

ALLWIN ENGINEERING INDUSTRIES LIMITED
ANNUAL REPORT 1998

Allwin Engineering Industries Limited

MISSION STATEMENT

To be a dynamic, profitable and growth oriented company with market leadership in auto parts, through excellence in quality, advance technology, innovation and continuous improvement: To create joy of producing and selling, and joy for the customers to buy: To ensure attractive return to business associates, share holders and to reward employees according to their ability & performance: And be a good corporate citizen in order to fulfill social responsibility.

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CORPORATE DATA

BOARD OF DIRECTORS:

CHAIRMAN

Mr. Yusuf H. Shirazi

DIRECTORS

Mr. Jawaid Iqbal Ahmed

Mr. Shahid Anwar

Mr. M. Mazharuddin

GROUP AUDIT COMMITTEE'

CHAIRMAN

Mr. Sanallah Qureshi

AUDITORS:

Mr. Mohammad Habib-ur-Rehman
Mr. S. V. H. Naqvi
Mr. Aamir H. Shirazi

Ford, Rhodes, Robson, Morrow,
Chartered Accountants

CHIEF EXECUTIVE OFFICER

Mr. S.V.H. Naqvi

TAX ADVISER:

Mahmood Law Associates

COMPANY SECRETARY:

Mr. Shahabuddin Abroad Siddiqui

LEGAL ADVISERS:

Mohsin Tayebaly & Co.
Advocate Incorporation

GROUP EXECUTIVE COMMITTEE:

CHAIRMAN

Mr. Yusuf H. Shirazi

BANKERS:

MEMBERS

Mr. Jawaid Iqbal Ahmed
Mr. Frahim Ali Khan
Mr. Iftikhar H. Shirazi
Mr. Aamir H. Shirazi
Mr. Saqib H. Shirazi

ANZ Grindlays Bank plc.
Askari Commercial Bank Limited
Credit Agricole Indosuez
Hong Kong Shanghai Banking Corporation
Habib Bank Limited
National Bank of Pakistan
United Bank Limited

SECRETARY

Mr. Amjad Hussain

REGISTERED OFFICE (FACTORY) :

GROUP PERSONNEL COMMITTEE:

15th Mile,
National Highway, Landhi,
Karachi.

CHAIRMAN

Mr. Yusuf H. Shirazi

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 36th Annual General Meeting of Allwin Engineering Industries Limited will be held at the office of the Company at 15th Mile, National Highway, Landhi, Karachi, on 26th December, 1998 at 11:00 a.m. to transact the following business:

ORDINARY BUSINESS:

1. To confirm the Minutes of the Thirty Fifth Annual General Meeting held on 27th December, 1997.
2. To receive, consider and adopt the Audited Accounts of the Company together with Directors' and Auditors' Reports thereon for the year ended 30th June, 1998.
3. To appoint Auditor's for the year 1998-99 and to fix their remuneration.
4. To transact any other ordinary business as may be placed before the meeting with the permission of the chair.

SPECIAL BUSINESS:

5. To approve the remuneration of the Chief Executive Officer.

A statement under section 160 of the Companies Ordinance, 1984 pertaining to the Special Business referred to above is annexed to this Notice of Meeting.

By order of the Board

SHAHAB UDDIN AHMAD SIDDIQUI
Company Secretary

Karachi: 18th November, 1998

NOTES:

1. The Shares Transfer Books of the Company will remain closed from 21st December, 1998 to 26th, December, 1998 (both days inclusive).
2. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. The instrument appointing a proxy must be received at the Company's Registered Office not less than 48 hours before the time of holding of the meeting.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984.

Approval is being sought for fixing the remuneration of the Chief Executive Officer working with the Company. The Chief Executive Officer is interested only in the remuneration payable to him.

CHAIRMAN'S REVIEW

I have the pleasure to present to you the 36th Annual Report and review of the performance of your company for the year ended June 30, 1998.

THE ECONOMY

The year under review was full of challenges on both the domestic and international fronts. On the domestic front, the country faced constitutional issues of extraordinary nature which affected the flow of normal economic activity. On the international front, foreign investment was affected - partly due to the internal situation and mainly due to the economic crisis affecting Latin American, Russian and the South East Asian countries' economies resulting into the shying away of investment from the international capital markets.

On the other hand, Pakistan's economic performance over the last few years has been marked by a deceleration in economic activity, deterioration in budgetary and current account deficits and inflation.

In order to reinvigorate economic growth, the Government took some measures. It introduced economic reforms based on both supply and demand side economics. To improve revenue collection, general sales tax regime was re-launched at the retail level which partially increased the 'Tax Net'. The effect of these policy measures will however take some time to yield the desired results.

Towards the year end, Pakistan opted for nuclear detonation on 28th May 1998 following India's nuclear tests on 11th May 1998. It led to economic sanctions by the developed countries. The international loan giving agencies put their shutters down. Consequently, foreign currency accounts were frozen, rupee was devalued by 4.4%, making it 14.1% for the full fiscal year and a two-tier foreign exchange regime was introduced.

Despite the worsening situation, the economic indicators for the year were quite satisfactory. The GDP grew by 5.4% as against 1.3% last year, agricultural sector grew by 5.9% and the manufacturing sector by 7.0%. The large-scale manufacturing sector registered a growth of 6.2%. The transport and communication sector recorded a growth of 8.8%. Fixed investment increased by 6.5%

and national savings increased to 15% of GNP from the 11.3% of last year.

ATLAS GROUP PERFORMANCE

The Atlas Group of which your company is a constituent member, jealously guards its brand equity which represents good management practices, ethical standards, and quality of goods and services provided to its customers. The Group enjoys an excellent image in government, business and social circles, both nationally and internationally.

