PAK ELEKTRON LIMITED
ANNUAL REPORT 2003

BOARD OF DIRECTORS

Mr. M. Naseem Saigol	(Chairman/Chief Executive)
Mr. M. Azam Saigol	
Mr. Shahid Sethi	
Mr. Haroon Ahmad Khan	(Managing Director)
Mr. Muhammad Murad Saigol	
Mr. Homaeer Waheed	
Mr. Asif Jameel	(NIT Nominee)
Mr. Javed Mahmood	(NBP Nominee U/S 182 of the Ordinance)
Mr. Wajahat A. Baqi	(NBP Nominee U/S 182 of the Ordinance)
Mr. Tajammmal H. Bokharee	(NBP Nominee U/S 182 of the Ordinance)

AUDIT COMMITTEE

Mr. M. Azam Saigol	(Chairman/Member)
Mr. Shahid Sethi	(Member)
Mr. Homaeer Waheed	(Member)

COMPANY SECRETARY
Sheikh Muhammad Shakeel, ACA

CHIEF FINANCIAL OFFICER
Syed Manzar Hasan, ACA

AUDITORS
M/s Manzoor Hussain Mir & Co.
Chartered Accountants

BANKERS (in alphabetical order)
Bank of Punjab
Faysal Bank Limited
National Bank of Pakistan
Saudi Pak Commercial Bank
Union Bank Limited
United Bank Limited

REGISTERED OFFICE
6-Egerton Road, Lahore.
Tel: 63061 31 (5 Lines)
Fax: 6368699
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WORKS
14 K.M. Ferozepur Road,
Lahore.
Tel: 581 1951 (7 Lines)

the success of the Crystal Refrigerator with Aero design and performance certification by Danfoss Germany, the improved series with the name of Crystal Star was very well received by the market. This new series is expected to bring new heights in prodution volumes. Although competition from imported products, especially from China is growing and pressure on prices and margins is also increasing, we are confident to combat .these challenges by continuous efforts on product innovation and development, bringing efficiencies in production procedures, continuous cost optimization exercises, etc, coupled with aggressive marketing strategies.

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The sale of airconditioners is passing through a new experience. The market is dominated with split airconditioners as against windows in the past. However PEL Window airconditioners still enjoy good reputation in the market despite pressure on the prices. As part of product diversification strategy and to address the changing market needs, PEL split air conditioners with already proven Energy Saver characteristics were very soon. The demand of appliances especially refrigerators which is growing at a rapid pace and is augmented mainly by the increased role of consumer financing through the financial institutions and the conventional hire purchase schemes by the retailers. For this purpose we have recently set up a consumer marketing division attracting the customers from corporations and large public sector companies.

PEL Daewoo Electronnics Ltd.

In order to make this unit a profitable entity, negotiation with different parties are in the pipe line and we are hopeful to have agreements with various distributors of television sets whereby television kits are procured by us under the financing arrangements made by the respective distributors. Under these arrangements television kits are assembled into finished Television sets and conversion price is charged for the television sets assembled by us.

Merger with PEL Appliances Limited

The Board is pleased to report that the

aggressively and yet cautiously launched during the year. This was very well received and is expected to become a major player in split airconditioners market in the ensuing year. A further improved and cost effective version of Window type Energy Saver will complement the Splits to cater for entire market requirements enabling the company to achieve maximum volumes.

Diversification strategy of the company has reaped its fruits and we plan to continue with the same with a special focus on widening the product range introducing new models, sizes, colours and new finishes. To commensurate with the growing markets the company has planned to launch Television sets to add to its product range of trading business which already covers split ACs, Microwave ovens, Vacuum Cleaners, etc., A wide range of sizes with uptodate aesthetics coupled with all the features will be available in the market very

Rs. 2,578 million to Rs. 3,209 million. Gross profit has shown an improvement of 20.73% from last year i.e. Rs. 827 million against Rs. 685 million last year. Administrative and selling expenses have increased by 6% to Rs. 300 million from last year's Rs. 283 million primarily due to increased sales activities. Operating profits have witnessed an improvement and are 16.42% of the net sales as against 15.58% for last year. Financial charges for the year are Rs. 349 million (including Rs. 22 million related to formerly PEL Appliances Ltd) as compared to Rs. 338 milion for the last year. In line with the policy to attain cost efficiency, despite increase in business volume we have achieved reduction in financial cost through rate reduction and re-profiling of the expensive borrowing in line with the current financial market trends. Net profit before tax has accordingly increased from Rs.146 million last year to Rs.184 million this year.

The company has accounted for deferred taxation to comply with the requirements of International Accounting Standard (IAS)-12 - Income Tax. Due to elimination of tax losses the profit of PEL has attracted tax beyond the turnover tax. Hence the provision of tax has been made at Rs. 30.946 million and Rs. 11.641 million for current and deferred tax respectively. With the above categorized changes the company has thus been able to show a net after tax profit of Rs. 141.207 million against a profit of Rs. 130.154 million last year.
The board has recommended a stock dividend (Bonus shares) of 25% of the paid up capital of the company.

Power Division

Positive macro economic indicators allowing more investment by the Government are yielding positive results.

order sanctioning the Scheme of Arrangement for the Amalgamation of Pel Applainces Limited with the company was passed by the Honourable Lahore High Court on July 30, 2003 effective from July 12,002.00

The company has, accordingly allotted to the members of Pel Applainces Limited fourteen ordinary share of Rs. 10 each of the Company for every hundred shares of Rs. 10 each held by them in the Pel Appliances Limited in line with the aforesaid Scheme of Arrangements.

Corporate Governance

The Board regularly reviews the company's strategic direction. Annual plans and performance targets for business are set out and reviewed by the Board in the light of the company's overall objectives. The Board is committed to maintain the high standards of good corporate governance.

shown signs of tremendous growth and is expected to continue in the ensuing years. Private sector sales are also growing alongwith WAPDA and KESC.

Business in this Division has suffered in previous years due to financial problems in WAPDA and KESC. WAPDA, a few years ago, started the much needed upgradation of its distribution network to avoid frequent breakdowns and to control pilferage. This is continuing with a fresh vigour resulting into higher business volumes for the company. The energy meter production of single phase and three phase meters is moving towards an optimum level. Plans for further improvement in productivity and quality of our meters are also in progress. Business of distribution transformers is also moving in the right direction and we are strengthening our capabilities by introducing techniques of improved manpower utilization, product innovation, process re-engineering, etc. A sustained activity in the Switchgear business has been taking place allowing more depth to our strategy of diversification of products within the power division as well. Our track record for supply of Switchgear to WAPDA against International Tender has already been developed and we are expecting sizeable orders for this product in future. Since the entire business activities of the Power Division are now being carried out against inland LCs international tenders or advance payments, chronic problem of delayed payments is no longer effecting us.
Appliances division

Business in appliances division has shown mixed trends but we feel that the company has become a serious player in the Domestic Appliances Market. Increased production in refrigerator manufacturing is a major source of consistent growth coupled with split air conditioners and

Furthermore, investment in the private sector in construction, with new industrial projects, has increased demand for our products. Power Division business has

other products being introduced as a part of company's strategy of widening its product lines. This trend appears to be continuous in the up coming years. After

year ended June 30,2003.

Financial Results

	2003	2002
	(Rupees in thousand)	
Gross Sales	3,713,342	2,983,880
Gross Profit	826,617	685,015
Operating Profit	527,075	401,665
Profit before tax	183,794	146,330
Net Profit for the year	141,207	130,154

years is annexed.

Chairman's Review

The review included in the Annual Report deals inter alia with the performance of the Company for the year ended June 30, 2003. The directors endorse the contents of the review.

Change in Directors

Since the last Annual General Meeting Mr Javed Mahmood Dar, Mr. Nausherwan Adil and Mr. Muhammad Khaleeq Janjua, nominees of National Bank of Pakistan, resigned and in their place Mr. Javed Mahmood, Mr. Wajahat A. Baqai and Mr. Tajammal H. Bokharee, nominees of National Bank of Pakistan joined the Board of Directors Under Section 182 of the Companies Ordinance, 1984.

Khaleeq Janjua

Further Sh. Mohibullah Usmani resigned from the office of Director and in his place Mr. Muhammad Murad Saigol appointed as Director for the remainder of the term of office of outgoing Director Sh. Mohibullah Usmani.

not been provided. The depreciation on upward revaluation of land is not charged as the value of land does not depreciate with its use. Provision is not made for the diminution in the value of investments as the management considers it as of temporary nature and the investments are made on long term basis. Company has chalked out a plan to recover the amounts due from associated undertakings and compliance will be made Under Section 208 of the Companies Ordinance 1984.

Bonus Shares

The Directors are pleased to recommend the issue of Bonus Shares @ 25 Bonus Shares of Rs.10 each for every 100 shares held (25%) by capitalization of share premium account to the same extent.

Consolidated Financial Statements

Consolidated Financial Statements of the Company and its subsidiary PEL Daewoo Electronics Limited are annexed.

Particulars	2003	2002	2001	2000	1999	1998
Sales - Net	3,209	2,578	2,129	1,930	1,540	1,200
Gross Profit	827	685	620	638	470	232
Profit/(Loss) before tax	184	146	107	69	-89	-309
Profit/(Loss) after tax	141	130	94	59	-96	-315
Share Capital	190	185	185	185	185	185
Shareholders' equity	519	191	61	-33	-92	4
Fixed Assets - Net	3,030	2,394	2,375	2,098	2,037	497
Total Assets	5,351	4,621	4,498	4,162	3,843	2,086
Bank Borrowings	2,203	1,958	2,063	2,193	2,053	1,881
Ratios						
Profitability:						
Gross profit margin	26%	27%	29%	33%	31%	19%
Profit/ (Loss) after tax	4%	5%	4%	3%	-6%	-26%
Earning per share	7.45	7.02	5.07	3.18-	-	
Activity:						
Sales to fixed assets - times	1.06	1.08	0.9	0.92	0.76	2.41
Liquidity:						
Current ratio - times	1.02	1.31	1.33	1.34	1.48	1.43
Break up value per share - Rs.	27.38	10.31	3.29	-1.78	-4.96	0.23
Financial charge coverage	1.55	1.44	1.28	1.18	0.77	0.14

The Board has formed an audit committee. It comprises 3 members, of whom all are non-executive directors including the chairman of the committee.

The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

The Board has set-up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.

The statutory auditors of the Company have confirmed that they have been given a satisfactory rating

under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, 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 Institute of Chartered Accountants of Pakistan.
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.
We confirm that all other material principles contained in the Code have been substantially complied with.

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37, 43 & 36 of listing regulations of Karachi, Lahore & Islamabad Stock Exchanges respectively 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 Code 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 includes independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Company.
5. 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.
6. 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 directors, have been taken by the Board.
7. 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 meetings were appropriately recorded and circulated.
8. The directors are aware of their fiduciary responsibilities and most of them have attended orientation courses.
9. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
10. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.

We have audited the annexed balance sheet of PAK ELEKTRON LIMITED as at 30th June, 2003 and the related profit and loss account, 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 explainations 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 the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides reasonable basis for our opinion and, after due verification and subject to the observations expressed below and extent to which the notes referred to may effect, we report that:

(a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
(b) in our opinion;
(i) the balance sheet and profit and loss account together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts 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 objectives of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 subject to the observations expressed for unprovided duties and taxes indicated at Note No. 13.4 and 18.2 and the extent to which these may effect and respectively give a true and fair view of the state of the company's affairs as at 30 lh June> 2003 and of the profit, its cash flows and changes in equity for the year then ended;

Attention is invited to Note Nos. 14.5, 15.3 and 18.4

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pak Elektron Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Listing Regulations Chapter No. XIII of the Lahore Stock Exchange and Listing Regulation No. 36 of the Islamabad Stock Exchange 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, except for the observations expressed in our audit report and in notes appended to the accounts if any effecting the compliance of Code of Corporate Governance, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

	Note	2003	2002
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised:			
25,000,000 ordinary shares of Rs. 10/- each		250,000	250,000
Issued, subscribed and paid up	3	189,501	185,418
Reserves:	4	125,100	125,100
Unappropriated profit/(loss)		204,226	-119,309
SHAREHOLDERS' EQUITY'		518,827	191,209
NON CURRENT LIABILITIES			
Surplus on revaluation of fixed assets	5	1,485,077	1,667,405
Grant in aid	9	79,339	79,339
Long term loans	6	737,831	789,043
Liabilities against assets subject to finance lease	7	48,439	41,264
Deferred taxation	8	11,641 -	
Deferred income due to sale and lease back		2,758	3,518
CURRENT LIABILITIES			
Short term finances	10	1,132,927	785,376
Current portion of long term liabilities	11	283,797	342,173
Creditors, provisions and accrued liabilities	12	1,050,491	721,568
		2,467,215	1,849,117
CONTINGENCIES AND COMMITMENTS	13		
		5,351,127	4,620,895

	Note	2003	2002
		(Rupees in thousand)	
SALES - GROSS	21	3,713,342	2,983,880
SALES TAX		504,106	405,408
SALES - NET		3,209,236	2,578,472
COST OF SALES	22	2,382,619	1,893,457
GROSS PROFIT		826,617	685,015
OPERATING EXPENSES			
Administrative	23	133,822	142,749
Selling	24	165,720	140,601
		299,542	283,350
OPERATING PROFIT		527,075	401,665
FINANCIAL EXPENSES	25	-349,388	-338,028
OTHER INCOME	26	16,058	86,627
OTHER CHARGES	27	-9,951	-3,934
PROFIT BEFORE TAXATION		183,794	146,330
PROVISION FOR TAXATION			
Current		-30,946	-16,176

