



SAZGAR ENGINEERING WORKS LIMITED

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

1 LEGAL STATUS AND OPERATIONS

Sazgar Engineering Works Limited was incorporated in Pakistan on September 21, 1991 as a Private Limited Company and converted into a Public Limited Company on November 21, 1994. The Company is listed on the Pakistan Stock Exchange Limited. 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. The three wheeler, wheel rim and household electric appliances manufacturing facility is located at 18 K.m Raiwind Road, Lahore and four wheeler manufacturing facility is situated at Mouza Bhai kot, near tablighi jttama, Raiwind, Lahore, which is under construction.

2 BASIS OF PREPARATION

2.1 These condensed interim financial statements (un-audited) of the Company for the half year ended December 31, 2018 have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of; International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and provisions of and directives issued under the Companies Act, 2017 (the "Act"). Where the provisions of and directives issued under the Companies Act, 2017 (the "Act") differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 (the "Act") have been followed.

2.2 These condensed interim financial statements (un-audited) are being submitted to the shareholders as required by section 237 of The Companies Act, 2017 (the "Act").

2.3 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 audited financial statements for the year ended June 30, 2018.

2.4 The figures included in the condensed interim Statement of profit or loss for the quarters ended December 31, 2018 and 2017 and in the notes forming part thereof have not been reviewed by the auditors of the Company, as they have reviewed the accumulated figures for the half years ended December 31, 2018 and 2017.

2.5 FINANCIAL RISK MANAGEMENT, FINANCIAL INSTRUMENTS AND ACCOUNTING ESTIMATES AND JUDGMENTS

2.5.1 Financial risk factors

The Company's activities expose to a variety of financial risks namely market risk (including currency risk, price risk and interest rate risk), credit risk, foreign exchange risk and liquidity risk. There has been no change in the risk management policies during the period, consequently these condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements.

2.5.2 Fair Value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in these condensed interim financial statements approximate their fair value.

2.5.3 Accounting Estimates and judgments

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amount of assets and liabilities, incomes and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation are the same as those that applied to the financial statements for the year ended June 30, 2018.

2.6 CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 34- 'Interim Financial Reporting', the condensed statement of interim financial position has been compared with the balances of annual audited financial statements of preceding financial year, whereas, the condensed interim statement of profit or loss, condensed interim statement of other comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.



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3 STATEMENT OF CONSISTENCY IN ACCOUNTING POLICIES

- 3.1 The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those applied in the preparation of the annual audited financial statements for the year ended June 30, 2018.
- 3.2 Certain standards, amendments and interpretations of approved accounting standards will be effective for accounting periods but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not detailed in these condensed interim financial statements, except for the following:

New accounting standards, IFRIC interpretations and amendments to the published approved accounting standards that are effective for accounting periods as detailed below:

Standards or Interpretation	Effective date
IFRS-15 Revenue from contracts with customers	July 01, 2018
IFRS-16 Leases	January 01, 2019
IAS-19 Employee benefits' on plan amendment, curtailment or settlement	January 01, 2019
IFRIC 22 Foreign currency transactions and advance consideration	January 01, 2019
IFRIC 23 Uncertainty over income tax treatments	January 01, 2019

The above standards, amendments and interpretations changes are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements except for increased disclosures in certain cases.

4 SHARE CAPITAL

4.1 AUTHORIZED SHARE CAPITAL

Un-audited		Audited	
December 31, 2018	June 30, 2018	December 31, 2018	June 30, 2018
Number	Number	Rupees	Rupees
50,000,000	50,000,000	500,000,000	500,000,000
		Ordinary shares of Rupees 10 each	

4.2 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

7,163,000	7,163,000	ordinary shares of Rupees 10/- each fully paid up in cash.	71,630,000	71,630,000
14,403,842	14,403,842	ordinary shares of Rupees 10/- each allotted as bonus shares.	144,038,420	144,038,420
21,566,842	21,566,842		215,668,420	215,668,420

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, 2018. Except the following:

- 5.1.1 ACIR initiated proceedings under section 122 (5A) of Income Tax Ordinance 2001 for tax year 2017 and created a tax demand of Rs. 11,385,589/- as on September 26, 2018. The company filed an appeal against this order with CIR (Appeals) and also file a writ petition in honorable Lahore High Court, Lahore. for obtaining stay order against recovery of said amount. The Honorable Lahore High Court, Lahore has granted stay order against recovery of tax demand till the decision of CIR (Appeals). In the opinion of tax consultant, favorable outcome of the appeal is expected, hence no provision is made in these financial statements.



