

Half Yearly Report December 31, 2013



DEWAN FAROOQUE MOTORS LIMITED



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Company Information

Executive Directors

Dewan Mohammad Yousuf Farooqui

Chairman Board of Directors

Non-Executive Directors

Dewan Abdul Rehman Farooqui

Dewan Abdul Baqi Farooqui

Mr. Haroon Iqbal

Mr. Waseem-ul- Haque Ansari

Mr. Ishtiaq Ahmad

Independent Director

Mr. Aziz-ul-Haque

CHIEF EXECUTIVE OFFICER

Dewan Mohammad Yousuf Farooqui

PRESIDENT

Mr. Farooq Mustafa

CFO & COMPANY SECRETARY

Mr. Muhammad Naeemuddin Malik

AUDIT COMMITTEE MEMBERS

Mr. Aziz-ul-Haque

Chairman

Mr. Haroon Iqbal

Member

Mr. Ishtiaq Ahmad

Member

HUMAN RESOURCE & REMUNERATION COMMITTEE MEMBERS

Mr. Haroon Iqbal

Chairman

Dewan Mohammad Yousuf Farooqui

Member

Mr. Aziz-ul-Haque

Member

BANKERS

Allied Bank of Pakistan Limited

Askari Bank Limited

Bank Al Falah Limited

Bank Islami Pakistan Limited

Faysal Bank Limited

Habib Bank Limited

KASB Bank Limited

Meezan Bank Limited

National Bank of Pakistan

NIB Bank Limited

Pak Oman Investment Company Limited

Silk Bank Limited

Saudi Pak Industrial and Agricultural

Investment Co. (Pvt.) Limited

Standard Chartered Bank

Summit Bank

The Bank of Khyber

The Bank of Punjab

United Bank Limited

AUDITORS

Feroze Sharif Tariq & Co.

Chartered Accountants

4/N/4, Block 6, P.E.C.H.S., Karachi.

LEGAL ADVISORS

A.K. Brohi & Co.

TAX ADVISOR

Sharif & Co. (Advocates)

3rd Floor, Uni Plaza,

I.I. Chundrigar Road, Karachi.

SHARES REGISTRAR / TRANSFER AGENT

BMF Consultants

Pakistan (Pvt.) Limited

Anum Estate Building, Room No.

310 & 311,

3rd Floor, 49, Darul Aman Society,

Main Shahrah-e-Faisal,

Adjacent to Baloch Colony Bridge,

Karachi, Pakistan.

REGISTERED OFFICE

7th Floor, Block 'A',
Finance & Trade Centre,
Off Shahrah-e-Faisal,
Karachi.

CORPORATE OFFICE

7th & 8th Floor, Block 'A',
Finance & Trade Centre,
Off Shahrah-e-Faisal,
Karachi.

REGIONAL OFFICES

Lahore

Dewan Centre, PIA Tower,
Egerton Road,

Islamabad

House # 58, F-7/2,
Margalla Road,

FACTORY

Jilaniabad, Budhu Talpur,
District Sajawal, Sindh.

Directors' Report

The Board of Directors of your Company takes pleasure in presenting the un-audited condensed interim financial statements of the Company for the half year ended December 31, 2013.

During the period under review the gross sales is Rs. 621.086 million, gross profit is Rs. 29.361 million and the after tax loss is Rs. 13.784 million.

Despite unfavorable economic conditions and higher inflation, the sales of local Car/LCV sector for the half year ended December 31, 2013 has shown a nominal growth of 6% as compared to the corresponding period of last year. The growth is mainly attributable to decline in import of used cars due to three year age limitation on imports and improvement in farmer's income.

During the period under review the Company commenced production activity temporarily for converting the existing stock of CKD's. The Company is going through tough conditions and making best endeavors to survive. A number of recovery suits have been instituted by Banks/Financial Institutions alleging default of company which are being successfully defended by our counsels. The proposal of re-profiling of the Company's debts is expected to be completed very soon. After the restructuring of debt the Company's operation will be normalized.

