

Pakistan Engineering Company Limited

Annual Report 2001

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COMPANY INFORMATION

BOARD OF DIRECTORS

Mian Suhail Aslam (Chairman)
Mr. M. Imtiaz-ur-Raheem (Chief Executive)
Mr. Yasin
Tahir
Mr. Jawaid Iqbal Mufti
Mr. Mohammad Shabbir Alam
Mr. S. Zubair Ahmad
Syed Aijaz Ali Abbasi
Mr. Liaqat Mohammad
Mr. Mohammad Shabir Malik
Sheikh Asif Salam

COMPANY SECRETARY Mr. Muhammad Aslam Javaid

BANKERS

National Bank of Pakistan
United Bank Limited
Habib Bank Limited
American Express Bank Limited
Emirates Bank International Limited

AUDITORS

S.M. Masood & Company
Chartered Accountants

REGISTERED OFFICE 6-Ganga Ram Trust Building,
Shahrah-e-Quaid-e-Azam,
Lahore.

BRANCHE S
Karachi
Islamabad
Peshawar
Quetta

PLANT Kot Lakhpat, Lahore.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 52nd Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7 - Davis Road, Lahore, on Saturday, December 22, 2001 at 10.30 a.m. to transact the following business:-

1. To confirm the minutes of 51st Annual General Meeting held on December 23, 2000.
2. To receive, consider and adopt the Audited Accounts of the company for the year ended June 30, 2001 together with the Auditors' and Directors' reports thereon.
3. To appoint Auditors for the year ending June 30, 2002 and fix their remuneration. The present Auditors M/s. S.M. Masood & Company, Chartered Accountants, being eligible for reappointment have offered themselves for reappointment.
4. To transact any other business with the permission of the Chair.

**BY ORDER OF THE
BOARD**

November 17, 2001
Lahore

**(Muhammad Aslam
Javaid)
Company Secretary**

NOTES:

1. The Share Transfer Books of the company shall remain closed from December 10, 2001 to December 22, 2001 (Both days inclusive).
2. A member entitled to attend and vote at this meeting is entitled to appoint any person as a proxy and vote on his / her behalf. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the time of the meeting.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at this Meeting, must bring his/her NIC or passport to prove his/her identity and in case of Proxy

must enclose an attested copy of his/her NIC or Passport. Representatives of corporate members should bring the usual documents required for such purpose.

4. The shareholders are requested to notify the change of address, if any, immediately.

CHAIRMAN'S REVIEW

It is great pleasure for me to welcome you, on behalf of the Board of Directors to the 52nd Annual General Meeting of the company and present to you its Audited Accounts for the year ended June 30, 2001 along-with Auditors' Report.

OVERVIEW

W

Before discussing the operating results, I would like to give the overall view of the situation in which your company operated. The company participated in two WAPDA International Tenders of 500 KV Electricity Transmission Towers for transmitting electricity generation from Ghazi - Brotha power house. The transmission lines Brotha-Rewat & Rewat-Lahore were tendered in July 2000 and April 2001 financed by Islamic Development Bank (IDB) and Kuwait Fund respectively. Number of participating countries increased, resulting in very tough competition. Due to some factors, the final decision was delayed by the financing agencies particularly IDB. Although your company was recommended by WAPDA for awarding both these contracts, **however only Rewat-Lahore section contract valuing Rs.380 million has been awarded very recently to your company.**

In addition to this as mentioned in previous year report under "Future Outlook", WAPDA has now finalized and issued LOI to Central China Power Group (CCPG), for 500 KV Muzzafargarh-Gatti line (bidder's financing) with whom your company entered into MOU in September, 2000, for supply of towers against this contract. Therefore, we expect a business of **approximately Rs.350 million from CCPG, China.**

In order to make your company a viable organization, and improve its profitability company management submitted an operational plan in June 2000, with closing down of loss contributing products, and pay off the employees of those shops as well as reduce employees of proposed shops to be operated. The loss contributing shops were closed under Government decision, however, necessary funds to pay off employees were not provided, which adversely affected the loss position.

Pak Rupee devalued by 23% during the year under review. It resulted in imported material, local material, and energy cost increase.

OPERATING RESULTS

In spite of the above, your company could have made higher sales during the year under review than last year, but could not achieve desired results due to following reasons

(a) Orders valuing Rs.200 million could not be executed due to shortage of working capital, as salaries to closed shops had to be paid without work, and NBP refused to increase of Rs. 100 million in working capital limit.

(b) Abnormal delay in finalization and award of 500 KV Transmission Towers order against which export financing could have been available, and helped in over-coming working capital shortage to a large extent.

(c) Credit purchases with mark-up and carrying cost of stocks due to delay in successful testing of Double Circuit towers in China, being installed first time in your country.

(d) Increase in cost of materials due to devaluation of local currency, and energy rates increase.

The sales, therefore, declined by Rs. 122 million 24% over last year. The company suffered gross loss, and net loss for the year increased to Rs. 168 million as against Rs. 110 million last year.

FUTURE OUTLOOK:

Two packages of 220 KV lines financed by JBIC, on turn-key basis were tendered during the years 1999 & 2000. Package-I deal has been finalized by WAPDA with M/s. Sichuan Electric Company, China. Your company had quoted price of towers to Chinese firm for this Package, and understanding was reached with them during last year visit. The value of towers in this contract shall be approximately Rs.450 million. Package-II was re-tendered and opened in November, 2001. M/s. ICC, Lahore are lowest, and your company has already made a consortium with them for supply of 220 KV towers valuing approximately Rs. 120 million

There is lot of business of Pumps during the year under review and next year particularly in Baluchistan and Sind provinces, to overcome shortage of water supply. The schemes are being financed by foreign lending agencies.

The Privatization Commission is presently actively working to sell Badami Bagh land, proceeds of which shall be utilized to pay SBP Bonds and other Government Departments liabilities. The financial position shown in the Balance Sheet, shall greatly improve after the adjustment of these liabilities.

ACKNOWLEDGEMENT:

Relations between the management and the employees continued to be cordial. I acknowledge the hard work and dedication put in by the management and employees for yet another turbulent year of operation. I am thankful to you, the shareholders, for your continued confidence in us.

**MIAN SUHAIL ASLAM
CHAIRMAN**

DIRECTORS' REPORT

The Directors have pleasure in presenting the 52nd Annual Report with the Audited Accounts and the Auditors' Report thereon for the year ended June 30, 2001.

Financial results are as follows:

(RS IN THOUSAND)

	<i>Year ended 30.06. 2001</i>	<i>Year ended 30.06.2000</i>
Loss before taxation	200,857	109,026
Taxation (Turnover Tax)	2,085	2,557
Loss after taxation	202,942	111,583
Loss Brought Forward	1,208,321	1,096,738
Accumulated Losses	1,411,263	1,208,321
Earning/(Loss) Per Share (Rs.)	(35.66)	(19.61)

Closed Shops

During the year Machine Tool & Power Loom shops were closed down as per decision of the Board of Directors. Bicycle shop was operated to consume the available inventories. Electric Motor shop operations were curtailed to produce motors to be coupled with pumps only.

Assets Held For Sale

Surplus machinery lying un-installed at Kot Lakhpat Works and machinery of closed down Power Loom & Machine Tool shops have been shifted from operating fixed assets to assets held for sale at their Written Down Value as on 30.06.2000.

