ANNUAL REPORT 2006

Allwin Engineering

Organisation
development
through
self development

Allwin Engineering Industries Limited

ISO 9002 Certified

LLOYD'S REGISTER QUALITY ASSURANCE · ISO9002

UKAS
QUALITY
MANAGEMENT
001

PISTON & RADIATOR
MANUFACTURING FACILITIES

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 including exports ensuring quality, service and product value, fair returns to shareholders, and as a preferred employer fostering a network of researchers and engineers, guaranteeing unique contribution to the product development, customer satisfaction and healthy working environment, and a good corporate citizen to fulfill its social responsibilities in all respects.

ALLWIN ہے تو اچھّا ہے آل وِن

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.

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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
	Sohail Wajahat H. Siddiqui
Company Secretary	Fida Hussain Zahid

AUDIT COMMITTEE

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

GROUP EXECUTIVE COMMITTEE

President	Aamir H. Shirazi
Members	Bashir Makki
	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 & HR	Col. ® Mir Moatazid
Chief Financial Officer	Sadaqat Ali
Financial Controller	Syed Naushad Ali
Manager Sales	Syed Tariq Arabi
Manager HR & Admin	Major ® Abdul Sattar

COMPANY INFORMATION

AUDITORS	Ford Rhodes Sidat Hyder & Co. Chartered Accountants
LEGAL ADVISORS	Mohsin Tayebaly & Co. Advocate Incorporation Agha Faisal Barrister at Law
TAX ADVISOR	Ford Rhodes Sidat Hyder & Co. Chartered Accountants
BANKERS	Atlas Bank Limited Bank Alfalah Limited Faysal Bank Limited Habib Bank Limited MCB Bank Limited National Bank of Pakistan Standard Chartered Bank
REGISTERED OFFICE (FACTORY)	15th Mile, National Highway, Landhi, Karachi-75120 Tel: 5016921-24, 5015525 Fax: 5011709 E-mail: aeilkhi@allwin.com.pk Website: www.allwin.com.pk
SALES OFFICES	Lahore Office: Salam Chamber, 21 Link Mcleod Road., Lahore Phones: 7227075-7354245 Fax: 7352724
	Multan Office: Atlas House, Azmat Wasti Road, Multan Phone: 512181, 548017 Fax: 541690
	Faisalabad Office: No. 54, Chanab Market, Madina Town, Faisalabad. Phone: 549376 Fax: 726628
	Rawalpindi Office: 312, R-A-Bazar, Kashmir Road., Rawalpindi Phone: 5567423 Fax: 5567423

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 44th Annual General Meeting of Allwin Engineering Industries Limited will be held at Corporate Office 2nd Floor Federation House, Shahrah-e-Firdousi, Clifton, Karachi on 21st October 2006 at 10:00 a.m. to transact the following business:

1. To confirm the minutes of the Annual General Meeting held on 26th October 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 2006.

3. To consider and approve the cash dividend Re. 1/= per share i.e. 10% for the year ended 30th June 2006.

4. To appoint Auditors for the year 2006-07 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: 20th September 2006

NOTES:

i) The Share Transfer Books of the company will remain closed from 15 October 2006 to 21 October 2006 (both days inclusive) the transfers received in order at the registered office of the company by 14 October 2006 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.

SHAREHOLDERS' INFORMATION

Registered and Share Registration Office

National Highway, Landhi, Karachi-75120
Tel: 92-21-5016921-24
Fax: 92-21-5011709

Listing on Stock Exchanges
Allwin Engineering Industries Limited is listed on Karachi and Lahore Stock Exchanges.

Listing Fees
The annual listing fees for the financial year 2006-07 have been paid to the Karachi and Lahore Stock Exchanges and Central Depository Company within the prescribed time limit.

Stock Code
The stock code for dealing in equity shares of Allwin Engineering Industries Limited at KSE and LSE is ALWIN.

Shares Registrar
All work relating to physical transfer, transmission, splitting and consolidation of share certificates and fractional amount, etc. is done at the registered office of the Company. The Company has online connectivity with Central Depository Company of Pakistan Limited. It undertakes activities pertaining to dematerialization of shares, share transfers, transmissions, issue of duplicate / re-validated dividend warrants, issue of replaced share certificates, change of address and other related matters. For assistance, shareholders may contact the registered office

Contact person
Mr. Habib Ahmed
Tel: 92-21-5016921-24
Fax: 92-21-5011709

Statutory Compliance
During the year your company has complied with all applicable provisions, filed all returns/forms and furnished all relevant particulars as required under the Companies Ordinance, 1984 and allied rules, the Securities and Exchange Commission of Pakistan Regulations and the listing requirements.

Annual General Meeting
Date: October 21, 2006
Time: 10:00 A.M.
Venue: Corporate Office, Federation House, 2nd Floor, Shahrah-e-Firdousi, Clifton, Karachi.

Financial Calendar
Audited annual results for year ended June 30, 2006:
Second half of September.

Mailing of annual reports:
Last week of September.

Annual General Meeting:
Second half of October

Unaudited first quarter financial results:
Second half of October

Unaudited second quarter financial results:
Second half of February

Unaudited third quarter financial results:
Second half of April

Dividend Announcement
The board of directors of the Company has proposed a cash dividend of Re.1/- per share (10%) for the financial year ended June 30, 2006, subject to approval by the shareholders of the Company at the annual general meeting.

Dividend paid for the previous year ended June 30, 2005 was cash dividend Re.1/- per share (10%).

Dates of Book Closure
The register of members and shares transfer books of the Company will remain closed from October 15 to October 21, 2006 (both days inclusive).

Date of Dividend payment
The payment of dividend upon declaration by the shareholders at the forthcoming annual general meeting, will be made on or after November 5, 2006.

Payment of Dividend
Cash dividends are paid through dividend warrants addressed to the shareholders whose names appear in the register of members at the date of book closure. Shareholders are requested to deposit those warrants into their bank accounts.

Those shareholders, who have given the Dividend Mandates, their dividend will be directly credited to their respective Bank Accounts.

SHAREHOLDERS' INFORMATION

Share Transfer System

Share transfers received by the company are registered within 30 days from the date of receipt, provided the documents are complete in all respects.

General Meeting

Pursuant to section 158 of the Companies Ordinance, 1984, Company holds a General Meeting of shareholders at least once a year. Every shareholder has a right to attend the General Meeting. The notice of such meeting is sent to all shareholders at least 21 days before the meeting and also advertised in at least one English and Urdu newspaper having circulation in the province in which the Karachi and Lahore Stock Exchanges are situated.

Proxies

Pursuant to Section 161 of the Companies Ordinance, 1984 and according to the Memorandum and Articles of Association of the Company, every shareholder of the company who is entitled to attend and vote at a general meeting of the company can appoint another person as his/her proxy to attend and vote instead of him/her. Every notice calling a general meeting of the company contains a statement that a shareholder entitled to attend and vote is entitled to appoint a proxy, who ought to be a member of the company. The instrument appointing proxy (duly signed by the shareholder appointing that proxy) should be deposited at the office of the company not less than forty eight hours before the meeting.

Website of the Company

Your company is operating website www.allwin.com.pk containing updated information regarding the company. The website contains the financial results of the company together with company's profile, the Atlas group philosophy and products of the company.

Market price Data

The following table shows the month-wise share price of the company in the Karachi Stock Exchange:

	Karachi Stock Exchange	
Months	High	Low
July, 2005	38.40	31.75
August, 2005	33.75	31.50
September, 2005	41.20	34.20
October, 2005	41.50	35.90
November, 2005	41.50	36.60
December, 2005	42.60	38.75
January, 2006	41.50	38.90
February, 2006	41.55	37.00
March, 2006	38.00	33.00
April, 2006	38.00	33.00
May, 2006	40.20	33.00
June, 2006	39.70	35.15

Change of Address

All registered shareholders should send information on changes of addresses at the Registered Office of the Company mentioned above.

ATLAS GROUP PROFILE

The foundation of the Atlas Group was laid in 1962 with the establishment of Shirazi Investments Private Limited with a capital of half a million rupees and three men doing business in trading shares and real estate.

Today Atlas is a diversified group dealing in engineering, financial services and trading. It consists of seven public limited companies out of which six are quoted on the Stock Exchanges in Pakistan, and four private limited companies. Atlas shareholders equity now stands over 25 billion rupees; assets have increased to over 60 billion rupees; personnel strength is over 7000 and annual sales have crossed 60 billion rupees. The Group paid taxes of Rs. 15 billion over 2% of the total government revenues. The Group strategic direction is determined by the Group Executive Committee. Each company in the Group functions autonomously within the framework of the predetermined policy. Operating budgets and capital expenditures are approved by the Group Executive Committee and, by the Boards of the respective companies.

The Group has enduring partnerships with some leading Japanese and European companies in response to the development and growth of national market, the global opening of international trade and free movement of capital.

Left to Right:
Saquib H. Shirazi, Frahim Ali Khan, Aamir H. Shirazi, Jawaid Iqbal Ahmed, Iftikhar H. Shirazi, Bashir Makki, Theresa Dias.

In the engineering sector, Atlas has had a technical collaboration agreement with Honda Motor Company of Japan since 1962, currently the oldest amongst all non-Japanese companies. These relations were further consolidated by Honda Motor's equity participation in Atlas Honda Ltd. followed by higher equity participation in Honda Atlas Cars (Pakistan) Ltd. and Honda Atlas Power Product (Private) Ltd.

Atlas Battery Ltd., which has enjoyed technical assistance from Japan Storage Battery Co. since 1968, became a joint venture between Atlas and JSB by the purchase of equity by the latter in Atlas Battery Ltd.

Allwin Engineering Industries Ltd. has access to the technical know-how and back-up of Honda Foundry Co. Ltd., Japan, Shindengen, Japan and F.C.C. Co., Japan for its high quality precision engineering components for the automotive industry.

In the financial sector, Atlas Insurance Co. Ltd. has had a long association with leading international reinsurance companies including Swiss Re, Hannover Re, SOMPO, Tokio Marine & Nichido Fire and Munich Re, among others.

Atlas Investment Bank Limited was formed in 1990 as a joint venture between Atlas Group and The Bank of Tokyo-Mitsubishi Ltd., Japan with the Asian Development Bank as the first subscriber. Atlas Lease Limited a joint venture between the Atlas Group, The Bank of Tokyo-Mitsubishi Ltd. and National Investment Trust, incorporated in 1989 was merged with Atlas Investment Bank Ltd. in 2001. The Group acquired a commercial bank i.e., Dawood Bank Limited in 2005 and change its name to Atlas Bank Ltd. and merged the Atlas

Investment Bank Limited in it.

Atlas Capital Markets Limited was incorporated in 2006 as a wholly owned subsidiary of Atlas Investment Bank Limited with transfer of all its brokerage and related businesses of Atlas Investment Bank Ltd. before merger.

In Trading, Shirazi Trading Company Private Limited represents international manufacturers of heavy equipment and machinery like MAN B&W Diesel of Germany/Denmark, Tideland Signals of USA/Singapore, Vallon of Germany and DKK Corporation of Japan. Shirazi Trading Company is also a franchise holder in Pakistan of leading brands such as Pitney Bowes, Canon, Hewlett Packard and Siemens.

The Group entered into another joint venture with TOTALFINA of France marketing petroleum products and established Total Atlas Lubricants Pakistan Private Ltd. in 1997 to produce and distribute lubricants, oils and greases in Pakistan.