In conclusion, we bow, beg and pray to Almighty Allah, Rahman-o-Rahim, in the name of our beloved Prophet, Muhammad (peace be upon him), for the continued showering of his blessings, guidance, strength, health and prosperity to us, our Company, our Country and the Nation, and also pray to Almighty Allah to bestow peace, harmony, brotherhood and unity in true Islamic spirit to the whole Muslim Ummah, Ameen, Summa-Ameen.

LO-MY LORD IS INDEED HEARER OF PRAYER (AL-QURAN)

Under / By Authority of the Board of Directors

Statement under section 241 (2) of the Companies Ordinance, 1984

The chief Executive Officer of the Company is presently out of country and hence, these financial statements have been signed by the two directors as required under section 241 (2) of the Companies Ordinance 1984.



Ishtiaq Ahmed
Director



Haroon Iqbal
Director

Karachi: February 27, 2014

AUDITORS' REVIEW REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying Condensed balance sheet of Dewan Farooque Motors Limited ("the company") as at December 31, 2013 and the related Condensed profit and loss account, Condensed Statement of comprehensive income, Condensed cash flow statement and Condensed statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'Condensed interim financial statements') for the six months period then ended. Management is responsible for the preparation and Presentation of this Condensed interim financial statements in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this Condensed interim financial statements based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2013 and December 31, 2012 have not been reviewed as we are required to review only the cumulative figures for the Six month ended December 31, 2013.

Scope of Review

We conducted our review in accordance with the International Standard on review engagements 2410, "Review of Condensed interim financial statements performed by the independent Auditor of the Entity". A review of Condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


Basis of Qualified opinion

- a) The company has not made provision of markup for the period amounting to Rs. 367.509 million (refer note 10) on account of restructuring proposal offered to the lenders as described in note 2 to the condensed interim financial statements. Non-provisioning of markup is based on management's hope that the restructuring proposal will be accepted by lenders in the proposed manner. In our opinion, since the proposal has not been accepted by the lenders so far and the lenders, instead of accepting the restructuring proposal, have preferred filing suits against the company, therefore the provision of markup should be made in these condensed interim financial statements. Had the provision of markup been made in the condensed interim financial statements, the loss after taxation for the period would have been higher by Rs.367.509 million and markup payable would have been higher and shareholders' equity would have been lower by Rs.2.964 billion (June 30, 2013: Rs. 2.596 billion).
- b) The condensed interim financial statements of the company for the period ended December 31, 2013 as disclosed in note 2 to the condensed interim financial Statements reflect loss after taxation of Rs.13.784 million and as of that date it has accumulated losses of Rs.3.258 billion which resulted in net capital deficiency of Rs.2.171 billion and its current liabilities exceeded its current assets by Rs.3.545 billion and total assets by Rs.2.124 billion without Providing the mark up as refer in above para (a). The operations of the company are closed since October 2010 due to working capital constraints as disclosed in note 1.1 to the condensed interim financial statements.

Furthermore, the company has been unable to ensure timely repayments of debts owing to financial institutions due to liquidity problems and short term finance facilities have expired and not been renewed by banks. Following course, certain lenders have gone into litigation for recovery of liabilities amounting to Rs. 7.243 billion through attachment and sale of company's hypothecated / mortgaged properties. These conditions indicates the existence of the material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and therefore the company may be unable to realize its assets and discharge its liabilities in the normal course of business. The condensed interim financial Statements and notes thereto do not disclose this fact.

Conclusion

Based on our review, except for the matter discussed in Preceding Paragraphs "basis of qualified opinion" consequently if any adjustment may be required to the carrying amounts and classification of assets and liabilities nothing has come to our attention that causes us to believe that the accompanying Condensed interim financial statements as of and for the six months period ended December 31, 2013 are not prepared, in all material respects, in accordance with approved accounting standard as applicable in Pakistan.



