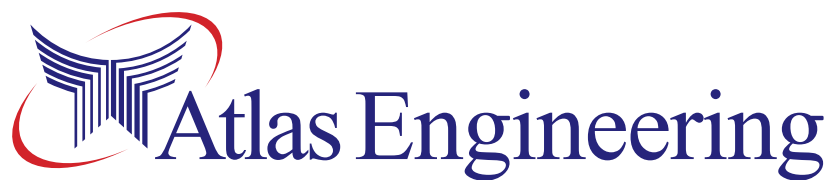




# ANNUAL REPORT 2010



Organisation  
development  
through  
*self development*



 **Atlas Engineering Limited**

ISO 9002 Certified



PISTON & RADIATOR  
MANUFACTURING FACILITIES



## **Vision**

A leading customer oriented manufacturer and supplier of auto parts and components meeting world class standards.

## **Mission**

To realize vision by:

Dynamic manufacturing and marketing of good quality auto parts at competitive prices to the satisfaction of customers.

Continuously improve performance through advances in technology and innovation, aim to generate earnings sufficient to ensure attractive return to the stakeholders.

Create ideal working environment leading to enhanced productivity, job satisfaction and provide employees opportunity for personal development.

Contribute to the national economy with a strong sense of responsibility to society and the environment.

### OUR VALUED OEM CUSTOMERS



Atlas Honda Limited



Pak Suzuki Motor Company Ltd.



Indus Motor Company Ltd.



Al-Ghazi Tractors Ltd.



Millat Tractors Ltd.



DYL Motorcycles Ltd.



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**COMPANY INFORMATION**
**BOARD OF DIRECTORS**

Chairman	Yusuf H. Shirazi
Directors	Ali H. Shirazi
	Bashir Makki
	H. Masood Sohail
	Jawaid Iqbal Ahmed
	Mohammad Atta Karim
	Sohail Wajahat H. Siddiqui
Chief Executive Officer	Sadaqat Ali
Company Secretary	Fida Hussain Zahid

**AUDIT COMMITTEE**

Chairman	H. Masood Sohail
Members	Ali H. Shirazi
	Mohammad Atta Karim
Chief Internal Auditor	Faiz Ullah Ghazi
Secretary	Fida Hussain Zahid

**MANAGEMENT COMMITTEE**

Chief Executive Officer	Sadaqat Ali
General Manager Plant	Muhammad Qadeer Khan
Chief Financial Officer	Shakil Ahmed
General Manager Marketing	Muhammad Saqlain Mirza
General Manager Quality Assurance	Munzim Ahmed Vahidy
General Manager Support Services	Jawaid Iraqi
Financial Controller	Syed Naushad Ali
Manager HR & Admin	Abdul Sattar

**AUDITORS**

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

**LEGAL ADVISORS**

Mohsin Tayabali & Co.  
Advocate Incorporation  
Agha Faisal Barrister at Law

**COMPANY INFORMATION**

<b>TAX ADVISOR</b>	Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants
<b>BANKERS</b>	Atlas Bank Limited Bank Alfalah Limited Faysal Bank Limited Habib Bank Limited Habib Metropolitan Bank Limited MCB Bank Limited Meezan Bank Limited National Bank of Pakistan Soneri Bank Limited Standard Chartered Bank (Pakistan) Limited
<b>REGISTERED OFFICE</b>	15th Mile, National Highway, Landhi, Karachi-75120 PABX 111-111-AEL (235), Fax: 35011709 Email: aelkhi@atlasengineering.com.pk Website: www.atlasengineering.com.pk
<b>SHARE REGISTRAR</b>	M/S Hameed Majeed Associates (Pvt.) Limited, Karachi Chambers, Hasrat Mohani Road, Karachi Phones: 32424826 & 32412754 Fax: 32424835 E-mail: majeed@hmaconsultants.com
<b>SALES OFFICES</b>	Lahore Office: 1st Floor, 2-Kothalia Building, Mcleod Road, Lahore Phones: 042-37354640 Mobile: 0333-4642589 & 0307-4606099 aellhr@atlasengineering.com.pk
	Multan Office: Near Capri Cinema, Azmat Wasti Road, Multan Phone: 061-4512181, Fax: 061-4544494 Mobile: 0300-6302201 aemul@atlasengineering.com.pk
	Faisalabad Office: No. 54, Chenab Market, Madina Town, Faisalabad Phone: 041-8549376 Fax: 041-8726628 Mobile: 0300-7982516 aelfsd@atlasengineering.com.pk
	Rawalpindi Office: 312, R-A-Bazar, Kashmir Road, Rawalpindi Phone: 051-5516806 Mobile: 0333-5129411 aerwp@atlasengineering.com.pk
	Peshawar Office: Flat No.3, Block 'B', Zeenat Plaza, Near Haji Camp, Peshawar Phone: 091-2651000 Mobile: 0333-9276840 aelpsh@atlasengineering.com.pk



**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the 48th Annual General Meeting of Atlas Engineering Limited will be held at 2nd Floor, Federation House, Shahrah-e-Firdousi, Clifton, Karachi on October 11, 2010 at 10:30 a.m. to transact the following business:

1. To confirm the minutes of the last Annual General Meeting held on October 12, 2009.
2. To receive, consider and adopt the Audited Accounts of the Company together with the Directors' and Auditors' Reports for the year ended June 30, 2010.
3. To appoint Auditors for the year 2010-2011 and to fix their remuneration.

By order of the Board



Fida Hussain Zahid  
Company Secretary

Karachi: September 7, 2010

**NOTES:**

- i) The Share Transfer Books of the company will remain closed from October 5, 2010 to October 11, 2010 (both days inclusive).
- ii) A member entitled to attend and vote at the meeting shall be entitled to 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. 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.
- iv) For the convenience of the shareholder a Proxy Application Form is attached with this report.
- v) Shareholders are requested to immediately notify the Registrar of any change in their addresses.
- vi) Owner of the Central Depository Company, entitle to vote at this meeting must bring his/her Computerised National Identity Card with him/her to prove his/her identity and in case of proxy, must enclose an attested copy of his/her Computerised National Identity Card. Representative of corporate members should bring their usual documents required for such purpose.
- vii) Members are requested to provide by mail or fax, photocopy of thier Computerised National Identity Card (CNIC) or Passport (in case of foreigner), unless it has been provided earlier enabling the company to comply with relevant law.

## SHAREHOLDERS' INFORMATION

### Registered Office:

15th mile, National Highway, Landhi, Karachi-75120  
Tel: 92-21-111-111-AEL (235)  
Fax: 92-21-35011709

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### Listing on Stock Exchanges

Atlas Engineering Limited is listed on Karachi and Lahore Stock Exchanges

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### Listing Fees

The annual listing fees for the financial year 2009-10 have been paid to the Karachi and Lahore Stock Exchanges and Central Depository Company within the prescribed time limit.

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### Stock Code

The stock code for dealing in equity shares of Atlas Engineering at KSE and LSE is ATEL.

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### Share Registrar:

M/s Hameed Majeed Associates (Pvt.) Limited,  
Karachi Chambers, Hasrat Mohani Road, Karachi  
Phones: 021-32424826 & 32412754 Fax: 021-32424835  
E-mail: [majeed@hmaconsultants.com](mailto:majeed@hmaconsultants.com)

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### 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.

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### Annual General Meeting

Date: October 11, 2010  
Time: 10:30 A.M.  
Venue: Federation House, 2nd Floor, Shahrah-e-Firdousi, Clifton, Karachi.

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### Financial Calendar

Audited annual results for year ended June 30, 2010:  
Second week of September 2010

Mailing of annual reports:

Third week of September 2010

Annual General Meeting:

Second week of October 2010

Unaudited first quarter financial results:

Last week of October 2010

Unaudited second quarter financial results:

Last week of February 2011

Unaudited third quarter financial results:

Last week of April 2011

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### Share Transfer System

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

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### 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.

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## 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. 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.

## Market price Data

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

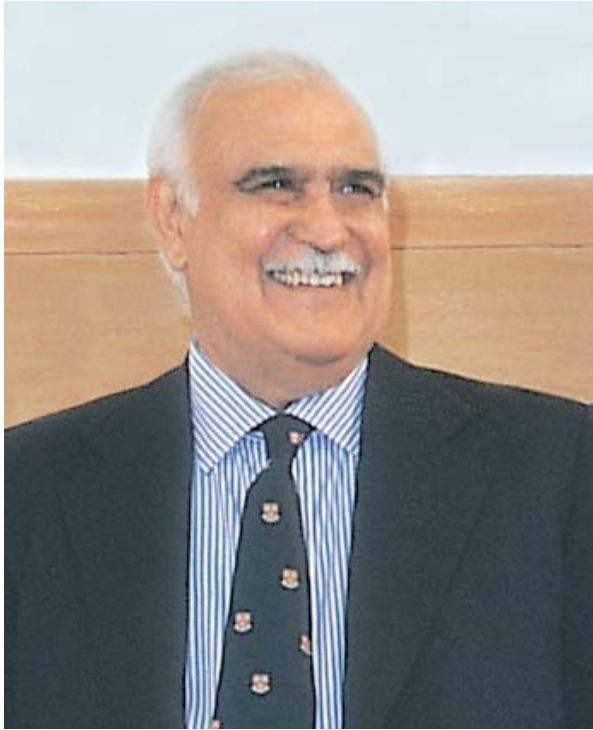
Months	Karachi Stock Exchange	
	High	Low
July 2009	10.01	9.00
August 2009	10.43	9.50
September 2009	11.00	9.50
October 2009	11.90	9.51
November 2009	12.20	11.19
December 2009	13.50	10.90
January 2010	15.76	11.09
February 2010	17.44	14.01
March 2010	18.45	15.41
April 2010	20.45	17.25
May 2010	17.70	16.00
June 2010	17.49	15.03

## Website of the Company

Your company is operating website [www.atlasengineering.com.pk](http://www.atlasengineering.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.

## Change of Address

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



## CHAIRMAN'S REVIEW

It is my pleasure to present to you the 48th annual performance report of the Company for the period ended June 30, 2010.

### The Economy

Pakistan's economy has displayed significant resilience during the outgoing fiscal year against the economic and political challenges, mainly due to improved performance of industrial and service sectors on the back of recovery in global demand. In external sector; reductions in current account deficit, increase in foreign exchange reserves and a surplus showed improvement in balance of payments. The GDP grew 4.1 percent during the year, after a recovery in the preceding year. However, borrowings from the IMF ramped up external debts and increased the cost of debt servicing.

The resurgence of inflation is not restricted to Pakistan. It is a global phenomenon with varying order of magnitude. Moreover, after easing to a low of 8.9

percent in October 2009, overall inflation accelerated to 13.3 percent, because of food inflation against last year's 22.3%. However, the impact of continuous adjustment in power tariff further led to inflationary pressure & the cost of doing business.

Regardless of water shortages and unfavorable weather conditions during the year, the agriculture sector achieved close to the average growth of last ten years. However, the agriculture sector recorded growth of 2 percent as compared to target of 3.8 percent.

The cumulative growth of 4.4 percent in Large-scale manufacturing led recovery in automobile and other allied industries, despite persistent significant energy shortages, law and order situation as well as financial constraints. However, its sustainability would support growth in private sector's credit and improvement in the availability of energy.

### The Company

The year 2009-2010 was another year of challenges but it was a "Revival Year" for auto industry and the Company. Both four wheeler and two wheeler segment showed upward trend and at the same time pulled up the vendor industry from recession.

The Company during the year 2009-2010 showed growth mainly because of growth in OEM sectors and capturing a large market share in replacement market, especially, motorcycle segment where the sales showed significant increase. However, during the year under review, Rupee devaluation against Japanese Yen, partially sliding against dollar and unprecedented increase in prices of basic materials put pressure on cost of production. Increase in utilities tariff and inflationary pressures further led to cost of overheads at considerable high level. These cost pressures were partially accommodated in shape of price increase and substantial cost reduction measures carried out during the year in operation, and utilities to lower the burdens on cost of product. Further, the Company signed a technical agreement with FCC Company, Japan for machining and assembling of Clutch Assembly CG-125, Cylinder Sleeve CG-125, Drum Gear Shift for CD-70 for Atlas Honda and Toyota 2J piston for replacement market were

developed to promote volume based strategy and rationalize the impact of cost increases.

Your company is continuously focusing on enhancing its technological base & capacities to ensure smooth supply and synchronization with growing demands from valued customers. The Company invested Rs. 72.35 million during the year on account of BMR, leading to increasing future revenues and profitability.

