

**PAKISTAN ENGINEERING COMPANY LIMITED**  
**ANNUAL REPORT 2004**

**BOARD OF DIRECTORS**

Maj. Gen. (R ) Sikandar Hayat ( Chairman)  
Mr. Ashique Ali ( Chief Executive )  
Mr. Muhammad Iqbal Hussain  
Mr. Jawaid Iqbal Mufti  
Mr. Muhammad Shabbir Alam  
Mr. Asif Jameel  
Mr. Liaqat Mohammad  
Mr. Mohammad Shabir Malik  
Mr. Muhammad Iqbal

**BOARD AUDIT COMMITTEE**

Mr. Liaqat Mohammad - Chairman  
Mr. Mohammad Shabir Malik - Member  
Mr. Muhammad Iqbal - Member  
Mr. Ashique Ali - Member

**COMPANY SECRETARY**

Ch. Muhammad Ashraf

**BANKERS**

National Bank of Pakistan

**AUDITORS**

Fazal Mahmood & Co.  
Chartered Accountants

**REGISTERED AND HEAD OFFICE**

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

**BRANCHES**

Karachi  
Islamabad

**PLANT**

Kot Lakhpat, Lahore.

**SHARES REGISTRAR**

M/s Corp Link (Pvt) Ltd.  
Wings Arcade, 1-K, Commercial,  
Model Town, Lahore

**CHAIRMAN'S REVIEW**

Aslam-O-Alakum Wa Rehmatullah Wa Barkatauh

On behalf of PECO Board of Directors, I am pleased to present the Audited Accounts for the year ended June 30,2004 alongwith Auditor's Report.

**OVERVIEW**

The year 2003-04 had been full of momentous events. I am extremely pleased to announce that one

of the hall mark of the year had been the completion of 500 Kv transmission line towers project of WAPDA against contract No. 2017-13 as per CCOP decision of January 2002. Countless difficulties were overcome to achieve this milestone.

It will not be out of place to mention that PECO is the only qualified company in the country to manufacture 220 Kv and 500 Kv transmission line towers. WAPDA is the biggest beneficiary of this expertise of the company. According to WAPDA's vision 2025, it intends to expand its transmission line network and requires about 100,000 tons of towers material during the next five years. On account of this, WAPDA has approached the Federal Government to keep PECO's Structure division operative. In view of WAPDA's colossal requirement of towers material, the operational continuity of structure division of the company is under active consideration of the Government. Besides, company's Board of Directors has also decided about the continued participation of PECO in the futures tenders of WAPDA and other customers for the manufacturing and supply of towers.

Another hall mark of the year had been the participation of PECO in the WAPDA's ADP - 19 project for supply of 220/132/66 Kv transmission line towers. PECO was successful to receive Notification of Award for this project valuing Rs. 769 million. The distinctive feature of this project is that it is the highest value order in the entire history of the company. In the beginning, NBP was reluctant to finance the project but after consistent efforts and lot of persuasion, the bank finally agreed. Since then the company has never looked back and is marching ahead with God speed for timely execution of this project.

#### **OPERATING RESULTS**

During this year, the company has focused mainly on operations of Structure Division for the manufacturing of Transmission Line Towers. Production of Structure materials had decreased to 6033 tons from 93 06 tons during last year mainly due to non availability of financing by NBP for ADP -19 WAPDA order. After completion of 500 Kv order on 31.12.2003, production activities were confined to manufacturing of 11 Kv Towers. However, Production activity of company was started in full swing after financing approval of ADP -19 order by the NBP on 9.06.2004. Sales have gone up to Rs. 457 million as compared to 265 million in the last year, increase of Rs. 192 million due to delivery of 500 Kv order material. Gross profit has increased by Rs. 24 million, 65% increase as compared to last year. Gross profit ratio was marginally lower than last year mainly due to comparatively higher prices of material. The company made operating profit of Rs. 14 million during the year as against operating loss of Rs. 15 million last year. The improvement in the operating results was due to reorganization of the company and strict control on operating expenses by the management. As a result of these measures, operating expenses have decreased

by Rs. 5 million. Financial expenses have marginally decreased by payment of Packing Finance of the completed projects, which were earlier financed by NBP. Loss before Taxation has however increased to Rs. 14 million from 6 million during the last year mainly because of the fact that last year loss included the effect of gain on sale of Karachi plot valuing Rs. 46 million.

#### **FUTURE OUTLOOK**

There is a favourable atmosphere for achieving new orders for structures and pumps. The company has already participated in different WAPDA tenders for Transmission line towers and 11 kv steel structures. There are many transmission line tower projects expected to be undertaken by WAPDA in very near future as envisaged in its "Vision 2025". Similarly, PECO pumps are very popular in the Local Market. These pumps are not only economical in price but better in performance than other pumps available in the market. PECO's closure of Pumps production had created a big vacuum in the market which had resulted into exorbitant increase in pump prices due to which there are many enquiries from potential customers about the

restart of production of PECO Pumps. The management as well as the Board of Directors of your company are seriously reviewing the possibility of restarting of pump division.

#### **ACKNOWLEDGEMENT**

In the end, I take this opportunity to thank our valued customers, particularly WAPDA, for their continued support and unwavering confidence in our company by placing orders for transmission line towers. Timely financial assistance by NBP has also enabled the company to execute its orders in time, for which they deserve all the credit. My special thanks are also to the Governor, SBP who took keen interest in execution of WAPDA's ADP 19 project and helped PECO out of the way, amidst all odds. I must also express my sincerest gratitude to my colleagues on the Board for their continued help and guidance in running the affairs of the company. I also thank the staff members of the company for their commitment, dedication and hard work, and look forward to further improvement of your company in future.