The Atlas Group is diversified and has operations in engineering, financial services, trading, office equipments and information technology. It consists of seven public limited companies quoted on the stock exchanges in Pakistan and eight private limited companies. Atlas shareholders' equity has grown to about Rs.2.5 billion over the years; assets have increased to over Rs.8 billion, and sales revenue crossed the Rs.8 billion mark. The Group paid taxes of Rs.2.2 billion being 27.5% of the total turnover of the Group. More than 50% of employees numbering 2700 pay taxes on their income and wealth.

The total paid up capital of the seven listed companies stood at Rs.944 million and free reserves and surplus at Rs.1.11 billion. The total equity of listed companies stood at Rs.2.05 billion as at 30.6.1998. The net worth value of a Rs.10 share works out at Rs.21.77. Out of these seven companies, two companies have been rated 'A+' and three 'A' by the credit rating and other evaluating agencies.

The seven listed companies, set up at different times - the earliest in 1963 with a paid up capital of Rs.2.00 million and the latest in 1993 with a paid up capital of Rs.400.00 million - have paid cash dividend of Rs.287 million and bonus Rs.208 million (market value Rs.435 million).

Your Company was acquired in 1981 with a paid up capital of Rs.22.42 million which has grown to Rs.49.35 million. During the period the Company issued bonus shares of Rs.26.15 million and paid

cash dividend of Rs.16.62 million upto June, 1998 against the shareholders investment of Rs.22.42 million.

OPERATION

Sales for the year under review was Rs. 301.47 million almost the same as of last year of Rs. 300.0 million. The OEMs performed better at a sale of Rs. 157.37 million while the Commercial Market was depressed and could fetch sales of Rs. 144.1 million only.

Administrative expenses declined to Rs. 19.22 million from Rs. 23.75 million of the previous year mainly due to strict control on manpower and overtime. The financial expenses also reduced to Rs. 28.74 million from Rs. 31.81 million of the previous year. This was achieved through prudent cash and inventory management. Selling expenses increased to Rs. 13.17 million from Rs. 8.64 million due to advertising and publicity, increased Octroi Charges and Customers' claims settlement. The cost push factors continued to affect the performance. The massive devaluation by 14.1% of Pak rupee made the cost of inputs costlier. Such cost - related increases could not be passed on to the consumers due to high competition and slow performance of the economy of the country. Thus the company suffered the net loss before tax of Rs. 41.47 million against Rs. 42.87 million of last year.

In OEM Sector, Government announced several packages to boost the sale for the Car and Tractor Industries. After the reduction in custom duty and withdrawal of CVT, the car manufacturers reduced the prices of their products, as a part of the package. With the reduction in the prices the car industry performed fairly well during the year. Motorcycle Industry did not do well due to various reasons. Tractor industry performed at last year's level. Truck and Bus manufacturing remained depressed throughout the year.

However in the commercial market besides spurious manufacturers, who are not in the tax net, your Company faced with the continuing problem of

smuggling and under invoicing. The unabated problem is eating into the vitals of the industry as a whole. The auto vendor industry is hurt particularly. This also causes heavy loss to the state revenue. In order to contain the situation, the Government should take effective measures such as control on Afghan Transit Trade, fixation of correct ITPs and sales tax at retail stage.

PROJECTS

Your company embarked upon a plan of sizable capital investment of Rs. 65 million during the year for balancing, modernization and expansion of the company's manufacturing capabilities for hitech products like radiator assembly, motorcycle pistons and brake discs for Cars. Production has commenced from July, 1998. We hope these additional parts will contribute to better performance during the ensuing year. I am also pleased to report that your company has obtained ISO 9002 certificate for Piston manufacturing. This will help to improve over-all internal efficiency and quality of work leading to tangible savings. This will open prospects to enter export market for which your company is making serious efforts.

HUMAN RESOURCE

Reliance on human resource has been the hallmark of the Atlas Group since its inception. Investment on Human Resource Development is considered a prudent investment for all times to come. Education, training and grooming of employees for higher positions is a normal feature with the Group.

To cope up with the growing needs of the Group, a permanent cell has been established at the Corporate Office for human resource development. A full time Director assists the Group Personnel Committee which is headed by the Group President and Chairman. The committee actively works for improving staff service rules, staff compensation, and career planning to make them more competitive and attractive for the employees. Compensation based on job evaluation and performance appraisal is now all the more a determining factor for the performance

bonus and the employees motivation.

As a part of Company policy we always look for capable people. Syed Mohammad Rizvi joined as General Manager Plant. He has 28 years of experience in Foundry and General Management. Lt. Col. (Retd) Sultan Ahmed TI (M) joined as General Manager Production Planning Control and Engineering & Development. He has 27 years experience of Engineering and specializes in Quality Control. Addition of these two executives will help to improve production efficiency and overall performance of your company.

FUTURE OUTLOOK

I foresee challenging times ahead. Low economic activity, rising cost, inflation, and constant rupee devaluation will require the management and staff to rise to the occasion. I am confident that your management and staff will keep up the Atlas tradition of coming forward admirably successful from these occasions. We rely on the 3E's i.e. smart, speedy and stable company, and the 3E's, i.e. economy, efficiency and effectiveness to meet the challenges of the future. Our hallmark continues to be our reliance on human resource development through education and training. I thus hope that the next year's performance will be quite satisfactory.

(Great are those who do things, impossible)

ACKNOWLEDGEMENT

I appreciate the contribution by the outgoing Directors Mr. T. A. Khan of ICR Mr. Zafar Mahmood of State Life and Mr. Naseem S. Mirza during their tenure. I welcome the incoming Directors Mr. Shahid Anwar from ICR Mr. M. Mazharuddin from State Life and Mr. M. Habib-ur-Rehman.

I take the opportunity to thank the members of the Board of Directors, Foreign Technical Collaborators Banks and Financial Institutions, for their guidance, help and support in managing the affairs of the company.

I also thank all the staff members, and employees of the company for their dedicated efforts and valuable contribution.

