

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

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 171- Ali Town, Thokar Niaz Baig, Raiwind Road, Lahore.

2- 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 (IFRS) issued by the International Accounting Standards Board 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.

2.1- New accounting standards, IFRIC interpretations and amendments to the published approved accounting standards that are effective in current year

The following standards, interpretations and amendments have been published that are mandatory and relevant for the Company's accounting period beginning on July 1, 2008:

IFRS 7- "Financial Instruments: Disclosures"- The Securities & Exchange Commission of Pakistan (SECP) vide SRO 411(1)/2008 dated April 28, 2008 notified the adoption of IFRS 7 which is mandatory for the Company's accounting periods beginning on or after the date of notification i.e. April 28, 2008. Adoption of IFRS 7 has only impacted the format and extent of disclosures presented in the financial statements.

Other new standards, interpretations and amendments to existing standards that are mandatory for accounting periods beginning on or after July 1, 2008 which are not considered relevant nor have any significant effect on Company's operations are not detailed in these financial statements.

2.2- New accounting standards, IFRIC interpretations and amendments to the published 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 standard or interpretation.

| | | Effective for period |
|--------|---|----------------------|
| IFRS 1 | First time adoption of IFRS (Revised) | July 01, 09 |
| IFRS 2 | Share based payment (Amendments) | Jan 01, 09 |
| IFRS 3 | Business combinations (Revised) | July 01, 09 |
| IFRS 4 | Insurance contracts (Amendments) | Jan 01, 09 |
| IFRS 5 | Non-current assets held for sale and discontinued operations (Amendments) | Jan 01, 09 |
| IFRS 7 | Financial instruments: Disclosure (Amendments) | Jan 01, 09 |
| IFRS 8 | Operating segments | Jan 01, 09 |
| IAS 1 | Presentation of financial statements (Revised) | Jan 01, 09 |
| IAS 7 | Statement of cash flows (Amendments) | Jan 01, 09 |
| IAS 12 | Income taxes (Amendments) | Jan 01, 09 |

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

| | | |
|---------|---|-------------|
| IAS 16 | Property, plant and equipment (Amendments) | Jan 01, 09 |
| IAS 18 | Revenue (Amendments) | Jan 01, 09 |
| IAS 19 | Employee benefits (Amendments) | Jan 01, 09 |
| IAS 20 | Government grants and disclosure of government assistance (Amendments) | Jan 01, 09 |
| IAS 21 | The effects of changes in foreign exchange rates (Amendments) | Jan 01, 09 |
| IAS 23 | Borrowing costs (Revised) | Jan 01, 09 |
| IAS 27 | Consolidated and separate financial statement (Amendments) | July 01, 09 |
| IAS 28 | Investment in associates (Amendments) | Jan 01, 09 |
| IAS 31 | Interests in joint venture (Amendments) | Jan 01, 09 |
| IAS 32 | Financial instruments: presentation (Amendments) | Jan 01, 09 |
| IAS 33 | Earnings per shares (Amendments) | Jan 01, 09 |
| IAS 34 | Interim financial reporting (Amendments) | Jan 01, 09 |
| IAS 36 | Impairment of assets (Amendments) | Jan 01, 09 |
| IAS 38 | Intangible assets (Amendments) | Jan 01, 09 |
| IAS 39 | Financial instruments: Recognition and measurement (Amendments) | Jan 01, 09 |
| IAS 40 | Investment property (Amendments) | Jan 01, 09 |
| IAS 41 | Agriculture (Amendments) | Jan 01, 09 |
| IFRIC1 | Change in existing decommissioning, restoration and similar liabilities (Amendments) | Jan 01, 09 |
| IFRIC2 | Member's share in corporate entities and similar liabilities (Amendments) | Jan 01, 09 |
| IFRIC4 | Determining whether an arrangement contains a lease | July 01, 10 |
| IFRIC12 | Services Concession Arrangements | Jan 01, 10 |
| IFRIC14 | The limit on a defined benefit asset, minimum funding requirements and their interaction (Amendments) | Jan 01, 09 |
| IFRIC15 | Agreements for the construction of real estate | Jan 01, 09 |
| IFRIC16 | Hedges of a net investment in a foreign operation | Oct 01, 08 |
| IFRIC17 | Distributions of non-cash assets to owners | July 01, 09 |

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

3- SIGNIFICANT ACCOUNTING POLICIES

3.1 - Basis of preparation

These financial statements have been prepared on the historical cost basis except for the recognition of employees retirement benefits at present value.

3.2 - Employee benefits

Defined benefit 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, to the extent that any cumulative unrecognized actuarial gain or loss exceeds ten percent of the present value of the defined benefit obligation, it is 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.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

3.3- Property, Plant and Equipment

Operating fixed assets except land and capital work in progress are stated at cost less accumulated depreciation. Land and capital work in progress are stated at cost. Cost in relation to self manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads. Cost of tangible fixed assets consists of historical cost, borrowing cost pertaining to the construction/erection period and directly attributable cost of bringing the assets to working condition.

Depreciation on all property, plant and equipment except freehold land is charged by applying the reducing balance method whereby the cost of an asset is written off over its estimated useful life. Depreciation on additions is charged from the month the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

The assets' residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

Normal maintenance and repairs are charged to income as and when incurred. Major renewals and replacements are capitalized.

Profit or loss on disposal of operating fixed assets is included in the current income.

3.4- Impairment of fixed assets

The company assesses at each balance sheet date whether there is any indication that a fixed asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying value exceeds recoverable amount, assets are written down to the recoverable amount.

3.5 - Intangible Assets

The Intangible Assets are stated at cost less accumulated amortization and identified impairment loss, if any. The cost of intangible assets is amortized over a period of five (5) years using the straight line method.

Amortization on additions to the intangible assets is charged from the month in which an asset is capitalized and / or is available for use, while no amortization is charged for the month in which the asset is disposed off. The amortization expense is charged to the current year income.

International Accounting Standard (IAS) 38 "Intangible Assets" requires review of amortization period and the amortization method at least at each financial year end. Accordingly the management assesses at each balance sheet date the assets' residual values and useful lives in addition to considering any indication of impairment, and adjustments are made if impact on amortization is significant.

3.6- Assets subject to finance lease

Assets under finance lease are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of assets at the inception of the lease. The aggregate amount of obligation relating to these assets are accounted for at net present value of liabilities. Depreciation on these assets is charged in line with normal depreciation policy adopted for assets owned by the Company.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

3.7 - Taxation

Current

The charge for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax is calculated by using the tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available and the credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.8 - Store, spares and loose tools

These are valued at moving average cost except items in transit which are valued at cost comprising invoice value and other charges paid thereon.

3.9 - Stock in trade

Stock in trade is valued at the lower of weighted average cost and net realizable value. The average cost in relation to work in process and finished goods represents direct costs of raw materials, labour and appropriate portion of overheads. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make the sale.

3.10 - Foreign currency conversion

Transactions in foreign currencies are recorded in Pak rupees at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are reported in Pak rupees at the rates of exchange approximating those prevalent at the balance sheet date. All exchange differences are charged to Profit and Loss Account.

3.11 - Revenue recognition

Revenue from sales is recognised on dispatch of goods to customers. Goods are considered dispatched when risk and rewards are transferred to customers.

3.12 - Borrowing Costs

All borrowing costs are capitalized up to the date of commissioning of the respective asset acquired out of the proceeds of such borrowing. All other borrowing costs are charged to income.