#### **DIRECTORS' REPORT**

The Directors have pleasure in presenting the 55th Annual Report with the Audited Accounts and the Auditors' Report thereon for the year ended 30th June 2004.

#### **OPERATIONAL REVIEW, FUTURE OUTLOOK & SIGNIFICANT PLANS & DECISIONS**

The Chairman's review included in the Annual Report deals with the performance of the company for the year ended 30<sup>th</sup> June, 2004, future prospects and the significant plans & decisions. The directors endorse the contents of the review and may be read with Directors' Report.

#### **EMPLOYEES LAY OFF**

As per Government decision by relieving 38 employees during last year total remaining employees were 112 as on 30<sup>th</sup> June, 2004. Six executives and supervisors have been relieved in August, 2004. The remaining 104 employees shall be laid off upon receipt of funds from the Government.

#### **OPERATING & FINANCIAL DATA**

Operating and Financial data for the last ten years is annexed.

#### **EMPLOYEES PENSION & PROVIDENT FUND**

The company has a pension fund scheme for executives managed by the State Engineering Corporation Management Pension Fund. The company also operates a funded provident fund scheme covering all regular members. The investments as of the last audited accounts of the Provident Fund Trust were Rs. 1.015 million whereas the company is paying Mark up @ 12% per annum on the amount utilized.

#### **BOARD OF DIRECTORS MEETINGS**

During the year 2003-04, five meetings of the Board of Directors were held. The attendance of the Board members is as follows:

During the year Maj. Gen. (R) Sikandar Hayat joined in place of Mian Suhail Aslam and Mr. Muhammad Iqbal Hussain joined in place of Mr. Abdul Hafeez Ch. as Directors of the company. Mr. Jawaid Iqbal Mufti, nominee of WAPDA had retired from service and Mr. Muhammad Shabbir Alam, nominee of NDFC did not attend meetings after merger of NDFC with NBP. Nominations of these have yet not been made by the concerned organizations.

#### **PATTERN OF SHAREHOLDING**

The pattern of shareholding of the company is annexed.

#### **EARNING PER SHARE**

Loss per share for the year ended 30<sup>th</sup> June, 2004 was Rs: 2.83 as compared to the loss of Rs: 1.35 in the last year.

#### **AUDITORS**

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

#### **COMMENTS ON AUDITORS REPORT**

##### **a- GOING CONCERN**

The Privatization Commission has recommended closure of the company to the Government, however, in order for the company to continue as a going concern, a plan for its restructuring has been submitted to 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 the company will continue as a going concern and consequently do not include any adjustments that might be necessary if going concern assumption was not appropriate.

Furthermore the company has obtained an order on 9.06.2004 for the supply of transmission line towers valuing Rs. 769 million from WAPDA and the management of the company is actively working to complete the supply of order in time.

##### **b- OUTSTANDING AMOUNT OF CUSTOM & IMPORT DUTIES**

The Markup has not been provided since the outstanding principal amount on account of custom and other import duties and its mark-up is payable by the Privatization Commission out of sale proceeds of the Badami Bagh land of the company.

##### **c- INTEREST ON FUNDS PROVIDED BY GOVT. FOR COMPULSORY SEPERATION SCHEME**

The management has taken up the matter with the State Engineering Corporation for requesting the Government to convert the loan given for employees' compulsory retirement into grant hence mark up

provision has not been provided in the accounts.

##### **d- PRIVATIZATION COMMISSION LOAN**

The Privatization Commission has confirmed loan liability which is Rs. 134.013 million higher than the amount appearing in the books of accounts. This difference in amount is the amount of additional gratuities paid to employees during the period from 1993 to 1996 on behalf of Privatization Commission. It was understanding with Privatization Commission that the gratuities will be adjusted against the loan liabilities. The company has taken up the matter with State Engineering Corporation (Private) Limited and will resolve it with Privatization Commission.

##### **e) GOVERNMENT OF PAKISTAN LOANS**

In reply to the request for confirmation of balance of loan liabilities of the Government of Pakistan, we received a reply that the matter is being examined in consultation with State Engineering Corporation

(Private) Limited and State Bank of Pakistan. In the opinion of Management the liability in respect of Government of Pakistan loan will not be higher than the amount appearing in books of accounts.

**f- IMPAIRMENT LOSS**

A number of Divisions have been closed down during the past years due to adverse liquidity position, continuing losses and as per instructions of the Government. In the opinion of the management, the carrying amount of these assets does not exceed its recoverable amount, therefore, impairment loss has not been recognized.

**STATEMENT IN COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE**

The Board regularly reviews the company's strategic direction. Annual plans and performance targets for business are set by the Chief Executive and are reviewed in total 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. The company has been in compliance with the provisions set out by the securities & Exchange Commission of Pakistan and accordingly amended listing rules of the Stock Exchanges.

The Board of Directors state that:

1. The financial statements prepared by the management of the company, fairly present its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained.
3. Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. In view of the explanation given at a) above there is no significant doubt upon the company's ability to continue as a "Going Concern".
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.
8. The Company has fully complied with the Best Practices on Transfer Pricing as contained in the listing regulations of the stock exchange.

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE  
BEST PRACTICES ON TRANSFER PRICING**

**A) STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE**

This statement is being presented to comply with the Code of Corporate Governance contained in Listing Regulations

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 eight 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 directors of the company are registered as tax payers and none of them has defaulted in payment of any loans to a banking company, a DPI or an NBFIs or none of them or their spouse are engaged in the business of Stock Brokerage.
4. The Company has a policy to fill up any casual vacancy occurring in the Board within 30 days.
5. The Company has prepared a 'Statement of Ethics and Business Practices' which was approved in Board of Directors meeting held on 23.09.2003 and it has been signed by the Directors and employees of the company.
6. The Board in its meeting held on 23.09.2003 has approved a vision / mission statement, overall corporate strategy and significant policies of the company. Management of the company shall maintain complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. The Board arranged orientation courses for its directors during the year to apprise them of their duties and responsibilities.
10. 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 CFO.
11. 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.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of four members, of whom three are non executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set up an effective internal audit function.