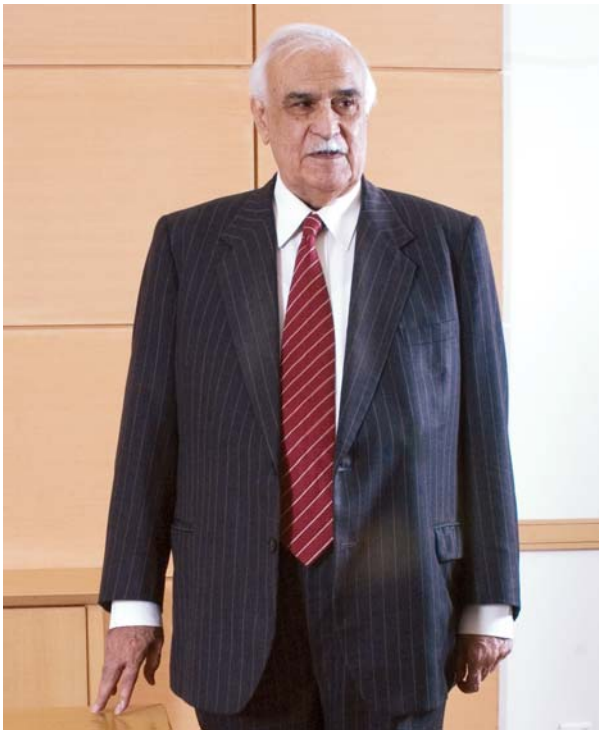
The Group has entered into the Asset Management in collaboration with ING Investment Management and has set up three funds. In less than a year, the Funds values has increased from Rs. 310 million to over Rs. 2.6 billion - relying on further Funds including Pension Funds and other Funds of strategic nature.

The Atlas Group has not only introduced modern technologies in Pakistan but has also promoted corporate governance in harmony with the country's cultural environment, thus providing a sense of participation at every level - from the grass roots to the top. To cope-up with the growing needs of the Group, permanent cells have been established for the Human Resource Development as well as Systems & Technology Cell to introduce the state of the art IT facilities in the Group. The Remuneration Committee is headed by the director from outside the Group and Audit Committee chaired by the non-executive directors in each of the Group Companies.

Realizing its social responsibilities as a corporate citizen, the Group has been playing a role in promoting centers of professional education, contributing to health facilities, helping law enforcement agencies and playing its role in improving the quality of life with the commitment that what has come from the society should be shared with the society. Atlas Foundation has been established in order to focus on community's growth particularly through health care and education.

The growth of the Atlas Group is the result of its focus on good Corporate Governance.

The Group aims to strive for excellence in all areas of endeavors, to make each company in the Group highly profitable, a provider of high quality goods and services, an attractive organization to work for and a reliable business partner and associate.



CHAIRMAN'S REVIEW

It is my pleasure to present to you the 44th Annual Report of the performance of the Company for the year ended June 30, 2006.

THE ECONOMY

During the year 2005-06, the economy performed at 6.6% growth. It slowed from the previous year. However, the momentum of growth was still positive. The main driver of growth has clearly become the services sector. With over 50% of the economy now in the services sector, the growth rate of around 8% was quite acceptable. The boom in the services is being fuelled by the transportation, telecommunication, financial and the retail sectors. However, so far only the urban areas are the beneficiaries. As a result, percentage of urban sales of all consumer durables have reached new highs.

The rural areas continue to rely on agriculture. Unfortunately, due to the increase in import cost in the form of diesel prices, fertilizer and pesticides, the surplus disposable income shrank in the year under review. The higher costs were not matched by higher returns due to lower margins on wheat, lower than expected output of cotton and a lower sugar cane crop size. Going forward, it is important to better manage the water resources and prices to achieve an optimal growth of agriculture, which still remains a huge opportunity. The balance between rural and urban jobs and incomes can only be met through better agriculture policies and management.

The manufacturing sector growth slowed down from the previous year. However, growth over last year continued to be robust. Still largely driven by the consumption pattern of the economy, the large scale manufacturing has been assisted by a loose monetary policy stance of the State Bank. Given that the interest rates have been raised, the possibility of slower off-take is, however, clearly a reality. For the manufacturing sector, which is already choked by high import cost and taxes, the tighter monetary policy is not a welcome sign - prudent only if it may guard against unwelcome devaluation. The fear of the higher interest rates and devaluation must, therefore be avoided. Pakistan already faces competitive challenges and devaluation would be a huge blow which has historically never helped export grow - as much as cost of business, government expenditure and foreign exchange losses, to say the least!

On the other hand, we have to deal with high oil prices and rising inflation, which is hovering around the 8-10%. With the reserves at only $12 billion, and the trade deficit projected at $ 10 billion, it is important to re-visit the trade liberalization measures. Effective tools to reduce imports must be taken at all costs! Market access for our exports must also be re-negotiated.

THE AUTOMOBILE INDUSTRY

The automobile industry continued double-digit growth now for quite successive years. Leasing and banks attractive packages for car financing and overall economic growth surged the demand of all automotive vehicles including motorcycles. Production of cars increased 27%, motorcycles

30%, LCV and buses and trucks 31% over the previous year, as below:

Particulars	2002	2003	2004	2005	2006
Cars	40,088	62,073	98,461	126,403	160,642
Motorcycles	128,000	185,000	340,000	500,000	650,000
Tractors	23,801	26,240	35,770	43,200	48,887
Bus/Trucks & LCVS	11,756	16,593	19,100	28,579	37,396
Total	203,645	289,906	493,331	698,182	896,925

With the increase in production of autos, the production of components and parts also registered significant increase.

There is a strong belief that given consistency of policy, the automotive sector can really emerge as the engine of growth as it is in the more progressive developing countries like China, India, and Indonesia. Some of the government decisions, however, in the recent past like relaxation in import policy for CBU and used cars, softening the conditions for new entrants with permission to import 100% CKD at 35% custom duty for three years, pose a serious threat to local auto industry including the vending industry. One would wonder why?

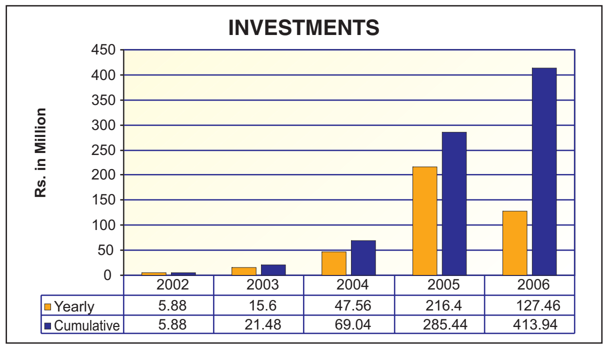
MARKET REVIEW

Due to growth in automotive sector, the demand of parts by OEM consumers as well as in replacement market is continuously increasing. OEM sales for the year under report increased to Rs. 784.98 million, 40.10%, up compared to Rs. 560.32 million, last year. In the replacement market inspite of severe competition with the unorganized sector including imports under-invoiced and smuggling, sales at Rs. 157.19 million was 22.83% higher than the previous year's. Emphasizing on product quality strength, expansion in dealer network, dealers and mechanic interaction and incentive programmes and other promotional activities helped your Company to compete effectively in market place.

During the year, four new parts - CDI, Regulator, Hub and Pannel were successfully developed and produced for motorcycles. These parts were supplied to an OEM customer. Your Company has maintained its standards and gained the trust of the consumer due to strong belief in corporate values, determination to produce and supply quality products and strengthening customers relationship management.

CAPITAL EXPENDITURES

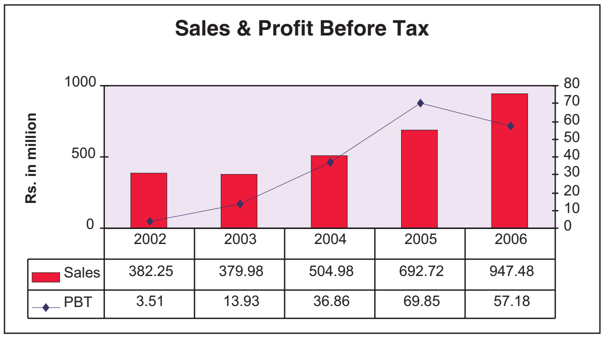
The Company invested Rs. 127.46 million during the year for balancing, modernization and expansion of company's manufacturing capabilities for high tech products like CDI & Regulators, Hub & Pannels required in the assembly of motorcycles. The project



commenced the production at satisfaction level. We estimate that these additional parts will contribute to better performance during the ensuing year. We continue to do the up gradation of equipment and technology, year after year, with a view to ensure customer satisfaction and provide the market parts with the latest technology for which the Company has the unique distinction.

OPERATING RESULTS

Sales revenue for the year under review was Rs. 947.48 million as compared to Rs. 692.72 million in the previous year, up 36.78%. The cost of goods sold increased to Rs. 809.28 million up, 41.95 % against Rs. 570.13 million, last year. The gross profit was recorded at Rs. 138.20 million against Rs.122.60 million in the same corresponding period. However, the gross profit dropped from 17.70% of the previous year to 14.59%, largely due to the unprecedented rise in raw materials price and utility costs. The operating expenses were Rs. 42.86 million in the current year compared to Rs. 44.07 million in the previous year or 4.52% and 6.36% respectively after absorption of inflationary pressure with the application of best Management controls. Financial charges increased to Rs. 35.65 million against Rs. 14.77 million in the same period previous year due to increase in Karachi Inter Bank Offered Rates (KIBOR) and long term loan to finance capital expenditure.



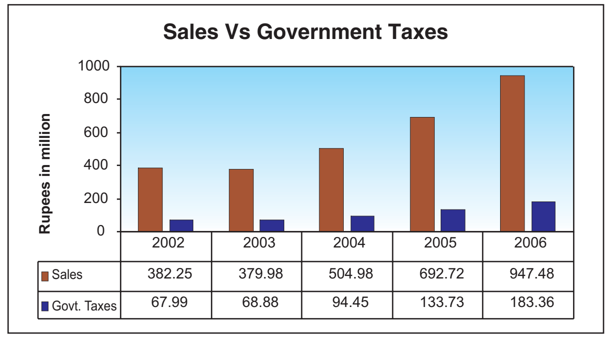
The profit before tax was thus Rs. 57.18 million against Rs. 69.85 million in the last year. The profit after tax stood at Rs. 29.08 million as compared to Rs. 40.83 million, last year after making provision for current and deferred tax. The basic earnings per share worked out to Rs. 2.36 per share against Rs. 3.74 per share for the previous year.

CASH FLOW

During the year under review, the operations of your Company generated a net cash flow of Rs. 85.82 million compared to Rs. 70.89 million in the corresponding last period. The Company made capital investment of Rs. 127.467 Million, which was partially financed through long term bank borrowing of Rs. 83.94 Million. Overall there was a net decrease of Rs. 103.79 Million in cash and cash equivalents as compared to decrease of Rs. 36.86 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. 183.36 Million to the government revenues in the form of custom duty, sales tax, income tax and other government levies being 19.35% of the sale value during the year.



The Atlas Group of which your Company is a constituent member, paid taxes of Rs. 15.00 billion, which is about 2% of the Government's total revenues. The Group performances also relies in how much each entity pays taxes - a social responsibility.

HUMAN RESOURCE

Human resource development has been the top priority of your Company having firm belief that organization development can only be achieved through continuous human resource development. This also improves overall productivity and efficiency, provides job satisfaction and promotes self-respect, and integrity in line with the Group philosophy. Human Resource value is to have right people at the right time and managing scarce human resources - the intellectual capital. In order to develop professional knowledge and skills of the staff regular in house training programs are organized. Individual training needs are assessed and accordingly eligible employees are sent to the renowned institutions, such as Harvard, Stanford, INSEAD for various management development programs. Executive MBA is encouraged and various Atlas diplomas as a practice followed year after year.