Deferred	8	-11,641	-
PROFIT AFTER TAXATION		141,207	130,154
Un-appropriated Loss brought forward		-119,309	-249,463
UN-APPROPRIATED PROFIT/(LOSS)		21,898	-119,309
TRANSFERRED FROM REVALUATION SURPLUS		182,328	-
UN-APPROPRIATED PROFIT / (LOSS)		204,226	-119,309
Earning per Share		7.45	7.02

	Note	2003	2002
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
Fixed Capital Expenditure	14	3,029,908	2,394,310
Long Term Investments	15	96,701	180,340
Long Term Deposits		6,034	5,864
		3,132,643	2,580,514
CURRENT ASSETS			
Stores, spares and stock in trade	16	846,050	533,693
Trade debts	17	749,316	748,080
Advances, deposits and prepayments	18	477,788	728,451
Short Term Investment	19	8,884	-
Cash and bank balances	20	136,446	30,157
		2,218,484	2,040,381

				(Rupees in Thousand)	
	Share Capital	Unappropriated ProfiU(Loss)	Reserves	Reserves for Bonus Shares	Total
Balance as on 01-07-2001	185,418	-249,463	125,100	-	61,055
Balance transferred to profit and loss appropriation	-	-	-	-	-
Net profit for the year	-	130,154	-	-	130,154
Balance as on 30-06-2002	185,418	-119,309	125,100	-	191,209
Balance as on 01-07-2002	185,418	-119,309	125,100	-	191,209
Issued against acquisition of subsidiary company	4,083	-	-	-	4,083
Balance transferred from Revaluation surplus	-	182,328	-	-	182,328
Transferred from/ to	-	-	-47,375	47,375	-
Net profit for the year	-	141,207	-	-	141,207
Balance as on 30-06-2003	189,501	204,226	77,725	47,375	518,827

Cash Flow Statement

For the year ended June 30, 2003

	2003	2002
	(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from customers	3,722,977	2,919,515
Cash paid to suppliers and employees	-3,091,813	-2,334,557
Cash generated from operations	631,164	584,958
WPPF paid	-3,614	-
Markup paid	-362,850	-372,500
Tax payment	-16,885	-8,854
Net cash flow from operating activities	247,815	203,604
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditures	-124,044	-105,743
Proceeds from sale of fixed assets Net decrease/ (increase) in long term deposits	2,696 (170)	1,009 1,379
Proceeds from sale of short term investment	8,497	-
Interest/commission received	18	432
Dividend received	-	1,386
Net cash flow from investing activities	-113,003	-101,537
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of long term loans	-244,026	-99,606
Payment of lease liabilities	-25,425	-44,290
Increase/(decrease) in short term finances	183,874	1,115
Sale and lease back activity	41,000	33,161
Net cash flow from financing activities	-44,577	-109,620
Net increase in cash and cash equivalents	90,235	-7,553
Cash and cash equivalents at the beginning of the year	46,211	37,710
Cash and cash equivalents at the end of the year	136,446	30,157

2.5 Assets Subject to Finance Lease

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

2.6 Investments

Long term investments are stated at cost. Short Term Investments are valued at lower of cost or market value.

2.7 Stores, Spares and Stock-in-Trade

Inventories are valued at lower of cost or market value. The cost in relation to raw materials, components, spares and loose tools represent the average moving cost except the goods in bonded warehouse and in transit are stated on actual cost. The cost of work in process and finished goods comprises of cost of materials, labour at actual and factory overheads on proportionate to labour.

2.8 Foreign Currency Conversion

Foreign currency liability is converted at exchange rates prevailing at the balance sheet date. Variances relating to fixed assets- are adjusted against the value of respective assets, while others are charged to current year's income.

2.9 Revenue Recognition

The sale of goods is recognized on delivery of goods to customers.

2.10 Receivables

Receivables are carried at original invoice amount less any estimate made for doubtfull receivable balances based on review of outstanding amounts at year end. Bad debts are written off when identified.

2.11 Financial Insturments

Financial instruments carried on balance sheet include investments, receivable, cash and bank balances, finances under mark up arrangements, liabiities subjet to finance lease, long term borrowings, creditors accrued and other liabilities. The particular recognition methods adopted are discolsed in the indivdual policy statements associated with each item.

2.12 Provisions

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

1. STATUS AND NATURE OF BUSINESS

1.1 The Company was incorporated in Pakistan under the Companies Act, 1913 (now the Companies Ordinance, 1984) as a Public Limited Company on March 03, 1956 and its shares are quoted on Stock Exchanges of Pakistan. The Company is engaged in the manufacture and sale of electrical capital goods and domestic appliances.

1 .2 Amalgamation of the Company and Pel Appliances Limited

The Honourable High Court of Lahore approved the scheme of merger between Pak Elektron Limited (PEL) and Pel Appliances Limited (PAL) with effect from July 1 , 2002. Persuant to the scheme of merger the entire assets and liabilities of PAL have been transferred to the Company and PAL without winding up, stands dissolved effectively from July 1,2002. These accounts, accordingly, have been prepared in accordance with the accounting treatment relating to acquisitions using purchase method provided in the International Accounting Standard on Business Combinations (IAS 22).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under "historical cost" convention, except lease hold land, building and machinery & tools which are stated at re-valued amount while fixed assets acquired from PEL Appliances Ltd. are stated at fair market value.

2.2 Employees Retirement Benefits

The company operates a defined contribution plan i.e. Provident fund for all its permanent employees. Contributions are made by the company and the employees equally @ 1 0 % of basic salary and cost of living allowance where applicable to cover the obligation.

2.3 Taxation

Current

The provision for current taxation is based on taxable income at the current rate of taxation after taking into account tax credits and rebates available under the Income Tax Ordinance, 1979.

Deferred

The company accounted for deferred tax on all the material timing differences using the liability method. However, deferred taxation to certain extent is not provided if it can be established with reasonable probability that these timing differences will not reverse in foreseeable future. Also refer to Note No. 8.

2.4 Tangible Fixed Assets and Depreciation

Operating assets are stated at cost, except lease hold land, building and machinery & tools, which are stated at re-valued amount, less depreciation. Fixed assets acquired from the company previously known as PEL Applainces Ltd. are stated at fair market value. Assets produced internally are valued by taking the material at moving average cost, labour at actual and factory overheads proportionate to labour. Capital work-in-process and machinery in transit are stated at cost.

Depreciation is charged to income on reducing balance method using the rates specified in fixed assets schedule except for leasehold land which is being amortized over its cost propotionately on the period of lease. Afull year's depreciation is charged in the year of acquisition. However, depreciation on addition to machinery & tools is charged only for working period. Also refer to Note No. 14.8.1

Normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Profit or loss on disposal of operating assets is charged to current income.

	2003	2002
	(Rupees in thousand)	
3. SHARE CAPITAL		
Authorised		
25,000,000 ordinary shares of Rs.10/- each	250,000	250,000
Issued, subscribed and paid-up		
18,950,073 ordinary shares of Rs.10/- each fully paid		
8,352,500 shares for cash	83,525	83,525
10,051,800 shares as bonus shares	100,518	100,518
137,500 shares against building and machinery	1,375	1,375
408,273 shares is (3.1)	4,083	-
	189,501	185,418

3.1 On merger of PEL and PAL these shares were intended to be issued and up to the date of report 370,000 shares were alloted to the shareholders of formerly known as PEL Appliances Ltd.

	2003	2002
4. RESERVES		
Capital		
Premium on issue of shares	125,100	125,100
Less: Transferred to reserve for proposed bonus shares	-47,375	-
	77,725	125,100
Reserve for proposed bonus shares	47,375	-
	125,100	125,100
5. SURPLUS ON REVALUATION OF FIXED ASSETS		
Opening revaluation surplus	1,667,405	1,671,208
Revaluation released due to sale and lease back	-	-3,803
Transfer to P&L Account	-182,328	-
Closing revaluation surplus	1,485,077	1,667,405

	2003	2002
	(Rupees in thousand)	
DEFERRED TAXATION		
This comprises of the following:		
Deferred tax liabilities		
Difference in tax and accounting basis of owened fixed assets	117,449	-
Difference in tax and accounting basis of leased fixed assets	6,963	-
	124,412	-
Less:		
Deferred tax Assets		
Difference in tax and accounting basis of deferred income	905	-
Difference in tax and accounting basis of Grant in aid	26,041	-
Tax credits available u/s 25-c	85,825	-
	112,771	-
Net Deferred tax liability	11,641	-
GRANT IN AID	79,339	79,339

	2003	2002
	(Rupees in thousand)	
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Balance from previous year	65,470	71,996
Assets acquired during the year	43,957	37,766
	109,428	109,762
Less: Payments made during the year	-25,425	-44,292
	84,002	65,470
Less: Current portion	-35,563	-24,206
	48,439	41,264

CONTINGENCIES AND COMMITMENTS

13.1 The banks and insurance companies have arranged guarantees, letter of credit and discounting of receivable from WAPDA/ KESC on behalf of the Company as detailed below:

	2003	2002
	(Rupees in thousand)	
Tender bonds	48,086	14,500
Performance bonds	191,400	166,983
Advance guarantees	46,996	29,175
Custom guarantees	19,138	9,118
Letters of credit	139,221	160,836
Bills discounted	302,351	61,491
Foreign Guarantees	4,432	4,432
Other Guarantees	1,301	-
Turnover tax and other disputed liability	48,040	-

FIXED CAPITAL EXPENDITURE

Operating assets:			
Own	-14.1	2,827,089	2,244,282
Provision for anticipated Loss		-2,781	-2,781
		2,824,308	2,241,501
Subject to finance lease	-14.2	105,217	69,475
Received through grant in aid	-9	79,339	79,339
Capital work in progress	-14.7	21,044	3,995
		3,029,908	2,394,310

	Limit (Million)	2003	2002
		(Rupees in thousand)	
SHORT TERM FINANCES - SECURED			
From:			
Banking companies			
Running finance	1147	1,074,575	740,093
Financial institutions	49	32,343	28,611
Book Overdrawn		26,009	16,672
		1,132,927	785,376
CURRENT PORTION OF LONG TERM LIABILITIES			
Long term loans		248,234	317,967
Liabilities against assets subject to finance lease		35,563	24,206
		283,797	342,173
CREDITORS, PROVISIONS AND ACCRUED LIABILITIES			
Trade creditors		110,121	127,801
Foreign bills payab 12.1		349,724	205,347
Accrued liabilities 12.2		58,193	64,452
Accrued interest / mark-up on secured loans		199,386	153,790
Advances from customers		90,790	72,180
Sales tax payable 12.3		217,132	81,528
Employees provident fund		1,838	2,079
Tax on Bonus Shares		1,475	-
Workers welfare fund payable		1,358	-
Import duties and 12.4 a		20,017	14,173
Taxes deducted at 12.4 b		457	218
		1,050,491	721,568

	NOTES	2003	2002
		(Rupees in thousand)	
ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances to employees for:			
Purchases		7,842	5,217
Expenses		1,191	1,551
Others		3,022	1,937
		12,055	8,705
Less: Provision for doubtful advances		-1,299	-1,299
Advances considered good		10,756	7,406
Advances to suppliers and contractors		104,519	109,588
Less: Provision for doubtful advances		-32,771	-27,176
Advances to suppliers and contractors		71,748	82,412
Advance Excise D 18.1		23,639	-
Letters of credit		694	825
Security deposits		17,633	15,851
Less: Provision for security deposits		-4,189	-2,191
		13,660	13,444
Margin deposits	18.2	38,376	32,483
Prepaid expenses	18.3	3,394	3,038
Custom duty refundable	18.4	41,751	41,751
Tax receivable (Payment less provision for taxation)	18.5	4,728	8,387
Due from associated companies		534,750	194,415
Other receivable		1,149	77,433
		477,788	728,451

		2003	2002
		(Rupees in thousand)	
STORES, SPARES AND STOCK-IN-TRADE			
- Stores and spares			
Stores 16.1		1,308	406
Machinery maintenance spares		25,060	23,257
Loose tools		12,866	10,162

Less: Provision for obsolete stock	-10,469	-5,814
	28,765	28,011
- Stock-in-trade		
Raw materials and components		
in stores	206,344	150,503
in bonded warehouse	224,259	131,906
in transit	106,912	19,386
Less: Provision for obsolete stock	-2,320	(1 ,440)
	535,195	300,355
Work-in-process	238,207	138,750
Less: Provision for obsolete stock	-2,228	-2,228
	235,979	136,522
Finished goods	55,749	73,708
Less: Provision for obsolete stock	-9,638	-4,903
	46,111	68,805
	817,285	505,682
	846,050	533,693

TRADE DEBTS - UNSECURED

Trade Debts		
- Considered good	749,316	748,080
- Considered doubtful	184,171	126,355
	933,487	874,435
Provision for doubtful debts	-184,171	-126,355
Balance debts - considered good	749,316	748,080

	2003	2002
CASH AND BANK BALANCES	(Rupees in thousand)	
Cash in hand	14,752	7,051
Balance with banks - on current accounts	121,694	23,106
	136,446	30,157

SALES - GROSS

Local	3,937,646	3,139,397
Discount	-269,764	-178,864
	3,667,882	2,960,533
Export	45,460	23,347
	3,713,342	2,983,880