3.13 - Segment reporting

A reportable segment is identified where it becomes a distinguishable component that is engaged in providing an individual product or service or a group of related products or services within a particular economic environment and that is subject to risks and returns that are different from those of other segments. Expenses which cannot be directly allocated activity-wise, are apportioned on appropriate basis.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

3.14- Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalent consists of cash in hand, balances with banks and short term running finance facilities.

3.15- Trade and accrued liabilities

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 the goods and services received, whether billed or not to the Company.

3.16- Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

3.17- 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. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account currently.

3.18- Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labor, an appropriate proportion of overheads and other directly attributable expenditure. Other development expenditure is recognized in the income statement as an expense as incurred.

Expenditure on development activities, capitalized during the year, are classified under "Intangible Assets".

3.19 - Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the company has legally enforceable right to set off the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

3.20 - Related party transaction

All transactions with related parties are at arm's length prices determined in accordance with the pricing method as approved by the Board of Directors.

3.21 - Dividends

Dividend distribution to the shareholders is recognised as a liability in the period in which it is approved.

3.22 - Warranty Expenses

Warranty expenses are recorded as and when valid claims are received from customers.

4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards. These standards require 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) Useful life of depreciable and amortizable assets.
- b) Staff retirement benefits.
- c) Deferred taxation.
- d) Provisions and contingencies.
- e) Stocks in trade.

Estimates and judgments are continually evaluated and are based on historic experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

5 - ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

| 2009 Number | 2008 Number | Note | 2009 Rupees | 2008 Rupees |
|-------------------|------------------|--|--------------------|-------------------|
| 7,163,000 | 7,163,000 | Ordinary shares of Rupees 10 each fully paid up in cash | 71,630,000 | 71,630,000 |
| 3,237,676 | 1,504,230 | Ordinary shares of Rupees 10 each allotted as bonus shares 5.1 | 32,376,760 | 15,042,300 |
| <u>10,400,676</u> | <u>8,667,230</u> | | <u>104,006,760</u> | <u>86,672,300</u> |

- 5.1** These shares include 1,733,446 bonus share of Rs. 10 each (2008: bonus shares 787,930 of Rs. 10 each) issued by the Company during the current year.

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

| 6- LONG TERM FINANCING | Note | 2009 Rupees | 2008 Rupees |
|---|------|------------------|------------------|
| Secured | | | |
| Demand Finance facility | 6.1 | 6,600,000 | 9,000,000 |
| Less: Current portion shown under current liabilities | 12 | <u>2,400,000</u> | <u>2,400,000</u> |
| | | <u>4,200,000</u> | <u>6,600,000</u> |

6.1- The Company has obtained a loan from Habib Bank Limited of Rs.12 million. This facility is secured against 1st pari passu charge over the fixed asset of the Company (land, building and machinery), to the extent of Rs. 190 million. It carries mark-up at the rate of three months average ask side KIBOR + 3 % Floor 13% (June 30, 2008: three months average ask side KIBOR + 3 % Floor 11%) per annum, payable on quarterly basis. This finance is repayable in 20 equal quarterly installments of Rs. 0.6 Million each, which commenced from June 2007.

7- LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | | | |
|---|----|--------------------|--------------------|
| Present value of minimum lease payments | | 10,085,005 | 19,766,131 |
| Less: Current portion shown under current liabilities | 12 | <u>(7,172,935)</u> | <u>(9,667,919)</u> |
| | | <u>2,912,070</u> | <u>10,098,212</u> |

The amounts of future payments and the periods in which these payments will become due are as under:

| | | | |
|--|--|-------------------|-------------------|
| Due not later than one year: | | | |
| Minimum lease payments | | 8,079,050 | 11,724,001 |
| Financial charges | | <u>906,115</u> | <u>2,056,082</u> |
| Present value | | <u>7,172,935</u> | <u>9,667,919</u> |
| Due later than one year and not later than five years: | | | |
| Minimum lease payments | | 3,011,980 | 11,103,132 |
| Financial charges | | <u>99,910</u> | <u>1,004,920</u> |
| Present value | | <u>2,912,070</u> | <u>10,098,212</u> |
| | | <u>10,085,005</u> | <u>19,766,131</u> |

The minimum lease payments have been discounted using the effective interest rates implicit in leases ranging from 10.50% to 18.52% per annum to arrive at the present value. Rentals are payable in monthly installments. Repairs and maintenance costs are to be borne by the lessee. The liability is secured by deposit of Rupees 4.65 million, leased assets and personal guarantees of some directors of the Company. The Company intends to exercise its option to purchase the leased assets at the termination of lease period.

8- DEFERRED LIABILITIES

| | | | |
|-------------------|-----|-------------------|-------------------|
| Employee benefits | 8.1 | 16,353,642 | 12,304,593 |
| Deferred taxation | 8.2 | <u>24,129,552</u> | <u>18,755,964</u> |
| | | <u>40,483,194</u> | <u>31,060,557</u> |

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

| 8.1- Employee benefits | 2009 Rupees | 2008 Rupees |
|---|-------------------|-------------------|
| Net liability recognized in the balance sheet | | |
| Present value of defined benefit obligations | 19,049,337 | 13,827,364 |
| Unrecognized actuarial losses | (2,695,695) | (1,522,771) |
| | <u>16,353,642</u> | <u>12,304,593</u> |
| Movement in the net liability recognized in the balance sheet | | |
| Net liability as at 1st July | 12,304,593 | 7,912,840 |
| Expense recognized in the income statement | 6,956,889 | 5,017,222 |
| Amount allocated to capital work in progress | - | 153,581 |
| Liability discharged during the year | (2,907,840) | (779,050) |
| | <u>16,353,642</u> | <u>12,304,593</u> |
| Expense recognized in the income statement | | |
| Current service cost | 5,291,087 | 4,249,163 |
| Interest cost | 1,651,118 | 901,539 |
| Actuarial loss recognised | 14,684 | 20,101 |
| | <u>6,956,889</u> | <u>5,170,803</u> |
| Amount allocated to capital work in progress | - | (153,581) |
| | <u>6,956,889</u> | <u>5,017,222</u> |
| The expense is recognized in the following line items in the income statement under the head salaries, wages and other benefits. | | |
| Cost of sales | 5,115,689 | 3,771,846 |
| Administrative expenses | 1,430,600 | 801,964 |
| Distribution Cost | 410,600 | 443,412 |
| | <u>6,956,889</u> | <u>5,017,222</u> |
| Principal actuarial assumptions | | |
| The company has carried out actuarial valuation as at June 30, 2009 under the 'Projected Unit Credit Method'. The main assumptions used for actuarial valuation are as follows: | | |
| Discount rate | 12% p.a. | 12% p.a. |
| Expected rate of future salary increase | 11% p.a. | 11% p.a. |
| Average expected remaining working life time of employees | 10 years | 10 years |