The Support Services department was established to support the overall production facilities with high quality, efficient and cost effective provisioning of maintenance services, utilities and handling of projects / parts development according to emerging production and market requirements.

## **Market Review**

In 2009-2010, the automobile Industry of Pakistan in general and two wheelers Industry in particular came out of the global recessionary impact. During the year 2008-2009, country had observed a negative growth of 45% and 23% in 4 wheelers and 2 wheelers Industry respectively. Whereas during the year 2009-10, the 4 wheelers & 2 wheelers industry showed recovery of around 25% and 15% respectively. Moreover, tractor Industry in Pakistan also demonstrated a significant growth of around 25 % mainly due to 'Benazir Tractor Scheme' by the Govt. of Pakistan and 'Green Tractor Scheme' by the Punjab Government.

In replacement market, your company performed better than the last year's performance. With the increase in cost of sales due to increase in material price, exchange rate and utility tariff etc., your company managed to review prices of products as and when necessitated taking into consideration market competition, especially, in radiators segment which contributed about 73 % to total replacement sales value against 65% last year.

## **Quality Assurance**

The Quality Assurance Department continued to reduce in-house rejections and Customers Returns.

Endured efforts have enabled it to acquire appreciable reduction in rejections.

In order to enhance working efficiency of the Quality System, organization structure of Quality Department has been restructured to reduce in - process rejections through development and implementation of line inspection system.

## **Financial Highlights**

During the year 2009-2010 your company achieved the highest turnover of Rs. 1.53 billion against Rs. 1.14 billion in the corresponding period of last year, an increase of 34.72 %. Despite rupee devaluation, increase in material cost and utility charges, gross profit was recorded at Rs. 187.78 million against Rs. 64.18 million in the last corresponding period, an increase of 192.56 %. The higher gross profit was mainly because of higher sales, reduction in costs through process improvement, better material management, rationalization of manpower and improved productivity. The operating expenses increased to Rs. 77.12 million against Rs. 63.55 million of corresponding period, which are 5.04 % and 5.60 % of the sales respectively. The financial charges reduced from Rs. 66.36 million to Rs 52.72 million compared to last year due to efficient receivable management, inventory management and reduction in markup rate. All above efforts contributed to register a profit before tax of Rs. 58.06 million, against a loss before tax Rs. 59.27 million of the corresponding period last year, a significant improvement indeed. The net profit after tax for the year end increased to Rs. 36.14 million from a loss after tax of Rs. 47.47 million of last year with due improvement in net profit margin.

Basic earning per share after tax for the year was Rs. 1.46 against loss per share of Rs. 3.33 in the last corresponding period.

## **Cash Flow**

Net cash provided by operating activities during the year ended June 30, 2010 was Rs. 92.43 million compared with Rs. 8.51 million for the equivalent

period of corresponding year. The cash outflows from investing activities remained Rs. 69.86 million on account of additions in property, plant and equipment against inflows of Rs. 22.60 million in the corresponding period last year. The cash outflow from financing activities was Rs. 11.63 million against inflow of Rs. 15.81 million last year.

### Contribution To Exchequer

During the year under review, the company contributed an amount of Rs. 325.92 million in respect of sales tax, income tax and custom duty. Moreover, the Atlas Group, of which the company is a constituent member, contributed Rs. 16.83 billion during the year 2009-2010 - one of the highest contributions in the country.

### Human Resources

HR department remained focused in the areas of providing quality HR, Training & Development and competitive remuneration.

In pursuance of Atlas Group's Motto of Organizational Development through Self Development, Company maintained its emphasis on training and grooming of human resource to meet the changing business requirements. The Company nominated three of its executives for Atlas - IBA diploma program who are at the final stage of qualification. Major emphasis was also placed on improving systems and procedures during the period. During the year, implementation on HSE policy for AEL was initiated. HSE Strategic and Implementation Committees passed on directions for optimum compliance of HSE manual, along-with monitoring of action plan.

The Industrial peace was maintained through out the year. Efforts were focused to keep the morale of the team high - and team work.

### Outlook & Challenges

The Company believes in visualizing a sustained growth in agriculture, manufacturing and service sector which will all indirectly bode well for the auto

parts manufacturing industry and the replacement market.

However, the impact of recent unprecedented floods on the economy is yet to be seen. Business will face intense challenges due to loss of crops and infrastructure in the aftermath of the crises. This would further exacerbate the fragile economic conditions prevailing due to high inflation, weakening rupee and rising interest rates.

Historically, the company has come through such critical situations successfully by improving process efficiencies, manpower productivity, capital discipline and by initiating various cost reduction initiatives. The Management is confident that the momentum being built up, will improve future results.

عزمت مجھے اُن جوانوں سے ہے  
ستاروں پر جو ڈالتے ہیں کند

(High performers are highly respected)

### Acknowledgement

I would like to thank the customers, dealers, financial institutions and share holders for their continued support and cooperation in maintaining high standards of excellence. I also thank our members of the Board of Directors, and Chief Executive Officer and his team for their countless hours of work to make Atlas Engineering a great company in order to excel in our service to our valued customers.



Karachi: September 7, 2010

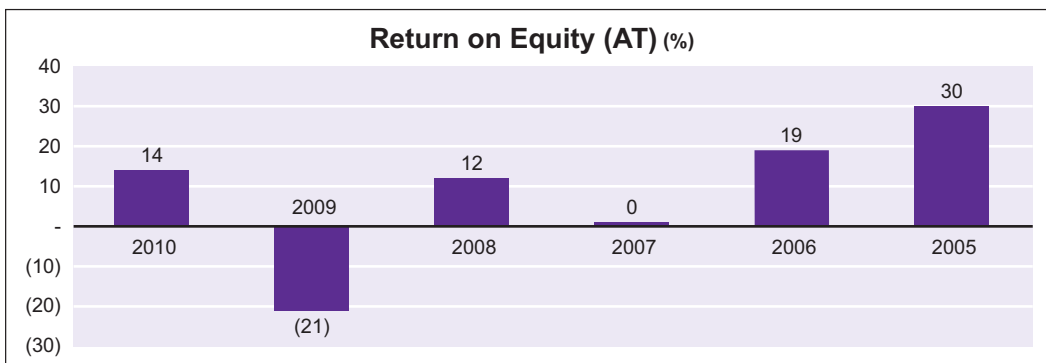
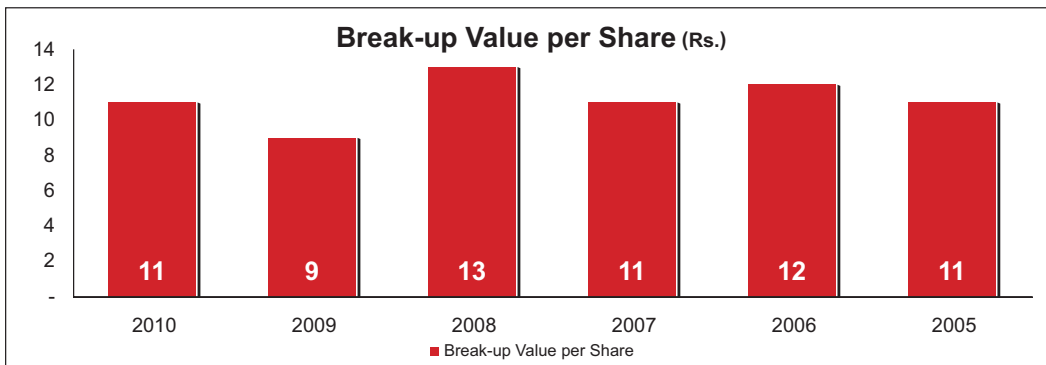
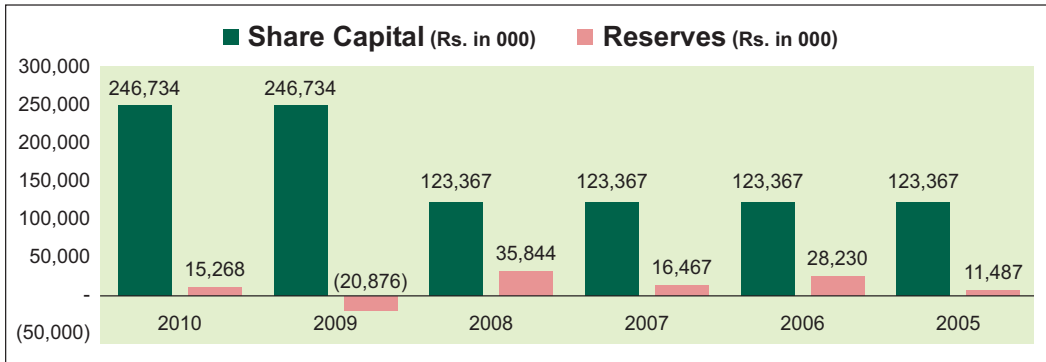
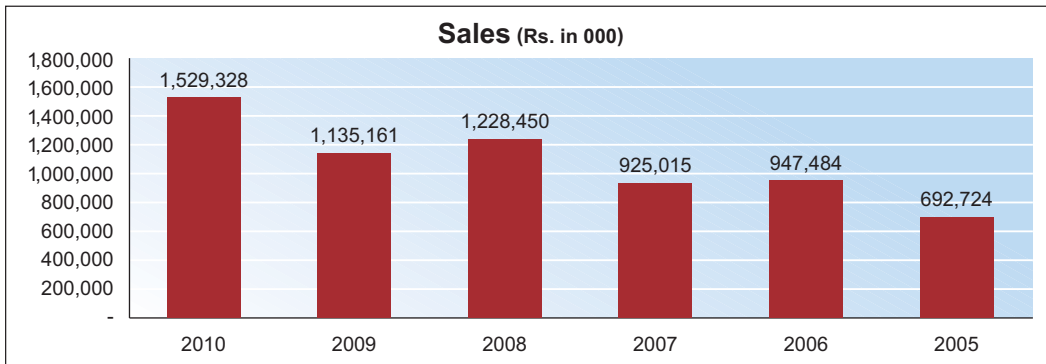
Yusuf H. Shirazi

**KEY PERFORMANCE AND FINANCIAL DATA**

(Rupees in '000')

Particulars	2010	2009	2008	2007	2006	2005
Sales	1,529,328	1,135,161	1,228,450	925,015	947,484	692,724
Gross profit	187,779	64,184	141,764	77,675	138,200	122,598
Profit / (Loss) Before Taxation	58,062	(59,274)	29,654	(15,574)	57,181	69,849
Profit / (Loss) After Taxation	36,144	(47,467)	19,377	574	29,080	40,825
Share Capital	246,734	246,734	123,367	123,367	123,367	123,367
Reserves	15,268	(20,876)	35,844	16,467	28,230	11,487
Shareholders' Equity						
- Including Surplus on Revaluation	677,782	641,638	574,991	555,614	270,277	253,534
- Excluding Surplus on Revaluation	262,002	225,858	159,211	139,834	151,597	134,854
Fixed Assets Net	844,060	810,161	876,807	889,787	592,672	503,471
Total Assets	1,237,256	1,150,688	1,209,008	1,137,337	903,729	714,600
Current Assets	382,404	330,215	325,178	242,002	308,847	207,750
Current Liabilities	395,227	364,390	416,424	355,303	340,258	196,613
Net Working Capital	(12,823)	(34,175)	(91,246)	(113,301)	(31,411)	11,137
<b>Ratios:</b>						
Profitability ( % )						
Gross Profit	12.28	5.65	11.54	8.40	14.59	17.70
Profit / (Loss) Before Tax	3.80	(5.22)	2.41	(1.68)	6.04	10.08
Profit / (Loss) After Tax	2.36	(4.18)	1.58	0.06	3.07	5.89
<b>Return to Shareholders</b>						
Dividend %	-	-	7.50	-	10.00	10.00
Cash Dividend Per Share	-	-	0.75	-	1.00	1.00
Dividend Yield Ratio	-	-	0.02	-	0.02	0.03
Dividend Pay Out Ratio	-	-	0.47	-	0.42	0.27
ROE - After Tax %	13.80	(21.02)	12.17	0.41	19.18	30.27
Earnings / (loss) per share - basic						
& diluted - Rs.	1.46	(3.33)	1.61	0.05	2.36	3.74
Market Price ( June 30 )	16.00	9.66	31.60	25.70	39.70	33.00
<b>Activity (Times)</b>						
Sales to Total Assets	1.24	0.99	1.02	0.81	1.05	0.97
Sales to Fixed Assets	1.81	1.40	1.40	1.04	1.60	1.38
Debtor Turnover (Days)	25	40	13	13	12	21
<b>Liquidity / Leverage</b>						
Current Ratio ( Times )	0.97	0.91	0.78	0.68	0.91	1.06
Quick Ratio ( Times )	0.40	0.43	0.20	0.14	0.18	0.31
Break up Value per Share ( Rs )						
- Including Surplus on Revaluation	27.47	26.01	46.61	45.04	21.91	20.55
- Excluding Surplus on Revaluation	10.62	9.15	12.91	11.33	12.29	10.93
Long Term debts to Equity(Incl. Surplus on Revaluation) (Times)	0.16	0.17	0.28	0.32	0.52	0.54
Total Liabilities to Equity(Incl. Surplus on Revaluation) (Times)	0.45	0.44	0.52	0.51	0.70	0.65