COST OF SALES

Raw materials and components	1,907,159	1,528,581
Direct wages	91,006	73,885
Factory overheads (Note 22.1)	286,923	211,910
	2,285,088	1,814,376
(Increase)/decrease in work-in-process		
Opening inventory (including Rs. 7.625 Million of formerly PEL Appliances Ltd.)	146,375	167,491
Closing inventory	238,207	138,750
	-91,832	28,741
Cost of goods manufactured	2,193,256	1,843,117
Finished goods purchased	132,576	56,458
(Increase)/decrease in finished goods		
Opening inventory (including Rs. 38.828 Million of formerly PEL Appliances Ltd.)	112,536	67,590
Closing inventory	55,749	73,708
	56,787	-6,118
	2,382,619	1,893,457

	2003	2002
	(Rupees in thousand)	
22.1 Factory overheads		
Salaries and other benefits	83,336	68,432
Travelling and conveyance	4,205	4,424
Electricity and gas	44,564	37,442
Repairs and maintenance	37,322	30,353
Vehicles running and maintenance	3,029	2,319
Insurance	8,184	5,892
Depreciation/Amortization	120,733	87,010
Carriage and freight	6,559	6,388
Erection and testing	11,815	5,101
Provision for obsolete stock	9,867	4,010
Other factory overheads	2,162	1,349
	331,776	252,720
Less:Charged to		

Components fabricated		42,964	39,957
Operating assets		1,889	373
Subsidiary company for rent and electricity	-		480
		44,853	40,810
		286,923	211,910

ADMINISTRATIVE EXPENSES

Salaries and other benefits		46,597	36,830
Travelling and conveyance		4,859	3,712
Rent, rates and taxes		2,194	1,954
Legal and professional		2,487	886
Electricity and gas		4,920	3,727
Auditors' remuneration			
Audit fee	-23.1	200	50
Tax consultancy and out of pocket expenses		650	450
		850	500
Repair and maintenance		5,070	4,521
Vehicles running and maintenance		5,142	3,808
Printing, stationery and periodicals		5,033	4,204
Postage, telegrams and telephones		3,817	2,964
Entertainment and staff welfare		1,469	517
Advertisement		215	300
Insurance		887	529
Provision for doubtful debts and advances (less reversal if any)		39,598	73,640
Provision for security deposits		1,998	2,191
Provision for short fall in short term investment		4,094	-
Depreciation/Amortization		4,592	4,866
		133,822	145,149
Less: Charges for services rendered to subsidiary company		-	-2,400
		133,822	142,749

vii) Appeals relating to assessment years 1992-93 and 1993-94 against levy of tax u/s 80-D are pending before the ITAT while those relating to succeeding years (1996-97 to 1998-99) were decided in favour of the Company either by the CIT(A) or by ITAT. Appeal filed by department against deletion of 80-D liability relating to assessment year 1994-95 is still pending with Honourable Peshawar High Court. The Lordship of Supreme Court of Pakistan has already held that the industrial Units protected by Economic Reform Act, 1992 are not liable to levy of tax u/s 80-D. The company claims that it is entitled to protection under Reform Act, 1992.

viii) The learned Tribunal in the years 1995-96 to 1997-98 has, however, held that the interest income is taxable as income from other sources. Taxability of the bonus shares issued out of exempted income in assessment year 1996-97 was also confirmed by ITAT. The reference application moved by the company relating to assessment years 1995-96 to 1997-98 to ITAT for reference to high court on the issue of taxability of interest income as other income u/s 30 of Income-tax Ordinance, 1979 and that of bonus shares issued out of the exempted profits are yet not decided. Such applications moved by department against deletion of tax levy u/s 80-D were rejected by Income-tax Appellate Tribunal.

ix) Assessment for the years 1995-96 to 1998-99 were reviewed in May, 2002 by the IAC u/s 66-A of Income Tax Ordinance, 1979 for the reason that exemption was available only on Industrial profits under clause 122-C of the 2nd Schedule to the Income-tax Ordinance, 1979, but no such exemption was allowable on the interest income, sale and purchase transanction (including capital assets) between the company and its holding company and assessment u/s 62 was not thoroughly examined by the D.C. and no tax charged on transactions falling out of the ambit of the Industrial profits. Assessments were accordingly set aside for the above years with direction to the Assessing Officer to pass a fresh orders after taking cognizance of the above issues. However, re-assessment proceedings by the D.C. have not yet started.

x) The action of the IAC u/s 66-A for the above years has been called in question in appeal before the ITAT, which is yet pending.

The aggregate amount of remuneration, including certain benefits to the directors and executives of the company charged in the accounts for the year is as follows: (Rupees in Thousand)

	Chief Executive		Direc	tors	Executives	
	2003	2002	2003	2002	2003	2002
Number of persons	1	1	4	4	54	44
Managerial remuneration	.	.	4,234	4,493	26,397	21,300
House rent	-	-	1,288	1,286	10,968	9,585
Utilities	-	-	423	449	2,639	2,130
Bonus	-	-	-	-	3,956	3,550
Company's contribution to Provident Fund	-	-	248	294	2,642	2,130
Reimbursable expenses						
Vehicle running & maintenance	-	-	301	349	4,121	2,911
Medical expenses	-	-	176	43	3,135	1,293
	-	-	6,670	6,914	53,858	42,899

	2003	2002
	(Rupees in thousand)	
OTHER CHARGES		
Worker's Welfare fund	1,358	_
Worker's Profit Participation fund	8,593	3,934
	9,951	3,934

27.1 WORKER'S PROFIT PARTICIPATION FUND

Mark-up from subs sidered in the calc ulationofWPPF

PROVISION FOR TAXATION

28.1 Current:

i) Assessment of Pak Elektron Limited is completed for and upto assessment year 2002-2003 and as per order dated 30-06-2003 U/S 62 of repealed Ordinance 1979 all the losses assessed in earlier years stand duly absorbed.

ii) Disputed demand raised for assessment year 2000-2001 to 2002-2003 (including) that levied for alledged short deduction u/s 50 of ordinance 1979 is amounting to Rs. 6.103 Million. Appeals against assessment for the years 2000-2001 and 2001-2002 against various additions out of expenses and taxability of grant in aid are already filed and pending before CIT(A) and that for the charge year 2002-2003 has been filed. Appeals for earlier years 1998-1999 and 1999-2000 are also yet not decided by CIT(A).

iii) A reference application moved to income tax appellate tribunal u/s 1 33 of Income Tax Ordinanace, 1979 against additions of Rs. 47.033 Million in trading version in the assessment year 1997-1998 confirmed by ITAT is subjudice with said appellate forum.

iv) Income Tax Appellate Tribunal in assessment year 1995-96 contrary to judgement of superior Indian Courts favouring company held that goodwill receipt of Rs. 80 Million was taxable as capital gain. This decision was not accepted and an appeal filed before Honourable Lahore High Court is yet pending.

v) Assessments of the company previously known as PEL Appliances Ltd. are completed for and upto assessment year 2000-2001 and loss for the said year is determined at Rs. 125.935 Million while losses declared in succeeding two years i.e. 2001-2002 and 2002-2003' are Rs. 268.292 Million.

vi) Losses asessed relating to assessment year 1 999-2000 and 2001 -2002 as per IT 30 dated 30-06-2003 are Rs. 218.759 Million while losses amounting Rs. 222.264 Million assessed upto assessemnt year 1998-1999 were not brought forword. Application moved to Taxation officer u/s 156 of repealed Ordinance 1979 for carry over of lossess in the light of well decided matter is not decided till todate.Tax levied in assessemnt year 2000-2001 is amounting to Rs. 3.893 Million mainly comprising of Rs 2.223 Million levied u/s 800 and Rs. 1 .452 Million on mark up income taxed as income from other sources and losses assessed are not set off against such income contrary to the provisions 34 and 35 of the repealed Income Tax Ordinance, 1979 corresponding section 56 and 57 of the Income Tax Ordinance, 2001 . Appeal filed against assessment year 2000-2001 before CIT(A) is yet pending. Whereas appeal relating to assessment year 1 999-2000 was decided by CIT(A) vide appellate order dated 06-01 -2003 holding that tax u/s 80-D was not leviable against which department filed an appeal before ITAT which is yet pending.

	2003	2002
AVERAGE NUMBER OF EMPLOYEES	2,673	2,415
EARNING PER SHARE		
Profit after taxation (Rs. 000)	141,207	130,154
Number of shares	18,950,073	18,541,800
Earning per share (Rs.)	7.45	.7.02

	2003	2002
	(Rupees in thousand)	
TRANSACTIONS WITH ASSOCIATED COMPANIES		
AND MAXIMUM DEBIT BALANCES		
Sales/services rendered	_	83,314
Mark-up earned	21,889	68,442
Purchases made from subsidiary company	-	24,525
The maximum amount due at the end of any month	194,415	534,750

PLANT CAPACITY AND ACTUAL PRODUCTION

	Sanctioned Installed Capacity	Actual Production	Sanctioned Installed Capacity	Actual Production
	2003	2003	2002	2002
Electric motors	25,612 HP	Nil	25,612 HP	Nil
Transformers	2,000 MVA	713 MVA	2,000 MVA	495 MVA
Switchgears	1,999 Nos.	625 Nos.	1,999 Nos.	229 Nos.
Energy Meters	900,000 Nos.	584 Nos.	900,000 Nos.	594,733 Nos.
Airconditioners	36,250 Tons.	774 Tons	36,250 Tons.	Nil
Refrigerators/Deep Freezers	1,500,000 Cft	525 Cft	1,200,000 Cft	882,075 Cft
Compressors	360,000 Nos.	Nil	360,000 Nos.	Nil

FINANCIAL INSTRUMENTS

Interest Risk Management

Interest rate risk is the risk that value of a financial instrument will fluctuate due to changes in market interest rates. Changes in interest rates can adversely affect the rates charged on interest bearing assets/liabilities. This can result in an increase in interest expense relative to finance income or vice versa. The company manages its risk by maintaining a fair balance between interest rates, financial assets and financial liabilities.

Pattern of Holding of Shares

Held by the Shareholders as at June 30, 2003

Shareholders	Shareholding From	Shareholding To	Total Shares Held
977	1	100	24,176
713	101	500	217,887
221	501	1000	169,962
295	1001	5000	729,213
60	5001	10000	427,412
14	10001	15000	175,308
14	15001	20000	251,813
10	20001	25000	233,784
4	25001	30000	105,210
2	30001	35000	65,042
5	35001	40000	194,934
2	45001	50000	94,846
2	50001	55000	103,010
3	55001	60000	172,430
1	70001	75000	75,000
1	80001	85000	85,000
1	95001	100000	100,000
1	105001	110000	105,500
1	115001	120000	118,657
1	120001	125000	121,542
1	135001	140000	136,525
1	185001	190000	189,279
1	195001	200000	200,000
1	230001	235000	233,000
1	245001	250000	250,000
1	360001	365000	360,500
1	395001	400000	400,000
1	505001	510000	505,500
1	515001	520000	515,847
1	670001	675000	674,000
1	1195001	1200000	1,197,500
1	2080001	2085000	2,081,916
1	2870001	2875000	2,874,324
1	5760001	5765000	5,760,956
			18,950,073

Statement & Report

Under Section 237 of the Companies Ordinance, 1984

PEL Daewoo
Electronics
Limited

STATEMENT UNDER SUB-SECTION(I) (E)

a) Extent of interest of Pak Elektron Limited (the holding Company) in the equity of its subsidiary at the last financial year of the subsidiaries	60%
b) The net aggregate amount of profit less losses of the subsidiary company so far as this concern members of the holding Company and have not been dealt with in the accounts of the holding Company for the year ended June 30, 2003 is:	
i) for the last financial year of the subsidiary	14,536
ii) for the previous year but subsequent to the acquisition of the controlling interest by the holding Company for the year ended June 30, 2003.	-288,591
	-274,055

Categories of Shareholders	Number of Shareholders	Number of Shares Held	Percentage
Associated compoanies and Undertakings	NIL	NIL	NIL
Investment Corporation of Pakistan	1	16,625	0.09
National Investment Trust Limited	1	56,500	0.3
CEO, Directors, Their Spouses etc			
M. Naseem Saigol (CEO & Director)		5,760,956	

M. Azam Saigol (Director)		51,010	
Shahid Sethi (Director)		550	
Haroon Ahmed Khan (Director)		500	
Muhammad Murad Saigol (Director)		500	
Homaeer Waheed (Director)		500	
Mrs. Sehyr Saigol w/o M. Naseem Saigol		189,279	
Mrs. Amber Saigol w/o M. Azam Saigol		2,874,324	
	8	8,877,619	46.85
Executives	NIL	NIL	NIL
Public Sector Companies & Corporations	NIL	NIL	NIL
Joint Stock Companies	98	2,287,728	12.07
Financial Institutions/Insurance Companies/Modarba/Mutual Funds etc.	16	3,113,592	16.43
Foreign Companies/Foreigners	34	186,575	0.98
Others/Individuals	2184	4,411,434	23.28
	2342	18,950,073	100

NOMINEE DIRECTORS

National Investment Trust Limited

Mr. Asif Jameel

National Bank of Pakistan

Mr. Tajammal H. Bokharee

Mr. Javed Mahmood

Mr. Wajahat A. Baqai

Directors' Report to the Members

GENTLEMEN

Your Directors are pleased to submit their Report together with the Audited Accounts of the Company for the year ended June 30, 2003.

