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COMPANY INFORMATION

Board of Directors

Mrs. Rukhsana Saleem (Chairperson)
 Mr. Babar Hassan Bharwana (Chief Executive)
 Mr. Abdul Jabbar Ali
 Mr. Muhammad Arif Habib
 Mr. Rashid Ali Khan
 Mr. Liaqat Mohammad
 Mr. Muhammad Iqbal
 Mirza Mahmood Ahmad
 Mr. Muhammad Iqbal Awan

Board Audit Committee

Mirza Mahmood Ahmad (Chairman)
 Mr. Liaqat Mohammad
 Mr. Muhammad Iqbal
 Mr. Muhammad Iqbal Awan

Board Finance Committee

Mr. Rashid Ali Khan (Chairman)
 Mr. Muhammad Arif Habib
 Mr. Abdul Jabbar Ali

Board HR & Remuneration Committee

Mr. Muhammad Iqbal (Chairman)
 Mr. Abdul Jabbar Ali
 Mr. Muhammad Iqbal Awan

CFO & Company Secretary

Mian Anwar Aziz

Auditors

M/s. Fazal Mahmood & Co.
 Chartered Accountants

Bankers

National Bank of Pakistan
 United Bank Limited
 Summit Bank

Legal Advisor

Mian Farzand Ali

Registered Office

6/7-Ganga Ram Trust Building,
 Shahrah-e-Quaid-e-Azam, Lahore.

Phones : 042 37 32 0225-7

Fax No. : 042 37 32 3108

E-Mail : info@peco.com.pk

Website : <http://www.peco.com.pk>

Plants : Kot Lakhpat
 Lahore

Share Registrar:

M/s. Scarlet IT System (Pvt) Ltd.
 24-Ferozpur Road, Near Mozang Chungi,
 Lahore.

OUR PRODUCTS

PECO is playing a vital role in the manufacturing of qualitative engineering goods of international standard. Its products have earned reputation due to quality and reliability. PECO present products range includes the following:

- **Steel Structure**

- Electricity Transmission & Distribution Line Towers.
(11, 132, 220 & 500 Kv)
- Telecommunication Towers. (Green Field & Roof Top)

- **Pumps & Turbines**

PECO produces Mono Block & Non Clogging Pumps, Multi Stage Centrifugal Pumps, Deep Well & Agro Turbines of various capacities & heads as per requirements of the customers. PECO pumps range also includes Sludge Pumps and the Pumps utilized in Sugar & Chemical industries.

- **Electric Motors**

PECO manufactures following range of electric motors:

- Horizontal Foot Mounted Motors in Drip Proof & T.E.F.C. Enclosures.
- Flange Mounted Squirrel Cage Induction Motors.
- Vertical Hollow Shaft Motors in Drip Proof & Totally Enclosed Fan Cooled Enclosures.

- **Safes, Strong Room Doors & Steel Lockers.**

- Steel Safes – 30”, 60” , 72”
- Strong Room Doors & Steel Lockers for Banks

- **Foundry Products.**

- Grey & S.G. Iron Castings.
- Bronze Castings.
- Aluminum Alloy Castings.

- **Rolled Products**

- Angles
- Plain Bars
- Deformed Bars (Grade 60 & 40)

Vision Statement

A sustainable growth oriented company and market leader in Steel Towers for Electricity Transmission and Telecommunication, Pumps & Electric Motors

Mission Statement

To replace the old machines & equipment with most modern, efficient machines leading towards automation. To produce quality products at higher efficiency and consistent quality with lower cost.

Corporate Strategy

To accomplish excellent results through increased earnings in the best interest of all stake holders. To be a responsible employer to take care of the employees in their career planning and reward.

Being a good corporate citizen, contributing to the development of society through harmony in all respects.

Quality Policy

We are committed to maintain our Customer's satisfaction by delivering the qualitative products and services in accordance with their needs and requirements.

Customer's feed-back is continuously reviewed for quality improvement to have continued customer's confidence and trust in our products. Quality policy and objectives are reviewed on yearly basis.

Our Values

1. The Company's Policy is to conduct business with honesty and integrity and to be Ethical in all its dealings showing respect for the interest of those with whom it has relationship.
2. The Company complies with all laws and regulations. All employees are expected to familiarize themselves with laws and regulations governing their individual areas of responsibility, and not to transgress them. In case of any doubt the employees are expected to seek necessary advice. The Company believes in fair competition and supports appropriate competition laws.
3. The Company does not support any political party nor contribute to the funds of groups whose activities promote party interests.
4. The Company is committed to provide services, which consistently offer, value in terms of price and quality and satisfy customer needs and expectations.
5. The Company is committed to run its business in an environment that is sound and sustainable. As a good corporate entity, the Company recognizes its social responsibilities and will endeavor to contribute to community activities as a whole.
6. The Company believes in and fully adheres to the principles of reliability and credibility in its financial reporting and in transparency of business transactions.
7. The Company is an equal opportunity employer. Its employee recruitment and promotional policies are free of any gender bias and are merit and excellence oriented. It believes in providing its employees safe and healthy working conditions and in maintaining good channels of communications.
8. The Company expects its employees to abide by certain personal ethics whereby Company information and assets are not used for any personal advantage or gain. Any conflict of interest should be avoided, where it exists it should be disclosed and guidance sought.

The Board of Directors has constituted the 'Board Audit Committee' to ensure compliance of above principles.

FINANCIAL HIGHLIGHTS

Rs. in Million

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Trading Results						
Sales – Net	522.873	712.177	1,677.379	1,361.633	1,036.919	983.499
Cost of Sales	593.414	680.309	1,371.129	1,035.306	806.727	760.336
Gross Profit/(Loss)	(70.541)	31.868	306.250	326.327	221.188	223.163
Admn, Gen. & Selling Exp.	57.131	71.595	87.464	78.157	63.315	58.130
Operating Profit/(Loss)	(127.672)	(39.727)	218.786	248.170	157.873	165.033
Financial Charges	25.748	17.540	30.684	82.551	8.260	8.591
Other Charges etc.	12.471	8.960	0.757	0.501	1.054	10.838
Other Income	13.685	8.312	5.474	44.309	18.784	63.304
Profit/(Loss) before Tax	(152.206)	(57.915)	183.223	201.171	168.469	201.628
Net Profit/(Loss) after Tax	(99.913)	(30.594)	114.538	133.948	109.447	312.047
Dividend						
Cash Dividend	-	-	56.902	71.128	-	51.212
Dividend Per Share (Rs.)	-	-	10.00	12.50	-	9.00
Financial Position						
Property, Plant & Equipment	4,865.129	4,884.234	4,879.205	4,592.772	1,501.608	1,446.760
Paid up Capital	56.902	56.902	56.902	56.902	56.902	56.902
Reserves	10.000	10.000	10.000	10.000	10.000	10.000
Fixed Capital Expenditure	5,199.180	5,211.929	5,199.613	4,910.765	1,819.125	1,765.647
Key Indicators						
Gross Profit Ratio	(13.49)	4.47	18.26	23.97	21.33	22.69
Operating Profit Ratio	(24.42)	(5.58)	13.04	18.23	15.23	16.78
Operation Expenses Ratio	10.93	10.05	5.21	5.74	6.11	5.91
Profit Before Tax Ratio	(29.11)	(8.13)	10.92	14.77	16.25	20.50
Net Profit Ratio	(19.11)	(4.30)	6.83	9.84	10.56	31.73
Earning Per Share	(17.56)	(5.38)	20.13	23.54	19.23	54.84
Working Capital Turnover	467.295	610.342	716.449	737.846	650.119	577.894
Current ratio	2.31	2.32	4.28	3.01	3.74	3.63
Quick ratio	0.82	1.10	2.24	1.41	2.12	2.16

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 63rd Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7-Davis Road, Lahore, on Thursday, October 25, 2012 at 10.30 A.M. to transact the following business: -

1. To confirm Minutes of 26th Extra Ordinary General Meeting held on Saturday, March 31, 2012.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2012 together with the Auditors' and Directors' report thereon.
3. To appoint auditors for the year ending June 30, 2013 and to fix their remuneration. The present Auditors M/s Fazal Mahmood & Company, Chartered Accountants being eligible for reappointment have offered themselves for reappointment. The Board of Directors, on recommendations of the Audit Committee, has proposed appointment of M/s Fazal Mahmood & Company, Chartered Accountants for the year 2013.
4. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD
(Mian Anwar Aziz)
Company Secretary

Lahore: September 29, 2012

NOTES:

1. The Share Transfer Books of the Company shall remain closed from October 20, 2012 to October 26, 2012 (Both days inclusive) and no transfer will be registered during that time. Transfers received in order at the office of the Registrar of the Company M/s Scarlet IT System (Pvt.) Limited, 24 Ferozpur Road, Near Mozang Chungi, Lahore at the close of business on October 19, 2012 will be treated in time.
2. A member entitled to attend and vote at this meeting is entitled to appoint any person as a proxy and vote on his / her behalf. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the time of the meeting.
3. Any individual Beneficial Owner of the Central Depository Company (CDC), entitled to vote at this meeting must bring his/her Computerized National Identity Card (CNIC) or passport (in case of foreigner) alongwith CDC account number to prove his/her identity and in case of proxy must enclose an attested copy of his/her CNIC or passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. Members are requested to notify us immediately of any change in their Registered address currently available with us.
5. The Registrar of the Company is, M/s SCARLET IT Systems Ltd. 24 – Ferozpur Road, Near Mozang Chungi, Lahore.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards(CNIC) to the Company are requested to send the same at the earliest.

DIRECTORS' REPORT

To The Shareholders

The Directors of the Company take pleasure in presenting their report together with the Company's audited annual financial statements for the year ended June 30, 2012.

PERFORMANCE OUTLOOK

The year 2011-12 posed enormous challenges not only for the Pakistan economy but the world at large. Conditions at home were more adverse due to high level inflation, depreciation of rupee against dollar, deteriorating law and order situation and acute energy shortage. The overall business activity in the country remained slow and due to very tough competition in the market coupled with the above constraints the turn over of the Company could not touch the desired level. Major supplies to WAPDA consisted of 132 Kv and 11 Kv towers. There was, however, no demand of telecommunication towers during the year. Pump/Motors and Foundry division of the Company also could not fetch reasonable business.

FINANCIAL PERFORMANCE

Operating results of the Company for the year 2011-12 were not satisfactory. The sale revenue for the year ending 30.06.2012 was Rs. 523 million compared to the previous year's sale revenue of Rs. 712 million which was 27% lower. The gross loss during the year was Rs. 70.541 million against profit of Rs. 31.868 million of last year. The loss after tax during the period under review was Rs. 99.913 million against previous year loss of Rs. 30.594 million.

Loss per share increased from to Rs. 6.32 per share to Rs. 17.56 per share during the period under review.

Low production was the major reason for this substantial loss during the year. Fixed overheads could not be absorbed properly by the products as production remained below the break even point. Other reasons were lesser orders in hand at the beginning of the year, raw material constraints, non renewal of credit facilities from Banks, load shedding of electricity/gas and intensive competition especially of 11 and 132 Kv towers in the markets.

Operating expenses during the year decreased by 20 % compared to the previous year mainly due to decrease in sale. Financial charges however increased from Rs. 17.540 million of last year to Rs. 25.748 million during the current period.

FINANCIAL RESULTS AND APPROPRIATIONS

	Rupees in Thousand	
	Year ended 30.06.2012	Year ended 30.06.2011
Loss before Taxation for the year	(152,206)	(49,334)
Taxation	52,293	18,740
Loss after Tax for the year	(99,913)	(30,594)
Appropriations:		
Final Dividend for the year ended June 30, 2010 @ Rs. 5.00 per share.	-	(28,451)
Loss for the year	(99,913)	(30,594)
Transfer from "Surplus on Revaluation of Fixed Assets"	11,614	19,211
Loss Carried Forward to Accumulated Loss	(88,299)	(39,834)

OPERATING & FINANCIAL DATA

Operating and Financial data and key ratios of the Company for the last six years are annexed.

BOARD OF DIRECTORS

The Board comprises of one executive, four non executive and four independent directors. At the Extra

Ordinary General meeting of the Company held on March 31, 2012 six members of the Board were elected by the shareholders for a three years term ending April 01, 2015 namely, Mr. Muhammad Arif Habib, Mr. Rashid Ali Khan, Mirza Mahmood Ahmad, Mr. Muhammad Iqbal Awan, Mr. Liaqat Mohammad and Mr. Muhammad Iqbal. There were also changes in Govt. nominated directors. The present Government nominated directors are Mrs. Rukhsana Saleem, Mr. Babar Hassan Bharwana and Mr. Abdul Jabbar Ali.

BOARD OF DIRECTORS MEETINGS

During the year 2011-12, nine meetings of the Board were held. The attendance of the Board members was as follows:

Mrs. Rukhsana Saleem	2
Mr. Ghulam Rasool Ahpan	1
Mr. Abdul Jabbar Ali	3
Mr. Babar Hassan Bharwana	2
Mr. Muhammad Arif Habib	4
Mr. Liaqat Mohammad	8
Mr. Rashid Ali Khan	9
Mirza Mahmood Ahmad	6
Mr. Mohammad Shabir Malik	6
Mr. Muhammad Iqbal	9
Brig. Balal Ahmad Khan	2
Ms. Nuzhat Fatima	2
Mr. Amir Tariq Zaman	4
Mr. Muhammad Iqbal Awan	3
Mr. Mumtaz Ahmad Qureshi	2

PATTERN OF SHAREHOLDING AND SHARES TRADED

The pattern of shareholding and additional information regarding pattern of shareholding is attached separately.

No trading in the shares of the Company were carried out by the Directors, the Chief Executive Officer and the Company Secretary and their spouses and minor children during the year under review.

EARNING / LOSS PER SHARE

Loss per share for the year ended 30th June, 2012 was Rs. 17.56 as compared to loss per Share of Rs. 6.32 of the last year.