**KEY PERFORMANCE RATIOS - GRAPHICAL PRESENTATION**

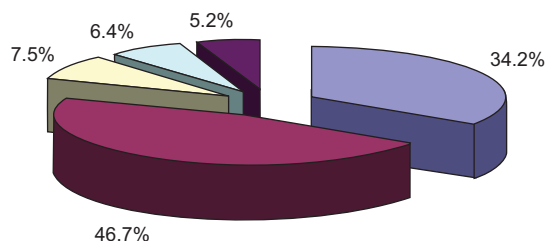




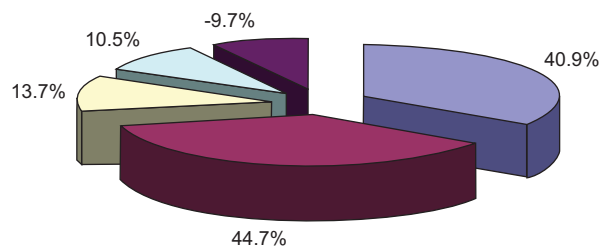
## STATEMENT OF VALUE ADDITION

Year ended 30 June	(Rupees in 000')			
	2010		2009	
	Amount	% age	Amount	% age
<b>Wealth Generated</b>				
Total Revenue	1,789,314		1,316,166	
Material & Services (excluding duties)	(1,090,814)		(832,002)	
	<u>698,500</u>	<u>100%</u>	<u>484,164</u>	<u>100%</u>
<b>Wealth distributed</b>				
<b>To Employees</b>				
Salaries & other related costs	238,888	34.2%	198,131	40.9%
<b>To Government</b>				
Sales tax, income tax, import duty & other levies	325,917	46.7%	216,417	44.7%
<b>To Providers of Capital</b>				
Markup/Interest	52,721	7.5%	66,355	13.7%
<b>Retained in the Business</b>				
Depreciation	44,830	6.4%	50,728	10.5%
Retained Profit	36,144	5.2%	(47,467)	-9.7%
	<u>80,974</u>	<u>11.6%</u>	<u>3,261</u>	<u>0.8%</u>
	<u>698,500</u>	<u>100%</u>	<u>484,164</u>	<u>100%</u>

Wealth Distribution 2010



Wealth Distribution 2009



■ Employees ■ Markup/Interest ■ Retained in Business ■ Government ■ Depreciation

## DIRECTORS' REPORT

The Directors of your company take pleasure in presenting their report together with the Audited Accounts and Auditor's Report thereon for the year ended June 30, 2010.

### Financial Results

The financial results of your company for the year ended June 30, 2010 under review are summarized as follows:

	(Rupees in 000')	
	2010	2009
Profit / (Loss) before taxation	58,062	(59,274)
Taxation		
Current	(7,646)	-
Deferred	(14,272)	12,727
Prior Years	-	(920)
	<u>(21,918)</u>	<u>11,807</u>
Profit / (loss) after taxation	<u>36,144</u>	<u>(47,467)</u>

### Earnings per Share

Basic earnings per share after tax is Rs. 1.46 per share (2009: Rs. (3.33)).

### Dividend

The profit of Rs. 36.14 million has added in accumulated profit account. The closing balance of accumulated profit is Rs. 15.26 million after adjustment of opening balance. Taking into consideration the above fact the Board of Directors in the interest of the Company has not recommended any dividend for the year 2010 (2009: Rs. Nil).

### 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, 2010 and future prospects. The directors endorse the contents of the review.

### Board of Directors

The Board comprises of all Non-Executive directors those are independent from management.

The Board approved the remuneration of the CEO Rs. 6.0 million, bonus and other benefits like free transportation, telephone facility, medical expenses etc. as per company's policy for the year 2010-2011.

During the year five Board meetings were held. The attendance of the directors is as follows:

S. No.	Name of Directors	Meetings Attendance
1.	Mr. Yusuf H. Shirazi	5
2.	Mr. Ali H. Shirazi	5
3.	Mr. Bashir Makki	5
4.	Mr. H. Masood Sohail	5
5.	Mr. Jawaid Iqbal Ahmed	5
6.	Mr. Mohammad Atta Karim	5
7.	Mr. Sohail Wajahat H. Siddiqui	2

## Auditors

The present Auditors M/S Ernst & Young 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 2010-2011.

## 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, 2010 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 is a committee of the Board that reviews the financial and internal reporting process, the system of internal controls, management of risks and internal and external audit processes. It also proposes the appointment of external auditors to the shareholders and is directly responsible for their remuneration and oversight of their work. An independent Internal Audit function reports to the committee regarding risks and internal control across the organization. The audit committee receives reports from external auditors on any accounting matters that might be regarded as critical. The detailed Charter of Audit Committee developed in accordance with the Code of Corporate Governance contained in the listing regulations of stock exchanges.

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

The Audit Committee met four times during the year ended June 30, 2010. The Audit Committee reviewed the quarterly, half yearly and annual financial statements, besides the internal audit plan, material audit findings and recommendations of the Internal Auditor.

During the year four Audit Committee meetings were held and attended as follows:

Mr. H. Masood Sohail	- Chairman	4
Mr. Ali H. Shirazi	- Member	3
Mr. Mohammad Atta Karim	- Member	4

## Management Committee

The Management Committee acts at the operating level in an advisory capacity to the CEO, providing recommendations relating to the business and other corporate affairs. The Committee has responsibility for reviewing and forwarding long-term plans, capital and expense budget development and stewardship of business plans. The committee is also responsible for maintaining healthy environment within and outside the Company. The committee is organized on a functional basis and meets monthly to review the performance of each function of the company against its targets set at the beginning of the year.

## Communication

Communication with the shareholders is given a high priority. Annual Report is distributed to them within the time specified in the Companies Ordinance, 1984. The company also has a web site ([www.atlasengineering.com.pk](http://www.atlasengineering.com.pk)), which contains up to date information of Company activities. Quarterly reports are available at the website of the company within specified time.

## Donation

The Company has a policy to donate 1% of its profit before tax of preceding year to a charitable institution. During the year, Company has not donated due to loss in the year 2008-2009.

### Health, Safety and Environment

Health, Safety and Environment policy is annexed.

### Statement of Ethics and Business Principles

The Statement of Ethics and Business Principles is annexed.

### 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 and any departure there from has been adequately disclosed.
- e). The system of internal control is sound in design and has been effectively implemented and monitored.
- 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. 170.03 million (June 30, 2009)
- Gratuity Fund Rs. 5.76 million (June 30, 2009)

### Pattern of Shareholding

The pattern of shareholding of the company is annexed.

For and on behalf of the  
Board of Directors



Sadaqat Ali  
Chief Executive Officer

Karachi: September 7, 2010

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE**  
FOR THE YEAR ENDED JUNE 30, 2010

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.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBFI or, being a member of stock exchange, has been declared as defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Company has adopted and circulated a 'Statement of Ethics and Business Practices', which has been signed by 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. No appointment of Chief Executive Officer, Chief Financial Officer, Company Secretary and Head of Internal Audit of the Company were carried out during the year. However, the Board has approved the remuneration and terms and conditions of employment of CFO, Company Secretary and Head of Internal Audit as recommended 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 transactions with related parties are placed before the Board Audit Committee and Board of Directors for review and approval. A complete party-wise record of related party transactions has been maintained by the Company.
14. 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.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee. It comprises three Members, of whom all are non-executive directors including the chairman of the committee.
17. 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.
18. The Board has set-up an effective internal audit function.
19. 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.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations, the auditors have also confirmed that they have observed IFAC guidelines in this respect.
21. We confirm that all other material principles contained in the Code have been complied.



Sadaqat Ali  
Chief Executive Officer

Karachi: September 7, 2010

## **STATEMENT OF ETHICS AND BUSINESS PRINCIPLES**

### **Standard of Conduct**

Atlas Engineering Limited conducts its operations 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**

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

### **Employees**

Atlas Engineering 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 individuals 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**

Atlas Engineering Limited is committed for providing branded products and services, which consistently offer value in terms of price and quality. Products and services will be accurately and properly labelled, advertised and communicated.

### **Shareholders**

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

### **Business Partners**

Atlas Engineering Limited is committed for 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**

Atlas Engineering 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**

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

It will co-operate 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 interests.

### **The Environment**

Atlas Engineering Limited is committed for making continuous improvements in the management of environmental impact and to the longer-term goal for developing a sustainable business. It works in partnership with others to promote environmental care, increase understanding of environmental issues and disseminate good practice.

### **Innovation**

Atlas Engineering 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**

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



### **Business Integrity**

Atlas Engineering 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 is, 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 will be established or maintained.

### **Conflicts of Interests**

All Atlas Engineering 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 Atlas business success. The Board of Directors of Atlas Engineering Limited is responsible for ensuring that 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 Atlas Engineering 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 shall also include 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 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 audit department is

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

## **HEALTH, SAFETY AND ENVIRONMENT**

### **OBJECTIVE**

Atlas Engineering Limited is committed to create safe working and healthy environment by establishing and maintaining procedures and high standards of Occupational Health, Safety & Environment through promotion of safe work practices and prevention of all injuries and loss producing incidents. Our objective is embracing the safety of all employees, contractors, visitors, and related people / entities in the course of our day to day operations.

### **POLICY**

We believe Occupational Health, Safety & Environment takes its roots through individual commitments and behaviors. HSE is an integral part of all our activities at Atlas Engineering, a common goal which achieves through individual efforts of all employees who are required to actively participate in making the operations safe, healthy and environment friendly.

#### **We are committed to**

- Compliance to all applicable national legislation on occupational health, safety and environment issues.
- Work in close liaison with industry members and legislative bodies to promote highest standards of Occupational Health, Safety & Environment.
- Establish and maintain a HSE management system in our company to identify all health risks including those involved in innovation or process change.
- Investigation of all potential incidents that have or could have resulted in a work injury or property loss. For this we will adopt the methodology that best support the nature of risks associated with our operations.
- Acknowledge the role of human behavior in effective HSE management and we aim to develop resource specific programs focusing on behavioral elements.
- Ensure that all our employees at each level and functions are well aware of this policy and its importance and are motivated to apply it in their areas of responsibilities. Necessary support and training will be given in this respect to achieve HSE objectives
- Guide our contractor and suppliers to develop awareness to improve overall work environmental and HSE performance.
- Ensure that all efforts are directed to achieve HSE excellence through continuous improvement.

## **Review Report to the Members on Statement of Compliance with the 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 (the Code) for the year ended 30 June 2010, prepared by the Board of Directors of Atlas Engineering Limited (the Company) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange (Guarantee) Limited and Listing Regulation No. 35 of the Lahore Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2010.

Ernst & Young Ford Rhodes Sidat Hyder



Karachi: September 7, 2010

Chartered Accountants.