Valuation of Kot Lakhpat Works Land

Valuation of Kot Lakhpat Works land was up dated during the year and incremental impact incorporated in the books and audited accounts.

Sale of Badami Bagh Land

A piece of 6.105 kanals was sold during the year leaving a balance of 260.495 kanals. The proceeds were paid to CBR against their outstanding custom duty dues.

Chairman's Review

The accompanying Chairman's review deals with the performance of the company during the year and future outlook. The Directors of the company endorse the contents of the review.

Board of Directors

During the year under review Mian Suhail Aslam replaced Mr. Hussain Ahmad Siddiqui as Chairman of the Board and Mr. Yasin Tahir of Ministry of Industries & Production & Mr. S. Zubair Ahmad, nominee of NIT replaced Prince Abbas Khan and Mr. S. Hashim Ishaque respectively as Directors.

ISO 9001

During the year your company has also obtained ISO 9001 certification for design and manufacturing of all types of Electric Motors.

Auditors

The present Auditors M/s S.M. Masood & Company, Chartered Accountants, being eligible, offer themselves for re-appointment.

Pattern of Shareholding

The pattern of shareholding as on June 30, 2001 is annexed.

On behalf of the Board

November 17, 2001
Lahore.

(Mian Suhail Aslam)
Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Engineering Company Limited as at June 30, 2001 and 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 purpose 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 material misstatements. An audit includes examining, on 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) The company during the year has suffered the after tax loss of Rs. 202.942 million resulting in an accumulated loss of Rs. 1,411.263 million as at June 30, 2001. The company is under heavy debt burden and its long term and short term liability to the government and its institutions is of Rs. 1,565.372 million in shape of principal and outstanding interest. These factors raise doubt as to the "Going Concern Assumption", the basis on which financial statements have been prepared.

(b) The outstanding principal amount of Rs. 86.984 million on account of customs and other import duties (see Note No. 23.2) is subject to interest @ 14 % per annum which comes to Rs. 70.820 million, for the current and prior years, has not been accounted for. The management is of the view that the interest on such loan is to be paid by the Privatization Commission out of sale proceeds of the assets of the company. But the confirmation of management's view from Privatization Commission is not available. Therefore, it becomes liability of the company.

(c) Company has violated the provisions of section 227 of the Companies Ordinance, 1984 by making default in payments of provident fund contributions to PECO Employees

Provident Fund Trust. Total outstanding principal amounts to Rs. 48.631 million and markup on outstanding balance of principal amounts to Rs. 46.399 million.

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

(e) in our opinion,

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

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

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

(f) in our opinion, except for the matter referred to in paragraph (a) to (c) above and to the extent to which it effects the result of the Company, 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 the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30,2001 and of the profit/loss, its cash flow and changes in equity for the year then ended;
and

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

Dated: November 17,2001

Place:

Lahore

S.M. MASOOD & CO.

Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 2001

	<i>Note</i>	<i>2001</i>	<i>2000</i>
		<i>(Rupees in Thousand)</i>	
TANGIBLE FIXED ASSETS	3	1,501,121	916,531
ASSETS SUBJECT TO FINANCE LEASE	4	2,349	2,936
LAND HELD FOR SALE	5	314,724	322,100
CAPITAL WORK IN PROGRESS	6	351	351
		-----	-----
STATE ENGINEERING CORPORATION	7	1,818,545	1,241,918
		9,420	5,944

PENSIO				
LONG TERM SECURITY DEPOSITS			2,106	2,106
LONG TERM INVESTMENTS	8		201	191
DEFERRED COST	9		849	2,822
			-----	-----
			1,831,121	1,252,981
CURRENT ASSETS				
Loose Tools			25,274	25,741
Stores & Spares	10		102,996	113,584
Assets held for Sale	11		52,229	28,393
Stock in Trade	12		225,638	290,897
Trade Debtors	13		208,221	232,972
Loans & Advances to Employees	14		7,640	8,127
Advances to Others	15		26,411	17,568
Trade Deposits, Prepayments & Other Receivables	16		29,843	36,581
Cash & Bank Balances	17		1,615	3,075
			-----	-----
			679,867	756,938
CURRENT LIABILITIES				
Short Term Loans	18		263,984	326,455
Current Maturity Against Finance Lease	26		755	614
Deposits & Advance Payments	19		40,152	24,562
Trade Creditors	20		94,377	110,873
Accrued Liabilities / Mark-up	21		112,105	30,658
Provision for Taxation			2,096	3,776
Unclaimed Dividend			1,903	1,903
Other Liabilities	22		143,989	68,886
			-----	-----
			659,361	567,727
CURRENT ASSETS LESS CURRENT LIABILITIES			-----	-----
			20,506	189,211
TOTAL ASSETS LESS CURRENT LIABILITIES			-----	-----
			1,851,627	1,442,192
CONTINGENCIES & COMMITMENTS	23		0	0
LONG TERM & DEFERRED LIABILITIES				
Government Loans	24		548,146	566,846
Federal Government Bonds	25		787,442	787,442
Liabilities Against Assets Subject to Finance Lease	26		2,229	2,984

Deferred Liabilities		60,498	61,196
		-----	-----
		1,398,315	1,418,468
		-----	-----
NET TOTAL ASSETS		453,312	23,724
		=====	=====
REPRESENTED BY			
Share			
Capital	27	56,902	56,902
Revenue Reserve-General		10,000	10,000
Accumulated Loss		(1,411,263)	(1,208,321)
		-----	-----
		(1,344,361)	(1,141,419)
Revaluation Surplus	28	1,797,673	1,165,143
		-----	-----
		453,312	23,724
		=====	=====

The annexed notes from 1 to 46 form an integral part of these accounts.

**M. IMTIAZ-UR-
RAHEEM**
(Chief Executive)

**SYED AIJAZ ALI
ABBASI**
(Director)

**MOHAMMAD SHABIR
MALIK**
(Director)

**PROFITAND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2001**

	<i>Note</i>	<i>2001</i>	<i>2000</i>
		<i>(Rupees in Thousand)</i>	
SALES	29	388,901	511,501
COST OF GOODS SOLD	30	449,264	505,407
		-----	-----
GROSS PROFIT/(LOSS)		(60,363)	6,094
OPERATING EXPENSES			
General & Administrative	31	52,884	49,040
Selling & Distribution	32	16,976	15,778
		-----	-----
		69,860	64,818
		-----	-----
OPERATING LOSS		(130,223)	(58,724)
FINANCIAL CHARGES	33	63,211	47,014
		-----	-----

		(193,434)	(105,738)
OTHER INCOME / (CHARGES)	34	25,775	(4,175)
PRIOR YEAR ADJUSTMENTS	35	(33,198)	887
LOSS BEFORE TAXATION		(200,857)	(109,026)
TAXATION	36	2,085	2,557
LOSS AFTER TAXATION		(202,942)	(111,583)
LOSS BROUGHT FORWARD		(1,208,321)	(1,096,738)
ACCUMULATED (LOSS)		(1,411,263)	(1,208,321)
		<i>Rupees</i>	<i>Rupees</i>
LOSS PER SHARE	37	(35.66)	(19.61)

The annexed notes from 1 to 46 form an integral part of these accounts.