YUSUF H. SHIRAZI

DIRECTORS' REPORT

The Directors of your Company take pleasure in presenting their report together with the Audited Accounts and Auditors' Report thereon for the year ended 30th June, 1998.

FINANCIAL RESULTS:

	(Rs. in 000)	
	1998	1997
Net Loss before Tax	(41,466)	(42,889)
Provision for Taxation	(1,515)	(6,132)
	-----	-----
Net Loss After Tax	(42,981)	(49,021)
Balance Brought Forward	(16,335)	186
	-----	-----
Available for Appropriation	(59,316)	(48,835)
Transfer from General Reserve	-	32,500
	-----	-----
Balance carried forward	(59,316)	(16,335)
	=====	=====

CHAIRMAN'S REVIEW

The review included in the Annual Report deals inter alia, with the performance of the Company for the year ended 30th June, 1998 and future prospects. The Directors endorse the contents of the review.

RESIGNATION OF THE DIRECTORS AND FILLING OF CASUAL VACANCIES

Mr. Zafar Mehmood (representing State Life Insurance Corporation) and Mr. Nasim S. Mirza resigned from the Directorship of the company on 12th February, 1998.

Mr. M. Mazharuddin (GM) State Life Insurance Corporation and Mr. Mohammad Habibur Rehman were appointed Directors of the company from 12th February, 1998 to fill the casual vacancies created by the resignation of Mr. Zafar Mehmood and Mr. Nasim S. Mirza respectively.

Mr. T. A. Khan (representing Investment Corporation of Pakistan) resigned from the directorship of the company on 25th May 1998 and Mr. Shahid Anwar was appointed as Director of the Company from 25th May 1998 to fill the casual vacancy created by the resignation of Mr. T. A. Khan.

PATTERN OF SHARE HOLDING

The pattern of shareholding of the company is annexed.

AUDITORS

The present Auditors M/s. Ford, Rhodes, Robson, Morrow, Chartered Accountants retire and being eligible offer themselves for re-appointment.

For and on behalf of the
BOARD OF DIRECTORS

S.V.H. Naqvi
Chief Executive Officer

Yusuf H. Shirazi
Chairman

Aamir H. Shirazi
Director

**PATTERN OF SHAREHOLDING
AS AT 30TH JUNE, 1998**

Number of Shareholders	From	Share Holding	To		Total Shares held
289	1	-	100	Shares	9,571
325	101	-	500	Shares	83,561
143	501	-	1,000	Shares	108,960
89	1,001	-	5,000	Shares	180,263
14	5,001	-	10,000	Shares	98,813
5	10,001	-	15,000	Shares	58,780
2	20,001	-	25,000	Shares	44,930
1	140,001	-	145,000	Shares	141,768
4	195,001	-	200,000	Shares	783,750
1	285,001	-	290,000	Shares	284,169
1	390,001	-	395,000	Shares	390,497
1	740,001	-	745,000	Shares	742,446
1	845,001	-	850,000	Shares	846,356
1	1,160,001	-	1,165,000	Shares	1,160,814
-----					-----
877					4,934,678
=====					=====

Categories of Shareholders

Categories of Shareholders	Shareholders	Shares held	Percentage
1. Individuals	849	1,317,679	26.70%
2. Investment Companies	4	1,134,866	23.00%
3. Insurance Companies	4	545,879	11.06%
4. Joint Stock Companies	8	7,540	0.15%
5. Financial Institutions	6	1,184,702	24.01%

6. Foreign Companies	1	742,446	15.05%
7. Corporate Law Authority	1	1	-
8. Abandoned Properties Organisation	-	-	0.02%
9. Punjabi Saudagar Multipurpose Co-operative Society Ltd.	1	908	-
10. Nazir High Court of Sind	1	149	-
11. AI-Mal Securities Ltd.	1	206	0.01%
		302	
	-----	-----	-----
	877	4,934,678	100.00%
	=====	=====	=====

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ALLWIN ENGINEERING INDUSTRIES LIMITED as at June 30, 1998 and the related profit and loss account and the statement of changes in financial position (cash flow statement), together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

(a) in our opinion proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the company's business; and

(ii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the statement of changes in Financial Position (Cash Flow Statement), together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 1998 and of the loss and the changes in financial position (cash flow statement) for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under Zakat and Ushr Ordinance, 1980.

Ford, Rhodes, Robson, Morrow

Karachi: 18th November, 1998

BALANCE SHEET
AS AT 30TH JUNE, 199@

	Note	1998 Rupees in 000	1997 Rupees in 000
SHARE CAPITAL AND RESERVES			
Share Capital			
Authorised			
10,000,000 (1997:10,000,000)			
Ordinary shares of Rs. 10/- each			
		100,000	100,000
		=====	=====
Issued, subscribed and paid-up capital	3	49,347	49,347
Deposit for right shares	4	40,000	20,000
Unappropriated loss		(59,316)	(16,335)
		-----	-----
		30,031	53,012
Surplus on revaluation of leasehold land	5	118,680	-
LONG-TERM LOANS	6	77,640	21,717
OBLIGATIONS AND ADVANCE			
UNDER FINANCE LEASE	7	46,725	45,490
DEFERRED LIABILITY	8	3,220	3,459
CURRENT LIABILITIES			
Short-term finances	9	66,372	74,432
Current portion of long-term liabilities	10	17,899	15,041
Creditors, accrued and other liabilities	11	107,618	96,723
Provision for taxation		1,830	1,820
		-----	-----
		193,719	188,016
Contingencies and Commitments	12		
		-----	-----
		470,015	311,694
		=====	=====

The annexed notes form an integral part of these accounts.

