

SAZGAR ENGINEERING WORKS LIMITED

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2013

1 LEGAL STATUS AND OPERATIONS

The Company was incorporated in Pakistan on September 21, 1991 as a Private Limited Company under the Companies Ordinance, 1984 and converted into a Public Limited Company on November 21, 1994. The Company is listed on all the Stock Exchanges of Pakistan. The Company is engaged in the manufacture and sale of automobiles, automotive parts and household electric appliances. The registered office of the company is situated at 88- Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore.

2 BASIS OF PREPARATION

These condensed interim financial statements (un-audited) of the Company for the half year ended December 31, 2013 have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed and are being submitted to the shareholders as required by section 245 of the Companies Ordinance 1984.

These condensed interim financial statements do not include all the information and disclosures as required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended June 30, 2013.

This condensed interim financial statements has been reviewed, not audited.

3 STATEMENT OF CONSISTENCY IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year ended June 30, 2013 except as detailed below.

The Company operates an unfunded gratuity scheme for all its permanent employees. The provision is made on the basis of actuarial valuation by using the projected unit credit method. During the period company has changed its accounting policy for calculating its obligation in respect of a plan as per adoption of changes in IAS -19 (Revised) 'Employees Benefits'. Effective from July 01, 2013 the actuarial gains / losses are recognized directly to equity through the Statement of Other Comprehensive income. Previously actuarial gains or losses arising from experience adjustment and changes in actuarial assumptions in excess of 10% of the present value of the defined benefit obligation recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized. The description and the impacts of the change in accounting policy have been detailed in note 14. The revised accounting policy as a result of change in IAS-19 (Revised) ' Employees Benefits' is as follows;

DEFINED BENEFIT PLAN

Defined benefit plan is a post-employment benefit plan other than the defined contribution plan.

The Company operates an unfunded gratuity scheme for all its permanent employees. The provision is made on the basis of actuarial valuation by using the projected unit credit method. In calculating the Company's obligation in respect of a plan, Any actuarial gains and losses are recognised immediately in the statement of other comprehensive income.

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4 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

| Dec 31, 2013 Number | June 30, 2013 Number | Note | Unaudited Dec 31, 2013 Rupees | Audited June 30, 2013 Rupees |
|---------------------------|----------------------------|--|--|---------------------------------------|
| 7,163,000 | 7,163,000 | ordinary shares of Rupees 10/- each fully paid up in cash | 71,630,000 | 71,630,000 |
| 10,809,368 | 10,809,368 | ordinary shares of Rupees 10/- each allotted as bonus shares | 108,093,680 | 108,093,680 |
| 17,972,368 | 17,972,368 | | 179,723,680 | 179,723,680 |

5 CONTINGENCIES AND COMMITMENTS

5.1 Contingencies

There is no significant change in contingencies from the preceding annual published financial statement of the company for the year ended June 30, 2013.

5.2 Commitments

Commitments in respect of:

| LIMIT Nos. | PARTICULARS | LIMITS AVAILABLE | | LIMITS UTILIZED | |
|------------|-------------------------------------|--------------------|---------------------|--------------------|---------------------|
| | | Dec 2013 Rupees | June 2013 Rupees | Dec 2013 Rupees | June 2013 Rupees |
| | Not Later than one Year | | | | |
| 1 | Foreign LC Sight / Inland LC- Gross | 370,000,000 | 370,000,000 | 145,162,449 | 170,641,327 |
| 2 | FATR - Sublimit of Limit No.1 | 88,000,000 | 88,000,000 | 38,114,860 | 16,776,763 |
| 3 | Murabaha Sublimit of Limit no.2 | 40,000,000 | 40,000,000 | 38,810,498 | 29,196,874 |
| 4 | Murabaha Sublimit of Limit no.1 | 40,000,000 | 40,000,000 | 6,277,091 | 7,594,883 |
| 5 | Guarantee | 8,040,000 | 8,040,000 | - | - |

6 PROPERTY, PLANT AND EQUIPMENT

| | | | |
|---|-----|--------------------|--------------------|
| Operating fixed assets | 6.1 | 251,026,828 | 235,207,254 |
| Capital work in progress | | 10,300,717 | 12,773,212 |
| Advance for assets subject to finance lease | | 2,468,500 | 1,886,500 |
| Advance for purchase of owned vehicle | | - | 1,632,150 |
| | | 263,796,045 | 251,499,116 |