A congenial and satisfactory relationship between the management and the dedicated workers of your Company remained the source of strength for the Company throughout the year.

FUTURE OUTLOOK

The government has started implementing, Tariff Based System (TBS) from July 01,2006 replacing the deletion programme for the local automobile industry. Under the new TBS, higher duty of 50 percent is applicable to such components and parts that are manufactured locally but imported for assembly by OEM or commercial importers as replacement parts. For parts not manufactured locally, the rate of duty is 35%. On the face of it, the system provides incentive to the local manufacturers but there is a danger that it may encourage to import in CKD kits and parts. It is only because of the tariff anomalies, whereby the imported parts would be cheaper compared to locally produced parts. On the other hand, least localization policy has been suggested for new entrant allowing import of 100% CKD at the rate of 35% duty in the first three years. Further there is heavy influx of imported car due to reduction in duty on CBU and higher rate of depreciation allowed on cars imported under gift and transfer of residence scheme. All these actions will have a set back to progressive local manufacturing and, ultimately the vending industry if not safeguarded from the top to the bottom.

It is expected that government after realizing the importance of engineering industry will review the policy and import tariffs with a view to help promote manufacturing of cars and auto parts locally, encourage investments for capacity expansion in order to meet the rising demand. Your management is aware of the challenges and taking actions to minimize the effect of these influences. Our emphasis on quality of management effective utilization of resource and quality of product is expected to produce better results.

ع کرگس کا جہاں اور ہے شاہیں کا جہاں اور

(Performance speaks itself)

ACKNOWLEDGEMENT

Your director Mr. M. Habib-ur-Rahman, resigned and Mr. Sohail Wajahat H. Siddiqui was coopted in his place. I would like to place on record the valuable contributions made by Mr. M. Habib-ur-Rahman and welcome Mr. Sohail Wajahat H. Siddiqui.

I would like to thank the Board of Directors, Group President Mr. Aamir H. Shirazi, Group Director Engineering, Mr. Jawaid Iqbal Ahmed and members of the Group Executive Committee for providing necessary guidance. May I also thank the CEO, Mr. Mohammad Atta Karim his team and all members of the staff and workers of the Company for their dedicated efforts and valuable contributions.

Thanks are also due to our share holders, valuable customers, Banks and dealers for their trust and confidence reposed in us.

Yusuf H. Shirazi

KEY PERFORMANCE AND FINANCIAL DATA

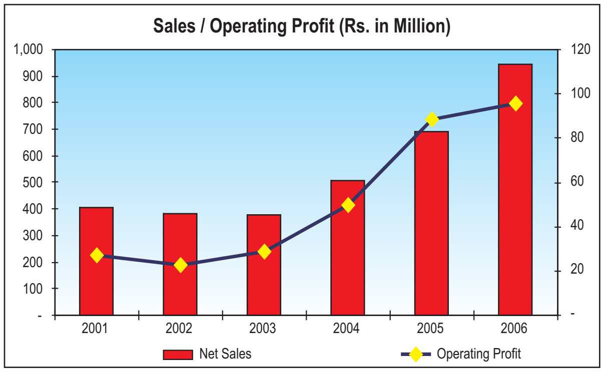
(Rupees in '000's)

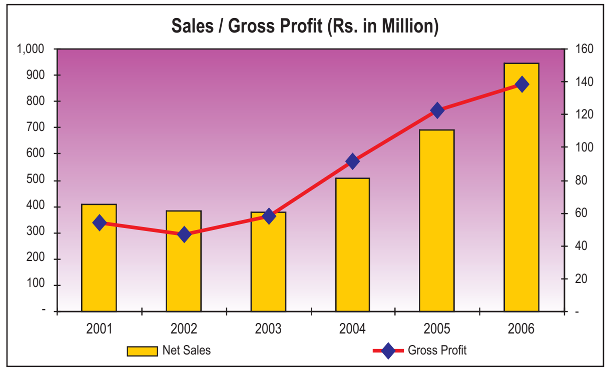
Particulars	2006	2005	2004	2003	2002	2001
Sales	947,484	692,724	504,984	379,980	382,249	405,835
Gross profit	138,200	122,598	91,470	58,189	46,908	54,437
Operating profit	95,856	88,293	49,667	28,766	22,788	27,080
Profit Before Taxation	57,181	69,849	36,861	13,929	3,505	8,092
Profit After Taxation	29,080	40,825	24,788	6,443	(5,392)	6,028
Share Capital	123,367	123,367	49,347	49,347	49,347	49,347
Shareholders' Equity	270,277	253,534	213,624	188,836	184,860	189,106
Reserves	28,230	11,487	(29,338)	(49,191)	(48,491)	(48,921)
Fixed Assets Net	592,672	503,471	302,418	269,409	269,127	280,925
Total Assets	903,729	714,600	501,131	410,687	404,903	433,703
Current Assets	308,847	207,750	191,472	132,746	126,575	150,988
Net Current Assets	(31,411)	11,137	27,717	4,164	(12,172)	(15,136)
Long Term Liabilities	293,194	264,453	118,875	93,269	81,701	78,473
Ratios:						
Profitibility (%)						
Gross Profit	14.59	17.70	18.11	15.31	12.27	13.41
Profit Before Tax	6.04	10.08	7.30	3.67	0.92	1.99
Profit After Tax	3.07	5.89	4.91	1.70	(1.41)	1.49
Return to Shareholders						
Dividend %	10.00	10.00	10.00	5.00	5.00	-
Cash Dividend Per Share	1.00	1.00	1.00	0.50	0.50	-
Dividend Yield Ratio	0.02	0.03	0.04	0.03	0.08	-
Dividend Pay Out Ratio	0.42	0.27	0.39	0.38	(0.46)	-
ROE - Before Tax %	21.16	27.55	17.26	7.38	1.90	4.28
ROE - After Tax %	10.76	16.10	11.60	3.41	(2.92)	3.19
Return on Capital Employed %	3.66	6.28	5.76	1.82	(1.55)	1.74
Basic Earnings Per Share	2.36	3.74	2.56	1.31	(1.09)	1.22
Price Earning Ratio	16.82	8.82	10.12	11.45	(5.95)	4.09
Market Price (June 30)	39.70	33.00	25.90	15.00	6.50	5.00
Activity (Times)						
Sales to Total Assets	1.05	0.97	1.01	0.93	0.94	0.94
Sales to Fixed Assets	1.60	1.38	1.67	1.41	1.42	1.44
Inventory Turnover	3.89	4.84	4.28	5.48	6.37	4.59
Debtor Turnover	31.18	17.28	14.77	10.15	9.53	10.93
Interest Cover Ratio	2.60	5.73	4.38	1.94	1.18	1.46
Liquidity / Leverage						
Current Ratio (Times)	1.22	1.91	1.42	1.17	1.09	1.10
Quick Ratio (Times)	0.18	0.31	0.41	0.41	0.38	0.31
Break up Value per Share (Rs)						
- Including Surplus on Revaluation	21.91	20.55	43.29	38.27	37.46	38.32
- Excluding Surplus on Revaluation	12.29	10.93	7.96	5.88	5.93	5.90
Long Term debts to Equity (Times)	0.52	0.54	0.37	0.32	0.33	0.35
Total Liabilities to Equity (Times)	0.70	0.65	0.57	0.54	0.54	0.56

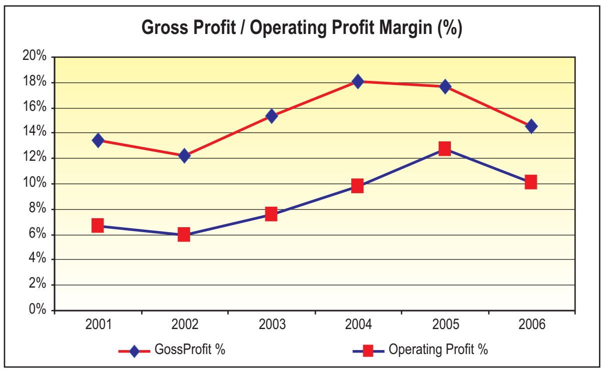
Note: In the financial year 2005, the company issued Right Shares to its shareholders @ 150%.