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Atlas Engineering Limited (the Company) as at 30 June 2010 and the related profit and loss account, statement of comprehensive income, 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 account 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 except for change as stated in note 2.2 to the accompanying financial statements with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, 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 30 June 2010 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Ernst & Young Ford Rhodes Sidat Hyder



Chartered Accountants

Karachi: September 7, 2010

Audit Engagement Partner: Riaz A. Rehman Chamdia

**BALANCE SHEET**

AS AT JUNE 30, 2010

	Note	(Rupees in '000')	
		2010	2009
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets			
Property, plant and equipment	3	844,060	809,651
Intangible assets	4	-	510
		<u>844,060</u>	<u>810,161</u>
Long-term loans and advances	5	948	1,009
Long-term deposits and prepayments	6	9,844	9,303
		<u>854,852</u>	<u>820,473</u>
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	7	46,643	51,317
Stock-in-trade	8	176,340	120,626
Trade debts	9	105,520	125,307
Loans and advances	10	9,451	4,796
Trade deposits and short-term prepayments	11	1,574	7,960
Taxation - net	12	40,109	15,158
Cash and bank balances	13	2,767	5,051
		<u>382,404</u>	<u>330,215</u>
<b>TOTAL ASSETS</b>		<u><b>1,237,256</b></u>	<u><b>1,150,688</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital (Ordinary Shares of Rs.10 each)	14	246,734	246,734
Accumulated profit /(loss)		15,268	(20,876)
		<u>262,002</u>	<u>225,858</u>
<b>SURPLUS ON REVALUATION OF FIXED ASSET</b>	15	415,780	415,780
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans	16	70,268	61,500
Liabilities against assets subject to finance lease	17	16,173	17,654
Long-term murabaha finance	18	-	3,570
Retirement and other service benefits	19	24,213	22,615
Deferred taxation	20	53,593	39,321
		<u>164,247</u>	<u>144,660</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	147,739	118,220
Accrued mark-up	22	13,315	13,241
Short-term running finances	23	161,894	175,123
Current maturity of long-term loans	16	35,280	15,000
Current maturity of liabilities against assets subject to finance lease	17	7,766	8,571
Current maturity of long-term murabaha finance	18	3,570	28,572
Provisions and other liabilities	24	25,663	5,663
		<u>395,227</u>	<u>364,390</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	25		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,237,256</b></u>	<u><b>1,150,688</b></u>

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



Sadaqat Ali  
Chief Executive Officer



Yusuf H. Shirazi  
Chairman



H. Masood Sohail  
Director



**PROFIT AND LOSS ACCOUNT**

FOR THE YEAR ENDED JUNE 30, 2010

	Note	(Rupees in '000')	
		2010	2009
Sales	26	1,529,328	1,135,161
Cost of goods sold	27	(1,341,549)	(1,070,977)
<b>Gross profit</b>		<b>187,779</b>	<b>64,184</b>
Selling and distribution costs	28	(20,690)	(18,470)
Administrative expenses	29	(49,629)	(42,489)
Other operating expenses	30	(6,800)	(2,589)
Finance costs	31	(52,721)	(66,355)
		(129,840)	(129,903)
<b>Operating profit /(loss)</b>		<b>57,939</b>	<b>(65,719)</b>
Other operating income	32	123	6,445
<b>Profit / (loss) before taxation</b>		<b>58,062</b>	<b>(59,274)</b>
Taxation	33	(21,918)	11,807
<b>Profit / (loss) after taxation</b>		<b>36,144</b>	<b>(47,467)</b>
		(Rupees)	(Rupees)
<b>Earnings/(loss) per share - Basic and diluted</b>	34	<b>1.46</b>	<b>(3.33)</b>

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



Sadaqat Ali  
Chief Executive Officer



Yusuf H. Shirazi  
Chairman



H. Masood Sohail  
Director

**STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED JUNE 30, 2010

	(Rupees in '000')	
	2010	2009
Profit/ (loss) for the year after tax	36,144	(47,467)
Other comprehensive income - net of taxation	-	-
<b>Total comprehensive income for the year - net of tax</b>	<b>36,144</b>	<b>(47,467)</b>

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



Sadaqat Ali  
Chief Executive Officer



Yusuf H. Shirazi  
Chairman



H. Masood Sohail  
Director

**CASH FLOW STATEMENT**

FOR THE YEAR ENDED JUNE 30, 2010

		(Rupees in '000')	
	Note	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	36	180,054	88,510
Financial costs paid		(52,647)	(65,839)
Gratuity paid		(2,381)	(155)
Tax paid		(32,597)	(14,009)
Net cash generated from operating activities		92,429	8,507
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(72,354)	(18,382)
Long-term deposits and prepayments		61	(3,057)
Long-term loans and advances		(541)	(232)
Proceeds from sale of fixed assets		2,975	44,271
Net cash (used in) / generated from investing activities		(69,859)	22,600
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long-term loans		29,048	(56,211)
Long-term murabaha finance		(28,571)	(28,572)
Lease rentals paid		(12,102)	(13,521)
Proceeds from right shares		-	123,367
Dividend paid		-	(9,253)
Net cash used in financing activities		(11,625)	15,810
Net increase in cash and cash equivalents		10,945	46,917
Cash and cash equivalents at the beginning of the year		(170,072)	(216,989)
Cash and cash equivalents at the end of the year		(159,127)	(170,072)
<b>CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	13	2,767	5,051
Short-term running finance	23	(161,894)	(175,123)
		(159,127)	(170,072)

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



 Sadaqat Ali  
 Chief Executive Officer



 Yusuf H. Shirazi  
 Chairman




 H. Masood Sohail  
 Director


**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED JUNE 30, 2010

	Issued, subscribed & paid up capital	Accumulated profit / (loss)	Total
(Rupees in thousands)			
Balance as at June 30, 2008	123,367	35,844	159,211
Loss after taxation	-	(47,467)	(47,467)
Other comprehensive income	-	-	-
Total comprehensive income	-	(47,467)	(47,467)
Dividend for the year ended June 30, 2008 @ Re. 0.75 per share	-	(9,253)	(9,253)
Issue of right shares of Rs.10/- each	123,367	-	123,367
Balance as at June 30, 2009	246,734	(20,876)	225,858
Profit after taxation	-	36,144	36,144
Other comprehensive income	-	-	-
Total comprehensive income	-	36,144	36,144
Balance as at June 30, 2010	246,734	15,268	262,002

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

  
Sadaqat Ali  
Chief Executive Officer

  
Yusuf H. Shirazi  
Chairman

  
H. Masood Sohail  
Director

## **NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2010

### **1. THE COMPANY AND ITS OPERATIONS**

1.1 Atlas Engineering Limited (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. Shirazi Investment (Private) Limited (holding company) held 61.64 percent ordinary shares of the Company (note 14.2).

### **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. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

#### **2.2 Changes in accounting policies and disclosures**

During the current year, the Company has adopted the following new and amended IFRSs as of July 01, 2009, which has resulted in extended disclosures as described below:

IAS-1 - Presentation of Financial Statements (Revised)  
IFRS-7 - Financial Instruments: Disclosures (Amended)

##### **IAS-1 - "Presentation of Financial Statements"**

The revised IAS-1 was issued in September 2007 and became effective for financial years beginning on or after January 01, 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard has introduced a statement of comprehensive income, which presents all items of recognised income and expense, either as a single statement, or in two linked statements. The Company has opted to present two linked statements and accordingly has presented a separate statement of comprehensive income in these financial statements.

##### **IFRS 7 - "Financial Instruments: Disclosures" (Amendments)**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The fair value measurement and the liquidity risk disclosures are not significantly impacted by the amendments.

#### **2.3 Standards and interpretations that become effective but not relevant to the Company**

The following standards (revised or amended) and interpretations became effective for the current

financial year but are either not relevant or do not have any material effect on the financial statements of the Company:

- IFRS 3 - Business Combinations (Revised)
- IFRS 8 - Operating Segments
- IAS 27 - Consolidated and Separate Financial Statements (Revised)
- IAS 32 - Financial Instruments (Amended for Puttable instruments and obligations arising on liquidation)
- IAS 39 - Financial Instruments: Recognition and Measurement (Amended)
- IFRIC 15 - Agreements for the Construction of Real Estate
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 - Distributions of Non-cash Assets to Owners
- IFRIC 18 - Transfers of Assets from Customers

#### 2.4 Standards, interpretations and amendments to approved accounting standards that are not yet effective:

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

Standards or interpretation	Effective date (accounting periods beginning on or after)
IAS 24 - Related Party Disclosures (Revised)	January 01, 2011
IAS 32 - Financial Instruments: Presentation - Amendments relating to Classification of Rights Issues	February 01, 2010
IFRS 2 - Share-based Payment: Amendments relating to Group - settled Share-based Payment Transactions	January 01, 2010
IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendment)	January 01, 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010

The Company expects that the adoption of the above revision, amendments and interpretations of the standards will not have any material impact on the Company's financial statements in the period of initial application except for the implications of IAS 24 - Related Party Disclosures (revised), which may effect certain disclosures.

In addition to above amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project in April 2009. Such improvements are generally effective for accounting periods beginning on or after 01 January 2010. The Company expects that such improvements of the standards will not have any material impact on the Company's financial statements in the period of initial application.

#### 2.5 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.

#### 2.6 Property, plant and equipment and depreciation

##### 2.6.1 Owned

These are stated at cost less accumulated depreciation and any impairment in value except leasehold land which is stated at revalued amount.

Depreciation is charged to profit and loss applying the written down value method at the rates specified in Note 3.1. Depreciation on additions is charged from the month in which the asset is available to use and on disposals up to the month the respective asset was in use. Assets residual values, useful lives and methods are reviewed, and adjusted, if appropriate, at each financial year end.

The carrying values of property, plant and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

Maintenance and normal repairs are charged to profit and loss as and when incurred. Major renewals and improvements, if any, are capitalized when it is probable that respective future economic benefits will flow to the Company.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property, plant and equipment are taken to the profit and loss account.

#### **2.6.2 Assets subject to finance lease**

Leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the inception of the lease, at the fair value of the leased property or, if lower at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets acquired under finance lease are depreciated using the same basis as for owned assets.

#### **2.6.3 Capital work-in-progress**

These are stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

#### **2.6.4 Intangible assets**

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

### **2.7 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. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

### **2.8 Stores, spare parts and loose tools**

Stores, spare parts 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, to write them down to their estimated net realizable value .

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.

## 2.9 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.

## 2.10 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..

## 2.11 Taxation

### 2.11.1 Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits and tax rebates available, if any. The tax charge as calculated above is compared with turnover tax under section 113 of the Income Tax Ordinance 2001, and whichever is higher is provided in the financial statements.

### 2.11.2 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 recognised.

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.

## 2.12 Staff retirement benefits

### 2.12.1 Defined benefit plan

The Company operates an unfunded gratuity scheme for workers and funded gratuity scheme for management staff as described in note 19 to the financial statements. Annual charge is based on actuarial recommendations. Actuarial valuation of the scheme is carried out annually, using Projected Unit Credit Method. 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 whichever is higher. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.



#### **2.12.2 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.

The Provident Fund Rules were amended through Supplementary Trust Deed dated August 30, 2008 which was approved by the Commissioner (Legal Division) Large Taxpayer Unit, Karachi vide letter no.CIT/Legal Div/LTU/2008 dated October 08, 2008.

As per amended Rule, the employees were given option to transfer the complete amount or any portion thereof standing to credit of his accumulated balance in the Fund, to any of the Voluntary Pension Schemes managed by the Atlas Asset Management Company Limited, an associated company under the Voluntary Pension System Rules, 2005, viz, Atlas Pension Fund and Atlas Pension Islamic Fund by a request to the Trustees of fund, in writing. Equal monthly contributions at the rate of 11% of basic salary are made to the Funds under Voluntary Pension Scheme both by the Company and employees. If the member voluntarily opts to become a participant of Atlas Pension Fund or Atlas Islamic Fund managed by the Atlas Asset Management Company Limited, an associated company, the Company shall not be required to make an equal monthly contribution to the Fund. In such case the Company's equal contribution shall be made to the Atlas Pension Fund or Atlas Pension Islamic Fund, as applicable, with effect from the month in which he exercises such option, in full and final discharge of Company's liability towards members retirement benefits.

#### **2.13 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.

#### **2.14 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.

#### **2.15 Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event if 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

#### **2.16 Foreign currency translation**

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

#### **2.17 Revenue recognition**

- Sales are recorded when the significant risk and rewards of ownership of the goods have passed to the customers which generally coincide with the 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.
- Other income is recognized on accrual basis.

#### **2.18 Borrowing costs**

Borrowings costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account.

#### **2.19 Ijarah rentals**

Ijarah payments under an Ijarah arrangement are recognized as an expense in the profit and loss account on a straight line basis over the Ijarah term unless another systematic basis is representative of the time pattern of the user's benefit.

#### **2.20 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 short term borrowings.

#### **2.21 Financial instruments**

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and are derecognised in case of assets, when the contractual rights under the instrument are realized, expired or surrendered and in case of liability, when the obligation is discharged, cancelled or expired. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### **2.22 Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is only offset and the net amount is reported in the balance sheet if the Company has legally enforceable right to setoff the recognized amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses arising from such assets and liabilities are also offset accordingly.