S.V.H. Naqvi
Chief Executive Officer

Yusuf H. Shirazi
Chairman

	Note	1998 Rupees in 000	1997 Rupees in 000
TANGIBLE FIXED ASSETS			
Operating fixed assets	13	272,999	132,276
Capital work-in-progress-at cost	14	39,068	26,663
		-----	-----
		312,067	158,939
LONG-TERM DEPOSITS			
	15	5,737	5,957
DEFERRED COST			
	16	1,435	574
CURRENT ASSETS			
Stores, spares and loose tools	17	21,161	22,034
Stock-in-trade	18	65,562	60,554
Trade debts	19	38,504	44,374
Loans, advances, deposits, prepayments and other receivables	20	23,034	17,577
Cash and bank balances	21	2,515	1,685
		-----	-----
		150,776	146,224
		-----	-----
		470,015	311,694
		=====	=====

Aamir H. Shirazi
Director

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE, 30 1998**

	Note	1998 Rupees in '000	1997 Rupees in '000
Sales		301,466	300,061
Less: Cost of Sales	22	281,804	278,751
		-----	-----
Gross Profit		19,662	21,310
		-----	-----
Less: Administrative expenses	23	19,219	23,748
Selling and distribution expenses	24	13,171	8,642
		-----	-----
		32,390	32,390
		-----	-----

Operating Loss		(12,728)	(11,080)
Less: Financial expenses	25	28,738	31,809
		-----	-----
Loss for the year		(41,466)	(42,889)
		-----	-----
Provision for taxation - current	26	1,515	1,505
- prior		-	4,627
		-----	-----
		1,515	6,132
		-----	-----
Loss after taxation		(42,981)	(49,021)
Un-appropriated (loss)/profit brought forward		(16,335)	186
		-----	-----
		(59,316)	(48,835)
Appropriation:			
Transfer from general reserve		-	32,500
		-----	-----
Balance carried forward		(59,316)	(16,335)
		=====	=====

The annexed notes form an integral part of these accounts.

S. V. H. Naqvi
Chief Executive Officer

Yusuf H. Shirazi
Chairman

Aamir H. Shirazi
Director

**STATEMENT OF CHANGES IN FINANCIAL POSITIONS
(CASH FLOW STATEMENT) FOR THE YEAR ENDED JUNE 30, 1998**

	1998	1997
	Rupees	Rupees
	in '000	in '000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(41,466)	(42,889)
Adjustments for:		
Depreciation	14,879	15,351
Profit on sale of fixed assets	(577)	(543)
Provision for gratuity	331	354
Financial expenses	28,738	31,788
	-----	-----
	43,371	46,950
	-----	-----
Operating profit before working capital changes	1,905	4,061
Movement in working capital:		

(Increase)/Decrease in current assets		
Stock-in-trade	(4,135)	9,589
Trade debts	5,870	6,394
Loans, advances, deposits, prepayments and other receivables	(5,457)	1,645
(Decrease)/Increase in current liabilities		
Creditors, accrued and other liabilities	11,039	5,731
	-----	-----
	7,317	23,359
Payments for:		
Financial expenses	(28,882)	(29,734)
Taxes	(1,505)	(4,627)
Gratuity	(570)	(134)
	-----	-----
Net cash used in operating activities	(21,735)	(7,075)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of fixed assets	1,565	913
Purchase of fixed assets	(50,311)	(25,634)
Decrease/(Increase) in long term deposits	219	(224)
Increase in deferred cost	(861)	(574)
	-----	-----
Net cash used in investing activities	(49,388)	(25,519)
CASH FLOW FROM FINANCING ACTIVITIES		
(Payment of)/Proceeds from short term finances	(8,060)	3,438
Proceeds from/(Payment of) long term borrowings	52,558	(8,990)
Proceeds from financial lease liability	7,455	19,005
Deposits for right shares	20,000	20,000
	-----	-----
Net cash from financing activities	71,953	33,453
	-----	-----
Net decrease in cash and cash equivalents	830	859
Cash and cash equivalents at the beginning of the year	1,685	826
	-----	-----
Cash and cash equivalents at the end of the year	2,515	1,685
	=====	=====

S.V.H. Naqvi
Chief Executive Officer

Yusuf H. Shirazi
Chairman

Aamir H. Shirazi
Director

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30. 1998

1. NATURE OF BUSINESS

The company was incorporated in Pakistan as a private limited company in 1963 and was converted into a public limited company on July 15, 1966. Its shares are listed on the Karachi and Lahore stock exchanges. It is engaged in manufacturing of components and parts for automotive vehicles and tractors.

2. ACCOUNTING POLICIES

2.1 Accounting convention:

These accounts have been prepared under the historical cost convention except that leasehold land has been included at revalued amount referred to in note 2.4.

2.2 Staff retirement benefits:

The company operates a provident fund scheme for all permanent employees eligible for the benefit and contributions thereto are made in accordance with the terms of the scheme. Also refer to note 8.

2.3 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits and rebates or at the rate of 0.5% of turnover whichever is higher.

Deferred

The company accounts for deferred taxation using the liability method on all significant timing differences, excluding tax effect on those timing differences which are not likely to reverse in the foreseeable future. However, as a matter of prudence, the company does not account for deferred tax debit.

2.4 Operating fixed assets and depreciation

Owned

Fixed assets except leasehold land are stated at cost less accumulated depreciation. Leasehold land is stated at revalued amount and is not being amortised over its lease period. Cost of certain fixed assets comprises of historical cost and the cost of borrowings during construction period in respect of loans taken for specific projects.

Depreciation is charged to income applying the reducing balance method by using rates stated in note 13 to the accounts. Depreciation on additions is charged from the month in which the asset is put to use and on disposals upto the month of disposal.

Dies, jigs etc. manufactured for own use are included in fixed assets and are valued at cost of raw material consumed plus direct and a proportion of indirect manufacturing overheads.

Maintenance and normal repairs are charged to income as and when incurred.

Gains or losses on disposal of fixed assets are included in income currently.

Leased

Assets subject to finance lease

These are stated at lower of present value of minimum lease payment under the lease agreements or the fair value of the assets acquired on lease. The related obligations under the lease are accounted for as liability. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

Depreciation on assets subject to finance lease is provided in the same manner as owned fixed assets.