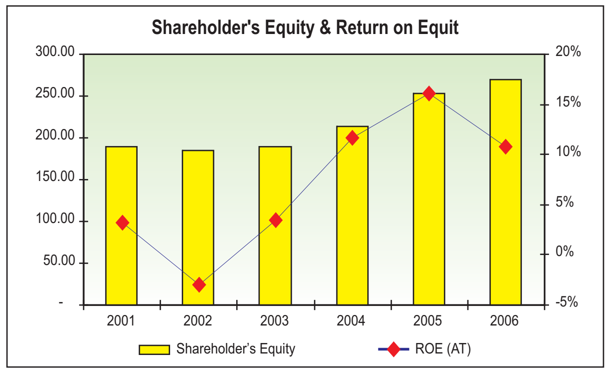
Allwin Engineering Industries Limited

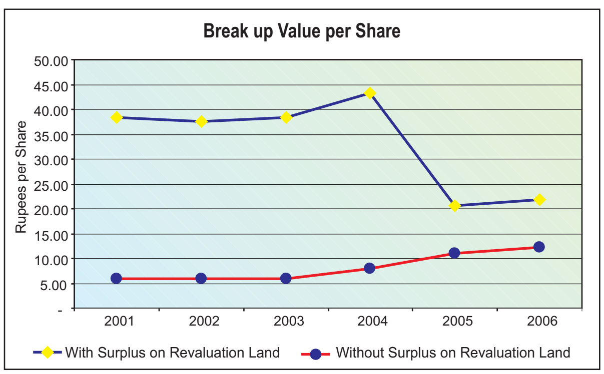
KEY PERFORMANCE RATIOS - GRAPHICAL PRESENTATION

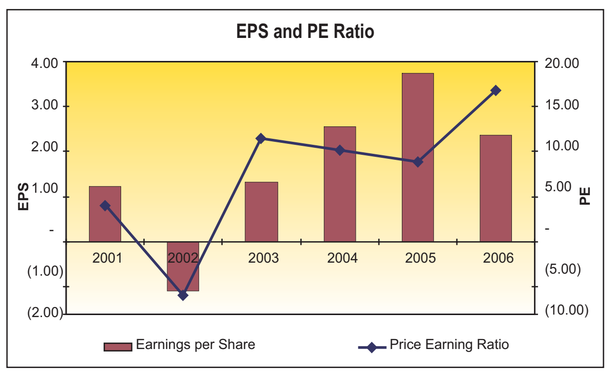


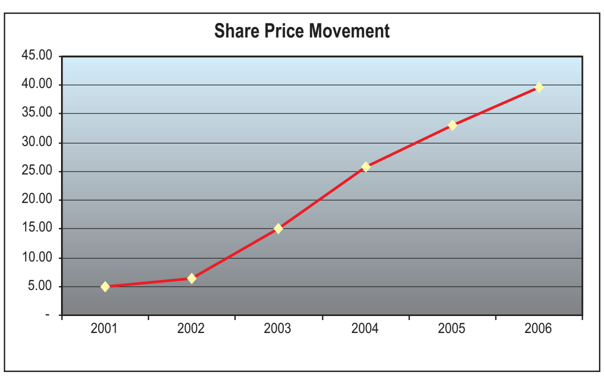


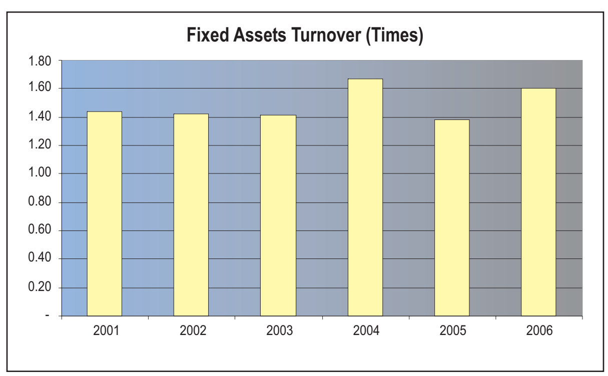






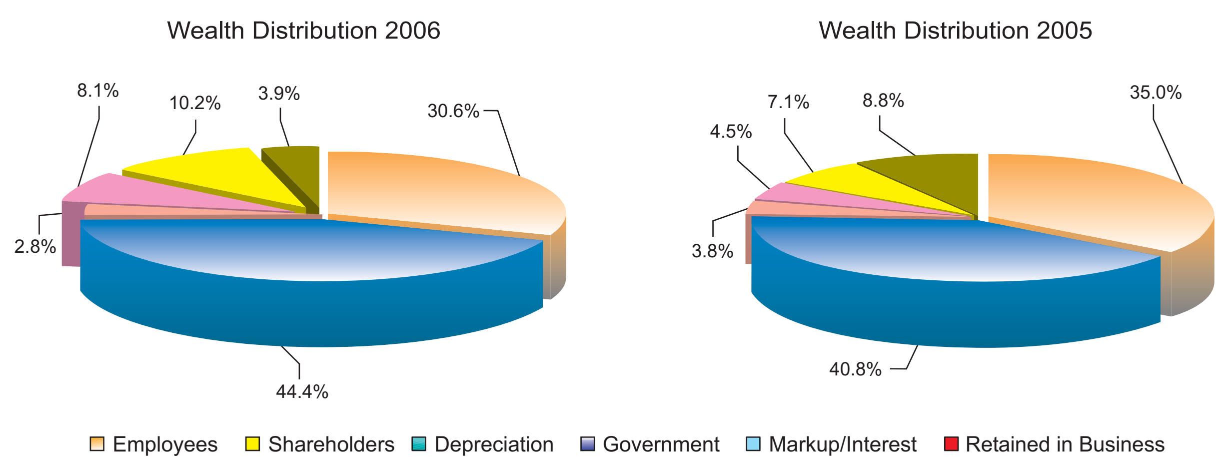






STATEMENT OF VALUE ADDITION

Year ended 30 June	2006 Amount	2006 % Age	2005 Amount	2005 % Age
	(Rupees in 000's)			
Wealth Generated				
Total Revenue	1,115,199		805,966	
Bought in Material & Services	(675,485)		(480,837)	
	439,714	100%	325,129	100%
Wealth distributed:				
To Employees				
Salaries & other related costs	134,728	30.6%	113,876	35.0%
To Government				
Taxes	195,304	44.4%	132,502	40.8%
To Providers of Capital				
Dividend to shareholders	12,337	2.8%	12,337	3.8%
Markup/Interest	35,653	8.1%	14,768	4.5%
	47,990	10.9%	27,105	8.3%
Retained in the Business				
Depreciation	44,949	10.2%	23,158	7.1%
To provide for Growth: Retained Profit	16,743	3.9%	28,488	8.8%
	61,692	14.1%	51,646	15.9%
	439,714	100%	325,129	100%



DIRECTOR'S 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, 2006.

Financial Results

The financial results of your company for the year ended June 30, 2006 under review are summarized as follows:

	(Rupees in 000's)	
	2006	**2005**
Profit before taxation		
Taxation:	57,181	69,849
Current		
Deferred	4,737	3,508
	23,364	25,516
	28,101	29,024
Profit after taxation	29,080	40,825

Earnings per Share

Basic Earning per share after tax is Rs. 2.36 per share (2005: Rs. 3.74).

Dividend

The Board of Directors has recommended final cash dividend of Re.1/- per share i.e. 10% for the year 2006. (2005: Re.1/- per share i.e. 10%)

Shareholding of Holding Company

The shareholding of Shirazi Investment (Private) Limited which was 61.60% as on June 30, 2005, reduced to 49.84% as on January 31, 2006. Uptil last year, the company was a subsidiary of Shirazi Investment (Private) Limited, however, as of June 30, 2006, Shirazi Investment (Private) Limited held 49.84% of the share capital of the company and hence was not a holding company as at the balance sheet date.

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, 2006 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, one casual vacancy created and duly filled in.

The Board approved the remuneration of the CEO Rs. 4.05 million, bonus and other benefits like free transportation, telephone facility, medical expenses etc. as per company's policy for the year 2006-2007. The Company also makes contributions to the provident and gratuity funds for CEO.

During the year five 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	5	6
2.	Mr. Mohammad Atta Karim	5	2
3.	Mr. Ali H. Shirazi	4	1
4.	Mr. H. Masood Sohail	4	1
5.	Mr. Frahim Ali Khan	2	3
6.	Mr. Habib-ur-Rahman (Resigned effective May 31, 2006)	-	1
7.	Mr. Sohail Wajahat H. Siddiqui (Appointed effective May 31, 2006)	-	3
8.	Mr. Iftikhar H. Shirazi	2	2

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 2006-07.

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, 2006 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. During the year, one casual vacancy created and duly filled in.

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	3	
Mr. Frahim Ali Khan	- Member	1	(Resigned effective February 23, 2006)
Mr. Iftikhar H. Shirazi	- Member	2	
Mr. Ali H. Shirazi	- Member	2	(Appointed effective February 23, 2006)

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 the company.

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 web site (www.allwin.com.pk), which contains up to date information of Company 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 account.

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

- Provident Fund Rs. 133.11 million (30 June 2005)
- Gratuity Fund Rs. 4.85 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 20, 2006

SECRETARIAL COMPLIANCE CERTIFICATE

(See clause (XXV)

Name of Company Allwin Engineering Industries Limited

To

Enforcement and Monitoring Division,
Securities and Exchange Commission of Pakistan

I Fida Hussain Zahid of Karachi being the Secretary of Allwin Engineering Industries Limited Certify, to the best of my knowledge and belief, that I am qualified to be appointed as the Company Secretary of a listed company and that the secretarial and corporate requirements of the Companies Ordinance, 1984, memorandum and articles of association of Allwin Engineering Industries Limited and the listing regulations have been duly complied with for the year ended June 30, 2005 and that nothing has been concealed or withheld in this regard.

Dated: November 19, 2005
Place: Karachi.

FIDA HUSSAIN ZAHID
NIC Number: 42301-0927417-1

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. A casual vacancy occurred in the Board on May 31, 2006, which was filled by the Director on the same day.

5. The Company has adopted and circulated a 'Statement of Ethics and Business Practices', which has been signed by 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 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 Company Secretary and Head of Internal Audit were appointed prior to the introduction of Code of Corporate Governance, however, the Board has approved the appointment of CFO who was appointed during the year. The Board has approved the remuneration and terms and conditions of employment of CFO, Company Secretary and Head of Internal Audit 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, the auditors have also confirmed that they have observed IFAC guidelines in this respect.

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 20, 2006

STATEMENT OF ETHICS AND BUSINESS PRACTICES

Standard of Conduct:

Allwin Engineering Industries Limited conducts its operation with honesty, integrity and openness, and with respect for human rights and interests of the employees. It respects the legitimate interests of all those with whom it has relationships.

Obeying the law:

Allwin Engineering Industries Limited is committed to comply with the laws and regulations of Pakistan.

Employees:

Allwin Engineering Industries Limited is committed to create the working environment where there is mutual trust and respect and where everyone feels responsible for the performance and reputation of the company.

It recruits, employs and promotes employees on the sole basis of the qualifications and abilities needed for the work to be performed.

It is committed to safe and healthy working conditions for all employees and not use any form of forced, compulsory or child labour.

It is committed to working with employees to develop and enhance each individual's skills and capabilities.

It respects the dignity of the individual and the right of employees to freedom of association.

It maintains good communications with employees through company based information and consultation procedures.

Consumers:

Allwin Engineering Industries Limited is committed to providing branded products and services, which consistently offer value in terms of price and quality. Products and services are accurately and properly labelled, advertised and communicated.

Shareholders:

Allwin Engineering Industries Limited conducts its operations in accordance with principles of good corporate governance. It provides timely, regular and reliable information on its activities, structure, financial situations and performance to all the shareholders.

Business Partners:

Allwin Engineering Industries Limited is committed to establishing mutually beneficial relations with its suppliers, customers and business partners.

In its business dealings it expects its partners to adhere to business principles consistent with its own.

Community Involvement:

Allwin Engineering Industries Limited strives to be a trusted corporate citizen and, as an integral part of society, to fulfill its responsibilities to the societies and communities in which it operates.

Public Activities:

Allwin Engineering Industries Limited is encouraged to promote and defend its legitimate business interests.

It co-operates with government and other organizations, both directly and through bodies such as trade associations, in the development of proposed legislation and other regulations, which may affect legitimate business interests.

It neither supports political parties nor contributes to the funds of groups whose activities are to promote party interest.

The Environment:

Allwin Engineering Industries Limited is committed to making continuous improvements in the management of environmental impact and to the longer-term goal of developing a sustainable business.

It works in partnership with others to promote environmental care, increase understanding of environmental issues and disseminate good practice.

Innovation:

Allwin Engineering Industries Limited makes innovations to meet consumer needs. It respects the concerns of consumers and of society. It works on the basis of sound research, applying high quality standards.

Competition:

Allwin Engineering Industries Limited believes in fair competition and supports development of appropriate competition laws. Allwin Engineering Industries Limited and employees will conduct their operations in accordance with the principles of fair competition and all applicable regulations.

Business Integrity:

Allwin Engineering Industries Limited does not give or receive, whether directly or indirectly, bribes or other improper advantages for business or financial gain. No employee may offer, give or receive any gift or payment, which its, or may be construed as being, a bribe. Any demand for, or offer of, a bribe must be rejected immediately and reported to management.

Its accounting records and supporting documents must accurately describe and reflect the nature of the underlying transactions. No undisclosed or unrecorded account, fund or asset maintained.

Conflicts of Interests:

Allwin Engineering Industries Limited employees are expected to avoid personal activities and financial interests, which could conflict with their responsibilities to the company. They must not seek gain for themselves or others through misuse of their positions.

Compliance - Monitoring - Reporting:

Compliance with business principles is an essential element in business success. The Board of Directors of Allwin Engineering Industries Limited is responsible for ensuring that these principles are communicated to, and understood and observed by, all employees.

Day-to-day responsibility is delegated to the senior management. They are responsible for implementing these principles, if necessary, through more detailed guidance tailored to local needs.

Assurance of compliance is given and monitored each year. Compliance with the Code is subject to review by the Board supported by Audit Committee of the Board.

Any breach of the Code must be reported in accordance with the procedures specified by the management.

The Board of Allwin Engineering Industries Limited expects employees to bring to their attention, or to that of senior management, any breach or suspected breach of these principles.

Provision has been made for employees to be able to report in confidence and no employee will suffer as a consequence of doing so.

AUDIT COMMITTEE CHARTER

The Board of Directors of the Company determined the terms of reference of the Audit Committee. The Audit Committee shall, among other things, be responsible for recommending to the Board of Directors the appointment of external auditors by the Company's shareholders and shall consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the Company in addition to audit of its financial statements. In the absence of strong grounds to proceed otherwise, the Board of Directors shall act in accordance with the recommendations of the Audit Committee in all these matters.