FINANCIAL

	2003	2002
	(Rupees in thousand)	
Profit/ (loss) before tax	14,536	-33,490
Add: Unappropriated profit/ (loss) brought forward	-288,591	-255,101
	274,055	-288,591

Company Information

Board of Directors:

Mr. M. Naseem Saigol
(Chairman/ Chief Executive)
Mr. M. Azam Saigol
Mrs. Sehyr Saigol
Mr. Shahid Sethi
Mr. Kwi Hyen Nam
Mr. Heung Suk Song
Mr. Haeng Kie Seo

Company Secretary :
Sheikh Muhammad Shakeel

Auditors:
Hameed Chaudhri & Co.
Chartered Accountants

Bankers:
Askari Commercial Bank Limited
Muslim Commercial Bank Limited

Registered Office:
06-Egerton Road, Lahore.

Works:
Phase iv, Hattar Industrial Estate,
Hattar, Distt. Haripur, NWFP

Balance Sheet

As at June 30, 2003

Note	2003	2002
	(Rupees in thousand)	

SHARE CAPITAL			
Authorized:			
10,000,000 ordinary shares of Rs.10/- each		100,000	100,000
Issued, subscribed and paid-up			
7,000,000 ordinary shares of Rs.10/- each issued for cash	3	70,000	70,000
ACCUMULATED LOSS		-274,055	-288,591
		-204,055	-218,591
LONG TERM FINANCES AND OTHER LIABILITIES	4	53,379	74,265
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEAS	5	-	35,433
DEFERRED LIABILITY FOR GRATUITY	6	70	295
CURRENT LIABILITIES			
Current portion of long term liabilities	7	14,527	48,335
Creditors, accruals and other liabilities	8	190,113	138,908
Provision for taxation	9	1	-
		204,641	187,243
CONTINGENCIES AND COMMITMENTS	10	-	-
		54,035	78,645

We have audited the annexed balance sheet of PEL DAEWOO ELECTRONICS LIMITED as at 30 June, 2003 and the related profit and loss account, 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) Authenticity and genuineness of Demand Finance - 2 liability write-back amounting Rs.36.1 02 million and the rescheduling adjustments incorporated by the Company could not be verified in the absence of positive specific consent from Muslim Commercial Bank Limited [note 4.2(c)];
(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, 1 984, 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 and to the best of our information and according to the explainations given to us, the balance sheet, profit and loss account, 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, except for the financial effects and adjustments, if any, of the matters referred to in paragraphs (a) above and the contents of notes 4.3, 8.2, 13.1 and 17.2 and the extent to which these may affect the annexed financial statements, respectively give a true and fair view of the state of the Company's affairs as at 30 June, 2003 and of the profit, 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).

Profit and Loss Account
For the year ended June 30, 2003

	Note	2003	2002
		(Rupees in thousand)	
REVENUES - Net	16	14,197	30,714
COST OF REVENUES	17	21,975	25,293
GROSS PROFIT/ (LOSS)		-7,778	5,421
ADMINISTRATIVE AND SELLING EXPENSES	18	9,980	10,996
OPERATING LOSS		-17,758	-5,575
OTHER INCOME	19	4,082	14
		-13,676	-5,561
OTHER CHARGES			
FINANCIAL CHARGES	20	22,222	27,916
MISCELLANEOUS CHARGES	21	33	13
		22,255	27,929
LOSS FOR THE YEAR - Before taxation		-35,931	-33,490
PROVISION FOR TAXATION		-1	-
LOSS FOR THE YEAR FROM ORDINARY ACTIVITIES		-35,932	-33,490

EXTRAORDINARY ITEMS	22	50,468	-
PROFIT / (LOSS) FOR THE YEAR		14,536	-33,490
		(Rupees)	
EARNINGS / (LOSS) PER SHARE - Basic	23	2.08	-4.78

	Note	2003	2002
		(Rupees in thousand)	
OPERATING FIXED ASSETS	11	45,830	50,766
SECURITY DEPOSITS		22	22
CURRENT ASSETS			
Stores and spares		60	74
Stock-in-trade	12	644	13,610
Trade debts	13	385	3,637
Advances, deposits, prepayments and other receivables	14	7,045	10,088
Cash and bank balances	15	49	448
		8,183	27,857

Statement of Changes in Equity

For the year ended June 30, 2003

	Share Capital	Accumulated Loss	Total
		(Rupees in thousand)	
Balance on at June 30, 2001	70,000	-255,101	-185,101
Loss for the year ended June 30, 2002	-	-33,490	-33,490
Balance as on June 30, 2002	70,000	-288,591	-218,591
Profit for the year ended June 30, 2003	-	14,536	14,536
Balance as on June 30, 2003	70,000	-274,055	-204,055

Cash Flow Statement

For the year ended June 30, 2003

	Note	2003	2002
		(Rupees in Thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year - before taxation		-35,931	-33,490
Adjustment for non-cash charges and other items			
Depreciation		4,949	5,504
Finance and other charges on lease finances		1,800	14,565
Mark-up on long term finances		1,713	1,842
Mark-up accrued on the amount due to the Holding Company		18,651	-
Liabilities written-back		-3,882	-
Deferred liability for gratuity - net		-225	-9
Return on bank deposits		-	-14
CASH FLOW FROM OPERATING ACTIVITIES			
- BEFORE WORKING CAPITAL CHANGES		-12,925	-11,602
Decrease / (increase) in current assets			
Stores and spares		14	22
Stock-in-trade		12,966	-13,535
Trade debts		3,252	-2,806
Advances, deposits, prepayments and other receivables		3,288	-1,860
(Decrease) / increase in creditors, accruals and other liabilities		-16,763	37,631
		2,757	19,452
CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES			
- BEFORE TAXATION		-10,168	7,850
Taxes paid		-245	-1,671
NET CASH (OUTFLOW) / INFLOW FROM OPERATING			
ACTIVITIES - AFTER TAXATION		-10,413	6,179
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		-13	-
Return on bank deposits		-	14
NET CASH (OUTF ES		-13	14
CASH FLOW FROM FINANCING ACTIVITIES			
Installments of long term finances and other liabilities repaid		-4,860	-542
Repayments made by the Holding Company to banks			
and leasing companies on behalf of the Company			
and funds transferred to the Company - net		64,937	-
Lease finances - net		-36,890	1,577
Bank overdraft		-	-439
Mark-up on long term finances paid		-2,997	-158
Lease finance charges paid		-10,163	-6,740
NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES		10,027	-6,302
NET DECREASE IN CASH AND CASH EQUIVALENTS		-399	-109
CASH AND CASH EQUIVALENTS - At the beginning of the year		448	557

CASH AND CASH EQUIVALENTS - At the end of the year	49	448

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1 984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention modified by exchange rate fluctuation adjustments as stated in note 2.14.

2.3 Staff retirement benefits

The Company operated an un-funded gratuity scheme covering all its eligible employees till 30 June, 1996. Liability for the period upto 30 June, 1996 was worked-out and provided for.

Defined contribution plan

The Company is operating a Contributory Provident Fund Scheme for all its permanent employees since July, 1996 and equal monthly contributions at the rate of 10% of the basic salaries are made both by the employees and the Company.

Compensated absences

The Company provides for its estimated liability towards leaves accumulated by the employees on an accrual basis using current salary levels.

2.4 Taxation

Provision for taxation is made at the current rates of taxation on taxable income for the year after taking into account available tax credits and brought forward losses.

The Company recognises deferred taxation using the balance sheet liability method on all temporary differences arising between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. However, as a matter of prudence, deferred tax asset is not recognised if the Company does not expect taxable profits in the foreseeable future.

2.5 Tangible Fixed Assets and Depreciation/ amortisation

Owned

Operating fixed assets are stated at cost less accumulated depreciation / amortisation except freehold land and capital work-in-progress which are stated at cost. Borrowing costs pertaining to construction/ erection period are capitalised as part of historical cost.

Depreciation / amortisation is charged to income applying reducing balance method to write-off the cost over estimated remaining useful life of assets except for leasehold land which is being amortised over its lease term. Current rates of depreciation / amortisation are stated in note 11. No depreciation is provided on assets in the year of disposal whereas full year's depreciation is charged in the year of purchase.

Gain / loss on disposal of fixed assets is taken to profit and loss account. Normal repairs and maintenance are charged to income, as and when incurred. Major renewals and replacements are capitalised and assets replaced, if any, other than those kept as stand-by, are retired.

Notes to the Accounts

For the year ended June 30, 2003

1. THE COMPANY AND ITS OPERATIONS

1.1 The Company, a Subsidiary of Pak Elektron Limited, was incorporated on 18 April, 1994 as a Public Company. The principal activity of the Company is assembling and manufacturing of all sorts of television sets and components thereof under a joint venture agreement between Pak Elektron Limited - Pakistan and Daewoo Electronics Company Limited - Republic of Korea.

These financial statements have been prepared on a going concern basis, as the Holding Company has assured that it will assist the Company in regaining profits, resuming own manufacturing facilities and achieving market share. In this respect, the Holding Company has fully repaid the Company's lease liabilities and some portion of long term finances as fully detailed in note 8.1. Feasibility studies for manufacturing of own new brands are also in process.

1.2 The Company had assembled televisions for Sony Pakistan (Pvt.) Limited (Sony) under an agreement entered into between the Company and Sony during the financial year ended 30 June, 1999. As per terms of the agreement, Sony supplied television kits to the Company and the Company delivered converted televisions to Sony. Sony marketed these televisions through its own network. The Company had charged U.S.$ denominated conversion price for the televisions assembled by it. The agreement with Sony expired on 26 May, 2002 and had not been renewed afterwards.

1 .3 The Company, during the preceding financial year, entered into an agreement with Shahnawaz Traders, Peshawar (SNT). As per salient terms of this agreement, SNT is responsible for the complete process of financing the import of Shahnawaz Brand CKD kits till the delivery of imported CKD kits in assembled form. The job of complete assembling and quality control of colour television sets is the sole responsibility of the Company. The Company, after assembling, is responsible to deliver the finished goods within its factory to SNT; SNT then shifts these television sets to its marketing sites. SNT is responsible to pay sales tax and other levies as required by law. On delivery and acceptance of each lot, the Company raises invoices. SNT makes payment on invoice-to-invoice basis prior to lifting of finished goods. The Company is entitled to charge fixed conversion charges for assembling of colour television sets.

1.4 The Company, during the current financial year, entered into an Assembly Agreement with AVIA International, a registered partnership concern at Karachi (AVIA). As per the salient terms of this agreement, AVIA is responsible to import the Kits in its own name and to bear all import duties, Federal, Provincial and Municipal taxes, other levies / charges and all sales taxes. In consideration for the assembly of television sets, the Company is entitled to receive per television set conversion charges. Sales tax, as per law, on the conversion charges charged are claimed by the Company from AVIA and are reflected in invoices. AVIA may claim this sales tax as Input Tax under the provisions of the Sales Tax Act, 1990. The duration of agreement with AVIA is five years; however, the duration may be extended or reduced by the prior written consent of the parties.

1 .5 The Company, during the current financial year, also entered into a Colour Television Assembly Agreement with LT Traders (LTT), a sole proprietorship concern at Sialkot. As per the salient terms of this agreement, LTT is responsible to import the Kits in its own name and to bear all import duties, Federal, Provincial and Municipal taxes and other levies / charges. The Company's scope of work is limited to the assembly of Kits to television sets. After the assembly of television sets, the Company shall deliver the television sets to LTT within the factory premises. The Company shall raise invoices after the delivery of television sets. Sales tax, as per law, on the conversion charges charged shall be claimed by the Company from LTT and shall be reflected in the invoices. LTT may claim this sales tax as Input Tax under the provisions of the Sales Tax Act, 1 990. The duration of the agreement with LTT is five years; however, the duration may be extended or reduced by the prior written consent of the parties.

2.11 Provisions

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

2.12 Financial Insturments

Financial assets carried on the balance sheet include security deposits, trade debts, advances, deposits & other receivables and cash and bank balances. These are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are long term finances, liabilities against assets subject to finance lease and creditors, accruals & other liabilities. Mark-up bearing finances are recorded at the gross proceeds received; other liabilities are stated at their nominal values. Financial charges are accounted for on accrual basis.

2.13 Revenue Recognition

- Revenue from sales is recognised when goods are despatched and invoiced.
- Conversion charges are recognised upon delivery of assembled televisions.
- Return on bank deposit / saving accounts is accounted for on accrual basis.

2.14 Foreign Currency Translations

Transactions in foreign currencies are translated into Rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing on the balance sheet date. Translation gains and losses are included in the profit and loss account.

Leased

Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of assets. The aggregate amount of obligation of assets subject to finance lease are accounted for at the principal liability under the lease agreement. Financial charges are allocated to accounting years in a manner so as to provide a constant rate of financial cost on the remaining balance of principal liability for each year.

Depreciation is charged to income at the rates stated in note 11 applying reducing balance method to write-off cost of the assets over their estimated remaining useful life in view of certainty of ownership of assets at the end of lease period. Financial charges and depreciation on leased assets are taken to profit and loss account.

2.6 Impairment of assets

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

2.7 Stores and Spares

These are valued at moving average cost. Specific provision is made against slow moving inventory items.

2.8 Stock-in-trade

Basis of valuation are as follows:

Particulars	Mode of valuation
Raw materials:	
At warehouse	- At lower of specific identified cost and net realisable value.
Stock-in-transit	- At invoice value and other charges incurred to the balance sheet date.
Work-in-process and finished goods	- At lower of manufacturing cost and net realisable value.

Manufacturing cost in relation to work-in-process and finished goods comprises of raw materials cost

(determined on specific identification of cost method) and appropriate conversion cost (determined on annual average method).
Net realisable value signifies the prevailing selling prices in the ordinary course of business less costs necessarily to be incurred in order to make the sale.