Assets subject to operating lease

Rentals for assets held under operating lease are charged to income currently.

2.5 Capital work-in-progress

This includes costs pertaining to the acquisition, construction, erection and installation of plant and machinery.

2.6 Capitalisation of borrowing costs

The company capitalises borrowing costs relating to capital projects, excluding normal capital expenditure.

2.7 Stores, spares and loose tools

These are valued at the lower of cost and net realisable value determined on a moving average basis.

2.8 Stocks

These are valued on the following basis:

(a) Raw and ancillary materials and work-in-process

At the lower of cost and net realisable value determined on a moving average basis. Goods in bonded warehouse are stated at invoice value plus other charges paid thereon excluding customs duty.

(b) Finished goods

Finished goods are being valued at the lower of cost and net realisable value determined on a moving average basis.

2.9 Foreign currency translation

Assets and liabilities in foreign currencies are translated into Pakistani rupees at the rates of exchange prevailing at the balance sheet date except the liabilities covered by forward exchange contracts where the respective contract rate is applied.

2.10 Revenue recognition

Revenue is recognised when goods are despatched.

	1998 Rupees in '000	1997 Rupees in '000
3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
1,871,571 (1997: 1,871,571) ordinary shares of Rs. 10/: each issued for cash	18,716	18,716
49,800 (1997: 49,800) ordinary shares of Rs. 10/- each issued for consideration other than cash	498	498
3,013,300 (1997: 3,013,300) ordinary shares of Rs. 10/- each issued as bonus shares	30,133	30,133
	-----	-----
	49,347	49,347
	=====	=====

4. DEPOSIT FOR RIGHT SHARES

This represents amount received in advance from sponsors for proposed issue of right shares.

5. SURPLUS ON REVALUATION OF LEASEHOLD LAND

This represents surplus over book value resulting from the revaluation of leasehold land (note 13).

6. LONG-TERM LOANS - SECURED

From financial institutions

Foreign currency loans

Loan I	6.1	-	2,867
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Loan II	6.1	8,249	10,631
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Local currency loans

Loan I	6.2	3,457	4,058
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Loan II	6.3	7,655	10,559
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Loan III	6.4	5,000	-
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From Banks

Local Currency Loan - I	6.5	2,000	3,500
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Local Currency Loan - II	6.6	60,000	-
--------------------------	-----	--------	---

		-----	-----
		86,361	31,615

Less: Current maturity

Foreign currency loans	1,923	4,393
Local currency loans	6,798	5,505
	-----	-----
	8,721	9,898
	-----	-----
	77,640	21,717
	=====	=====

6.1 The salient features in respect of this loan are:

(a) The long-term loan is secured by a mortgage on present and future assets of the company ranking pari-passu with charges already created.

(b) The foreign currency loan has been converted into Pakistani rupees at the rate of exchange prevailing on the date of the respective disbursements as under the terms of the agreement the loan is repayable in Pakistani rupees. It carries interest at 16% per annum including exchange risk fee and is repayable in sixteen half yearly installments last being due on January 01, 2002.

6.2 This has been obtained under mark-up arrangements. Under these arrangements machinery and equipments owned by the company were sold for Rs. 5 million and were deemed to have been immediately repurchased by the company for Rs. 10.877 million which is subject to a rebate of Rs. 1.262 million for prompt payment.

The salient features in respect of this agreement are:

(a) The purchase price is secured by mortgage and floating charge on present and future assets of the company ranking pari-passu with charges already created.

(b) The purchase price is payable in fourteen half yearly installments, last being due on March 22, 2002.

6.3 This has been obtained under mark-up arrangements. Pursuant to the agreement, the financial institution has agreed to purchase the company's assets as and when acquired for Rs. 15 million and has agreed to sell the same to the company for Rs. 23.890 million.

The salient features in respect of this loan are:

(a) The purchase price is secured by mortgage and floating charge on present and future assets of the company ranking pari-passu with charges already created.

(b) The purchase price is payable in 10 half yearly equal installments, last being due on June 07, 2000.

(c) In case of late payment fine at the rate of sixty six paisas per thousand rupees per day shall be payable by the company for the defaulted amount.

6.4 This has been obtained under mark-up arrangements. Pursuant to the agreement, the financial institution has agreed to purchase the company's assets as and when acquired for Rs.'5 million and has agreed to sell the same to the company for Rs.8.873 million.

The salient features in respect of this agreement are:

(a) The purchase price is secured by mortgage and floating charge on present and future assets of the company ranking pari-passu with charges already created.

(b) The purchase price is payable in 8 half yearly equal installments, last being due on August 22, 2002.

(c) In case of late payment, liquidated damages will be paid at the rate of 6.5% p.a. above bank rate by the company for the defaulted amount.

6.5 This has been obtained from bank and is secured by way of pari-passu charge over company's assets. This loan carries markup at 17.5% per annum and is re-payable in twelve quarterly installments, last being due on March 31 1999.

6.6 This has been obtained from a bank and is secured by way of pari-passu charge over company's assets. This loan carries mark-up at 15.5% per annum and is re-payable in three half-yearly installments, last being due on May 29, 2001. ~~

7. OBLIGATIONS AND ADVANCE UNDER FINANCE LEASE

7.1 Obligations under finance lease.

7.1.1 The rates of mark-up used as the discounting factor ranges between 20.65% to 23.5% (1997:20.65% to 23.5%) per annum. Additional lease rentals on overdue payments @ 0.1% per day is payable. Certain leases carry renewal option upon expiry of lease period. There are no financial restrictions in the lease agreements. The liabilities are partly secured by deposit of Rs. 3.335 million (1997: Rs. 3.635 million).