#### **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of PAKISTAN ENGINEERING COMPANY LIMITED as at June 30, 2004 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) The company during the year has suffered after tax loss of Rs. 16.128 million resulting in an accumulated loss of Rs. 1,740.945 million as at June 30, 2004. The company is under heavy debt burden and its long term and short term liabilities to the government and financial institutions are of Rs. 1,975.329 million in the shape of principal and outstanding interest. Further in Cabinet Committee meeting for privatization held on January 05, 2002 decision has been made for winding up of the company. Due to these factors "Going Concern" assumption, the basis on which financial statements have been prepared, appears to be incorrect.
- b) Interest amounting to Rs. 12.178 million for the year ended June 30, 2004 (accumulated Rs. 107.354 million) has not been provided for on outstanding principal amounting to Rs. 86.984 million relating to customs and other import duties (Ref. Note 21.2.1). 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.



c) Interest amounting to Rs. 30.900 million for the year ended June 30,2004 (accumulated Rs. 69.525 million) has not been provided on funds provided by Government of Pakistan for compulsory separation scheme @ 10% p.a. According to the management, waiver of such interest from the Federal Government shall be requested (Ref. Note 21.4).

Had the provision for interest in respect of paragraphs (b) and (c) been made in the financial statements the loss for the year would have increased by Rs. 43.078 million and accumulated loss would have increased by Rs. 176.879 million.

d) Privatization Commission of Pakistan has confirmed the loan liability of Rs. 468.619 million which is Rs. 134.013 million higher than the liability appearing in the books of accounts of the company (Ref. Note 21.1). The difference amount is the amount of additional gratuities paid by the company on behalf of Privatization Commission, during the period 1993 to 1996. As per record of Privatization Commission there is no such order for adjustment of Rs. 134.013 million nor we have been provided by the company with any written approval of Privatization Commission for adjustment of this amount.

e) In response to our request for confirmation of Government of Pakistan loan (Ref. Note 21.2 to 21.5), Government of Pakistan-Finance Division has informed that the matter is being examined in consultation with the State Engineering Corporation (Private) Limited and the State Bank of

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

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the board of directors of Pakistan Engineering Company Limited to comply with the listing regulation No. 37 (Chapter XI) of the Karachi stock Exchange (Guarantee) Limited, Chapter XIII of the Lahore Stock Exchange (Guarantee) Limited and Chapter XI of the Islamabad Stock Exchange (Guarantee) Limited, respectively 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 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 for the year ended June 30,2004.

#### **BALANCE SHEET AS AT JUNE 30, 2004**



		Note (Rupees in Thousand)	
		2004	2003
<b>FIXED CAPITAL EXPENDITURE</b>			
Tangible Fixed Assets	3	1,464,461	1,475,804
Assets subject to Finance Lease	4	1,557	1,258
Land Held for Sale	5	314,724	314,724
		1,780,742	1,791,786
STATE ENGINEERING CORPORATION PENSION FUN	6	0	2,337
LONG TERM SECURITY DEPOSITS		2,203	1,987
		2,203	4,324
		1,782,45	1,796,110
<b>CURRENT ASSETS</b>			
Stores and spares	7	77,301	86,939
Loose Tools		2,584	25,102
Assets held for sale	8	32,280	36,724
Stock-in-trade	9	152,821	375,644
Trade debtors - Unsecured	10	148,145	114,410
Loans & advances to Employees	11	653	1,184
Advances to Others	12	11,917	21,214
Trade Deposits, Prepayments & other Receivable	13	14,927	23,045
Cash and bank balances	14	15,443	178,370
		478,571 -	862,632
<b>CURRENT LIABILITIES</b>			
Short Term Loans	15	372,344	635,044
Current Maturity of Liabilities Against Assets Subject to Finance Lease		788	638
Deposits & Advance payments	16	12,070	53,138
Trade Creditors	17	26,624	11,162
Accrued Liabilities	18	76,595	42,974
Provision for Taxation		3,609	3,518
Unclaimed Dividend		1,902	1,903
Other Liabilities	19	72,837	191,825
		566,769	940,202
Net Current Liabilities		-88,198	-77,570
Total Assets Less Current Liabilities		1,694,747	1,718,540
CONTINGENCIES AND COMMITMENTS	20	0	0
GOVERNMENT OF PAKISTAN LOAN	21	1,643,985	1,643,985
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE	22	579	712
DEFERRED LIABILITIES		8,240	12,077
		1,652,804	1,656,774
NET TOTAL ASSETS		41,943	61,766
<b>REPRESENTED BY:</b>			
Share Capital	23	56,902	56,902
Revenue Reserves - General		10,000	10,000
Accumulated (Loss)		-1,740,945	-1,731,902
		-1,674,043	-1,665,000
Revaluation Surplus	24	1,715,386	1,726,766

41,943

61,766

Pakistan.

The ultimate outcome of this matter and the financial impact as a result of subsequent modifications, if any to the terms of Government of Pakistan Loan can not presently be determined. In the view of foregoing response from Government of Pakistan-Finance Division the balance of loan remain unconfirmed (Ref. Note 21.2 to 21.5).

f) Machine tool division, Power loom division, Bicycle division, furnace and rolling mills division have been closed and thus, in our opinion, indicate the impairment of the plant and machinery of the above mentioned divisions. No impairment loss has been measured or recognized in this respect in these financial statements as required by IAS 36 (impairment of assets).

