | 9,812 | 10,371 | 9,690 | 15,676 | 19,502 |
| **19.4 Movement of the liability recognized in the balance sheet** | | | | | | |
| Opening net liability | 9,812 | - | 9,690 | 8,306 | 19,502 | 8,306 |
| Charge for the year | 1,112 | 9,812 | 825 | 1,935 | 1,937 | 11,747 |
| Contribution / Benefit paid during the period | (5,619) | - | (144) | (551) | (5,763) | (551) |
| Closing net liability | 5,305 | 9,812 | 10,371 | 9,690 | 15,676 | 19,502 |
| **19.5 Charge for the year** | | | | | | |
| Current service cost | 446 | - | 357 | 377 | 803 | 377 |
| Interest cost | 728 | - | 610 | 614 | 1,338 | 614 |
| Expected return on assets | (162) | - | - | - | (162) | - |
| Past service cost | - | 9,812 | - | - | - | 9,812 |
| Amortization of transitional obligation | - | - | - | 1,044 | - | 1,044 |
| Amortization of non-vested liability | 100 | - | - | - | 100 | - |
| Amortization of actuarial gain | - | - | (142) | (100) | (142) | (100) |
| Charge for the year | 1,112 | 9,812 | 825 | 1,935 | 1,937 | 11,747 |

## 20. DEFERRED TAXATION

| | (Rupees in '000's) 2005 | 2004 |
|---|---|---|
| This comprises the following: | | |
| Deferred tax liabilities | | |
| Difference in accounting and tax base of fixed assets | 50,012 | 30,703 |
| Difference in accounting and tax base of deferred cost | - | 1,554 |
| Deferred tax assets | | |
| Provision for gratuity | (3,630) | (6,871) |
| Assessed losses brought forward | - | (5,576) |
| Provisions | (546) | - |
| Trade and other payables | (510) | - |
| | 45,326 | 19,810 |

| | Note | 2005 (Rupees in '000's) | 2004 |
|---|---|---|---|

## 21. SHORT-TERM FINANCES

| | Note | 2005 | 2004 |
|---|---|---|---|
| Running finances from banks - secured | 21.1 & 21.2 | 34,441 | 19,796 |

21.1 These are under mark-up arrangements and are secured by first pari passu joint hypothecation of stocks and book debts of the company. The rate of mark-up ranges between 9.46% to 11.87% (2004: 4.50% to 6.50%) per annum calculated on a daily product basis payable quarterly.

21.2 The unutilised credit facility for short term finance amounts to Rs.101.063 million (2004: Rs.50.204 million).

21.3 The facilities for opening letters of credit and guarantees as at June 30, 2005 amounted to Rs. 145.114 million (2004: Rs. 126.369 million ) of which the amount remaining unutilised at year end was Rs. 91.928 million (2004: Rs. 88.005 million).

## 22. SHORT-TERM BORROWINGS

| | Note | 2005 | 2004 |
|---|---|---|---|
| Money market borrowings - secured | 22.1 | 10,000 | 44,000 |

22.1 These are money market borrowings arranged from banking companies for working capital management under mark-up arrangements and are secured by first pari passu joint hypothecation of stocks and book debts of the company. It carries markup at 8.68% (2004: 3.55% to 5.0%) per annum calculated on a monthly basis.

## 23. TRADE AND OTHER PAYABLES

| | Note | 2005 | 2004 |
|---|---|---|---|
| Trade creditors | | 17,075 | 13,911 |
| Bills payable | | 730 | 2,965 |
| Sales tax payable - net | | 1,787 | 3,797 |
| Royalty payable | 23.1 | 6,267 | 12,266 |
| Technical fee payable | 23.2 | 4,198 | 4,085 |
| Gratuity fund - management staff | 19 | 5,305 | 9,812 |
| Accrued mark-up/interest | | | |
| secured long-term loans | | 2,982 | 473 |
| secured short-term finances | | 1,260 | 203 |
| secured short-term borrowing | | 55 | 346 |
| | | 4,297 | 1,022 |
| Accrued liabilities | | 11,153 | 9,122 |
| Advances from customers - interest bearing | | - | 589 |
| - non-interest bearing | | 2,607 | 1,261 |
| | | 53,419 | 58,830 |

23.1 This includes an amount of Rs.2.416 million (2004: Rs.2.416 million) payable in US Dollars and an amount of Rs.3.851 million (2004: Rs.9.850 million) payable in Japanese Yen.