CHARTERED ACCOUNTANTS

Audit Engagement Partner: Mohammad Tariq

Place: Karachi

Dated: February 27, 2014

Condensed Interim Balance Sheet As at December 31, 2013

	Note	December 31, 2013 Unaudited	June 30, 2013 Audited
		(Rs. in '000)	
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	6	1,381,944	1,435,040
Long-term deposits (with leasing companies)		39,175	39,175
CURRENT ASSETS			
Stores and spares		80,914	74,722
Stock-in-trade		509,749	611,005
Trade debts - considered good		25,330	28,002
Short term loans to associated undertakings - considered good		738,984	752,919
Advances, deposits, prepayments and other receivables - considered good		760,490	763,323
Investment	7	194,660	191,864
Taxation - net		20,161	22,789
Cash and bank balances		146,541	117,422
		2,476,829	2,562,046
TOTAL ASSETS		3,897,948	4,036,261
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share Capital			
Authorized			
120,000,000 (June 30, 2013: 120,000,000) Ordinary shares of Rs.10 each		1,200,000	1,200,000
Issued, subscribed and paid-up			
108,735,287 (June 30, 2013: 108,735,287) Ordinary shares of Rs.10 each		1,087,353	1,087,353
Reserves		(3,257,856)	(3,246,869)
		(2,170,503)	(2,159,516)
NON-CURRENT LIABILITIES			
Long term loans - secured		-	-
Long term loan - unsecured		24,499	24,499
Long term security deposits		17,700	17,700
Deferred Liabilities		4,552	4,552
CURRENT LIABILITIES			
Trade and other payables		2,670,794	2,614,199
Short term finances-secured	8	2,129,843	2,313,764
Current maturity of long term loans - overdue		1,179,429	1,179,429
Current maturity of liabilities against assets subject to finance lease		41,634	41,634
		6,021,700	6,149,026
CONTINGENCIES AND COMMITMENTS	9		
TOTAL EQUITY AND LIABILITIES		3,897,948	4,036,261

The annexed notes from 1 to 14 form an integral part of these condensed interim financial statements.

Statement under section 241 (2) of the Companies Ordinance, 1984

The chief Executive Officer of the Company is presently out of country and hence, these financial statements have been signed by the two directors as required under section 241 (2) of the Companies Ordinance 1984.



Ishtiaq Ahmed
Director



Haroon Iqbal
Director

DEWAN FAROQUE MOTORS LIMITED

Condensed Interim Profit and Loss Account
For the half year and quarter ended December 31, 2013

	Half Year Ended		Quarter Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Note	-----Unaudited----- (Rs. in '000)			
GROSS SALES	621,086	1,551	620,161	1,445
Sales tax	90,248	214	90,114	199
Commission	19,500	-	19,500	-
	<u>109,748</u>	214	<u>109,614</u>	199
NET SALES	511,338	1,337	510,547	1,246
Cost of sales	481,977	82,912	431,024	46,858
GROSS PROFIT / (LOSS)	29,361	(81,575)	79,523	(45,612)
Distribution expenses	36,095	21,712	20,483	11,006
Administration and general expenses	35,284	18,902	21,579	9,556
Provision for obsolescence/slow moving stock	-	10,704	-	10,704
	<u>71,379</u>	51,318	<u>42,062</u>	31,266
OPERATING PROFIT / (LOSS)	(42,018)	(132,893)	37,461	(76,878)
OTHER INCOME	51,521	65,903	26,936	31,595
	<u>9,503</u>	(66,990)	<u>64,397</u>	(45,283)
Finance cost	17,907	24	11,567	12
PROFIT / (LOSS) BEFORE TAXATION	(8,404)	(67,014)	52,830	(45,295)
TAXATION	5,380	-	5,380	-
NET PROFIT / (LOSS) FOR THE PERIOD	(13,784)	(67,014)	47,450	(45,295)
Basic earnings / (Loss) per share (Rupee)	11 (0.13)	(0.62)	0.44	(0.42)

The annexed notes from 1 to 14 form an integral part of these condensed interim financial statements.

