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# Pre-Feasibility Study

## FAN GUARDS MANUFACTURING UNIT



**Small and Medium Enterprises Development Authority**

**Ministry of Industries & Production**

**Government of Pakistan**

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**June 2016**

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## 1 DISCLAIMER

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. Although, the material included in this document is based on data / information gathered from various reliable sources; however, it is based upon certain assumptions, which may differ from case to case. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from this memorandum in consequence of undertaking this activity. The contained information does not preclude any further professional advice. The prospective user of this memorandum is encouraged to carry out additional diligence and gather any information which is necessary for making an informed decision, including taking professional advice from a qualified consultant / technical expert before taking any decision to act upon the information.

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### ***Document Control***

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## **2 EXECUTIVE SUMMARY**

Fan is a necessity item of summer season. The hot local climate during summer season makes it mandatory to use. Their main usage is to get rid of extensive heat through air displacement at a fast rate. Three major types of fans have the maximum demand, which are Ceiling Fans, Pedestal Fans, and Bracket Fans. All pedestal and bracket fans have fan guards as an integral part of the product. The reason is to protect the users from any harm that could be caused by fast rotating, sharp edged fan blades.

This document provides details regarding setting up a Fan Guards Manufacturing Unit. The unit will be capable of producing on average 450 Fan Guards per day.

The proposed Fan Guards manufacturing business involves a total investment of about Rs. 29.64 million. This includes capital investment of Rs. 28.11 million and Rs. 1.52 million as initial working capital. The project is financed through 50% debt and 50% equity. The Net Present Value (NPV) of the project is around Rs. 17.09 million with an Internal Rate of Return (IRR) of 27% and a payback period of 4.11 years.

The project will provide employment opportunities to 7 people including owner manager. Higher return on investment and a steady growth of business is expected with the entrepreneur having some prior experience or education in the related field of business. The legal business status of this project is proposed as 'Sole Proprietorship'.

## **3 INTRODUCTION TO SMEDA**

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs).

With a mission "to assist in employment generation and value addition to the national income, through development of the SME sector, by helping increase the number, scale and competitiveness of SMEs", SMEDA has carried out 'sectoral research' to identify policy, access to finance, business development services, strategic initiatives and institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by SMEDA. These services

include identification of experts and consultants and delivery of need based capacity building programs of different types in addition to business guidance through help desk services.

#### **4 PURPOSE OF THE DOCUMENT**

The objective of the pre-feasibility study is primarily to facilitate potential entrepreneurs in project identification for investment. The project pre-feasibility may form the basis of an important investment decision and in order to serve this objective, the document/study covers various aspects of project concept development, start-up, and production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **Fan Guard Manufacturing Unit** by providing them with a general understanding of the business with the intention of supporting potential investors in crucial investment decisions.

The need to come up with pre-feasibility reports for undocumented or minimally documented sectors attains greater imminence as the research that precedes such reports reveals certain thumb rules; best practices developed by existing enterprises by trial and error, and certain industrial norms that become a guiding source regarding various aspects of business set-up and its successful management.

Apart from carefully studying the whole document one must consider critical aspects provided later on, which form basis of any Investment Decision.

#### **5 BRIEF DESCRIPTION OF PROJECT & PRODUCT**

Fan guards are primarily used to provide a physical barrier around revolving fan blades of different types of pedestal and bracket fans to prevent accidental contact with fingers or other objects. They are typically constructed using metal wire or plastic. Fan guards are manufactured in a variety of configurations, which depend upon the degree of accessibility required, and the shape of the fan blades themselves. Fan guards are designed to maximize airflow while minimizing noise. Fan guards manufacturing is a part of vendors industry for fan manufacturing sector.

This particular pre-feasibility provides information for setting up a fan guards manufacturing unit on a small-scale level that will operate as a vendor for fan manufacturers. Fan guards are manufactured in different diametric sizes and

measured in terms of their weight depending upon the requirements of fan manufacturers. The most common fan guard used in the local fan industry generally weighs 3 kg on average, with a diameter of approximately 26-inch. Accordingly, the proposed unit will mainly cater to 1.5 kg and 3 kg fans guards and will have an installed capacity of producing around 101,250 guards annually on 8 hours single shift basis.

Since, fan guard is an industrial product and, therefore, its target market cannot be defined in terms of gender, age bracket, profession, etc. The factors involved in defining the target market for fan guard would be the size of the fan manufacturing unit, the quality of fan it produces, and the price the customer is willing to pay for the product.

The proposed project would mainly cater to the fan manufacturer's demand of fan guards for following types of fans:

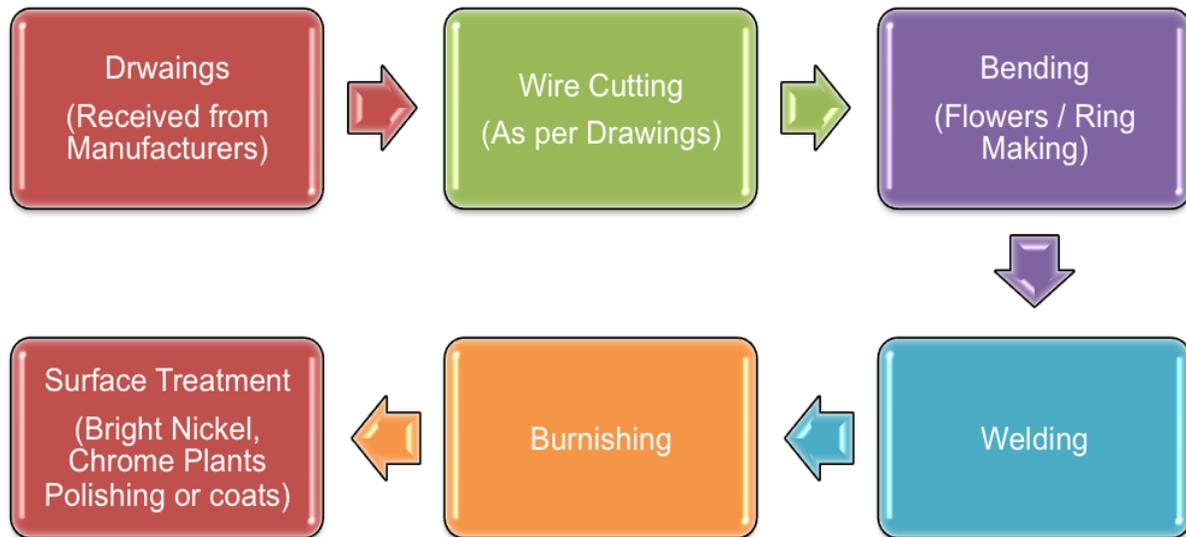
- Pedestal Fans
- Bracket Fans
- TCP (Table cum pedestal) Fans
- Baby Fans
- Railway Fans
- Air Coolers

Presently, fan-manufacturing units in Pakistan are predominantly concentrated in the districts of Gujranwala, Gujrat and Sialkot. Therefore, the ideal location for proposed fan guards manufacturing is the industrial estates / cluster of these two cities mainly due to easy availability of customers and skilled labor force.

The Fan Guard manufacturing business is assumed to operate as a sole proprietorship, however, partnership opportunities may be explored if further investment is required.

## 5.1 Production Process Flow

The production process flow of proposed fan guards manufacturing units mainly entails the following key process:



## 5.2 Installed and Operational Capacities

This pre-feasibility is based on a combination of different types of machines related to above stated production operations. Accordingly to the capacity of installed machines the proposed unit can manufacture 450 guards per day on 8 hours single shift basis. The details of overall installed, operational and maximum capacity utilization of the proposed unit is provided below:

**Table 1: Installed and Operational Capacities**

| Description / Product Mix | Percentage of Production | Total Production Capacity (Annually) | Operational Capacity 75 % (Year 1) | Maximum Operational Capacity 90% (Year 03-10) |
|---------------------------|--------------------------|--------------------------------------|------------------------------------|---|
| Fan Guard 1.5 Kg          | 10%                      | 13,500                               | 10,125                             | 12,150  |
| Fan Guard 3 Kg            | 90%                      | 121,500                              | 91,125                             | 109,350                                       |
| <b>Total</b>              |                          | <b>135,000</b>                       | <b>101,250</b>                     | <b>121,500</b>                                |

## **6 CRITICAL FACTORS**

The commercial viability of the proposed fan guards manufacturing unit depends on the following critical factors:

- Technical know-how and relevant experience of entrepreneur.
- Availability of skilled labour having technical knowledge.
- Ability to generate work orders through industrial networking, direct marketing and negotiating long term contracts.
- Selection of appropriate machinery, technology and human resources would be required to run project successfully.
- Stringent supervision of the production process at every level; utilization of job costing and job card with technical specifications sheet.
- Higher return on investment and a steady growth of business is closely associated with regular training and capacity building of the entrepreneur and employees.
- The most important factor for the success of the project would be the quality products and customer satisfaction in order to get a comparative advantage.

## **7 GEOGRAPHICAL POTENTIAL FOR INVESTMENT**

For the success of the project, it is important to find a location preferably in an industrial cluster where utilities especially electricity and other infrastructure are conveniently available. Presently, Gujrat, Gujranwala and Sialkot are the centre of fans and fan guards manufacturing in Pakistan.

Therefore, industrial clusters in Gujranwala, Gujrat and Sialkot are most suitable locations to house the proposed project. Establishing the unit in stated cities would have an advantage of being close to large buyers, which may lead to consistent orders and referrals. Additionally, these cities have adequate availability of skilled labor, raw material and other support infrastructure.

## **8 POTENTIAL TARGET MARKETS / CITIES**

Major target market for proposed unit includes manufacturers of different types of fans, especially Pedestal, Bracket, Railway Fans and Room Coolers etc.,

predominantly based in Gujranwala and Gujrat districts. However, there is also a growing demand for the product in Sialkot, Lahore and Karachi.

The production of 3 kg weight fan guards is the highest, as they are used in the pedestal and bracket fans, which have the highest, market demands in terms of their usage.

Additionally, fan guards manufactured from Pakistan have huge export potential in Malaysia, Middle Eastern, African and Korean markets.

## 9 PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of Fan Guard Manufacturing Unit. Various cost and revenue related assumptions along with results of the analysis are outlined in this section.

The projected Income Statement, Cash Flow Statement and Balance Sheet are also attached as annexure.

### 9.1 Project Economics

All the figures in this financial model have been calculated for estimated sales of Rs. 42.45 million in the year one. The capacity utilization during year one is worked out at 75% with 10% increase in subsequent years up to the maximum capacity utilization of 90%.