2.9 Trade Debts

Trade debts are stated net of provision for doubtful debts. Provision for doubtful debts is calculated based on review of outstanding balances at the year-end.

2.10 Cash and Cash Equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash-in-hand and balances with banks.

4.2 The Company, subsequent to the balance sheet date, has initiated negotiations with MCB for arriving at new settlement terms. As per the proposed terms, the Company will enter into a Dividend Securitisation Agreement with MCB whereby finance facility provided by MCB will be further securitised by the creation of security interest over the dividends that may be declared by Kohinoor Energy Limited (KEL - an Associated Company).

As per the proposed Repayment Schedule prepared by the Company, the year-end balance of demand finance facility of Rs.41.614 million will be settled as follows:

(a) The Company will repay Rs.9.700 million to MCB from its own resources; nine monthly instalments of Rs.1.000 million commencing from July, 2003 to March, 2004 and the final installment of Rs.0.700 million will be repaid in April, 2004.

The remaining balance of Rs.31.914 million will be repaid out of the dividends to be declared and paid by KEL with effect from the year 2008. The Company's sponsoring directors hold 11,014,810 shares in KEL and they, through an irrevocable order pursuant to section 250 of the Companies Ordinance, 1984, will order KEL to tender / pay to MCB any and all dividends in cash declared by it in favour of the Company's sponsoring directors.

(b) The Company is of the view that on the basis of the aforementioned proposed settlement package, MCB will waive-off the DF-2 payable balance of Rs.36.102 million. Accordingly, in anticipation, DF-2 liability has been written-back in these accounts.

(c) In the opinion of the Auditors, the aforementioned liability reversal entry should have been incorporated after having received the specific positive consent from MCB in this respect. The Auditors, therefore, could not verify the authenticity and genuineness of this liability write-back of Rs.36.102 million.

(d) As per year-end balance confirmation certificate provided by MCB to the Company, mark-up amounting Rs.36.102 million for the period from 01 September, 1997 to 30 April, 1999 was frozen as a result of settlement. Future mark-up from 01 May, 1999 to onward is not being charged by MCB in view of a settlement reached with the Company in May, 2000 and shall be communicated to the Company once a new settlement / agreement is reached with the Company as previous agreement is no longer in field on account of the Company's default.

4.3 The Company, as per the rescheduling terms agreed with MCB during the financial year 1999-2000, should have paid amounts aggregating Rs.18.900 million. The Holding Company, during the year, has paid amounts aggregating Rs.5.000 million to MCB on behalf of the Company. The remaining balance of Rs.13.900 million has not been shown as Overdue Installments in these accounts. Further, installments of DF-1 falling due within the financial year 2003-2004 aggregating Rs.8.400 million have not been shown as current portion as the Company intends to repay amounts aggregating Rs.9.700 million as per the proposed Repayment Schedule as detailed in note 4.2 (a). This amount of Rs.9.700 million has been shown as current portion as at 30 June, 2003.

		2003	2002
		(Rupees in Thousand	
LONG TERM FINANCES AND OTHER LIABILITIES - Secured			
Muslim Commercial Bank Limited (MCB)			
Demand Finance -	4.1 &4.2	41,614	46,614
Demand Finance -	4.1(b)&4.2(b)		36,102
		41,614	82,716
Askari Commercial Bank Limited (ACBL)			
Running Finance	4.4	11,980	14,837
Accrued Mark-up	4.4	14,312	11,315
		26,292	26,152
		67,906	108,868
Less: Current portion grouped under			
current liabilities:			
Installments overdue:			
-DF-1		-	10,500
- Running Finance		635	3,434

- Accrued Mark-up		150	4,160
Installments due within following twelve months:			
-DF-1	4.2(a)	9,700	8,400
- Running Finance		3,442	4,269
-Accrued Mark-up		600	3,840
		14,527	34,603
		53,379	74,265

5.1 The Company, in prior years, had entered into lease agreements with Atlas Investment Bank Limited (Atlas), Lease Pak Limited (Lease Pak) and Pacific Leasing Company Limited (Pacific) to acquire plant & machinery. Originally, the liabilities under the lease agreements were payable in monthly installments by August, 2006 and were subject to finance charge at the rates ranging from 20.5% to 23.41% per annum.

5.2 The Company, during the year, has entered into a settlement package with Atlas whereby the lease contract has been terminated premature and the Holding Company on behalf of the Company paid all the due lease rentals. Atlas, subsequent to the balance sheet date, vide its letter dated 04 August, 2003 has confirmed that it has received all its dues. Atlas has also sold the leased plant & machinery by adjusting the Company's security deposit of Rs.2.0 million lying with it.

5.3 Lease Pak, vide its letter No.LPL/MKT/1 34/02 dated 05 June, 2002 has offered a Rescheduling Package for settlement of the Company's overdue liabilities.

The salient terms of this package are as follows:

(a) Out of the entire liability of Rs. 39.275 million (as per the Lease Pak's records), the Company was required to pay Rs.27.0 million to Lease Pak before 30 June, 2002. The Holding Company paid Rs.1 .0 million to Lease Pak during the preceding year and the balance of Rs.26.0 million has been paid during the current year.

(b) No mark-up would be charged on the remaining balance of Rs.12.275 million from 01 July, 2002 onwards.

(c) Waiver to the extent of Rs.12.275 million would be allowed to the Company by Lease Pak with the condition that the same would be directly associated with the lease finance facility of Rs.20.0 million offered to the Holding Company. The waiver would be spread over the currency of the lease term in correlation with the actual repayment performance by the Holding Company, determined each year. In case of default by the Holding Company, the entire amount of waiver amounting Rs.12.275 million would be called for.

(d) The Company, in contravention of the requirements of clause (c), has fully recognised the waiver of Rs.12.275 million in these accounts.

(e) Excess interest accruals in prior years aggregating Rs.2.009 million on lease finances provided by Lease Pak, as per the Company's records, have also been written-back during the year.

(f) Lease Pak, subsequent to the balance sheet date vide its letter No.LPL/MKT/294/03 dated 15 September, 2003, has confirmed that there is no liability against the Company as its liability has been shifted / undertaken by Pak Elektron Limited (PEL) through an agreement dated 10 June, 2002 and a consent decree dated 16 July, 2003. Furthermore, clause # D of the consent decree clarifies that, if PEL fails to satisfy the entire liability, the Company shall also be responsible for repayment of the entire liability outstanding on that date and the financial relief given to the Company shall also be withdrawn.

5.4 (a) During the year, the lease liabilities payable to Pacific have also been fully repaid by the Holding Company on behalf of the Company.

(b) Year-end nill balance certificate from Pacific could not be obtained due to the proposed merger of Pacific with First Crescent Modaraba.

(b) Accrued mark-up for the months from February, 2003 to April, 2003 was payable in lump sum by May, 2003.

(c) Consequent to the rescheduling adjustments, accrued mark-up aggregating Rs.1 .998 million as at 30 June, 2002 and mark-up accrued during the year upto 31 January, 2003 aggregating Rs.0.999 million (net of adjustment of Rs.0.082 million) have been merged with Accrued Mark-up (Long Term Liability) as at 30 June, 2003.

(d) The latest rescheduling agreement has resulted in reduction in mark-up liability by Rs.82 thousand.

(e) These facilities are secured against:

first pari passu charge on all present and future fixed and current assets of the Company;

corporate guarantee of PEL (the Holding Company); and

personal guarantees of some of the Company's directors.

	2003	2002
	(Rupees in thousand)	
5. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE-Secured		
Minimum lease payments		85,411
Less: Financial charges:		
- accrued during the year	-	6,239
- allocated to future periods	-	24,754
	-	30,993
	_	54,418
Less: Security deposits adjustable on expiry of lease terms		5,253

Present value of minimum lease payments	49,165
Less: Current portion grouped under current liabilities:	
- Installments overdue	5,986
- Installments due within following twelve months	7,746
	13,732
	35,433

(a) PEL, during the year, has charged mark-up @ 15% per annum on month-end balances.
(b) PEL, during the year ended 30 June, 2002, transferred funds to the Company aggregating Rs.3.800 million, made payments to leasing companies on behalf of the Company to the tune of Rs.2.600 million and charged mark-up amounting Rs.11.414 million.

8.2 Amount payable to an Associated Undertaking has been written-back during the year. The Auditors, in the absence of relevant supporting documents, could not verify this write-back.

8.3 The balance represents import costs, sales tax and income tax on imported television CKD kits paid by Shahnawaz Traders in terms of the agreement entered into as detailed in note. 1.3. The corresponding year-end debits are appearing under stock-in-trade amounting Rs.605 thousand (note 12) and income tax refundable amounting Rs. 1,644 thousand (note 14).

8.4 The Company had not accepted Regulatory Duty and Sales Tax levies aggregating Rs.2.262 million and Rs.7.037 million respectively on imported raw materials and filed writ petitions with the Peshawar High Court (the PHC) against these levies. The PHC decided the writ petitions in favour of the Company. The Department filed appeal against the judgment of the PHC before the Supreme Court of Pakistan, which dismissed the appeal for Regulatory Duty whereas the writ petition regarding sales tax is still pending with the Supreme Court of Pakistan.

TAXATION

9.1 The Project is set-up in Hattar Industrial Estate, District Haripur, N.W.F.P and enjoyed tax holiday for a period of eight years from the date of commencement of commercial production under clause 118C of Second Schedule to the repealed Income Tax Ordinance, 1979 (the Ordinance). Tax exemption was available upto May, 2003.

9.2 Provision for Minimum Tax for the tax exemption period leviable u/s 800 of the Ordinance was not required in view of decision of the Supreme Court of Pakistan dated 04 June, 1997.

9.3 Income tax assessments of the Company have been completed up to the Income Year ended 30 June, 2000 (Assessment Year 2000-2001).

9.4 (a) The Assessing Officer, while finalising the assessment for the Income Year ended 30 June, 1999 (Assessment Year 1999-2000), taxed revenues generated from assembling services rendered to Sony Pakistan (Pvt.) Limited u/s 80C of the Ordinance. Tax was also charged on exchange gain and bank profit u/s 30 of the Ordinance. The Assessing Officer raised total tax demands of Rs.0.629 million for the said year.
(b) The Assessing Officer, while finalising the assessment for the Income Year ended 30 June, 2000 (Assessment Year 2000-2001), treated the conversion charges received from Sony Pakistan (Pvt.) Limited as contract receipts and taxed these u/s 80C of the Ordinance. The Assessing Officer allocated all the lease rentals paid towards income u/s 80C and also made additions out of profit and loss account. The Assessing Officer raised total tax demands to the tune of Rs.1 .288 million.
(c) Appeals preferred before the Commissioner of Income Tax (Appeals) [CIT(A)j for the Assessment Years 1999-2000 and 2000-2001 have been decided by the CIT(A) on 01 September, 2003. The CIT(A) has held that assembling receipts form a part of manufacturing activity of the Company and the Company is entitled to exemption under clause 118C of Second Schedule to the Ordinance. The Assessing Officer has been directed to recompute business income / losses for these years.

9.5 The Assessing Officers while finalising assessments for the Assessment Years 1995-96 to 1998-99 taxed interest income and exchange gain on the grounds that the said income was not incidental to manufacturing activities. The Assessing Officers raised tax demands aggregating Rs.2.698 million for these years.

	Note	2003	2002
		(Rupees in thousand)	
CURRENT PORTION OF LONG TERM LIABILITIES			
Long term finances and other liabilities	4	14,527	34,603
Liabilities against assets subject to finance lease	5	-	13,732
		14,527	48,335
CREDITORS, ACCRUALS AND OTHER LIABILITIES			
Due to the Holding Company	8.1	172,589	89,001
Due to an Associated Undertaking	8.2	-	3,404
Creditors		62	1,345
Cost of imported television CKD kits	8.3	2,249	16,872
Advances from customers		1,499	1,543
Accrued expenses		750	1,113
Finance and other charges accrued on lease finances		-	10,372
Mark-up accrued on long term finances Excise duty on short term finances		632 19	1,998 19
Regulatory duty payable	8.4	2,262	2,262
Sales tax payable - prior years'	8.4	7,037	7,037
- current year		22	0
Due to employees		1,467	1,323

Income tax deducted at source		-	77
Payable to provident fund		1,525	693
Insurance claims payable		-	513
Provision against warranty claims of televisions assembled for Sony Pakistan (Pvt.) Limited (adjusted against Deposit Against Warranty Claims - note 14)		-	1,336
		190,113	138,908

		2003	2002
		(Rupees in Thousand	
11.1 Depreciation / amortisation charge for the year has been allocated as under:			
Cost of revenues	17	4,702	5,229
Administrative expenses	18	247	275
		4,949	5,504

11.2 Plant & machinery, financed by the leasing companies in prior years, have been transferred to owned fixed assets from leased fixed assets upon premature termination / settlement of lease agreements as fully detailed in note 5.

The leasing company-wise details of transfers are as follows:

	Cost of plant & machinery	Depreciation charged upto June 30, 2002
	(Rupees in Thousand)	
Atlas Investment Bank Limited	20,000	10,514
Lease Pak Limited	24,761	13,017
Pacific Leasing Company Limited	15,529	8,163
	60,290	31,694

The CIT (A), vide his order dated 20 November, 2000, held that interest income be charged to tax u/s 30 of the Ordinance and be set off u/s 34 of the Ordinance against the loss, if any, from any other source for the Assessment Years under appeal and so much of the loss as has not been so set off be carried forward and set off in accordance with section 35 of the Ordinance. The CIT (A) also ordered deletion of additions made under the head of exchange fluctuation gain.