AUDITORS

The Auditors M/s Fazal Mahmood & Company, retire and offer themselves for re-appointment. They have been given satisfactory rating under the quality control review of the ICAP. The Board Audit Committee and the Board of Directors of the Company have endorsed their appointment for shareholders consideration at the forthcoming Annual General Meeting.

I. COMMENTS ON AUDITORS REPORT

- a - **OUTSTANDING AMOUNT OF CUSTOM & IMPORT DUTIES:**
In accordance with Cabinet decision dated 30.5.1994, the company's loans including payment of customs and import duties alongwith accrued mark up are to be payable on realization of sale proceeds of PECO Badami Bagh land which was handed over to Privatization Commission.
- b - **GOING CONCERN ASSUMPTION:**
Efforts are being made to get orders mix so that business volume as well as profitability can be

maintained. Management of the Company is endeavoring for up gradation of the foundary division. Further, the management is hopeful that subject to the commencement of the commercial operations of the roling mills at full capacity and procurement of the new furnace, the Company will be able to minimize the cost of production and hence will be able to compete in the tender business, and therefore achieve better turn over in the upcoming period. Further, despite of the crisis faced, the Company has been able to maintain its current ratio at 2.31:1 which is still quite positive, Further more, Company has orders in hand worth of Rs. 286.366 million and orders in pipe line worth of Rs. 962.775 million. The liabilities of the Company payable to the Government of Pakistan shall be met from the sale proceeds of Badami Bagh land. The value of which has been estimated at Rs. 2,631 million. In view of the situation explained above, the management of the Company is confident that all these crises are temporary and not permanent and would reverse in the near future and that the going concern assumption is appropriate for the reasons explained in the above paragraphs, therefore these Financial Statements have been prepared on the assumption that the Company will continue as a going concern.

c - **GOVERNMENT OF PAKISTAN LOANS:**

The legal advisors do not agree with the additional liabilities claimed. The claim of GoP regarding the payment of interest is strongly disputed as there had never been any agreement in this regard. The management of the Company had handed over the title documents of Badami Bagh land to the Privatization Commission for disposal in the year 1994 and had Privatization Commission disposed off the land at that time no issue of interest would have arisen. Further, the principal amount of these loans has been agreed except for additional gratuities and in respect of the amounts disputed, the Board, by majority, is of the opinion that an arbitrator should be appointed who should be acceptable to both the parties.

SUBSEQUENT EVENTS

No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which this Balance Sheet relates and the date of the Directors' report.

STATEMENT ON CORPORATE FINANCIAL REPORTING FRAME WORK

The Company has complied with all the requirements of the code of Corporate Governance by the listing regulations. Accordingly the Directors are pleased to confirm the following:

- i. The financial statements together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.
- ii. Proper books of accounts of the Company have been maintained.
- iii. Appropriate accounting policies have been consistently applied in the preparation of financial statements which conform to the International Accounting Standards as applicable in Pakistan. The accounting estimates, wherever required are based on reasonable and prudent judgment.
- iv. The International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- v. The system of Internal Control is sound in design and has been effectively implemented and monitored.
- vi. There are no significant doubts upon the Company's ability to continue as a going concern.
- vii. There has been no material departure from the best practices of Corporate Governance, as required by the listing regulations.
- viii. There has been a significant drop in production, sales and profitability of the Company for the year 2012. The net sales dropped to Rs. 522.873 million from Rs. 712.177 million of last year

i.e. 27% mainly due to low productivity, raw material constraints, non renewal of credit facilities by Banks, load shedding of electricity and gas and intensive competition of 11 & 132 Kv towers. As a result the after tax loss amounted to Rs. 99.913 million which was higher by Rs. 69.319 million from last year.

ix. The key operating and financial data for the last six years is annexed.

AUDIT COMMITTEE

Audit Committee was established by the Board to assist the directors in discharging their responsibilities, Corporate Governance, Financial Reporting and Corporate Control. The Committee consists of four members. Three members including Chairman of the Committee are Independent and one is non executive director.

The Board Audit Committee is responsible for reviewing reports of the company's financial results, audit and adherence to standards of the system of management controls. The Committee reviews the procedures, ensures their independence with respect to the services performed for the Company and makes recommendations to the Board of Directors.

The Audit Committee held seven meetings during the year under review, each before the Board of Directors meeting to review the financial statements, internal audit reports and compliance of the Corporate Governance requirements. These meetings included meeting with external auditors before and after completion of audit and other statutory meetings as required by the Code of Corporate Governance.

The present constitution of the Committee is as under:

Mirza Mahmood Ahamd	Chairman
Mr. Liaqat Mohammad	Member
Mr. Muhammad Iqbal	Member
Mr. Muhammad Iqbal Awan	Member

DIRECTOR'S TRAINING PROGRAMME

The Board arranges orientation courses for its directors as and when needed to apprise them of their duties and responsibilities. The incoming directors are also provided with appropriate briefing and orientation material to enable them first hand knowledge on the working of the Company. One director has acquired the certification under Director's Training Programme that meets the criteria specified by the SECP.

CODE OF CONDUCT

In order to put in place professional standards and corporate values for promotion of integrity of the Board, senior management and other employees, the Board has approved and disseminated a Code of Conduct, defining therein acceptable and unacceptable behaviours. The same has been placed on the Company's website.

NUMBER OF EMPLOYEES

The number of employees as on June 30, 2012 were 394 compared to 544 of last year.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

Human Resource and Remuneration Committee was established by the Board to assist the Directors in discharging their responsibilities with regard to selection, evaluation, compensation and career planning of key management personnel. It is also involved in recommending improvements in Company's human resource policies and procedures and their periodic review. The Committee consists of three members. Two members including Chairman of the Committee is Independent and one is non executive director.

RELATED PARTY TRANSACTIONS

All transactions with related parties are reviewed and approved by the Board. The Board approved pricing policy for related party transactions as disclosed in the notes to the accounts.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Stock Exchanges in their Listing Regulations, relevant for the year ended June 30, 2012 have been duly complied with. A statement to this effect is annexed with the report.

ABSTRACT(S) UNDER SECTION 218 OF THE COMPANIES ORDINANCE, 1984.

The abstracts under section 218 of the Companies Ordinance, 1984 are annexed.

WEB PRESENCE

Company's periodic financial statements for the current financial year including annual reports for the last three years are available on the Company's website www.peco.com.pk for information of the investors.

SAFETY AND ENVIRONMENTS

The company strictly complies with the standards of the safety rules & regulations. It also follows environmental friendly policies.

OUTSTANDING STATUTORY DUES

Detail of outstanding statutory dues is given in note No. 9 to the Accounts.

QUALITY CONTROL

To ensure implementation of the Management System, Internal Quality Audits, Surveillance Audits and Management Review Meetings are conducted regularly. The Company is also certified for ISO 14000: 2004 (Environmental Management System).

BUSINESS PLANS & ACHIEVEMENT OF TARGETS

Short medium and long term targets are set by the Board. Management endeavors to achieve those through better planning, concentrated efforts and hard work. Each year a comprehensive business plan is chalked out and duly approved by the Board. The management believes that based on orders in hand and expansion in production and marketing facilities, the Company will operate as a "Going Concern" till indefinite period.

COMMUNICATION

Communication with the shareholders is given high priority. Annual, Half Yearly and Quarterly Accounts are circulated to them within the time specified in the Companies Ordinance, 1984. The Company also has a web site, which contains up to date information on Company's activities and financial reports.

Every opportunity is given to the individual shareholders to attend and ask freely the questions about the Company's affairs at the Annual General Meeting.

ACKNOWLEDGEMENT

We are thankful to our valuable customers and suppliers for their support and confidence in PECO. We also take this opportunity to thank WAPDA and AJK electricity department for their continued support. We also thank the executives and employees of the company for their dedication, enhanced commitment and hard work for reviewing image of well renowned high tech engineering Company. We look forward to the bright future of the Company.

For and on Behalf of the Board

Dated: September 29, 2012
Lahore

Babar Hassan Bharwana
Chief Executive

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2012

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board constitutes the following Directors:

Independent Directors

Mr. Rashid Ali Khan
Mr. Muhammad Iqbal
Mr. Muhammad Iqbal Awan
Mirza Mahmood Ahmad

Executive Directors

Mr. Babar Hassan Bharwana

Non-Executive Directors

Mrs. Rukhsana Saleem
Mr. Abdul Jabbar Ali
Mr. Muhammad Arif Habib
Mr. Liaqat Mohammad

The independent directors' meets the criteria of independence under Claus i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Company has a policy to fill up any casual vacancy occurring in the Board within 90 days, however, no casual vacancy occurred during the current year.
5. The Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non executive directors, have been taken by the board/shareholders.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.

9. The Board arranges orientation courses for its directors as and when needed to apprise them of their duties and responsibilities. The incoming directors are also provided with appropriate briefing and orientation material to enable them first hand knowledge on the working of the Company. Some of the present directors meet the criteria of exemption under clause (xi) of the Code and are accordingly exempted from director' training programme. The Company will arrange training programme for rest of the directors as provided under CCG.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of four members, of whom one is non executive director, and three directors including Chairman of the committee are independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises of three members, of whom two are non executive directors and the Chairman of the committee is an independent director.
18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles contained in the CCG have been complied with.

By Order of the Board

Babar Hassan Bharwana
(Chief Executive)

Lahore:
September 29, 2012

REVIEW REPORT TO THE MEMBERS

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2012 prepared by the board of directors of **PAKISTAN ENGINEERING COMPANY LIMITED** (“the Company”) to comply with the Listing Regulations of the Karachi, Islamabad and Lahore Stock Exchanges, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Company’s compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s Statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls the Company’s corporate governance procedures and risks.

Further, listing regulations require the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm’s length transactions and transactions which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately place before the Audit Committee. We are only required to check the approval of the related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the company’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2012

Lahore: September 29, 2012.

Fazal Mahmood & Company
Chartered Accountants
(A member firm of JHI)
Engagement partner: Fazal Mahmood

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **PAKISTAN ENGINEERING COMPANY LIMITED** as at June 30, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity 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.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:-

- a) Interest amounting to Rs.41.989 million (accumulated Rs.41.989 million) @ 14% for three years relating to custom and other import duties has not been provided, which is not in accordance with order of Government of Pakistan. (Ref. Note 6.2.1)

Had the provision for interest in respect of paragraph (a) above been made in the financial statements the accumulated loss would have increased by Rs. 358.714 million.

Except for the effect, if any, of the matter referred to in paragraph (a) above and the extent to which it may affect the annexed financial statements, we report that;

- b) In our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- c) 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
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- d) In our opinion, except for the effect, if any, of the matter referred to in paragraph (a) above and the extent to which it may affect the annexed financial statements and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, 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, 2012 and of the loss, total

comprehensive loss, its cash flows and changes in equity for the year then ended; and

- e) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion we draw attention to the following uncertainties:

- i. note. 2.1 to the financial statements, which states the loss incurred, liquidity problems faced by the company and the reasons for preparation of financial statements on going concern basis. Our report is not qualified in this matter.
- ii. note. 6.1.1,6.2.1,6.3.1,6.4.1,6.5.1,11.1.3 and 11.1.4 to the financial statements, which describes the uncertainty related to the difference between the amount due as per Company's records and amounts claimed by the Privatization Commission and Finance division as per their confirmation in respect of which reconciliation exercise is currently in progress through Ministry of Finance. The confirmation in respect of Government Escrow Account Loan (Refer note. 6.2.1) was received for the period ended December 31, 2010 vide letter dated January 28, 2011 in which only the amount relating to custom and other import duties was confirmed and the confirmation in respect of Other government loan (Refer note 6.3), Federal Government loan for compulsory separation scheme (Refer note 6.4) and Federal Government Bonds (Refer note 6.5) was received for the period ended December 31, 2011 vide letter dated February 06, 2012. However, despite of our confirmation request and several reminders no confirmation has been received from the ministry of Production, Finance Division or from the Federal Board of Revenue in respect of the above stated loan liabilities for the year ended June 30, 2012. The ultimate outcome of the matter cannot presently be determined. Our report is not qualified in this matter.

Lahore: September 29, 2012.

Fazal Mahmood & Company
Chartered Accountants
(A member firm of JHI)
Engagement partner: Fazal Mahmood

BALANCE AS AT

Note	2012	2011
(Rupees in '000).....	
EQUITY & LIABILITIES		
SHARE CAPITAL & RESERVES		
Share capital	4. 56,902	56,902
Revenue reserve - general	10,000	10,000
Accumulated loss	(1,134,148)	(1,045,849)
	(1,067,246)	(978,947)
SURPLUS ON REVALUATION OF FIXED ASSETS		
	5. 4,882,209	4,893,823
NON - CURRENT LIABILITIES		
Government of Pakistan loans - secured	6. 1,790,848	1,790,848
Long term borrowings - secured	7. -	4,777
Deferred tax liability - net	8. 61,327	113,708
	1,852,175	1,909,333
CURRENT LIABILITIES		
Trade & other payables	9. 230,723	331,285
Mark-up accrued - on short term borrowing	3,757	3,101
Short term borrowing - secured	10. 108,638	108,638
Current maturity of long term borrowings	7. 5,670	-
Provision for taxation - net	7,768	20,768
	356,556	463,792
CONTINGENCIES AND COMMITMENTS		
	11. -	-
TOTAL EQUITY AND LIABILITIES	6,023,694	6,288,001

The annexed notes form an integral part of these financial statements.