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5.1.2 The Tax demand of Rs.387,050,666/-, which was stated in note 15.1.11 of the financial statements for the year ended June 30, 2018 under section 121(1)/122(2) of Income Tax Ordinance 2001 for the tax year 2012 has been annulled by the CIR (Appeals) during the period, with the directions to the learned OIR to proceed afresh on the basis of facts available on record and show cause notice.

5.1.3 The Sindh Revenue Board (SRB) retrospectively restored sales tax on renting of immovable property services vide Sindh Sales Tax on Services (Amendment) Act, 2018, Therefore Landlord of Company's Karachi office has claimed sales tax on rent services of Rs. 257,064/- for the tax year 2016, 2017 and 2018. The Company has challenged the law by filling writ petition in Honorable Sindh High Court, Karachi and has been granted stay order as on December 31, 2018. In the opinion of the legal advisor, outcome of the case is expected in favour of the company, hence no provision is made in these financial statements.

5.2 Commitments

5.2.1 Commitments in respect of outstanding letters of credit for raw material other than capital expenditure amount to Rs. 11.59 Million (June 30, 2018: Rs. 254.96 Million).

5.2.2 Commitments in respect of capital expenditures including letters of credit amount to Rs. 187.44 Million (June 30, 2018: Rs. 161.40 Million).

	NOTES	Un-audited	Audited
		December 31, 2018	June 30, 2018
		Rupees	Rupees
6 PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	6.1	348,580,833	346,844,374
Capital work in progress	6.2	526,504,752	361,959,281
		875,085,585	708,803,655
6.1 OPERATING FIXED ASSETS - Tangible			
Opening book value		346,844,374	264,189,676
Add:			
Additions during the period (at cost)			
- Freehold Land		-	87,859,932
- Plant and machinery		733,023	10,502,094
- Furniture and Fittings		643,760	-
- Office equipments		533,960	1,660,333
- Electric installations		696,700	-
- Vehicles		9,136,000	2,700,500
		11,743,443	102,722,859
Less:			
Disposal during the period (at net book value)			
- Vehicles		661,737	-
Depreciation charged during the period		9,345,246	20,068,160
		10,006,983	20,068,160
Closing book value		348,580,833	346,844,374
6.2 CAPITAL WORK IN PROGRESS			
Opening Balance		361,959,281	267,517,497
Additions during the period			
- Plant and machinery		144,274,934	23,209,201
- Building and Civil Works on freehold land		20,419,620	76,098,433
		164,694,554	99,307,634
Less Transferred during the period			
- Plant and machinery		-	4,865,850
- Intangible		149,083	-
		149,083	4,865,850
Closing Balance		526,504,752	361,959,281



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	Un-audited		Audited	
	December 31, 2018		June 30, 2018	
	Rupees		Rupees	
7 INTANGIBLE ASSETS				
Opening book value			10,575	50,819
Add: additions during the period			149,083	-
			159,658	50,819
Less: amortization charged during the period			32,815	40,244
Closing book value			126,843	10,575

NOTES	Un-audited		Un-audited		Un-audited		Un-audited	
	Oct - Dec 2018		Oct - Dec 2017		July - Dec 2018		July - Dec 2017	
	Rupees		Rupees		Rupees		Rupees	
8 SALES - NET								
Gross sales	8.1	805,597,651	1,077,182,064	1,840,855,614	2,218,646,568			
Less: Sales tax		95,140,492	148,836,044	243,180,236	310,073,165			
Sales returns		143,762,068	25,822,137	177,645,852	60,092,778			
Commission		13,357,196	22,518,495	28,498,008	46,516,066			
		252,259,756	197,176,676	449,324,096	416,682,009			
		553,337,895	880,005,388	1,391,531,518	1,801,964,559			