The terms of reference of the Audit Committee includes the following:

(a) determination of appropriate measures to safeguard the Company's assets;

(b) review of preliminary announcements of results prior to publication;

(c) review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors, focusing on:

- major judgmental areas;
- significant adjustments resulting from the audit;
- the going-concern assumption;
- any changes in accounting policies and practices;
- compliance with applicable accounting standards; and
- compliance with listing regulations and other statutory and regulatory requirements.

(d) facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);

(e) review of management letter issued by external auditors and management's response thereto; ensuring coordination between the internal and external auditors of the Company;

(f) review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;

(g) consideration of major findings of internal investigations and management's response thereto;

(h) ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

(i) review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;

(j) instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;

(k) determination of compliance with relevant statutory requirements;

(l) monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and

(m) consideration of any other issue or matter as may be assigned by the Board of Directors.

INTERNAL AUDIT DEPARTMENT

Mission Statement

The purpose of the internal auditing department is

- to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations.

- to helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Scope of Work

The scope of work of the internal auditing department is

- to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:
  - Risks are appropriately identified and managed.
  - Significant financial, managerial, and operating information is accurate, reliable, and timely.
  - Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
  - Resources are acquired economically, used efficiently, and adequately protected.
  - Audit programs, audit plans, and objectives are achieved.
  - Quality and continuous improvement are fostered in the organization's control process.
  - Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

- to identify during audits, the opportunities for improving management control, profitability, and the organization's image.

- to communicate observations to the appropriate level of management and audit committee.

SAFETY, HEALTH AND ENVIRONMENT

In Allwin Engineering Industries Limited, health and safety and core corporate values, driven by the goal of "no accidents and no harm to people". The Company is totally committed to continuously improving the safety and well being of all the people who work with it, or come into contact with operations or products. The aim is to ensure a healthy and productive environment, free from accidents, injury or illness.

The Company maintains the programs that provide reasonable assurance of the following:

- Compliance has been made of all Govt. and internal health, safety and environment requirements.
- Design facilities and conduct operations in a way that avoids risk to human health, safety and the environment.
- To examine and communicate the known hazards of the operations with the relevant health, safety and environmental protection information to potentially affected persons.
- Actively seek to minimize the environmental impact of the activities.
- Systematically manage environmental performance in all phases of activities.
- Continuously improve the Company's overall environmental performance.
- Foster open communication, internally and externally about the Company's environmental performance.

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 for the year ended June 30, 2006 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 under review.

Ford Rhodes Sidat Hyder

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants.

Karachi: September 20, 2006

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ALLWIN ENGINEERING INDUSTRIES LIMITED as at June 30, 2006 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 account and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and 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, 2006 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 & Co

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants.

Karachi: September 20, 2006

BALANCE SHEET
AS AT JUNE 30, 2006

	Note	2006 (Rupees in '000's)	2005
ASSETS			
NON-CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	3	591,980	503,258
Intangible assets	4	692	213
		592,672	503,471
Long-term loans and advances	5	725	1,466
Long-term deposits and prepayments	6	1,485	1,913
		594,882	506,850
CURRENT ASSETS			
Stores, spares and loose tools	7	39,586	28,270
Stock-in-trade	8	207,842	117,738
Trade debts	9	30,387	40,079
Loans and advances	10	4,031	11,520
Deposits, prepayments and other receivables	11	12,348	3,042
Taxation - net	12	1,032	183
Cash and bank balances	13	13,621	6,918
		308,847	207,750
TOTAL ASSETS		903,729	714,600
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	14	123,367	123,367
Unappropriated profit		28,230	11,487
		151,597	134,854
SURPLUS ON REVALUATION OF FIXED ASSET	15	118,680	118,680
NON-CURRENT LIABILITIES			
Advance against finance lease	16	8,935	-
Long-term loans	17	200,127	205,959
Deferred liabilities	18	15,442	13,168
Deferred tax liability	19	68,690	45,326
		293,194	264,453
CURRENT LIABILITIES			
Trade and other payables	20	85,520	49,122
Short-term borrowings		-	10,000
Short-term running finances	21	144,935	34,441
Current maturity of long-term loans	17	86,881	87,774
Accrued mark-up	22	9,815	4,297
Provisions and other liabilities	23	13,107	10,979
		340,258	196,613
CONTINGENCIES AND COMMITMENTS	24		
TOTAL EQUITY AND LIABILITIES		903,729	714,600

The annexed notes from 1 to 46 form an integral part of these financial statements.

Mohammad Atta Karim	**Yusuf H. Shirazi**	**H. Masood Sohail**
Chief Executive Officer	Chairman	Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 (Rupees in '000's)	2005 (Rupees in '000's)
Sales	25	947,484	692,724
Cost of goods sold	26	(809,284)	(570,126)
Gross profit		138,200	122,598
Other operating income	27	512	9,764
		138,712	132,362
Administrative expenses	28	(27,312)	(30,224)
Selling and distribution costs	29	(12,975)	(11,951)
Other operating charges	30	(2,569)	(1,894)
		(42,856)	(44,069)
Operating profit		95,856	88,293
Finance cost	31	(35,653)	(14,768)
Workers' Profit Participation Fund - allocation for the year	23.3	(3,022)	(3,676)
Profit before taxation		57,181	69,849
Taxation	32	(28,101)	(29,024)
Profit after taxation		29,080	40,825
Basic earnings per share	33.1	Rs. 2.36	Rs. 3.74
Diluted earnings per share	33.2	Rs. 2.36	Rs. 2.79

The annexed notes from 1 to 46 form an integral part of these financial statements.

Mohammad Atta Karim	**Yusuf H. Shirazi**	**H. Masood Sohail**
Chief Executive Officer	Chairman	Director

Allwin Engineering Industries Limited

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 (Rupees in '000's)	2005 (Rupees in '000's)
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	35	85,817	70,889
Financial charges paid		(30,135)	(11,493)
Gratuity paid		(1,119)	(5,763)
Tax paid		(5,586)	(3,090)
Net cash generated from operating activities		48,977	50,543
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(136,542)	(225,083)
Long-term deposits - net		428	(146)
Long-term loans and advances - net		741	(431)
Proceeds from sale of fixed assets		2,732	2,584
Net cash used in investing activities		(132,641)	(223,076)
CASH FLOW FROM FINANCING ACTIVITIES			
Advance against finance lease		8,935	-
Long-term loans - net		(6,725)	170,539
Short-term borrowings		(10,000)	(34,000)
Proceed from issuance of right shares		-	60,087
Refund to sponsors / shareholders		-	(56,067)
Dividend paid		(12,337)	(4,884)
Net cash (used in) / generated from financing activities		(20,127)	135,675
Net decrease in cash and cash equivalents		(103,791)	(36,858)
Cash and cash equivalents at the beginning of the year		(27,523)	9,335
Cash and cash equivalents at the end of the year		(131,314)	(27,523)
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and bank balances	13	13,621	6,918
Short-term running finances	21	(144,935)	(34,441)
		(131,314)	(27,523)

The annexed notes from 1 to 46 form an integral part of these financial statements.

Mohammad Atta Karim	Yusuf H. Shirazi	H. Masood Sohail
Chief Executive Officer	Chairman	Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2006

	Note	Issued, subscribed & paid up capital	Deposit for right shares	Unappropriated profit/Accumulated (losses)	Total
		(Rupees in thousands)			
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		74,020	(74,020)	-	-
Profit after taxation		-	-	40,825	40,825
Dividend for the year ended June 30, 2004 @ Re. 1 per share		-	-	(4,935)	(4,935)
Balance as at June 30, 2005		123,367	-	11,487	134,854
Profit after taxation		-	-	29,080	29,080
Dividend for the year ended June 30, 2005 @ Re. 1 per share		-	-	(12,337)	(12,337)
Balance as at June 30, 2006		123,367	-	28,230	151,597

The annexed notes from 1 to 46 form an integral part of these financial statements.

Mohammad Atta Karim
Chief Executive Officer

Yusuf H. Shirazi
Chairman

H. Masood Sohail
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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. The company 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.

Uptil last year, the company was a subsidiary of Shirazi Investment (Private) Limited, however, as of June 30, 2006, Shirazi Investment (Private) Limited held 49.84% of the share capital of the company and hence was not a holding company as at the balance sheet date.

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 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 preparation

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 Property, plant and equipment and depreciation

2.3.1 Owned

These are stated at cost less accumulated depreciation and any impairment in value except leasehold land and capital work-in-progress which are stated at revalued amount and cost respectively. The cost of fixed assets include the cost of replacing parts of fixed assets when that cost is incurred.

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.

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each financial year end.

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

2.3.2 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.

2.3.3 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.

2.4 Impairment

The company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.5 Stores, spares and loose tools

Stores, spares and loose tools are valued at lower of cost and net realisable value. Cost is determined on an average basis except for goods in transit which are valued at invoice price plus other related 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 of completion and the estimated costs necessary to make the sale.

2.6 Stock-in-trade

All stocks, except in transit, are valued at the lower of cost and net realisable value. Cost is determined on an 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 of completion and the estimated costs necessary to make the sale.

2.7 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.

2.8 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.

2.9 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 18 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. 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 at the rate of 9% for workers and 11% for management staff by the employees and the company in accordance with the rules of the scheme.

2.10 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 using current salary levels.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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 qualifying assets. Such borrowing costs, if any, are capitalised as part of the cost of that asset.

2.17 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, cheques / payorders in hand and bank balances net of running finance.

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 expired. 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 realize 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 Accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. These estimates and judgments that have a significant effect on the financial statements are in respect of the following:

	Note
Useful lives of fixed assets and method of depreciation	2.3.1 & 3.1
Provision for obsolescence and damages of stores and spares	2.5 & 7
Net realizable value of stock-in-trade	2.6 & 8
Deferred taxation	2.8 & 19
Provision for compensated absences	2.10 & 18

2.22 Dividend and other appropriation of reserves

These are recognised in the period in which such dividend and appropriation are approved by the Board of Directors.

2.23 Accounting standards not yet effective

The company has not applied the following accounting standards that have been issued by the International Accounting Standards Board (IASB) but are not yet effective.

2.23.1 International Financial Reporting Standards (IFRSs)

A new series of standards called "International Financial Reporting Standards (IFRSs)" have been introduced and seven IFRSs have been issued by IASB under such series. Out of these following four IFRS have been adopted by Institute of Chartered Accountants of Pakistan (ICAP), however, since these have not yet been adopted by SECP therefore, at present these do not form part of the approved local financial reporting framework:

IFRS-2 (Share based Payments);
IFRS-3 (Business Combinations);
IFRS-5 (Non-current Assets held for Sale and Discontinued Operations); and
IFRS-6 (Exploration for and Evaluation of Mineral Resources).
The adoption of the above pronouncements is not expected to be relevant for activities of the company.

2.23.2 International Accounting Standards (IASs)

Following amendments to existing standards applicable to the company have been published that are mandatory for the company's accounting periods beginning on or after January 01, 2006 or later periods:

i.	IAS 1 Presentation of Financial Statements - Capital Disclosures	effective from January 1, 2007
ii.	IAS 19 (Amendments) - Employee Benefits	effective from January 1, 2006
iii.	IAS 39 - Financial Instruments: Recognition and Measurement	effective from January 1, 2006

The company expects that the above amendments to the standards will have no significant impact on the company's financial statements in the period of initial application.