Babar Hassan Bharwana
(Chief Executive)

SHEET
JUNE 30, 2012

	Note	2012	2011
	(Rupees in '000).....	
ASSETS			
NON - CURRENT ASSETS			
Property, plant and equipment	12.	4,884,456	4,897,205
Long term deposits	13.	663	1,938
		4,885,119	4,899,143
Land held for sale	14.	314,724	314,724
CURRENT ASSETS			
Stores, spares and loose tools	15.	133,052	140,221
Stock-in-trade	16.	397,216	421,776
Trade debts	17.	190,300	379,679
Advances	18.	5,238	13,366
Trade deposits, prepayments & other receivables	19.	39,554	60,757
Cash and bank balances	20.	58,491	58,335
		823,851	1,074,134
TOTAL ASSETS		6,023,694	6,288,001

Mohammad Iqbal
(Director)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012(Rupees in '000).....	2011
CONTINUING OPERATIONS			
Sales - net	21.	522,873	712,177
Cost of sales	22.	(593,414)	(680,309)
Gross (Loss) / Profit		(70,541)	31,868
Selling & distribution expenses	23.	(4,011)	(11,460)
Freight and forwarding expenses	24.	(8,503)	(12,955)
Administrative expenses	25.	(44,617)	(47,180)
Operating (Loss)		(57,131)	(71,595)
		(127,672)	(39,727)
Other operating charges	26.	(12,471)	(8,960)
Finance cost	27.	(25,748)	(17,540)
		(38,219)	(26,500)
		(165,891)	(66,227)
Other operating income	28.	13,685	8,312
(Loss) before taxation from continuing operations		(152,206)	(57,915)
Taxation	29.	52,293	18,740
(Loss) after taxation from continuing operations		(99,913)	(39,175)
DISCONTINUED OPERATIONS			
Profit for the year after tax from discontinued operations	30.	-	8,581
(Loss) after taxation for the year		(99,913)	(30,594)
BASIC AND DILUTED (LOSS) PER SHARE			
	31.	----- (Rupees) -----	
Continuing and discontinued operations - Basic		(17.56)	(5.38)
Continuing operations - Basic		(17.56)	(6.32)

The annexed notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2012

	<u>2012</u>	<u>2011</u>
(Rupees in '000).....(Rupees in '000).....
(Loss) after taxation for the year	(99,913)	(30,594)
Other comprehensive income for the year	-	-
Total comprehensive (loss) for the year	<u><u>(99,913)</u></u>	<u><u>(30,594)</u></u>

Surplus on revaluation of fixed assets has been reported in accordance with the requirements of the Companies Ordinance, 1984 in a separate account below equity.

The annexed notes form an integral part of these financial statements.

Babar Hassan Bharwana
(Chief Executive)

Mohammad Iqbal
(Director)

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
.....(Rupees in '000).....			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	31-A	48,228	(10,109)
Finance costs paid		(17,785)	(13,974)
Gratuity Paid		(3)	(49)
Income tax paid		(13,086)	(24,580)
Workers' Profit Participation Fund Paid		-	(10,616)
Net cash generated from / (utilized in) operating activities		17,354	(59,328)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed Capital Expenditure		(10,811)	(35,627)
Capital work in progress		(6,356)	(7,287)
Proceeds from disposal of Property, Plant & Equipment		-	1,005
Proceeds from disposal of Assets held-for-sale		-	23,383
Net cash (out flow) from investing activities		(17,167)	(18,526)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term borrowings - disbursements		-	108,638
Long term borrowings - (repayments)		-	(28,791)
Dividends paid		(31)	(27,334)
Net cash (out flow) / in flow from financing activities		(31)	52,513
Net increase / (decrease) in cash and cash equivalents		156	(25,341)
Cash and cash equivalents at the beginning of the year		58,335	83,676
Cash and cash equivalents at the end of the year	20.	58,491	58,335

The annexed notes form an integral part of these financial statements.

Babar Hassan Bharwana
(Chief Executive)

Mohammad Iqbal
(Director)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2012

	Share Capital				TOTAL
	Ordinary share capital	Bonus shares	Revenue Reserve General	Accumulated Loss	
------(Rupees in '000) -----					
Balance as at June 30, 2010	31,621	25,281	10,000	(1,006,015)	(939,113)
Total comprehensive (Loss) for the year:					
- (Loss) after tax for the year ended June 30, 2011	-	-	-	(30,594)	(30,594)
- Other comprehensive income	-	-	-	-	-
	-	-	-	(30,594)	(30,594)
Surplus on revaluation of property, plant & equipment realized during the year on account of:					
- Incremental depreciation charged thereon - net of tax	-	-	-	12,226	12,226
- Disposal of property, plant & equipment - net of tax	-	-	-	6,985	6,985
	-	-	-	19,211	19,211
Transactions with owners					
Distributions:					
Dividend for the year ended June 30, 2010 @ Rs. 5.00 per share	-	-	-	(28,451)	(28,451)
	-	-	-	(28,451)	(28,451)
Balance as at June 30, 2011	31,621	25,281	10,000	(1,045,849)	(978,947)
Total comprehensive (Loss) for the year:					
- (Loss) after tax for the year ended June 30, 2012	-	-	-	(99,913)	(99,913)
- Other comprehensive income	-	-	-	-	-
	-	-	-	(99,913)	(99,913)
Surplus on revaluation of property, plant & equipment realized during the year on account of:					
- Incremental depreciation charged thereon - net of tax	-	-	-	11,614	11,614
	-	-	-	11,614	11,614
Balance as at June 30, 2012	31,621	25,281	10,000	(1,134,148)	(1,067,246)

The annexed notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Notes:

1. THE COMPANY AND ITS OPERATIONS

Pakistan Engineering Company Limited (a State Enterprise) was incorporated in Pakistan on February 15, 1950 under the Companies Act, 1913 (Now Companies Ordinance, 1984) as a public limited company. Its shares are quoted on all Stock Exchanges of Pakistan. The company is principally engaged in the manufacturing and sale of engineering products. The major products of the company are electricity transmission and communication towers, electric motors, pumps and steel rolled products etc. The Company had earlier closed down its all divisions, except Structure (STR) division, and was principally engaged in the manufacturing and sale of electricity transmission and communication towers.

A rehabilitation plan was approved by the Federal Cabinet to improve the viability of the project and according to the plan Badami Bagh Works was closed down and its land has been offered for sale by the Privatization Commission. Expression of interests have been received by Privatization Commission in this regard from many parties and management is confident that the transaction will be completed very soon. The Government of Pakistan had modified its earlier decision and allowed to keep the structure division of the company operative i.e. company will not be wound up. At present structure, pumps, electric motor, foundry and rolling mills division of the company are in operation.

2. BASIS OF PREPARATION

2.1 Basis of Accounting

The Company has incurred gross loss of Rs. 70.541 million and after tax loss of Rs.99.913 million resulting in accumulated loss of Rs. 1,134.148 million (June 30, 2011: Rs.1,045.849 million) and negative equity of Rs. 1,067.246 million (June 30, 2011: Rs.978.947 million) as at June 30, 2012.

During the year stress on business stability emerged mainly from power and gas shortages, increase in petroleum prices and general inflation resulting in slow down of overall economic activity. The increase in material and other input costs could not be passed on to the customers due to very tough competition in the local market. Further, as a result of decrease in turnover, excessive load shedding of electricity, rescheduling of gas supply through gas load management, increase in petroleum, electricity and gas rates, increase in the prices of raw materials and due to severe competition, the company encountered profitability and liquidity problems which resulted in low performance as compared to the previous years.

Keeping in view the above position, efforts have been made to get orders mix so that business volume as well as profitability can be maintained. Management of the Company is also endeavoring for up gradation of the foundry division. The management of the company has also signed a Memorandum of Understanding with a foreign company which also reflects management's plans for diversification and easing out liquidity problems.

The management is hopeful that subject to the commencement of commercial operations of the Rolling Mills Division at full capacity and procurement of the new furnace, the Company will be able to minimize its costs of production and hence will be able to compete in the tender business, and therefore achieve better turnover in the upcoming period. The company is also in the process of renewing its financing facility with banks and recovering its outstanding debts. This support from the financial institutions and improved working capital management will also help to overcome the liquidity and working capital problems of the company.

Further, despite of the crisis faced, the company has been able to maintain its current ratio at 2.31:1 which is still quite positive and has orders in hand of Rs. 286.366 million and orders in pipeline of Rs. 962.775 million. The liabilities of the company payable to the Government of Pakistan shall be met from the sale proceeds of Badami Bagh land, the value of which has been estimated at Rs. 2,631.5 million and surplus land of Kot Lakhpat works. In this regard Badami Bagh Land has been offered for sale by the Privatization Commission and expressions of interests have been received by Privatization Commission. Further, markup claimed by the GoP is under dispute and the BoD and the management believe that no markup is payable in the absence of any agreement.

The Government of Pakistan (through SEC) is one of the major shareholders and has provided in past continued support to the company and expressed its commitment in order to maintain the going concern status of the company. This support is evident from the fact that GoP had in the past provided loans and financial support to the company. Furthermore, the Ministry of Production and Special Initiatives vide its letters dated February 02, 2005 and August 19, 2005 bearing reference nos. 5(50)/97-SEC(Vol-V) and F. No. 5(50)97-SEC, respectively, had confirmed that the Government of Pakistan had considered the recommendations of Privatization Commission and hence the Government had allowed Pakistan Engineering Company Limited to continue as going concern in the field of Tower manufacturing shop (Structure Division) i.e. Pakistan Engineering Company Limited would not be wound up. Furthermore, the company was allowed to hire needed workforce on job-to-job basis on contract/daily wages. This decision helped to improve the efficiency of the Structure Division (STR) and contributed towards the revenue generation of the company. However, taking into consideration, the successful operations of the Structure Division (STR) of the company and demand of pumps and motors, the Board of Directors decided to bring into operation Pumps, Electric Motor, Foundry and Rolling Mills divisions of the company as well.

In view of the situation set out above, although material uncertainty exists which may cast doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of the business, however the management of the company is confident that all these conditions are temporary and not permanent and would reverse in the near future and that the going concern assumption is appropriate for the reasons explained in the above paragraphs, therefore these Financial Statements have been prepared on the assumption that the company will continue as a going concern.

2.2 Statement of Compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.3 Basis of Measurement

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain items of property, plant and equipment which are stated at revalued amounts and certain financial liabilities which are carried at amortized cost.

2.4 Standard, amendments to approved accounting standards and interpretations to approved accounting standards that are effective in the current year

Following are certain new standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2011, but are considered not to be relevant or did not have any significant impact on the Company's financial statements;

- a) IAS 1 (Amendments), 'Presentation of Financial Statements' is effective for annual periods beginning on or after January 1, 2011. The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
- b) IAS 24 (Revised), 'Related Party Disclosures', is effective for annual periods beginning on or after January 1, 2011. The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control.
- c) IAS 34 (Amendment), 'Interim financial reporting', is effective for annual periods beginning on or after January 1, 2011. The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets.
- d) IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement', is effective for annual periods beginning on or after January 1, 2011. IFRIC 14 provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of minimum funding requirement as an asset.
- e) IFRS 7 (Amendment), 'Financial Instruments: Disclosure', is effective for annual periods beginning on or after January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosure and the nature and extent of risks associated with financial instruments.
- f) IFRS 7 (Amendment), 'Financial Instruments: Disclosure', is effective for annual periods beginning on or after January 1, 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfer of financial assets, where financial assets are derecognized in their entirety, but where the entity has a continuing involvement in them (e.g. options or guarantees on the transferred assets) or where financial assets are not derecognized in their entirety.
- g) IAS 32 (Amendment), 'Classification of rights issues', issued in October 2009. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.
- h) IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments

issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

2.5 Standard, amendments to approved accounting standards and interpretations that are published and considered relevant but not yet effective

Following new standards and amendments to existing standards have been published that are mandatory for accounting periods beginning on the dates mentioned below, however, these amendments are not expected to have significant impact on the financial statements;

- a) IFRS 9, 'Financial Instruments' (effective for the periods on or after January 1, 2015). This is the first standard issued as a part of a wider project to replace IAS 39, 'Financial Instruments: Recognition and measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets at (a) amortized cost and (b) fair value. The basis of classification depends on entity's business model and the contractual cash flow characteristics of the financial asset.
- b) IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for the periods beginning on or after July 1, 2012). The main change resulting from these amendments is a requirement for the entities to group items presented in "other comprehensive income" on the basis of whether they can be potentially reclassified to profit and loss subsequently (reclassification adjustments).
- c) IAS 19 (Revised) 'Employee Benefits' (effective for the periods beginning on or after January 1, 2013). It eliminates the 'corridor method' for recognizing actuarial gains and losses and make it mandatory for all the actuarial gains and losses to be recognized immediately and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset.
- d) IAS 12 (Amendments), 'Deferred tax on investment property' (effective for annual period beginning on or after January 1, 2012). The amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property.
- e) IAS 32 (Amendments), 'Financial instruments: Presentation on offsetting Financial Assets and Financial Liabilities' (effective for annual periods beginning on or after January 1, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments.
- f) IFRS 7 (Amendments), 'Offsetting Financial Assets and Financial Liabilities' (effective for annual periods beginning on or after January 1, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.
- g) Annual Improvements 2009-2011 (effective for annual periods beginning on or after January 1, 2013). The new cycle of improvements contains amendments to the following standards, with consequential amendments to other standards and interpretations.
 - i) IAS-1 "Presentation of Financial Statements".
 - ii) IAS-16 "Property, Plant and Equipment".
 - iii) IAS-32 "Financial Instruments: Presentation".
 - iv) IAS-34 "Interim Financial Reporting".
 - v) IFRS-9 "Financial Instruments".
 - vi) IFRS-10 "Consolidated financial information".
 - vii) IFRS-12 "Disclosure on interest in other entities".
 - viii) IFRS-13 "Fair value measurements".
 - ix) IAS-27 "Separate financial statements".
 - x) IAS-27 "Associates and joint ventures".

2.6 Standard, amendments to approved accounting standards and interpretations that are not yet effective and are not considered relevant

There are other new accounting standards, amendments to approved accounting standards and interpretations that are mandatory for future years. However, these are not expected to affect materially the financial statements of the Company.

2.7 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is the Pakistan Rupee (Rs).

2.8 Critical Accounting Estimate & Judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affect only that period, or in the period of revision in future period if the revision affects both current and future periods.

Significant areas requiring the use of management estimates in the financial statements are stated below;

2.8.1 Property, Plant and Equipment

The Company reviews appropriateness of the rates of depreciation / useful lives and residual values used in the calculation of depreciation at each financial year end. Further, the Company estimates revalued amount and useful life of land, building and plant and machinery based on the periodic valuations carried out by independent professional valuers. Any change in estimate in future might effect the carrying amounts of the respective item of property, plant and equipments with corresponding effect on the depreciation charge and impairment, surplus on revaluation and annual transfer of incremental depreciation from surplus on revaluation of fixed assets account to accumulated loss.

