



SAZGAR ENGINEERING WORKS LIMITED

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE NINE MONTHS ENDED MARCH 31, 2019

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 ijta, Raiwind, Lahore, which is under construction.

2 BASIS OF PREPARATION

2.1 These condensed interim financial statements (un-audited) of the Company for the nine months ended March 31, 2019 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 FINANCIAL RISK MANAGEMENT, FINANCIAL INSTRUMENTS AND ACCOUNTING ESTIMATES AND JUDGMENTS

2.4.1 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.

2.4.2 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.

2.4.3 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.

2.5 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 March 31, 2019 Number	Audited June 30, 2018 Number		Un-audited March 31, 2019 Rupees	Audited June 30, 2018 Rupees
50,000,000	50,000,000	Ordinary shares of Rupees 10 each	500,000,000	500,000,000

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 Honourable Lahore High Court, Lahore for obtaining a stay order against recovery of said amount. The Honourable Lahore high court, Lahore has granted a 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. Further the Company has also filed an appeal with ATIR against the above directions issued by CIR (Appeals) to conduct the fresh assessment. In the opinion of tax consultant, favorable outcome of the appeal is expected.

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 filing a writ petition in Honorable Sindh High Court, Karachi and has been granted a 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.

5.1.4 DCIR initiated proceedings under section 161/205 of Income Tax Ordinance 2001 for tax year 2017 and created a tax demand of Rs. 33,952,716/- as on March 30, 2019. The Company intends to file an appeal with CIR (A). In the opinion of tax consultant, favorable outcome of the appeal is expected, 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. 111.39 Million (June 30, 2018: Rs. 254.96 Million).

5.2.2 Commitments in respect of capital expenditures including letters of credit amount to Rs. 142.65 Million (June 30, 2018: Rs. 161.40 Million).

	NOTES	Un-audited March 31, 2019	Audited June 30, 2018
		Rupees	Rupees
6 PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	6.1	351,491,885	346,844,374
Capital work in progress	6.2	608,643,534	361,959,281
		960,135,419	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		1,228,023	10,502,094
- Furniture and Fittings		684,830	-
- Office equipments		1,005,580	1,660,333
- Electric installations		862,500	-
- Vehicles		16,336,000	2,700,500
		20,116,933	102,722,859
Less:			
Disposal during the period (at net book value)			
- Vehicles		919,118	-
Depreciation charged during the period		14,550,304	20,068,160
		15,469,422	20,068,160
Closing book value		351,491,885	346,844,374
6.2 CAPITAL WORK IN PROGRESS			
Opening Balance		361,959,281	267,517,497
Additions during the period			
- Plant and machinery		221,415,263	23,209,201
- Building and Civil Works on freehold land		25,418,073	76,098,433
		246,833,336	99,307,634
Less Transferred during the period			
- Plant and machinery		-	4,865,850
- Intangible		149,083	-
Closing Balance		608,643,534	361,959,281



	Un-audited	Audited
	March 31, 2019	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	39,584	40,244
Closing book value	120,074	10,575

		Un-audited	Un-audited	Un-audited	Un-audited
		Jan - Mar 2019	Jan - Mar 2018	July - Mar 2019	July - Mar 2018
		Rupees	Rupees	Rupees	Rupees
8	SALES - NET				
	Gross sales	8.1 1,358,453,148	1,434,386,311	3,199,308,762	3,653,032,879
	Less: Sales tax	181,081,412	204,326,207	424,261,648	514,399,372
	Sales returns	117,534,542	29,925,554	295,180,394	90,018,332
	Commission	21,047,518	23,776,239	49,545,526	70,292,305
		319,663,472	258,028,000	768,987,568	674,710,009
		1,038,789,676	1,176,358,311	2,430,321,194	2,978,322,870