3. PROPERTY, PLANT AND EQUIPMENT

	Note	2006 (Rupees in '000's)	2005 (Rupees in '000's)
Operating assets	3.1	577,679	405,740
Capital work-in-progress	3.5	14,301	97,518
		591,980	503,258

3.1 OPERATING ASSETS

		2006									
		Cost				Accumulated depreciation				Net book value	
Description	Note	As at July 01, 2005	Additions (Note 3.4)	(Disposals)	As at June 30, 2006	As at July 01, 2005	Charge for the year	(Disposals)	As at June 30, 2006	As at June 30, 2006	Depreciation rate
		(Rupees in thousands)									%
Leasehold land	3.2	118,840	-	-	118,840	-	-	-	-	118,840	-
Buildings on leasehold land											
Factory		42,414	12,928	-	55,342	31,081	1,801	-	32,882	22,460	10
Generator premises		4,855	69	-	4,924	2,398	248	-	2,646	2,278	10
Residential		365	-	-	365	301	3	-	304	61	5
Office		1,745	474	-	2,219	1,222	28	-	1,250	969	5
Plant and machinery		362,130	148,416	-	510,546	158,487	27,693	-	186,180	324,366	10
Power generators		65,617	43,360	-	108,977	33,973	7,038	-	41,011	67,966	10 & 35
Electrical fittings		9,763	1,768	-	11,531	4,307	693	-	5,000	6,531	10
Office equipment		2,218	309	-	2,527	1,962	46	-	2,008	519	15
Computers		6,149	1,065	-	7,214	4,202	757	-	4,959	2,255	30
Furniture and fixtures		3,611	196	-	3,807	3,052	60	-	3,112	695	10
Vehicles		16,170	6,474	(4,056)	18,588	4,573	2,612	(1,742)	5,443	13,145	20
Waterline and drainage		670	-	-	670	630	4	-	634	36	10
Sui gas line		576	1,035	-	1,611	446	48	-	494	1,117	10
Measuring instruments, dies, jigs, patterns and other equipments		44,096	3,108	-	47,204	26,845	3,918	-	30,763	16,441	20
Bicycles		2	-	-	2	2	-	-	2	-	20
		679,221	219,202	(4,056)	894,367	273,481	44,949	(1,742)	316,688	577,679	

		2005									
		Cost				Accumulated depreciation				Net book value	
Description	Note	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	

Details of property, plant and equipment disposed-of are given in Note 43.

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 15 to the financial statements).

3.3 Allocation of depreciation charge:

	Note	2006 (Rupees in '000's)	2005 (Rupees in '000's)
Cost of goods sold	26	43,287	21,797
Administrative expenses	28	1,140	953
Selling and distribution costs	29	522	408
		44,949	23,158

3.4 Additions to fixed assets include Rs. 194.034 million (2005: Rs. 108.636 million) transferred from capital work-in-progress in the following categories of fixed assets. This includes financial cost of Rs. 9.441 million (2005: Rs. 2.080 million) capitalized as a part of cost of such assets.

	2006	2005
Factory building	10,196	2,075
Plant and machinery	141,615	96,367
Generator building	852	713
Power generator	41,371	6,444
Measuring instruments, dies, jigs, patterns and other equipments	-	3,037
	194,034	108,636

3.5 Capital Work-In-Progress

	Note	2006	2005
Civil works		116	1,269
Plant and machinery [including in transit of Rs 9.135 million (2005: Rs. 0.994 million)		11,160	92,263
Advances to suppliers / contractor	3.5.1	3,025	3,824
Financial cost		-	162
		14,301	97,518

3.5.1 The above balance includes amount paid to Honda Atlas Cars (Pakistan) Limited - a related party amounting to Rs. 0.923 million (2005: Rs. 0.824 million).

4. INTANGIBLE ASSETS

	Cost at July 1, 2005	Additions	Cost at June 30, 2006	Accumulated amortisation at July 1, 2005	Charge for the year	Accumulated amortisation at June 30, 2006	Net book value at June 30, 2006	Amortisation rate %
Computer software	230	557	787	17	78	95	692	30
2006	230	557	787	17	78	95	692	
2005	-	230	230	-	17	17	213	

4.1 The amortisation charge for the year has been charged to administrative expenses (note 28).

5. LONG-TERM LOANS AND ADVANCES

	Note	2006 (Rupees in '000's)	2005 (Rupees in '000's)
Secured, considered good			
Loans to employees - interest bearing	5.1	713	810
Less: current maturity shown under current assets		606	192
		107	618
Long-term advances to employees - non-interest bearing	5.2	1,298	1,676
Less: current maturity shown under current assets		680	828
		618	848
		725	1,466

5.1 These loans carry mark-up at the rate of 1% (2005: 1%) per month and are secured against employee's retirement benefits. The loans are recoverable in monthly installments over a period of maximum 24 months.

5.2 These represent non-interest bearing advances to employees for purchase of motorcycles and are payable by way of a 15% amount upfront and the balance in maximum 42 equal monthly installments. These are secured against employee's retirement benefits.

6. LONG-TERM DEPOSITS AND PREPAYMENTS

	2006	2005
Security deposits		
Leasing	215	410
Utilities	751	751
Suppliers	227	227
Others	75	75
	1,268	1,463
Prepayments	441	738
Less: current maturity shown within current assets	224	288
	217	450
	1,485	1,913

7. STORES, SPARES AND LOOSE TOOLS

	2006	2005
Stores and spares		
In hand	21,738	14,674
In transit	504	1,313
	22,242	15,987
Loose tools	17,501	12,800
Electrical goods	998	638
	40,741	29,425
Less: Provision for obsolescence	1,155	1,155
	39,586	28,270

	Note	2006 (Rupees in '000's)	2005

8. STOCK-IN-TRADE

	Note	2006	2005
Raw and ancillary materials			
In hand		121,509	60,020
In transit		8,600	11,376
		130,109	71,396
Packing materials		770	824
Work-in-process	8.1 & 8.2	22,550	17,039
Finished goods	8.3	54,816	28,882
		208,245	118,141
Less: Provision for obsolescence		403	403
		207,842	117,738

8.1 Included herein are stocks carried at net realisable value amounting to Rs. 2.624 million (2005: Rs. 2.202 million) having cost of Rs. 3.460 million (2005: Rs.2.968 million).

8.2 Included herein are stocks held by third parties amounting to Rs. 2.216 million (2005: Rs. 1.909 million).

8.3 Included herein are stocks carried at net realisable value amounting to Rs. 15.363 million (2005: Rs. 16.932 million) having cost of Rs. 18.760 million (2005: Rs. 20.276 million).

9. TRADE DEBTS

Unsecured, considered good

	2006	2005
Associated undertaking - Honda Atlas Cars (Pakistan) Limited	440	9,595
Others	29,947	30,484
	30,387	40,079

10. LOANS AND ADVANCES - Unsecured, considered good

	2006	2005
Loans to employees - non-interest bearing	367	167
Current maturity of :		
long-term loans to the employees - interest bearing	606	192
advance to employees	680	828
	1,286	1,020
Advances:		
against salary	14	8
against expenses	225	493
against letter of credits	111	-
to suppliers	2,028	9,832
	2,378	10,333
	4,031	11,520

	Note	2006	2005
		(Rupees in '000's)	

11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

		2006	2005
Security and trade deposits		231	214
L/C and guarantee margin		10,780	335
Prepayments		813	1,905
Current maturity of long-term prepayments		224	288
Other receivables		300	300
		12,348	3,042

12. TAXATION - NET

The income tax assessment of the company has been finalized by the Income Tax Department upto tax year 2005 (accounting year ended June 30, 2005) except for the tax year 2004 in respect of which company has filed an appeal in Income Tax Appellate Tribunal against the decision of Commissioner of Income Tax (appeals) as referred to in note 24.1.

13. CASH AND BANK BALANCES

		2006	2005
Current accounts		3,135	1,839
In hand			
Cheques		10,448	5,037
Cash		38	42
		13,621	6,918

14. SHARE CAPITAL

Number of ordinary shares of Rs.10/- each 2006	2005		2006	2005
		Authorized Share Capital		
20,000,000	20,000,000	Ordinary shares	200,000	200,000
		Issued, subscribed and paid-up capital		
9,273,588	9,273,588	Fully paid in cash	92,736	92,736
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	12,336,695		123,367	123,367

14.1 As at the balance sheet date, the shares in the company held by associated companies were as follows:

		2006	2005
- Holding company		-	7,598,937
- Associated companies		6,503,357	354,420
	1	6,503,357	7,953,357

	Note	2006 (Rupees in '000's)	2005
15. SURPLUS ON REVALUATION OF FIXED ASSET	15.1	118,680	118,680

15.1 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.

15.2 Another revaluation of the above land was carried out on June 30, 2004 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.

16. ADVANCE AGAINST FINANCE LEASE

16.1 Represents advance received against finance lease of machinery from Atlas Bank - a related party.

17. LONG-TERM LOANS

	Note	2006	2005
Secured			
From financial institutions:			
From associated undertakings			
- Local currency loan - I		-	7,500
From banking companies:			
- Local currency loan - II	17.1	2,083	10,417
- Local currency loan - III	17.2	5,000	15,000
- Local currency loan - IV	17.3	14,926	26,867
- Local currency loan - V	17.4	71,428	93,949
- Local currency loan - VI	17.5	78,571	100,000
- Murabaha finance - VII	17.6	75,000	-
		247,008	246,233
		247,008	253,733
Less: Current maturity - long-term loans		76,167	87,774
- murabaha finance		10,714	-
		86,881	87,774
		160,127	165,959
Unsecured			
From directors		20,000	20,000
Others		20,000	20,000
	17.7	40,000	40,000
		200,127	205,959

17.1 This represents the facility availed against 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.

17.2 This represents the amount of facility availed against a total 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.

17.3 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 pari passu equitable mortgage over fixed assets for Rs.59.820 million.

17.4 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 by way of equitable mortgage of present and future fixed assets of the company for Rs.133.33 million.

17.5 This represents the amount of facility availed against a total 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.

17.6 This represents the amount of morabaha finance facility availed against the total morabaha finance facility of Rs.100.000 million obtained during the year from a banking company. The morabaha finance is repayable in 14 equal half-yearly installments commencing May 18, 2007 and carries mark-up at the last 6 months KIBOR (ask side) plus 1.10% per annum with no floor and cap. The morabaha finance is secured by first pari passu hypothecation charge on all present and future fixed assets for Rs.134.00 million (inclusive of 25% margin).

17.7 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.

	Note	(Rupees in '000's) 2006	2005
18. DEFERRED LIABILITIES			
Non-management staff gratuity	18.1	11,445	10,371
Provision for compensated absences	18.6	3,997	2,797
		15,442	13,168

Defined benefit plan

18.1 General Description

The company operates 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.The actuarial valuation of the gratuity schemes was carried out as of June 30, 2006.