The following table shows internal rate of return, payback period and net present value of the proposed venture:

**Table 2: Project Economics**

| Description                   | Details    |
|-------------------------------|------------|
| Internal Rate of Return (IRR) | 27%        |
| Payback Period (yrs.)         | 4.11       |
| Net Present Value (Rs.)       | 17,099,347 |

### 9.2 Project Financing

Following table provides details of the equity required and variables related to bank loan:

**Table 3: Project Financing**

| Description | Details |
|-------------|---------|
|-------------|---------|

|                                       |                |
|---------------------------------------|----------------|
| Total Equity (50%)                    | Rs. 14,822,667 |
| Bank Loan (50%)                       | Rs. 14,822,667 |
| Markup to the Borrower (%age / annum) | 14%            |
| Tenure of the Loan (Years)            | 5              |

### 9.3 Project Cost

Following fixed and working capital requirements have been identified for operations of the proposed business:

**Table 4: Project Cost**

| Description                    | Amount Rs.        |
|--------------------------------|-------------------|
| <b>Capital Cost</b>            |                   |
| Land                           | 13,000,000        |
| Building / Infrastructure      | 5,760,368         |
| Machinery and Equipment        | 7,860,000         |
| Furniture and Fixture          | 151,500           |
| Office Equipment               | 97,000            |
| Pre-operating Cost             | 1,250,421         |
| <b>Total Capital Cost</b>      | <b>28,119,289</b> |
| <b>Working Capital</b>         |                   |
| Raw Material Inventory         | 1,202,005         |
| Cash                           | 300,000           |
| Equipment Spare Part Inventory | 24,040            |
| <b>Total Working Capital</b>   | <b>1,526,045</b>  |
| <b>Total Project Cost</b>      | <b>29,645,334</b> |

### 9.4 Space Requirement

Approximately 2 Kanal of land would be required for establishment of proposed unit, it is recommended that required land should be procured in the industrial estates of identified potential cities. The total cost of land is estimated at Rs. 13.00 million.

The infrastructural requirements of the project mainly comprises of the construction of management office, production area, store and open area. The cost of construction of building for the proposed unit is provided in the table below:

**Table 5: Space Requirement**

| Description             | Estimated Area (Sq ft.) | Cost per Sq ft. | Total Cost       |
|-------------------------|-------------------------|-----------------|------------------|
| Management / Admin Area | 400                     | 1,500           | 600,000          |
| Production Area         | 4,200                   | 1,000           | 4,200,000        |
| Store                   | 300                     | 1,000           | 300,000          |
| Open Area               | 4,100                   | 50              | 205,000          |
| Boundary Wall           | (379)                   | 1,200           | 455,368          |
| <b>Total Area</b>       | <b>9,000</b>            |                 | <b>5,760,368</b> |

### 9.5 Machinery & Equipment Requirement

Machinery and equipment for the proposed project are stated below:

**Table 6: Machinery & Equipment Requirement**

| Description                          | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|--------------------------------------|----------|-----------------|------------------|
| Flower Making Machine                | 3        | 250,000         | 750,000          |
| Hydraulic Press, capacity 40 ton     | 2        | 35,000          | 70,000           |
| Roller Machine to make rings         | 2        | 225,000         | 450,000          |
| Spot welding with fixtures           | 8        | 150,000         | 1,200,000        |
| Welding Transformer                  | 2        | 35,000          | 70,000           |
| Strip Cutting Machine                | 2        | 25,000          | 50,000           |
| Power Press (15 Ton)                 | 2        | 65,000          | 130,000          |
| Ring Welding Machine                 | 2        | 200,000         | 400,000          |
| Grinder                              | 1        | 15,000          | 15,000           |
| Cutting Press                        | 2        | 20,000          | 40,000           |
| Miscellaneous                        | 1        | 1,500,000       | 1,500,000        |
| <b>Polishing Section</b>             |          |                 |                  |
| Polishing Machine Bench Type Double  | 2        | 40,000          | 80,000           |
| Flexible Lead Type Polishing Machine | 1        | 55,000          | 55,000           |
| <b>Pickling Section</b>              |          |                 |                  |
| Acid tank with rubber lining         | 2        | 150,000         | 300,000          |

|   |   |         |                  |
|---|---|---------|------------------|
| Electro Plating Tank with Stirring System, Temperature Control and Heating System | 1 | 500,000 | 500,000          |
| Nickel Plating Tank Temperature Control and Stirring System (3000 Amp Rectifier)  | 1 | 500,000 | 500,000          |
| Chrome Plating Tank Inside Lead Lining Stirring System With Rectifier (1000 Amp)  | 1 | 500,000 | 500,000          |
| Powder Coating  | 1 | 500,000 | 500,000          |
| Generator (100 KVA)   | 1 | 750,000 | 750,000          |
| <b>Total</b>  |   |         | <b>7,860,000</b> |

## 9.6 Furniture & Fixtures Requirement

Details of the furniture and fixture required for the project are given below:

**Table 7: Furniture & Fixture Requirement**

| Description                      | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|----------------------------------|----------|-----------------|------------------|
| Table for Manager                | 1        | 12,000          | 12,000           |
| Chair for Manager                | 1        | 7,000           | 7,000            |
| Table                            | 6        | 3,500           | 21,000           |
| Chair                            | 12       | 2,500           | 30,000           |
| File Cabinet                     | 1        | 6,500           | 6,500            |
| Sofa Set                         | 1        | 15,000          | 15,000           |
| Air Conditioners (1.5 Ton Split) | 1        | 60,000          | 60,000           |
| <b>Total</b>                     |          |                 | <b>151,500</b>   |

## 9.7 Office Equipment Requirement

Following office equipment will be required for the proposed project:

**Table 8: Office Equipment Requirement**

| Description      | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|------------------|----------|-----------------|------------------|
| Laptop           | 1        | 50,000          | 50,000           |
| Computer Printer | 1        | 15,000          | 15,000           |
| Telephone Sets   | 2        | 1,000           | 2,000            |

|              |   |        |               |
|--------------|---|--------|---------------|
| Fax Machine  | 1 | 15,000 | 15,000        |
| Scanner      | 1 | 15,000 | 15,000        |
| <b>Total</b> |   |        | <b>97,000</b> |

### 9.8 Raw Material Requirement

The aluminum wire is the major raw material used for manufacturing of fan guards. Other than the aluminum, welding stripes and nickel / chrome for polishing will also be used. The details of raw material required for the manufacturing a particular fan guards is provided below:

**Table 9: Raw Material Requirement**

| Description                         | Unit | Unit Cost Rs. | Cost Per Unit Rs.                              |
|-------------------------------------|------|---------------|--|
| Aluminum Wire                       | Kg   | 87            | Fan Guard 3 Kg = 261<br>Fan Guard 1.5 Kg = 131 |
| Misc. (Welding, Polishing and etc.) |      |               | Fan Guard 3 Kg = 6<br>Fan Guard 1.5 Kg = 5     |

The 5% wastage of aluminum wire is assumed for per unit production.

### 9.9 Human Resource Requirement

Following table provides details of human resource required for the proposed venture:

**Table 10: Human Resource Requirement**

| Description     | No. of Employees | Monthly Salary per person (Rs.) |
|-----------------|------------------|---------------------------------|
| Owner / Manager | 1                | 60,000                          |
| Plant Manager   | 1                | 35,000                          |
| Purchaser       | 1                | 28,000                          |
| Accountant      | 1                | 22,000                          |
| Office Boy      | 1                | 14,000                          |
| Gate keeper     | 1                | 14,000                          |
| Sweeper         | 1                | 14,000                          |
| <b>Total</b>    | <b>07</b>        | <b>187,000</b>                  |

## 9.10 Utilities and Other Costs

An essential cost to be borne by the project is the direct electricity expenses, which are estimated to be around Rs. 2,735,655 in year one. The other electricity expenses are assumed as Rs. 102,960 in year one, with 10% increase in subsequent years. Furthermore, promotional expense being essential for marketing of the proposed unit is estimated as 2% of revenues.

## 9.11 Revenue Generation

Based on the capacity utilization of 75%, sales revenue during the first year of operations is estimated as under:

**Table 11: Revenue Generation – Year 1**

| Product            | Unit | Sale Price | 1 <sup>st</sup> Year Capacity | Total Revenue (Rs.) |
|--------------------|------|------------|-------------------------------|---------------------|
| Fan Guards (3kg)   | 90%  | 450        | 87,328                        | 39,297,555          |
| Fan Guards (1.5kg) | 10%  | 325        | 9,703                         | 3,153,507           |
| <b>Total</b>       |      |            | <b>97,031</b>                 | <b>42,451,062</b>   |

**Note:** In calculation the amount of Revenue at the end of year 1 is 42,451,172, this minor difference because of rounding of some amounts.

## 10 CONTACT DETAILS

In order to facilitate potential investors, contact details of machinery is provided below table:

**Table 12: Machinery Suppliers**

| Company Name                                | Address                                | Contact Details |
|---|--|-----------------|
| Adeel Engineering Works (Malik Jameel Awan) | Ghazi Chak Road, Near Polo Fan, Gujrat | 0300-8620121    |