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

| 8.2- | Deferred taxation | Note | 2009 Rupees | 2008 Rupees |
|------------|---|------|---------------------|--------------------|
| | The liability for deferred taxation comprises of temporary differences relating to: | | | |
| | Accelerated depreciation for tax purposes | | 27,639,538 | 25,648,513 |
| | Liabilities under finance lease that are deducted for tax purposes only when paid | | (3,509,985) | (6,892,549) |
| | | | <u>24,129,552</u> | <u>18,755,964</u> |
| 9- | TRADE AND OTHER PAYABLES | | | |
| | Creditors | | 179,195,643 | 157,765,039 |
| | Advances from customers | | 3,238,385 | 1,549,621 |
| | Accrued expenses and others | | 11,514,548 | 12,938,836 |
| | Sales tax payable | | 4,513,438 | 1,807,615 |
| | Special excise duty payable | | 485,634 | 84,507 |
| | Income tax deducted at source | | 1,347,370 | 868,323 |
| | Payable towards: | | | |
| | Workers' Profit Participation Fund | 9.1 | 1,470,565 | 11,222,632 |
| | Workers' Welfare Fund | 9.2 | 984,223 | 3,939,383 |
| | | | <u>202,749,806</u> | <u>190,175,956</u> |
| 9.1 | Workers' Profits participation Fund | | | |
| | Balance at beginning | | 11,222,632 | 4,415,272 |
| | Add: Charged during the year | 29 | 1,470,565 | 11,222,632 |
| | | | 12,693,197 | 15,637,904 |
| | Less: payment made during the year | | <u>(11,222,632)</u> | <u>(4,415,272)</u> |
| | | | <u>1,470,565</u> | <u>11,222,632</u> |
| 9.2 | Workers' Welfare Fund | | | |
| | Balance at Beginning | | 3,939,383 | 1,326,618 |
| | Add: Charge during the year | 29 | 529,547 | 3,939,383 |
| | | | 4,468,930 | 5,266,001 |
| | less: Payment made during the year | | <u>(3,484,707)</u> | <u>(1,326,618)</u> |
| | | | <u>984,223</u> | <u>3,939,383</u> |
| 10- | MARK-UP ACCRUED ON LOANS AND OTHER PAYABLES | | | |
| | Long term financing | | 278,561 | - |
| | Short term borrowing- secured | | 731,408 | 1,062,512 |
| | Liabilities against assets subject to finance lease | | 113,198 | 235,323 |
| | | | <u>1,123,167</u> | <u>1,297,835</u> |

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

| 11- SHORT TERM BORROWINGS | Note | 2009 Rupees | 2008 Rupees |
|--|------|-------------------|-------------------|
| Secured | | | |
| Running finance under mark-up arrangements | | | |
| Allied Bank Limited | 11.1 | - | 16,390,358 |
| Habib Bank Limited | 11.2 | - | 10,621,625 |
| Finance against trust receipts | | | |
| Allied Bank Limited | 11.3 | 16,671,652 | 16,417,776 |
| Habib Bank Limited | 11.4 | 4,923,476 | 19,904,028 |
| Un- Secured | | | |
| Payable against purchase of fixed asset | 11.5 | - | 215,442 |
| | | <u>21,595,128</u> | <u>63,549,229</u> |

11.1- Total amount of finance available under this facility is Rs. 45.00 million (June 30, 2008: Rs. 45.00 million). The mark-up is charged at the rate of three months average ask side Kibor plus 2.5%(June 30, 2008: three months average ask side Kibor plus 2.5 %) with Floor rate of 13% (June 30, 2008: 12%) per annum. This facility is secured against First charge on the present and future fixed assets for Rs.140 million and First Hypothecation Charge of Rs. 110 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company. The un utilized amount of this facility as at balance sheet date is Rs. 45.00 million. (June 30, 2008: Rs. 28.61 million).

11.2- Total amount of finance available under this facility is Rs. 50.00 million (June 30, 2008: Rs. 50.00 million). The mark-up is charged at the rate of three months average ask side Kibor + 2.5%(June 30, 2008: three months average ask side Kibor + 2.50%), with floor rate of 13% (June 30, 2008: 11%)per annum. This facility is secured against First pari passu charge on fixed assets for Rs. 190.00 million and First pari passu Hypothecation Charge of Rs. 90.00 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company. The un utilized amount of this facility as at balance sheet date is Rs. 50.00 million.(June 30, 2008; 39.38 million).

11.3- Total amount available under this facility is Rs. 20.00 million (June 30, 2008: Rs. 20.00 million). for a maximum period of 90 days (June 30, 2008: 120days). The mark-up is charged at the rate of three months average ask side Kibor plus 2.5% (June 30, 2008: three months average ask side Kibor + 2.5%) with floor rate of 13% (June 30, 2008: 12%). This facility is secured against First charge on present and future fixed assets for Rs. 140.00 million and First Hypothecation Charge of Rs. 110 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company and Trust Receipts. The un utilized amount of this facility as at balance sheet date is Rs. 3.33 million. (June 30, 2008: 3.59million).

11.4- Total amount available under this facility is Rs. 20.00 million (June 30, 2008: Rs. 20.00 million) for a maximum period of 120 days. The mark-up is charged at the rate of three months average ask side Kibor plus 2.5% (June 30, 2008: three months average ask side Kibor plus 2.50%) with floor rate of 13% per annum. (June 30, 2008: 11%). This facility is secured against First pari passu charge on fixed assets for Rs. 190 million and First pari passu Hypothecation Charge of Rs. 90 million over current assets of the Company, comprising of raw material, work in process, finished goods, etc. and receivable and book debts of the Company and Trust Receipts. The un utilized amount of this facility as at balance sheet date is Rs 15.077 million.(June 30, 2008: 0.096 million).

**NOTES TO THE ACCOUNTS
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- 11.5-** The finance has been paid completely during the current year previously it was payable against purchase of Generator from M/S Millat Tractors Limited on instalment basis. Total invoice value was payable in 13 monthly instalments along with mark up calculated @ 14.45% per annum commencing from March 2008.

12- CURRENT PORTION OF LONG TERM LIABILITIES

| | Note | 2009 Rupees | 2008 Rupees |
|---|------|------------------|-------------------|
| Long term financing | 6 | 2,400,000 | 2,400,000 |
| Liabilities against assets subject to finance lease | 7 | 7,172,935 | 9,667,919 |
| | | <u>9,572,935</u> | <u>12,067,919</u> |

13- PROVISION FOR TAXATION

| | | |
|-------------------------------|---------------------|---------------------|
| Balance at beginning | 68,573,796 | 24,193,223 |
| Add: Provision for the year | | |
| -Current Year | 3,648,921 | 67,589,754 |
| -Prior year | 2,695,335 | - |
| Less: Payment during the Year | <u>(62,458,053)</u> | <u>(23,209,181)</u> |
| | <u>12,459,999</u> | <u>68,573,796</u> |

14- CONTINGENCIES AND COMMITMENTS

14.1- Contingencies

- 14.1.1** Cases have been filed by some customers against the Company for the claim of auto parts under warranty. These cases are still pending in different courts. The management and Company's lawyer are of the opinion and are confident that the outcome of these cases will be settled in the favour of the Company. Hence no provision is made

- 14.1.2** The Company has filed an appeal against an order u/s 122(5A) passed by the taxation officer, challenging the tax losses amounting Rs. 1,503,939/- for tax year 2003 in the opinion of the tax consultant, favourable outcome of the appeal is expected.

- 14.1.3** The Income Tax department has filed an appeal against the Company in the income tax appellate tribunal, challenging the tax losses amounting Rs. 5,313,321/- for the tax year 2004. In the opinion of the tax consultant, favourable outcome of the appeal is expected.

- 14.1.4** The Company has been selected for Tax Audit u/s 177(4) for the tax Year 2008. The proceedings are in progress.