The result of these are as follows:

	Management 2006	Management 2005	Non-Management 2006	Non-Management 2005	Total 2006	Total 2005
	---------- Rupees in thousands ----------					
18.2 Principal actuarial assumptions:						
Discount rate	9%	9%	9%	9%		
Expected rate of increase in salary For management staff and non-management staff	8%	8%	8%	8%		
Expected rate of return on investment	9%	9%	-	-		
18.3 Reconciliation of payable to Defined benefit plan						
Present value of defined benefit obligation (actuarial liability)	13,565	11,174	9,247	8,654	22,812	19,828
Fair value of plan assets	(6,212)	(4,843)	-	-	(6,212)	(4,843)
Unrecognised actuarial gain	(1,824)	(728)	2,198	1,717	374	989
Unrecognised non-vested liability	(198)	(298)	-	-	(198)	(298)
Balance at end	5,331	5,305	11,445	10,371	16,776	15,676
18.4 Movement of the liability recognized in the balance sheet						
Opening net liability	5,305	9,812	10,371	9,690	15,676	19,502
Charge for the year	1,138	1,112	1,081	825	2,219	1,937
Contribution / benefit paid during the period	(1,112)	(5,619)	(7)	(144)	(1,119)	(5,763)
Closing net liability	5,331	5,305	11,445	10,371	16,776	15,676
18.5 Charge for the year						
Current service cost	497	446	388	357	885	803
Interest cost	929	728	778	610	1,707	1,338
Expected return on assets	(388)	(162)	-	-	(388)	(162)
Past service cost	-	-	-	-	-	-
Amortization of transitional obligation	-	-	-	-	-	-
Amortization of non-vested liability	100	100	-	-	100	100
Amortization of actuarial gain	-	-	(85)	(142)	(85)	(142)
Charge for the year	1,138	1,112	1,081	825	2,219	1,937

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

	Opening balance	Charge for the year	Payments	Closing balance
	------------ Rupees in thousands -------------			
Provision for compensated absences	2,797	1,304	104	3,997

	Note	2006	2005
		(Rupees in '000's)	
19. DEFERRED TAX LIABILITY			
This comprises the following:			
Deferred tax liabilities			
Difference in accounting and tax base of fixed assets		85,756	50,012
Deferred tax assets			
Provision for gratuity		(4,006)	(3,630)
Tax loss		(12,514)	-
Provisions		(546)	(546)
Others		-	(510)
		68,690	45,326

20. TRADE AND OTHER PAYABLES

	Note	2006	2005
Trade creditors		32,385	17,075
Bills payable		20,430	730
Sales tax payable - net		1,376	1,787
Royalty payable	20.1	10,549	6,267
Technical fee payable	20.2	4,267	4,198
Gratuity fund - management staff	18	5,331	5,305
Accrued liabilities		10,452	11,153
Advances from customers		730	2,607
		85,520	49,122

20.1 This includes an amount of Rs. 2.416 million (2005: Rs. 2.416 million) payable in US Dollars and an amount of Rs.8.132 million (2005: Rs. 3.851 million) payable in Japanese Yen.

20.2 This amount is payable in US Dollars converted at year end rate.

21. SHORT-TERM RUNNING FINANCES

	Note	2006	2005
Running finances - secured	21.1&21.2	144,935	34,441

21.1 The aggregate facilities for short term running finance available from various banks as of June 30, 2006 amount to Rs. 279.00 million (2005:144.00 million) of which Rs.134.065 million (2005: Rs.101.063 million) remained unutilized at year end. 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 on these finances ranges from one month KIBOR plus 1.00% per annum to three months KIBOR plus 2.00% per annum (2005: one month KIBOR plus 1.00% per annum to three months KIBOR plus 3.50% per annum). These are repayable latest by December 31, 2006.

21.2 The facilities for opening letters of credit and guarantees as at June 30, 2006 amounted to Rs. 390.000 million (2005: Rs. 145.114 million) of which Rs. 287.236 million (2005: Rs. 91.928 million) remained unutilized at year end.

	Note	2006 (Rupees in '000's)	2005

22. ACCRUED MARK-UP

	Note	2006	2005
Secured long-term loans		4,018	2,982
Secured short-term finances		5,797	1,260
Secured short-term borrowings		-	55
		9,815	4,297

23. PROVISIONS AND OTHER LIABILITIES

	Note	2006	2005
Provision for bonus - management staff	23.1	4,691	2,656
Provision for bonus - non-management staff	23.1	1,430	1,456
Deposits from employees	23.2	2,181	1,889
Security deposits		315	15
Workers' Profit Participation Fund	23.3	3,022	3,676
Unclaimed dividends		312	234
Others		1,156	1,053
		13,107	10,979

23.1 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	2,656	4,691	2,656	4,691
Provision for bonus - non-management staff	1,456	1,430	1,456	1,430
	4,112	6,121	4,112	6,121

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

23.3 Workers' Profit Participation Fund

	Note	2006 (Rupees in '000's)	2005
Balance at the beginning of the year		3,676	1,909
Interest on fund utilised in company's business		234	51
		3,910	1,960
Allocation for the year		3,022	3,676
		6,932	5,636
Less: Amount paid during the year		3,910	1,960
Balance at the end of the year		3,022	3,676

24. CONTINGENCIES AND COMMITMENTS

24.1 Contingencies

Taxation

The loss claimed in tax year 2004 by the company amounting to Rs. 6.773 million has been assessed by the Commissioner of Income Tax as to be Rs. 3.240 million. However, the company has filed an appeal against the above disallowance of loss in Income Tax Appellate Tribunal. The management believes that on the merit of the case the outcome of above appeal will be favourable and accordingly no provision is required to be made in the financial statements in respect of the above disallowance of losses.

Electricity charges

Karachi Electric Supply Corporation Limited (KESC) raised a demand of Rs.12.285 million on the plea that they erred in billing, against which the company had filed an appeal 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.

During the year the Honourable High Court of Sindh has decided the appeal in favour of KESC. The company has filed a second appeal against the judgment of the Court before the expanded bench of Sindh High Court. 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	2006 (Rupees in '000's)	2005 (Rupees in '000's)
24.2 Commitments			
24.2.1 Bank guarantees			
In favour of			
Collector of Customs		2,324	3,618
Sui Southern Gas Company		15,921	15,921
		18,245	19,539

These guarantees are secured by first pari passu hypothecation charge over stocks and book debts of the company of Rs. 202.00 million (2005: Rs. 141.00 million).

	2006	2005
24.2.2 Insurance company guarantees		
(i) Against advances from customers	-	397
(ii) In favour of Karachi Electric Supply Corporation	4,000	4,000
	4,000	4,397

24.2.3 Commitments under letters of credit for other than capital expenditure, contracts and guarantees at the end of the year amounted to Rs. 72.816 million (2005: Rs. 33.648 million).

24.2.4 Commitments under letter of credit in respect of capital expenditure as at June 30, 2006 amounted to Rs.11.704 million (2005: Rs. 35.026 million).

24.2.5 Commitments in respect of capital expenditure as at June 30, 2006 amounted to Rs. 2.720 million (2005: Rs. 4.627 million).

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

	Note	2006 (Rupees in '000's)	2005
Payable within one year		-	130
Payable after one year		-	-
		-	130

25. SALES

	Note	2006	2005
Gross sales		1,114,687	796,202
Less: Sales tax		167,203	103,478
		947,484	692,724

26. COST OF GOODS SOLD

	Note	2006	2005
Raw and ancillary materials consumed		526,364	330,998
Salaries, wages and benefits	26.1	106,271	90,948
Contract labour		18,501	13,558
Spare parts and other maintenance		45,472	33,496
Packing materials consumed		8,438	6,982
Fuel, water and power		71,288	54,932
Rent, rates and taxes		415	338
Insurance		2,003	823
Training expenses		448	491
Repairs and maintenance:			
Factory building and electrical fittings		6,675	4,230
Furniture, fittings and office equipments		337	363
Depreciation	3.3	43,287	21,797
Royalties and technical fee		8,565	3,936
Printing and stationery		866	687
Postage, telephone and telegrams		947	1,063
Subscriptions		124	69
Provision for obsolescence:			
Stores and spares		-	1,155
Stock-in-trade		-	403
General expenses		728	556
		840,729	566,825
Opening work-in-process		17,039	18,426
Closing work-in-process		(22,550)	(17,039)
		(5,511)	1,387
Cost of goods manufactured		835,218	568,212
Opening stock of finished goods		28,882	30,796
Closing stock of finished goods		(54,816)	(28,882)
		(25,934)	1,914
		809,284	570,126

26.1 Salaries, wages and benefits include Rs. 5.300 million (2005: Rs. 4.633 million) in respect of staff retirement benefits.

	Note	2006 (Rupees in '000's)	2005
27. OTHER OPERATING INCOME			
Profit on sale of fixed assets	43	418	1,729
Mark-up on loans to employees		94	95
Reversal of royalty provision		-	7,940
		512	9,764
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances	28.1	19,783	16,959
Directors' fee		40	8
Lease rentals - operating		123	1,477
Printing and stationery		606	481
Postage, telephone and telegrams		665	656
Business promotion expenses		438	368
Subscriptions		239	494
Travelling and conveyance		1,789	1,529
Insurance		1,298	522
General expenses		238	645
Medical expenses		438	384
Training expenses		57	282
Advertisement and publicity		137	188
Repairs and maintenance of furniture, fittings and office equipment		243	320
Depreciation	3.3	1,140	953
Amortisation of intangible assets	4.1	78	17
Receivables / deposits written-off		-	502
Written-off / amortization of deferred cost		-	4,439
		27,312	30,224

28.1 Salaries and allowances include Rs. 1.460 million (2005: Rs. 1.442 million) in respect of staff retirement benefits.

	Note	2006	2005
29. SELLING AND DISTRIBUTION COSTS			
Salaries and allowances	29.1	5,652	5,463
Rent, rates and taxes		166	139
Lease rentals - operating		13	161
Cartage and octroi		2,012	1,788
Printing and stationery		260	206
Postage, telephone and telegrams		284	277
Business promotion expenses		69	36
Subscriptions		47	46
Travelling and conveyance		1,187	1,745
Insurance		408	166
General expenses		29	39
Medical expenses		131	122
Advertisement and publicity		2,094	1,246
Repairs and maintenance of furniture, fittings and office equipment		101	109
Depreciation	3.3	522	408
		12,975	11,951

29.1 Salaries and allowances include Rs. 0.401 million (2005: Rs. 0.396 million) in respect of staff retirement benefits.

	Note	2006 (Rupees in '000's)	2005
30. OTHER OPERATING CHARGES			
Legal and professional charges		1,383	947
Auditors' remuneration	30.1	455	283
Donation	30.2	731	664
		2,569	1,894
30.1 Auditors' remuneration			
Audit fee		190	150
Special reports and sundry services		236	105
Out-of-pocket expenses		29	28
		455	283

30.2 Represents donation given to Atlas Foundation Rs. 0.731 million (2005: Rs. 0.664 million). 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.