8.1 This includes Rs. 5.67 million (March 31, 2018: Rs. 47.69 million) on account of export sales for the period.

9	COST OF SALES					
	Raw materials and components consumed	724,559,342	773,219,964	1,931,248,958	2,329,009,731	
	Salaries, wages and other benefits	66,396,738	68,013,330	200,852,933	199,921,051	
	Stores, spares and loose tools consumed	11,553,339	13,277,367	31,957,243	35,065,614	
	Power and fuel charges	14,219,512	16,007,323	44,407,847	48,195,342	
	Repair and maintenance	15,047,315	24,417,515	41,369,085	70,277,445	
	Provision for slow moving items	-	-	652,350	2,535,450	
	Other expenses	1,450,711	3,186,203	6,967,959	7,322,795	
	Depreciation & Amortization	2,969,753	3,236,540	8,919,580	9,632,995	
		836,196,710	901,358,242	2,266,375,955	2,701,960,423	
	Opening work-in-process	23,099,874	11,789,012	11,921,639	13,548,770	
	Closing work-in-process	(20,365,666)	(8,461,377)	(20,365,666)	(8,461,377)	
	Cost of goods manufactured	838,930,918	904,685,877	2,257,931,928	2,707,047,816	
	Opening finished goods	341,930,503	397,393,154	137,357,025	191,425,091	
	Cost of finished goods purchased	-	-	32,984,201	-	
	Closing finished goods	(253,663,687)	(259,156,385)	(253,663,687)	(259,156,385)	
		927,197,734	1,042,922,646	2,174,609,467	2,639,316,522	
10	TAXATION					
	Current					
	For the period	10.1	16,809,726	23,292,738	31,045,594	56,418,737
	Prior period		-		49,579	(2,526,084)
	Deferred					
	For the period		(235,039)	27,313	(1,586,186)	(1,521,146)
		16,574,687	23,320,051	29,508,987	52,371,507	

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

Profit after taxation for the period	Rupees	33,983,394	57,924,951	66,679,688	142,058,258
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	1.58	2.69	3.09	6.59

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.



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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 March 31, 2019 and March 31, 2018 which would have any effect on earning per share if the option to convert is exercised.

	Un-audited July - Mar 2019 Rupees	Un-audited July - Mar 2018 Rupees
12 TRANSACTIONS WITH RELATED PARTIES		
Transactions with key management personnel		
Remuneration, Allowances and benefits paid to Chief Executive	18,050,000	8,550,000
Bonus shares issued to Chief Executive	-	15,125,930
Remuneration, Allowances and benefits paid to Executive Director (s)	11,875,000	8,075,000
Bonus shares issued to Executive Director (s)	-	5,831,540
Remuneration, Allowances and benefits paid to other Key Management personnel	9,929,400	9,057,215*
Bonus shares issued to other Key Management personnel	-	25,080
Transactions with Non Executive Director (s)		
Meeting fee paid to Non-Executive Director (s)	620,000	770,000
Bonus shares issued to Non-Executive Director (s)	-	2,326,160
TOTAL	40,474,400	49,760,925

* The comparative figure has been restated to reflect changes in the definition of key management personnel as per The Companies (Related Party Transactions and Maintenance of Related Records) Regulations, 2018.

	Un-audited Jan - Mar 2019 Rupees	Un-audited Jan - Mar 2018 Rupees	Un-audited July - Mar 2019 Rupees	Un-audited July - Mar 2018 Rupees
13 SEGMENT RESULTS				
Segment Revenue - Net				
Home appliances	2,164,797	3,390,911	6,941,851	6,740,349
Auto parts	136,164,945	173,754,192	347,875,316	477,295,495
Auto rickshaw	895,951,387	999,213,208	2,063,598,044	2,494,287,026
Automobiles - Four Wheeler	4,508,547	-	11,905,983	-
Total	1,038,789,676	1,176,358,311	2,430,321,194	2,978,322,870
Segment operating results				
Home appliances	(880,468)	671,578	178,892	1,168,697
Auto parts	5,884,702	6,144,582	499,637	15,868,225
Auto rickshaw	63,266,049	80,718,656	131,411,934	194,388,334
Automobiles - Four Wheeler	(8,248,789)	-	(17,487,051)	-
Total	60,021,494	87,534,816	114,603,412	211,425,256

14 DATE OF AUTHORIZATION FOR ISSUE

The Board of Directors of the Company has authorized these condensed interim financial statements for issue on April 23, 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