**M. IMTIAZ-UR-
RAHEEM**
(Chief Executive)

**SYED ALJAZ ALI
ABBASI**
(Director)

**MOHAMMAD SHABIR
MALIK**
(Director)

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2001**

	<i>Note</i>	<i>2001</i>	<i>2000</i>
		<i>(Rupees in Thousand)</i>	
Net Profit/(loss) before taxation		(200,857)	(109,026)
Adjustments for:			
Depreciation		13,832	17,025
Amortization of leased assets		587	734
Financial charges		63,211	47,014
Provision for bad debts		21	819
Provision for gratuity and pension		37,761	13,205
Provision for diminution in value of investments		0	124
Deferred cost amortized		1,973	5,753
(Profit) on sale of tangible fixed assets		(13,399)	(2,456)
Creditors written back		0	(75)
(Profit) / Loss on sale of assets held for sale		364	1,054

Profit/(Loss) before working capital changes	(96,507)	(25,829)
(Increase) / decrease in loose tools	467	3,019
(Increase) / decrease in stores and spares	10,588	(3,053)
(Increase) / decrease in Assets held for sale	(23,836)	5,094
(Increase) / decrease in stock in trade	65,259	23,868
(Increase)/decrease in trade debtors	24,751	(155,857)
(Increase) / decrease in loans and advances to employees	487	(2,045)
(Increase) / decrease in advances to others	(8,843)	(3,347)
(Increase) / decrease in trade deposits, prepayments and others receiv	6,738	(15,619)
Increase / (decrease) in deposits and advance payments	15,590	1,569
Increase / (decrease) in trade creditors	(16,496)	105,865
Increase / (decrease) in accrued liabilities	81,447	4,712
Increase / (decrease) in other liabilities	75,103	(1,234)
	-----	-----
Cash (used in) / generated from operations	134,748	(62,857)
Financial charges paid	(64,672)	(47,154)
Gratuity paid	(3,487)	(4,973)
Taxes paid	(3,765)	0
	-----	-----
Net cash outflow from operating activities	62,824	(114,984)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of tangible fixed assets	(50)	(848)
Addition in capital work in progress	0	(337)
(Increase) / decrease in State Engineering Corporation Pension Fund	(3,476)	8,450
(Increase) / decrease in long term security deposits	0	(298)
Payment of deferred cost	0	(276)
Sale proceeds on disposal of fixed assets	6,169	3,457
Sale proceeds on disposal of assets held for sale	14,858	9,373
	-----	-----
Net cash inflow / (outflow) from investing activities	17,501	19,521
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES		
Increase / (decrease) in short term loans/long term loans	(81,171)	96,813
Increase / (decrease) in dividend payable	0	0
Payment of lease liability	(614)	(317)
	-----	-----
Net cash inflow / outflow from financing activities	(81,785)	96,496
Net increase / (decrease) in cash and cash equivalents	(1,460)	1,033
Cash and cash equivalents at beginning of the period	3,075	2,042

Cash and cash equivalents at close of the period

1,615

3,075

STATEMENT OF CHANGES IN EQUITY

(Rupees in Thousand)

	<i>Share Capital</i>	<i>Revenue Reserve</i>	<i>Accumulated Loss</i>	<i>Amount Total</i>
Balance as on June 30, 1999	56,902	10,000	(1,096,738)	(1,029,836)
Transferred from Profit & Loss Ac	--	--	(111,583)	(111,583)
	-----	-----	-----	-----
Balance as on June 30, 2000	56,902	10,000	(1,208,321)	(1,141,419)
Transferred from Profit & Loss Ac	--	--	(202,942)	(202,942)
	-----	-----	-----	-----
Balance as on June 30, 2001	56,902	10,000	(1,411,263)	(1,344,361)
	=====	=====	=====	=====

The annexed notes from 1 to 46 form an integral part of these accounts.

**M. IMTIAZ-UR-
RAHEEM**
(Chief Executive)

**SYED ALJAZ ALI
ABBASI**
(Director)

**MOHAMMAD SHABIR
MALIK**
(Director)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2001

1. THE COMPANY AND ITS ACTIVITIES

Pakistan Engineering Company Limited (a State Enterprise) was incorporated in Pakistan on February 15, 1950 under the Companies Act, 1913 (Now Companies Ordinance, 1984) as a public limited company. Its shares are quoted on all Stock Exchanges of Pakistan. The company is principally engaged in the manufacture and sale of engineering products. The major products of the company are electricity transmission and communication towers, bicycles, electric motors, pumps and steel rolled products etc. During the year Machine Tools, Power Looms shops were closed down.

The Federal Cabinet approved a rehabilitation plan in consultation with Privatization Commission to improve the viability of the company. According to the plan Badami Bagh Works was closed on March 22, 1995 and plant, machinery, stocks and land were offered for sale in June, August and September, 1995 in convenient lots as complete production unit and separately also. The offers received were lower than the reserve price, and disposal could not be made. Consequently, Privatization Commission advised to shift all

machines and structure to Kot Lakhpat Works, so that land could be offered for sale. Privatization Commission, later on decided to sell the company including Badami Bagh for which bidding was held on April 09, 1999 but no satisfactory offer was received. The Cabinet Committee on privatization has now approved to sell Badami Bagh land.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

The company has incurred a net loss of Rs. 2112.942 million for the year ended June 30, 2001 and has accumulated losses of Rs. 1,411.263 million as of that date. The company is under heavy debt burden and its long term liability to the Government and its institutions of Rs. 1,565.372 million alongwith the accumulated losses have further deteriorated its debt equity ratio. These factors raise doubt that the company will be able to continue as going concern.

In order for the company to continue as a going concern a plan for its restructuring has been submitted to the Government which includes sale of Badami Bagh land and rehabilitation of Kot Lakhpat operations. The plan is under active consideration.

As a result, these accounts have been prepared on assumption that based on management's plan for restructuring, the company will continue as a going concern and consequently do not include any adjustments that might result should the company not be able to continue as going concern.

2.2 Accounting Convention:

The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold land carried out in 1991 and of the steel structure and plant & machinery shifted from Badami Bagh Works to Kot Lakhpat Works in the year 1997. Kot Lakhpat free hold land have been again revalued in June, 2001.

2.3 Tangible Fixed Assets & Depreciation:

Operating fixed assets are stated at cost less accumulated depreciation except freehold land. Cost of these assets consists of historical cost and directly attributable cost of bringing the assets to working condition

Borrowing costs pertaining to the construction and erection period upto the date of completion are also capitalized.

Depreciation on operating fixed assets is charged to income on reducing balance method at the rates specified in Note No. 3 to the accounts to write off the cost over their estimated useful lives.

Full year's depreciation is charged on additions, while no depreciation is charged on deletions during the year. Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss, if any, on disposal of operating fixed assets is included in current year income.

2.4 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 the assets. Depreciation on these assets is charged in line with normal depreciation policy adopted for assets owned by the company. The aggregate amount of obligations relating to these assets are accounted for at net present value of liabilities.

2.5 Long Term Investments:

These are slated at cost. Provision against diminution in the value of investments is made on the basis of market value or breakup value of shares.

2.6 Deferred Cost:

These are amortized over a period of five years.

2.7 Stocks, Stores, Spare Parts & Loose Tools:

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

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

Net realizable value represents selling price in the ordinary, course of business less selling expenses incidental to sales.