The Income Tax Department for the Assessment Year 1995-96 has filed second appeal with the Income Tax Appellate Tribunal against the aforesaid orders of the CIT (A).

9.6 The re-assessments for the Assessment Year 1 995-96 to 1 998-99 in pursuance of the directions of the CIT (A) on the issue of computation of losses and the carry over of such losses have not yet been decided.

9.7 In view of accumulated accounting losses aggregating Rs.274.055 million, no provision for deferred taxation is required as at 30 June, 2003. The management is pursuing to get the Company's assessments finalised for all the assessment years to determine the quantum of available tax losses.

9.8 Year-end tax provision represents minimum tax leviable under section 11 3 of the Income Tax Ordinance, 2001 on revenues generated during the month of June, 2003.

1 0. CONTIGENCIES AND COMMITMENTS

10.1 No commitments were outstanding as at 30 June, 2003 (2002: Nil).

10.2 The Company filed a writ petition with the Lahore High Court (the LHC) against imposition of central excise duty on lease finances. The LHC dismissed the said petition; the Company, thereafter, has filed an appeal against the judgment of the LHC with the Supreme Court of Pakistan, which is pending adjudication. Excise duty on lease finances aggregating Rs. 0.233 million has not been provided for in these accounts.

		2003	2002
		(Rupees in thousand)	
16. REVENUES			
Shahnawaz Traders:			
Gross revenues	16.1	15,408	14,219
Less: Sales tax		2,010	1,855
		13,398	12,364
Sony Pakistan (Pvt.) Limited:			
Conversion charges	-		21,102
Less: Sales tax	-		2,752
	.		18,350
AVIA International:			
Conversion charges		919 -	
Less: Sales tax		120 -	
		799 -	
		14,197	30,714

COST OF REVENUES

Cost of television kits financed

by Shahnawaz Traders	14,994	9,447
Salaries, wages and benefits	5,899	3,117
Power and fuel	1,406	818
Travelling and conveyance	569	316
Repair and maintenance	55	68
Stores and spares consumed	100	44
Communication	114	81
Entertainment	126	55
Insurance	184	82
Vehicles' running	130	0
Printing and stationery	53	15
Depreciation	5,229	4,702
Research and development	91	38
Others	74	30
	29,024	18,813
Adjustment of work-in-process		
Opening	59	3,711
Closing	-3,711	-124
	-3,652	3,587
Cost of goods manufactured	25,372	22,400
Adjustment of finished goods		
Opening stock	16	95
Closing stock	-95	-520
	-79	-425
	25,293	21,975

	2003	2002
	(Rupees in thousand)	
13. TRADE DEBTS		
Receivable from customers - considered doubtful	9,222	9,422
Less: General provision for doubtful debts		
- Opening balance	9,422	9,422
- Bad debts recovered during the year	-200	-
	9,222	9,422
Receivable against assembling services provided to:		
- Sony Pakistan (Pvt.) Limited	-	3,064
- Shahnawaz Traders - considered good	215	573
Secured:		
Receivable against assembling services provided		
to AVIA International - considered good	170	-
	385	3,637

	2003	2002
	(Rupees in thousand)	
19.1 The following payable balances have been written-back:		
- Due to an Associ 8.2	3,404	-
- Payable to insurance companies	270	-
- Creditors' balances	208	-
	3,882	-
FINANCIAL CHARGES		
Mark-up on long term finances	1,713	1,842
Finance and other charges on lease finances	1,800	14,565
Mark-up on:		
Holding Company's advances	18,651	11,414
Short term advances advanced by		
Sony Pakistan (Pvt.) Limited	-	40
Interest on provident fund's balances	39	28
Bank charges	19	27
	22,222	27,916

17.1 These include Rs.298 thousand (2002: Rs.311 thousand) in respect of staff retirement benefits.

17.2 Purchases and sales of Shahbaz Brand have been incorporated in these accounts as the Company's purchases and sales despite the fact that as per terms of the agreement entered into with Shahnawaz Traders, the Company is only entitled to fixed conversion charges for assembling of imported television CKD kits, which have been imported in the name of the Company.

	2003	2002
	(Rupees in thousand)	
ADMINISTRATIVE AND SELLING EXPENSES		
Administrative:		

Salaries and benef 18.1	6,432	7,207
Travelling and conveyance	794	742
Vehicles' running	727	967
Communication	356	519
Printing and stationery	65	94
Repair and maintenance	67	70
Utilities	90	97
Insurance	34	12
Rent, rates and taxes	6	28
Entertainment	77	154
Depreciation	247	275
Electricity	360	290
Auditors' remuneration:		
Audit fee	75	75
Out-of-pocket expenses	10	10
	85	85
Legal and professional charges		
(other than Auditors')	419	290
Balance written off - others	20	-
Others	131	113
	9,910	10,943
Selling:		
Warranty claims / expenses	70	29
Handling and forwarding	-	24
	70	53
	9,980	10,996

27.2 Concentration of credit risk
Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Out of the total financial assets of Rs.0.497 million (2002: Rs.4.251 million), the financial assets which are subject to credit risk aggregated Rs. 0.494 million (2002: Rs.4.246 million).
27.3 Fair values of financial assets and liabilities
The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.
DATE OF AUTHORISATION
These financial statements have been authorised for issue by the Board of Directors of the Company in its meeting held on October, 2003.
GENERAL
Figures in the accounts have been rounded-off to the nearest thousand Rupees except stated otherwise. Corresponding figures have neither been re-arranged nor re-classified.

	2003	2002
	(Rupees in thousand)	
EARNINGS / (LOSS) PER SHARE - Basic		
Profit / (loss) after taxation		
attributable to ordinary shareholders	14,536	-33,490
	(Number	of shares)
Number of ordinary shares issued and		
subscribed at the end of the year	7,000,000	7,000,000
	(Ru|	Dees)
Earnings / (loss) per share	2.08	-4.78

REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES
24.1 No remuneration or meeting fee was paid to the Chief Executive and Directors during the year (2002: Nil).
24.2 Remuneration paid to Executives during the year:

Managerial remuneration	1,728	2,529
House rent	746	613
Utilities	173	253
Company's contribution to provident fund Expenses reimbursed	173	253
-Vehicles' running and maintenance	288	582
- Medical	105	179
Others	100	501
	3,313	4,910

CAPACITY AND PRODUCTION

	2003	2002
	(No. of Television Sets)	
Installed capacity	70,000	70,000
Assembled for:		
- Shahnawaz Traders	2,205	2,333

- AVIA International		1,398	-
- Sony Pakistan (Pvt.) Limited		-	19,096

Capacity utilisation is dependant upon overall market demand.

NUMBER OF EMPLOYEES

	2003	2002
	Number of Employee	
Number of employees	88	97

Consolidated Balance Sheet
As at June 30, 2003
PAK ELEKTRON LIMITED
PEL DAEWOO ELECTRONICS LIMITED

	Note	2003	2002
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised			
25,000,000 ordinary shares of Rs. 10/- each		250,000	250,000
Issued, subscribed and paid up	3	189,501	185,418
Reserves	4	125,100	156,519
Unappropriated profit/(loss)		39,794	-653,568
Loss of minority absorbed by the majority			
Shareholders' in the holding company		-81,622	-179,581
SHAREHOLDERS' EQUITY'		272,773	-491,212
NON CURRENT LIABILITIES			
Surplus on revaluation of fixed assets	5	1,485,077	1,799,315
Long term loans	6	791,210	863,308
Liabilities against assets subject to finance lease	7	48,439	76,698
Deffered taxation	8	11,641	-
Deferred income due to sale & lease back		2,758	3,518
Deferred Liabilities for gratuity		70	295
Grant in aid	9	79,339	79,339
CURRENT LIABILITIES			
Short term finances	10	1,132,927	949,053
Current portion of long term liabilities	11	298,324	513,589
Creditors, provisions and accrued liabilities	12	1,068,014	960,194
		2,499,265	2,422,836
	13		
CONTINGENCIES AND COMMITMENTS		5,190,572	4,754,097

We have examined the annexed consolidated financial statements comprising consolidated balance sheet of PAK ELEKTRON LIMITED (the holding company) and its subsidiary company as at June 30, 2003 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of PAK ELEKTRON LIMITED whereas PEL DAEWOO ELECTRONICS LIMITED was audited by other firm of Chartered Accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for such company, is based solely on the report of such other auditor. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was made in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures, as we considered necessary in the circumstances.

In our opinion, subject to un provided duties and taxes indicated at Note No. 18.2, 13.2 and matters mentioned in Note No. 14. 5 and 18.4.1 and following para (d), the extent to which these may effect and noncompliance of IAS 14 on segment reporting (Note No. 36.4), the consolidated financial statements examined by us present fairly the financial position of PAK ELEKTRON LIMITED and its subsidiary company as at June 30, 2003 and the results of their operations for the year then ended.

In the opinion of auditors of PEL Daewoo Electronic Limited, authenticity and genuineness of Demand Finance-2 liability written back amounting to Rs. 36.102 million and rescheduling adjustments incorporated by the company could not be verified in the absence of positive specific consent from Muslim Commercial Bank Limited (Note No. 6. 1.9. 1C).

Consolidated Profit and Loss Account
For the year ended June 30, 2003
PAK ELEKTRON LIMITED
PEL DAEWOO ELECTRONICS LIMITED

	Note	2003	2002
		(Rupees in thousand)	
SALES/ REVENUE - GROSS	21	3,729,669	3,298,246
SALES TAX		506,236	450,466
SALES - NET		3,223,433	2,847,780

COST OF SALES/ REVENUE	22	2,404,594	2,141,096
GROSS PROFIT		818,839	706,684
OPERATING EXPENSES			
Administrative	23	143,732	178,051
Selling	24	165,790	157,982
		309,522	336,033
OPERATING PROFIT		509,317	370,651
FINANCIAL EXPENSES	25	-352,959	-402,774
OTHER INCOME	26	1,489	24,478
OTHER CHARGES	28	-9,984	-3,934
PROFIT BEFORE TAXATION		147,863	-11,579
PROVISION FOR TAXATION			
Current		-30,946	-17,810
Deffered	8	-11,641	-
PROFIT/(LOSS) AFTER TAXATION		105,276	-29,389
EXTRA ORDINARY ITEMS	27	50,468	-
MINORITY INTEREST		-5,814	80,270
PROFIT FOR THE YEAR		149,930	50,881
Un-appropriated Loss brought forward	14.10.2	-653,568	-704,449
PEL share in losses of formerly PAL adjusted against Goodwi		361,104	-
		-292,464	-704,449
UN-APPROPRIATED LOSS		-142,534	-653,568
TRANSFERRED FROM REVALUATION SURPLUS		182,328	-
UN-APPROPRIATED PROFIT / (LOSS)		39,794	-653,568
EARNING PER SHARE	32	7.91	2.74

Consolidated Balance Sheet
As at June 30, 2003

	Note	2003	2002
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
Fixed Capital Expenditure	14	3,075,738	2,785,260
Long Term Investments	15	54,701	54,701
Long Term Deposits		6,034	5,886
		3,136,473	2,845,847
CURRENT ASSETS			
Stores, spares and stock in trade	16	846,754	718,517
Trade debts	17	749,701	811,049
Advances, deposits and prepayments	18	312,265	295,194
Short Term Investment	19	8,884	36,832
Cash and bank balances	20	136,495	46,658
		2,054,099	1,908,250

Consolidated Statement of Changes in Equity
For the year ended June 30, 2003
PAK ELEKTRON LIMITED
PEL DAEWOO ELECTRONICS LIMITED

(Rupees in thousand)

	Share Capital	Reserves	Reserves for Bonus Shares	Unappropriated Profit/ (Loss)	Minority Interest	Total
Balance as on 01-07-2001	185,418	125,100	-	-704,449	-99,311	-493,242
Reserves of subsidery company (PAL)	-	31,419	-	-	-	31,419
Net profit/(loss) for the year	-	-	-	50,881	-80,270	-29,389
Balance as on 30-06-2002	185,418	156,519		-653,568	-179,581	-491,212
Balance as on 01-07-2002	185,418	156,519	-	-653,568	-179,581	-491,212
Issued against acquisition of subsidiary company	4,083		-	-		4,083
Amount transferred to Goodwill on Merger	.	-31,419	.	361,104 Note (14.10.2)	92,145 Note (14.10.2)	421,830
Transferred from/ to	-	-47,375	47,375	-	-	-
Balance transferred from Revaluation surplus	-	-		182,328	-	182,328
Net profit for the year	-	-	-	149,930	5,814	155,744
Balance as on 30-06-2003	189,501	77,725	47,375	39,794	(81 ,622)	272,773

Consolidated Cash Flow Statement
For the year ended June 30, 2003
PAK ELEKTRON LIMITED
PEL DAEWOO ELECTRONICS LIMITED

	2003	2002
	(Rupees in thousand)	

CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from customers	3,740,469	3,323,908
Cash paid to suppliers and employees	-3,013,008	-2,483,039
Cash generated from operations	727,461	840,869
WPPF Paid	-3,614	-
Markup paid	-355,999	-476,989
Tax payment	-17,130	-19,564
Net cash flow from operating activities	350,718	344,316
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditures	-124,057	-106,136
Proceeds from sale of fixed assets	2,696	1,009
Proceeds from sale of investment	8,497	381
Net decrease/ (icrease) in long term deposits	-170	1,379
Interest received	18	6,399
Dividend received	-	1,386
Net cash flow from investing activities	-113,016	-95,582
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of long term loans	-284,989	-148,811
Payment of lease liabilities	-74,590	-42,713
Decrease in short term finances	183,874	-86,912
Bank overdraft	-	-439
Mark up on long term finances	-2,997	-158
Lease finance charges paid	-10,163	-6,740
Sale and leaseback	41,000	33,161
Net cash flow from financing activities	-147,865	-252,612
Net decrease in cash and cash equivalents	89,837	-3,878
Cash and cash equivalents at the beginning of the year	46,658	50,536
Cash and cash equivalents at the end of the year	136,495	46,658

Stores, Spares and Stock-in-Trade

Inventories are valued at lower of cost or market value. The cost in relation to raw materials, components, spares and loose tools represent the average moving cost except the goods in bonded warehouse and in transit are stated on actual cost. The cost of work in process and finished goods comprises of cost of materials, labour at actual and factory overheads on proportionate to labour. While in case of Pel Daewoo Electronics Limited the work in process and finished goods, at lower of the manufacturing cost and net realisable value. Raw material at lower of specific cost and net realisable value and stock in transit at inovice value and other charges incurred to the balance sheet.