2.8.2 Taxation

In making the estimate for income tax payable, the company takes into account the applicable tax laws. Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Significant judgment is exercised to determined the amount of net deferred tax liabilities to be recognized.

2.8.3 Provisions Against Doubtful Balances

The Company reviews its doubtful balances at each balance sheet date to assess the adequacy of the provision there against. In particular, judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Property, Plant and Equipment

Property, plant & equipment is stated at cost or revalued amount less accumulated depreciation and impairment loss, if any, except for freehold land which is stated at revalued amount. Cost of these assets consists of historical cost and directly attributable costs of bringing the assets to working condition. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economics benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalized and the asset so replaced is derecognized. Surplus arising on revaluation after considering deficit in other categories, is credited to surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated with the revalued amount of the asset. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to accumulated loss.

Borrowing costs pertaining to the construction and erection are capitalized up to the date of completion. Depreciation on property, plant & equipment is charged to income on reducing balance method at the rates specified in note No.12 to the accounts to write off the cost over their estimated useful lives.

Depreciation on addition and deletion is charged on the basis of number of days the asset remains in use of the company. Assets' residual values, useful lives and depreciation rates are reviewed and adjusted, if appropriate, at each balance sheet date. Any impairment loss, or its reversal, is also charged to income. When an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the assets' carrying amount less the residual value over its estimated useful life. Normal repair and maintenance is charged to income as and when incurred. Major renewals and improvements are capitalized.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefit are expected from its use or disposal. Any gain and losses on disposal or de-recognition (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is taken to profit and loss account. When the revalued asset are sold, the relevant remaining surplus on revaluation is transferred directly to accumulated loss.

3.2 Capital Work -in -Progress

Capital Work-in- progress is stated at cost accumulated to the balance sheet date less impairment losses, if any. The costs are transferred to property, plant & equipment as and when assets are available for use.

3.3 Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. Owing to the significant transfer of material at various stages of manufacturing between different units, the costing system does not permit a realistic separation of working results of the units and the items produced, accordingly, segment information cannot be prepared. During the current year Structure (STR) Division of the company remained in operation and the operational results of the other divisions i.e. pumps, electric motor and rolling mills does not meet the minimum threshold. The financial information has been prepared on the basis of single reportable segment i.e. "Manufacturing".

3.4 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sale.

3.5 Discontinued Operations

A discontinued operation is a component of entity that either has been disposed off or is classified as held for sale, and:

- a) represents a separate major line of business or geographical area of operations,
- b) is a part of a single co-ordinated plan to dispose off a separate major line of business or geographical area of operations or;
- c) is a subsidiary acquire exclusively with a view to resale.

The Company in past had closed down its all divisions, except Structure (STR) division, and had terminated its employees through compulsory separation scheme. In this regard Badami Bagh works was completely discontinued and the title documents of the land were handed over to the Privatization Commission for sale. Furthermore, the relevant machinery was transferred over to Kot Lakhpat and was classified as Held for sale. Taking into consideration, the successful operation of the Structure Division (STR) of the company and demand of pumps and motors, the Board of Directors decided to bring into operation Pumps, Electric Motor, Foundry and Rolling Mills division of the company. However the Bicycle, Machine Tool and Power Loom divisions still remain discontinued. Taking into account above factor the Company has presented the combined results of the discontinued operations (i.e. bicycle division, power loom and machine tool etc.) separately in the profit and loss account.

3.6 Inventories

These are valued at lower of cost and net realizable value. Cost is determined as follows:

Raw material	At weighted average cost.
Work in Process	At direct material cost, labor and appropriate portion of production overheads.
Finished Goods	At direct material cost, labor and appropriate portion of production overheads.
Goods in Transit	At invoice value plus other charges, if any
Stores, Spare Parts &	
Loose Tools	At weighted average cost

Net realizable value represents selling price in the ordinary course of business less selling expenses incidental to sales. Provisions against store, spare and loose tools is provided if there is objective evidence that the items have become obsolete and against items which are slow moving.

3.7 Trade Debts

Trade debts are recognized and carried at original invoice amount less an allowance for any uncollectible amount. An estimated provision for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

3.8 Other Receivables

Other receivables are recognized at nominal amount which is the fair value of the consideration to be received less an allowance for any uncollectible amount.

3.9 Associated Undertakings / Related Parties

The units controlled by the Ministry of Production, Government of Pakistan and under common controls are considered as associated undertakings of the company. All transactions between the Company and the associated undertakings are accounted for at an arm's length prices determined using "cost plus method" and properly recommended by the audit committee and subsequently approved by the board of directors of the Company.

3.10 Employees' Retirement Benefits

Defined contribution plan

Up to June 30, 2005, company was operating a funded provident fund scheme covering all regular members and monthly contribution was made to the trust @10% of basic pay both by the company and the employees.

During the year no retirement benefits were paid to employees hired under the contract except Chief Executive and one (SEC) nominated permanent employee whose provident fund and pension fund contributions are paid to the funds maintained by the Government and State Engineering Corporation Limited (SEC) respectively.

3.11 Trade and other Payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

3.12 Taxation

a) Current

Provision of current tax is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

b) Deferred Tax

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination; and that affects neither accounting nor taxable profit or loss, and differences arising on the initial recognition of goodwill.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3.13 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for that sale of goods in the ordinary course of the Company's activities.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred or to be incurred, can be measured reliably and when specific criteria have been met for each of the Company's activities as described below:

a) Sale of goods

Sales revenue is recognized when the goods are dispatched and significant risks and rewards of ownership are transferred to the customer. Revenue from sale of goods is measured at the fair value of consideration received or receivable, net of returns and trade discounts.

b) Income on bank deposits

Interest income on bank deposits is accounted for on the time proportion basis using the applicable rate of return.

c) Others

Scrap sales and miscellaneous receipts are recognized on realized amounts.

3.14 Borrowing Costs

Mark-up, interest and other charges on borrowings which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs i.e. mark-up, interest and other charges are charged to the profit and loss account in the period in which they are incurred.

3.15 Provisions

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made to the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.16 Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, cheques in hand, deposits in banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

3.17 Impairment

a) Financial Assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b) Non- Financial Assets

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognized as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.18 Financial Instruments

All financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost as the case may be. A financial asset is de-recognized when the company loses control of its contractual rights that comprise the financial asset. A financial liability is de-recognized when it is extinguished. Any gain or loss on de-recognition of the financial assets or liabilities is taken to profit and loss account currently. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

a) Trade & Other Payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

b) Trade & Other Receivables

Trade and other receivables are recognized and carried at original invoice amount / cost less an allowance for

any uncollectible amounts. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the reliability of these receivables, appropriate amount of provision is made.

c) Off Setting Of Financial Assets and Financial Liabilities

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

d) Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less subsequent repayments.

3.19 Dividend & Appropriation to reserves

Dividend distribution to the Company's shareholders and appropriation to reserves is recognized in the financial statements in the period in which these are approved.

3.20 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.21 Contingent Liabilities

Contingent liability is disclosed when the Company has a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

3.22 Share Capital

Ordinary shares are classified as equity and recognized at their fair value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction, net of tax, from the proceeds.

4. **SHARE CAPITAL**

Authorized Capital:

Number of Shares	
2012	2011
9,000,000	9,000,000
100,000	100,000

	2012	2011
	(Rupees in '000)	
Ordinary shares of Rs.10/- each	90,000	90,000
7.5% Cumulative redeemable preference shares of Rs. 100/- each	10,000	10,000
	100,000	100,000

Issued, Subscribed and Paid up Capital:

Number of Shares	
2012	2011
3,162,144	3,162,144
2,528,101	2,528,101
5,690,245	5,690,245

Ordinary shares of Rs.10/- each fully paid in cash	31,621	31,621
Ordinary shares of Rs. 10/- each issued as fully paid up bonus shares	25,281	25,281
	56,902	56,902

4.1 State Engineering Corporation (Pvt.) Ltd., an associated company, holds 1,415,723 (2011: 1,415,723) ordinary shares of Rs. 10/- each as at June 30, 2012.

		2012	2011
		(Rupees in '000)	
5. SURPLUS ON REVALUATION OF FIXED ASSETS			
Free hold land	5.1	4,661,546	4,661,546
Building structure on free hold land	5.2	89,835	94,563
Plant and machinery	5.3	130,828	137,714
		<u>4,882,209</u>	<u>4,893,823</u>
5.1 Free Hold Land			
Surplus on revaluation carried out in 1991	5.4	925,530	925,530
Surplus on revaluation carried out in 2001	5.4	645,075	645,075
Surplus on revaluation carried out in 2009	5.4(a)	3,098,300	3,098,300
		<u>4,668,905</u>	<u>4,668,905</u>
Less: Adjustment on account of sale of part of Badami Bagh Works Land in 2001		7,359	7,359
	5.7	<u>4,661,546</u>	<u>4,661,546</u>
5.2 Building Structure on freehold land			
Surplus on revaluation carried out in June 30, 1997	5.5	143,550	143,550
Surplus on revaluation carried out in June 30, 2009	5.5(a)	83,633	83,633
		<u>227,183</u>	<u>227,183</u>
Less:			
Surplus realized on account of incremental depreciation in respect of:			
- Prior years		81,700	74,042
- Current year		4,728	4,978
- Related deferred tax liability		2,546	2,680
	5.8	<u>88,974</u>	<u>81,700</u>
		<u>138,209</u>	<u>145,483</u>
Less:			
Related deferred tax liability in respect of:			
- Balance at the beginning of the year		50,920	53,600
- Incremental depreciation for the year		(2,546)	(2,680)
		<u>48,374</u>	<u>50,920</u>
		<u>89,835</u>	<u>94,563</u>
5.3 Plant and Machinery			
Surplus on revaluation carried out on June 30, 1997	5.6	96,063	96,063
Surplus on revaluation carried out on June 30, 2009	5.5(a)	209,045	209,045
		<u>305,108</u>	<u>305,108</u>
Less: Adjustment on account of sale		41,644	41,644
		<u>263,464</u>	<u>263,464</u>
Less:			
Surplus realized on account of incremental depreciation in respect of:			
- Prior years		51,595	40,444
- Current year		6,886	7,248
- Related deferred tax liability		3,708	3,903
	5.8	<u>62,189</u>	<u>51,595</u>
		<u>201,275</u>	<u>211,869</u>
Less:			
Related deferred tax liability in respect of:			
- Balance at the beginning of the year		74,155	81,817
- Disposal		-	(3,759)
- Incremental depreciation for the year		(3,708)	(3,903)
		<u>(3,708)</u>	<u>(7,662)</u>
		<u>70,447</u>	<u>74,155</u>
		<u>130,828</u>	<u>137,714</u>

5.4 Land of Kot Lakhpat Works was revalued in 1991 and 2001 by M/s NESPAK and M/s Indus Surveyors respectively, resulting in the surplus of Rs. 925.530 million and Rs. 645.075 million respectively.

2012 2011
(Rupees in '000)

- 5.4(a) The land of Kot Lakhpat works was again revalued as at June 30, 2009 by an independent valuer M/s Indus Surveyors (Private) Limited on the basis of average market rate keeping in view the market conditions. The land was revalued at Rs. 4,348 million resulting in surplus of Rs. 3,098.3 million.
- 5.5 Steel structure of Badami Bagh Works (Transferred to Kot Lakhpat works) appearing at Rs. Nil was revalued at Rs. 143.550 million by M/s Indus Surveyors (Private) Limited in 1997 resulting in the surplus of Rs. 143.550 million.
- 5.5(a) Building and Plant & Machinery were again revalued on June 30, 2009 by an independent valuer M/s Indus Surveyor Co. (Pvt) Ltd, on the basis of present depreciated market value for the period of use resulting in surplus of Rs. 83.633 million and Rs.209.045 million respectively.
- 5.6 Plant and machinery of Badami Bagh Works (Transferred to Kot Lakhpat works) was revalued by M/s Indus Surveyors in 1997 at Rs. 126.203 million resulting in the surplus of Rs. 96.063 million.
- 5.7 Net revaluation surplus includes Rs. 313.999 (2011: 313.999 million) relating to land of badami bagh works held for sale. (Ref. note.14)
- 5.8 As required by the Companies Ordinance, 1984, revaluation surplus has been shown in a separate account below equity and the related incremental depreciation charged during the current year on "Plant and Machinery, Building & Steel Structure" has been transferred from the surplus on revaluation of fixed assets to accumulated losses.

6. GOVERNMENT OF PAKISTAN LOANS - SECURED

Privatization commission loan	6.1	481,469	481,469
Government Escrow account	6.2	112,937	112,937
Other Government Loan	6.3	100,000	100,000
Federal Government loan for compulsory separation scheme	6.4	309,000	309,000
Federal Government Bonds	6.5	787,442	787,442
		<u>1,309,379</u>	<u>1,309,379</u>
		<u>1,790,848</u>	<u>1,790,848</u>

These represent funds provided by the Government, bank loan of the company taken over by the Government and amount payable by the company to different Government departments like Customs and Karachi Port Trust. According to the Cabinet Committee Division decision dated 30th May 1994 and 2005 these loans will be settled against the proceeds from disposal of Land held for sale (Refer Note no. 14) and surplus land of Kot Lakhpat. There is no fix repayment schedule or tenure for repayment of these liabilities. An exercise to reconcile the liabilities is in process and several meetings have been conducted in this regard, however, all these meetings concluded without any decision or agreement with respect to the reconciliation of loan liability and calculation, payment or mode of payment of interest on Government of Pakistan loans due to which there is currently no fixed tenure for repayment of these liabilities nor the total amount of the liability is determinable. In the absence of the availability of a defined repayment schedule due to reasons explained above, the fair value of these loans is not determinable and hence they have been stated at cost.