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Ishtiaq Ahmed
Director



Haroon Iqbal
Director

**Condensed Interim Statement of Comprehensive Income
For the half year and quarter ended December 31, 2013**

	Half Year Ended		Quarter Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	-----Unaudited----- (Rs. in '000)			
(Loss)/ profit for the period	(13,784)	(67,014)	47,450	(45,295)
Other comprehensive income / (loss):				
Available for sale financial assets:				
- Changes in fair value	2,797	45,589	35,800	3,077
Total comprehensive income / (loss) for the period	(10,987)	(21,425)	83,250	(42,218)

The annexed notes from 1 to 14 form an integral part of these condensed interim financial statements.

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Ishtiaq Ahmed
Director



Haroon Iqbal
Director

Condensed Interim Cash Flow Statement

For the half year ended December 31, 2013

	December 31, 2013	December 31, 2012
	-----Unaudited----- (Rs. in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) before taxation	(8,404)	(67,014)
Add / (Less) : Depreciation	53,274	58,948
Financial charges	17,907	24
	71,181	58,972
	62,777	(8,042)
(Increase)/decrease in stores & spares	(6,192)	459
Decrease in stock in trade	101,255	11,835
Decrease in trade debts	2,672	62
Decrease/(Increase) in advances, deposits, pre-payments & other receivables	506	(47,464)
(Decrease) / Increase in trade, other payables and borrowings	56,597	(6,964)
Tax (paid)	(2,752)	5,615
Financial charges (paid)	(17,907)	(24)
	134,179	(36,481)
Net cash flow from operating activities	196,956	(44,523)
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure incurred	(178)	-
Short term loans (recovered from) associated undertakings	13,935	12,488
Markup received on short term loans to associated undertakings	2,328	9,195
Net cash flow from investing activities	16,085	21,683
CASH FLOW FROM FINANCING ACTIVITIES		
Loan from Directors	-	24,499
Net cash flow from financing activities	-	24,499
NET INCREASE IN CASH & CASH EQUIVALENTS	213,041	1,659
CASH & CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	(2,196,343)	(1,785,601)
CASH & CASH EQUIVALENTS AT END OF THE PERIOD	(1,983,302)	(1,783,942)

The annexed notes from 1 to 14 form an integral part of these condensed interim financial statements.

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Ishtiaq Ahmed
Director



Haroon Iqbal
Director

Condensed Interim Statement of Changes in Equity
For the half year ended December 31, 2013

	Share Capital	Accumulated (Loss)	Total
-----Unaudited----- (Rs. in '000)			
Balance as on July 01, 2012	1,087,353	(3,026,061)	(1,938,708)
Total comprehensive (loss) for the period	-	(21,425)	(21,425)
Balance as on December 31, 2012	<u>1,087,353</u>	<u>(3,047,486)</u>	<u>(1,960,133)</u>
Balance as on July 01, 2013	1,087,353	(3,246,869)	(2,159,516)
Total comprehensive (loss) for the period	-	(10,987)	(10,987)
Balance as on December 31, 2013	<u>1,087,353</u>	<u>(3,257,856)</u>	<u>(2,170,503)</u>

The annexed notes from 1 to 14 form an integral part of these condensed interim financial statements.

Statement under section 241 (2) of the Companies Ordinance, 1984

The chief Executive Officer of the Company is presently out of country and hence, these financial statements have been signed by the two directors as required under section 241 (2) of the Companies Ordinance 1984.