23.2 This amount is payable in US Dollars.

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |

## 24. PROVISIONS AND OTHER LIABILITIES

| | Note | 2005 | 2004 |
|---|---|---|---|
| Provision for bonus - management staff | 24.1 | 2,656 | 3,395 |
| Provision for bonus - non-management staff | 24.1 | 1,456 | 1,402 |
| Provision for compensated absences | 24.1 | 2,797 | 2,081 |
| Deposits from employees | 24.2 | 1,889 | 2,228 |
| Security deposits | | 15 | 15 |
| Workers' Profit Participation Fund | 24.3 | 3,676 | 1,909 |
| Unclaimed dividends | | 234 | 183 |
| Others | | 1,053 | 974 |
| | | 13,776 | 12,187 |

24.1 The movements in provisions during the year were as follows:

| | Opening balance | Charge for the year | Payments | Closing balance |
|---|---|---|---|---|
| | ------------ | Rupees in thousands | ------------- | |
| Provision for bonus - management staff | 3,395 | 2,656 | 3,395 | 2,656 |
| Provision for bonus - non-management staff | 1,402 | 1,456 | 1,402 | 1,456 |
| Provision for compensated absences | 2,081 | 936 | 220 | 2,797 |
| | 6,878 | 5,048 | 5,017 | 6,909 |

24.2 These represent deposit from employees under the company's vehicle scheme.

24.3 Workers' Profit Participation Fund

| | 2005 | 2004 |
|---|---|---|
| Balance at the beginning of the year | 1,909 | 733 |
| Interest on fund utilised in company's business | 51 | 42 |
| | 1,960 | 775 |
| Allocation for the year | 3,676 | 1,909 |
| | 5,636 | 2,684 |
| Less: Amount paid during the year | 1,960 | 775 |
| Balance at the end of the year | 3,676 | 1,909 |

## 25. CONTINGENCIES AND COMMITMENTS

### 25.1 Contingencies

**Electricity charges**

Karachi Electric Supply Corporation Limited (KESC) raised a demand of Rs.12.285 million on the plea that they erred in billing, which the company has contended and the case is before the Honourable High Court of Sindh. The Honourable Court issued a stay order on May 26, 1989 for making payments against the remaining disputed demand. The company till the date of stay order had paid under protest Rs.7.850 million.

In addition, an associated undertaking has issued a guarantee in the sum of Rs.4.000 million to the KESC. The company is confident that the appeal will be decided in its favour hence, no provision has been made in respect of the unpaid balance of Rs. 4.435 million.

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |

**25.2 Commitments**

25.2.1 Bank guarantees

| | | | |
|---|---|---|---|
| In favour of | | | |
| Collector of Customs | | 3,618 | - |
| Sui Southern Gas Company | | 15,921 | 8,009 |
| | | 19,539 | 8,009 |

These guarantees are secured by first pari passu hypothecation charge over stocks and book debts of the company of Rs.141.000 million (2004: Rs.65.000 million).

25.2.2 Insurance company guarantees

| | | | |
|---|---|---|---|
| (i) Against advances from customers | | 397 | 900 |
| (ii) In favour of Karachi Electric Supply Corporation | | 4,000 | 4,000 |
| | | 4,397 | 4,900 |

25.2.3 Commitments under letters of credit for other than capital expenditure, contracts and guarantees at the end of the year amounted to Rs.33.648 million (2004:Rs. 30.362 million).

25.2.4 Commitments under letter of credit in respect of capital expenditure as at June 30, 2005 amounted to Rs.35.026 million (2004: Rs. 41.995 million).

25.2.5 Commitments in respect of capital expenditure as at June 30, 2005 amounted to Rs.4.627 million (2004: Rs. NIL).

25.2.6 Commitments for rentals under lease agreements in respect of vehicles are as follows:

| | | | |
|---|---|---|---|
| Payable within one year | | 130 | 1,112 |
| Payable after one year | | - | 621 |
| | | 130 | 1,733 |

## 26. SALES

| | | | |
|---|---|---|---|
| Gross sales | | 796,202 | 582,387 |
| Less: Sales tax | | 103,478 | 77,403 |
| | | 692,724 | 504,984 |