During the year and in past as well Privatization commission and Finance division have claimed additional principal and markup on the above loan liabilities, however, the BoD and the management do not agree with the additional liabilities claimed and the claim of GoP regarding the payment of interest is strongly disputed by the BoD and the management as there had never been any agreement in this regard. Further, the above loans were picked up by the GoP in order to provide public sector enterprises including PECO to give them clean slate on their liabilities so that they could be privatized and were provided without any specific request from these public sector enterprises, including PECO. In addition to the above, similar public sector entities which were provided similar reliefs by the GoP have never been asked to make any payments in respect of such reliefs. However, despite of this the BoD and the management of the Company is willing to repay the principal and in order to reconcile the principal and markup amounts with respect to GoP Loans, a committee was constituted as per the decision of Additional Finance Secretary in the meeting held in Government of Pakistan Finance Division (CF Wing), Islamabad. The committee includes representatives from Ministry of Finance, Ministry of Production, Privatization Commission and Board members from PECO. A meeting of the committee was held on October 7, 2010 at Ministry of Finance (Finance Division) which was attended by representatives of Privatization Commission, Ministry of Production and PECO. The BoD and management of PECO agreed to repay all the outstanding principal, which the company is legally liable through disposal proceeds of Badami Bagh Land and surplus Land of Kot Lakhpat. However, the BoD and the management of the Company believes that they are not liable to pay any interest on these loans in the absence of any agreement. Further, the Finance Division was instructed in the meeting to re-examine the issue and confirm the contention of PECO. Following the meeting held at Finance Division the management of the company obtained fresh legal opinion from legal consultants regarding the matter of charging interest on GoP loans. The legal advisor was of the opinion that no markup / interest was payable by PECO to Ministry of Finance and Privatization Commission and instead believed that a case of causing loss to PECO on account of delay caused in disposing off the land at Badami Bagh should be made out, either by raising monetary claim or claiming set-off against the alleged principal loan liability. The management of the company handed over the title documents of the said land to the Privatization commission for disposal in the year 1994 and had Privatization Commission disposed off the land at that time no issue of interest would have arisen. Further, meetings were held between the representatives of Ministry of Finance, Privatization

2012 2011
(Rupees in '000)

Commission and Ministry of Production and the PECO Loan Committee to reconcile the loan liability. However, these meetings concluded without any decision or agreement with respect to the reconciliation of loan liability and calculation, payment or mode of payment of interest on Government of Pakistan loans. Further, as agreed no SRO, notification, documentation was provided by the Ministry of Finance to substantiate their view point on the issue of levy of markup on Government loans and it was agreed to refer PECO's view points to Ministry of Finance who may refer the matter to Ministry of Law to form their verdict. Further, the principal amount of these loans has been agreed except for additional gratuities and in respect of the amounts disputed, the BoD and the management is of the opinion that an arbitrator should be appointed who should be acceptable to both the parties.

6.1 The break up of loan from Privatization Commission is as follows:

Loan for VSS/CSS and Salaries	281,082	281,082
Loan for shifting of machinery	75,819	75,819
Loan for Energy bills and Import duties	124,568	124,568
	481,469	481,469

- 6.1.1 This represents interest free loan provided by Privatization Commission to PECO for payment of salaries, energy bills, shifting of plant & machinery from Badami Bagh to Kot Lakhpat and payment of outstanding essential liabilities. According to the Cabinet Committee Division decision, Privatization Commission would adjust its loan liability against the sale proceeds of Badami Bagh Land and surplus land of Kot Lakhpat and in this regard title documents of Badami Bagh Land were handed over to the Privatization Commission in 1994 by PECO. During the year, the Privatization Commission has directly confirmed to the auditors total liability of Rs. 1,712.190 million (2011: Rs. 1,646.914 million) which includes principal loan liability of Rs. 612.923 million and markup of Rs. 1,099.267 million. The BoD and the management of the Company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, and there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993. Further, during the years ended June 30, 2004 and June 30, 2005 Privatization Commission confirmed to the auditors the loan liability without charging any markup. The company also obtained legal opinion from the legal advisers of the company. The legal advisers are of the firm opinion that since there is no mention of any markup to be charged on this loan in any agreement nor is there any markup agreement in respect of this loan therefore no markup is payable by PECO in respect of this loan. The BoD and the management firmly believes that as the Company had handed over the title documents of the said land to the Privatization commission for disposal in the year 1994 and had Privatization Commission disposed off the land at that time no issue of charging any interest on these loans would have risen and instead believed that a case of causing loss to PECO on account of delay caused in disposing off the land at Badami Bagh should be made out, either by raising monetary claim or claiming set-off against the alleged principal loan liability. The difference of Rs. 131.454 million claimed by the Privatization Commission on account of additional gratuities is because of misapprehension on part of GoP, whereby, PECO is considered responsible to pay Rs. 131.454 million, that infact was the liability of the Privatization Commission under the APSEWEC agreement. As per the APSEWEC agreement Privatization Commission took the liability to make additional gratuity payments, for which purpose it advanced Rs. 131.454 million to PECO. On receiving the said amounts PECO had made the payments as was directed. It is important to note that PECO was not a party to these agreements, therefore, it cannot be held responsible for fulfilling any obligation pertaining to them. The claim of GoP is based on illegitimate assumption. Furthermore, the legal advisors are also of firm opinion that the amount of additional gratuities of Rs. 131.454 million should be borne by the Privatization Commission. In this regard, in the meeting held on October 7, 2010 at Finance Division, Privatization Commission was instructed by Ministry of Finance to review the calculation / treatment of the loan amounting to Rs. 131.454 million and come up with firm stance on it. The Privatization Commission was further instructed to sort out the issue of charging interest on VSS loan and come up with sound reason and logic for charging interest thereon. Further, the Privatization Commission in its confirmation to the auditors has confirmed that no formal agreements were signed or executed between the Privatization Commission, Ministries and PECO enhanced no definitive terms and conditions exist in relation to the issue of markup and that the Privatization Commission only applied markup and instructed by the finance division.

6.2 The break up of Government Escrow account is as follows:

Customs and other import duties	86,984	86,984
Pakistan Railways freight	12,989	12,989
Karachi Port Trust	12,964	12,964
	112,937	112,937

- 6.2.1 The company has not provided interest amounting to Rs.41.989 million (accumulated Rs.41.989 million) @ 14% for three years relating to customs and other import duties (2011: 41.989 million) as the BoD and the management believes that there was no mention of charging interest or surcharge in the ECC and Cabinet decision. The Finance Division for the first time directly confirmed to the auditors, principal loan liability in respect of custom & other import duties of Rs. 86.984 million and markup / surcharge on the custom duty of Rs.202.624 million vide letter dated January 28, 2011 whereas, in past Finance Division has never provided any such confirmation. During, the year, Finance Division vide its letter dated February 06, 2012 sent direct confirmation for the period ended December 31, 2011 to the auditors in respect of Other Government loans, but did not confirm the liability in respect of customs and other import duties nor did it claim any markup. However, the finance division requested the auditors to confirm the said liabilities from FBR and despite of confirmation request and several reminders no confirmation was received.

	<u>2012</u>	<u>2011</u>
	(Rupees in '000)	
6.3 The break up of Other Government loans as follows:		
Bank loans taken over	<u>100,000</u>	<u>100,000</u>
	<u>100,000</u>	<u>100,000</u>
6.3.1 This represents amount payable on account of the company's bank loans taken over by the Government in the year 1990. During the year, the Finance Division has directly confirmed to the auditors principal loan liability of Rs.100.00 million and markup of Rs. 193.50 million vide its letter dated February 06, 2012 for the period ended December 31, 2011. However, the BoD and the management of the Company do not agree with the markup confirmed by the Finance Division and believes that this loan is free of interest as PECO being a public sector entity was required to take-up only principal amount of the loan in its books. The legal advisers are also of the firm opinion that no markup is payable by PECO in respect of this loan. Furthermore, in the meeting held at Ministry of Finance in October 2010, Finance Division was instructed to re-examine the issue relating to Rs.100.00 million Loan and interest thereof, to confirm the contention of PECO and decision to be conveyed at its earliest.		
6.4 The break up of Federal Government loan for compulsory separation schemes as follows:		
Loan for CSS	<u>309,000</u>	<u>309,000</u>
	<u>309,000</u>	<u>309,000</u>
6.4.1 This represents loan provided by the Federal Government of Pakistan to PECO to pay off the staff through Compulsory Separation Scheme vide letter No. 1(26) CF 111/93 dated 4th March 2002. The Finance Division has directly confirmed to the auditors principal loan liability of Rs.309.00 million and markup of Rs. 303.850 million vide its letter dated February 06, 2012 for the period ended December 31, 2011. The BoD and the management of the company do not agree with the markup confirmed and is of the opinion that markup is not payable on this loan liability in the absence of any agreement for markup. The BoD and the management have taken legal opinion and the legal advisor vide his letter dated September 29, 2012 is also of the opinion that no interest is payable as the letter dated 04th March 2002, referred by the GoP to substantiate claim of payment of interest @ 10% per annum against loan of Rs. 309.00 million in the absence of perusal of relevant decisions / formative documents was misconceived and did not place any payment obligation on PECO. The letter was contrary to the decisions / documents and did not establish any liability to pay interest @ 10% per annum and that any alleged premium in the absence of any agreement is void and unfair. In the absence of a contractual arrangement / agreement no interest can be claimed and in the absence of any agreement the alleged claim of interest tantamount to a penalty, which is construed as penal interest in nature and could not be granted unless loss / damage proved through substantial evidence, which in the instant case will be all more difficult on account of handing over of land of Badami Bagh of PECO for sale/disposal. In view of the above, BoD and the management along with the legal advisor firmly believe that the alleged claim of GoP appears to be misconceived and without any basis and recommend that the aforesaid dispute should be referred to some impartial body for resolution under some ADR mechanism, where claims / encounter claims of the respective parties be examined, considered and decided. Furthermore, in order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee has been constituted as per the decision of Additional Finance Secretary. The management of PECO intends to pay back the Government of Pakistan Loans after the reconciliation of differences as per the records and facts available with the committee representatives. "		
The break up of Federal Government Bonds is as follows:		
6.5 Interest bearing bonds	<u>655,138</u>	<u>655,138</u>
Interest free bonds	<u>132,304</u>	<u>132,304</u>
	<u>787,442</u>	<u>787,442</u>
6.5.1 These bonds were issued by the Federal Government against the liability of the company towards banks / financial institutions taken up by the Federal Government in the light of Federal Cabinet decision and S.R.O No. 823(1)/94 dated August 28, 1994. Against the principal amount interest bearing bonds and against accrued mark up interest free bonds were issued by the Government. The Government is liable to pay interest @ 12.43% per annum to the Banks / DFI regarding the interest bearing bonds. During the year the Finance Division vide its letter dated February 06, 2012 directly confirmed to the auditors total principal loan liability of Rs.787.442 million and interest of Rs.1,618.381 million for the period ended December 31, 2011. However, the BoD and the management of the Company do not agree with the markup confirmed by the Finance Division and is of firm opinion that the Government is liable to pay any interest there on, and that there was no agreement for charging any interest thereon. Furthermore, the legal advisers are also of the firm opinion that no markup is payable by the Company in respect of this loan in the absence of any specific markup agreement.		
7. LONG TERM BORROWINGS - SECURED		
From National Bank of Pakistan -DF II	<u>4,777</u>	<u>6,596</u>
Accumulated amortization / Fair value adjustment	<u>893</u>	<u>(1,819)</u>
	<u>5,670</u>	<u>4,777</u>
Less: Current maturity shown under current liabilities	<u>(5,670)</u>	<u>-</u>
	<u>-</u>	<u>4,777</u>
7.1 The above represents old markup up converted in to long term interest free demand finance loan. It is repayable in		

2012 **2011**
(Rupees in '000)

four equal quarterly installments commencing from September 2012 and repayable by June 2013. These loans are secured by First charge over present and future, current and fixed assets of the company.

- 7.2 As the above loan is interest free, the fair value of this financial liability was determined using prevailing market interest rates for equivalent loan of 17.506%. The loan is being amortized using effective interest of 17.506%. During the year as a result of amortization an amount of Rs. 0.427 million has been charged to profit and loss account.. Fair value was determined using discounting techniques.

8. DEFERRED TAX LIABILITY - Net

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity and when there is an intention to settle the balances on net basis.

The offset amounts are as follows:

Deferred tax liabilities	8.1	150,606	154,362
Deferred tax assets	8.2	(89,279)	(40,654)
Deferred tax liabilities (net)		<u>61,327</u>	<u>113,708</u>

Deferred tax liability and deferred tax asset comprises of taxable / (deductible) temporary differences in respect of the following:

8.1	Deferred tax liabilities in respect of taxable temporary differences:		
	Surplus on Revaluation of fixed assets	118,819	125,075
	Accelerated Tax Depreciation Allowances	31,787	29,287
		<u>150,606</u>	<u>154,362</u>
8.2	Deferred tax assets in respect of deductible temporary differences:		
	Provision for Doubtful Balances	(17,830)	(14,209)
	Provision for Stores & Spares	(3,500)	(3,500)
	Minimum tax available for carry forward	(7,294)	(7,294)
	Unabsorbed Business losses	(60,655)	(15,651)
		<u>(89,279)</u>	<u>(40,654)</u>

9. TRADE & OTHER PAYABLES

	Trader creditors	143,636	237,305
	Accrued Liabilities	18,491	17,701
	Advances	2,723	8,775
	Dealership securities	-	4,588
	Retention and earnest money	-	612
	Gratuity payable	235	206
	Payable to preference shareholders	773	773
	Payable to State Engineering Corporation (Private) Limited (SEC) (an associated undertaking)	821	96
	Excise Duty Payable	-	2,934
	Workers' Profit Participation Fund	38,297	31,883
	Unclaimed Dividend	13,312	13,343
	Others	12,435	13,069
		<u>230,723</u>	<u>331,285</u>

- 9.1 The amount is payable to preference shareholders on account of principal amount due.