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

h) Inouropinion:

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 objects of the company;

i) In our opinion, except for the matters referred to in paragraph (a) to (f) above and to the extent to which these affect the results 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 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, 2004 and of the loss, its cash flows and changes in equity for the year then ended; and

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

#### **CASH FLOW STATEMENT**

FOR THE YEAR ENDED JUNE 30, 2004

(Rupees in Thousand)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss before taxation	-13,845	-6,225
<i>Adjustments for:</i>		
Depreciation	11,743	12,423
Amortization of leased assets	389	315
Financial Charges	49,328	47,479
Provision for bad debts	522	1,066
Provision for gratuity	3,122	4,725
Profit on sale of Assets held for sale	-2,064	-231
Profit on sale of Operating Fixed Assets	-845	0
Profit on sale of Land	0	-46,800
(Profit) /Loss on sale of scrap	0	5
Loss on Adjustment of Assets held for sale	203	0
Profit before working capital changes	48,553	12,757
(Increase)/ Decrease in assets held for sale	0	-65
(Increase)/ Decrease in loose tools	18	-115
(Increase)/ Decrease in stores and spares	9,638	-5,442
(Increase)/ Decrease in stock in trade	222,823	-165,489
(Increase)/ Decrease in trade debtors	-33,735	-20,495
(Increase)/ Decrease in loans and advances to employees	531	-178
(Increase)/ Decrease in advances to others	10,924	1,456
(Increase)/ Decrease in trade deposits, prepayments and others receivable	8,118	3,310
Increase / (Decrease) in deposits and advance payments	-41,068	-27,739
Increase / (Decrease) in trade creditors	15,462	-16,351
Increase / (Decrease) in accrued liabilities	-3,133	-43,085
Increase / (Decrease) in other liabilities	-103,922	40,657
Cash Generated/(Used in) from operations	134,209	-220,779
Financial Charges Paid	-12,574	-38,933
Gratuity Paid and other retirement cost	-22,025	-9,769
Income Tax Paid	-4,282	-3,025
<i>Net Cash inflow/(outflow) from Operating Activities</i>	95,328	-272,506
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of tangible fixed assets	0	-159
(Increase)/ Decrease in State Engineering Corporation Pension Fund	2,337	0
(Increase) / Decrease in long term security deposits	-275	119
Sale of scrap	0	1,337
Sale proceeds on disposal of fixed assets	920	46,800
Sale proceeds on disposal of assets held for sale	2,135	206
<i>Net Cash Inflow from investing activities</i>	5,117	48,303
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase/ (Decrease) in Short term loans	-262,700	387,811
Payment of lease liability	-671	-754
Payment of Dividend	-1	0
<i>Net cash (out flow)/ in flow from financing activities</i>	-263,372	387,057
<i>Net (decrease)/ increase in cash and cash equivalents</i>	-162,927	162,854
<b>CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR</b>	178,370	15,516

CASH AND CASH EQUIVALENTS AT END OF THE YEAR	15,443	178,370
--	--------	---------

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2004

	(Rupees in Thousand)		
	Note	2004	2003
Sales	25	456,577	265,165
Cost of Goods Sold	26	395,633	227,829
<i>Gross Profit</i>		60,944	37,336
General and Administrative expenses	21	37,261	41,025
Selling and Distribution expenses	28	9,738	11,087
		46,999	52,112
Operating Profit/(Loss)		13,945	-14,776
Financial charges	29	46,812	47,479
		-32,867	-62,255
Other Income	30	9,079	48,377
Other Charges	31	-2,083	-2,383
		-25,871	-16,261
Compulsory separation scheme	32	-5,887	-1,971
Prior year adjustment	33	17,913	12,007
<i>Loss before Taxation</i>		-13,845	-6,225
Taxation - Current	34	2,283	1,326
Prior		0	107
Loss after Taxation		-16,128	-7,658
Accumulated Loss Brought Forward		-1,731,902	-1,783,173
Transfer from surplus on revaluation of fixed assets			
Prior years		0	50,322
Current year		7,085	8,607
		7,085	58,929
Accumulated Loss		-1,740,945	-1,731,902
Loss per Share - Basic	35	-2.83	-1.35

### 1. THE COMPANY AND ITS OPERATIONS

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

A rehabilitation plan was approved by the Federal Cabinet to improve the viability of the project and according to the plan Badami Bagh Works was closed down and its land was offered for sale by the Privatization Commission. No significant offer was received for its disposal. Therefore, the Cabinet Committee in order to avoid further losses had decided the closure of the company. For this purpose the Government had provided the funds to company for retirement of all the employees by offering them Compulsory Separation Scheme dues on the basis of 1 + 2 gratuity formula.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Accounting:

The company has incurred a net loss of Rs. 16.128 million for the year ended June 30, 2004 and has accumulated losses of Rs. 1,740.945 million as of that date. The company is under heavy debt burden and its long term liability to the Government and its institutions stands at Rs. 1,975.329 million. Further the accumulated losses have 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 sale of Badami Bagh and Kot Lakhpat land is under consideration by the board of directors for the arrangement of working capital and repayment of old liabilities.

As a result, these accounts have been prepared on assumption that the company will continue as a going concern and consequently do not include any adjustments that might be necessary if going concern assumption was not appropriate.

## 2.2 Statement of Compliance:

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Where 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.