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |
| **27. COST OF GOODS SOLD** | | | |
| Raw and ancillary materials consumed | | 330,998 | 228,388 |
| Salaries, wages and benefits | 27.1 | 90,948 | 81,316 |
| Contract labour | | 13,558 | 8,922 |
| Spare parts and other maintenance | | 33,496 | 28,008 |
| Packing materials consumed | | 6,982 | 5,549 |
| Fuel, water and power | | 54,932 | 41,828 |
| Rent, rates and taxes | | 338 | 297 |
| Insurance | | 823 | 1,033 |
| Training expenses | | 491 | 370 |
| Repairs and maintenance | | | |
| Factory building and electrical fittings | | 4,230 | 3,369 |
| Furniture, fittings and office equipments | | 363 | 206 |
| Depreciation | 3.3 | 21,797 | 18,313 |
| Royalties and technical fee | | 3,936 | 5,362 |
| Printing and stationery | | 687 | 641 |
| Postage, telephone and telegrams | | 1,063 | 886 |
| Subscriptions | | 69 | 88 |
| Provision for obsolescence | | | |
| Stores and spares | | 1,155 | - |
| Stock-in-trade | | 403 | - |
| General expenses | | 556 | 256 |
| | | 566,825 | 424,832 |
| Opening work-in-process | | 18,426 | 19,268 |
| Closing work-in-process | | (17,039) | (18,426) |
| | | 1,387 | 842 |
| Cost of goods manufactured | | 568,212 | 425,674 |
| Opening stock of finished goods | | 30,796 | 18,636 |
| Closing stock of finished goods | | (28,882) | (30,796) |
| | | 1,914 | (12,160) |
| | | 570,126 | 413,514 |

27.1 Salaries, wages and benefits include Rs.4.633 million (2004: Rs.9.386 million) in respect of staff retirement benefits.

| | Note | 2005 | 2004 |
|---|---|---|---|
| **28. OTHER OPERATING INCOME** | | | |
| Profit on sale of fixed assets | | 1,729 | 466 |
| Mark-up on loans to employees | | 95 | 9 6 |
| Reversal of royalty provision | 28.1 | 7,940 | - |
| | | 9,764 | 562 |

28.1 This represents reversal of provisions made in prior years on account of royalty under technical assistance agreement (the Agreement) with a foreign company on the basis that it failed to fulfill its obligations under the Agreement and other grounds. In view of the above, the company has decided to reverse the above referred provision.

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | (Rupees in '000's) | |
| **29. ADMINISTRATIVE EXPENSES** | | | |
| Salaries and allowances | 29.1 | 16,959 | 17,962 |
| Directors' fee | | 8 | 8 |
| Lease rentals - operating | | 1,477 | 1,045 |
| Printing and stationery | | 481 | 448 |
| Postage, telephone and telegrams | | 656 | 650 |
| Business promotion expenses | | 368 | 135 |
| Subscriptions | | 494 | 195 |
| Travelling and conveyance | | 1,529 | 1,241 |
| Insurance | | 522 | 474 |
| General expenses | | 645 | 270 |
| Medical expenses | | 384 | 344 |
| Training expenses | | 282 | 37 |
| Advertisement and publicity | | 188 | 214 |
| Repairs and maintenance of furniture, fittings and office equipment | | 320 | 166 |
| Depreciation | 3.3 | 953 | 186 |
| Amortisation of intangible assets | 4.1 | 17 | - |
| Receivables / deposits written-off | | 502 | 135 |
| Written-off / amortisation of deferred cost | 7 | 4,439 | 3,384 |
| | | 30,224 | 26,894 |

29.1 Salaries and allowances include Rs.1.442 million (2004: Rs.5.190 million) in respect of staff retirement benefits.

| | Note | 2005 | 2004 |
|---|---|---|---|
| **30. SELLING AND DISTRIBUTION COSTS** | | | |
| Salaries and allowances | 30.1 | 5,463 | 5,924 |
| Rent, rates and taxes | | 139 | 129 |
| Lease rentals - operating | | 161 | 116 |
| Cartage and octroi | | 1,788 | 1,589 |
| Printing and stationery | | 206 | 192 |
| Postage, telephone and telegrams | | 277 | 265 |
| Business promotion expenses | | 36 | 54 |
| Subscriptions | | 46 | 41 |
| Travelling and conveyance | | 1,745 | 1,573 |
| Insurance | | 166 | 186 |
| General expenses | | 39 | 63 |
| Medical expenses | | 122 | 114 |
| Advertisement and publicity | | 1,246 | 4,143 |
| Repairs and maintenance of furniture, fittings and office equipment | | 109 | 62 |
| Depreciation | 3.3 | 408 | 93 |
| | | 11,951 | 14,544 |