- 9.2 Reconciliation of Workers' Profit Participation Fund

	Opening balance	31,883	36,124
	Add: Interest on funds utilized for the company's business	6,414	6,375
	Less: Payments made during the year	-	(10,616)
		<u>38,297</u>	<u>31,883</u>

10. SHORT TERM BORROWINGS - SECURED

From NBP Bank under markup arrangements - Secured:

	Cash Finance	10.1	<u>108,638</u>	<u>108,638</u>
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- 10.1 This is secured against first charge over current and fixed assets of the company. The financing forms part of total credit facility available to the extent of Rs. 250 million. The loan carries markup @ 3 months kibar plus 2% without floor and cap. The Company is in the process of renewing its credit facility with the bank.

2012	2011
(Rupees in '000)	

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

- 11.1.1 Claims not acknowledged as debts in respect of various sub judice cases filed against the company for which the maximum possible liabilities could be approximately Rs. 2.517 million (2011: Rs. 2.517 Million).
- 11.1.2 Guarantees of Rs. 293.091 million (2011: 357.956 million) issued by the banks and insurance companies to different parties on behalf of the company.
- 11.1.3 The Privatization Commission has claimed additional loan liability amounting to Rs. 131.454 million and mark up amounting to Rs. 1,099.267 million (Ref: Note 6.1.1). The management of the company in the minutes of the meeting held on October 7, 2010 at Ministry of Finance to reconcile the principal and mark up amounts with respect to Govt. of Pakistan loans does not agree with the stance of Privatization Commission in respect of additional loan and mark up claimed. Privatization Commission has been instructed by the Ministry of Finance to review the calculation / treatment of a loan amounting Rs. 131.454 million and has been asked to come up with firm stance on the foregoing loan amounting to Rs. 131.454 million. Further, Privatization Commission has been instructed to sort out the issue of charging interest on VSS loan and Privatization Commission has been asked to come up with sound reason and logic for charging interest on the above loan. The legal advisor of the company is also of the firm opinion that since there is no mention of any markup to be charged on this loan nor is there any markup agreement, therefore, no markup is payable by the company in respect of this loan. The management is confident that the ultimate outcome of the matter will result in favor of the company and hence no provision has been made in these financial statements in respect of the additional loan and markup claimed.
- 11.1.4 The Finance Division vide its letters dated January 28, 2011 and February 06, 2012, for the periods ended December 2010 and 2011 respectively has claimed an amount of Rs. 2,318.355 million in respect of markup payable on remaining Government of Pakistan Loans (Ref: Note 6.2.1, 6.3.1, 6.4.1 & 6.5.1). However, the management of the company is of the opinion that no markup is payable in the absence of any agreement for markup. The matter was taken up by the Ministry of Finance, in meeting held on October 7, 2010, to reconcile the principal and Mark up amounts with respect to Govt. of Pakistan loans, which has instructed the Finance Division to re-examine the issue relating to Rs. 100.00 million loan and interest thereof, to confirm the contention of PECO. Decision on this account would be conveyed to company at the earliest. Till the issue of annual accounts no such decision has been received by company. Furthermore, the company has also obtained the opinion from the legal advisor, who is also of opinion that no markup is payable. The management is confident that the ultimate outcome of the matter will result in favor of the company and hence no provision has been made in these financial statements in respect of the markup claimed.
- 11.1.5 The Sui Gas authorities have claimed an amount of Rs.32.512 million. The Company has filed an appeal against the claim and the case is pending in the court of law. The outcome of the matter cannot presently be determined.

11.2 Commitments in respect of:

- 11.2.1 Letters of credit for machinery, raw material and store items amounting to Rs. Nil (2011: Nil).

12. PROPERTY, PLANT & EQUIPMENT

Operating fixed assets	12.1	4,865,129	4,884,234
Capital work in progress - at cost	12.2	19,327	12,971
		4,884,456	4,897,205

12.1 Operating fixed assets

	Building										
	Free hold land	Office building	Factory building-on free hold land	Plant & machinery	Office equipment	Computers	Furniture & Fixtures	Vehicles	Electric Equipment	Tools	Total
----- Rupees in '000 -----											
Net carrying value basis											
Year ended June 30, 2011											
Opening net book value (NBV)	4,348,300	7,589	171,724	318,261	2,402	3,512	5,047	13,323	8,026	1,021	4,879,205
Additions	-	-	1,293	33,119	198	242	65	-	643	67	35,627
Disposals											
Cost	-	-	-	-	(143)	-	-	(2,229)	-	-	(2,372)
Depreciation	-	-	-	-	50	-	-	1,705	-	-	1,755
Written down value	-	-	-	-	(93)	-	-	(524)	-	-	(617)
Depreciation charge	-	(380)	(8,586)	(16,937)	(249)	(364)	(504)	(2,023)	(829)	(108)	(29,980)
Closing net book value (NBV)	4,348,300	7,209	164,431	334,443	2,258	3,390	4,608	10,776	7,840	980	4,884,235
Gross carrying value basis											
At June 30, 2011											
Cost / Revalued amount	4,348,300	8,761	182,055	367,571	7,552	6,798	9,746	20,068	14,459	5,882	4,971,192
Accumulated depreciation	-	(1,552)	(17,624)	(33,128)	(5,294)	(3,408)	(5,138)	(9,292)	(6,619)	(4,902)	(86,957)
Net book value (NBV)	4,348,300	7,209	164,431	334,443	2,258	3,390	4,608	10,776	7,840	980	4,884,235
Net carrying value basis											
Year ended June 30, 2012											
Opening net book value (NBV)	4,348,300	7,209	164,431	334,443	2,258	3,390	4,608	10,776	7,840	980	4,884,235
Additions	-	-	8,381	-	87	110	29	2,046	158	-	10,811
Depreciation charge	-	(360)	(8,430)	(16,722)	(233)	(345)	(463)	(2,472)	(794)	(98)	(29,917)
Closing net book value (NBV)	4,348,300	6,849	164,382	317,721	2,112	3,155	4,174	10,350	7,204	882	4,865,129
Gross carrying value basis											
At June 30, 2012											
Cost / Revalued amount	4,348,300	8,761	190,436	367,571	7,508	6,751	9,775	22,114	14,617	5,882	4,982,003
Accumulated depreciation	-	(1,912)	(26,054)	(49,850)	(5,489)	(3,686)	(5,601)	(11,764)	(7,413)	(5,000)	(116,874)
Net book value (NBV)	4,348,300	6,849	164,382	317,721	2,019	3,065	4,174	10,350	7,204	882	4,865,129
Annual Rate of Depreciation (%)	-	5%	5%	5%	10%	10%	10%	20%	10%	10%	

	<u>2012</u>	<u>2011</u>
	(Rupees in '000)	
12.1.1 Depreciation for the year has been allocated as under:		
Cost of Sales	26,044	26,270
Administrative Expenses	3,873	3,711
	<u>29,917</u>	<u>29,981</u>

12.1.2 Land, Building and Plant & Machinery were last revalued on June 30, 2009 by an independent valuer M/s Indus Surveyor Co. (Pvt) Ltd, on the basis of fair value / depreciated market value for the period of use resulting in surplus of Rs.3,098.3 million, Rs. 83.623 million and Rs.209.046 million respectively.

12.1.3 Land, Building Steel Structure and Plant and Machinery of the company were earlier revalued in the year 1991, 1997 and 2001 the detail of which is given in the note. 5.

12.1.4 The company has the possession and control of the land and holds valid title. The mutation of the freehold land in the land revenue records is in process.

12.1.5 Office Building represents rooms owned in Uni Tower Karachi.

12.1.6 Had there been no revaluation, the written down value of the revalued assets in the balance sheet would have been:

Particulars	Free Hold Land	Factory Building on Free Hold Land	Plant & Machinery	Total
	----- Rupees in '000 -----			
Cost	753	94,831	248,874	344,458
Accumulated Depreciation	-	(61,810)	(132,429)	(194,239)
Wdv as at June 30, 2012	753	33,021	116,445	150,219
Wdv as at June 30, 2011	753	24,586	122,754	148,093

12.2 Capital Work in Progress - at cost		
Civil Works	6,323	6,170
Plant & Machinery	12,903	6,735
Advances to suppliers	101	66
	<u>19,327</u>	<u>12,971</u>

13. LONG TERM DEPOSITS

Long term deposits	2,381	2,381
Less: Provision against doubtful deposits	13.1 1,718	443
	<u>663</u>	<u>1,938</u>

13.1 Movement in provision is as follows:

Opening balance	443	443
Provided for the year	1,275	-
Closing balance	<u>1,718</u>	<u>443</u>

14. LAND HELD FOR SALE

This represents land of 260.495 kanals of Badami Bagh Works which has been closed down. The title documents of the land have been handed over to the Privatization Commission for sale. The sale proceeds of this land will be utilized for re-payment of GoP loans as stated in note.6. The fair value of the land is estimated at Rs. 2,631.5 million (2011: Rs. 2,631.5 million).

Expression of interests have been received by Privatization Commission in this regard from many parties. The company has the possession and control of the land and holds valid title. The mutation of some portion of land in the land revenue records is in process.

15. STORES, SPARES AND LOOSE TOOLS

Stores	27,690	27,386
Spares parts	90,621	97,916
Loose Tools	24,741	24,919
	<u>143,052</u>	<u>150,221</u>
Less: Provision for slow moving stores	(10,000)	(10,000)
	<u>133,052</u>	<u>140,221</u>

		2012	2011
		(Rupees in '000)	
15.1	Stores and spares relating to closed down operations are of Rs. 15.619 million (2011:Rs. 15.619 Million). These have been valued at weighted average cost.		
16. STOCK IN TRADE			
	Raw material	79,345	110,265
	Work in process	179,885	188,769
	Finished goods	137,986	122,742
		<u>397,216</u>	<u>421,776</u>
16.1	Stock in trade relating to closed down operations are of Rs. 2.207 million (2011:Rs. 2.207 million). These have been valued at weighted average cost / cost.		
17. TRADE DEBTS - UN SECURED			
	Associated undertakings	9,333	4,018
	WAPDA, AJK & Telecommunication Companies etc.	177,704	367,515
	Others	46,475	42,886
		<u>233,512</u>	<u>414,419</u>
	Less: Provision for bad and doubtful debts		
	WAPDA	12,677	10,514
	Others	30,535	24,226
		<u>43,212</u>	<u>34,740</u>
		<u>190,300</u>	<u>379,679</u>
17.1	Trade debtors other than those against which provision has been made are considered good by the management.		
17.2	Maximum amount due from associated undertakings at the end of any month was of Rs. 9.333 Million (2011: Rs.4.560). Refer note 32.		
17.3	Trade debtors include an amount of Rs. 7.617 million (2011: Rs. 7.617 million) receivable from M/s Metropolitan Steel Corporation Limited against which the company has filed suit for execution of Court decision in favor of the Company.		
17.4	Movement in provision is as follows:		
	Opening balance	34,740	35,112
	Less: Recovery of bad debts / adjustments	-	372
	Add: Provision for doubtful debts	8,472	-
	Closing Balance	<u>43,212</u>	<u>34,740</u>
17.5	The ageing analysis of these trade debts is as follows:		
		June 30, 2012	June 30, 2011
		Gross	Impairment
		Gross	Impairment
	The ageing of trade debts at the reporting date was:		
	Not yet due	71,946	-
	Past due 1-30 days	45,428	-
	Past due 31-60 days	-	-
	Past due 61-90 days	1,496	-
	Over 90 days	114,642	43,212
		<u>233,512</u>	<u>43,212</u>
		414,419	34,740
		<u>414,419</u>	<u>34,740</u>
18. ADVANCES - Considered Good			
	Advances to:		
	- Employees - Secured	460	349
	- Suppliers	4,778	13,017
		<u>5,238</u>	<u>13,366</u>
18.1	Advances other than those against which provision has been made are considered good by the management.		
18.2	Suppliers		
	Suppliers as at closing date	7,602	15,841
	Less: Provision for doubtful balances	2,824	2,824
		<u>4,778</u>	<u>13,017</u>

		2012	2011
		(Rupees in '000)	
19.1 TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
	Trade deposits - Considered good	19.1 7,562	2,805
	Letter of credits	-	28,281
	Margin against bank guarantee - Considered good	19.2 21,950	26,299
	Short term prepayments & other receivables	2,213	3,048
	Sales tax refundable	7,829	324
		<u>39,554</u>	<u>60,757</u>
19.1	Balance as on Closing date	<u>10,694</u>	5,337
	Less: Provision against doubtful balances	19.1.1 3,132	2,532
		<u>7,562</u>	<u>2,805</u>
19.1.1	Movement in provision is as follows:		
	Opening balance	2,532	2,532
	Add: Provision for doubtful balances	600	-
	Closing Balance	<u>3,132</u>	<u>2,532</u>
19.2	Balance as on Closing date	<u>22,011</u>	26,360
	Less: Provision against doubtful balances	61	61
		<u>21,950</u>	<u>26,299</u>
20. CASH AND BANK BALANCES			
	Cash in hand	850	3,764
	Cash with banks:		
	- Current accounts	55,597	30,339
	- Deposit accounts	20.1 1,790	23,980
	- Escrow account	20.2 254	252
		<u>57,641</u>	<u>54,571</u>
		<u>58,491</u>	<u>58,335</u>
20.1	The company is maintaining saving account with different banks with interest on the daily product basis which was charged @ 6% to 9.5 %. (2011 : 6% to 9%).		
20.2	This represents unutilized credit facility on NBP finances relating to ADP-19 and ADP-46 Projects, which shall be adjusted against loan liability.		
21. SALES - Net			
	Sales - Local	603,592	819,305
	Less: Sales tax	80,719	97,040
	Excise duty	-	10,088
		<u>522,873</u>	<u>712,177</u>
22. COST OF SALES			
	Raw material consumed	22.1 440,158	592,726
	Stores and spares consumed	52,725	79,672
	Salaries and wages (including all benefits)	22.2 47,937	70,662
	Fuel and power	25,391	42,436
	Traveling & conveyance	250	377
	Postage, telegram & telephone	316	354
	Printing, stationery and office Supplies	506	838
	Inspection fee	1,148	1,167
	Service charges	132	937
	Rent, rates and taxes	790	793
	Repair and maintenance	1,500	2,456
	Insurance	438	621
	Vehicle running expenses	1,925	1,579
	Other expenses	601	547
	Depreciation	12.1.1 26,044	26,270
		<u>159,703</u>	<u>228,709</u>
		<u>599,861</u>	<u>821,435</u>
	Opening stock of work-in-process	185,632	131,332
	Closing stock of work-in-process	(177,280)	(185,632)
		8,352	(54,300)
	Cost of goods manufactured	<u>608,213</u>	<u>767,135</u>
	Opening stock of finished goods	119,552	32,726
	Closing stock of finished goods	(134,351)	(119,552)
		<u>(14,799)</u>	<u>(86,826)</u>
		<u>593,414</u>	<u>680,309</u>