14.2- Commitments

The facilities for opening Letters of Credits and Guarantees as at June 30, 2009 aggregate Rs. 80 million and Rs. 8.00 million respectively (June 30, 2008: Rs. 80 million and Rs. 8.00 million respectively) of which the amounts utilized as at June 30, 2009 were Rs. 56.31 million and Rs. Nil. respectively. (June 30, 2008: Rs. 11.87 million and Nil respectively).

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

| | Note | 2009 Rupees | 2008 Rupees |
|--|------|--------------------|--------------------|
| 15- PROPERTY, PLANT AND EQUIPMENT | | | |
| Operating fixed assets | 15.1 | 218,278,804 | 185,395,421 |
| Capital work in progress | 15.3 | 4,554,879 | 19,547,881 |
| Advance for purchase of land | 15.4 | - | 5,000,000 |
| | | <u>222,833,683</u> | <u>209,943,302</u> |

15.1 - OPERATING FIXED ASSETS - Tangible

| 2 0 0 9 | | | | | | | | | | Rupees |
|---|---------------------|----------------------------|--------------------------|---------------------|-----------|---------------------|-----------------|------------------------|-------------------------------|---------------------|
| PARTICULARS | COST | | | DEPRECIATION | | | | | W.D.V. as at 30-06-2009 | |
| | As at 01-07-2008 | Additions / (Deletions) | Transfer | As at 30-06-2009 | Rate % | As at 01-07-2008 | For the year | Adjustment | | As at 30-06-2009 |
| Freehold land | 55,277,254 | 22,309,700 | | 77,586,954 | - | - | - | - | - | 77,586,954 |
| Buildings and Civil Works on freehold land | 52,669,453 | 6,675,167 | | 59,344,620 | 5 to 10 | 16,990,402 | 3,659,510 | - | 20,649,912 | 38,694,708 |
| Plant and Machinery | 86,819,378 | 18,720,632 | | 105,540,010 | 10 | 44,680,416 | 5,308,392 | - | 49,988,808 | 55,551,202 |
| Electric Fittings | 5,798,627 | 710,370 | | 6,508,997 | 10 | 1,971,456 | 417,556 | - | 2,389,012 | 4,119,986 |
| Furniture and Fixture | 1,635,074 | 188,900 | | 1,823,974 | 10 | 517,284 | 126,591 | - | 643,875 | 1,180,099 |
| Office Equipment | 2,163,609 | 38,000 | | 2,201,609 | 10 | 737,436 | 145,716 | - | 883,152 | 1,318,457 |
| Electric Installations | 1,381,634 | 197,345 | | 1,578,979 | 10 | 359,396 | 110,354 | - | 469,750 | 1,109,229 |
| Vehicles | 3,415,913 | 235,726 (1,437,500) | 1,676,500 | 3,890,639 | 20 | 2,041,668 | 319,049 | 989,806 (914,388) | 2,436,135 | 1,454,505 |
| Assets subject to Finance Lease | 209,160,942 | 49,075,840 (1,437,500) | 1,676,500 - | 258,475,782 | | 67,298,058 | 10,087,168 | 989,806 (914,388) | 77,460,644 | 181,015,140 |
| Plant and Machinery | 37,787,937 | - | - | 37,787,937 | 10 | 7,918,057 | 2,986,988 | - | 10,905,045 | 26,882,893 |
| Vehicles | 17,452,000 | - | (1,676,500) | 15,775,500 | 20 | 3,789,343 | 2,595,193 | (989,806) | 5,394,730 | 10,380,771 |
| | 55,239,937 | - | - | 53,563,437 | | 11,707,400 | 5,582,181 | - | 16,299,775 | 37,263,664 |
| | | - | (1,676,500) | | | | | (989,806) | | |
| TOTAL 2009 | 264,400,879 | 49,075,840 (1,437,500) | 1,676,500 (1,676,500) | 312,039,219 | | 79,005,458 | 15,669,349 | 989,806 (1,904,194) | 93,760,419 | 218,278,804 |

Details of property, plant and equipment sold are given in Note No. 15.5

| 2 0 0 8 | | | | | | | | | | Rupees |
|---|---------------------|----------------------------|----------|---------------------|-----------|---------------------|-----------------|--------------------------|---------------------|-------------------------------|
| PARTICULARS | COST | | | DEPRECIATION | | | | | | W.D.V. as at 30-06-2008 |
| | As at 01-07-2007 | Additions / (Deletions) | Transfer | As at 30-06-2008 | Rate % | As at 01-07-2007 | For the year | Adjustment | As at 30-06-2008 | |
| Freehold land | 8,148,504 | 46,928,750 | | 55,277,254 | - | - | - | - | - | 55,277,254 |
| Buildings and Civil Works on freehold land | 41,735,649 | 10,933,804 | | 52,669,453 | 5 to 10 | 14,292,792 | 2,697,610 | - | 16,990,402 | 35,679,051 |
| Plant and Machinery | 81,823,574 | 4,995,804 | | 86,819,378 | 10 | 40,435,705 | 4,244,711 | - | 44,680,416 | 42,138,962 |
| Electric Fittings | 3,585,940 | 2,212,687 | | 5,798,627 | 10 | 1,698,389 | 273,067 | - | 1,971,456 | 3,827,171 |
| Furniture and Fixture | 1,213,764 | 421,319 | | 1,635,074 | 10 | 408,776 | 108,508 | - | 517,284 | 1,117,790 |
| Office Equipment | 1,693,892 | 469,717 | | 2,163,609 | 10 | 599,087 | 138,349 | - | 737,436 | 1,426,173 |
| Electric Installations | 900,766 | 480,868 | | 1,381,634 | 10 | 259,682 | 99,714 | - | 359,396 | 1,022,238 |
| Vehicles | 2,164,679 | 2,354,234 (1,103,000) | | 3,415,913 | 20 | 1,233,256 | 334,053 | 1,085,568 (611,209) | 2,041,668 | 1,374,245 |
| Assets subject to Finance Lease | 141,466,768 | 68,797,174 (1,103,000) | | 209,160,942 | | 58,927,687 | 7,896,012 | 1,085,568 (611,209) | 67,298,058 | 141,862,884 |
| Plant and Machinery | 25,157,903 | 12,630,034 | | 37,787,937 | 10 | 5,768,629 | 2,149,428 | - | 7,918,057 | 29,869,880 |
| Vehicles | 9,471,500 | 10,087,500 (2,107,000) | | 17,452,000 | 20 | 2,515,872 | 2,359,039 | (1,085,568) | 3,789,343 | 13,662,657 |
| | 34,629,403 | 22,717,534 (2,107,000) | | 55,239,937 | | 8,284,501 | 4,508,467 | - (1,085,568) | 11,707,400 | 43,532,537 |
| TOTAL 2008 | 176,096,171 | 91,514,708 (3,210,000) | | 264,400,879 | | 67,212,188 | 12,404,479 | 1,085,568 (1,696,777) | 79,005,458 | 185,395,421 |