7.1.2 The amount of future payments and the year during which they will become due are:

	1998 Rupees in '000	1997 Rupees in '000
1998	-	11,223
1999	20,978	14,682
2000	21,464	18,457
2001	18,820	12,734
2002	17,691	6,843
2003	1,176	-

	-----	-----
	80,129	63,939
Less: Financial charges allocated to future periods	28,804	23,071
	-----	-----
	51,325	40,868
Less: Current maturity	9,178	2,956
	-----	-----
	42,147	37,912
7.2 Advance under finance lease		
Advance received against future lease (7.2.1.)	4,578	7,578
	-----	-----
	46,725	45,490
	=====	=====

7.2.1 This represents advance obtained from a leasing company (an associated undertaking). Mark-up is being charged at the rate of 22.92% per annum. This is to be converted into finance lease at a later date.

8. DEFERRED LIABILITY

Gratuity

The company operated a gratuity scheme before the introduction of the provident fund in 1974. On introduction of the provident fund the employees were given the option to either continue with the gratuity scheme or join the provident fund. Those employees who opted to join the provident fund were entitled to gratuity upto the period of joining the provident fund and provision in this respect was duly made. Liability in respect of remaining employees entitled for gratuity has also been provided upto date.

The company entered into an agreement with the collective bargaining agent (CBA), whereby the workers who opted for the provident fund scheme are also entitled to gratuity for four days for each completed year of service. Liability in respect of above has also been provided upto date.

9. SHORT-TERM FINANCES - SECURED

	Note	1998 Rupees in '000	1997 Rupees in '000
From Banks			
Running finances	9.1	66,372	68,432
From Financial Institution			
Running Finances		-	6,000
		-----	-----
		66,372	74,432
		=====	=====

9.1 These are under mark-up arrangements and are secured by joint hypothecation of stocks and book debts. The rate of mark-up ranges between 16% to 20.50% per annum and is payable currently.

The facility for short-term running finance from banks amounts to Rs. 84.00 million (1997: Rs. 85 million).

	1998	1997
	Rupees	Rupees
	in '000	in '000
10. CURRENT PORTION OF LONG-TERM LIABILITIES		
Redeemable capital	-	2,187
Long-term loans	8721	9,898
Obligations under finance lease	9,178	2,956
	-----	-----
	17,899	15,041
	=====	=====
11. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	16,347	22,656
Accrued liabilities	48,396	49,087
Mark-up accrued on obligations and advance under finance lease	2,111	1,860
Interest/Mark-up accrued on secured long-term loans	2,294	2,574
Mark-up accrued on secured short term finances	2,975	3,126
Interest accrued on advances from customers	202	166
Security Deposits	65	65
Advances from customers (interest bearing)	2,071	2,071
Advances from customers (interest free)	11.1	27,801
Unclaimed dividends	112	116
Workers' welfare fund	-	321
Others	5,244	4,697
	-----	-----
	107,618	96,723
	=====	=====
11.1 Advances from customers (interest free)		
Atlas Honda Limited	21,930	4,741
Volvo Pakistan Limited	1,842	1,842
Others	4,029	3,401
	-----	-----
	27,801	9,984
	=====	=====

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

(a) Bank guarantees

- i) For difference in customs duties on imported material
- (ii) Sui Southern Gas Company against deposit
- (iii) Against customers/suppliers

146	149
5,847	5,847
4,141	3,942
-----	-----
10,134	9,938
=====	=====

- (b) Post dated cheques for difference in custom duties

6,059	17,056
=====	=====

(c) Insurance company guarantees

- (i) Advances from customers
- (ii) For difference in customs duties
- (iii) Karachi Electric Supply Corporation

2,653	2,653
486	486
4,000	4,000
-----	-----
7,139	7,139
=====	=====

(d) Electricity Charges

Karachi Electric Supply Corporation Limited (KESC) raised a demand of Rs. 12.285 million on the plea that they erred in billing, which the company has contended and the case is before the Honourable High Court of Sindh. The Honourable Court issued stay order on 26th May, 1989 for making payments against the remaining disputed demand. The company till the date of stay order had paid under protest Rs. 7.850 million. In addition, an insurance company has issued a guarantee in the sum of Rs. 4.00 million to the K.E.S.C.

(e) Taxation

Due to certain add backs to income by Income Tax Department, an additional tax liability of Rs. 3.128 million may arise for the assessment year 1995-96. The management believes that add backs would be deleted in the appeal filed by the company hence no provision has been made in the accounts for the above stated amount.

12.2 Commitments

- (a) Bank letters of credit

1998	1997
Rupees	Rupees
in '000	in '000

For import of materials etc.	36,289	42,803
For import of machinery	-	7,750
	-----	-----
	36,289	50,553
	=====	=====

Commitments for rentals under operating lease agreements is payable as follows:

Year		
1998	-	4,729
1999	2,562	2,351
2000	1,756	1,494
2001	370	185

13. OPERATING FIXED ASSETS

Description	COST					
	As at July 01 1997 Rupees in '000	Revaluation Rupees in '000	Additions Rupees in '000	Adjustments/ (Disposals) Rupees in '000	As at June 30, 1998 Rupees in '000	As at Ju 01 199 Rupees in '000
Leasehold land	160	118,680	-	-	118,840	
Factory building	36,707	-	-	-	36,707	23,
Generator building	3,741	-	-	-	3,741	
Residential building	365	-	-	-	365	
Office building	1,745	-	-	-	1,745	
Machinery and plant	173,653	-	1,311	-	174,964	106,
Power generator	2,805	-	776	29,000	32,581	
Electrical fittings	3,875	-	122	-	3,997	2,
Office equipment	1,901	-	-	-	1,901	1,
Computer	2,312	-	158	-	2,470	1,
Furniture and fixtures	3,379	-	-	-	3,379	2,
Vehicle	4,216	-	670	(1,558)	3,328	2,
Waterline and drainage	670	-	-	-	670	
Sui gas line	576	-	-	-	576	
Measuring instruments, dies, jigs, patterns and other equipment	16,036	-	852	-	16,888	12,
Bicycles	2	-	-	-	2	
	-----	-----	-----	-----	-----	-----
	252,143	118,680	3,889	29,000 (1,558)	402,154	156,

Assets Subject to Finance lease

Power generator	43,299	-	-	(29,000)	14,299	6,
Machinery and plant	-	-	34,021	-	34,021	
	295,442	118,680	37,910	(1,558)	450,474	163,
As at June 30,1997	294,810	-	1,462	(830)	295,442	148,

Note 1. All the buildings are on leasehold land

2. Leasehold land costing Rs. 0.16 million has been revalued by Razzaque Umerani & Co. Engineers and Surveyors on June 20 1998 and resulting surplus amounting to Rs. 118.68 million which has been credited to surplus on revaluation on leasehold land account.