6.1 OPERATING FIXED ASSETS - Tangible

| | | | |
|---|--|--------------------|--------------------|
| Opening book value | | 235,207,254 | 222,703,925 |
| Add: | | | |
| Additions during the period (at cost) | | | |
| - Building and Civil Works on Freehold Land | | 2,035,956 | 4,335,888 |
| - Plant and machinery | | 14,196,160 | 9,227,766 |
| - Electric fittings | | - | 45,500 |
| - Furniture and fixture | | - | 41,000 |
| - Office equipments | | 55,350 | 323,961 |
| - Electric installations | | - | 1,115,703 |
| - Vehicles | | 9,869,000 | 18,702,000 |
| | | 26,156,466 | 33,791,818 |
| Less: | | | |
| Disposal during the period (at net book value) | | | |
| - Electric installations | | 27,439 | 43,959 |
| - Vehicles | | 276,627 | 2,700,079 |
| Depreciation charged during the period | | 10,032,827 | 18,544,451 |
| | | 10,336,893 | 21,288,489 |
| Closing book value | | 251,026,828 | 235,207,254 |

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| | | Note | | | |
|-----------|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 7 | INTANGIBLE ASSETS | | | | |
| | Opening book value | | | 606,229 | 501,874 |
| | Add: additions during the period | | | 25,000 | 291,533 |
| | | | | <u>631,229</u> | <u>793,407</u> |
| | Less: amortization charged during the period | | | 110,374 | 187,178 |
| | Closing book value | | | <u>520,855</u> | <u>606,229</u> |
| 8 | SALES - NET | Oct-Dec 2013 Rupees | Oct-Dec 2012 Rupees | Jul-Dec 2013 Rupees | Jul-Dec 2012 Rupees |
| | Gross sales | 639,148,118 | 489,310,433 | 1,163,817,655 | 1,008,281,885 |
| | Less: Sales tax | 93,886,928 | 67,532,885 | 173,532,477 | 138,964,533 |
| | Sales returns | 5,809,076 | 941,641 | 6,423,500 | 1,530,175 |
| | Commission | 11,001,759 | 6,093,030 | 19,747,601 | 12,606,478 |
| | | <u>110,697,763</u> | 74,567,556 | <u>199,703,578</u> | 153,101,186 |
| | | <u>528,450,355</u> | <u>414,742,877</u> | <u>964,114,077</u> | <u>855,180,699</u> |
| 9 | COST OF SALES | | | | |
| | Raw materials and components consumed | 437,833,275 | 323,952,192 | 812,419,647 | 682,478,195 |
| | Salaries, wages and other benefits | 35,675,940 | 31,890,290 | 70,203,173 | 66,446,715 |
| | Stores, spares and loose tools consumed | 7,410,508 | 8,350,459 | 14,303,238 | 13,454,132 |
| | Power and fuel charges | 13,678,767 | 11,753,532 | 26,090,200 | 25,109,094 |
| | Repair and maintenance | 8,423,715 | 4,761,668 | 14,207,212 | 9,091,565 |
| | Other expenses | 1,667,814 | 973,677 | 2,990,279 | 1,949,797 |
| | Depreciation & Amortization | 3,501,777 | 3,347,549 | 6,926,179 | 6,496,070 |
| | | <u>508,191,796</u> | 385,029,367 | <u>947,139,929</u> | 805,025,567 |
| | Opening work-in-process | 15,465,902 | 10,524,280 | 7,897,939 | 13,579,115 |
| | Closing work-in-process | (15,203,700) | (11,711,499) | (15,203,700) | (11,711,499) |
| | Cost of goods manufactured | <u>508,453,998</u> | 383,842,148 | <u>939,834,168</u> | 806,893,184 |
| | Opening finished goods | 129,659,632 | 145,150,311 | 91,927,686 | 116,965,216 |
| | Cost of finished goods purchased during the period | - | 5,621,581 | - | 5,621,581 |
| | Closing finished goods | <u>(163,904,644)</u> | (166,291,952) | <u>(163,904,644)</u> | (166,291,952) |
| | | <u>474,208,985</u> | <u>368,322,088</u> | <u>867,857,210</u> | <u>763,188,029</u> |
| 10 | TAXATION | | | | |
| | Current | | | | |
| | For the period | 10.1 6,996,902 | 6,778,698 | 12,942,541 | 12,905,292 |
| | Prior Year | (136,730) | - | (136,730) | - |
| | Deferred | | | | |
| | For the period | (1,473,100) | 1,472,041 | (1,256,553) | 3,501,952 |
| | | <u>5,387,072</u> | <u>8,250,739</u> | <u>11,549,258</u> | <u>16,407,244</u> |
| | 10.1 The rate of tax has decreased from 35% to 34% during the period. | | | | |
| 11 | EARNINGS PER SHARE - BASIC AND DILUTED | | | | |
| | Basic Earnings Per Share | | | | |
| | Profit after taxation for the period - Rupees | 16,068,180 | 10,257,324 | 26,956,306 | 18,728,855 |
| | Weighted average number of ordinary shares outstanding during the period - Note 4 | 17,972,368 | 17,972,368 | 17,972,368 | 17,972,368 |
| | Basic & diluted earnings per share - Rupees | 0.89 | 0.57 | 1.50 | 1.04 |

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12 TRANSACTIONS WITH RELATED PARTIES

The related parties of the company comprises of directors and key management personnel only.

