

SAZGAR ENGINEERING WORKS LIMITED

DIRECTORS' REVIEW

The directors of your Company are pleased to present their review on the affairs of the Company for the 2nd quarter and half year ended December 31, 2012:

Financial Results:

The Company's half year over all financial results are reflecting a downward trend on account of sales and profitability. During the 2nd quarter, the net sales has decreased by 43.13% from Rs. 729.33 M to Rs. 414.74 M, gross profit by 48.19% from Rs. 89.59 M to Rs. 46.42 M and pre-tax profit by 63.67% from Rs. 50.94 M to Rs. 18.51 M compared with corresponding period of last year.

Cumulatively for six months, the net sales has declined by 35.60 % from Rs. 1,327.95 M to Rs. 855.18 M, gross profit by 43.38% from Rs. 162.48 M to Rs. 91.99 M, and pre-tax profit by 61.09% from Rs. 90.31 M to Rs. 35.14 M compared with the corresponding period of last year.

The decline in sales volume is due to sharp decrease in sales of Auto Rickshaw by 46% particularly in karachi region being the major market share carrying by the company. The adverse law & order position has mainly caused the shrinkage of business activities. The energy crisis and constant depreciation of Pak-Rupee has further contributed to the lower sales volume and profitability of the company.

During the 2nd quarter and cumulatively six months, the Company produced 2,200 & 4,850 units of Auto Rickshaws whereas during the corresponding periods of last year, the production was 4,830 and 8,781 units respectively.

However, the sale of tractor wheel rims has increased by 118% due to the increase in orders placed by tractor assemblers during the period under review. The production of wheel rims was 19,978 & 36,623 in 2nd quarter and cumulatively six months whereas the production of wheel rims during the same corresponding periods was 8,311 and 19,256 respectively.

Motor Cycle Manufacturing and Revision in Plant Capacity:

Keeping in view the downward trend of Auto Rickshaw business, your company has decided to manufacture/assemble Motorcycles of all sorts and kinds by utilizing the idle capacity of plant with some addition of machinery and building necessarily required for this purpose. The production of Motorcycle is expected in last quarter of current financial year.

After the commencement of manufacturing / assembling of Motorcycles, the revised annual production capacity of the plant (based on 8 hours single shift) with respect to Auto Rickshaw and Motorcycle will become as follow:

| Name of Product | Existing Production Capacity (Units per annum) | Revised Production Capacity (Units per annum) |
|-----------------|---|--|
| Auto Rickshaw | 20,000 | 12,000 |
| Motorcycle | — | 30,000 |

The production capacity of Auto Rickshaw and Motorcycle may interchangeably be used in accordance with the demand of the products.


Future Outlook:

Under the present circumstances, the company is facing lot of challenges in respect of Auto Rickshaw business. The management is keeping a close eye on the market and constantly introducing various models of Auto Rickshaw which has been welcome by the market and a positive response from the customers has been received in this regard. The company is also increasing its sales network to other areas which will further contribute to increase in sales volume.

The company expects that increase in production of tractors will continue and in turn company will receive more orders of tractor wheel rims in the period to come.

The directors would like to place on record their appreciation for the untiring efforts, teamwork and dedication shown by the company's employees during the period under review. They would also like to express their gratitude to the valued shareholders, customers, suppliers and financial institutions for their co-operation, constant support and trust on the Company.

For and on behalf of the Board


MIAN ASAD HAMEED
CHIEF EXECUTIVE

Lahore

Dated: 15-02-2013