2.8 Associated Undertakings:

The units controlled by the Ministry of Industries and Production, Government of Pakistan are considered as associated undertakings of the company.

2.9 Compliance with Experts Advisory Cell (EAC):

Besides the relevant International accounting Standards and the Companies Ordinance, 1984 the company also complies with the requirements of accounting manual for public sector industries prepared by the Experts Advisory Cell, Ministry of Industries & Production, Government of Pakistan while preparing the financial statements.

2.10 Foreign Currency, Translation:

Transactions in foreign currency are accounted for in rupees at the rates of exchange ruling at the date of transaction. Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange ruling at the balance sheet date. Exchange gains and losses are included in current year income.

2.11 Employees Retirement Benefits:

The company has two schemes, a pension fund for the officers administered by the State

Engineering Corporation Pension Fund Trust and an unfunded gratuity scheme for all other employees. Based on a graduated scale under the scheme, the liability is calculated with reference to the last drawn salary and length of service of the employee. Sums due in respect of the pension fund are paid to the State Engineering Corporation Pension Fund Trust. Sums due in respect of gratuity scheme are paid to employees when they leave service.

The company also operates a funded provident fund scheme covering all regular members and monthly contribution is made to the trust @ 10% of basic pay both by the Company and the Employees.

2.12

Taxation:

The charge for current taxation is based on taxable income at the current rate after taking into account tax credits and rebates available, if any.

2.13 Deferred Tax:

The company accounts for deferred taxation on material timing differences using the liability method. However, deferred tax is not provided if it can be established with reasonable probability that these differences will not reverse in the foreseeable future.

2.14 Revenue Recognition:

Revenue from sales is recognized on delivery of goods to the customers.

2.15 Borrowing Costs:

Borrowing costs are charged off to the income in the year in which they are incurred.

2.16 Liabilities Against Assets Subject to Finance Lease:

Finance charges under the lease agreements are allocated to periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

3. TANGIBLE FIXED ASSETS

	<i>COST</i>			<i>DEPRECIATION</i>			<i>W.D.V.</i>		<i>(Rupees in Thousand)</i>	<i>Rate (%)</i>
	<i>As at July 01, 2000</i>	<i>Additions</i>	<i>Deletions/ Transfer</i>	<i>As on June 30, 2001</i>	<i>As at July 01, 2000</i>	<i>For the year</i>	<i>As on June 30, 2001</i>	<i>As On June 30, 2001</i>		
Freehold										
Land	927,025	645,075	322,100	1,250,000	0	0	0	0	1,250,000	0
Office										
Building	3,171	0	0	3,171	2,383	0	39	2,422	749	5
Factory Building (Including Steel S	221,719	48	0	221,767	63,583	0	7,909	71,492	150,275	5
Plant & Machinery	291,975	0	57,340	234,635	147,088	8,682	4,811	143,217	91,418	5
Furniture & Fixtures	16,288	2,204	0	18,492	11,196	0	730	11,926	6,566	10
Vehicles	6,187	0	278	5,909	4,970	31	194	5,133	776	20
Tools	5,198	0	0	5,198	3,712	0	149	3,861	1,337	10

	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total Rupees - 2001	1,471,563	647,327	379,718	1,739,172	232,932	8,713	13,832	238,051	1,501,121
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Total Rupees - 2000	1,447,426	26,357	2,220	1,471,563	217,125	1,218	17,025	232,932	1,238,631
	=====	=====	=====	=====	=====	=====	=====	=====	=====

3.1 Total freehold land was revalued in May, 1991. In June 2001 the land of Kot Lakpat Works was revalued by M/s Indus Surveyors resulting in revaluation surplus of Rs. 645.075 millions, which has been arrived at as follows:

Free Hold Land

Kot Lakpat

Cost	604,925
Revalued Amount	1,250,000
Increment in Value (Note 28)	645,075

3.2 Depreciation charge for the year has been allocated as follows:

	2001	2000
Cost of Goods Sold	12,947	16,229
General & Administrative Expenses	885	796
	13,832	17,025

3.3 Deletion to Plant and Machinery represent the Plant and Machinery of Machine Tools, Power Looms Shops closed down during the year as per the decision of BOD meeting held on November 27, 1999 and un installed Machinery of Badami Bagh works. The amounts have been transferred to assets held for sale. The cost of such machinery and its accumulated depreciation is Rs. 52.648 million and Rs. 7.837 million respectively. (See Note 11).

4. ASSETS SUBJECT TO FINANCE LEASE

Description	COST			AMORTIZATION					W.D.V. As on June 30, 2001	Rate (%)
	As at July 01, 2000	Additions	Deletions	As on June 30, 2001	As at July 01, 2000	Deletions	For the year	As on June 30, 2001		
Vehicles	4,120	0	0	4,120	1,184	0	587	1,771	2,349	20
Total Rupees-2001	4,120	0	0	4,120	1,184	0	587	1,771	2,349	

Total Rupees-2000	1,250	2,870	0	4,120	450	0	734	1,184	2,936
	=====	=====	=====	=====	=====	=====	=====	=====	=====

4.1 Amortization charge for the year has been allocated to General & Administrative expenses.

	<i>(Rupees in Thousand)</i>	
	<i>2001</i>	<i>2000</i>
5. LAND HELD FOR SALE		
Transfer from Fixed Assets	322,100	322,100
Sale of Land (6.105 Kanals)	(7,376)	--
	-----	-----
	314,724	322,100
	=====	=====

5.1 The above represents the land of Badami Bagh works which was closed down in the year 1995 and its Plant and machinery was shifted to the Kot Lakhpat Works. Out of 266.60 kanals 6.105 kanals have been sold during the year for Rs. 18.700 millions.

6. CAPITAL WORK IN PROGRESS

Building	206	206
Machinery	145	145
	-----	-----
	351	351
	=====	=====

The balance amount represent the expenditure incurred in Capital Work in Progress of Press & Forge Shop. Further capital investment was abandoned due to non availability of funds

7. STATE ENGINEERING CORPORATION PENSION FUND

This represents the payments of pension to the eligible employees on behalf of Pension Fund Trust administered by State Engineering Corporation (SEC). Under the pension fund procedure all payments of pension made by the company on behalf of the fund upto the commencement or during the prescribed initial period will be repayable to the company over 13 years including a grace period of 8 years interest @ 10% per annum will be accounted for after expiry date of prescribed grace period. An amount of Rs. 20.143 (2000: Nil) is outstanding for period exceeding three years.

8. LONG TERM INVESTMENTS

80,000 Ordinary shares of Rs. 10 each in SEPCO (State Engineering Projects Company (Pvt) Limited) - an associated company	800	800
Less: Provision for diminution in value (Note 8.1)	599	609
	-----	-----
	201	191
	=====	=====

8.1 Provision has been made on the basis of breakup value of shares which is Rs. 2.516 (2000: Rs. 2.39) per share on the basis of latest available audited financial statements of the company for the year ended 30-06-2000.

9. DEFERRED COST

Opening balance	2,822	8,299
Additions during the year	--	276
	-----	-----
	2,822	8,575
Less: Amortized for the Year	1,973	5,753
	-----	-----
Closing balance	849	2,822
	=====	=====

The Badami Bagh Works, as detailed in Note 1 to the accounts, was closed on March 22, 1995 and it was decided to shift the machinery to Kot Lakhpat Works. The deferred cost represents dismantling and shifting cost.