The aggregate amount charged in these financial statements for the period for remuneration, including certain benefits to the Chief Executive Officer, Directors and Other Executives of the Company are as follows:

| Particulars | (Rupees) | | | | | | | | | |
|--------------------------|-------------------------|------------------|---------------------|------------------|-------------------------|------------------|-------------------|------------------|-------------------|-------------------|
| | Chief Executive Officer | | Executive Directors | | Non Executive Directors | | Executives | | Total | |
| | July-Dec 2013 | July-Dec 2012 | July-Dec 2013 | July-Dec 2012 | July-Dec 2013 | July-Dec 2012 | July-Dec 2013 | July-Dec 2012 | July-Dec 2013 | July-Dec 2012 |
| Managerial Remuneration | 3,136,364 | 3,136,364 | 3,409,091 | 3,409,091 | - | - | 8,345,127 | 7,740,982 | 14,890,582 | 14,286,436 |
| Medical allowance | 313,636 | 313,636 | 340,909 | 340,909 | - | - | 834,513 | 774,098 | 1,489,058 | 1,428,644 |
| Bonus & Leave encashment | - | - | - | - | - | - | 1,612,852 | 972,405 | 1,612,852 | 972,405 |
| Total | 3,450,000 | 3,450,000 | 3,750,000 | 3,750,000 | - | - | 10,792,492 | 9,487,485 | 17,992,492 | 16,687,485 |
| Number of persons | 1 | 1 | 3 | 3 | 3 | 3 | 8 | 8 | 15 | 15 |

The Company also provides free use of Company maintained cars to some of the directors and executives for business use.

13 SEGMENT RESULTS

| | Oct-Dec 2013 Rupees | Oct-Dec 2012 Rupees | Jul-Dec 2013 Rupees | Jul-Dec 2012 Rupees |
|----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Segment Revenue | | | | |
| Home appliances | 217,228 | 6,494,108 | 245,024 | 9,152,756 |
| Auto parts | 101,315,722 | 110,273,760 | 140,150,856 | 189,561,739 |
| Auto rickshaw | 426,917,405 | 297,975,009 | 823,718,197 | 656,466,204 |
| Total | 528,450,355 | 414,742,877 | 964,114,077 | 855,180,699 |
| Segment operating results | | | | |
| Home appliances | (108,433) | (48,842) | (304,867) | (224,814) |
| Auto parts | 3,355,523 | 7,127,438 | 395,757 | 10,195,698 |
| Auto rickshaw | 21,000,441 | 13,499,467 | 43,228,302 | 32,083,823 |
| Total | 24,247,534 | 20,578,064 | 43,319,195 | 42,054,706 |

14 CHANGE IN ACCOUNTING POLICY

The company has adopted IAS-19 (Revised) 'Employee Benefits' which is effective for accounting period beginning on or after January 01, 2013. Consequent to the changes in IAS-19 'Employee Benefits' The company is required to recognize all actuarial gain and losses directly to equity through the Statement of Other Comprehensive Income as these occur. The change in accounting policy has been accounted for retrospectively as required under International Accounting Standard - 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and the comparative financial statements have been re-stated.

The effects of the retrospective application of the change in accounting policies are as follow:

| June 30, 2013 | | | June 30, 2012 | | |
|------------------------|-------------|--------------|------------------------|-------------|--------------|
| As previously reported | Restatement | As re-stated | As previously reported | Restatement | As re-stated |
| Amount in rupees | | | Amount in rupees | | |

Effect on balance sheet

| | | | | | | |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Employees benefits | 48,446,159 | 7,454,351 | 55,900,510 | 43,259,188 | 1,090,970 | 44,350,158 |
| Un-appropriate profits | 385,376,950 | (7,454,351) | 377,922,599 | 336,842,280 | (1,090,970) | 335,751,310 |

The company carries out the actuarial valuation on annual basis therefore, the effect of actuarial gain or loss on the condensed interim statement of comprehensive income for the half year ended December 31, 2013 has not been disclosed separately.

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15 SUBSEQUENT EVENTS

The Board of Directors in their meeting held on February 21, 2014 has declared interim cash dividend of Rupee 1.00 per ordinary share i.e, 10% (December 31,2012: Nil) of current paid up ordinary share capital. These condensed interim financial statements do not include the effect of this interim cash dividend which will be accounted for in the period in which it is declared.

16 CORRESPONDING FIGURES

Corresponding figures are re-arranged, wherever necessary, for the purpose of comparison. However, no such significant re-arrangements have been made in these condensed interim financial statements except for re-statements required in terms of application of change in accounting policy as referred in note 14.

17 DATE OF AUTHORIZATION FOR ISSUE

The Board of Directors of the Company has authorized these condensed interim financial statements for issue on February 21, 2014.

18 GENERAL

The figures have been rounded off to the nearest Rupee.


MIAN ASAD HAMEED
CHIEF EXECUTIVE


SAEED IQBAL KHAN
DIRECTOR