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

| | Note | 2009 Rupees | 2008 Rupees |
|--|--------|-------------------|-------------------|
| 15.2 - Depreciation for the year has been allocated as follows: | | | |
| Cost of sales | 26 | 12,520,067 | 8,976,958 |
| Distribution cost | 27 | 1,109,883 | 988,608 |
| Administrative expenses | 28 | 2,039,399 | 1,926,533 |
| Capital work in progress | | - | 512,381 |
| | | <u>15,669,349</u> | <u>12,404,480</u> |
| 15.3 - CAPITAL WORK-IN-PROGRESS | | | |
| Tangible | | | |
| Plant and machinery | | | |
| Opening balance | | 19,037,229 | 12,765,452 |
| Additions made during the year | | <u>2,381,512</u> | <u>6,271,777</u> |
| | | 21,418,714 | 19,037,229 |
| Transferred to operating fixed assets | | <u>18,070,115</u> | - |
| | 15.3.1 | <u>3,348,626</u> | <u>19,037,229</u> |
| Civil works | | | |
| Opening balance | | - | 2,904,590 |
| Additions made during the year | | <u>7,165,140</u> | <u>8,029,214</u> |
| | | 7,165,104 | 10,933,804 |
| Transferred to operating fixed assets | | <u>6,536,753</u> | <u>10,933,804</u> |
| | | <u>628,351</u> | - |
| Electric Fitting / Installations | | | |
| Opening balance | | - | 385,657 |
| Additions made during the year | | <u>-</u> | <u>405,267</u> |
| | | - | 790,924 |
| Transferred to operating fixed assets | | <u>-</u> | <u>790,924</u> |
| | | <u>-</u> | - |
| Intangible | | | |
| Development work | | | |
| Opening balance | | 510,652 | - |
| Additions made during the year | | <u>67,250</u> | <u>510,652</u> |
| | | 577,902 | 510,652 |
| Transferred to Intangible Assets | | <u>-</u> | - |
| | | <u>577,902</u> | <u>510,652</u> |
| | | <u>4,554,879</u> | <u>19,547,881</u> |

15.3.1- This includes Rs. 2.45 million (June 30, 2008:Rs. 0.97 million) on account of advances paid to suppliers of machinery.

15.4- This balance represents the amount of advance paid on 19-06-2008 for the purchase of land measuring 64 Kanals at Mauza Bhai Kot, Lahore, the sale deed of which was registered in the name of the Company on August 22, 2008.

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

15.5- DETAIL OF PROPERTY, PLANT AND EQUIPMENT DISPOSAL

The detail of property, plant and equipment disposal, having net book value in excess of Rs. 50,000 is as follows:

| Particulars | Cost | Net Book Value | Sale price | Mode of Disposal | Particulars of purchaser |
|-----------------------------|-----------|----------------|------------|------------------|---|
| -----Rupees----- | | | | | |
| Honda CIVIC VTI LZU 1237 | 1,272,500 | 512,529 | 512,529 | Negotiation | Muhammad Shaffi 27-KM Multan Road Lahore |
| Suzuki Bolan CE 1769 | 165,000 | 10,583 | 80,000 | Negotiation | Dr. Aliya 05 Claton Jigar Murabadi Road Karachi-74800 |
| | | - | | | |

16 - INTANGIBLE ASSETS

| Particulars | Cost | | | Amortization | | | Book Value |
|------------------|------------------|-----------------------|------------------|------------------|----------------|------------------|------------------|
| | As at 01-07-2008 | Additions/ (deletion) | As at 30-06-2009 | As at 01-07-2008 | For the period | As at 30-06-2009 | As at 30-06-2009 |
| Development Cost | 3,051,300 | - | 3,051,300 | 1,326,899 | 618,931 | 1,945,830 | 1,105,471 |
| Jun-09 | 3,051,300 | - | 3,051,300 | 1,326,899 | 618,931 | 1,945,830 | 1,105,471 |
| Jun-08 | 3,051,300 | - | 3,051,300 | 704,761 | 622,138 | 1,326,899 | 1,724,401 |

16.1- Development cost represents cost incurred on patents, copyrights, trade marks and designs.

16.2- The amortization cost is included in cost of sales.

| Note | 2009 Rupees | 2008 Rupees |
|------|----------------|----------------|
|------|----------------|----------------|

17- LONG TERM DEPOSITS

| | | |
|----------------------------------|---------|---------|
| Deposit with Pakistan Steel Mill | 400,000 | 400,000 |
| Utilities and others | 416,457 | 371,457 |
| | 816,457 | 771,457 |

18 - STORES, SPARES AND LOOSE TOOLS

| | | |
|-------------|-----------|-----------|
| Stores | 4,956,654 | 2,252,651 |
| Spares | 320,121 | 689,523 |
| Loose tools | 161,753 | 726,199 |
| | 5,438,528 | 3,668,373 |

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

| | Note | 2009 Rupees | 2008 Rupees |
|---|------|--------------------|--------------------|
| 19 - STOCK IN TRADE | | | |
| Raw materials and components | | 140,161,113 | 153,149,756 |
| Work-in-process | | 21,179,856 | 16,247,744 |
| Finished goods | | 33,360,733 | 8,035,421 |
| Stock in transit | | - | 15,879,600 |
| Packing and other material | | 65,585 | 5,329 |
| | | <u>194,767,287</u> | <u>193,317,850</u> |
| 20 - TRADE DEBTS - Unsecured | 20.1 | <u>96,341,775</u> | <u>202,015,093</u> |
| 20.1 - Classification: | | | |
| Considered Good | | 96,341,775 | 202,015,093 |
| Considered Doubtful | | 522,533 | - |
| Considered Bad | | 44,622 | - |
| | | <u>96,908,950</u> | <u>202,015,093</u> |
| Less | | | |
| Provision for Doubtful debts | | (522,553) | - |
| Bad debts | | (44,622) | - |
| | | <u>96,341,775</u> | <u>202,015,093</u> |
| Debts which are considered doubtful and Bad are charged to current year income and are shown under other operating expenses. | | | |
| 21 - LOANS & ADVANCES | | | |
| Advances - considered good | | | |
| to employees | 21.1 | 808,319 | 484,120 |
| to suppliers | | 10,037,301 | 7,975,565 |
| | | <u>10,845,620</u> | <u>8,459,685</u> |
| 21.1- Maximum aggregate balance due from the Executives during the period was Rs. 205,000/- (June 30, 2008: Rs. 150,000). These advances are secured against retirement benefits of the employees. | | | |
| 22 - TRADE DEPOSITS AND SHORT TERM PREPAYMENTS | | | |
| Contract securities | | 600,000 | 300,000 |
| Prepaid expenses | | 567,632 | 661,850 |
| Letter of credit margin | | 13,238,114 | 8,268,638 |
| Letter of credit in process | | 18,827,232 | 16,263,468 |
| | | <u>33,232,978</u> | <u>25,493,956</u> |
| 23 - OTHER RECEIVABLES | | | |
| Advance income tax | | 21,344,093 | 23,498,658 |
| Other Receivable | | 188,000 | - |
| | | <u>21,532,093</u> | <u>23,498,658</u> |