#### **2.23 Related party transactions**

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

#### **2.24 Accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

Determining the residual values and useful lives of property, plant and equipment	Note 2.6
Revaluation of leasehold land	2.6 & 15
Impairment / adjustment of inventories to their net realizable value	2.8 & 2.9
Recognition of taxation and deferred tax	2.11
Accounting for post employment benefits	2.12

### 2.25 Dividend and other appropriations of reserves

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

	Note	2010 (Rupees in thousands)	2009
<b>3. PROPERTY, PLANT AND EQUIPMENT</b>			
Operating assets	3.1	799,131	807,450
Capital work-in-progress	3.6	44,929	2,201
		844,060	809,651

#### 3.1 OPERATING ASSETS

Description	Note	COST / REVALUATION				ACCUMULATED DEPRECIATION			NET BOOK VALUE		Depreciation rate %
		As at July 01, 2009	Additions/ *transfer (Note 3.4)	(Disposals)	As at June 30, 2010	As at July 01, 2009	Charge for the year	(Disposals) /transfer	As at June 30, 2010	As at June 30, 2010	
----- (Rupees in thousands) -----											
<b>Owned assets</b>											
Leasehold land	3.2	415,940	-	-	415,940	-	-	-	415,940	-	
<b>Buildings on leasehold land</b>											
Factory		66,418	872	-	67,290	40,148	2,644	-	42,792	24,498	10
Generator premises		4,924	-	-	4,924	3,264	166	-	3,430	1,494	10
Residential		365	-	-	365	313	4	-	317	48	5
Office		4,091	-	-	4,091	1,619	124	-	1,743	2,348	5
Plant and machinery		493,661	*22,991	-	539,986	251,081	27,053	***5,089	283,223	256,763	10
			**23,334								
Power generators		108,977	-	-	108,977	64,617	5,220	-	69,837	39,140	10&35
Electrical fittings		13,958	*973	-	14,931	7,207	697	-	7,904	7,027	10
Office equipment		2,527	-	-	2,527	2,208	48	-	2,256	271	15
Computers and other IT related equipment		12,406	*1,122	-	13,528	9,141	1,071	-	10,212	3,316	30
Furniture and fittings		4,168	*47	-	4,215	3,370	83	-	3,453	762	10
Vehicles		13,736	*2,537	(3,691)	12,582	8,274	1,379	(1,768)	7,885	4,697	20
Sui gas, water and drainage lines		2,281	-	-	2,281	1,441	84	-	1,525	756	10
Measuring instruments, dies, jigs, patterns and other equipments		48,022	*1,085	-	49,107	39,012	1,840	-	40,852	8,255	20
		1,191,474	872	(3,691)	1,240,744	431,695	40,413	(1,768)	475,429	765,315	
			*28,755					***5,089			
			**23,334								
<b>Leased assets</b>											
Plant and machinery		47,960	-	(23,334)	24,626	7,691	2,202	(5,089)	4,804	19,822	10
Vehicles		10,681	9,818	(1,545)	18,954	3,279	2,215	(534)	4,960	13,994	20
		58,641	9,818	(24,879)	43,580	10,970	4,417	(5,623)	9,764	33,816	
2010		1,250,115	10,690	(28,570)	1,284,324	442,665	44,830	(7,391)	485,193	799,131	
			*28,755					***5,089			
			**23,334								

\*Represents transferred to owned assets from capital work-in-progress.

\*\*Represents transferred to owned assets from leased assets.

Description	Note	COST / REVALUATION			ACCUMULATED DEPRECIATION				NET BOOK VALUE		Depre- ciation rate %
		As at July 01, 2008	Additions/ *transfer (Note 3.4)	(Disposals)	As at June 30, 2009	As at July 01, 2008	Charge for the year	(Disposals)	As at June 30, 2009	As at June 30, 2009	
(Rupees in thousands)											
<b>Owned assets</b>											
Leasehold land	3.2	415,940	-	-	415,940	-	-	-	-	415,940	-
<b>Buildings on leasehold land</b>											
Factory		60,257	96 *6,065	-	66,418	37,717	2,431	-	40,148	26,270	10
Generator premises		4,924	-	-	4,924	3,079	185	-	3,264	1,660	10
Residential		365	-	-	365	310	3	-	313	52	5
Office		4,091	-	-	4,091	1,489	130	-	1,619	2,472	5
Plant and machinery		527,147	2,152 *18,140	(53,778)	493,661	238,728	29,463	(17,110)	251,081	242,580	10
Power generators		108,977	-	-	108,977	58,349	6,268	-	64,617	44,360	10&35
Electrical fittings		13,819	139	-	13,958	6,461	746	-	7,207	6,751	10
Office equipment		2,527	-	-	2,527	2,152	56	-	2,208	319	15
Computers and other IT related equipment		12,304	102	-	12,406	7,756	1,385	-	9,141	3,265	30
Furniture and fittings		4,168	-	-	4,168	3,281	89	-	3,370	798	10
Vehicles		16,318	771	(3,353)	13,736	8,229	1,664	(1,619)	8,274	5,462	20
Sui gas, water and drainage lines		2,281	-	-	2,281	1,347	94	-	1,441	840	10
Measuring instruments, dies, jigs, patterns and other equipments		48,022	-	-	48,022	36,758	2,254	-	39,012	9,010	20
		1,221,140	3,260 *24,205	(57,131)	1,191,474	405,656	44,768	(18,729)	431,695	759,779	
<b>Leased assets</b>											
Plant and machinery		43,861	4,099	-	47,960	3,520	4,171	-	7,691	40,269	10
Vehicles		8,513	*2,168	-	10,681	1,490	1,789	-	3,279	7,402	20
		52,374	4,099 *2,168	-	58,641	5,010	5,960	-	10,970	47,671	
2009		1,273,514	7,359 *26,373	(57,131)	1,250,115	410,666	50,728	(18,729)	442,665	807,450	

\*Represents transferred to owned assets from capital work-in-progress.

\*\* Represents transferred to owned assets from leased assets.

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	2010 (Rupees in thousands)	2009
Cost of goods sold	27	42,736	48,170
Selling and distribution costs	28	629	767
Administrative expenses	29	1,465	1,791
		<u>44,830</u>	<u>50,728</u>

3.4 Included in operating assets following transfers from capital work-in-progress:

	Note	2010 (Rupees in thousands)	2009
Factory building		-	6,065
Plant and machinery	3.4.1	22,991	18,140
Electrical fittings		973	-
Measuring Instrument		1,085	-
Furniture & Fittings		47	-
Vehicle - leased		-	2,168
Vehicle - owned		2,537	-
Computers and IT related equipments		1,122	-
		<u>28,755</u>	<u>26,373</u>

3.4.1 Includes finance costs of Rs. 0.172 million (2009: Rs. 0.679 million) capitalized as a part of cost of such assets. Markup rate is mentioned in note 16 to the financial statements.

3.5 Details of property, plant and equipment disposed-off are given in note 40 to the financial statements.

3.6 Capital work-in-progress

Factory building		1,132	-
Plant and machinery		33,442	53
Vehicle - Own		79	-
Computers and IT related equipments		69	-
Advances to suppliers / contractors	3.6.1	10,207	2,148
		<u>44,929</u>	<u>2,201</u>

3.6.1 The above balance includes amount paid to Shirazi Trading Company (Private) Limited - a related party amounting to Rs. 7.5 million (2009: Rs. Nil) for purchase of generator spare parts.

**4. INTANGIBLE ASSETS**

	COST			ACCUMULATED AMORTIZATION		NETBOOK VALUE		Amortization rate %
	As at July 01, 2009	Additions	As at June 30, 2010	As at July 01, 2009	Charge for the year	As at June 30, 2010	As at June 30, 2010	
(Rupees in thousands)								
Computer software	1,875	-	1,875	1,365	510	1875	-	33
2010	1,875	-	1,875	1,365	510	1875	-	
2009	1,466	409	1,875	769	596	1,365	510	

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

**5. LONG-TERM LOANS AND ADVANCES**

	Note	2010 (Rupees in thousands)	2009
Secured, considered good			
Loans to employees - interest bearing	5.1	1,043	1,160
Less: current maturity shown under current assets	10	885	978
		158	182
Long-term advances to employees - non-interest bearing	5.2	1378	1,396
Less: current maturity shown under current assets	10	588	569
		790	827
		<u>948</u>	<u>1,009</u>

5.1 These loans carry mark-up at the rate of 1% (2009: 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.

	Note	2010 (Rupees in thousands)	2009
<b>6. LONG-TERM DEPOSITS AND PREPAYMENTS</b>			
Security deposits			
Leasing	6.1	4,094	5,366
Ijarah		3,583	2,707
Utilities		751	751
Suppliers		246	246
Others		65	65
		<u>8,739</u>	<u>9,135</u>
Prepayments		1,456	299
Less: current maturity shown under current assets	11	351	131
		<u>1,105</u>	<u>168</u>
		<u>9,844</u>	<u>9,303</u>

6.1 Includes deposits against leased assets with Atlas Bank Limited - a related party amounting to Rs. 2.984 million (2009: Rs. 5.366 million).

**7. STORES, SPARE PARTS AND LOOSE TOOLS**

Stores and spare parts - In hand		20,458	28,497
- In transit		-	2,921
Loose tools		26,445	21,261
Electrical goods		2,765	1,033
		<u>49,668</u>	<u>53,712</u>
Less: Provision for obsolescence	7.1	3,025	2,395
		<u>46,643</u>	<u>51,317</u>

7.1 Comprises provision in respect of stores and spare parts - in hand amounting to Rs. 2.331 million (2009: Rs. 1.701 million) and in respect of loose tools amounting to Rs. 0.694 million (2009: Rs. 0.694 million).

**8. STOCK-IN-TRADE**

Raw and ancillary materials			
In hand		90,892	42,899
In transit		22,321	35,580
		<u>113,213</u>	<u>78,479</u>
Packing materials		1,348	870
Work-in-process	8.1 & 8.2	29,297	16,945
Finished goods	8.3	33,145	24,995
		<u>177,003</u>	<u>121,289</u>
Less: Provision for obsolescence	8.4	663	663
		<u>176,340</u>	<u>120,626</u>

8.1 Includes stock valued at net realizable value amounting to Rs. 3.133 million (2009: Rs. 1.565 million).

8.2 Included herein are stocks held by third parties amounting to Rs. 2,508 million (2009: Rs. 1,998 million).

8.3 Includes stock valued at net realizable value amounting to Rs. 5,308 million (2009: Rs. 9,909 million).

8.4 Comprises provision in respect of raw and ancillary materials - in hand amounting to Rs.0.260 million (2009: Rs. 0.260 million) and in respect of work-in-process amounting Rs. 0.403 million (2009: Rs. 0.403 million).

	Note	2010 (Rupees in thousands)	2009
<b>9. TRADE DEBTS - considered good</b>	9.1 & 9.2	<u>105,520</u>	<u>125,307</u>
9.1 Included herein trade debts receivable from related parties:			
Atlas Honda Limited		<u>44,542</u>	<u>88,853</u>
9.2 The ageing analysis of unimpaired trade debts at June 30 is as follows:			
Neither past due nor impaired		91,029	87,248
Past due but not impaired			
- within 30 days		4,958	34,638
- 31 to 60 days		5,166	2,049
- 61 to 90 days		3,007	818
- over 90 days		1,360	554
		<u>105,520</u>	<u>125,307</u>
<b>10. LOANS AND ADVANCES - Unsecured, considered good</b>			
Loans to employees - non-interest bearing		249	327
Current maturity of:			
Long-term loans to the employees - interest bearing	5	885	978
advance to employees	5	588	569
		1,473	1,547
Advances:			
against salary		83	55
against expenses		3,141	967
to suppliers		4,505	1,900
		<u>7,729</u>	<u>2,922</u>
		<u>9,451</u>	<u>4,796</u>
<b>11. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS</b>			
Security and trade deposits		638	318
Letter of Credit and guarantee margin		-	6,592
Prepayments		585	919
Current maturity of long-term prepayments	6	351	131
		<u>1,574</u>	<u>7,960</u>
<b>12. TAXATION - Net</b>			

The income tax assessments of the Company have been finalized by the Income Tax Department upto tax year 2009 (accounting year ended June 30, 2009).