	2012	2011
	(Rupees in '000)	
22.1 Raw material consumed		
Opening stock	110,265	133,368
Add: purchases	409,238	569,623
	<u>519,503</u>	<u>702,991</u>
Less: closing stock	79,345	110,265
	<u>440,158</u>	<u>592,726</u>
22.1.1		
22.1.1 This includes galvanization from third parties amounting to Rs. 3.910 million (2011: Rs. 1.754 million)		
22.2 This includes amount paid to contractor for wages of workers on contract.		
23. SELLING AND DISTRIBUTION EXPENSES		
Salaries and wages (including all benefits)	2,125	3,503
Traveling and conveyance	321	346
Entertainment	58	229
Repair and maintenance	79	104
Postage, telegrams and telephone	60	153
Printing, stationery and office supplies	116	110
Rent, rates and taxes	171	1,180
Publishing of tender and sales promotion	379	3,139
Service charges	383	1,820
Miscellaneous	319	876
	<u>4,011</u>	<u>11,460</u>
24. FREIGHT AND FORWARDING EXPENSES		
Freight and forwarding expenses	8,503	12,955
25. ADMINISTRATIVE EXPENSES		
Salaries, wages and benefits	19,377	24,681
Provident fund	33	52
Gratuity	32	255
Traveling and conveyance	2,668	2,175
Entertainment	558	455
Legal and professional	2,205	1,913
Rent, rates, and taxes	1,030	1,389
Fuel, gas and electricity	1,327	1,824
Repair and maintenance	1,289	489
Postage, telegrams and telephone	415	675
Printing, stationery and office supplies	1,830	1,576
Advertisement	775	478
Training	14	19
Insurance	468	603
Donations	500	1,500
25.1 Vehicle running expenses	2,919	2,784
Miscellaneous	5,304	2,601
12.1.1 Depreciation	3,873	3,711
	<u>44,617</u>	<u>47,180</u>
25.1 Donation of Rs.0.500 million was paid to State Engineering Corporation for onwards submission to "Prime Minister's Flood Relief Fund - 2010" as per Government of Pakistan's circular No. 137/15/2010-ERC(AC) dated 6th august, 2010 for relief/assistance of the flood victims. The directors and their spouse have no interest in the Donee's Fund. (2011: 1.500 million).		
26. OTHER OPERATING CHARGES		
Auditors' remuneration	26.1 747	734
Provision for doubtful balances	10,347	-
Miscellaneous charges	-	134
Termination benefits	-	8,092
Obsolete chemical written off	1,377	-
	<u>12,471</u>	<u>8,960</u>
26.1 Auditors' remuneration		
Audit fee	500	500
Half yearly review fee	65	65
Review of compliance with code of corporate governance	25	25
Tax consultancy charges	157	144
	<u>747</u>	<u>734</u>

	2012	2011
	(Rupees in '000)	
27. FINANCE COSTS		
Mark - up on short term borrowings	15,948	4,998
Amortization expense	893	-
Interest on workers' profit participation fund	6,414	6,375
Bank charges and commission	2,493	6,167
	25,748	17,540
27.1 Bank guarantee commission paid by the company is charged over the period of contract.		
28. OTHER OPERATING INCOME		
Income from Financial Assets		
Interest / profit		
-On deposits with banks	4,085	1,294
Gain from Financial Liabilities		
Gain on measurement of financial liability at fair value	-	1,819
Income from Non - Financial Assets		
Miscellaneous income	4,396	4,811
Balances written back	5,204	-
Gain on sale of property, plant & equipment	-	388
	9,600	5,199
	13,685	8,312
29. TAXATION		
Current		
for the year	(239)	(7,896)
for prior years	151	-
Deferred		
for the year	52,381	26,636
	52,293	18,740

29.1 The current tax provision represents the final tax under Section 15 of Income Tax Ordinance, 2001. Further, due to gross loss the Company has not provided provision for minimum tax under section 113. As a result reconciliation of tax charge for the year is not required.

29.2 Company's income tax assessment has been finalized upto 2011.

30. DISCONTINUED OPERATIONS

The Company in past had closed down its all divisions, except Structure (STR) division, and had terminated its employees through compulsory separation scheme. In this regard Badami Bagh works was completely discontinued and the title documents of the land were handed over to the Privatization Commission for sale. Furthermore, the relevant machinery was transferred over to Kot Lakhpat and was classified as Held for sale. Taking into consideration, the successful operation of the Structure Division (STR) of the company and demand of pumps and motors, the Board of Directors decided to bring into operation Pumps, Electric Motor, Foundry and Rolling Mills division of the company. However the Bicycle, Machine Tool and Power Loom divisions still remain discontinued.

Analysis of Profit for the year from discontinued operations

The combined results of the discontinued operations (i.e. bicycle division, power loom and machine tool etc.) included in the profit and loss accounts are set out below.

Income	30.1	87	17,222
Less: Cost of sales			
Opening inventory		6,327	10,139
Consumption		-	7,484
Closing inventory		(6,240)	(6,327)
		87	11,296
Net income		-	5,926
Gain on disposal of assets held for sale		-	2,827
Profit before tax from discontinued operations		-	8,753
Taxation		-	(172)
Profit after tax from discontinued operations		-	8,581
Net Cash inflows from operating activities		-	5,926
Net Cash inflows from Investing activities		-	23,383
Net Cash inflows		-	29,309

	2012	2011
	(Rupees in '000)	
30.1 This represents bicycles given to employees on installments at cost.		
31. BASIC AND DILUTED (LOSS) PER SHARE		
Continuing and discontinued operations - Basic		
(Loss) after taxation (rupees in '000)	(99,913)	(30,594)
Weighted average number of Ordinary shares (No. in '000) outstanding during the year	5,690	5,690
(Loss) per share (rupees)	(17.56)	(5.38)
Continuing operations - Basic		
(Loss) after taxation (rupees in '000)	(99,913)	(35,985)
Weighted average number of Ordinary shares (No. in '000) outstanding during the year	5,690	5,690
(Loss) per share (rupees)	(17.56)	(6.32)
There is no dilutive effect on the basic (loss) per share of the company.		
31-A CASH GENERATED FROM OPERATIONS		
(Loss) before taxation	(152,206)	(49,162)
Adjustments for:		
Depreciation	29,917	29,981
Financial charges	18,441	11,165
Interest on workers' profit participation fund	6,414	6,375
Provision for gratuity	32	255
Provision for doubtful balances	10,347	-
Obsolete chemical written off	1,377	3,485
Balances written back	(5,204)	-
Gain on measurement of financial liability at fair value	-	(1,819)
Amortization expense	893	-
Gain on sale of property, plant & equipment	-	(388)
Gain on sale of assets held-for-sale	-	(2,827)
	62,217	46,227
(Loss) before working capital changes	(89,989)	(2,935)
Movements in working capital		
Decrease (Increase) in current assets:		
Stores, spares and loose tools	7,169	(2,727)
Stock in trade	23,179	(114,211)
Trade debts	180,907	(81,378)
Advances	8,128	(912)
Trade deposits, prepayments and other receivables	20,603	14,157
Increase / (decrease) in current liabilities:		
Trade & other payables	(101,769)	177,897
	138,217	(7,174)
Cash generated / (used in) from operations	48,228	(10,109)
32. TRANSACTIONS WITH RELATED PARTIES		
Transactions with related parties/associated undertakings, other than remuneration and benefits to key management personnel under the terms of their employment (Ref. note.37) are as under:		
State Engineering Corporation (Pvt) Limited (SEC)		
- Outstanding SEC service charges paid	1,000	2,070
- Service charges payable to SEC	600	99
- SEC pension fund trust - payments made during the year	-	49
- Reimbursement expenses payable	221	-
- Reimbursement of expenses	483	76
Pakistan Machine Tool Factory		
- Sale made during the year	5,315	6,266
- Receivable at the end of the year	9,333	4,018
32.1		
Heavy Mechanical Complex Taxila		
- Advance outstanding	-	183

- 32.1 Maximum amount due from the associated undertakings at the end of any month was of Rs. 9.333 Million (2011: Rs.4.560 Million).
- 32.2 All related party transactions are in accordance with accounting policy and are approved and recommended by the audit committee and subsequently approved by the board of directors. None of the directors had any interest in any transaction.

33. DISCONTINUED OPERATIONS

- 33.1 All divisions of the company, such as Structure Division (STR), Machine Tool, Power Loom, Pumps, Electric Motor, Bicycle, Furnace and Rolling Mill had earlier been closed down during the period 2000 to 2003, as per the instructions of the Government. The Plant and Machinery of two divisions, Machine tool and Power Loom, had been transferred to "Assets held for sale" in the year 2001, and the management had no intention to sell the Plant and machinery of remaining divisions of the company. However, taking into consideration, the successful operation of the Structure Division (STR) of the company and demand of pumps and motors, the Board of Directors decided to bring into operation Pumps, Electric Motor, Foundry and Rolling Mills division of the company. This decision helped to improve the efficiency of the Structure Division (STR) and contributed towards the revenue generation of the company.
- 33.2 The carrying amount of assets of discontinued operations is disclosed in note no. 14 and its related revaluation surplus is disclosed in note no. 5.7 of the financial statements.
- 33.3 The carrying amount of stores, spares and loose tools and stock in trade is stated in note no. 15 and 16, respectively. Further results from discontinued operations which have material effect have been disclosed in Note. 30.

34. SEGMENT INFORMATION

Owing to the significant transfer of material at various stages of manufacturing between different units, the costing system does not permit a realistic separation of working results of the units and the items produced, accordingly, segment information can not be prepared. During the current year Structure (STR) Division of the company remained in operation and the operational results of the other divisions i.e. pumps, electric motor and rolling mills do not meet the minimum threshold. The financial information has been prepared on the basis of single reportable segment i.e. "Manufacturing".

35. FINANCIAL RISK MANAGEMENT

35.1 Risk management framework

The Company's activities expose it to a variety of financial risks. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

35.2 Financial assets and liabilities by category and their respective maturities

	June 30, 2012		June 30, 2011	
	Maturity up to one year	Maturity After one year	Maturity up to one year	Maturity After one year
----- Rupees in '000 -----				
Long term security deposits - net of impairment	-	663	-	1,938
Trade debts - net of impairment	190,300	-	379,679	-
Advances	460	-	349	-
Trade deposits, prepayments & other receivables	29,512	-	29,104	-
Cash & bank balances	58,491	-	58,335	-
Total	278,763	663	467,467	1,938

	June 30, 2012		June 30, 2011	
	Maturity up to one year	Maturity After one year	Maturity up to one year	Maturity After one year
----- Rupees in '000 -----				
FINANCIAL LIABILITIES				
Government of Pakistan loans	-	1,790,848	-	1,790,848
Long term borrowings	5,670	-	-	4,777
Short term borrowings	108,638	-	108,638	-
Trade & other payables	189,703	-	287,693	-
Mark-up accrued- on short term borrowing	3,757	-	3,101	-
Total	307,768	1,790,848	399,432	1,795,625
On balance sheet date gap	(29,005)	(1,790,185)	68,035	(1,793,687)
OFF - BALANCE SHEET ITEMS				
Letter of guarantees		293,091		357,956

35.3 Fair Values

The carrying values of the financial assets and financial liabilities approximate their fair values except for Government of Pakistan loans as disclosed in note. 6 to the financial statements. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If the transaction is not based on market terms, or if a market price cannot be readily determined, then an estimate of future cash payments or receipts, discounted using the current market interest rate for a similar financial instrument, is used to approximate the fair value.

35.4 Financial Risk Factors

The Company has exposures to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

35.4.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from long term security deposits, loans and advances to employees, deposits, trade debts, other receivables and bank balances.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage exposure to credit risk in respect of trade receivables, management reviews credit worthiness, references, establish purchase limits taking into account the customer's financial position, past experience and other factors.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date was:

	2012	2011
	(Rupees in '000)	
Long term security deposits - net of impairment	663	1,938
Trade debts - net of impairment	190,300	379,679
Advances	460	349
Trade deposits, prepayments & other receivables	29,512	29,104
Bank balances	57,641	54,571
	278,576	465,641

The Company's most significant amount receivable is from WAPDA which is included in total carrying amount of trade debts as at reporting date.

For trade debts, internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Aging of trade debts is regularly reviewed by the Board's Receivables Committee and necessary actions are taken in respect of overdue balances. The company assesses the credit quality of the counter parties as satisfactory. Bank balances are held only with reputable banks with high quality credit ratings. Loans and advances to employees are not exposed to any material credit risk since these are secured against their salaries. Geographically there is no concentration of credit risk. The maximum exposure to credit risk for trade debts at the reporting date are with customers within the country.

	June 30, 2012		June 30, 2011	
	Gross	Impairment	Gross	Impairment
The aging of trade debts at the reporting date was:				
Not yet due	71,946	-	252,878	-
Past due 1-30 days	45,428	-	22,645	-
Past due 31-60 days	-	-	4,145	-
Past due 61-90 days	1,496	-	5,658	-
Over 90 days	114,642	43,212	129,093	34,740
	233,512	43,212	414,419	34,740

Based on past experience the management believes that no further impairment allowance is necessary as there are reasonable grounds to believe that the amounts will be recovered in short course of time.