## 2.3 Accountins Convention:

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEA fRuoees in Thousand)

	Share Capital	Revenue Reserve	Accumulated Loss	Total
Balance as at June 30, 2002	56,902	10,000	-1,783,173	-1,716,271
Transfer from Profit and Loss Account	0	0	-7,658	-7,658
Transfer from "Surplus on Revaluation of Fixed Assets				
- Prior Years	0	0	50,322	50,322
- Current Year	0	0	8,607	8,607
Balance as at June 30, 2003	56,902	10,000	-1,731,902	-1,665,000
Transfer from Profit and Loss Account	0	0	-16,128	-16,128
Transfer from "Surplus on Revaluation of Fixed Assets				
- Current Year	0	0	7,085	7,085
Balance as at June 30, 2004	56,902	10,000	-1,740,945	-1,674,043

## 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.

## 2.11 Employees Retirement Benefits:

### a) Defined contribution plan

The company 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.

b) In addition to above defined contribution plan, the company voluntarily provided two schemes for their employees, 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. Keeping in view future uncertainties (i.e. closure and termination of employees) it is not practicable to use projected unit credit method as specified in IAS 19 (Employee Benefits).

However in the opinion of management the liability provided for adequately covers any near future obligations. 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.

## 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:

Deferred tax is recognised using balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 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 over the lease term so as to produce a constant periodic rate of financial costs on the remaining balance of principal liability for each period.

## 2.4 Tangible Fixed Assets and Depreciation:

Operating fixed assets are stated at cost less accumulated depreciation except for 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 are capitalized upto the date of completion. 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 repair and maintenance is 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 the current year income.

#### 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 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.

#### 2.6 Stocks, Stores, Spare Parts and Loose Tools:

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

Raw material	At average cost.
Work in Process	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.

#### 2.7 Trade Debts:

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

#### 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. All transactions between the Company and the associated undertakings are accounted for at an arms length, prices determined using "cost plus method".



2.9 Compliance with Experts Advisory Cell (CEAC):

Beside 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 Expert Advisory Cell, Ministry of Industries and Production, Government of Pakistan while preparing the financial statements.

		(Rupees in Thousand)	
		2004	2003
<b>STOCK IN TRADE</b>			
Raw material	9.1	62,473	146,479
Work in process		70,688	91,598
Finished goods		19,660	137,567
		152,821	375,644
9.1 It includes raw material in transit of Rs. Nil million (2003: Rs. 90.343 million).			
<b>TRADE DEBTORS - UN SECURED</b>			
Associated undertakings		547	1,104
WAPDA		131,767	104,834
Others	10.3	38,187	41,937
		170,501	147,875
Less: Provision for bad and doubtful debts	10.4	500	893
Associated undertakings		21,856	32,572
WAPDA and others		22,356	33,465
		148,145	114,410
Provision for Bad and Doubtful Debts			
Opening balance		33,465	33,831
Less: Recovery of bad debts / adjustment		11,109	375
		22,356	33,456
Add: Provision for the year		0	9
Closing Balance		22,356	33,465

		(Rupees in Thousand)	
		2004	2003
<b>LAND HELD FOR SALE</b>		314,724	314,724
<b>STORES AND SPARES</b>			
Stores		23,593	29,953
Spares parts	7	53,708	56,986
		77,301	86,939
<b>ASSETS HELD FOR SALE</b>			
Store		1,509	1,509
Machinery		30,771	35,215
		32,280	36,724

Bank	Rate of mark UD	Sanctioned	Date of expiry
------	-----------------	------------	----------------

Preshipment finance	( Financed by SBP )	Limit 330 million	31-10-2003
Demand Finance 1	1 0% per annum	268 million	31-05-2003
Demand Finance 2	12% per annum	21.1 million	31-05-2003
Demand Finance ADP-19	5% per annum	745 million	31-07-2005

(Rupees in Thousand)

		2004	2003
<b>DEPOSITS AND ADVANCE PAYMENTS</b>			
Advances from customers	16.1	8,484	49,295
Dealership securities	16.2	2,584	2,755
Retention and earnest money		1,002	1,088
		12,070	53,138

**TRADE CREDITORS**

People Steel Mills, Karachi		3,827	4,380
Others		22,797	6,782
		26,624	11,162

**ACCRUED LIABILITIES**

Accrued expenses	18.1	11,889	15,022
Accrued mark up and interest on loan - Secured		63,742	27,952
- Un secured		964	0
		76,595	42,974

(Rupees in Thousand)

		2004	2003
<b>ADVANCES TO OTHERS</b>			
Suppliers	12.1	2,177	3,617
Income Tax		8,357	6,267
Letters of credit		11	11,330
Sales tax refund		1,372	0
		11,917	21,214
1 2. 1 Suppliers			
Suppliers		4,221	4,674
Less:			
Provision for bad and doubtful debts		2,044	1,057
		2,177	3,617

**TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE**

Trade deposits	13.1	2,737	5,022
Margin against bank guarantees		8,277	9,453
Short term prepayments		3,816	2,124
Claims receivables		97	6,446
		14,927	23,045
13.1 Balance as on Closing date		4,080	6,365
Less:			
Provision against doubtful balances		1,343	1,343
		2,737	5,022

**CASH AND BANK BALANCES**

Cash in hand		175	229
Cash with banks			
Current accounts		15,239	34,164
Saving accounts	14.1	7	7
Escrow account	14.2	22	128,370
Short term deposits		0	15,600
		15,443	178,370

#### SHORT TERM LOANS

From National Bank of Pakistan under mark up arrangements- NBP Demand Finance		272,132	270,844
NBP preshipment finance		59,212	330,000
		331,344	600,844
From Associated undertakings		0	34,200
Spinning Machinery Co. (Pvt) Limited		41,000	0
State Engineering 15.2		372,344	635,044

(Rupees in Thousand)

2004 2003

#### GOVERNMENT OF PAKISTAN LOAN

The amount includes funds provided by the Government, bank loan of the company taken over by the Government and amount payable by the company to different Government department like Customs and Karachi Port Trust. According to the Cabinet Division decision dated 30th May 1994 these loans will be settled against the privatization proceeds of the company. Therefore, these have been classified as long term payables.