## 11 USEFUL WEB LINKS

|  |  |
|--|--|
| Small & Medium Enterprises Development Authority (SMEDA)         | <a href="http://www.smeda.org.pk">www.smeda.org.pk</a>                         |
| Government of Pakistan   | <a href="http://www.pakistan.gov.pk">www.pakistan.gov.pk</a>                   |
| Ministry of Industries & Production                              | <a href="http://www.moip.gov.pk">www.moip.gov.pk</a>                           |
| Ministry of Education, Training & Standards in Higher Education  | <a href="http://moptt.gov.pk">http://moptt.gov.pk</a>                          |
| Government of Punjab   | <a href="http://www.punjab.gov.pk">www.punjab.gov.pk</a>                       |
| Government of Sindh  | <a href="http://www.sindh.gov.pk">www.sindh.gov.pk</a>                         |
| Government of Khyber Pakhtunkhwa                                 | <a href="http://www.khyberpakhtunkhwa.gov.pk">www.khyberpakhtunkhwa.gov.pk</a> |
| Government of Balochistan  | <a href="http://www.balochistan.gov.pk">www.balochistan.gov.pk</a>             |
| Government of Gilgit Baltistan                                   | <a href="http://www.gilgitbaltistan.gov.pk">www.gilgitbaltistan.gov.pk</a>     |
| Government of Azad Jamu Kashmir                                  | <a href="http://www.ajk.gov.pk">www.ajk.gov.pk</a>                             |
| Trade Development Authority of Pakistan (TDAP)                   | <a href="http://www.tdap.gov.pk">www.tdap.gov.pk</a>                           |
| Security Commission of Pakistan (SECP)                           | <a href="http://www.secp.gov.pk">www.secp.gov.pk</a>                           |
| Federation of Pakistan Chambers of Commerce and Industry (FPCCI) | <a href="http://www.fpcci.com.pk">www.fpcci.com.pk</a>                         |
| State Bank of Pakistan (SBP)                                     | <a href="http://www.sbp.org.pk">www.sbp.org.pk</a>                             |
| Punjab Small Industries Corporation                              | <a href="http://www.psic.gop.pk">www.psic.gop.pk</a>                           |
| Sindh Small Industries Corporation                               | <a href="http://www.ssic.gos.pk">www.ssic.gos.pk</a>                           |
| Gujranwala Tools Dies and Molds Center (GTDMC)                   | <a href="http://www.gtdmc.org.pk">www.gtdmc.org.pk</a>                         |
| Pakistan Industrial and Technical Assistance (PITAC)             | <a href="http://www.pitac.gov.pk">www.pitac.gov.pk</a>                         |

## 12 ANNEXURES

### 12.1 Income Statement

| Calculations  |                  |                  |                  |                  |                  |                  |                   |                   |                   | SMEDA             |
|---|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Income Statement  |                  |                  |                  |                  |                  |                  |                   |                   |                   |                   |
|   | Year 1           | Year 2           | Year 3           | Year 4           | Year 5           | Year 6           | Year 7            | Year 8            | Year 9            | Year 10           |
| Revenue   | 42,451,172       | 54,952,734       | 64,170,176       | 70,750,969       | 77,826,066       | 85,608,672       | 94,169,539        | 103,586,493       | 113,945,143       | 125,339,657       |
| <i>Cost of sales</i>  |                  |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Raw Material Cost   | 28,848,118       | 37,343,680       | 43,607,485       | 48,079,528       | 52,887,481       | 58,176,229       | 63,993,852        | 70,393,237        | 77,432,561        | 85,175,817        |
| Cost of goods sold 2  | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Operation costs 1 (direct labor)                                      | 724,500          | 827,524          | 912,643          | 1,006,236        | 1,106,860        | 1,217,546        | 1,339,300         | 1,473,230         | 1,620,553         | 1,782,608         |
| Operating costs 2 (machinery maintenance)                             | 144,241          | 186,718          | 218,037          | 240,398          | 264,437          | 290,881          | 319,969           | 351,966           | 387,163           | 425,879           |
| Operating costs 3 (direct electricity)                                | 2,735,655        | 3,541,286        | 4,135,280        | 4,559,362        | 5,015,298        | 5,516,828        | 6,068,510         | 6,675,361         | 7,342,898         | 8,077,187         |
| Operating costs 4 (direct water)                                      | 180,000          | 198,000          | 217,800          | 239,580          | 263,538          | 289,892          | 318,881           | 350,769           | 385,846           | 424,431           |
| Operating costs 5 (direct gas)  | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Total cost of sales   | 32,632,514       | 42,097,208       | 49,091,244       | 54,125,104       | 59,537,614       | 65,491,375       | 72,040,513        | 79,244,564        | 87,169,021        | 95,885,923        |
| Gross Profit  | 9,818,658        | 12,855,527       | 15,078,932       | 16,625,865       | 18,288,452       | 20,117,297       | 22,129,026        | 24,341,929        | 26,776,122        | 29,453,734        |