10. STORES & SPARES

Stores	24,416	26,973
Spare parts	78,580	86,611
	-----	-----
	102,996	113,584
	=====	=====

11. ASSETS HELD FOR SALE

Stores held for Sale	7,418	28,393
Machinery held for Sale	44,811	--
	-----	-----
	52,229	28,393
	=====	=====
Balance as on July 01, 2000	28,393	43,912
Plant & Machinery of Machine tools ,Power loom shops and un installed machinery (Note No. 3.3)	44,811	--
	-----	-----
	73,204	43,912
Less		
Steel Structure Consumed / Capitalized	5,753	5,091
Assets sold out during the year (Note 34.1)	15,222	10,428
	-----	-----
Balance as on June 30, 2001	52,229	28,393
	=====	=====

12. STOCK IN TRADE

Raw material (Note 12.1)	89,425	135,977
Work in process	106,468	121,477
Finished goods	29,745	33,443
	-----	-----

225,638	290,897
=====	=====

12.1 It includes raw material in transit of Rs. 9.008 million (2000: Rs. 59.067 million).

13. TRADE DEBTORS

Associated undertakings	9,272	10,058
Wapda	175,650	184,413
Others (Note 13.2)	44,279	61,820
	-----	-----
	229,201	256,291
Less: Provision for bad & doubtful debts (Note 13.3):		
Associated undertakings	856	864
Wapda & others	20,124	22,455
	-----	-----
	20,980	23,319
	-----	-----
	208,221	232,972
	=====	=====

13.1 Trade debtors other than those against which provision has been made are considered good by the management

13.2 Trade debtors include an amount of Rs. 8.117 million receivable from M/s Metropolitan Steel Corporation Limited against which case for recovery is pending in civil court.

13.3 Provision for Bad & Doubtful Debts

Balance as at July 01, 2000	23,319	22,500
Less: Recovery of Bad debts	2,360	264
	-----	-----
	20,959	22,236
Add: Provision for the year	21	1,083
	-----	-----
Balance as on June 30, 2001	20,980	23,319
	=====	=====

14. LOANS & ADVANCES TO EMPLOYEES - Considered Good

The loans and advances are considered good and no loan has been advanced to the Chief Executive, Directors & Executives of the Company.

15. ADVANCES TO OTHERS - Considered Good

Suppliers	13,574	9,820
Income tax	1,200	3,108
Letters of credit	11,637	4,640

-----	-----
26,411	17,568
=====	=====

16. TRADE DEPOSITS, PREPAYMENTS & OTHER RECEIVABLES

Trade deposits (Note 16.1)	3,949	4,582
Margin against bank guarantees	9,265	8,926
Short term prepayments	1,696	1,530
Claims receivables (Note 16.2)	14,933	21,543
	-----	-----
	29,843	36,581
	=====	=====

16.1 Balance	5,412	6,045
Less: Provision against doubtful recovery	1,463	1,463
	-----	-----
	3,949	4,582
	=====	=====

16.2 A claim of Rs. 5.339 millions shown in contingencies in the year 1997-98 against Pakistan Steel Mills Ltd., Karachi has been accounted for on the basis of CBR letter No C.NO.2(51) Survey-II-96 dated August 10, 1999. The balance also includes claims amounting to Rs. 9.940 million recoverable from WAPDA against supply of 500 KV towers (DD-3) on account of testing charges.

17. CASH & BANK BALANCES

Cash in hand	373	314
Cash with banks:		
Current accounts	189	1,797
Deposit accounts	1,053	964
	-----	-----
	1,615	3,075
	=====	=====

18. SHORT TERM LOANS

From banking companies under markup arrangements (Note 18.1):		
NBP cash finance	96,348	97,113
NBP pre-shipment finance	133,436	199,342
	-----	-----
	229,784	296,455
From associated undertakings		
Spinning Machinery Co. (Pvt) Ltd. (Secured) (Note 18.2)	34,200	30,000
	-----	-----
	263,984	326,455
	=====	=====

18.1 The detail of loans is as under:

<i>Bank / Financial institution</i>	<i>Sanctioned Limit</i>	<i>Date of Expiry</i>	<i>Rate of Markup</i>
NBP cash finance	100 Million	31-12-2001	43.836 paisas per thousand per day
NBP preshipment finance	200 Million	31-12-2001	12% per annum (financed by SBP)

These finances are secured by:

Hypothecation of stocks of iron, steel machinery, raw material and finished goods of appropriate value.

First charge on stocks, book debts and fixed assets of the company.

18.2 Loan from Spinning Machinery Company (Pvt) Limited is secured against second charge on fixed assets of Rs. 34.5 million of the company. It carries interest @ 45 paisas per thousand per day.

19. DEPOSITS & ADVANCE PAYMENTS

Advances from customers (Note 19.1)	35,882	18,898
Dealership securities (Note 19.2)	2,783	2,796
Retention & earnest money	1,487	2,868
	-----	-----
	40,152	24,562
	=====	=====

19.1 These include interest free advances from associated companies amounting to Rs. 0.282 million (2000: Rs. 0.216 million)

19.2 These are payable on demand and do not carry any interest.

20. TRADE CREDITORS

M/s Pakistan Steel Mills Ltd., Karachi	77,081	53,207
M/s People Steel Mills, Karachi	4,308	--
M/s Trade Arbed Export, Luxembourg	--	34,458
Others	12,988	23,208
	-----	-----
	94,377	110,873
	=====	=====

21. ACCRUED LIABILITIES / MARK-UP

Accrued mark-up and interest on loan - secured	13,553	12,395
-		
unsecured	641	641
Other accrued expenses payable (Note 21.1)	97,911	17,622
	-----	-----
	112,105	30,658
	=====	=====

21.1 These include utility bills amounting to Rs. 34.25 millions (2000: 2.363) and amount of Rs. 49.506 million (2000: Nil million) payable to National Bank of Pakistan against letter of credit.

22. OTHER LIABILITIES

Payable to preference shareholders (Note 22.1)	875	875
Employees provident fund trust (Note 22.2)	95,031	58,983
Gratuity payable to SEC Pension fund trust (Note 22.3)	34,429	1,132
State Engineering Corporation (Pvt) Ltd. (an associated undertaking)	5,520	1,280
Sales tax payable	3,814	3,541
Workers' profit participation fund	9	9
Others	4,311	3,066
	-----	-----
	143,989	68,886
	=====	=====

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

22.2 Interest @ 16 % is being charged against outstanding principle and interest.

22.3 Movement of Pension Payable is as under

Opening Balance	1,132	2,142
Amount Received from SEC	1,293	--
	-----	-----
	2,425	2,142
Provision for the Year (Note 22.4)	34,718	1,964
	-----	-----
	37,143	4,106
Less: Payment to SEC Pension fund & Executives	2,714	2,974
	-----	-----
	34,429	1,132
	=====	=====

22.4 The amount includes the effect of increase of Executive entitlement due to revision in Policy by State Engineering Corporation (Pvt.) Ltd. Vide letter No. Pension - 6 (IV) / 2000 Dated August 01, 2000

23. CONTINGENCIES & COMMITMENTS

Contingencies

- Claims not acknowledged as debts in respect of various subjudice cases filed against the company for which the maximum possible liabilities could be approximately Rs.9.75 million (2000: Rs.4.591 million).