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

| | Note | 2009 Rupees | 2008 Rupees |
|---|------|--------------------|----------------------|
| 24 - CASH AND BANK BALANCES | | | |
| Cash in hand | | 39,331 | 39,100 |
| Balance with banks on current accounts | | 19,793,232 | 11,911,805 |
| | | <u>19,832,563</u> | <u>11,950,905</u> |
| 25 - SALES - NET | | | |
| Gross sales | 25.1 | 1,140,685,970 | 1,943,722,984 |
| Less: Sales tax | | 157,130,672 | 253,324,049 |
| Sales returns | | 17,506,070 | 22,754,278 |
| Commission | | 13,509,295 | 122,929,621 |
| | | <u>188,146,037</u> | <u>399,007,948</u> |
| | | <u>952,539,933</u> | <u>1,544,715,036</u> |
| 25.1 This includes Rs. 1.48 million (June 30, 2008: Rs. 0.79 million) on account of export sales. | | | |
| 26 - COST OF SALES | | | |
| Raw materials and components consumed | | 719,401,373 | 1,065,632,052 |
| Salaries, wages and other benefits | 26.1 | 75,371,800 | 80,075,112 |
| Stores, spares and loose tools consumed | | 13,400,263 | 17,368,384 |
| Power and fuel charges | | 25,740,080 | 26,760,197 |
| Repair and maintenance | | 18,357,790 | 18,486,806 |
| Other expenses | | 4,358,474 | 4,497,570 |
| Depreciation | 15.2 | 12,520,067 | 8,976,958 |
| Amortization | 16 | 618,931 | 622,138 |
| | | <u>869,768,778</u> | <u>1,222,419,217</u> |
| Opening work-in-process | | 16,247,744 | 26,663,717 |
| | | <u>886,016,522</u> | <u>1,249,082,934</u> |
| Closing work-in-process | | 21,179,856 | 16,247,744 |
| Cost of goods manufactured | | 864,836,666 | 1,232,835,190 |
| Opening finished goods | | 8,035,421 | 14,311,987 |
| | | <u>872,872,087</u> | <u>1,247,147,177</u> |
| Cost of finished goods purchased during the year | | 9,209,448 | 2,655,700 |
| | | <u>882,081,535</u> | <u>1,249,802,877</u> |
| Closing finished goods | | 33,360,733 | 8,035,421 |
| | | <u>848,720,802</u> | <u>1,241,767,456</u> |

26.1 Salaries, wages and other benefits include Rs. 5,115,689 (2008: 3,771,846) in respect of retirement benefits.

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

| | Note | 2009 Rupees | 2008 Rupees |
|----------------------------------|------|-------------------|-------------------|
| 27 - DISTRIBUTION COST | | | |
| Salaries and other benefits | 27.1 | 7,653,998 | 6,845,641 |
| Freight and octroi | | 9,823,143 | 18,437,305 |
| Traveling and conveyance | | 1,233,717 | 1,204,790 |
| Packing material consumed | | - | 82,161 |
| Advertisement and sale promotion | | 2,678,581 | 3,496,116 |
| Insurance | | 381,234 | 158,479 |
| After sales service | | 1,737,840 | 1,884,506 |
| Printing & Stationery | | 772,484 | 825,779 |
| Depreciation | 15.2 | 1,109,883 | 988,608 |
| | | <u>25,390,880</u> | <u>33,923,385</u> |

27.1 Salaries and other benefits include Rs. 410,600 (2008: 443,412) in respect of retirement benefits.

28 - ADMINISTRATIVE EXPENSES

| | | | |
|------------------------------------|------|-------------------|-------------------|
| Salaries and other benefits | 28.1 | 21,928,396 | 19,524,641 |
| Electricity, gas and water charges | | 301,113 | 230,854 |
| Communication expenses | | 2,426,591 | 1,985,080 |
| Vehicle running expenses | | 799,428 | 598,085 |
| Legal and professional | 28.2 | 1,431,644 | 2,009,427 |
| Travelling and conveyance | | 1,915,196 | 1,680,324 |
| Fee and subscription | | 524,179 | 1,823,736 |
| Insurance | | 378,109 | 311,510 |
| Rent, rates and taxes | | 705,186 | 455,030 |
| Printing and stationery | | 1,468,377 | 1,616,722 |
| Entertainment | | 561,338 | 590,789 |
| Office supplies | | 32,537 | 20,257 |
| Research expenses | | 143,834 | 165,886 |
| Miscellaneous expenses | | 365,207 | 455,951 |
| Depreciation | 15.2 | 2,039,399 | 1,926,533 |
| | | <u>35,020,533</u> | <u>33,394,825</u> |

28.1 Salaries and other benefits include Rs. 1,430,600 (2008: 801,964) in respect of retirement benefits.

28.2 These include a sum of Rupees 251,667 incurred for the registration of Company with registrar of Companies and taxation department in Kenya as a foreign Company.

29 - OTHER OPERATING EXPENSES

| | | | |
|------------------------------------|------|------------------|-------------------|
| Auditors' remuneration | 29.1 | 732,500 | 350,000 |
| Bad debts | | 44,622 | - |
| Provision for doubtful debts | | 522,553 | - |
| Contribution towards: | | | |
| Workers' profit participation fund | 9.1 | 1,470,565 | 11,222,632 |
| Workers' welfare fund | 9.2 | 529,547 | 3,939,383 |
| | | <u>3,299,787</u> | <u>15,512,015</u> |

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

| | Note | 2009 Rupees | 2008 Rupees |
|---|------|----------------|----------------|
| 29.1- Auditors' remuneration | | | |
| Viqar A. Khan | | | |
| Workers' Profit Participation Fund Audit | | 12,500 | 10,000 |
| Tax services | | 200,000 | 100,000 |
| | | 212,500 | 110,000 |
| Kabani Saeed Kamran Patel & Co. | | | |
| Statutory audit | | 375,000 | 150,000 |
| Half yearly review | | 125,000 | 75,000 |
| Certificate fee | | 20,000 | 15,000 |
| | | 520,000 | 240,000 |
| | | 732,500 | 350,000 |
| 30 - OTHER OPERATING INCOME | | | |
| Income from financial assets | | | |
| Exchange Gain/(Loss) | | 91,297 | 11,643 |
| Income from non financial assets | | | |
| Profit on sale of fixed assets | | 69,417 | 258,209 |
| Miscellaneous Income | 30.1 | 1,017,485 | - |
| | | 1,178,199 | 269,852 |
| 30.1 Miscellaneous Income includes credit balances outstanding for long period written of during the year. | | | |
| 31 - FINANCE COST | | | |
| Mark-up on: | | | |
| Long term finances | | 1,396,996 | 1,285,287 |
| Short term borrowings - secured | | 9,501,745 | 5,998,860 |
| Intrest on Workers' Profit Participation Fund | | 1,463,357 | 460,316 |
| Financial charges on finance lease | | 2,311,048 | 2,553,351 |
| Bank charges, commission & others | | 665,160 | 1,259,086 |
| | | 15,338,306 | 11,556,900 |
| 32 - TAXATION | | | |
| Current | | | |
| For the period | | 3,648,921 | 67,589,754 |
| Prior Year | 32.1 | 2,695,335 | - |
| Deferred | | | |
| For the period | | 5,373,588 | 5,885,353 |
| | | 11,717,844 | 73,475,107 |

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

- a) The income tax assessments of the company have been finalized upto tax year 2007, except as mentioned in note 14.1.2 and 14.1.3
- b) The Company has been selected for Tax Audit u/s 177 (4) for the Tax Year 2008. The proceedings are in progress.
- c) Provision for taxation is considered adequate to discharge the expected liability for current year.