Ishtiaq Ahmed
Director



Haroon Iqbal
Director

Notes to the Condensed Interim Financial Statements

For the half year ended December 31, 2013

1 THE COMPANY AND ITS OPERATION

Dewan Farooque Motors Limited was incorporated in Pakistan on December 28, 1998 as a public limited company. The shares of the company are quoted on all the stock exchanges in Pakistan. The registered office of the Company is situated at 7th floor, Block 'A', Finance and Trade Centre, Off - Shahrah-e-Faisal, Karachi, while its manufacturing facilities is situated at Jilianabad, Budhu Talpur, Distric Sajawal, Sindh.

The Company has entered into separate technical license / collaboration agreements with Hyundai Motor Company, Korea and KIA Motors Corporation, Korea. The principal activity of the Company is the assembly, progressive manufacturing and sales of Hyundai and KIA vehicles in Pakistan.

- 1.1 The Company commenced commercial production through the interim facility from January 01, 2000. The main facility came into commercial operation from January 01, 2001. The the company has stopped its production activities since October 2010 to September 2013.

2 GOING CONCERN ASSUMPTION

The company incurred Loss after taxation of Rs. 13.784 million during the six month period ended December 31, 2013. As of that date it has accumulated losses of Rs.3.258 billion and its current liabilities exceeded its current asset by Rs. 3.545 billion and total assets by Rs. 2.124 billion. Furthermore, cumulatively the company has not provided markup on its borrowings from banks and financial institutions amounting to Rs.2.963 billion. The working capital constraints resulted in closure of production activities leading to gross loss situation as disclosed in note 1.1 to the condensed interim financial statements. Further the company is facing litigations with the lenders (Banks and the financial institutions) amounting to Rs. 7.243 billion to the financial statements, furthermore, the banks/financial institutions have not renewed the facilities/credit limits. These financials have been prepared under going concern assumption as the mangement feels the aforesaid situation are temporary not permanent and would reserve in future. The restructuring proposal submitted by the company to lenders is in the final stage of negotiation and is expected to be approved and closed in near future.

These Condensed interim financial statements have been prepared on going concern assumption because the above conditions are temporary and would reverse. The management is confident that the outcome will be positive as the company is negotiating reprofiling of the debt with all the lenders and is expected to be finalized in due course. Accordingly, the company has approached its lenders for the restructuring of its entire debt in the following manner:

- a) All the debt obligations of the company be converted into interest bearing long term loan in proportion to their respective current exposures;
- b) Principle to be repaid in 10 years inclusive of 1 year grace period.
- c) Mark-up payable as on December 31, 2008 to be frozen and paid quarterly over a period of three years commencing after 3 months from the restructuring date.

The management believes that the restructuring proposal presented is workable and would enable the company to service its debts. Therefore, the management is confident that the proposal will be accepted by its lenders. Accordingly, these financial statements have been prepared on a going concern basis.

3 BASIS OF PREPARATION

- 3.1 This condensed interim financial information of the Company for the six months period ended December 31, 2013 has been prepared in accordance with the requirements of the International Accounting Standards 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.
- 3.2 This condensed interim financial information of the Company does not include all of the information required for full annual financial statements and should be read in conjunction with the audited annual separate financial statements of the Company as at and for the year ended 30 June 2013.
- 3.3 This condensed interim financial information is presented in Pakistan Rupees which is also the Company's functional currency and all financial information presented has been rounded off to the nearest thousand.
- 3.4 The comparative balance sheet presented in this condensed interim financial information has been extracted from the audited annual separate financial statements of the Company for the year ended 30 June 2013, whereas the comparative condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity are extracted from the unaudited condensed interim financial information for the period ended 31 December 2012.

4 ACCOUNTING POLICIES

- 4.1 The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual separate financial statements of the Company for the year ended 30 June 2013.
- 4.2 Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Company's operations and did not have any impact on the accounting policies of the Company except where changes affected presentation and disclosures in this condensed interim financial information.

5 ESTIMATES AND JUDGMENTS

- 5.1 The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.
- 5.2 Estimates and judgments made by management in the preparation of this condensed interim financial information are the same as those that were applied to the audited annual separate financial statements of the Company as at and for the year ended 30 June 2013.