| <i>General administration &amp; selling expenses</i>                  |                  |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Administration expense  | 1,488,000        | 1,636,800        | 1,800,480        | 1,980,528        | 2,178,581        | 2,396,439        | 2,636,083         | 2,899,691         | 3,189,660         | 3,508,626         |
| Administration benefits expense                                       | 74,400           | 81,840           | 90,024           | 99,026           | 108,929          | 119,822          | 131,804           | 144,985           | 159,483           | 175,431           |
| Electricity expense   | 102,960          | 113,256          | 124,582          | 137,040          | 150,744          | 165,818          | 182,400           | 200,640           | 220,704           | 242,774           |
| Travelling expense  | 74,400           | 81,840           | 90,024           | 99,026           | 108,929          | 119,822          | 131,804           | 144,985           | 159,483           | 175,431           |
| Communications expense (phone, fax, mail, internet, etc.)             | 74,400           | 81,840           | 90,024           | 99,026           | 108,929          | 119,822          | 131,804           | 144,985           | 159,483           | 175,431           |
| Office vehicles running expense                                       | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Office expenses (stationary, entertainment, janitorial services, etc) | 74,400           | 81,840           | 90,024           | 99,026           | 108,929          | 119,822          | 131,804           | 144,985           | 159,483           | 175,431           |
| Promotional expense   | 849,023          | 1,099,055        | 1,283,404        | 1,415,019        | 1,556,521        | 1,712,173        | 1,883,391         | 2,071,730         | 2,278,903         | 2,506,793         |
| Insurance expense   | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Professional fees (legal, audit, consultants, Medical etc.)           | 424,512          | 549,527          | 641,702          | 707,510          | 778,261          | 856,087          | 941,695           | 1,035,865         | 1,139,451         | 1,253,397         |
| Depreciation expense  | 1,108,568        | 1,108,568        | 1,108,568        | 1,108,568        | 1,108,568        | 1,120,412        | 1,120,412         | 1,120,412         | 1,120,412         | 1,120,412         |
| Amortization of pre-operating costs                                   | 250,084          | 250,084          | 250,084          | 250,084          | 250,084          | -                | -                 | -                 | -                 | -                 |
| Amortization of legal, licensing, and training costs                  | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Property tax expense  | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Bad debt expense  | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Miscellaneous expense 1   | -                | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Subtotal  | 4,520,748        | 5,084,651        | 5,568,915        | 5,994,855        | 6,458,475        | 6,730,217        | 7,291,198         | 7,908,276         | 8,587,063         | 9,333,728         |
| Operating Income  | 5,297,910        | 7,770,876        | 9,510,016        | 10,631,010       | 11,829,976       | 13,387,080       | 14,837,829        | 16,433,653        | 18,189,059        | 20,120,006        |
| Gain / (loss) on sale of office equipment                             | -                | -                | -                | -                | 38,800           | -                | -                 | -                 | -                 | -                 |
| Earnings Before Interest & Taxes                                      | 5,297,910        | 7,770,876        | 9,510,016        | 10,631,010       | 11,868,776       | 13,387,080       | 14,837,829        | 16,433,653        | 18,189,059        | 20,120,006        |
| Interest expense on long term debt (Project Loan)                     | 1,968,350        | 1,670,571        | 1,331,103        | 944,110          | 502,937          | -                | -                 | -                 | -                 | -                 |
| Interest expense on long term debt (Working Capital Loan)             | 99,735           | 82,812           | 63,362           | 41,007           | 15,314           | -                | -                 | -                 | -                 | -                 |
| Subtotal  | 2,068,085        | 1,753,383        | 1,394,465        | 985,117          | 518,251          | -                | -                 | -                 | -                 | -                 |
| Earnings Before Tax   | 3,229,825        | 6,017,493        | 8,115,551        | 9,645,893        | 11,350,526       | 13,387,080       | 14,837,829        | 16,433,653        | 18,189,059        | 20,120,006        |
| Tax   | 529,956          | 1,328,622        | 2,062,942        | 2,598,562        | 3,195,183        | 3,907,977        | 4,415,739         | 4,974,278         | 5,588,670         | 6,264,502         |
| <b>NET PROFIT/(LOSS) AFTER TAX</b>                                    | <b>2,699,869</b> | <b>4,688,871</b> | <b>6,052,609</b> | <b>7,047,331</b> | <b>8,155,342</b> | <b>9,479,102</b> | <b>10,422,089</b> | <b>11,459,375</b> | <b>12,600,389</b> | <b>13,855,505</b> |