32.1 This balance represents an amount paid as additional tax in respect of order passed by DCIT u/s 205 (1B) of the Income Tax Ordinance, 2001. The Company is in appeal against this order.

| | Note | 2009 Rupees | 2008 Rupees |
|--|------|----------------|----------------|
| 32.2 - Tax charge reconciliation | | | |
| Profit before taxation | | 25,947,824 | 208,830,307 |
| Tax charge on accounting profit at applicable tax rate as per Income Tax Ordinance, 2001 | | 9,081,739 | 73,090,607 |
| Tax effect of amounts that are: | | | |
| - not deductible for tax purposes | | (24,697) | 7,049,473 |
| - allowable deductions for tax purposes | | (24,142) | (6,435,684) |
| Tax effect of profit attributable to presumptive income | | (21,707) | (258,619) |
| Effect of presumptive tax | | 11,317 | 29,331 |
| Adjustment of prior year taxation | | 2,695,335 | - |
| Taxation for the year | | 11,717,844 | 73,475,107 |

33 - EARNINGS PER SHARE - BASIC AND DILUTED

Basic & diluted earnings per share

| | | | |
|--|---------|------------|-------------|
| Profit after taxation for the year | Rupees | 14,229,980 | 135,355,200 |
| Weighted average number of ordinary shares outstanding during the year - Note 33.1 | Numbers | 10,400,676 | 10,400,676 |
| Basic & diluted earnings per share | Rupees | 1.37 | 13.01 |

- 33.1-** Number of ordinary shares outstanding at the close of corresponding period presented has been increased to reflect the bonus shares issued during the current period ended June 30, 2009.

Diluted earnings per share

There is no dilution effect on the basic earnings per share of the company as the company has no such commitments.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

| | Note | 2009 Rupees | 2008 Rupees |
|--|------|--------------------|----------------------|
| 34 - CASH GENERATED FROM OPERATIONS | | | |
| Profit before taxation | | 25,947,824 | 208,830,307 |
| Adjustment for non cash charges and other items: | | | |
| Depreciation | | 15,669,349 | 11,892,099 |
| Amortization | | 618,931 | 622,138 |
| Provision for gratuity | | 6,956,889 | 5,017,222 |
| Financial and other charges | | 17,905,593 | 26,718,915 |
| Other income | | (1,086,902) | (258,209) |
| | | 40,063,860 | 43,992,165 |
| | | 66,011,684 | 252,822,472 |
| Working capital changes | 34.1 | 117,872,156 | (185,430,947) |
| | | <u>183,883,840</u> | <u>67,391,525</u> |
| 34.1 - Working capital changes | | | |
| (Increase) / decrease in current assets: | | | |
| Store, spares and loose tools | | (1,770,155) | (403,654) |
| Stock-in-trade | | (1,449,437) | (68,158,820) |
| Trade debts | | 105,106,143 | (158,372,001) |
| Loans & Advances | | (2,385,935) | (2,531,654) |
| Trade Deposits and short term prepayments | | (7,739,022) | (8,798,225) |
| Other receivables | | (188,000) | - |
| Increase / (decrease) in current liabilities | | | |
| Trade and other payables | | 26,298,562 | 52,833,407 |
| | | <u>117,872,156</u> | <u>(185,430,947)</u> |
| 35 - CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents include: | | | |
| Cash and bank balances | 24 | 19,832,563 | 11,950,905 |
| Short term borrowings | 11 | - | (27,011,983) |
| | | <u>19,832,563</u> | <u>(15,061,078)</u> |

36- TRANSACTIONS WITH RELATED PARTIES

The related parties comprise directors, key management personnel and associated company. The nature of relationship with associated company was that both companies had common management personnel. During the financial year ending on June 30, 2008 the common directors were retired and had resigned from the respective companies. Therefore the relationship with M/s Ciba Enterprises (Pvt.) Ltd. is no more existed as related party at the Balance Sheet date. The remuneration of Directors and key management personnel is shown in note 37. Other major transactions during the year with the associated Company are as follows:

| | | |
|-----------|---|------------|
| Purchases | - | 29,446,478 |
|-----------|---|------------|

As the related party relationship with associated Company was not existed during the year and at the balance sheet date of current year, therefore no transaction was accounted for during the current year as related party. Disclosure is made for comparative purposes only.

Sazgar Engineering Works Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

37- REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in these accounts for the year for remuneration, including certain benefits to the Chief Executive, Directors and Executives of the Company is as follows:

| | (Rupees) | | | | | | | |
|--------------------------|-----------------|-----------|-----------|-----------|------------|-----------|------------|------------|
| | Chief Executive | | Directors | | Executives | | Total | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Managerial Remuneration | 5,127,273 | 4,872,727 | 4,363,636 | 4,436,364 | 7,373,227 | 5,355,455 | 16,864,136 | 14,664,545 |
| Medical allowance | 512,727 | 487,273 | 436,364 | 443,636 | 737,323 | 535,545 | 1,686,414 | 1,466,454 |
| Bonus & leave encashment | - | - | -- | -- | 518,723 | 1,316,762 | 518,723 | 1,316,762 |
| | 5,640,000 | 5,360,000 | 4,800,000 | 4,880,000 | 8,629,273 | 7,207,762 | 19,069,273 | 17,447,761 |
| Number of persons | 1 | 1 | 2 | 2 | 4 | 4 | 7 | 7 |

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

38 - SEGMENT REPORTING

| | Household appliances | | Auto parts | | Auto rickshaw | | Total | |
|---|----------------------|----------------|----------------|----------------|----------------|----------------|--------------------|--------------------|
| | 2009 Rupees | 2008 Rupees | 2009 Rupees | 2008 Rupees | 2009 Rupees | 2008 Rupees | 2009 Rupees | 2008 Rupees |
| Segment revenue-Net | 5,623,436 | 6,353,490 | 366,354,971 | 247,325,124 | 580,561,526 | 1,291,036,422 | 952,539,933 | 1,544,715,036 |
| Segment operating results | 376,643 | (126,513) | 36,340,654 | 742,548 | 5,957,921 | 234,788,335 | 42,675,218 | 235,404,370 |
| Segment assets | 14,841,047 | 12,748,210 | 271,059,145 | 200,589,392 | 259,902,840 | 411,793,656 | 545,803,032 | 625,131,258 |
| Unallocated assets | | | | | | | 60,943,423 | 55,712,422 |
| Total assets | | | | | | | <u>606,746,455</u> | <u>680,843,680</u> |
| Segment liabilities | 28,868 | 31,427 | 126,227,690 | 65,404,203 | 136,406,013 | 196,158,577 | 262,662,571 | 261,594,207 |
| Unallocated liabilities | | | | | | | 32,433,728 | 121,829,297 |
| Total liabilities | | | | | | | <u>295,096,299</u> | <u>383,423,504</u> |
| Capital expenditure | - | 71,000 | 2,381,512 | 20,868,807 | 30,264,096 | 71,960,079 | 32,645,608 | 92,899,886 |
| Depreciation and amortization | 278,965 | 242,582 | 8,360,077 | 6,542,095 | 7,649,238 | 5,729,560 | | |
| Non-cash charges other than depreciation and amortization | 87,646 | 221,706 | 3,538,701 | 1,981,569 | 3,330,542 | 2,813,947 | | |

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

39 - FINANCIAL INSTRUMENTS

39.1 - Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Note | 2009 Rupees | 2008 Rupees |
|--------------------|------|--------------------|--------------------|
| Long term Deposits | 17 | 816,457 | 771,457 |
| Trade debts | 20 | 96,341,775 | 202,015,093 |
| Loans and Advances | 21 | 10,845,620 | 8,459,685 |
| Trade Deposits | 22 | 32,665,346 | 24,832,106 |
| Other Receivables | 23 | 188,000 | - |
| Bank Balances | 24 | 19,793,232 | 11,911,805 |
| | | <u>160,650,430</u> | <u>247,990,146</u> |

Geographically there is no concentration of credit risk.