- Counter guarantees of Rs. 149.902 million (2000: Rs. 121.622 million) issued by the company to banking and insurance companies.

- A claim of Rs. 15.709 million is pending with Collector of Customs on account of refund of customs duty paid on scrap consumed for production of High Transmission Power supplies against International Tender No. KF-531 & KF-514.

- Post dated cheques of Rs. 112.269 million (2000:Rs. 49.77 million) issued to the Collector of Customs for import of raw materials. These are cancelable on providing consumption certificates to Collector of Customs.

Commitments

Letters of credit amounted to Rs. 11.565 million (2000: Rs. 57.854 million).

24. GOVERNMENT LOANS

Privatization Commission loan (Note 24.1)	334,606	334,606
Government Escrow account (Note 24.2)	113,540	132,240
Other Government loan (Note 24.3)	100,000	100,000
	-----	-----
	548,146	566,846
	=====	=====

24.1 It represents interest free loan from Privatization Commission for the implementation of rehabilitation plan approved by the Government of Pakistan.

24.2 The break up of Government Escrow account is as follows

Customs & other import duties (Note 24.4)	86,984	105,684
Pakistan Railways freight	13,592	13,592
Karachi Port Trust	12,964	12,964
	-----	-----
	113,540	132,240
	=====	=====

The customs and other import duties balance carries interest @ 14% per annum which has not been accounted for and upto June 30,2001 the accumulated amount of interest comes to Rs. 77.362 million (2000: Rs. 58.643 million).

24.3 The amount is payable on account of the company's bank loans taken over by the Government in the year 1990. The loan is free of interest.

24.4 During the year against the amount outstanding a sum of Rs. 18.700 million was paid from the sale proceed of the part of land of Badami Bagh Works.

The above balances are repayable from the privatization proceeds of the company. Considering the discouraging response received by the Government in April 1999, regarding privatization of the company, the management is of the view that settlement of these loans in the next twelve months is not possible.

25. FEDERAL GOVERNMENT BONDS

Interest bearing bonds	655,138	655,138
Interest free bonds	132,304	132,304
	-----	-----
	787,442	787,442
	=====	=====

These bonds were issued by the Federal Government against the liability of the Company towards banks / financial institutions taken up by the Federal Government in the light of Federal Cabinet decision and SRO No. 823(1)/94 dated

August 28, 1994. Against the principal amount interest bearing bonds and against accrued mark up interest free bonds were issued by the government.

The government is liable to pay interest @ 12.43% per annum to the Banks/DFI regarding the interest bearing bonds. The bonds shall be retired by the Ministry of Finance from privatization proceeds of the company. Therefore, it has been classified as long term liability.

26. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Opening balance	3,598	1,045
Additions during the year	0	2,870
	-----	-----
	3,598	3,915
Payments during the year	614	317
	-----	-----
	2,984	3,598
Current portion	755	614
	-----	-----
Closing balance	2,229	2,984
	=====	=====

26.1 The company has entered into lease agreements with Pakistan Industrial Leasing Corporation Limited and Askari Leasing Limited to acquire vehicles. Present value of minimum lease payments has been discounted at interest rates ranging from 16.52% to 27.00% per annum which approximately equate the rates implicit in the lease agreements. Monthly lease rentals outstanding are 62 (2000: 88). The liability is partly secured against the deposit of Rs. 412,000. The company intends to exercise its option to purchase the leased assets for residual value of Rs. 412,000 upon completion of lease period.

26.2 The amount of future payments for finance lease and the period in which these payments become due are:

Year to ended June 30, 2001	--	1,211
Year to ended June 30, 2002	1,211	1,211
Year to ended June 30, 2003	1,168	1,168
Year to ended June 30, 2004	808	808
Year to ended June 30, 2005	758	758
	-----	-----
	3,945	5,156
Less: finance charge - current year		
- future year	961	1,558
	-----	-----
	2,984	3,598
	=====	=====

27. SHARE CAPITAL

Authorized Capital:

9,000,000 (2000: 9,000,000) Ordinary Shares of Rs. 10 each	90,000	90,000
100,000 (2000: 100,000) 7.5% Cumulative Redeemable Preference		

Shares of Rs. 100 each	10,000	10,000
	-----	-----
	100,000	100,000
	=====	=====

Issued, Subscribed & Paid-up Capital:

3,162,144 (2000: 3,162,144) Ordinary Shares of Rs. 10 each fully paid in cash	31,621	31,621
2,528,101 (2000: 2,528,101) Ordinary Shares of Rs. 10 each issued as fully paid up Bonus Shares	25,281	25,281
	-----	-----
	56,902	56,902
	=====	=====

28. REVALUATION SURPLUS

Land		
Revaluation carried out in 1991	925,530	925,530
Impact of revaluation surplus of Kot Lakhpat Land revaluation carded out on June 30, 2001 (Note 28.1)	645,075	0
	-----	-----
	1,570,605	925,530
Less: Adjustment of Revaluation surplus of land disposed off during t	7,359	0
	-----	-----
	1,563,246	925,530
Steel structure (Building) (Note 28.2)	143,550	143,550
Plant		
Machinery		
Opening Balance	96,063	96,063
Less: Adjustment of Revaluation Surplus of Machinery sold during th	5,186	0
	-----	-----
	90,877	96,063
	-----	-----
	1,797,673	1,165,143
	=====	=====

28.1 Land of Kot Lakpat Works was again revalued by M/s Indus Surveyors in June 2001 on the average market rate. Land valuing Rs. 604.925 million was revalued at 1,250.00 million, resulting in the surplus of Rs. 645.075 million.

28.2 The steel structure and plant and machinery was revalued by M/s Indus Surveyor undertaken in the year 1997. The assets at WDV of Rs.4.158 million were revalued at Rs.243.771 million resulting in surplus of Rs.239.613 million. Plant and Machinery revalued surplus of Rs. 5.186 million has been adjusted during the year on account of sale of such assets.

29. SALES-Net

Gross	391,802	514,202
Less: Rebate, allowances, discount & commission	2,901	2,701
	-----	-----
	388,901	511,501
	=====	=====

30. COST OF GOODS SOLD

Raw material consumed (Note 30.1)	177,096	179,326
Stores & spares consumed	44,527	64,050
Salaries & wages (including all benefits)	98,297	108,476
Provident fund	3,010	2,528
Gratuity	7,229	10,463
Fuel & power	61,680	63,220
Rent, rate & taxes	535	471
Service Charges	3,754	4,668
Repair & maintenance	3,461	4,502
Testing charges	13,828	0
Insurance	320	318
Other expenses	3,873	4,337
Depreciation (Note 3.2)	12,947	16,229
	-----	-----
	430,557	458,588
(Increase) / decrease in work in process inventory (Note 30.2)	15,009	38,686
	-----	-----
Cost of goods manufactured	445,566	497,274
(Increase) / decrease in finished goods inventory (Note 30.3)	3,698	8,133
	-----	-----
	449,264	505,407
	=====	=====

30.1 Raw Material Consumed:

Opening stock (as at July 01, 2000)	135,803	112,870
Add:		
Purchases	130,718	202,259
	-----	-----
	266,521	315,129
Less: Closing stock (as on June 30, 2001)	(89,425)	(135,803)
	-----	-----
	177,096	179,326
	=====	=====