	Note	2010 (Rupees in thousands)	2009
<b>13. CASH AND BANK BALANCES</b>			
In hand:			
- Cash		182	449
- Cheques / Payorders		-	2,957
		182	3,406
Cash at bank in current accounts	13.1	2,585	1,645
		2,767	5,051

13.1 Includes Rs.1,321 million (2009: Rs. 0.105 million) kept with Atlas Bank Limited - a related party.

**14. SHARE CAPITAL**

	2010	2009			
	Number of shares				
<u>40,000,000</u>	<u>40,000,000</u>		Authorized share capital		
			Ordinary shares of Rs.10/- each	<u>400,000</u>	<u>400,000</u>
			Issued, subscribed and paid-up capital		
21,610,283	21,610,283		Ordinary shares of Rs.10/- each		
			- fully paid in cash	14.1	216,103
49,800	49,800		- issued for consideration other than cash		498
<u>3,013,307</u>	<u>3,013,307</u>		- issued as fully paid bonus shares		30,133
<u>24,673,390</u>	<u>24,673,390</u>				246,734

**14.1 Fully paid in cash**

21,610,283	9,273,588	Ordinary shares of Rs.10/- each	216,103	92,736
-	<u>12,336,695</u>	Issued during the year	-	123,367
<u>21,610,283</u>	<u>21,610,283</u>		216,103	216,103

14.2 As at the balance sheet date, the shares in the Company held by related parties were 21,416,107 shares (2009: 21,416,102 shares) which included 15,208,372 (2009: 15,208,372) ordinary shares of Rs.10/- each which is 61.64% (2009: 61.64%) of the total equity of the Company held by Shirazi Investment (Private) Limited, the holding company.

**15. SURPLUS ON REVALUATION OF FIXED ASSET**

	<u>415,780</u>	<u>415,780</u>
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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 In the year 2007, another revaluation of the above land was carried out by M/s Surval - Engineers, Surveyors and Technical Consultants on June 22, 2007 resulting in surplus amounting to Rs. 297.100 million which has been credited to surplus on revaluation of fixed asset account. The basis of revaluation was market value.

15.3 During the current year another revaluation of the above land was carried out by M/s Surval - Engineers, Surveyors and Technical Consultants on August 18, 2009. The result of the said valuation was not materially different from the valuation carried out on June 22, 2007.



	Note	2010 (Rupees in thousands)	2009
<b>16. LONG-TERM LOANS</b>			
Secured			
Loan - I	16.1	42,000	51,000
Loan - II	16.2	19,500	25,500
Loan - III	16.3	44,048	-
		<u>105,548</u>	<u>76,500</u>
Less: Current maturity - long-term loans		<u>35,280</u>	<u>15,000</u>
		<u>70,268</u>	<u>61,500</u>

16.1 This represents a utilized portion of loan facility of Rs. 60 million obtained from a commercial bank. The loan is repayable in 10 semi annual installments commencing January 20, 2008 and carries mark-up at the last 6 months KIBOR (ask side) plus 2.25% per annum with no floor and cap. The loan is secured by first registered charge over fixed assets for Rs. 167 million.

16.2 This represents a utilized portion of a loan facility of Rs. 30 million obtained from a commercial bank - a related party. The loan is repayable in 20 equal quarterly installments commencing December 26, 2008 and carries mark-up at 3 months KIBOR (ask side) rate plus 1.50% per annum. The loan is secured by first pari passu charge over fixed assets for Rs. 40 million.

16.3 This represents a utilized portion of a loan facility of Rs. 50.00 million obtained from a commercial bank . The loan is repayable in 42 monthly installments commencing February 01, 2010 and carries mark-up at 3 months KIBOR rate plus 2.50% per annum. The loan is secured by first parri passu charge over fixed asset of the Company for Rs. 62.5 million.

## 17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Represent finance leases entered into with commercial banks in respect of machinery and vehicles. Total lease rentals due under various lease agreements aggregating Rs. 29.419 million (2009: Rs. 30.733 million) and are payable in monthly installments latest by April 2015. Taxes, repairs, replacement and insurance costs are to be borne by the lessee. In case of termination of agreement, the lessee has to pay the entire rent for unexpired period. Financing rates of approximately 13.80 percent to 16.25 percent (2009: approximately 13.80 percent to 16.25 percent) per annum have been used as discounting factor. These liabilities are secured by on demand promissory notes of Rs.62.246 million (2009: Rs. 62.876 million).

	2010		2009	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within one year	10,360	7,766	11,000	8,571
After one year but not more than five years	19,059	16,173	19,733	17,654
Total minimum lease payments	<u>29,419</u>	<u>23,939</u>	<u>30,733</u>	<u>26,225</u>
Less: Amount representing finance charges	5,480	-	4,508	-
Present value of minimum lease payments	<u>23,939</u>	<u>23,939</u>	<u>26,225</u>	<u>26,225</u>
Less: Current portion	7,766	7,766	8,571	8,571
	<u>16,173</u>	<u>16,173</u>	<u>17,654</u>	<u>17,654</u>

17.1 Includes total lease rentals amounting to Rs. 16.439 million (2009: 30.733 million) due to Atlas Bank Limited - a related party.

	Note	2010 (Rupees in thousands)	2009
<b>18. LONG-TERM MURABAHA FINANCE</b>			
Murabaha finance	18.1	3,570	32,142
Less: Current maturity		3,570	28,572
		-	3,570

18.1 This represents the disbursed amount of murabaha finance facility of Rs. 100 million obtained from a banking company. The murabaha finance is repayable in 7 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 murabaha finance is secured by first pari passu hypothecation charge on all present and future fixed assets for Rs. 134 million (inclusive of 25% margin).

**19. RETIREMENT AND OTHER SERVICE BENEFITS**

Non-management staff gratuity	19.1	13,273	13,664
Accrual for compensated absences	19.2	10,940	8,951
		24,213	22,615
<b>Defined benefit plan</b>			

**19.1 General Description**

The Company operates an unfunded gratuity scheme for non-management staff. On introduction of the provident fund in 1974 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 non-management staff 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, 2010.

Management		Non-Management		Total	
2010	2009	2010	2009	2010	2009
Rupees in thousands					

**19.1.1 Reconciliation of obligations as at year end**

Present value of defined benefit obligation	20,076	18,053	10,077	11,252	30,153	29,305
Fair value of plan assets	(6,700)	(5,809)	-	-	(6,700)	(5,809)
	13,376	12,244	10,077	11,252	23,453	23,496
Unrecognised actuarial gain/(loss)	(5,898)	(5,861)	3,196	2,413	(2,702)	(3,448)
Unrecognised non-vested liability	(625)	-	-	-	(625)	-
Net liability at end of the year	6,853	6,383	13,273	13,664	20,126	20,048

	Management		Non-Management		Total	
	2010	2009	2010	2009	2010	2009
----- Rupees in thousands -----						
<b>19.1.2 Movement in liability</b>						
Net liability at beginning of the year	6,383	5,788	13,664	12,560	20,047	18,348
Charge for the year	2,586	2,137	1,411	1,312	3,997	3,449
Contributions	(2,137)	(1,594)	-	-	(2,137)	(1,594)
Benefits paid during the period	-	-	(1,781)	(155)	(1,781)	(155)
Prior services cost - Promotions	21	52	(21)	(52)	-	-
Net liability at end of the year	6,853	6,383	13,273	13,664	20,126	20,048
<b>19.1.3 Charge for the year</b>						
Current service cost	867	759	335	324	1,202	1,083
Interest cost	2,110	1,838	1,260	1,170	3,370	3,008
Expected return on assets	(729)	(786)	-	-	(729)	(786)
Amortization of non-vested liability	-	-	(184)	-	(184)	-
Amortization of actuarial (gain)/loss	338	186	-	(183)	338	3
Prior services cost - Promotions	-	139	-	-	-	139
Charge for the year	2,586	2,136	1,411	1,312	3,997	3,447
<b>19.1.4 Movement in defined benefit obligation</b>						
Present value of defined benefit obligation at beginning of the year	18,053	15,517	11,252	10,255	29,305	25,772
Current Service cost	867	759	335	324	1,202	1,083
Interest cost	2,110	1,838	1,260	1,170	3,370	3,008
Benefits paid during the year	(2,034)	(2,671)	(1,781)	(155)	(3,815)	(2,826)
Actuarial loss/(gain)	434	1,898	(967)	(290)	(533)	1,608
Liability recognized - transferees	625	520	-	-	625	520
Liability recognized - promotees	21	52	(21)	(52)	-	-
Prior service cost - promotees	-	139	-	-	-	139
Present value of defined benefit obligation at end of the year	20,076	18,053	10,078	11,252	30,154	29,304
<b>19.1.5 Movement in fair value of plan assets</b>						
Present value of plan assets at beginning of the year	5,809	6,131	-	-	5,809	6,131
Expected return on plan assets	729	786	-	-	729	786
Contributions made by the Company	2,137	1,594	-	-	2,137	1,594
Benefits paid during the year	(2,034)	(2,671)	-	-	(2,034)	(2,671)
Actuarial gain/(loss)	59	(551)	-	-	59	(551)
Transfer of funds - transferees	-	520	-	-	-	520
Present value of plan assets at end of the year	6,700	5,809	-	-	6,700	5,809

	<u>Management</u>		<u>Non-Management</u>	
	2010	2009	2010	2009
<b>19.1.6 Principal actuarial assumptions:</b>				
Discount rate	12.75%	12%	12.75%	12%
Expected per annum rate of return on plan assets	12.75%	12%	-	-
Expected per annum rate of increase in future salaries	11.75%	11%	11.75%	11%

	<u>Management</u>		<u>Non-Management</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
	----- (Rupees in thousands) -----					
<b>19.1.7 Actual return on plan assets</b>	839	285	-	-	839	285

**19.1.8 Plan assets comprise the following:**

	<u>2010</u>		<u>2009</u>	
	<u>Amount in</u>		<u>Amount in</u>	
	'000	%age	'000	%age
Equity	3,610	53.88	2,827	51.00
Debt	3,088	46.09	2,964	48.70
Cash	2	0.03	18	0.30
	<u>6,700</u>		<u>5,809</u>	

**19.1.9** The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

**19.1.10** Expected contribution to Management Staff Gratuity Fund for the year ending June 30, 2011 is Rs. 2.939 million (2010: Rs.02.586 million).

**19.1.11 Management Staff Gratuity Fund - Comparison for past years:**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	----- (Rupees in thousands) -----			
Present value of defined benefit obligation	20,076	18,053	15,517	12,696
Fair value of plan assets	<u>6,700</u>	<u>5,809</u>	<u>6,131</u>	<u>4,610</u>
Deficit	<u>(13,376)</u>	<u>(12,244)</u>	<u>(9,386)</u>	<u>(8,086)</u>
Experience adjustments				
Loss on plan liabilities	<u>434</u>	<u>1,898</u>	<u>1,241</u>	<u>858</u>
Gain/(loss) on plan assets	<u>110</u>	<u>(551)</u>	<u>(33)</u>	<u>223</u>

**19.1.12 Non-Management Staff Gratuity Fund - Comparison for past years:**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	----- (Rupees in thousands) -----			
Present value of defined benefit obligation	10,078	11,252	10,255	9,668
Fair value of plan assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deficit	<u>10,078</u>	<u>11,252</u>	<u>10,255</u>	<u>9,668</u>
Experience adjustments				
Gain / (loss) on plan liabilities	<u>967</u>	<u>(290)</u>	<u>(54)</u>	<u>(363)</u>

19.2 The movements in liability during the year were as follows:

	Opening balance ————	Charge for the year (Rupees in thousands)	Payments	Closing Balance ————
Accrual for compensated absences	8,951	2,568	579	10,940
		2010		2009
	Note	(Rupees in thousands)		

## 20. DEFERRED TAXATION

This comprises the following:

Deferred tax liabilities			
Difference in accounting and tax base of fixed assets		73,383	67,754
Deferred tax assets			
Provision for gratuity		(4,646)	(4,764)
Provisions		(1,291)	(1,066)
Difference in accounting and tax base of intangible assets		(65)	(29)
Tax losses		-	(16,432)
Carry over of minimum tax	20.1	(13,788)	(6,142)
		<u>53,593</u>	<u>39,321</u>

20.1 Includes minimum tax charge for the tax year 2008 amounting to Rs. 6.142 million (2009: Rs. 6.142 million) under clause (c) of sub-section (1) of section 113 of the Income Tax Ordinance, 2001 (the Ordinance). The management of the Company, based on the legal opinion and financial projection for future years, is confident that the excess minimum tax paid after 01 July 2004, being the date when minimum tax charge was allowed to be carry forward will continue to be available for set off against its tax liability, under the normal provision of the law, for three tax years immediately succeeding the tax year for which the minimum tax was paid and will not be affected by the amendment made vide Finance Act, 2008 section 113 to the Ordinance.