Privatization commission loan	21.1	334,606	334,606
Government Escrow account	21.2	112,937	112,937
Other Government Loan	21.3	100,000	100,000
Federal Government loan for compulsory separation scheme	21.4	309,000	309,000
Federal Government Bonds	21.5	787,442	787,442
		1,643,985	1,643,985

The break up of Government Escrow account is as follows:

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

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

(Rupees in Thousand)

2004 2003

#### OTHER LIABILITIES

Payable to preference shareholders	19.1	808	875
Employees Provident Fund Trust	19.2	43,214	48,015

Gratuity payable to SEC Pension Fund Trust	19.3	9,214	24,280
State Engineering Corporation (Private)		17,761	13,744
Limited (an associated undertaking)		0	12,237
Sales tax payable		0	400
Gratuity payable to retired executives		0	88,474
Payable to National Bank Against Letter of credit		1,840	3,800
Others		72,837	191,825

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

19.2 Interest@ 12% is charged against outstanding amount.

19.3 Movement of Pension Payable is as under:

Opening balance		24,280	25,557
Provision for the year		2,510	1,927
		26,790	27,484
Less:			
Payment to SEC Pension Fund and Executives		17,576	3,204
		9,214	24,280

## CONTINGENCIES AND COMMITMENTS

### Contingencies

Claims not acknowledged as debts in respect of various sub judice cases filed against the company for which the maximum possible liabilities could be approximately Rs. 18.347 million (2003: Rs. 5.334 Million), including Rs. 6.027 million for social security and Rs. 6.914 million for E.O.B.I cases for which the company is in appeal.

Guarantees of Rs. 282.155 Million (2003: 154.575 Million) issued by the banks to different parties on behalf of the company.

Post dated cheques of Rs. 67.516 Million (2003: Rs. 79.33 Million) issued to the collector of customs for import of raw material. These are cancelable on providing consumption certificates to the collector of customs.

### Commitments

Letters of credit for raw material and store items amounting to Rs. 390.932 Million (2003: Rs. 18.330 million).

	(Rupees in Thousand)	
	2004	2003
<b>REVALUATION SURPLUS</b>		
Land		
Surplus on revaluation carried out in 1991	925,530	925,530
Surplus on revaluation carried out in 2001	645,075	645,075
	24.1	1,570,605
Less:		
Adjustment on account of sale of part of Badami Bagh Works Land	{7,359}	-7,359
	1,563,246	1,563,246
Building Structure		
Surplus on revaluation carried out on June 30, 1997	143,550	143,550

Less:	24.2		
Surplus relating to incremental depreciation charged in prior years transferred to accumulated loss			
Prior years		38,028	32,474
Current period		5,276	5,554
		100,246	105,522
Plant and machinery			
Surplus on revaluation carried out on June 30, 1997		96,063	96,063
Less:	24.3		
Adjustment on account of sale		21,474	17,164
		74,589	78,899
Less:			
Surplus relating to incremental depreciation charged in prior years transferred to accumulated loss	24.4		
Prior years		20,901	17,848
Adjustment on account of sale		-615	0
		20,286	17,848
Current period		1,809	3,053
		52,494	57,998
Closing balance		1,715,986	1,726,766

(Rupees in Thousand)

2004 2003

**LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

Opening balance	1,350	2,229
Additions during the year	688	0
	2,038	2,229
Payment during the year	-671	-754
Net Lease Obligation.	1,367	1,475
Adjustment on completion of lease	0	-125
Current portion	-788	-638
Closing balance	579	712

The amount of future payments for finance lease and the period	0	808
Year to ended June 30, 2004	865	758
Year to ended June 30, 2005	658	0
Year to ended June 30, 2006 to 2009	1,523	1,566
Minimum lease Payments		
Less:	-156	-216
Finance charge	1,367	1,350
Net Lease Obligation.		

**SHARE CAPITAL**

Authorized Capital:		
9,000,000 (2003: 9,000,000) Ordinary shares of Rs. 107- each	90,000	90,000
100,000 (2003: 100,000) 7.5% Cumulative redeemable preference shares of Rs. 1 007- each	10,000	10,000
	100,000	100,000

Issued, Subscribed and Paid up Capital:		
3,162,144 (2003: 3,162,144) Ordinary shares of Rs. 107- each fully paid in cash	31,621	31,621
2,528,101 (2003: 2,528,101) Ordinary shares of Rs. 107- each issued as fully paid up bonus shares	25,281	25,281
	56,902	56,902

**(Rupees in Thousand)**

	<b>2004</b>	<b>2003</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salaries and wages (including all benefits)	20,855	22,681
Provident Fund	864	955
Gratuity	1,504	1,255
Travelling and conveyance	435	1,048
Entertainment	162	236
Legal and professional	304	485
Rent, rates, and taxes	1,505	1,744
Fuel, gas and electricity	1,459	1,460
Repair and maintenance	303	292
Postage, telegrams and telephone	701	1,049
Printing, stationery and office supplies	607	571
Advertisement	611	96
Service charges - SEC	4,000	4,000
Amortization of leased assets	4.1 389	315
Insurance	320	301
Vehicle running expenses	1,042	1,503
Miscellaneous	1,418	2,198
Depreciation	3.2 719	836
	37,261	41,025
<b>SELLING AND DISTRIBUTION EXPENSES</b>		
Salaries and wages (including all benefits)	6,697	6,993
Provident Fund	312	335
Gratuity	521	426
Travelling and conveyance	201	442
Entertainment	77	65
Rent, rates, and taxes	0	11
Fuel, gas and electricity	0	2
Repair and maintenance	7 7	35
Postage, telegrams and telephone	119	155
Printing, stationery and office supplies	29	47
Advertisement and sales promotion	340	472
Vehicle running expenses	0	25
Freight and forwarding	1,123	1,554
Insurance	0	78
Miscellaneous	312	447
	9,738	11,087
<b>FINANCIAL CHARGES</b>		