Foreign Currency Conversion

Foreign currency liability is converted at exchange rates prevailing at the balance sheet date. Variances relating to fixed assets are adjusted against the value of respective assets, while others are charged to current year's income.

Revenue Recognition

The sale of goods is recognized on delivery of goods to customers.

Deferred Costs

Expenses, the benefit of which is expected to spread over several years, are deferred and amortized over a period of not more than five years.

Financial Instruments

All financial assets and liabilities are recognized at the time when the Cotnpany becomes a party to the contractual provisions of the instrument. Any gain or loss on the recognition and de-recognition of financial assets and liabilities are included in the profit and loss for the period in which it arises.

Offsetting of financial assets and financial liabilities

A financial asset and financial liability is offset and 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.

Provisions

A provision is recognized in the balance sheet when the Company has the legal or constructive obligation as a result of past event, it is probable that as outflow of the recourses embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

		2003	2002
		(Rupees in thousand)	
SHARE CAPITAL			
Authorised			
25,000,000 ordinary shares of Rs.10/- each		250,000	250,000
Issued, subscribed and paid-up			
18,950,073 ordinary shares of Rs.10/- each fully paid			
8,352,500 shares for cash		83,525	83,525
10,051,800 shares as bonus shares		100,518	100,518
137,500 shares against building and machinery		1,375	1,375
408,273 shares intended to be issued on acquisiton	3.1	4,083	-
		189,501	185,418

SURPLUS ON REVALUATION OF FIXED ASSETS

Opening revaluation on surplus	1,667,405	1,803,118
Revaluation released due to sale and lease back		-3,803
Transfer to P&L Account	(182,328)	-
Closing revaluation on surplus	1,485,077	1,799,315

Waiver to the extent of Rs.12.275 million would be allowed to the Company by Lease Pak with the condition that the same would be directly associated with the lease finance facility of Rs.20.0 million offered to the Holding Company. The waiver would be spread over the currency of the lease term in correlation with the actual repayment performance by the Holding Company, determined each year. In case of default by the Holding Company, the entire amount of waiver amounting Rs.12.275 million would be called for.

The subsidiary Company, in contravention of the requirements of clause (c), has fully recognised the waiver of Rs.12.275 million in these accounts.

Excess interest accruals in prior years aggregating Rs.2.009 million on lease finances provided by Lease Pak, as per the Company's records, have also been written-back during the year.

Lease Pak, subsequent to the balance sheet date vide its letter No.LPL/MKT/294/03 dated 15 September, 2003, has confirmed that there is no liability against the Company as its liability has been shifted / undertaken by Pak Elektron Limited (PEL) through an agreement dated 10 June, 2002 and a consent decree dated 16 July, 2003. Furthermore, clause #D of the consent decree clarifies that, if PEL fails to satisfy the entire liability, the subsidiary Company shall also be responsible for repayment of the entire liability outstanding on that date and the financial relief given to the Company shall also be withdrawn.

	2003	2002
	(Rupees in thousand)	
DEFERRED TAXATION		
This is comprises of the following:		
Deferred tax liabilities		
Difference in tax and accounting base of owned assets	117,449	-
Difference in tax and accounting base of leased assets	6,963	-
	124,412	_
Less:		
Deffered tax Assets		
Difference in tax and accounting base of deferred income	905	-
Difference in tax and accounting base of Grant in aid	26,041	-
Tax credits available u/s 25-c	85,825	-
	112,771	-
Net Deferred tax liability	11,641	-
GRANT IN AID	79,339	79,339

	2003	2002
	(Rupees in thousand)	
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Balance from previous year	114,636	119,583
Assets acquired during the year	43,957	37,766
Financial charges capitalized	-	2,503
	158,593	159,852
Less: Payments made during the year	74,591	45,216
	84,002	114,636
	35 563	37 938
	48,439	76,698

The present value of minimum lease payments have been discounted at an effective interest rate of 17% to 21% per annum. Repairs and insurance costs are to be borne by the lessee.
The liability is secured by deposit of Rupees 6.034 Million (2002 - Rs. 1 1 . 1 1 7) million and personal guarantees of directors of the Company.
The company intends to exercise its option to purchase the leased assets at the termination of the lease period.
7.1 Lease Pak, vide its letter No.LPL/MKT/1 34/02 dated 05 June, 2002 has offered a Rescheduling Package for settlement of the Company's overdue liabilities.
The salient terms of this package are as follows:
(a) Out of the entire liability of Rs.39.275 million (as per the Lease Pak's records), the subsidiary Company was required to pay Rs.27.0 million to Lease Pak before 30 June, 2002. The Holding Company paid Rs.1 .0 million to Lease Pak during the preceding year and the balance of Rs.26.0 million has been paid during the current year.
(b) No mark-up would be charged on the remaining balance of Rs. 12.275 million from 01 July, 2002 onwards.

	2003	2002
	(Rupees in thousand)	
CREDITORS, PROVISIONS AND ACCRUED LIABILITIES		
Trade creditors	110,183	160,487

Foreign bills payable	12.1	349,724	205,347
Accrued liabilities	12.2	60,429	73,645
Cost of imported televisions	12.3	2,249	16,872
Accrued interest / mark-up on secured loans		200,018	225,238
Advances from customers		92,289	140,793
Sales tax payable	12.4(a&b)	224,191	109,689
Employees provident fund		3,363	4,460
Regulatory duty payable	12.5	3,737	2,262
Import duties and surcharge payable	12.6 (a)	20,017	15,550
Taxes deductede at source under section 153	12.6 (b)	456	295
Workers welfare fund payable		1,358	-
Due to associated companies		-	5,556
		1,068,014	960,194

Accrued liabilities includes worker's profit participation fund:

Balance at the beginning of the period	4,224	2,613
Provided/ charged during the year	8,593	3,934
	12,817	6,547
Period during the year	-3,614	-2,323
Balance at the end of the period	9,203	4,224

The balance represents import costs, sales tax and income tax on imported television CKD kits paid by Shahnawaz Traders in terms of the agreement entered into as detailed in note. 1.3. The corresponding year-end debits are appearing under stock-in-trade amounting Rs.605 thousand (note 12) and income tax refundable amounting Rs. 1,644 thousand (note 14).

Sales tax consist of Rs. 15.572 Million relating to the year ended 2001, Rs.66.274 Million year ended 2002 and Rs. 135.286 Million year ended 2003.

The subsidiary Company had not accepted Sales Tax levy amounting Rs.2.262 million on imported raw materials in earlier years honourable Peshawar High Court (the PHC) decided the matter in the favour of the company, department has filed appeal before the Supreme Court of Pakistan, which is still pending for decision.

The subsidiary Company aslo had not accepted Regulatory Duty Rs.7.037 million on imported raw materials in earlier years and filed writ petitions with the honourable Peshawar High Court (the PHC) against this levy. The honourable PHC decided the writ petitions in favour of the Company. The Department filed appeal against the judgment of the PHC before the honourable Supreme Court of Pakistan, which was dismissed.

The United Nations Industrial Development Organization vide its contract No. 2000/257 dated 15-12-2000, out of the multilateral fund for the implementation of the Montreal protocol, has given grant in aid to PEL for the purpose of phasing out ODS at the Refrigerator and Chest *Freezer* Plant of the Company. The capital cost of the project included in fixed assets is U.S.$ 1,185,929 equal to Rs. 79,338,650 comprising of U.S. $ 1,028,591 towards capital cost and U.S.$ 157,338 for implementing agency's overheads. The grant recoverable in cash is U.S. $181,704 being the incremental operating cost for six months and in this way the overall grant in aid amounts to U.S.$ 1,367,633 equal to Rs. 91,073,838. The grant recoverable in cash amounting to Rs. 11,735,188 was recognised as income in the year ended June 30, 2001.

The value of machinery recieved in grant was capitalized in year 2001 and same was not installed upto the date of balance sheet. The management has decided that grant in aid will be amortized and depreciation will be charged on machinery when it is installed and put it into operation keeping in view the matching principle.

		2003	2002
		(Rupees in thousand)	
SHORT TERM FINANCES - SECURED	(Limit)		
From:			
Banking companies			
Running finance	1147	1,074,575	882,526
Financial institutions	49	32,343	38,611
Import bills purchased		-	9,306
Book Overdrawn		26,009	18,610
		1,132,927	949,053

CURRENT PORTION OF LONG TERM LIABILITIES

Long term loans	262,761	475,651
Liabilities against assets subject to finance lease	35,563	37,938
	298,324	513,589

14.1.1 Depreciation for the year has been charged to

	2003	2002
	(Rupees in thousand)	
Cost of Sales	119,568	103,165

Administrative Expenses	2,491	2,598
	122,059	105,763

14.2.1 Depreciation for the year has been charged to

	2003	2002
	(Rupees in thousand)	
Cost of Sales	5,867	6,753
Administrative Expenses	2,348	2,560
	8,215	9,313

CONTINGENCIES AND COMMITMENTS

13.1 The banks and insurance companies have arranged guarantees, letter of credit and discounting of receivable from WAPDA/ KESC on behalf of the Company as detailed below:

	2003	2002
	(Rupees in thousand)	
Tender bonds	48,086	14,500
Performance bonds	191,400	166,983
Advance guarantees	46,996	29,175
Custom guarantees	19,138	19,778
Letters of credit	139,221	175,475
Turnover tax and other disputed liability	49,674	40,763
Bills discounted	302,351	61,491
Foreign guarantees	4,432	4,432
Corporate and other guarantees	269,587	268,286
Mark up and penaties on royaty and loans	14,336	16,496
Service charges on imports	4,325	4,325

FIXED CAPITAL EXPENDITURE

Operating assets:			
Own	14.1	2,872,919	2,606,636
Provision for anticipated Loss		-2,781	-2,781
		2,870,138	2,603,855
Subject to finance lease	14.2	105,217	98,071
Received through grant in aid	9	79,339	79,339
Capital work in progress	14.9	21,044	3,995
		3,075,738	2,785,260

In subsidiary company, plant & machinery, financed by the leasing companies in prior years, have been transferred to owned fixed assets from leased fixed assets upon premature termination / settlement of lease agreements as fully detailed in Note 7.

The Auditors, in the absence of relevant supporting documents, could not verify the transfer of ownership of leased assets in the Company's name.

Vehicles, having year-end book value of Rs.367,950, being used by the subsidiary Company's employees are not in the name of the Company.

	2003	2002
	(Rupees in thousand)	
14.9 CAPITAL WORK-IN-PROGRESS		
Building	9,378	1,730
Machinery	11,666	2,265
	21,044	3,995
14.10 GOODWILL		
Intangible Trade Marks	21,333	-
Net Worth of PAL	184,922	-
Investment in subsidiary Co.	83,639	-
Shares issued on acquisition	4,083	-
Goodwill arised on acquisition	293,977	-
Less: Amortization	14,699	-
Balance as at 30.06.2003	279,278	-
14.10.1 Goodwill is amortized over a period of 20 years.		
14.10.2 Net worth of PEL APPLIANCES LIMITED includes:		
PEL share in losses as reduced by amortization of intangible and unrealized profits	361,104	-
Amortization of intangible assets and un realized profits	15,973	-
Minorities share in capital, reserves and revaluation surplus	92,145	-
	469,222	-
Less:		
Share of holding company in reserves of subsidiary company	31,419	-
Share of holding company in revaluation surplus of subsidiary compan	131,909	-

Investment of holding Company in share capital of subsidary comapny		83,639	-
Intangible assets written off		37,333	-
		284,300	-
		184,922	-

		2003	2002
		(Rupees in thousand)	
TRADE DEBTS - UNSECURED			
Trade Debts			
- Considered good		749,701	811,049
- Considered doubtful		193,393	156,061
		943,094	967,110
Provision of doubtful debts		-193,393	-156,061
Balance debts - considered good		749,701	811,049

The balances coming from more than three years (included in debts of Rs. 749.701 Million) are Rs. 111.817 Million (2002- Rs. 123.355 Million). The management of the company is confident that they would be in a position to recover substantial amount of such debt.

ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances to employees for:			
Purchases		7,844	6,172
Expenses		1,191	1,554
Others		3,022	2,587
		12,057	10,313
Less: Provision for doubtful advances		-1,299	-1,299
Advances considered good		10,758	9,014
Advances to suppliers and contractors		104,522	115,724
Less: Provision for doubtful advances		-32,771	-30,706
Advances to suppliers and contractors		71,751	85,018
Advance Excise Duty & Sales tax	18.1a	23,644	25,120
Letters of credit		694	867
Security deposits		17,655	16,388
Less: Provision for security deposits		-4,189	-2,191
		13,466	14,197
Margin deposits		32,484	38,914
Prepaid expenses		3,070	3,942
Custom duty refundable	18.2	41,751	41,751
Tax receivable (Payment less provision for taxation)	18.3	15,350	29,168
Due from associated companies	18.4	21,826	42,465
Other receivable	18.5	77,471	4,738
		312,265	295,194

18.1 .a It includes Rs. 11.914 million on account of regulatory duty. The matter was decided by the Honourable Peshawar High Court in favour of the company but Custom Authorities have filed an appeal before the Honourable Supreme Court of Pakistan against relief allowed. The Honourable Apex court vide its judgement dated 12-01-1999 decided the issue involved against the revenue authorities.

18.1.b It also includes Rs11.725 million on account of custom duty and sales tax. In 1996 the company lodged a claim for Rs. 27.835 million with A.C customs central excise and sales tax for the custom

	2003	2002
	(Rupees in thousand)	
LONG TERM INVESTMENTS - AT COST		
15.1 In associated companies	54,701	54,701
15.1.1 Kohinoor Power Companv Limited	54,701	54,701
2,772,000 ordinary shares of Rs.10/- each		
Equity held 23.10 % market value of share is Rs. 9.00		
per share = *Rs.* 24.948 Million (2002 - 2,772,000		
ordinary shares of market value of shares Rs. 4.10		
per share = Rs.11.365 Million)		

STORES, SPARES AND STOCK-IN-TRADE		
- Stores and spares		
Stores	1,368	1,150
Machinery maintenance spares	25,060	23,482
Loose tools	12,866	10,162
Less: provision for obsolete stock	-10,469	-5,814
	28,825	28,980
- Stock-in-trade		
Raw materials and components		

in stores	16.1	206,344	248,188
in bonded warehouse		224,259	154,586
in transit		106,912	33,050
Less: provision for obsolete stock		-2,320	-1,440
		535,195	434,384
Work-in-process		238,331	150,086
Less: provision for obsolete stock		-2,228	-2,228
		236,103	147,858
Finished goods		56,269	112,601
Less: provision for obsolete stock		-9,638	-5,306
		46,631	107,295
		817,929	689,537
		846,754	718,517

The sales of subsidiary includes conversion charges amounting Rs.1.142 million (2002: Rs.1.073 million) • earned by the subsidiary Company against assembling services provided to Shahnawaz Traders and the remaining balance amounting Rs.14.266 million (2002: Rs.13.146 million) represents cost of television kits financed by Shahnawaz Traders accounted for as sales in these accounts. Also refer contents of: note 22.1.2.

22. COST OF SALES/ REVENUE

	Note	2003	2002
		(Rupees in thousand)	
Raw materials and components	22.1.1	1,916,605	1,719,803
Direct wages		91,006	83,040
Factory overheads (Note 22.1)		296,290	251,105
		2,303,901	2,053,948
(Increase)/decrease in work-in-process			
Opening inventory		150,086	173,588
Closing inventory		-238,331	-150,086
		-88,245	23,502
Cost of goods manufactured		2,215,656	2,077,450
Finished goods purchased		132,576	60,808
(Increase)/decrease in finished goods			
Opening inventory		112,631	115,439
Closing inventory		-56,269	-112,601
		56,362	2,838
		2,404,594	2,141,096
22.1 Factory overheads			
Salaries and other benefits		86,455	82,737
Travelling and conveyance		4,522	5,304
Electricity and gas		45,382	41,498
Repairs and maintenance		37,390	31,595
Vehicles running and maintenance		3,029	2,710
Insurance		8,266	7,661
Depreciation/Amortization		125,435	109,754
Carriage and freight		6,559	7,591
Erection and testing		11,815	5,101
Provision for obsolete stock		9,868	4,010
Other factory overheads		2,422	2,887
		341,143	300,848
Less: Charged to			
Component fabricated		42,964	49,370
Operating assets		1,889	373
		44,853	49,743
		296,290	251,105

duty and sales tax under SRO No 108(1)/95 dated 12-02-1995 but claim was entertained to the extent of Rs.16.111 million. The writ filed for the balance amount of Rs. 11.725 million was decided in favour of the company by the Honourable Peshawar High Court vide its order dated 2-08-2001. The custom authorities has since filed an appeal before Supreme Court against the judgement of Honourable Peshawar High court.Which as confirmed by legal advisor is yet pending.

The matter was decided by Honourable Lahore High Court in favour of company. On appeal by the department, the Honourable Supereme Court of Pakistan reversing the judgment of Honourable Lahore High Court granting exemption to the company from levy of regulatory duty imposed under SRO 1050(1)/97 decided the matter against company vide their judgment dated 12-01-1999. A review petition filed under article 188 of the constitution of Pakistan before the Apex Court is yet subjudice.

It includes Rs.7.128 Million paid against tax liability pertaining to assessment year 1995-96 disputed in appeal before Honourable Lahore High Court.

It includes tax amounting Rs. 1.644 Million levied by the Custom Authorities on import of television kits financed by Shahnawaz Traders concerning PEL Daewoo Electronics Ltd.

It comprise of due from Saigol Qingqi Motors Ltd. Rs. 21.826 Million (2002: Rs. 18.740 Million) Kohinoor Industries Ltd. Rs. Nil (2002: Rs. 23.725 Million).

Advances made to associated company reffered above to the tune of Rs.21.826 Million are without authority of special resolution as required by the provisions of section 208 of the Companies Ordinance 1984.

Other receivables include claims lodged with different foreign suppliers amounting to Rs. 65.087 Million and refund claim of mark up paid amounting to Rs. 9.921 Million stated at Note No. 6.1.4a . A sum of Rs.32.906 Million has been received from claims lodged with foreign suppliers up to the date of report.

SHORT TERM INVESTMENT

UNION BANK LIMITED 762,765 ordinary shares of Rs.10 each Market value of shares is Rs. 15.05 per share = Rs.11.480 million (2002: 1,675,265 ordinary shares of market value of Rs.7.10 per share = Rs.11.894 million).	12,978	36,832
Less: Provision for short fall in the value of investment	-4,094	-
	8,884	36,832

19.1 During the last year 1,085,000 shares with the cost of Rs. 23.855 Million were sold for Rs. 8.550 Million, while expenses of Rs. 0.0526 Million were incurred on sales thus making the loss of Rs. 15.357 Million.

CASH AND BANK BALANCES

Cash in hand	14,755	7,774
Balance with banks - on current accounts	121,731	38,599
on saving accounts	9	285
	136,495	46,658

SALES/ REVENUE - GROSS

Local	3,953,973	3,453,763
Discount	-269,764	-178,864
	3,684,209	3,274,899
Export	45,460	23,347
	3,729,669	3,298,246

	2003	2002
	(Rupees in thousand)	

FINANCIAL EXPENSES

Bank charges and commission	25,778	31,960
Interest/mark-up on:		
- Long term loans	108,930	134,673
- Short term loans	201,750	211,926
Financial charges on leased assets	16,501	23,919
Holding /Associated Companies	-	296
	352,959	402,774

OTHER INCOME

Profit on disposal of operating assets	1,092	-1
Commission Income	6,292	14,609
Loss on sale of Investment	-15,357	-749
Dividend income	-	1,386
Mark-up income :		
- from bank deposit	218	543
- from associated undertakings	7,120	6,931
	7,338	7,474
Amortization of deferred income	2,124	1,759
	1,489	24,478

EXTRAORDINARY ITEMS

These represent write-back of following liabilities:

Anticipated waiver to be allowed by Muslim Commercial Bank Limited in respect of Demand Finance - 2	6.1.9	36,102	-
Reduction in mark-up liability due to rescheduling of finances provided byAskari Commercial Bank Limited	6.1.12	-	
Waiver to be allowed by Lease Pak Limited in respect of lease finances	7.3	12,275	-
Excess interest accruals in books on lease			

finances provided by Lease Pak Limited	7.3	2,009	-
		14,284	-
		50,468	

22.1.1 Purchases and sales of Shahbaz Brand have been incorporated in these accounts as the Company's purchases and sales despite the fact that as per terms of the agreement entered into with Shahnawaz Traders, the Company is only entitled to fixed conversion charges for assembling of imported television CKD kits, which have been imported in the name of the Company.

	2003	2002
	(Rupees in thousand)	
ADMINISTRATIVE EXPENSES		
Salaries and other benefits	53,029	52,900
Travelling and conveyance	5,653	4,730
Rent, rates and taxes	2,200	2,317
Legal and professional	2,906	1,767
Electricity and gas	5,370	4,283
Auditors' remuneration		
Audit fee	275	170
Tax consultancy and out of pocket expenses	660	665
	935	835
Repair and maintenance	5,137	4,671
Vehicles running and maintenance	5,869	5,528
Printing, stationery and periodicals	5,098	4,564
Postage, telegrams and telephones	4,173	4,091
Entertainment and staff welfare	1,546	762
Advertisement	215	529
Insurance	921	690
Provision for doubtful debts and advances (less reversal if any)	39,618	82,870
Provision for security deposits	1,998	2,191
Provision for short fall in short term investment	4,094	-
Depreciation/Amortization	4,839	5,323
Others	131	-
	143,732	178,051
SELLING EXPENSES		
Salaries and other benefits	39,884	34,796
Travelling and conveyance	10,782	9,046
Rent, rates and taxes	6,808	8,070
Electricity and gas	2,770	2,441
Repairs and maintenance	2,513	2,103
Vehicles running and maintenance	3,838	3,396
Printing, stationery and periodicals	2,996	2,952
Postage, telegrams & telephones	8,370	7,980
Entertainment and staff welfare	1,782	2,335
Advertisement and sales promotion	33,897	27,638
Insurance	906	1,640
Freight and forwarding	30,945	28,108
Contract and tendering	386	162
Warranty period services	19,913	18,224
Royalty	-	9,091
	165,790	157,982

	2003	2002
AVERAGE NUMBER OF EMPLOYEES	2,761	2,802
EARNING PER SHARE		
Profit after taxation (Rs. 000)	149,930	50,881
Number of shares	18,950,073	18,541,800
Earning per share (Rs.)	7.91	2.74

	2003	2002
	(Rupees in thousand)	
TRANSACTIONS WITH ASSOCIATED COMPANIES AND MAXIMUM DEBIT BALANCES		
Mark-up earned	7,120	6,931
Mark-up paid	-	296
The maximum amount due at the end of any month	21,826	42,465

28.1 WORKER'S PROFIT PARTICIPATION FUND

Mark-up from subsidiary / associated companies (note 26) has not been considered in the calculation of WPPF as per the opinion of legal advisor.

28.2 These represents sale tax penalties paid by the subsidiary company

29 PROVISION FOR TAXATION

29.1 Current:

i) Taxes provided in the accounts for the year ended on 30.06.2003 are on the taxable income of the company while the tax holiday concession allowable to sibsidiary Co. i.e. PEL DAEWOO ELECTRONICS LTD. under Clause-118 C of the Second Schedule to the Income-tax Ordinance, 1979 expired in May, 2003. No provision \s raised respecting Subsidiary Co. in view of the exemption available to it from the application of provision of section 80 D of the replealed Ordinance, 1979. Losses of the said subsidiary Co. for the early years are yet to be recomputed as decided by the CIT (A) who held that losses sustained even that of tax holiday period were available for set off and carry forward in terms of sections 34 & 35 of the Repealed Ordinance (Corresponding sections 56 & 57) of the Ordinance, 2001 .

ii) As reported in early years the IAC exercising powers conferred on him by Section 66 A of the repealed Ordinance, 1979 set aside the orders relating to assessment years 1995-96 to 1998-99 for revised assessment in light of his directions but assessments were not modified till today.

iii) Contingent liability amounting to Rs. 49.674 Million indicated at Note No. 13.1 includes Rs. 43.571 Million of PEL APPLIANCES for the period prior to merger mainly comprising of turnover tax under section 80 D and business profits. The Management of the Company is confident that demand raised under section 80 D is not payable since its case was fully protected by Reform Act, 1992. Cross appeals filed both by the Company and the department on the issue of the turnover tax liability under section 80 D and on the taxability of markup are yet not concluded by the competent court of law.

iv) Included in the contingents liability are Rs. 6. 1 03 Million of the Company (PEL) for the assessment years 2001-02 to 2002-03 and the liability of Rs. 4.526 Million is pertaining to assessment year 2001-02 when grant in aid was taxed and some other curtailments were made which are all contested in appeals.

Effective interest rates for the monetary financial assets ranges from 5 % to 16 %.

Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted.

Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair value except short term investments which stated at cost.

GENERAL

1 . Balance confirmation letters were circulated to debtors and creditors for confirmation direct to the auditors, only a few replies were received.

2. Figures have been rounded off to the nearest of thousand rupees and the figures of previous year have been reclassified wherever necessary, for the purpose of comparison.

3. These financial statements were authorised for issue on October 9, 2003, by the Board of Directors of the company.

4. Keeping in view of the prevalent market competition, management has decided not to give disclosure of segment reporting.

FINANCIAL INSTRUMENTS

Interest Risk Management

Interest rate risk is the risk that value of a financial instrument will fluctuate due to changes in market interest rates. Changes in interest rates can adversely affect the rates charged on interest bearing assets/liabilities. This can result in an increase in interest expense relative to finance income or vice versa. The company manages its risk by maintaining a fair balance between interest rates, financial assets and financial liabilities.