## 21. TRADE AND OTHER PAYABLES

Trade creditors	21.1	109,530	41,716
Sales tax payable - net		2,680	5,360
Special excise duty payable		1,285	692
Royalty payable		5,833	4,380
Gratuity fund - management staff	19.1.1	6,853	6,383
Accrued liabilities		16,677	56,210
Advances from customers		4,881	3,479
		<u>147,739</u>	<u>118,220</u>

21.1 Included herein trade credits amounting to Rs.17.46 million (2009:Rs.2.190 million) payable to Atlas Insurance Company Limited and Shirazi Trading Company (Private) Limited Rs. 0.0175 million (2009: Rs. Nil) - related parties

## 22. ACCRUED MARK-UP

Term loans		5,235	4,783
Short-term running finances		8,080	8,458
	22.1	<u>13,315</u>	<u>13,241</u>

22.1 Included herein Rs.0.699 million (2009: Rs.1.440 million) mark-up payable to Atlas Bank Limited - a related party.

	Note	2010 (Rupees in thousands)	2009
<b>23. SHORT-TERM RUNNING FINANCES</b>			
Banks	23.1	161,894	168,051
From a related party		-	7,072
		161,894	175,123

23.1 The aggregate facilities for short term running finance available from various banks as of June 30, 2010 amount to Rs.387 million (2009: Rs.357 million) of which Rs. 225.106 million (2009: Rs. 181.877 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 three months KIBOR plus 1.25% to one month KIBOR plus 1.75% per annum (2009: three months KIBOR plus 2.50% to one month KIBOR plus 1.75% per annum). These are repayable latest by March 31, 2011.

**24. PROVISIONS AND OTHER LIABILITIES**

Provision for bonus - management staff	24.1	15,724	-
Provision for bonus - non-management staff	24.1	1,289	420
Deposits from employees	24.2	2,876	3,783
Workers' Profit Participation Fund	24.3	3,122	-
Workers' Welfare Fund		1,249	-
Unclaimed dividends		463	464
Others		940	996
		25,663	5,663

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

		Opening balance	Charge for the year	Payments	Closing Balance
		———— (Rupees in thousands) ————			
Provision for bonus - management staff		-	15,724	-	15,724
Provision for bonus - non-management staff		420	5,810	4,941	1,289
	2010	420	21,534	4,941	17,013
	2009	11,275	4,890	15,745	420

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

		2010 (Rupees in thousands)	2009
<b>24.3 Workers' Profits Participation Fund</b>			
Balance at the beginning of the year		-	1,537
Interest on fund utilised in Company's business		-	165
			1,702
Allocation for the year		3,122	-
		3,122	1,702
Less: Amount paid during the year		-	1,702
Balance at the end of the year		3,122	-

## 25. CONTINGENCIES AND COMMITMENTS

### 25.1 Contingency

#### Electricity charges

Karachi Electric Supply Company 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 which had been expensed out in prior years.

In the year 2006, the Honourable High Court of Sindh 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.

2010                      2009  
(Rupees in thousands)

### 25.2 Commitments

#### 25.2.1 Bank guarantees

In favour of		
Collector of Customs	-	670
Sui Southern Gas Company Limited	15,997	17,069
	<u>15,997</u>	<u>17,739</u>

#### 25.2.2 Insurance company guarantee

In favour of Karachi Electric Supply Company Limited	<u>4,000</u>	<u>4,000</u>
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25.2.3 Commitments under letters of credit for other than capital expenditure, contracts and guarantees at the end of the year amounted to Rs. 172.506 million (2009: Rs. 94.423 million).

25.2.4 Commitments under letter of credit in respect of capital expenditure as at June 30, 2010 amounted to Rs.14.279 million (2009: Rs. 1.724 million).

25.2.5 Commitments in respect of capital expenditure as at June 30, 2010 amounted to Rs. 0.477 million (2009: Rs. 1.052 million).

#### 25.2.6 Commitments for rentals under Ijarah finance agreement:

Within one year	13,078	10,647
After one year but not more than five years	34,853	46,832
	<u>47,931</u>	<u>57,479</u>

Represent Ijarah Finance Facility entered into with Meezan Bank Limited in respect of machineries. Total Ijarah payments due under the agreement is Rs. 47.931 million (2009: Rs. 57.785) and are payable in semi-annual installments latest by December 2014. Taxes, repairs, replacement and insurance costs are to be borne by the muj'ir (lessor). These liabilities are secured by on demand promissory notes of Rs. 59.122 million (2009: Rs.57.785).

	Note	2010 (Rupees in thousands)	2009
<b>26. SALES</b>			
Gross sales		1,789,314	1,316,166
Less: Sales tax		259,986	181,005
		<u>1,529,328</u>	<u>1,135,161</u>
<b>27. COST OF GOODS SOLD</b>			
Raw and ancillary materials consumed		960,716	682,048
Salaries, wages and benefits	27.1	144,036	122,379
Contract labour		50,034	41,100
Spare parts and other maintenance		32,161	52,545
Packing materials consumed		10,069	9,505
Fuel, water and power		81,424	69,328
Rent, rates and taxes		504	476
Insurance		8,205	5,023
Training expenses		810	373
Repairs and maintenance:			
Factory building and electrical fittings		3,454	4,487
Furniture, fittings and office equipments		197	910
Depreciation	3.3	42,736	48,170
Ijarah rentals		10,885	306
Royalties and technical fee		12,021	6,802
Printing and stationery		2,048	1,225
Postage, telephone and telegrams		767	1,024
Subscriptions		332	246
Provision for obsolescence - stores, spare parts and loose tools		630	500
General expenses		1,022	747
		<u>1,362,051</u>	<u>1,047,194</u>
Opening work-in-process		16,945	30,978
Closing work-in-process		(29,297)	(16,945)
		<u>(12,352)</u>	<u>14,033</u>
Cost of goods manufactured		1,349,699	1,061,227
Opening stock of finished goods		24,995	34,745
Closing stock of finished goods		(33,145)	(24,995)
		<u>(8,150)</u>	<u>9,750</u>
		<u>1,341,549</u>	<u>1,070,977</u>
27.1 Included herein are the following retirement benefits:			
Gratuity		3,221	2,468
Employees Old Age Benefits		1,206	1,361
Provident Fund		2,608	2,605
		<u>7,035</u>	<u>6,434</u>



	Note	2010 (Rupees in thousands)	2009
<b>28. SELLING AND DISTRIBUTION COSTS</b>			
Salaries and allowances	28.1	10,073	6,869
Advertisement and publicity		2,444	3,086
Cartage and octroi		2,592	3,066
Traveling and conveyance		1,416	2,015
Depreciation	3.3	629	767
Insurance		1,671	1,023
Printing and stationery		615	367
Postage, telephone and telegrams		230	307
Medical expenses		170	297
Rent, rates and taxes		234	183
Business promotion expenses		413	139
Subscriptions		99	24
Repairs and maintenance		60	273
General expenses		44	54
		<u>20,690</u>	<u>18,470</u>
28.1 Included herein are the following retirement benefits:			
Gratuity		155	212
Employees Old Age Benefits		49	51
Provident Fund		390	379
		<u>594</u>	<u>642</u>
<b>29. ADMINISTRATIVE EXPENSES</b>			
Salaries and allowances	29.1 & 29.2	37,567	29,419
Medical expenses		398	768
Traveling and conveyance		1,191	2,651
Insurance		5,318	3,256
Depreciation	3.3	1,465	1,791
Amortisation of intangible assets	4.1	510	596
Rentals		-	43
Printing and stationery		1,433	857
Postage, telephone and telegrams		537	717
Business promotion expenses		94	478
Subscriptions		242	525
Advertisement and publicity		110	129
Training expenses		220	517
Repairs and maintenance		539	637
General expenses		5	105
		<u>49,629</u>	<u>42,489</u>
29.1 Included herein are the following retirement benefits:			
Gratuity		621	846
Employees Old Age Benefits		142	154
Provident Fund		1,301	1,106
		<u>2,064</u>	<u>2,106</u>

29.2 Salaries and allowances include directors' fee for attending meetings aggregating to Rs. 0.110 million (2009: Rs. 0.09 million).

	Note	2010 (Rupees in thousands)	2009
<b>30. OTHER OPERATING EXPENSES</b>			
Legal and professional charges		1,436	1,375
Workers' Profit Participation Fund	24.3	3,122	-
Workers' Welfare Fund		1,249	-
Auditors' remuneration	30.1	993	917
Donation		-	297
		<u>6,800</u>	<u>2,589</u>
<b>30.1 Auditors' remuneration</b>			
Audit fee - statutory		500	375
Fee for half-yearly review		109	91
Certification, tax and other services		311	390
Out-of-pocket expenses		73	61
		<u>993</u>	<u>917</u>
<b>31. FINANCE COST</b>			
Mark-up on:			
- long-term loans - secured		16,627	21,582
- short-term finances - secured		31,928	39,716
- finance lease obligation		2,985	3,366
Bank and other allied charges		1,181	1,526
Interest on Workers' Profit Participation Fund		-	165
		<u>52,721</u>	<u>66,355</u>
<b>32. OTHER OPERATING INCOME</b>			
Gain on sale of fixed assets	40	41	5,869
Exchange gain - net		-	501
Mark-up on loans to employees		82	75
		<u>123</u>	<u>6,445</u>
<b>33. TAXATION</b>			
For the year :			
- current		(7,646)	-
- deferred		(14,272)	12,727
		<u>(21,918)</u>	<u>12,727</u>
Prior years		-	(920)
	33.1	<u>(21,918)</u>	<u>11,807</u>

33.1 Due to brought forward tax losses, the Company is subject to minimum tax under section 113 of the Income Tax Ordinance, 2001. Where as in prior year, in view of tax losses and withdrawal of Section 113 of Income Tax Ordinance, 2001 vide the Finance Act, 2008, no provision for current tax was made.

**34. BASIC AND DILUTED EARNINGS PER SHARE**

Profit/(loss) after taxation (Rupees in '000')	<u>36,144</u>	<u>(47,467)</u>
Weighted average number of ordinary shares in issue (in '000')	<u>24,673</u>	<u>14,229</u>
Basic profit/(loss) per share (Rupees)	<u>1.46</u>	<u>(3.33)</u>

There is no dilution effect on earnings per share of the Company.

**35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

	Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in thousands)					
Managerial remuneration	2,559	3,640	-	-	11,372	10,023
Bonus	1,275	1,103	-	-	5,378	2,734
Rent	1,151	1,206	-	-	5,117	3,917
Utility	256	268	-	-	1,137	870
Retirement benefits	291	116	-	-	1,215	919
Reimbursable expenses	278	335	-	-	2,398	2,171
Directors' fee	-	-	110	90	-	-
	<u>5,810</u>	<u>6,668</u>	<u>110</u>	<u>90</u>	<u>26,617</u>	<u>20,634</u>
Number of persons	1	1	3	2	15	13

35.1 The Chief Executive is provided with free use of Company maintained cars.

**36. CASH GENERATED FROM OPERATIONS**

	Note	2010 (Rupees in thousands)	2009
Profit/(loss) before taxation		58,062	(59,274)
Adjustments for:			
Depreciation / amortization	3.3 & 4	45,340	51,324
Profit on sale of fixed assets		(41)	(5,869)
Provision for gratuity		3,979	2,587
Provision for stores, spare parts and loose tools		630	500
Finance costs		52,721	66,355
		<u>102,629</u>	<u>114,897</u>
Operating profit before working capital changes		160,691	55,623
Working capital changes	36.1	19,363	32,887
Cash generated from operations		<u>180,054</u>	<u>88,510</u>
<b>36.1 Working capital changes</b>			
(Increase) / decrease in current assets			
Stock-in-trade		(51,670)	71,439
Trade debts		19,787	(81,265)
Loans and advances		(4,655)	9,829
Trade deposits and short-term prepayments		6,383	5,822
		<u>(30,155)</u>	<u>5,825</u>
Increase in current liabilities			
Trade and other payables		49,518	27,062
		<u>19,363</u>	<u>32,887</u>

**37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

### 37.1 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 seeks to minimize the credit risk exposure through having exposures only to customers considered credit worthy and obtaining securities where applicable. The maximum exposure to credit risk at the reporting date is:

	2010	2009
	(Rupees in thousands)	
Long-term loans and advances	948	1,009
Long-term deposits	8,739	9,135
Trade debts	105,520	125,307
Loans and advances	9,451	4,796
Trade deposits	638	6,910
Bank balances	2,585	1,645
	<u>127,881</u>	<u>148,802</u>

#### Quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or the historical information about counter party default rates as shown below:

The maximum exposure to credit risk for trade receivables at reporting date was:

Original Equipment Manufacturers (OEMs)	67,794	98,155
Replacement market	37,726	27,029
Others	-	123
	<u>105,520</u>	<u>125,307</u>

Based on past experience the Company believes that no impairment allowance is necessary against amounts past due by 30 days and above as 64.25% of the amount is due from renowned Motorcycle and Car Assemblers (OEMs) and institutions and remaining amount is due from customers having good track record with the Company.