Mark up and interest on short term running finances		38,390	35,466
Mark up on bank guarantees		0	639
State Engineering Corporation (Pvt.) Ltd.		964	0
Interest on provident fund		4,630	5,479
Bank charges and commission	29.1	2,647	5,591
Financial charges on finance lease		181	304
		46,812	47,479

**(Rupees in Thousand)**

		<b>2004</b>	<b>2003</b>
<b>SALES - Net</b>			
Gross		457,387	269,485
Less:			
Rebate, allowances, discount and commission		810	4,320
		456,577	265,165
<b>COST OF GOODS SOLD</b>			
Raw material consumed	26.1	172,823	231,792
Stores and spares consumed		30,692	21,111
Salaries and wages (including all benefits)		20,757	29,963
Provident fund		69]	832
Gratuity		1,09.?	1,073
Fuel and power		16,966	24,636
Rent, rate and taxes		2	56
Service charges		829	1,100
Repair and maintenance		1,083	3,963
Insurance		345	252
Other expenses		507	903
Depreciation	3.2	11,024	11,586
		256,816	327,267
(Increase) / Decrease in work in process inventory	26.2	20,910	-2,724
Cost of goods manufactured		277,726	324,543
(Increase) / Decrease in finished goods inventory	26.3	117,907	-96,714
		395,633	227,829
<b>26. 1 Raw Material Consumed</b>			
Opening inventory		146,479	80,428
Add:			
Purchases		88,817	297,843
		235,296	378,271
Less:			
Closing inventory		62,473	146,479
		1-72,823	231,792
<b>26.2 (Increase) / Decrease in Work in Process Inventory</b>			
Opening inventory		91,59g;	88,874
Loss:			
Closing inventory		70,688	91,598
		20,910	-2,724
<b>26.3 (Increase) /Decrease in Finished Goods Inventory</b>			
Opening inventory		137,567	40,853



Less:		
Closing inventory	19,660	137,567
	1,715,986	1,726,766

**(Rupees in Thousand)**

	<b>2004</b>	<b>2003</b>
<b>PRIOR YEARS ADJUSTMENTS</b>		
Mark up on Preshipment Finance	33.1	-2,516
Electricity bills adjustment	33.2	0
Prior year sales tax adjustment	33.3	9524
Designing charges	33.4	0
Claim against steel scrap	33.5	0
Mark up rebate from Pakistan Steel Mills Ltd	33.6	0
Workers welfare fund	33.7	0
Receipts of Doubtful Debts	33.8	9,833
Mark up on "Spinning Machinery Co. (Pvt.) Ltd." Loan	33.9	340
Others	32	959
	17,913	12,007

**BASIC LOSS PER SHARE**

There is no dilutive effect on the basic loss per share of the company, which is based on;

Loss after taxation ( Rupees in Thousand)	16,128	-7,658
Weighted average number of Ordinary shares ( in Thousand)	5,690	5,690
Loss per share ( Rupees )	2.83	-1.35

**(Rupees in Thousand)**

	<b>2004</b>	<b>2003</b>
<b>OTHER INCOME</b>		
Interest / Profit	105	99
-On deposit with banks	146	375
Recovery of bad debts	30.1	5,919
Miscellaneous income	8.2	2,064
Profit on sale of Kot Lakhpat machinery	30.2	845
Gain on disposal of tangible fixed assets	9,079	46,800
	48,377	

**Detail of Disposal of Tangible Fixed Assets during the year**

Description	Original / Revalued Cost	Accumulated Depreciation	Written Down Value	Profit /		Mode of Sale	Particular of Purchaser
				Sale Price	(Loss)		
Vehicles							
Suzuki mehran	217	188	29	157	128	Tender	Mr. Abid Ansar,
Suzuki Jeep	225	215	10	175	165	"	Iqbal Town,
Suzuki Swift	6	6	0	177	177	Tender	Mr. Abdul
Suzuki Van	136	127	9	117	108	"	Gung Gate, Peshawar.
Suzuki Jeep	56	55	1	122	121	"	
Suzuki Pick up	192	166	26	172	146		

**OTHER CHARGES**

Auditor's remuneration	31.1	236	140
Consultancy charges		0	96
Provision for doubtful debts		522	1,066
Miscellaneous charges		1,122	868
Loss on investments		0	208
Loss on sale of scrap		0	5
Loss on Adjustment of Assets held for sale	8.3	203	0
		2,083	2,383
Auditors Remuneration			
Audit Fee		100	85
Half yearly review fee		40	40
Out of Pocket expenses		0	15
Tax consultancy charges		96	0
		236	140

**CHIEF EXECUTIVE, DIRECTORS' AND EXECUTIVES' REMUNERATION**

Rupees in Thousand

	Chief Executive		Executives	
	2004	2003	2804	2003
Remuneration	712	741	21,000	23,760
Reimbursable expenses	232	299	4,560	5,147
Gratuity	74	52	2,327	1,783
Provident fund	46	47	1,362	1,535
Perquisites	76	92	855	1,826
	1,140	1,231	30,104	34,051
Number of persons	1	1	86	98

**INTEREST RATE RISK**

Mark-up/interest bearing financial instruments of the company carries fixed interest rate and the company is not exposed to interest rate risk. The rates of financing and their maturity period has been disclosed in the relevant notes.