## 12.2 Balance Sheet

| Calculations                                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   | SMEDA              |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Balance Sheet                                 |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
|   | Year 0            | Year 1            | Year 2            | Year 3            | Year 4            | Year 5            | Year 6            | Year 7            | Year 8            | Year 9            | Year 10            |
| <b>Assets</b>                                 |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| <i>Current assets</i>                         |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Cash & Bank                                   | 300,000           | 480,137           | 3,732,175         | 7,407,146         | 11,688,987        | 16,459,740        | 26,122,769        | 36,554,494        | 47,814,849        | 59,966,205        | 82,127,732         |
| Accounts receivable                           |                   | 3,489,137         | 4,002,900         | 4,895,462         | 5,544,705         | 6,105,906         | 6,716,496         | 7,388,146         | 8,126,960         | 8,939,656         | 9,833,622          |
| Finished goods inventory                      |                   | 1,418,805         | 1,762,691         | 2,050,214         | 2,255,213         | 2,480,734         | 2,728,807         | 3,001,688         | 3,301,857         | 3,632,043         | 3,995,247          |
| Equipment spare part inventory                | 24,040            | 34,232            | 43,971            | 53,328            | 64,527            | 78,078            | 94,474            | 114,314           | 138,320           | 167,367           | -                  |
| Raw material inventory                        | 1,202,005         | 1,711,585         | 2,198,544         | 2,666,411         | 3,226,357         | 3,903,892         | 4,723,709         | 5,715,688         | 6,915,982         | 8,368,338         | -                  |
| Pre-paid annual land lease                    | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Pre-paid building rent                        | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Pre-paid machinery & equipment lease interest | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Pre-paid office equipment lease interest      | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Pre-paid office vehicles lease interest       | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Pre-paid insurance                            | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| <b>Total Current Assets</b>                   | <b>1,526,045</b>  | <b>7,133,896</b>  | <b>11,740,281</b> | <b>17,072,561</b> | <b>22,779,788</b> | <b>29,028,348</b> | <b>40,386,256</b> | <b>52,774,329</b> | <b>66,297,968</b> | <b>81,073,609</b> | <b>95,956,601</b>  |
| <i>Fixed assets</i>                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Land  | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000        | 13,000,000         |
| Building/Infrastructure                       | 5,760,368         | 5,472,350         | 5,184,331         | 4,896,313         | 4,608,294         | 4,320,276         | 4,032,258         | 3,744,239         | 3,456,221         | 3,168,202         | 2,880,184          |
| Machinery & equipment                         | 7,860,000         | 7,074,000         | 6,288,000         | 5,502,000         | 4,716,000         | 3,930,000         | 3,144,000         | 2,358,000         | 1,572,000         | 786,000           | -                  |
| Furniture & fixtures                          | 151,500           | 136,350           | 121,200           | 106,050           | 90,900            | 75,750            | 60,600            | 45,450            | 30,300            | 15,150            | -                  |
| Office vehicles                               | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Office equipment                              | 97,000            | 77,600            | 58,200            | 38,800            | 19,400            | 156,219           | 124,976           | 93,732            | 62,488            | 31,244            | -                  |
| <b>Total Fixed Assets</b>                     | <b>26,868,868</b> | <b>25,760,300</b> | <b>24,651,731</b> | <b>23,543,163</b> | <b>22,434,594</b> | <b>21,482,246</b> | <b>20,361,833</b> | <b>19,241,421</b> | <b>18,121,009</b> | <b>17,000,596</b> | <b>15,880,184</b>  |
| <i>Intangible assets</i>                      |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Pre-operation costs                           | 1,250,421         | 1,000,337         | 750,252           | 500,168           | 250,084           | -                 | -                 | -                 | -                 | -                 | -                  |
| Legal, licensing, & training costs            | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| <b>Total Intangible Assets</b>                | <b>1,250,421</b>  | <b>1,000,337</b>  | <b>750,252</b>    | <b>500,168</b>    | <b>250,084</b>    | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>           |
| <b>TOTAL ASSETS</b>                           | <b>29,645,334</b> | <b>33,894,533</b> | <b>37,142,265</b> | <b>41,115,892</b> | <b>45,464,467</b> | <b>50,510,594</b> | <b>60,748,089</b> | <b>72,015,750</b> | <b>84,418,977</b> | <b>98,074,206</b> | <b>111,836,785</b> |
| <b>Liabilities &amp; Shareholders' Equity</b> |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| <i>Current liabilities</i>                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Accounts payable                              |                   | 3,789,638         | 4,903,510         | 5,738,457         | 6,362,977         | 7,043,904         | 7,802,296         | 8,647,869         | 9,591,720         | 10,646,560        | 10,553,634         |
| Export re-finance facility                    | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Short term debt                               | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| <i>Other liabilities</i>                      |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| <b>Total Current Liabilities</b>              | <b>-</b>          | <b>3,789,638</b>  | <b>4,903,510</b>  | <b>5,738,457</b>  | <b>6,362,977</b>  | <b>7,043,904</b>  | <b>7,802,296</b>  | <b>8,647,869</b>  | <b>9,591,720</b>  | <b>10,646,560</b> | <b>10,553,634</b>  |
| <i>Other liabilities</i>                      |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Machinery & equipment lease payable           | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Office equipment lease payable                | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Office vehicle lease payable                  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Deferred tax                                  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  |
| Long term debt (Project Loan)                 | 14,059,644        | 11,932,652        | 9,507,880         | 6,743,640         | 3,592,406         | -                 | -                 | -                 | -                 | -                 | -                  |
| Long term debt (Working Capital Loan)         | 763,023           | 649,707           | 519,468           | 369,780           | 197,737           | -                 | -                 | -                 | -                 | -                 | -                  |
| <b>Total Long Term Liabilities</b>            | <b>14,822,667</b> | <b>12,582,358</b> | <b>10,027,348</b> | <b>7,113,420</b>  | <b>3,790,143</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>           |
| <i>Shareholders' equity</i>                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Paid-up capital                               | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667        | 14,822,667         |
| Retained earnings                             |                   | 2,699,869         | 7,388,740         | 13,441,349        | 20,488,681        | 28,644,023        | 38,123,125        | 48,545,215        | 60,004,590        | 72,604,979        | 86,460,484         |
| <b>Total Equity</b>                           | <b>14,822,667</b> | <b>17,522,536</b> | <b>22,211,407</b> | <b>28,264,016</b> | <b>35,311,347</b> | <b>43,466,690</b> | <b>52,945,792</b> | <b>63,367,882</b> | <b>74,827,257</b> | <b>87,427,646</b> | <b>101,283,151</b> |
| <b>TOTAL CAPITAL AND LIABILITIES</b>          | <b>29,645,334</b> | <b>33,894,533</b> | <b>37,142,265</b> | <b>41,115,892</b> | <b>45,464,467</b> | <b>50,510,594</b> | <b>60,748,089</b> | <b>72,015,750</b> | <b>84,418,977</b> | <b>98,074,206</b> | <b>111,836,785</b> |