#### Cash at bank

A1+	802	562
A-1	210	57
A2	1,314	105
A-1+	259	921
	<u>2,585</u>	<u>1,645</u>

### 37.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company applies the prudent risk management policies by maintaining sufficient cash and bank balances and by keeping committed credit lines. The table below summarises the maturity profile of the Company's financial liabilities at the following reporting dates:

	2010					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	
	(Rupees in '000')					
Long-term loans - secured	-	11,070	24,210	70,268	-	105,548
Long-term Murabaha	-	3,570	-	-	-	3,570
Liability under finance lease	-	1,941	5,825	16,173	-	23,939
Short-term running finances	161,894	-	-	-	-	161,894
Trade & other payables	138,893	-	-	-	-	138,893
Provision and other liabilities	25,663	-	-	-	-	25,663
Accrued mark-up / interest	13,315	-	-	-	-	13,315
	339,765	16,581	30,035	86,441	-	472,822

	2009					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	
	(Rupees in '000')					
Long-term loans - secured	-	4,500	10,500	61,500	-	76,500
Long-term Murabaha	-	3,571	25,000	3,571	-	32,142
Liability under finance lease	-	3,395	5,176	17,654	-	26,225
Short-term running finances	175,123	-	-	-	-	175,123
Trade & other payables	108,573	-	-	-	-	108,573
Provision and other liabilities	5,663	-	-	-	-	5,663
Accrued mark-up / interest	13,241	-	-	-	-	13,241
	302,600	11,466	40,676	82,725	-	437,467

### 37.3 Interest rate risk profile

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

#### Sensitivity Analysis:

The following figures demonstrate the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Company's profit/(loss) before tax:

	Increase / decrease in basis points	Effect on loss / profit before tax (Rs. in thousands)
2010		
KIBOR	+100	<u>(515)</u>
KIBOR	-100	<u>515</u>
2009		
KIBOR	+100	<u>(647)</u>
KIBOR	-100	<u>647</u>

#### 37.4 Capital risk management

The primary objective of the Company's capital management is to maintain healthy capital ratios, strong credit rating and optimal capital structures in order to ensure ample availability of finance for its existing and potential investment projects, to maximize shareholder value and reduce the cost of capital.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Accordingly, the Company issued right shares of Rs.123.367 million during the year ended June 30, 2009 (note 14).

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as total loans and borrowings including any finance cost thereon, trade and other payables, less cash and bank balances and investments. Capital signifies equity as shown in the balance sheet plus net debt.

The gearing ratios as at June 30, 2010 and 2009 were as follows:

	2010	2009
	(Rupees in thousands)	
Long term Murabaha finance	3,570	32,142
Long term loans	105,548	76,500
Short term running finance	161,894	175,123
Liabilities against asset subject to finance lease	23,939	26,225
Trade and other payables	147,739	118,220
Accrued interest / mark-up on borrowings	13,315	13,241
Total debt	<u>456,005</u>	<u>441,451</u>
Less: Cash and bank balances	2,767	5,051
<b>Net debt</b>	<u>453,238</u>	<u>436,400</u>
Share capital	246,734	246,734
Reserves	15,268	(20,876)
<b>Equity</b>	<u>262,002</u>	<u>225,858</u>
<b>Capital</b>	<u>715,240</u>	<u>662,258</u>
<b>Gearing ratio</b>	<u>63.36%</u>	<u>65.89%</u>
<b>Fair value of financial instruments</b>		

The carrying value of all financial assets and liabilities reflected in the financial statements approximates their fair value

**38. 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 than remuneration and benefits to key management personnel disclosed in note 35 and 40 are as follows:

Relationship with the Company	Nature of transactions	2010 (Rupees in thousands)	2009 (Rupees in thousands)
Major shareholders			
Shirazi Investment (Private) Limited	Advance for issue of right shares	-	120,000
	Refund against right issue	-	29,406
	Dividend paid	-	4,612
Shirazi Capital (Private) Limited	Dividend paid	-	1,800
Entities having directors in common with the Company			
Atlas Honda Limited	Sale of goods	1,167,753	847,321
	Sale of fixed assets	-	6,000
	Purchase of scrap	7,657	1,042
	Purchase of motorcycles	2,835	-
	Expenses charged to the Company	-	20
	Expenses paid on Company's behalf	9,959	64
Honda Atlas Cars (Pakistan) Limited	Sale of auto parts	18	1,631
Atlas Bank Limited	Interest expenses	2,371	3,603
	Finance lease obtained	-	4,698
	Installment on finance lease	11,709	13,520
	Mark-up on running finance	2,825	6,158
	Long-term loan obtained	-	30,000
	Mark-up on long-term loan	2,528	3,327
	Long-term loan repaid	6,000	4,500
Total Atlas Lubricants Pakistan (Private) Limited	Purchase of oil	-	337
Atlas Insurance Limited	Insurance premium	26,756	16,598
	Dividend paid	-	266
Shirazi Trading Company (Private) Limited	Photocopier spares and services	631	397
	Sale of scrap	-	720
	Purchase of generator parts	7,484	-
Atlas Capital Market (Private) Limited	Purchase of car	-	700
Atlas Foundation	Dividend paid	-	525
	Donations	-	297
	Office rent	153	139
Employees' retirement benefit plans	Contribution paid during the year	2,137	1,659

The related party status of outstanding receivables and payables as at June 30, 2010 are included in respective notes to the financial statements.

### 39. 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.

### 40. DETAILS OF PROPERTY, PLANT AND EQUIPMENTS DISPOSED-OFF

The following assets were disposed-off during the year:

Note	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain (loss)	Mode of disposal	Particulars of buyers
(Rupees in thousands)							
Honda City Car	923	379	544	544	-	Company's Policy	M. Atta Karim (Ex -Employee) (Karachi)
Honda Civic Car	1,043	678	365	365	-	Company' s Policy	Mr. Sadaqat Ali (Employee) (Karachi)
Honda City Car	835	598	237	237	-	Company' s Policy	Mr.M. Qadeer Khan (Employee) (Karachi)
Honda City Car	536	9	527	527	-	Company' s Policy	Mr. Shakeel Ahmed (Employee) (Karachi)
Suzuki Alto Car	590	90	500	500	-	Company' Policy	M. Shamim Khan (Ex-Employee) (Karachi)
Suzuki Mehran Car	408	122	286	286	-	Company's Policy	Sikander Ali (Employee) (Karachi)
Motorcycle CD-70	51	1	50	50	-	Company's Policy	Anwar Rashid (Employee) (Karachi)
Motorcycle CD-70	51	1	50	50	-	Company's Policy	Muhammad Hussain (Employee) (Karachi)
Motor vehicles (Note 40.1)	799	424	375	416	41	Company's Policy/ by negotiation	Various Employees (Karachi)
2010	5,236	2,302	2,934	2,975	41		
2009	57,131	18,729	38,402	44,271	5,869		

40.1 This represents aggregate of assets disposed-off having book value below Rs. 50,000/- each under Company's policy / by negotiation.

### 41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on September 7, 2010 by the Board of Directors of the Company.

### 42. CORRESPONDING FIGURES

Prior year's figures have been reclassified for the purpose of comparison. There were no major reclassifications.

### 43. GENERAL

Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.



Sadaqat Ali  
Chief Executive Officer



Yusuf H. Shirazi  
Chairman



H. Masood Sohail  
Director



**PATTERN OF SHAREHOLDING  
AS AT JUNE 30, 2010**

NUMBER OF SHAREHOLDERS	* SHARE HOLDING		TOTAL SHARES HELD
	FROM	TO	
347	1	100 Shares	10,798
284	101	500 Shares	77,274
145	501	1,000 Shares	114,093
165	1,001	5,000 Shares	371,727
21	5,001	10,000 Shares	149,267
5	10,001	15,000 Shares	65,137
2	15,001	20,000 Shares	36,000
1	25,001	30,000 Shares	27,500
1	30,001	35,000 Shares	33,417
1	170,001	175,000 Shares	172,075
5	195,001	200,000 Shares	1,000,000
2	700,001	775,000 Shares	1,408,840
1	1,195,001	1,200,000 Shares	1,200,000
1	4,795,001	4,800,000 Shares	4,798,890
1	15,205,001	15,210,000 Shares	15,208,372
982			24,673,390

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

## CATEGORIES OF SHAREHOLDERS

	Number	Shares held	Percentage
<b>Associated Companies, Undertakings and Related Parties.</b>			
Shirazi Investments (Pvt.) Limited	1	15,208,372	61.64%
Shirazi Capital (Pvt.) Limited	1	4,798,890	19.45%
Atlas Insurance Limited	1	708,840	2.87%
Atlas Foundation	1	700,000	2.84%
	<u>4</u>	<u>21,416,102</u>	<u>86.80%</u>
<b>NIT &amp; ICP</b>			
Investment Corporation of Pakistan.	1	319	} 0.01%
National Bank of Pakistan, Trustee Deptt., H.O.	1	2,395	
National Investment Trust Limited.	1	648	
	<u>3</u>	<u>3,362</u>	<u>0.01%</u>
<b>Directors / Spouse,</b>			
Mr.Yusuf H. Shirazi/Mrs.Khawar S. Shirazi.	1	1	} 0.00%
Mr.Ali H. Shirazi.	1	1	
Mr.H.Masood Sohail.	1	1,000	
Mr.Jawaid Iqbal Ahmed.	1	100	
	<u>4</u>	<u>1,102</u>	<u>0.00%</u>
<b>Executive</b>	-	-	-
<b>Public Sector Companies &amp; Corporation</b>	-	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas & Mutual Funds	<u>22</u>	<u>1,408,890</u>	<u>5.71%</u>
Shareholders holding ten percent or more voting interest in the company.	-	-	-
<b>Individuals</b>	<u>946</u>	<u>1,842,819</u>	<u>7.47%</u>
<b>Others</b>			
Corporate Law Authority (SECP)	1	1	} 0.00%
The Nazir, High Court of Sindh, Karachi.	1	206	
The Administrator, Abandoned Properties.	1	908	
	<u>3</u>	<u>1,115</u>	<u>0.00%</u>
	<u>942</u>	<u>24,673,390</u>	<u>100.00%</u>

## Atlas Group Companies

	<i>Year of Establishment / Acquisition*</i>
 Shirazi Investments	1962
 Atlas Honda	1962
 Atlas Battery	1966
 Shirazi Trading	1973
 Atlas Insurance	1980*
 Atlas Engineering	1981*
<b>HONDA</b> Honda Atlas Cars	1992
<b>HONDA</b> Honda Atlas Power Product	1997
 Total Atlas Lubricants	1997
 Atlas Asset Management	2002
 Shirazi Capital	2005
 Atlas Capital Markets	2006
 Atlas Power	2007

**The Secretary,  
Atlas Engineering 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 Atlas Engineering 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 Monday the October 11, 2010 at 10:30 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 \_\_\_\_\_ 2010.

Signed by the said in the presence of

Address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Please affix  
Rupees Five  
Revenue  
Stamp

(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.
3. CDC shareholders and their proxies are each requested to attach an attested photocopy of their Computerised National Identity Card (CNIC) or Passport with this proxy form before submission to the Company.

**AFFIX  
POSTAGE**

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

Fold Here

Fold Here

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Fold Here

# **Atlas Engineering Limited**

National Highway, Landhi, Karachi. **PABX:** 111-111-AEL (235) **Fax:** (92-21) 35011709

**Email:** [acilkhi@atlasengineering.com.pk](mailto:acilkhi@atlasengineering.com.pk) **Website:** [www.atlasengineering.com.pk](http://www.atlasengineering.com.pk)