3. As stated in note 2.4 leasehold land has not been amortised. Had leasehold land been amortised the charge for the year and to date would have amounted to Rs. 2.33 million and Rs. 2.406 million respectively

4. Depreciation charged to

	1 998 Rupees in'000	1 997 Rupees in'000
Cost of sales	14,656	15,121
Administrative expenses	149	154
Selling and distribution expenses	74	76
	-----	-----
	14,879	15,351
	=====	=====

1998 Rupees in '000	1997 Rupees in '000
---------------------------	---------------------------

14. CAPITAL WORK-IN-PROGRESS

Owned

Plant and machinery	- under installation	14,640	10,011
	- in transit	-	447
Advance to suppliers for machinery		705	1,205

Leased

Plant and machinery - under installation

23,723 15,000

39,068 26,663
=====

14.1 Leased Capital work-in-progress includes capitalisation of borrowing cost amounting to Rs. 3.684 million (1997:1.114 million).

15. LONG-TERM DEPOSITS - UNSECURED

Leasing companies

4,760 4,980

Utilities

626 639

Customers

231 232

Telephone & telegrams

13 13

Others

107 93

5,737 5,957
=====**16. DEFERRED COST**

This will be amortised over the period not exceeding four years commencing from the year of commercial production of Radiator Plant.

17. STORES, SPARES AND LOOSE TOOLS

Spare parts and other materials

In hand

11,039 12,001

In transit

1,442 408

Loose tools

7,201 8,354

Packing materials

655 707

Electrical goods

824 564

21,161 22,034
=====**18. STOCK-IN-TRADE**

Raw and ancillary materials

In hand

19,522 27,413

In transit

65 316

In bonded warehouse

1,966 -

Work-in-process

17,840 14,151

Finished goods	26,169	18,674
	-----	-----
	65,562	60,554
	=====	=====

19. TRADE DEBTS - UNSECURED- CONSIDERED GOOD

The amount due from associated undertakings at year end amounted to Rs. 2.157 million (1997: Rs. 3.429 million). The maximum amount due at the end of any month during the year was Rs. 8.643 million (1997: Rs. 9.506 million).

	Note	1998 Rupees in 000	1997 Rupees in 000
20. LOANS, ADVANCES, BEPOS1TS, PREPAYMENTS AND OTHER RECEIVABLES			
Loans and advances (considered good):			
Loans to employees (interest bearing)		1,020	968
Advances to employees (interest free)		578	297
Advances to suppliers		4,404	3,508
Advances for services		263	137
		-----	-----
		6,265	4,910
Deposits, prepayments and other receivables:			
Security and trade deposits		94	14
Prepayments and other receivables		1,870	1,327
Income-tax deducted at source		14,805	11,326
		-----	-----
		16,769	12,667
		-----	-----
		23,034	17,577
		=====	=====

21. CASH AND BANK BALANCES

Cash in hand		12	21
Cheques and pay orders in hand		-	5
At bank - current accounts		2,434	1,590
- deposit accounts		69	69
		-----	-----
		2,515	1,685
		=====	=====

22. COST OF SALES

Opening stock of finished goods		18,674	19,522
Cost of goods manufactured	22.1	289,299	277,903
		-----	-----
		307,973	297,425
Less: Closing stock of finished goods		26,169	18,674
		-----	-----
		281,804	278,751
		=====	=====

	Note	1998	1997
		Rupees	Rupees
		in 000	in 000

22.1 Cost of goods manufactured

Opening work-in-process		14,151	17,272
Raw and ancillary materials consumed	22.2	143,663	138,093
Salaries, wages and benefits		72,678	67,560
Spare parts and other maintenance		19,636	14,537
Packing materials consumed		4,789	3,768
Fuel, water and power		27,543	27,006
Rent, rates and taxes		113	214
Insurance		996	1,086
Training expenses		188	413
Repairs and maintenance of factory building and electrical fittings		1,591	1,370
Depreciation		14,656	15,121
Royalties and Technical fees		4,503	3,655
Printing and stationary		488	390
Postage, telephone and telegrams		767	894
Subscriptions		191	165
General expenses		599	170
Repairs and maintenance of furniture, fittings and office equipment		351	81
Expenses on apprentices training scheme		236	259
		-----	-----
		307,139	292,054
Less: Closing work-in-process		17,840	14,151
		-----	-----
		289,299	277,903
		=====	=====

22.2 Raw and ancillary materials consumed

Opening stock	27,413	30,383
Add: Purchases	135,772	135,123
	-----	-----
	163,185	165,506
Less: Closing Stock	19,522	27,413
	-----	-----
	143,663	138,093
	=====	=====

	1998	1997
	Rupees	Rupees
	in 000	in 000
23. ADMINISTRATIVE EXPENSES		
Salaries and allowances	9,281	9,725
Directors' meeting fee	3	4
Rent, rates and taxes	-	509
Lease rentals	4,591	4,821
Printing and stationery	342	273
Postage, telephone and telegrams	962	2,711
Entertainment	371	343
Subscriptions	256	275
Travelling and conveyance	1,769	2,528
Insurance	457	543
General expenses	264	238
Legal and professional expenses	352	342
Donation	23.1	2
Medical expenses	325	365
Training expenses	99	764
Tax on callings and professions	111	27
Advertisement and publicity	20	166
Repairs and maintenance of furniture, fittings and office equipment	342	278
Electricity and gas charges	-	124
Depreciation	149	154
Auditors' remuneration	23.2	100
Profit on sale of fixed assets	23.3	(577)
	-----	-----
	19,219	23,748
	=====	=====