DEWAN FAROOQUE MOTORS LIMITED

Note	Half year ended December 31, 2013 Unaudited	Year Ended June 30, 2013 Audited
(Rs. in '000)		
6	PROPERTY PLANT AND EQUIPMENTS	
Operating Property Plant and Equipments 6.1	1,381,944	1,435,040
	1,381,944	1,435,040
6.1	WDV of Operating Fixed Assets	
Opening Balance	3,364,381	3,365,631
Add: Addition during the period	178	-
	3,364,559	3,365,631
Less: Deletion during the period	-	(1,250)
	3,364,559	3,364,381
Less : Accumulated Depreciation as on December 31 (June 30,)	(1,982,615)	(1,929,340)
	1,381,944	1,435,040
7	INVESTMENT - AVAILABLE FOR SALE - At fair value	
Investment in Ordinary shares of Dewan Cement Limited (DCL) - Related Party 27,968,445 ordinary shares of Rs. 10 each	279,685	279,685
Accumulated Impairment	(85,025)	(87,821)
	194,660	191,864
Market value (Rupees per share)	6.96	6.86
Percentage of equity held	7.19%	7.19%

7.1 The market price of related party's share wherein company has investment shows increasing trend from the date of balance sheet to the date the financial statements were authorized for issue. The market price of DCL's share as of February 27, 2014 (i.e. the date on which the financial statements were authorized for issue) is Rs. 8.13 per share, thereby increasing the market value of the investment by Rs. 32.723 million.

8 SHORT TERM BORROWING

The Short term borrowings has not been renewed by the Banks as of Balance sheet date.

9 CONTINGENCIES AND COMMITMENTS

Contingencies

There is no material change in the contingencies and commitments since the last audited financial statements as at June 30, 2013 as disclosed the banks/Financial institutions has file suits aggregate amounting to Rs. 7.243 billion .

10 FINANCE COST

During the period ended December 31, 2013 the company has not provided the markup on Long term and short term borrowing from banks and financial institutions to the extent of Rs.367.509 million. The management is hopeful that the decision of the court will be in favor of the company and the restructuring proposal will be accepted by the lenders. However had the company provided this amount in the financial statements during the period the loss of the company would have been increased by 367.509 and consequently the Share holders equity would have been lower and accrued markup would have been higher by Rs.2.964 billion. The said non provisioning is the contravention with the requirements of IAS 23 "Borrowing Costs".

Half Year Ended		Quarter Ended	
December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
-----Unaudited-----			
(Rs. in '000)			

11 EARNING PER SHARE - Basic/Diluted

Net profit/(loss) for the period	<u>(13,784)</u>	(67,014)	<u>47,450</u>	(45,295)
Weighted average number of ordinary shares issued during the year	<u>108,735</u>	108,735	<u>108,735</u>	108,735
Earning/(loss) Per Share - Basic/Diluted (Rupees)	<u>(0.13)</u>	(0.62)	<u>0.44</u>	(0.42)

12 TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS / RELATED PARTIES

Related parties transactions are carried out in the normal course of business. Material transaction during the period are given below:

DEWAN FAROOQUE MOTORS LIMITED

	Half year ended December 31, 2013 Unaudited	Year Ended June 30, 2013 Audited
	(Rs. in '000)	
Sales	15,524	1,170
Markup charged for the period on short term loans to associated undertakings	50,383	119,347
Markup received for the period on short term loans to associated undertakings	2,328	23,437
Loan recovered from associated undertaking	13,935	122,781
Loan received from director	-	24,499

Transactions with associated undertakings and related parties are undertaken on an arm's length basis.

13 DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements have been authorized for issue on February 27, 2014 by the Board of Directors of the Company.

14 GENERAL

Figures have been rounded off to the nearest thousand rupees.

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Ishtiaq Ahmed
Director



Haroon Iqbal
Director

WWW.YOUSUFDEWAN.COM

CORPORATE