The maximum exposure to credit risk for trade debts, loans and Advances and other receivables at the reporting date by type of parties was:

| | | |
|-------------------------|-------------------|--------------------|
| Institutional Customers | 21,334,547 | 153,854,574 |
| Corporate Customers | 52,947,842 | 37,595,662 |
| Distributor | 3,415,153 | 269,153 |
| Dealers | 5,626,870 | 2,633,552 |
| Others | 14,013,682 | 8,146,272 |
| | <u>97,338,094</u> | <u>202,499,213</u> |

The aging of trade debts, loans and advances and other receivable at the reporting date was:

| | | |
|-----------------------------|-------------------|--------------------|
| Not past due | 60,728,640 | 116,725,094 |
| Past Due 0-30 days | 14,349,016 | 78,778,382 |
| Past Due 31-120 days | 2,701,241 | 1,896,488 |
| Past Due more than 120 days | 19,559,197 | 5,099,249 |
| | <u>97,338,094</u> | <u>202,499,213</u> |

Based on historic record the Company believes that no impairment allowance is necessary in respect of loans and receivables past due more than 120 days.

39.2- Foreign exchange risk management

Foreign currency risk arises mainly where payable exit due to transaction with foreign undertakings. Payable exposed to foreign currency risk are identified as either creditors or bills payable. The Company does not view hedging as being financially feasible owing to the excessive costs involved.

39.3- Capital Risk Management

The Company's objective when managing capital is to safe guard the company's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholder; and to maintain a strong capital base support the sustained development of its business. The company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the company may adjust the amount of dividend paid to shareholders or issue new shares.

39.4- Fair value of financial instruments

The carrying value of all financial instruments i.e financial assets and liabilities reflected in the financial statements approximate their fair values.

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39.5- Market Risk

Market risk is the risk that fair value of the future cash flows of a financial instruments may fluctuate as a result of changes in market prices. Market risk comprises of three type of risk: Currency risk, interest rate risk and price risk.

39.5.1- Currency Risk

Currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate of changes in foreign change rates. The company is exposed to currency risk on import of raw materials and finished goods being denominated in US dollars. The Company's exposure to foreign currency risk for US dollars is on account of outstanding letter of credit of Rs. 56.31 million (2008: Rs. 11.87 million).

39.5.2- Interest Rate Risk

Interest rate risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial liabilities include balance of Rs. 38.280 million (2008: Rs 92.315 million) which is subject to interest rate risk.

Cash Flow Sensitivity for variable rate instruments

A change of 100 basis points in interest rates at the reporting date, with all other variables remaining constant, the net income for the year would have been lower or higher by Rs. 382,801 (2008: Rs. 923,154.)

39.5.3 -Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market prices (Other than those arising from interest risk or risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. At present, the company is not exposed to price risk as there are no investments in marketable securities.

39.6 - Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

| | 2009 | | | | | | (Rupees) |
|-------------------------------|--------------------|------------------------|--------------------|------------------|------------------|------------------|-------------------|
| | Carrying Amount | Contractual Cash Flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
| Long term financing | 6,600,000 | 7,607,820 | 1,383,240 | 1,383,240 | 2,766,480 | 2,074,860 | - |
| Liability under finance lease | 10,085,005 | 11,091,030 | 4,039,525 | 4,039,525 | 3,011,980 | - | - |
| Trade and other payables | 202,749,806 | 202,749,806 | 202,749,806 | - | - | - | - |
| Accrued Mark-up | 1,123,167 | 1,123,167 | 1,123,167 | - | - | - | - |
| Short term borrowing | 21,595,128 | 21,595,128 | 21,595,128 | - | - | - | - |
| | <u>242,153,106</u> | <u>244,166,951</u> | <u>230,890,866</u> | <u>5,422,765</u> | <u>5,778,460</u> | <u>2,074,860</u> | <u>-</u> |

| | 2008 | | | | | | (Rupees) |
|-------------------------------|--------------------|------------------------|--------------------|------------------|-------------------|------------------|-------------------|
| | Carrying Amount | Contractual Cash Flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
| Long term financing | 9,000,000 | 10,474,200 | 1,396,560 | 1,396,560 | 2,793,120 | 4,887,960 | - |
| Liability under finance lease | 19,766,131 | 22,827,133 | 5,862,000 | 5,862,000 | 8,049,600 | 3,053,533 | - |
| Trade and other payables | 190,175,956 | 190,175,956 | 190,175,956 | - | - | - | - |
| Accrued Mark-up | 1,297,835 | 1,297,835 | 1,297,835 | - | - | - | - |
| Short term borrowing | 63,549,229 | 63,549,229 | 63,549,229 | - | - | - | - |
| | <u>283,789,151</u> | <u>288,324,353</u> | <u>262,281,580</u> | <u>7,258,560</u> | <u>10,842,720</u> | <u>7,941,493</u> | <u>-</u> |

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

| 40 - PLANT CAPACITY AND ACTUAL PRODUCTION | 2009 Numbers | 2008 Numbers |
|--|-----------------|-----------------|
| Installed Capacity | | |
| Auto rickshaw (8 hours single shift basis) | <u>10,000</u> | <u>10,000</u> |
| Auto Parts | | |
| The capacity of the plant and machinery relating to auto parts is indeterminable due to the versatility of production. | | |
| Actual Production | | |
| Auto Rickshaw | 4,690 | 9,696 |
| Auto parts | | |
| Wheel - rims | 90,530 | 82,161 |
| Body front axle | - | 41 |
| Console panel | 9,147 | 2,101 |
| 41 - NUMBER OF EMPLOYEES | | |
| Average number of employees during the year | 635 | 775 |

42 - SUBSEQUENT EVENTS:

The Board of Directors, at their meeting held on October 05, 2009, has recommended 20% bonus shares i.e. 20 ordinary shares for every 100 ordinary shares for the year ended June 30, 2009 (2008: 20% bonus shares) subject to the approval of the members at the 18th Annual General Meeting of the Company.

43 - DATE OF AUTHORIZATION FOR ISSUE

The Board of Directors of the Company has authorized these financial statements for issue on October 05, 2009.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2009**

44 - CORRESPONDING FIGURES


Corresponding figures have been re-arranged/reclassified(if necessary) for the purpose of comparison.

Following figures have been re-arranged/reclassified:

| Nature | Amount | Note | Previously classified under | Reclassified under |
|---------------------|-------------|------|--|---|
| Revenue Reserve | 207,643,396 | | Un-appropriated profit | Revenue reserve- Un-appropriated profit |
| Current Liabilities | 1,123,167 | 10 | Interest and mark-up accrued on loans and other payables | Mark-up accrued on loans and other payables |
| Current Liabilities | 21,595,128 | 11 | Short term finances and advances | Short term borrowings |
| Current Liabilities | 9,572,935 | 12 | Current Maturity of long term liabilities | Current portion of long term liabilities |
| Non Current Assets | 816,457 | 17 | Long term Security Deposits | Long term Deposits |
| Current Assets | 10,845,620 | 21 | Advances, deposits, prepayments and other receivables | Loans and Advances |
| Current Assets | 33,232,978 | 22 | Advances, deposits, prepayments and other receivables | Trade Deposits and short term prepayments |
| Current Assets | 21,532,093 | 23 | Advances, deposits, prepayments and other receivables | Other Receivables |

45 - GENERAL

The figures have been rounded off to the nearest rupee.


MIAN ASAD HAMEED
CHIEF EXECUTIVE


SAEED IQBAL KHAN
DIRECTOR