23.1 No donation was made to any person or institution in which a director or his spouse has any interest.

23.2 Auditors' remuneration and expenses

Audit fee		
Company	100	100
Workers' profit participation fund	-	1
	-----	-----
	100	101
Out of pocket Expenses	13	17
(included in general expenses)	-----	-----
	113	118
	=====	=====

23.3 The following assets were disposed off during the year:

Particulars	Value at cost Rupees	Accumulated depreciation Rupees	Written down value Rupees	Sale Proceeds Rupees	Profit/ (Loss) Rupees	Mode of Sale
Toyota Corolla	558,000	341,000	217,000	217,000		- Under Co's Policy
Suzuki Margalla	329,188	228,511	100,677	100,677		- Under Co's Policy
Suzuki Mehran (Lease residual value)	18,732	-	18,732	71,611	52,879	Under Co's Policy
Suzuki Bolan (2 Nos) (Lease residual value)	534,388	-	534,388	477,050	(57,338)	Under Co's Policy
Suzuki Khyber (Lease residual value)	25,010	-	25,010	93,904	68,894	Under Co's Policy
Suzuki Bolan (Lease residual value)	18,502	-	18,502	70,730	52,228	Under Co's Policy
Eighteen Motor Cycles (Lease residual value)	73,594	-	73,594	533,703	460,109	Under Co's Policy
	-----	-----	-----	-----	-----	
	1,557,414	569,511	987,903	1,564,675	576,772	
	=====	=====	=====	=====	=====	
1997	830,374	460,620	369,754	913,171	543,417	
	=====	=====	=====	=====	=====	

1998
Rupees
in 000

1997
Rupees
in 000

24. SELLING AND DISTRIBUTION EXPENSES

Salaries and allowances	2,676	2,282
Rent, rates and taxes	56	56
Lease rental	633	536
Cartage and octroi	2,856	2,722

Printing & Stationery	147	117
Postage, telephone and telegrams	224	264
Entertainment	64	55
Subscriptions	93	72
Travelling and conveyance	1,111	1,225
Insurance	180	181
General expenses	78	43
Medical expenses	150	143
Tax on callings and professions	87	22
Advertisement and publicity	1,984	824
Claims written off	2,676	-
Repairs and maintenance of furniture, fittings and office equipment	82	24
Depreciation	74	76
	-----	-----
	13,171	8,642
	=====	=====

25. FINANCIAL EXPENSES

Interest/mark-up on long-term loans	5,629	5,825
Discount/mark-up on redeemable capital	32	350
Mark-up on short-term finances	14,082	16,560
Interest on advances from customers	369	512
Interest on workers' profit participation fund	-	21
Bank and other charges	1,754	2,868
Interest from loan to employees	(80)	(82)
Mark-up on lease finance	6,952	5,755
	-----	-----
	28,738	31,809
	=====	=====

26. TAXATION

Cumulative deferred taxation upto 30th June, 1998 on major timing differences relating to accelerated tax depreciation allowances and carry forward of losses amounts to Rs. 12.749 million debit (1997: Rs. 2.991 million debit), of which Rs. 9.758 million debit relates to the current year (1997: Rs. 14.247 million debit). As a matter of prudence, the company has not accounted for this favourable deferred tax debit.

27. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

(Included in administrative expenses)

Chief Executive		Executives	
1998	1997	1998	1997
Rupees	Rupees	Rupees	Rupees
in '000	in '000	in '000	in '000

Managerial remuneration	550	476	2,359	2,506
Rent	216	189	964	981
Medical expenses	12	50	253	261
Provident fund	48	42	188	218
Reimbursable expenses	84	78	408	440

	910	835	4,172	4,406
	=====			
Number of persons	1	1	15	15
	=====			

27.1 The Chief Executive is provided with free use of a company car.

	1998	1997
	Rupees	Rupees
	in 000	in 000
28. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS		
Sales	39,276	30,620
Expenses charged by	2,691	5,040
Insurance and services	3,768	3,779

29. UNUTILISED CREDIT FACILITY

This amounted to Rs. 17.628 million as at June 30, 1998 (1997: Rs. 10.568 million).

30. GENERAL

30.1 Production:

The production capacity of the plant cannot be determined as this depends on the relative proportions of various type of components and parts of vehicles and tractors produced.

30.2 All figures are in thousands of rupees unless otherwise stated.

30.3 Regrouping of figures.

Previous year's figures have been regrouped and/or rearranged wherever considered necessary for the purposes of comparison.

S.V.H. Naqvi
Chief Executive Officer

Yusuf H. Shirazi
Chairman

Aamir H. Shirazi
Director

ATLAS GROUP COMPANIES

**Year of Establishment
Acquisition**

Shirazi Investments (Pvt) Ltd.	1962
Atlas Honda Ltd.	1963
Atlas Battery Ltd.	1966
Shirazi Trading Co.(Pvt) Ltd.	1973
Atlas Warehousing (Pvt) Ltd.	1979
Atlas Office Equipment (Pvt) Ltd.	1979*
Muslim Insurance Co. Ltd.	1980*
Allwin Engineering Industries Ltd.	1981*
Atlas Lease Ltd.	1989
Atlas Investment Bank Ltd.	1990
Honda Atlas Cars (Pakistan) Ltd.	1993
Honda Atlas Services (Pvt) Ltd.	1994
Atlas Information Technology (Pvt) Ltd.	1996
Total Atlas Lubricants Pakistan (Pvt) Ltd.	1997
Honda Atlas Power Products (Pvt) Ltd.	1997