35.4.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

Following is the maturity analysis of financial liabilities:

Non - derivative financial liabilities

	Up to 1 year	1 to 5 years	Total
Government of Pakistan loans	-	1,790,848	1,790,848
Long term borrowings	5,670	-	5,670
Short term borrowings	108,638	-	108,638
Trade & other payables	189,703	-	189,703
Mark-up accrued- on short term borrowing	3,757	-	3,757
June 30, 2012	307,768	1,790,848	2,098,616

Non - derivative financial liabilities

	Up to 1 year	1 to 5 years	Total
Government of Pakistan Loans	-	1,790,848	1,790,848
Long term borrowings	-	4,777	4,777
Short term borrowings	108,638	-	108,638
Trade & other payables	287,693	287,693	575,386
Mark-up accrued- on short term borrowing	3,101	-	3,101
June 30, 2011	399,432	1,795,625	2,195,057

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effectively as at June 30, 2012. The rates of mark-up have been disclosed in note 10 to the financial statements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

35.4.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Company is exposed to interest rate and currency risks.

a) Currency Risk

Currency Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is not significantly expose to currency risk as the company does not maintain bank accounts in foreign currencies.

b) Interest Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and entering into interest rate swap contracts.

The company's interest rate risk arises from short term cash finance facility. The company analyzes its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into accounts various other financing options available.

As at June 30, 2012, if interest rates on company's bank borrowings had been 1% higher / lower the markup expenses would have been higher / lower by 1.090 million (2011: Rs. 0.518 million).

36. CAPITAL RISK MANAGEMENT

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

- (i) "to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, the Company's ability to continue as going concern is disclosed in note 2.1 to the financial statements, and"
- (ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

	2012	2011
	(Rupees in '000)	
The gearing ratio as at June 30, is as follows:		
Debt	1,905,156	1,904,263
Equity	(1,067,246)	(978,947)
Total equity and debt	837,910	925,316
Gearing Ratio	<u>227.370%</u>	<u>205.796%</u>

37. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements in respect of remuneration including benefits applicable to the chief executive, directors and executives of the Company are given below.

	2012			2011		
	Chief Executive	Director	Executives	Chief Executive	Director	Executives
	----- Rupees in '000 -----					
Remuneration	2,072	1,710	5,108	2,402	2,076	8,127
Reimbursable expenses	98	-	-	529	-	-
Perquisites	-	445	426	-	522	-
	<u>2,170</u>	<u>2,155</u>	<u>5,534</u>	<u>2,931</u>	<u>2,598</u>	<u>8,127</u>
Number of persons	1	1	7	1	1	5

37.1 Chief executive remuneration represents remuneration of three chief executives changed during the year.

37.2 Aggregate amount charged in the accounts for 8 directors for Meeting fees were Rs. 0.0575 million and reimbursable expenses were Rs. 2.762 million (2011 : Rs.1.650 million) for meetings of Board of Directors and sub committees of Board of Directors.

37.3 The Chief Executive and one Executive Director is entitled for company maintained car.

38. AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements have been authorized for issue on September 29, 2012 by the Board of Directors of the company.

39. PLANT CAPACITY AND ACTUAL PRODUCTION

	U/M	Capacity		Actual Production	
		Installed	Assessed	2012	2011
Pumps / turbines	No.	3,400	4,000	112	414
Electric motors	No.	16,500	6,500	136	556
Rolled material	Tons	80,000	30,000	-	190
Foundry	Tons	4,000	4,800	84	228
Steel fabrications (STR)	Tons	20,000	30,000	4,336	7,669
Concrete Mixture	No.	350	350	-	-

39.1 The main reason for production below capacity is due to decrease in orders, increased cost of production and electricity crisis.

	2012	2011
	(Rupees in '000)	
40. NUMBER OF EMPLOYEES		
Total number of employees as at June 30, 2012 were;		
Contractual employees	61	79
Labor contractor	333	465
	394	544

41. CORRESPONDING FIGURES

Corresponding figures have been classified / re-arranged for the purpose of comparison and better presentation.

<u>Reclassification from Component</u>	<u>Reclassification to Component</u>	Rupees '000
Furniture & fixtures	Office equipment	
- Office equipment	- Office equipment	2,258
Furniture & fixtures	Computers	
- Computers	- Computers	3,390
Furniture & fixtures	Electric equipments	
- Air conditioners	- Air conditioners	1,822
Cost of sales	Cost of sales	
- Processing changes	- Raw material consumed	1,754
Cost of sales - continuing	Cost of sales - discontinuing	
- Closing stock of Finished goods	- Closing stock	3,190

42. GENERAL

42.1 Figures have been rounded off to the nearest thousand rupee.

Babar Hassan Bharwana
(Chief Executive)

Mohammad Iqbal
(Director)

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2012

Shareholders			Incorporation No. 0000348
	From	To	Total Shares
1,479	1	100	42,490
578	101	500	134,789
153	501	1,000	106,394
106	1,001	5,000	204,249
23	5,001	10,000	159,325
3	10,001	15,000	36,135
5	15,001	20,000	94,400
3	25,001	30,000	83,707
1	30,001	35,000	32,345
2	35,001	40,000	80,000
2	40,001	45,000	85,621
1	55,001	60,000	57,070
1	60,001	65,000	64,647
1	70,001	75,000	74,566
1	80,001	85,000	80,200
1	125,001	130,000	128,790
1	135,001	140,000	135,240
1	145,000	150,000	145,500
1	165,001	170,000	165,254
1	450,001	455,000	452,700
1	505,001	510,000	510,000
1	1,400,001	1,405,000	1,401,100
1	1,415,001	1,420,000	1,415,723
2,367			5,690,245

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive Officers, their spouse and minor children	8,727	0.15%
Executives	15	0.00%
Associated Companies, Undertakings & Related Parties	1,415,723	24.88%
ICP (including IDBP)	131,330	2.31%
Banks, Development Finance Institutions & Non Banking Financial Institutions	140,606	2.47%
Insurance Companies	229,030	4.02%
Public Sector Companies & Corporations	-	-
Joint Stock Companies	660,074	11.60%
Share holders holding 5% or more of total capital	3,779,523	66.42%
General Public		
a. Local	1,650,696	29.01%
b. Foreign	3,363	0.06%
Others:		
Investment Companies	6,550	0.12%
Private Limited Companies	1,401,100	24.62%
Cooperative Societies	6,145	0.11%
Trusts	30,414	0.53%
Associations	132	0.00%
Abandoned Properties Organization	5,754	0.10%
Government Authority	1	0.00%

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2012

ADDITIONAL INFORMATIONS

	<u>% Age</u>	<u>Shares Held</u>
ASSOCIATED COMPANIES, UNDERTAKINGS & RELATED PARTIES		
State Engineering Corporation Ltd.	24.88	1,415,723
INVESTMENT CORPORATION OF PAKISTAN (ICP)		
	2.31	131,330
DIRECTORS, CEO THEIR SPOUSES & MINOR CHILDREN		
Mrs. Rukhsana Saleem		Govt. Nominee
Mr. Babar Hassan Bharwana		Govt. Nominee
Mr. Abdul Jabbar Ali		Govt. Nominee
Mr. Muhammad Arif Habib	0.02	1,000
Mr. Liaqat Mohammad	0.07	3,700
Mr. Rashid Ali Khan	0.02	1,000
Mr. Muhammad Iqbal	0.02	1,027
Mirza Mahmood Ahmad	0.02	1,000
Mr. Muhammad Iqbal Awan	0.02	1,000
PUBLIC SECTOR COMPANIES AND CORPORATIONS		
		Nil
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARBAS & MUTUAL FUNDS		
National Bank of Pakistan - Trustees Department	2.38	135,292
M/s Habib Bank Limited	0.00	25
M/s United Bank Limited	0.09	5,259
M/s Bank of Bahawalpur Ltd	0.00	30
IDBP (ICP Units)	2.26	128,790
M/s Pakistan Insurance Corporation	0.77	43,776
State Life Insurance Corporation Ltd	2.90	165,254
M/s Gulf Insurance Co. Ltd	0.35	20,000
SHARES HELD BY THE GENERAL PUBLIC		
	29.01	1,650,696
SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL CAPITAL		
State Engineering Corporation Ltd	24.88	1,415,723
Rotocast Engineering Company (Pvt) Limited	24.62	1,401,100
Mr. Ahmad Masood Khan	8.96	510,000
Maha Securities Pvt. Ltd.	7.96	452,700
Holding of CDC	61.57	3,503,400

During the financial year the trading in shares of the Company by the Directors, CEO, CFO, Company Secretary and their spouses and minor children was NIL.



FORM OF PROXY

The Company Secretary,
Pakistan Engineering Company Limited,
6-Ganga Ram Trust Building,
Shahra-e-Quaid-e-Azam,
LAHORE

I/We _____ of _____

_____ being a member (s) of Pakistan Engineering Company Ltd. and

holder of _____ ordinary shares as per Share Register Folio No. _____

(in case of Central Depository System Account Holder A/c No. _____)

hereby appoint Mr./ Ms. _____ of _____

(or failing him / her) Mr./Ms. _____ of _____

as a proxy of vote on my / our behalf at the Annual General Meeting of the Company to be held

on Thursday, October 25, 2012 at 10:30 a.m. at Hotel Ambassador, 7- Davis Road, Lahore.

Signed this _____ day of _____ 2012.

WITNESS

Signature _____

Name _____

Address _____

Signature

Please affix
Rupees five
Revenue Stamp

Note:

1. A member entitled to attend and vote at the meeting may appoint any other person as his / her proxy to attend and vote instead of him / her. A Corporation being a member of the Company may appoint as its proxy any person authorized by the Directors of Corporation.
2. Proxies in order to be valid must be received at the company's Registered Office not less than 48 hours before the meeting duly stamped, signed and witnessed.
3. In case of Central Depository System Account Holder, an attested copy of identity card should be attached to this Proxy Form.



PAKISTAN ENGINEERING COMPANY LIMITED

MINUTES OF THE 26TH EXTRA ORDINARY GENERAL MEETING OF
PAKISTAN ENGINEERING COMPANY LIMITED HELD ON
SATURDAY, MARCH 31, 2012 AT 11:00 AM
AT HOTEL AMBASSADOR, LAHORE

Mr. Muhammad Iqbal, Director, was elected by the shareholders, to act as Chairman for the meeting. The meeting commenced with recitation of the Holy Quran by Mian Suhail Mahmood.

The Company Secretary, Mian Anwar Aziz welcomed the shareholders and introduced Mr. Muhammad Iqbal and Mr. Liaqat Mohammad, Directors of the Company, present in the meeting.

Agenda items were taken up as under:

AGENDA ITEMS

1. To confirm the minutes of 62nd Annual General Meeting held on October 31, 2011.

2. To elect six (6) Directors as fixed by the Board of Directors of the company, representing Share holders in accordance with Section 178 of the Companies Ordinance 1984, for a period of three years in place of the following retiring Directors:

1. Mr. Muhammad Arif Habib
2. Mr. Liaqat Mohammad
3. Mr. Rashid Ali Khan
4. Mr. Mohammad Shabir Malik
5. Mr. Muhammad Iqbal
6. Mirza Mahmood Ahmad

MINUTES

The Minutes of Annual General Meeting held on October 31, 2011 were circulated with the Notice of 26th Extra Ordinary General Meeting to all the shareholders.

The minutes were unanimously confirmed and signed by the Chairman.

The Company Secretary informed the shareholders that the Company has received nominations from the following six persons of their intentions to offer themselves for election as Directors of the Company at this Extra Ordinary General Meeting of the Shareholders.

1. Mr. Muhammad Arif Habib
2. Mr. Liaqat Mohammad
3. Mr. Rashid Ali Khan
4. Mr. Mohammad Iqbal Awan
5. Mr. Muhammad Iqbal
6. Mirza Mahmood Ahmad

Since the number of persons who offered themselves to be elected as Director of the Company was not more than the number of Directors fixed for election, the above named six candidates are considered to be elected as directors of the Company.

The shareholders unanimously approved the election of above named six persons as Directors of the Company for next term of three years.

There being no other item on the Agenda the meeting was concluded with a vote of thanks to the Chair.

MINUTES CONFIRMED

CHAIRMAN

PAKISTAN ENGINEERING COMPANY LIMITED

YEAR ENDING JUNE 30, 2012

Abstract Under Section 218 of the Companies Ordinance, 1984

In terms of Section 218 of the Companies Ordinance, 1984 the Board of Directors of the Company in their meetings held on September 27, 2011, April 19, 2012, May 11, 2012 and June 28, 2012, have passed the following resolutions in respect of appointment of Chief Executives and to amend the existing terms of appointment of Executive Director and Company Secretary;

“RESOLVED that the Board hereby approves and authorizes the holding of office of profit and payment as remuneration, not exceeding Rs. 2.70 million per annum inclusive of perquisites and benefits but exclusive of terminal benefits and medical expenses for self and dependents. The above remuneration shall be subject to such increases, adjustments and restricting within the approved limit including bonuses/profit share as may be granted at any time and from time to time by the Company in accordance with the Company’s policy and terms of their appointment to:”

- a) Brig. (R) Balal Ahmed Khan (w.e.f. July 20, 2011)
- b) Mr. Babar Hassan Bharwana (w.e.f. April 28, 2012)

“RESOLVED that the above Chief Executives be and are hereby authorized for free use of Company maintained transport for official and private use.”

“RESOVLED that the Board hereby approves the resignation of Mr. Liaqat Mohammad from Executive Directorship with effect from March 31, 2012.”

“RESOLVED that the Board hereby approves and authorizes the increase of remuneration of Company Secretary, Mian Anwar Aziz, w.e.f. April 01.2012. The revised salary inclusive of perquisites and benefits shall not exceed Rs. 1.65 million per annum. The above remuneration shall be subject to such increases, adjustments and restructuring within the approved limit including bonuses/profit share as may be granted at any time and from time to time by the Company in accordance with the Company’s policy and terms of his appointment.”

No director has any interest in the above appointments or variations in contracts.

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