	Note	2006	2005
31. FINANCE COST			
Mark-up on long-term loans - secured		13,997	7,755
Mark-up on short-term finances - secured		19,814	4,385
Mark-up on short-term borrowings - secured		-	860
Mark-up on advances from customers - secured		-	23
Bank and other allied charges		1,743	1,581
Interest on Workers' Profit Participation Fund		234	51
Exchange (gain) / loss		(135)	113
		35,653	14,768
32. TAXATION			
For the year :			
- current		4,737	3,508
- deferred		23,364	25,516
	32.1	28,101	29,024
32.1 In view of brought forward losses, tax has been computed under section 113 of the Income Tax Ordinance, 2001		4,737	3,508
Deferred tax for the year		23,364	25,516
Tax expense for the year		28,101	29,024
33. EARNINGS PER SHARE			
33.1 Basic earnings per share			
Profit after tax		29,080	40,825
Number of shares			
Weighted average number of ordinary shares outstanding during the year		12,336,695	10,920,375
		(Rupees)	
Earnings per share		2.36	3.74

	Note	(Rupees in '000's) 2006	2005
33.2 Diluted earnings per share			
Profit after tax		29,080	40,825
		Number of shares	
Weighted average number of ordinary shares outstanding during the year		12,336,695	10,920,375
Deposits for right shares		-	3,720,548
		12,336,695	14,640,923
		(Rupees)	
Diluted earnings per share		2.36	2.79

34. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	Director 2006	Director 2005	Chief Executive 2006	Chief Executive 2005	Executives 2006	Executives 2005
	(Rupees in thousands)					
Managerial remuneration	-	-	2,456	1,897	2,807	3,004
Bonus	-	-	534	316	610	231
Rent	-	-	961	854	1,098	1,352
Utility	-	-	214	-	244	-
Medical expenses	-	-	12	12	33	48
Retirement benefits	-	-	235	209	224	279
Reimbursable expenses	-	-	211	146	386	327
Directors' fee	12	8	-	-	-	-
	12	8	4,623	3,434	5,402	5,241
Number of persons	-	-	1	1	3	5

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

35. CASH GENERATED FROM OPERATIONS

	Note	(Rupees in '000's) 2006	2005
Profit before taxation		57,181	69,849
Adjustments for:			
Depreciation / amortisation	3.3 & 4	45,027	23,175
Profit on sale of fixed assets		(418)	(1,729)
Amortisation of deferred cost		-	4,439
Provision for gratuity		2,219	1,937
Financial expenses		35,653	14,768
		82,481	42,590
Operating profit before working capital changes		139,662	112,439
Working capital changes	35.1	(53,845)	(41,550)
Cash generated from operations		85,817	70,889

	Note	2006 (Rupees in '000's)	2005
35.1 Working capital changes			
Decrease / (increase) in current assets			
Stock-in-trade		(101,420)	(24,159)
Trade debts		9,692	(5,892)
Loans, advances, deposits, prepayments and other receivables		(1,817)	(8,858)
		(93,545)	(38,909)
Increase / (decrease) in current liabilities			
Trade and other payable		39,700	(2,641)
		(53,845)	(41,550)

36. RELATED PARTY TRANSACTIONS

The related parties include entities with common directors, major shareholders, directors, key management personnel and staff retirement benefit plans. The company has a policy whereby transactions with related parties, are entered into at arm's length prices other than certain benefits to employees under the terms of the employment. The transactions with related parties, other then remuneration and benefits to key management personnel disclosed in note 34 and 43 are as follows:

Relationship with the company	Nature of transactions	2006 (Rupees in '000's)	2005
Entities having directors in common with the company	Internet service	108	90
	Expenses paid on company's behalf	21	706
	Dividend paid	6,682	2,583
	Purchase of goods / fixed assets	7,728	9,579
	Purchase of services	8,298	7,430
	Sale of goods	761,073	496,161
	Sale of scrap	948	-
	Loan repaid	7,500	10,000
	Expenses charged by AEIL	1,907	1,114
	Expenses charged to AEIL	754	70
	Interest on borrowings	256	904
	Donation	731	664
Employees' retirement benefit plans	Contribution during the year	1,112	8,344

37. 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.

38. 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 continuously 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:

	2006			2005		
	Trade debts	Loans and advances	Deposits	Trade debts	Loans and advances	Deposits
	---------- Rupees in thousands ----------			---------- Rupees in thousands ----------		
Original Equipment Manufacturers	17,552	-	-	25,788	-	-
Replacement market	12,835	-	-	13,847	-	-
Others	-	4,756	1,716	444	12,986	1,677
	30,387	4,756	1,716	40,079	12,986	1,677

39. 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. The maturity profile is monitored to ensure adequate liquidity is maintained.

40. 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:

	2006							
	Effective yield / mark-up rate %	Exposed to yield / mark-up rate risk			Non-Interest / Mark-up bearing			
		Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	Total
		(Rupees in thousands)						
Financial Assets								
Loans and advances	12.00	606	107	713	1,061	618	1,679	2,392
Deposits and other receivables	-	-	-	-	11,311	1,268	12,579	12,579
Trade debts	-	-	-	-	30,387	-	30,387	30,387
Cash and bank balances	-	-	-	-	13,621	-	13,621	13,621
		606	107	713	56,380	1,886	58,266	58,979
Financial Liabilities								
Long-term loans	6.25-11.00	86,881	160,127	247,008	-	40,000	40,000	287,008
Short-term running finances	10.04-11.05	144,935	-	144,935	-	-	-	144,935
Short-term borrowings	8.68	-	-	-	-	-	-	-
Trade and other payables	-	-	-	-	83,414	-	83,414	83,414
Accrued mark-up	-	-	-	-	9,815	-	9,815	9,815
Provision and other liabilities	-	-	-	-	7,904	-	7,904	7,904
		231,816	160,127	391,943	101,133	40,000	141,133	533,076
Total yield / mark-up rate risk sensitivity gap		(231,210)	(160,020)	(391,230)	(44,753)	(38,114)	(82,867)	(474,097)

	Effective yield / mark-up rate %	Exposed to yield / mark-up rate risk: Maturity upto one year	Exposed to yield / mark-up rate risk: Maturity after one year	Exposed to yield / mark-up rate risk: Sub-total	Non-Interest / Mark-up bearing: Maturity upto one year	Non-Interest / Mark-up bearing: Maturity after one year	Non-Interest / Mark-up bearing: Sub-total	Total
2005		(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 running 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	-	-	-	-	44,728	-	44,728	44,728
Accrued mark-up	-	-	-	-	4,297	-	4,297	4,297
Provision and other liabilities	-	-	-	-	5,414	-	5,414	5,414
		132,215	165,959	298,174	54,439	40,000	94,439	392,613
Total yield / mark-up rate risk sensitivity gap		(132,023)	(165,341)	(297,364)	(5,590)	(37,689)	(43,279)	(340,643)

41. 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. 14.816 million (2005: Rs. 10.465 million) in foreign currencies and financial assets included Rs. Nil (2005: Nil) which are subject to currency risk exposure.

42. 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.

43. DETAILS OF PROPERTY, PLANT AND EQUIPMENTS DISPOSED-OFF

The following assets were disposed-of during the year:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain (loss)	Mode of disposal	Particulars of buyers
	(Rupees in thousands						
Motorcycle	68	-	68	68	-	Insurance Claim	
Motorcycle	67	9	58	58	-	Company's Policy	Mr. Mohammad Aslam (Employee) Karachi
Motorcycle	67	10	57	67	10	Company's Policy	Mr. Mohammad Abid (Employee) Karachi
Motorcycle	67	15	52	67	15	Company's Policy	Mr. Hameed-ur-Rehman (Employee) Karachi
Suzuki Cultus	502	296	206	206	-	Company's Policy	Mr. Shujat Ali (Employee) Karachi
Suzuki Cultus	502	296	206	206	-	Company's Policy	Mr. Mohammad Qadder Khan (Employee) Karachi
Suzuki Cultus	502	306	196	196	-	Company's Policy	Syed Tariq Arabi (Employee) Karachi
Suzuki Cultus	553	333	220	220	-	Company's Policy	Syed Naushad Ali (Employee) Karachi
Honda Civic	1,042	201	841	860	19	By Negotiation	Mr. Jameel Ahmed Siddiqui Karachi
Honda Civic	195	-	195	323	128	Company's Policy	Col (Ret.) Mir Moatazid (Employee) Karachi
Motor vehicles (Note 43.1)	491	276	215	461	246	Company's Policy	Various Employees
2006	4,056	1,742	2,314	2,732	418		
2005	1,801	946	855	2,584	1,729		

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

44. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 20, 2006 by the Board of Directors of the company.

45. CORRESPONDING FIGURES

Certain prior year figures have been reclassified consequent upon certain changes in current year's presentation for more appropriate comparison. Material reclassification are as follows:

Reclassifications		
From	To	(Rs. in thousands)
Trade and other payables	Accrued mark-up	9,815
Provision and other liabilities	Deferred liabilities	3,997

46. GENERAL

46.1 The Board of Directors in their meeting held on September 20, 2006 has proposed a final cash dividend @ 10% i.e. Re. 1/- per share for the year ended June 30, 2006 amounting to Rs. 12.34 million for approval of the members in the Annual General Meeting to be held on October 21, 2006.

46.2 Figures have been rounded off to the nearest thousand rupees.

Mohammad Atta Karim	**Yusuf H. Shirazi**	**H. Masood Sohail**
Chief Executive Officer	Chairman	Director

PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2006

NUMBER OF SHAREHOLDERS	* SHARE HOLDING FROM	TO		TOTAL SHARES HELD
341	1	100	Shares	11,310
300	101	500	Shares	84,865
147	501	1,000	Shares	118,319
182	1,001	5,000	Shares	399,352
25	5,001	10,000	Shares	184,080
11	10,001	15,000	Shares	141,127
4	15,001	20,000	Shares	66,000
1	20,001	25,000	Shares	22,000
1	30,001	35,000	Shares	35,000
3	45,001	50,000	Shares	150,000
1	50,001	55,000	Shares	51,085
2	60,001	65,000	Shares	127,857
1	70,001	75,000	Shares	71,250
1	145,001	150,000	Shares	149,000
1	350,001	355,000	Shares	354,420
4	580,001	585,000	Shares	2,322,093
1	665,001	700,000	Shares	700,000
1	6,000,001	6,500,000	Shares	6,148,937
1	1,195,001	1,200,000	Shares	1,200,000
1028				12,336,695

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

CATEGORIES OF SHAREHOLDERS

	Number	Shares held	Percentage
Associated Companies, Undertakings and Related Parties.			
Shirazi Investments (Pvt.) Ltd.	1	6,148,937	49.84%
Atlas Insurance Limited	1	354,420	2.87%
	2	6,503,357	52.72%
NIT & ICP			
National Investment Trust.	1	51,085	0.41%
Investment Corporation of Pakistan.	1	539	0.00%
	2	51,624	0.42%
Directors / Spouse,			
Mr.Yusuf H. Shirazi/Mrs.Khawar Sh. 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.H.Masood Soail.	1	500	-
Mr.Frahim Ali Khan.	1	1	
	5	1,226,407	9.94%
Executive			
Mr.Jawaid Iqbal Ahmed.	1	100	-
Public Sector Companies & Corporation	-	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas & Mutual Funds	25	1,980,754	16.06%
Shareholders holding ten percent or more voting interest in the company.	-	-	-
Individuals	988	1,860,838	15.08%
Others			
Corporate Law Authority (SECP)	1	1	
The Nazir, High Court of Sindh, Karachi.	1	206	0.01%
The Administrator, Abondoned Properties.	1	908	
Trusts.	1	12,500	
Atlas Foundation	1	700,000	5.67%
	5	713,615	5.78%
	1,028	12,336,695	100.00%

Atlas Group Companies

	Year of Establishment / Acquisition*
Shirazi Investments	1962
Atlas Honda	1963
Atlas Battery	1966
Shirazi Trading	1973
Atlas Insurance	1980*
Allwin Engineering	1981*
Atlas Bank	1990
HONDA Honda Atlas Cars	1992
HONDA Honda Atlas Power Product	1997
TOTAL Total Atlas Lubricants	1997
Atlas Asset Management	2002
Atlas Capital Markets	2006

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 21, 2006 at 10:00 a.m. at Corporate Office, Federation House, 2nd Floor, Shahrah-e-Firdousi, main Clifton, Karachi and at any adjournment thereof.

As witness my hand this ____________________ day of ____________________ 2006.

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

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Fold Here

Fold Here

Allwin Engineering Industries Limited

National Highway, Landhi, Karachi. **Ph:** (92-21) 5016921-4, 5015525, 5015527 **Fax:** (92-21) 5011709

Email: aeilkhi@allwin.com.pk **Website:** www.allwin.com.pk