30.1 Salaries and allowances include Rs.0.396 million (2004: Rs.1.477 million) in respect of staff retirement benefits.

| | Note | 2005 (Rupees in '000's) | 2004 |
|---|---|---|---|
| **31. OTHER OPERATING CHARGES** | | | |
| Legal and professional charges | | 947 | 644 |
| Auditors' remuneration | 31.1 | 283 | 283 |
| Donation | 31.2 | 664 | - |
| | | 1,894 | 927 |

**31.1 Auditors' remuneration**

| | | 2005 | 2004 |
|---|---|---|---|
| Audit fee | | 150 | 150 |
| Special reports and sundry services | | 105 | 108 |
| Out-of-pocket expenses | | 28 | 25 |
| | | 283 | 283 |

31.2 This donation represents Rs. 0.664 million (2004: Rs.Nil) given to Atlas Foundation. Mr. Yusuf H. Shirazi, Mr. Frahim Ali Khan, Mr. Iftikhar H. Shirazi, Mr. Ali H. Shirazi, Directors of the company are also the directors of the Foundation.

**32. FINANCE COST**

| | | 2005 | 2004 |
|---|---|---|---|
| Mark-up on long-term loans - secured | | 7,755 | 5,301 |
| Mark-up on short-term finances - secured | | 4,385 | 3,820 |
| Mark-up on short-term borrowings - secured | | 860 | 346 |
| Mark-up on advances from customers - secured | | 23 | 323 |
| Bank and other allied charges | | 1,581 | 1,035 |
| Interest on Workers' Profit Participation Fund | | 51 | 42 |
| Exchange loss | | 113 | 30 |
| | | 14,768 | 10,897 |

**33. TAXATION**

| | Note | 2005 | 2004 |
|---|---|---|---|
| For the year | | | |
| Current | | 3,508 | 2,525 |
| Deferred | | 25,516 | 9,548 |
| | 33.1 | 29,024 | 12,073 |

| | | 2005 | 2004 |
|---|---|---|---|
| 33.1 In view of brought forward losses, tax has been computed under section 113 of the Income Tax Ordinance, 2001 | | 3,508 | 2,525 |
| Deferred tax for the year | | 25,516 | 9,548 |
| Tax expense for the year | | 29,024 | 12,073 |

**34. EARNINGS PER SHARE**

**34.1 Basic earnings per share**

| | | 2005 | 2004 |
|---|---|---|---|
| Profit after tax | | 40,825 | 24,788 |
| | | Number of shares | |
| Weighted average number of ordinary shares outstanding during the year | | 10,920,375 | 9,671,969 |
| | | (Rupees) | |
| Earnings per share | | 3.74 | 2.56 |

| | (Rupees in '000's) 2005 | 2004 |
|---|---|---|
| **34.2 Diluted earnings per share** | | |
| Profit after tax | 40,825 | 24,788 |
| | Number of shares | |
| Weighted average number of ordinary shares outstanding during the year | 10,920,375 | 9,671,969 |
| Deposits for right shares | 3,720,548 | 7,000,000 |
| | 14,640,923 | 16,671,969 |
| | (Rupees) | |
| Diluted earnings per share | 2.79 | 1.49 |

34.3 Basic and diluted earnings per share for corresponding year has been adjusted for the effect of bonus element in respect of the right shares issued during the year.

## 35. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

| | Chief Executive (Rupees in '000's) | | Executives | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Managerial remuneration | 1,897 | 1,499 | 3,004 | 2,087 |
| Rent | 854 | 675 | 1,352 | 858 |
| Medical expenses | 12 | 23 | 48 | 36 |
| Retirement benefits | 209 | 150 | 279 | 217 |
| Reimbursable expenses | 146 | 145 | 327 | 244 |
| | 3,118 | 2,492 | 5,010 | 3,442 |
| Number of persons | 1 | 1 | 5 | 3 |

35.1 The Chief Executive and executives are provided with free use of company maintained cars.

35.2 In view of the change in the definition of executives in the revised Fourth Schedule to the Companies Ordinance, 1984, the corresponding figures in respect of the number and remuneration of executives have been restated for the purpose of comparison.