**FOREIGN EXCHANGE RISK MANAGEMENT**

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

**CONCENTRATION OF CREDIT RISK**

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

**NUMBER OF EMPLOYEES**

The total number of employees at the year end was 112 (2002: 158).

**DATE OF AUTHORIZATION FOR ISSUE**

These financial statements have been authorized for issue on September 25, 2004 by the Board of Directors of the company.

**PLANT CAPACITY AND ACTUAL PRODUCTION**

	U/M	Capacity		Actual Production	
		Installed	Assessed	2004	2003
Pumps / turbines	No.	3,400	4,000	4	23

Bicycles	No.	100,000	120,000	0	5,354
Electric motors	No.	16,500	6,500	0	16
Rolled material	Tons	80,000	30,000	0	0
Steel fabrications (	Tons	20,000	N.A	6,033	9,306
Steel ingots	Tons	40,000	60,000	0	0

**(Runees in Thousand)**

	2004	2003
<b>TRANSACTION WITH ASSOCIATED UNDERTAKINGS</b>		
Purchase of material,goods and servises	0	224
Sale of material,goods and servises	104	346
Short term loan from State Engineering Corp.(Pvt.)Ltd. @ 10% p.a	10,000	0
Payment of Loan to associated Companies	3,200	0

**DISCONTINUING OPERATIONS**

During the year the company has discontinued the operations of Bicycle division. At present management has no intention to dispose of the assets of Bicycle division, the revenue from this division was insignificant. All other divisions of the company except structure (STR) had already been closed since 2000. The Plant and Machinery of two divisions , Machine tool and Power Loom, had been transferred to "Assets held for sale" in the year 2001, and the management has no intention to sell the Plant and machinery of remaining divisions. At present only Structure (STR) division of the company is in operation.

**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 can not be prepared in prior years. However during the current year only Structure (STR) division of the company remain in operation.

**TEN YEARS SUMMARY**

	1995	1996	1997	1998	1999	2000	2001	2002	Rs.
Sales -Net	360,742	842,255	603,433	358,081	243,680	511,501	388,901	122,606	265
Cost of Sales	411,142	757,423	466,359	397,251	315,248	505,407	449,264	210373	227
Trading Profit / ( Loss )	-50,400	84,832	137,074	-39,170	-71,568	6,094	-60,363	-87,767	37
Other Income	5,122	11,444	15,403	12,658	5,812	3,038	28,147	12,890	4
Admin, General & Selling Exp.	55,798	61,903	61,672	64,576	60,941	64,818	69,860	62,855	52
Financial Expenses	16,877	51,893	56,458	63,010	39,244	47,014	63,211	66,208	47
Workers Profit Participation Fund			1,374						
Other Charges	6,955	15,152	6,860	13,030	11,693	7,213	2,372	22,224	2
Net Profit / ( Loss) for the year	-124,908	-32,672	26,113	-167,128	-177,634	-109,913	-167,659	-226,164	-16
Prior Year's Adjustments / CSS		4,110			30,834	887	-33,198	-145,056	10
Profit / ( Loss ) before Taxation	-124,908	-28,562	26,113	-167,128	-146,800	-109,026	-200,857	-371,220	-6
Provision for Taxation	8,458	4,226	3,017	1,790	1,218	2,557	2,085	690	1
Profit/ (Loss) after Taxation	-133,366	-32,788	23,096	-168,918	-148,018	-111383	-202,942	-371,910	-7
Dividend			8,535						
Paid Up Capital	56,902	56,902	56,902	56,902	56,902	56,902	56,902	56,902	56
Fixed Capital Expenditure ( Net )	1,005,336	1,034,404	1,295,224	1,259,635	1,256,624	1,241,918	1,818,545	1,804,875	1,79

**PATTERN OF SHAREHOLDING**

AS ON JUNE 30, 2004

Share Holders	From	To	Total Shares
1,463	1	100	44,546
698	101	500	172,760
198	501	1,000	142,395
140	1,001	5,000	299,007
40	5,001	10,000	291,577
7	10,001	15,000	89,200
7	15,001	20,000	131,200
1	25,001	30,000	29,800
2	35,001	40,000	78,700
1	40,001	45,000	43,776
1	95,001	100,000	100,000
1	125,001	130,000	128,790
1	130,001	135,000	131,500
1	135,001	140,000	135,040
1	165,001	170,000	165,254
1	280,001	285,000	284,250
1	290,001	295,000	290,900
1	295,001	300,000	300,000
1	415,001	420,000	415,827
2	495,001	500,000	1,000,000
1	1,415,001	1,420,000	1,415,723
2,569			5,690,245

**Categories of Share Holders**

	Share Held	Percentage
Directors, Chief Executive Officer, their spouses and minor children	7,729	0.14%
Associated Companies, Undertakings and related parties	1,415,723	24.88%
ICP	131,430	2.31%
Banks, Development Finance Institutions and Non Banking financial Institutions	142,410	2.50%
Insurance Companies	238,658	4.19%
Mudarabas and Mutual Funds	0	%
Shareholders holding 10% or more of total capital	1,415,723	24.88%
General Public:		
a) Local	2,921,531	51.34%
b) Foreign	2,080	0.04%
Others:		
Joint Stock Companies	725,548	12.75%
Investment Companies	6,590	0.12%
Cooperative Societies	55,645	0.98%
Trusts	36,864	0.65%
Associations	282	0.00%

Abandoned Property  
Government Authority

5,754  
1

0.10%  
0.00%