## 12.3 Cash Flow Statement

| Calculations                                       |                |                |                  |                  |                  |                  |                  |                   |                   |                   | SMEDA             |
|--|----------------|----------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Cash Flow Statement                                |                |                |                  |                  |                  |                  |                  |                   |                   |                   |                   |
|  | Year 0         | Year 1         | Year 2           | Year 3           | Year 4           | Year 5           | Year 6           | Year 7            | Year 8            | Year 9            | Year 10           |
| <i>Operating activities</i>                        |                |                |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Net profit   |                | 2,699,869      | 4,688,871        | 6,052,609        | 7,047,331        | 8,155,342        | 9,479,102        | 10,422,089        | 11,459,375        | 12,600,389        | 13,855,505        |
| Add: depreciation expense                          |                | 1,108,568      | 1,108,568        | 1,108,568        | 1,108,568        | 1,108,568        | 1,120,412        | 1,120,412         | 1,120,412         | 1,120,412         | 1,120,412         |
| amortization of pre-operating costs                |                | 250,084        | 250,084          | 250,084          | 250,084          | 250,084          | -                | -                 | -                 | -                 | -                 |
| amortization of training costs                     |                | -              | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Equipment inventory                                | (24,040)       | (10,192)       | (9,739)          | (9,357)          | (11,199)         | (13,551)         | (16,396)         | (19,840)          | (24,006)          | (29,047)          | 167,367           |
| Raw material inventory                             | (1,202,005)    | (509,580)      | (486,959)        | (467,866)        | (559,946)        | (677,535)        | (819,817)        | (991,979)         | (1,200,294)       | (1,452,356)       | 8,368,338         |
| Pre-paid building rent                             | -              | -              | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Accounts payable                                   |                | 3,789,638      | 1,113,872        | 834,947          | 624,520          | 680,927          | 758,392          | 845,572           | 943,851           | 1,054,840         | (92,926)          |
| Cash provided by operations                        | (1,226,045)    | 2,420,445      | 5,807,049        | 6,588,899        | 7,605,118        | 8,717,115        | 9,663,030        | 10,431,725        | 11,260,355        | 12,151,356        | 22,161,527        |
| <i>Financing activities</i>                        |                |                |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Project Loan - principal repayment                 |                | (2,126,993)    | (2,424,772)      | (2,764,240)      | (3,151,234)      | (3,592,406)      | -                | -                 | -                 | -                 | -                 |
| Working Capital Loan - principal repayment         |                | (113,316)      | (130,238)        | (149,689)        | (172,043)        | (197,737)        | -                | -                 | -                 | -                 | -                 |
| Additions to Project Loan                          | 14,059,644     | -              | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Additions to Working Capital Loan                  | 763,023        | -              | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Issuance of shares                                 | 14,822,667     | -              | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Purchase of (treasury) shares                      |                |                |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Cash provided by / (used for) financing activities | 29,645,334     | (2,240,309)    | (2,555,010)      | (2,913,928)      | (3,323,277)      | (3,790,143)      | -                | -                 | -                 | -                 | -                 |
| <i>Investing activities</i>                        |                |                |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Capital expenditure                                | (28,119,289)   | -              | -                | -                | -                | (156,219)        | -                | -                 | -                 | -                 | -                 |
| Acquisitions                                       |                |                |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Cash (used for)/ provided by investing activities  | (28,119,289)   | -              | -                | -                | -                | (156,219)        | -                | -                 | -                 | -                 | -                 |
| <b>NET CASH</b>                                    | <b>300,000</b> | <b>180,137</b> | <b>3,252,038</b> | <b>3,674,971</b> | <b>4,281,841</b> | <b>4,770,752</b> | <b>9,663,030</b> | <b>10,431,725</b> | <b>11,260,355</b> | <b>12,151,356</b> | <b>22,161,527</b> |

## 13 KEY ASSUMPTIONS

### 13.1 Operating Cost Assumptions

| Description                                     | Details   |
|---|---|
| Administration Benefit Expenses                 | 5% of Administration Cost   |
| Office Expenses (Stationery, Entertainment etc) | 5% of Administration expenses   |
| Communication Expenses                          | 5% of Administration Cost   |
| Travelling Expense                              | 5% of Administration Cost   |
| Promotional Expenses                            | 2% of Revenue   |
| Professional Fee                                | 1% of Revenues  |
| Depreciation Method                             | Accelerated depreciation  |
| Depreciation Rate                               | 10% on Machinery<br>20% on Office Equipment<br>10% on Furniture & Fixture |
| Inflation Growth Rate                           | 10%   |
| Electricity Price Growth Rate                   | 10%   |
| Salaries Growth Rate                            | 10%   |

### 13.2 Production Cost Assumptions

| Description                  | Details  |
|------------------------------|--|
| Number of Machines Installed | 36   |
| Per Unit Cost – 3 Kg Guard   | Rs. 261<br>Labor Charges Rs. 30<br>Polishing / Nickel Rs. 6<br>Processing Loss, 5%<br>Production percentage: 90% |
| Per Unit Cost – 1.5 Kg Guard | Rs. 131<br>Labor Charges Rs. 23<br>Polishing / Nickel Rs. 5<br>Processing Loss, 5%<br>Production percentage: 10% |
| Hours Operational Per Day    | 8 Hours  |
| Days Operational Per Month   | 25 Days  |

### 13.3 Revenue Assumptions

| Description           | Details |
|-----------------------|---------|
| Growth in Sales Price | 10%     |

|   |           |
|---|-----------|
| Days Operational / Year                                 | 300       |
| Per Day Production Capacity                             | 450 Guard |
| Production Capacity in First Year                       | 75%       |
| Percentage Increase in Production Capacity every G Year | 10%       |
| Maximum Production Capacity                             | 90%       |

#### 13.4 Financial Assumptions

| Description           | Details |
|-----------------------|---------|
| Debt                  | 50%     |
| Equity                | 50%     |
| Interest Rate on Debt | 14%     |
| Debt Tenure           | 5 Years |
| Debt Payment / Year   | 1       |