| | Note | 2005 (Rupees in '000's) | 2004 |
|---|---|---|---|
| **36. CASH GENERATED FROM OPERATIONS** | | | |
| Profit before taxation | | 69,849 | 36,861 |
| Adjustments for: | | | |
| Depreciation / amortisation | 3.3 & 4 | 23,175 | 18,592 |
| Profit on sale of fixed assets | | (1,729) | (466) |
| Amortisation of deferred cost | | 4,439 | 3,384 |
| Provision for gratuity | | 1,937 | 11,747 |
| Finance cost | | 14,768 | 10,897 |
| | | 42,590 | 44,154 |
| Operating profit before working capital changes | | 112,439 | 81,015 |
| Working capital changes | 36.1 | (41,550) | (30,229) |
| Cash generated from operations | | 70,889 | 50,786 |
| **36.1 Working capital changes** | | | |
| Decrease / (increase) in current assets | | | |
| Stock-in-trade | | (24,159) | (42,178) |
| Trade debts | | (5,892) | 3,243 |
| Loans, advances, deposits, prepayments and other receivables | | (8,858) | 92 |
| | | (38,909) | (38,843) |
| (Decrease) / increase in current liabilities | | | |
| Trade and other payable | | (2,641) | 8,614 |
| | | (41,550) | (30,229) |

## 37. RELATED PARTY DISCLOSURES

The related parties comprise of entities over which the directors are able to exercise significant influence, entities with common directors, major shareholders, directors, key management employees and employees fund. The company has a policy whereby all transactions with related parties, are entered into at arm's length prices. The transactions with related parties, other then remuneration under the terms of employment are as follows:

| Relationship with the company | Nature of transactions | 2005 | 2004 |
|---|---|---|---|
| Holding Company: | Internet service | 90 | 85 |
| | Expenses paid on company's behalf | 706 | 124 |
| | Dividend paid | 2,583 | 1,435 |
| Associated companies: | Purchase of goods | 9,579 | 6,949 |
| | Purchase of services | 7,430 | 4,662 |
| | Sale of goods | 496,161 | 297,720 |
| | Loan repaid | 10,000 | 14,025 |
| | Expenses charged by AEIL | 1,114 | 2,143 |
| | Expenses charged to AEIL | 70 | 250 |
| Employees' retirement benefit plans | Contribution during the year | 8,344 | 2,393 |
| Others | Donation | 664 | - |

## 38. PRODUCTION

The production capacity of the plant cannot be determined as this depends on the relative proportions of various types of components and parts of vehicles and tractors produced.

## 39. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the company's performance to developments affecting a particular industry.

The company is exposed to credit risk on trade debts, loans and advances and long-term deposits. The company seeks to minimize the credit risk exposure through having exposures only to customers considered credit worthy and obtaining securities where applicable. The significant concentration of the company's trade debts, loans and advances and long-term deposits is as follows:

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | Trade debts | Long term Loans and advances | Long term deposits | Trade debts | Long term Loans and advances | Long term deposits |
| | Rupees in thousands | | | Rupees in thousands | | |
| Original Equipment Manufacturers | 25,788 | - | - | 12,170 | - | - |
| Replacement market | 13,847 | - | - | 19,916 | - | - |
| Others | 444 | 1,466 | 1,463 | 2,101 | 1,035 | 1,671 |
| | 40,079 | 1,466 | 1,463 | 34,187 | 1,035 | 1,671 |

## 40. LIQUIDITY RISK

Liquidity risk is the risk that the company will be unable to meet its funding requirements. To guard against the risk, the company has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. The maturity profile is monitored to ensure adequate liquidity is maintained.

## 41. YIELD/MARK-UP RATE RISK

Yield / mark-up rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market yield/mark-up rates. Sensitivity to yield / mark-up rate risk arises from mismatches of financial assets and financial liabilities that mature or reprice in a given period. The company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted. The company is exposed to yield / mark-up rate risk in respect of the following:

**2005**

| | Effective yield / mark-up rate % | Exposed to yield / mark-up rate risk: Maturity upto one year | Exposed: Maturity after one year | Exposed: Sub-total | Non-Interest / Mark-up bearing: Maturity upto one year | Non-Interest: Maturity after one year | Non-Interest: Sub-total | Total |
|---|---|---|---|---|---|---|---|---|
| | | (Rupees in thousands) | | | | | | |
| **Financial Assets** | | | | | | | | |
| Loans and advances | 12.00 | 192 | 618 | 810 | 1,003 | 848 | 1,851 | 2,661 |
| Deposits and other receivables | - | - | - | - | 849 | 1,463 | 2,312 | 2,312 |
| Trade debts | - | - | - | - | 40,079 | - | 40,079 | 40,079 |
| Cash and bank balances | - | - | - | - | 6,918 | - | 6,918 | 6,918 |
| | | 192 | 618 | 810 | 48,849 | 2,311 | 51,160 | 51,970 |
| Financial Liabilities | | | | | | | | |
| Long-term loans | 6.25 - 9.53 | 87,774 | 165,959 | 253,733 | - | 40,000 | 40,000 | 293,733 |
| Short-term finances | 9.46 - 11.87 | 34,441 | - | 34,441 | - | - | - | 34,441 |
| Short-term borrowings | 8.68 | 10,000 | - | 10,000 | - | - | - | 10,000 |
| Trade and other payables | - | - | - | - | 49,025 | - | 49,025 | 49,025 |
| Provision and other liabilities | - | - | - | - | 8,221 | - | 8,221 | 8,221 |
| | | 132,215 | 165,959 | 298,174 | 57,246 | 40,000 | 97,246 | 395,420 |
| Total yield / mark-up rate risk sensitivity gap | | (132,023) | (165,341) | (297,364) | (8,397) | (37,689) | (46,086) | (343,450) |

**2004**

| | Effective yield / mark-up rate % | Exposed to yield / mark-up rate risk: Maturity upto one year | Exposed: Maturity after one year | Exposed: Sub-total | Non-Interest / Mark-up bearing: Maturity upto one year | Non-Interest: Maturity after one year | Non-Interest: Sub-total | Total |
|---|---|---|---|---|---|---|---|---|
| | | (Rupees in thousands) | | | | | | |
| **Financial Assets** | | | | | | | | |
| Loans and advances | 12.00 | 766 | 105 | 871 | 851 | 930 | 1,781 | 2,652 |
| Deposits and other receivables | - | - | - | - | 748 | 1,671 | 2,419 | 2,419 |
| Trade debts | - | - | - | - | 34,187 | - | 34,187 | 34,187 |
| Cash and bank balances | - | - | - | - | 29,131 | - | 29,131 | 29,131 |
| | | 766 | 105 | 871 | 64,917 | 2,601 | 67,518 | 68,389 |
| **Financial Liabilities** | | | | | | | | |
| Long-term loans | 2.86 - 7.52 | 33,819 | 49,375 | 83,194 | - | 40,000 | 40,000 | 123,194 |
| Short-term finances | 4.50 - 6.50 | 19,796 | - | 19,796 | - | - | - | 19,796 |
| Short-term borrowings | 3.55 - 5.00 | 44,000 | - | 44,000 | - | - | - | 44,000 |
| Trade and other payables | - | - | - | - | 53,183 | - | 53,183 | 53,183 |
| Provisions and other liabilities | - | - | - | - | 8,050 | - | 8,050 | 8,050 |
| | | 97,615 | 49,375 | 146,990 | 61,233 | 40,000 | 101,233 | 248,223 |
| Total yield / mark-up rate risk sensitivity gap | | (96,849) | (49,270) | (146,119) | 3,684 | (37,399) | (33,715) | (179,834) |

**42. FOREIGN EXCHANGE RISK MANAGEMENT**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions with foreign undertakings. Financial liabilities include Rs.10.465 million (2004: Rs.16.351 million) in foreign currencies and financial assets included Rs. Nil (2004: Rs. 2.101) which are subject to currency risk exposure.

**43. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

The estimated fair value of all the financial assets and liabilities are not materially different from their book values at the balance sheet date.

Underlying the definition of fair value is the presumption that the company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

**44. DETAILS OF PROPERTY, PLANT AND EQUIPMENTS DISPOSED-OF**

The following assets were disposed-of during the year:

| | 2005 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Sale proceeds | Gain (loss) | Mode of disposal | Particulars of buyers |
| | (Rupees in thousands) | | | | | | |
| Motorcycle | 55 | 2 | 53 | 55 | 2 | Company's Policy | Mr. Masood Ali Khan (Employee), Karachi |
| Suzuki Cultus | 502 | 296 | 206 | 207 | 1 | Company's Policy | Mr. Jawaid Iraqi (Employee), Karachi |
| Honda Civic - EXI | 97 | - | 97 | 520 | 423 | Company's Policy | Mr. M.H Tabassum (Ex-Employee), Karachi |
| Honda Civic - EXI | 98 | - | 98 | 574 | 476 | Company's Policy | Mr. Muzzafer Ali Khan (Ex-Employee), Karachi |
| Motorcycle | 69 | 17 | 52 | 57 | 5 | Insurance Claim | Muslim Insurance Company Limited, Karachi |
| Motor vehicles (Note 44.1) | 980 | 631 | 349 | 1,171 | 822 | Company's Policy | |
| 2005 | 1,801 | 946 | 855 | 2,584 | 1,729 | | |
| 2004 | 3,461 | 2,285 | 1,176 | 1,642 | 466 | | |