30.2 (Increase) / decrease in work in process inventory:

Opening inventory	121,477	160,163
Closing inventory	106,468	121,477

	----- 15,009 =====	----- 38,686 =====
30.3 (Increase) / decrease in finished goods inventory:		
Opening inventory	33,443	41,576
Closing inventory	29,745	33,443
	----- 3,698 =====	----- 8,133 =====

31. GENERAL & ADMINISTRATIVE EXPENSES

Salaries & wages (including all benefits)	30,370	28,340
Provident fund	980	763
Gratuity	4,140	2,001
Travelling & conveyance	2,074	1,818
Entertainment	471	352
Legal & professional	317	550
Rent, rates & taxes	605	609
Fuel, gas & electricity	1,647	1,356
Repairs & maintenance	802	718
Postage, telegrams & telephone	1,328	1,228
Printing, stationery & office supplies	1,247	1,360
Advertisement	183	251
Service charges - SEC	4,000	4,000
Amortization of leased assets (Note: 4.1)	587	734
Insurance	461	514
Vehicle running expenses	1,412	1,639
Depreciation (Note 3.2)	885	796
Miscellaneous	1,375	2,011
	----- 52,884 =====	----- 49,040 =====

32. SELLING & DISTRIBUTION EXPENSES

Salaries & wages (including all benefits)	8,830	8,587
Provident fund	316	259
Gratuity	1,434	741
Travelling & conveyance	2,669	969
Entertainment	121	132
Rent, rates & taxes	68	64
Fuel, gas & electricity	17	3

Repairs & maintenance	24	38
Postage, telegrams & telephone	328	309
Printing, stationery & office supplies	116	126
Advertisement & sales promotion	180	489
Vehicle running expenses	180	158
Freight & forwarding	1,517	2,649
Miscellaneous		
us	1,176	1,254
	-----	-----
	16,976	15,778
	=====	=====

33. FINANCIAL CHARGES

Mark-up & interest on short term running finances	29,862	29,070
Mark up on Bank Guarantees of Pakistan Steel Mills Karachi	10,898	0
Spinning Machinery Company (Pvt.) Limited	5,270	5,130
Interest on provident fund	11,980	8,620
Bank charges & commission (Note 33.1)	4,604	3,733
Financial charges on finance lease	597	461
	-----	-----
	63,211	47,014
	=====	=====

33.1 Bank guarantee commission paid by the company is charged over the period of contract.

34. OTHER INCOME/(CHARGES)

Interest /		
Profit		
On deposit with banks	67	63
On advances to employees	102	90
Profit / (Loss) on sale of assets held for sale (Note 34.1)	(364)	(1,054)
Recovery of Bad Debts	2,360	0
Creditors written back	0	75
Miscellaneous income	822	1,409
Income on Sale of BBW Land and KLP		
Machinery	11,761	0
Gain on disposal of tangible fixed assets (Note 34.2)	13,399	2,456
Auditor's remuneration (Note 34.3)	(100)	(100)
ISO-9001 consultants fee	(148)	(135)
Deferred cost amortized (Note 9)	(1,973)	(5,753)
Provision for doubtful debts	(21)	(1,083)
Miscellaneous charges	(130)	(19)
Diminution in investment value	0	(124)
	-----	-----
	25,775	(4,175)
	=====	=====

34.1 "Assets held for sale" costing Rs. 15.222 million were sold during the year for Rs. 14.858 million resulting in such loss.

34.2 Details of Disposal of Tangible Fixed Assets during the year is as under:

<i>Description</i>	<i>Original/Revalued</i>	<i>Accumulated</i>	<i>W.D.V.</i>	<i>Sale</i>	<i>Profit/</i>	<i>Sold through Negotiation To</i>
	<i>Cost</i> <i>(Rupees)</i>	<i>Depreciation</i> <i>(Rupees)</i>		<i>Price</i> <i>(Rupees)</i>	<i>(Loss)</i> <i>(Rupees)</i>	
PLANT & MACHINERY:						
Machine Tool-21 No.	4,230,856	704,086	3,526,770	5,000,000	1,473,230	Pakistan Machine Tool Factory, Karachi
Welding Transformer-8 No	32,889	32,023	866	64,800	63,934	M. Asif Gujranwala
Welding Transformer-5 No.	21,708	21,189	519	42,000	41,481	Nazir Ahmad, Lahore
Machine Tools-0-69/7HC-21/U-5						
Q-106/F-17 (5 No.	124,095	39,418	84,677	410,000	325,323	M/s Peoples Steel Mills, Karachi
Welding Transformer-12 No.	179,300	25,573	153,727	47,100	(106,627)	M. Asif Gujranwala
Welding Transformer	13,800	10,087	3,713	5,000	1,287	M. Asif Gujranwala
Transformer-1600 Kv	--	--	--	190,000	190,000	Nazir Ahmad, Lahore
Centreless grinding M/c Y-19	90,000	12,836	77,164	163,600	86,436	M/s Spinning Machinery Company (Pvt.), Lahore
	-----	-----	-----	-----	-----	
	4,692,648	845,212	3,847,436	5,922,500	2,075,064	
	=====	=====	=====	=====	=====	
VEHICLES						
:						
Suzuki Margala RIU-4365	87,572	31,526	56,046	56,046	--	M/s Spinning Machinery Company (Pvt.) Lahore
Toyota Corola 1300cc LOW 6160	582,000	391,290	190,710	190,710	--	Mr. Javaid Sahibzada (late) EX MD --PECO
	-----	-----	-----	-----	-----	
	669,572	422,816	246,756	246,756	--	
Sale of Badami Bagh Land	7,375,921	--	7,375,921	18,700,000	11,324,079	M/s Patrick Enterprises, Islamabad
	-----	-----	-----	-----	-----	
TOTAL	12,738,141	1,268,028	11,470,113	24,869,256	13,399,143	
	=====	=====	=====	=====	=====	

(Rupees in Thousand)

2001 **2000**

Auditors Remuneration	85	85
Out of Pocket Expenses	15	15

-----	-----
100	100
=====	=====

35. PRIOR YEARS ADJUSTMENTS

Pension of Previous Year for Executives (Note 35.1)	(23,283)	--
Prior Year Sales Adjustment	(11,341)	--
Others	1,426	887
	-----	-----
	(33,198)	887
	=====	=====

35.1 The amount relates to the increase of Executive Pension of prior years due to revision in Pension Policy by State Engineering Corporation (Pvt.) Ltd. Vide letter No. Pension - 6 (IV) / 2000 Dated August 01, 2000

36. TAXATION

Due to income tax losses, tax provision has been calculated at 0.5% of turnover U/S 80 D of the Income Tax Ordinance, 1979.

37. EARNINGS / (LOSS) PER SHARE

Loss for the year after taxation	(202,942)	(111,583)
	=====	=====

No. of shares	No. of shares
----------------------	----------------------

Average ordinary shares issued during the year	5,690,245	5,690,245
	=====	=====

Rupees	Rupees
---------------	---------------

Loss per share	(35.66)	(19.61)
	=====	=====

38. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

Maximum amounts due from the associated undertakings at the end of any month were Rs. 10.021 million (2000: Rs.10.021 million). The company purchased from and sold to associated undertakings material, goods and services in the aggregate sum of Rs. 41.615 million (2000: Rs. 94.132 million) and Rs. 7.816 million (2000: Rs. 2.474 million) respectively. Purchase / sale of goods and services are made at prevailing market prices.