8.1 This includes Rs. 2.36 million (December 31, 2017: Rs. 43.01 million) on account of export sales for the period.

NOTES	Un-audited		Un-audited		Un-audited		Un-audited	
	Oct - Dec 2018		Oct - Dec 2017		July - Dec 2018		July - Dec 2017	
	Rupees		Rupees		Rupees		Rupees	
9 COST OF SALES								
Raw materials and components consumed		558,791,695	798,956,418	1,206,689,616	1,555,789,767			
Salaries, wages and other benefits		66,557,061	61,341,483	134,456,195	131,907,721			
Stores, spares and loose tools consumed		7,301,376	14,265,237	20,403,904	21,788,247			
Power and fuel charges		13,919,377	18,620,415	30,188,335	32,188,019			
Repair and maintenance		11,405,656	21,976,999	26,321,770	45,859,930			
Provision for slow moving items		-	1,690,300	652,350	2,535,450			
Other expenses		2,540,525	1,173,404	5,517,248	4,136,592			
Depreciation & Amortization		3,006,138	3,242,609	5,949,827	6,396,455			
		663,521,828	921,266,865	1,430,179,245	1,800,602,181			
Opening work-in-process		18,587,223	10,630,631	11,921,639	13,548,770			
Closing work-in-process		(23,099,874)	(11,789,012)	(23,099,874)	(11,789,012)			
Cost of goods manufactured		659,009,177	920,108,484	1,419,001,010	1,802,361,939			
Opening finished goods		160,153,502	252,964,256	137,357,025	191,425,091			
Cost of finished goods purchased		21,959,566	-	32,984,201	-			
Closing finished goods		(341,930,503)	(397,393,154)	(341,930,503)	(397,393,154)			
		499,191,742	775,679,587	1,247,411,733	1,596,393,876			
10 TAXATION								
Current								
For the period	10.1	2,222,464	17,982,270	14,235,868	33,125,999			
Prior period		49,579	(2,526,084)	49,579	(2,526,084)			
Deferred								
For the period		(369,150)	(1,653,761)	(1,351,147)	(1,548,459)			
		1,902,893	13,802,425	12,934,300	29,051,456			

10.1 The rate of tax has decreased from 30% to 29% during the period.

11 EARNINGS PER SHARE - BASIC AND DILUTED					
Basic Earnings Per Share					
Profit after taxation for the period	Rupees	3,328,981	46,522,895	32,696,294	84,133,307
Weighted average number of ordinary shares outstanding during the period - Note 4.2	Number	21,566,842	21,566,842	21,566,842	21,566,842
Basic earnings per share	Rupees	0.15	2.16	1.52	3.90



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11.1 Basic earnings per share has been calculated by dividing the profit attributable to equity holders of the Company by weighted average number of ordinary shares in issue during the period.

11.2 Diluted earnings per share

A diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at December 31, 2018 and December 31, 2017 which would have any effect on earning per share if the option to convert is exercised.

Un-audited July - Dec 2018	Un-audited July - Dec 2017
Rupees	Rupees

12 TRANSACTIONS WITH RELATED PARTIES

Transactions with key management personnel

Remuneration, Allowances and benefits paid to Chief Executive	12,350,000	5,850,000
Bonus shares issued to Chief Executive	-	15,125,930
Remuneration, Allowances and benefits paid to Executive Director (s)	8,125,000	5,525,000
Bonus shares issued to Executive Director (s)	-	5,831,540
Remuneration, Allowances and benefits paid to other Key Management personnel	16,140,800	14,191,320
Bonus shares issued to other Key Management personnel	-	25,080
Transactions with Non Executive Director (s)		
Meeting fee paid to Non-Executive Director (s)	425,000	450,000
Bonus shares issued to Non-Executive Director (s)	-	2,326,160
TOTAL	37,040,800	49,325,030

Un-audited Oct - Dec 2018	Un-audited Oct - Dec 2017	Un-audited July - Dec 2018	Un-audited July - Dec 2017
Rupees	Rupees	Rupees	Rupees

13 SEGMENT RESULTS

Segment Revenue - Net

Home appliances	2,723,353	2,102,239	4,777,054	3,349,438
Auto parts	89,396,761	147,321,811	211,710,371	303,541,303
Auto rickshaw	453,820,345	730,581,338	1,167,646,657	1,495,073,818
Automobiles - Four Wheeler	7,397,436	-	7,397,436	-
Total	553,337,895	880,005,388	1,391,531,518	1,801,964,559

Segment operating results

Home appliances	856,994	388,543	1,059,360	497,119
Auto parts	(7,358,891)	4,806,691	(5,385,065)	9,723,643
Auto rickshaw	23,411,820	60,350,175	68,145,885	113,319,678
Automobiles - Four Wheeler	(6,706,481)	-	(9,238,262)	-
Total	10,203,442	65,545,410	54,581,918	123,540,441

14 DATE OF AUTHORIZATION FOR ISSUE

The Board of Directors of the Company has authorized these condensed interim financial statements for issue on February 21, 2019.

15 GENERAL

15.1 The figures have been rounded off to the nearest Rupee.

MIAN ASAD HAMEED
CHIEF EXECUTIVE

SAEED IQBAL KHAN
DIRECTOR

MUHAMMAD ATIF RAO
CHIEF FINANCIAL OFFICER