44.1 This represents aggregate of assets disposed-of having book value below Rs. 50,000/- each under company's policy.

| | 2005 | 2004 |
|---|---|---|
| **45. NUMBER OF EMPLOYEES (as at year-end)** | 424 | 436 |

## 46. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 28, 2005 by the Board of Directors of the company.

## 47. CORRESPONDING FIGURES

Major changes made during the year were reclassifications resulting from the revised Fourth schedule to the Companies Ordinance, 1984, which are as follows:

| From | To | (Rs. in thousands) |
|---|---|---|
| Stores and spares | Stock in trade | 712 |
| Loans, advances, deposits, prepayments and other receivables | Deposits, prepayments and other receivables | 1,857 |
| Deferred liability - gratuity | Trade and other payables | 9,812 |
| Other liabilities | Trade and other payables | 1,850 |
| Creditors and other liabilities | Provisions and other liabilities | 6,878 |

## 48. GENERAL

**48.1** The Board of Directors in their meeting held on September 28, 2005 has proposed a final cash dividend @ 10% i. e. Re.1 per share for the year ended June 30, 2005 amounting to Rs.12,336,695/- for approval of the members in the Annual General Meeting to be held on October 26, 2005. These financial statements do not reflect the dividend payable as explained in note 2.3.1.

**48.2** Figures have been rounded off to the nearest thousand rupees.

| Mohammad Atta Karim | Yusuf H. Shirazi | Frahim Ali Khan |
|---|---|---|
| Chief Executive Officer | Chairman | Director |

## PATTERN OF SHAREHOLDING

### AS AT JUNE 30, 2005

| NUMBER OF SHAREHOLDERS | * SHARE HOLDING FROM | TO | | TOTAL SHARES HELD |
|---|---|---|---|---|
| 345 | 1 | 100 | Shares | 11,763 |
| 313 | 101 | 500 | Shares | 89,104 |
| 150 | 501 | 1,000 | Shares | 118,453 |
| 206 | 1,001 | 5,000 | Shares | 463,601 |
| 21 | 5,001 | 10,000 | Shares | 141,497 |
| 10 | 10,001 | 15,000 | Shares | 127,737 |
| 5 | 15,001 | 20,000 | Shares | 87,398 |
| 2 | 20,001 | 25,000 | Shares | 45,500 |
| 1 | 25,001 | 30,000 | Shares | 27,500 |
| 4 | 45,001 | 50,000 | Shares | 200,000 |
| 2 | 50,001 | 55,000 | Shares | 104,085 |
| 1 | 55,001 | 60,000 | Shares | 58,500 |
| 1 | 60,001 | 65,000 | Shares | 64,857 |
| 1 | 70,001 | 75,000 | Shares | 71,250 |
| 1 | 350,001 | 355,000 | Shares | 354,420 |
| 1 | 425,001 | 430,000 | Shares | 425,307 |
| 1 | 450,001 | 455,000 | Shares | 450,000 |
| 4 | 580,001 | 585,000 | Shares | 2,322,093 |
| 1 | 7,170,001 | 7,175,000 | Shares | 7,173,630 |
| 1070 | | | | 12,336,695 |

* Note: There is no shereholding in the slabs not mentioned.