39. SEGMENT INFORMATION

Owing to the significant transfer of material at various stages of manufacture between different units, the costing system does not permit a realistic separation of working results of the units and the items produced, accordingly segment information cannot be prepared.

40. CHIEF EXECUTIVE, DIRECTORS' & EXECUTIVES' REMUNERATION

	<i>Chief Executive Rupees in Thousand)</i>		<i>Executives Rupees in Thousand)</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
Remuneration	250	236	971	1,401
Provident fund	25	24	97	110
Perquisites	280	313	755	1,141
	-----	-----	-----	-----
	555	573	1,823	2,652
	=====	=====	=====	=====
Number of persons	1	1	5	8
	=====	=====	=====	=====

Aggregate amount charged in the accounts for 8 directors for fees and expenses was Rs. 20,000 and Rs. 157,470 respectively, (2000: 8 directors Rs. 22,000 and Rs. 110,190 respectively).

41. FINANCIAL INSTRUMENTS

	<i>Rupees in Thousand</i>						<i>TOTAL</i>
	<i>Interest/Mark-up Bearing</i>		<i>Sub Total</i>	<i>Non Interest Bearing</i>		<i>Sub Total</i>	
	<i>Maturity up to one year</i>	<i>Maturity after one year</i>		<i>Maturity up to one year</i>	<i>Maturity after one year</i>		
Financial Assets							
Long Term Security Deposit	--	--	--	--	2,106	2,106	2,106
Long Term Investment	--	--	--	--	201	201	201
Trade Debtors	--	--	--	208,221	--	208,221	208,221
Loans & Advances to Employees	684	--	684	6,956	--	6,956	7,640
Advances to others	--	--	--	25,211	--	25,211	25,211
Trade Deposit & Other Receivable	--	--	--	28,147	--	28,147	28,147
Cash & Bank	--	--	--	1,615	--	1,615	1,615
	-----	-----	-----	-----	-----	-----	-----
	684	--	684	270,150	2,307	272,457	273,141
	=====	=====	=====	=====	=====	=====	=====
Financial Liabilities							
Government Loans	--	86,984	86,984	--	461,162	461,162	548,146
Federal Government Bonds	--	655,138	655,138	--	132,304	132,304	787,442
Lease Liabilities	755	2,229	2,984	--	--	--	2,984

Deferred liabilities	--	--	--	--	60,498	60,498	60,498
Short term Loans	263,984	--	263,984	--	--	--	263,984
Deposit & Advance Payments	--	--	--	40,152	--	40,152	40,152
Trade Creditors	--	--	--	94,377	--	94,377	94,377
Accrued Liability/Mark up	--	--	--	112,105	--	112,105	112,105
Un claimed Dividend	--	--	--	1,903	--	1,903	1,903
Other Liabilities	--	--	--	140,165	--	140,165	140,165
	-----	-----	-----	-----	-----	-----	-----
	264,739	744,351	1,009,090	388,702	653,964	1,042,666	2,051,756
	=====	=====	=====	=====	=====	=====	=====
Expected Gap	(264,055)	(744,351)	(1,008,406)	(118,552)	(651,657)	(770,209)	(1,778,615)
	=====	=====	=====	=====	=====	=====	=====

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair value.

42. FOREIGN EXCHANGE RISK MANAGEMENT

The company does not obtain forward exchange cover to hedge its foreign currency risks.

43. CONCENTRATION OF CREDIT RISK

The company believes that it is not exposed to major concentration of credit risk.

44. NUMBER OF EMPLOYEES

The total number of employees at the year end was 1,632 (2000: 1,706)

45. PLANT CAPACITY & ACTUAL PRODUCTION

	U/M	Capacity		Actual Production	
		Installed	Assessed	2001	2000
Pumps / turbines	Nos.	3,400	4,000	431	571
Bicycles	Nos.	100,000	120,000	34,291	47,365
Electric motors	Nos.	16,500	6,500	356	460
Rolled material	Tons.	80,000	30,000	4,478	8,295
Steel fabrication (STR)	Tons.	20,000	N.A.	5,813	8,566
Steel ingots	Tons.	40,000	60,000	941	2,266
SSD Engine	Nos.	650	300	0	0
HSD Engine	Nos.	3,600	3,840	0	0
Power Looms	Nos.	1,200	800	0	0
Machine Tools	Nos.	680	400	0	35

Concrete mixers	Nos.	350	350	0	3
-----------------	------	-----	-----	---	---

45.1 The main reason for production below capacity is that sales of company's products badly suffered due to lack of orders and poor economic & political situation prevailing in the country.

45.2 During the year Power Looms and Machine Tools shops were closed down as per the BOD decision. (See Note 3.3)

46.

FIGURES

- Previous year's figures have been rearranged wherever necessary for the purpose of comparison.
- Figures have been rounded off to the nearest thousand rupee.

**M. IMTIAZ-UR-
RAHEEM**
(Chief Executive)

**SYED AIJAZ ALI
ABBASI**
(Director)

**MOHAMMAD SHABIR
MALIK**
(Director)

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2001

<i>Number of Shareholders</i>	<i>Shareholding</i>		<i>Total Shares Held</i>
	<i>From</i>	<i>To</i>	
1,481	1	100	45,657
758	101	500	193,187
255	501	1,000	189,366
199	1,001	5,000	447,682
54	5,001	10,000	411,381
18	10,001	15,000	226,450
9	15,001	20,000	162,504
3	20,001	25,000	67,940
2	25,001	30,000	56,059
1	30,001	35,000	34,250
2	35,001	40,000	74,650
1	40,001	45,000	43,726
1	45,001	50,000	50,000
1	65,001	70,000	66,600
1	115,001	120,000	116,574
2	135,001	140,000	271,213
1	145,001	150,000	148,495
1	165,001	170,000	165,254
1	220,001	225,000	221,643
1	320,001	325,000	322,352
1	955,001	960,000	959,539
1	1,415,001	1,420,000	1,415,723

 2,794
 =====
 =

 5,690,245
 =====

<i>Categories of Shareholders</i>	<i>Number of</i>	<i>Shares</i>	<i>Percentage</i>
	<i>Shareholders</i>	<i>Held</i>	
Individuals	2,751	2,012,839	35.37
Investment Companies (Govt. Owned)	2	212,182	3.73
(Private)	5	11,170	0.20
Insurance Companies (Govt. Owned)	2	209,030	3.67
(Private)	3	129,502	2.28
Financial Institutions (Govt. Owned)	8	1,326,850	23.32
(Private)	4	341,287	6.00
Modaraba Companies	1	1,300	0.02
Joint Stock Companies	8	22,137	0.39
OTHERS			
The Custodian of Enemy Property	1	390	0.01
M/s. Corporate Law Authority	1	1	0.00
State Engineering Corporation Ltd.	1	1,415,723	24.88
The Deputy Administrator Abandoned Properties	1	5,754	0.10
Foreign Participation	6	2,080	0.04
TOTAL	----- 2,794	----- 5,690,245	----- 100.00