## CATEGORIES OF SHAREHOLDERS

| | Number | Shares held | Percentage |
|---|---|---|---|
| **Associated Undertakings and Related Parties** | | | |
| Shirazi Investments (Pvt) Ltd. | 1 | 7,598,937 | 61.60 |
| Muslim Insurance Company Ltd. | 1 | 354,420 | 2.87 |
| | 2 | 7,953,357 | 64.47 |
| **NIT, ICP & PICIC** | | | |
| National Investment Trust | 1 | 51,085 | 0.41 |
| Investment Corporation of Pakistan | 1 | 2,477 | 0.02 |
| | 2 | 53,562 | 0.43 |
| **Directors / spouse** | | | |
| Mr. Yusuf H. Shirazi /Mrs.Khawar Shirazi | 1 | 64,857 | 0.53 |
| Mr. Iftikhar H. Shirazi | 1 | 580,527 | 4.71 |
| Mr. Ali H. Shirazi | 1 | 580,522 | 4.71 |
| Mr. Mohammad Habib-ur-Rahman | 1 | 101 | |
| Mr. H. Masood Sohail | 1 | 500 | - |
| Mr. Frahim Ali Khan | 1 | 1 | |
| | 6 | 1,226,508 | 9.95 |
| **Executive** | - | - | - |
| **Public Sector Companies & Corporation** | - | - | - |
| **Banks, Development Finance Institutions, Non-Banking Finance Institutions , Insurance Companies, Modarbas & Mutual Funds** | 22 | 150,617 | 1.22 |
| **Shareholders holding ten percent or more voting interest in the company.** | - | - | - |
| **Individuals** | 1,033 | 2,489,036 | 20.17 |
| **Others** | | | |
| Corporate Law Authority (SECP) | 1 | 1 | |
| The Nazir, High Court of Sindh, Karachi. | 1 | 206 | 0.11 |
| The Administrator, Abondoned Properties. | 1 | 908 | |
| Trusts | 1 | 12,500 | 3.65 |
| Atlas Foundation | 1 | 450,000 | |
| | 5 | 463,615 | 3.76 |
| | 1,070 | 12,336,695 | 100 |

## ATLAS GROUP COMPANIES

| | Year of Establishment/ Acquisition* |
|---|---|
| Shirazi Investments (Pvt) Ltd. | 1962 |
| Atlas Honda Ltd. | 1962 |
| Atlas Battery Ltd. | 1966 |
| Shirazi Trading Co. (Pvt) Ltd. | 1973 |
| Muslim Insurance Co. Ltd. | 1980* |
| Allwin Engineering Industries Ltd. | 1981* |
| Atlas Investment Bank Ltd. | 1990 |
| Honda Atlas Cars (Pakistan) Ltd. | 1992 |
| Honda Atlas Power Product (Pvt) Ltd. | 1997 |
| Total Atlas Lubricants Pakistan (Pvt) Ltd. | 1997 |
| Atlas Asset Management Company Ltd. | 2002 |

## OUR VALUED CUSTOMERS

| | |
|---|---|
| HONDA | Atlas Honda Limited |
| HONDA | Honda Atlas Cars (Pakistan) Ltd. |
| SUZUKI | Pak Suzuki Motor Company Ltd. |
| TOYOTA | Indus Motor Company Ltd. |
| FIAT | Al-Ghazi Tractors Ltd. |
| MF Massey Ferguson | Millat Tractors Ltd. |
| YAMAHA | Dawood Yamaha Ltd. |
| DONG FENG | Sindh Engineering (Pvt) Ltd. |

**The Secretary**
**Allwin Engineering Industries Limited**
**15th Mile, National Highway,**
**Landhi, Karachi-75120**

| |
|---|
| **Registered Folio/ Participant's ID No. & A/c. No.** |
| **No. of Shares held** |

# FORM OF PROXY

I/We______________________________________________________________________

of________________________________ in the district of ______________________

being member(s) of Allwin Engineering Industries Limited, and a holder of______________________

__________________________________________________________________________

Shares Nos._______________________________________________ hereby appoint

Mr./Mrs./Miss______________________________________________________________

of________________________________ in the district of ______________________

who is also a member of the Company, as proxy in my absence to attend and to vote for me, and on my behalf at the Annual General Meeting of the Company to be held on October 26, 2005 at 2:00 p.m. at Corporate Office, 8th Floor, Adamjee House, I.I. Chundrigar Road, Karachi and at any adjournment thereof.

As witness my hand this ______________________ day of ______________________ 2005.

Signed by the said in the presence of

Address ______________________
______________________
______________________

Affix
Revenue
Stamp
Signature

(Signature should agree with the specimen signature registered with the Company)

Notes:

1. The Proxy Form should be deposited in the Registered Office of the Company as soon as possible but not less than 48 hours before the time of holding the meeting, and in default Proxy Form will not be treated as valid.

2. No person shall act as proxy unless he/she is a member of the Company.

AFFIX
POSTAGE

The Secretary
Allwin Engineering Industries Limited
15th Mile, National Highway,
Landhi, Karachi-75120

Fold Here

Fold Here

Fold Here

Fold Here