

COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Ghulam Rasool Ahpan
Chairman

Mr. M. Imtiaz-ur-Raheem
Chief Executive

Mr. Khizar Hayat Khan

Mr. Muhammad Arif Habib

Mr. Rashid Ali Khan

Mr. Liaqat Mohammad

Mr. Mohammad Shabir Malik

Mr. Muhammad Iqbal

Mirza Mahmood Ahmad

BOARD AUDIT COMMITTEE

Mr. Liaqat Mohammad
Chairman

Mr. Mohammad Shabir Malik
Member

Mr. Muhammad Iqbal
Member

Mr. M. Imtiaz ur Raheem
Member

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Mian Anwar Aziz

AUDITORS

Fazal Mahmood & Co.
Chartered Accountants

SHARE REGISTRAR

M/s Scarlet IT System (Pvt) Limited
Hassan Plaza, 6-A, Jail Road, Lahore

BANKERS

National Bank of Pakistan
United Bank Limited
Arif Habib Bank Limited

REGISTERED AND HEAD OFFICE

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

BRANCHES

Karachi
Islamabad

PLANT


Kot Lakhpat, Lahore.

WEB SITE

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





A Company of 

PAKISTAN ENGINEERING COMPANY LIMITED

6 Ganga Ram Trust Building, Shahrah-e-Quaid-e-Azam, Lahore. Tel: (042) 37320225-27, Fax: 042-37323108
Email: info@peco.com.pk Website: <http://www.peco.com.pk>

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VISION STATEMENT

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

MISSION STATEMENT

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

To bring the company on sound financial footings. Market leader with technological edge, services and customer satisfaction.

CORPORATE STRATEGY

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

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

STATEMENT OF ETHICS & BUSINESS PRACTICES

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

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 60th Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7- Davis Road, Lahore, on Saturday, October 31, 2009 at 10.30 A.M. to transact the following business: -

1. To confirm Minutes of 25th Extra Ordinary General Meeting held on March 28, 2009.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2009 together with the Auditors' and Directors' reports thereon.
3. To approve dividend. The Directors have recommended final dividend of 75% i.e. Rs. 7.50/- per share for the year ended June 30, 2009. This is in addition to interim cash dividend Rs. 5.00 (50%) per share paid during the year, thus making total cash dividend of Rs. 12.50 (125%) per share for the year 2009.
4. To appoint Auditors for the year ending June 30, 2010 and to fix their remuneration. The present Auditors M/s. Fazal Mahmood & Company, Chartered Accountants being eligible for reappointment have offered themselves for reappointment. The Board of Directors, on recommendations of the Audit Committee, has proposed appointment of M/s Fazal Mahmood & Company, Chartered Accountants for the year 2010.
5. To transact any other business with the permission of the chair.

BY ORDER OF THE BOARD

(Mian Anwar Aziz)
Company Secretary

Lahore: October 3, 2009

NOTES:

1. The Share Transfer Books of the company shall remain closed from 24, October 2009 to November 1, 2009 (both days inclusive) and no transfer will be registered during that time. Transfers received in order at the office of the Registrar of the Company M/s Scarlet IT Systems (Pvt) Limited, Hassan Plaza, 6-A, Jail Road, Lahore, at the close of business on October 23 will be treated in time for entitlement of payment of dividend.
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 at 6/7 Ganga Ram Trust Building, Shakra-e-Quaid-e-Azam, Lahore, not later than forty eight (48) hours before the meeting.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at this meeting, must bring his / her original Computerized National Identity Card or passport, Account and Participant's ID numbers, to prove his / her identity and in case of Proxy must enclose an attested copy of his / her CNIC or passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. Shareholders are requested to notify the change of address, if any, immediately.
5. Members are requested to provide by mail or fax, photocopy of their CNIC or Passport, if foreigner, (unless it has been provided earlier) to enable the Company to comply with the relevant laws.

CHAIRMAN'S REVIEW

Aslam-o-Alakum Wa Rehmatullah Wa Barkatauh

I am honored to present 60th Annual Audited Report, with performance review of the operating results of the Company for the year ended on June 30, 2009.

The year under review was better than the previous year. The steel prices during the year declined to the level of one and half year back. The local steel billet and steel angles supplier could not digest this sudden changing trend, and materials supplies were held up. The consumers like PECO who had to supply goods to their customers at scheduled time were forced to buy at higher than international prices to avoid heavy penalties on default.

Your company customer WAPDA, accordingly holded back the tenders which were in process, because of falling prices. Some of the orders were cancelled and retendered to benefit from the decline in prices of steel.

Therefore your Company had to participate in small towers for distribution of electricity against the planned strategy, to achieve the budgeted targets.

The management wisely reacted to the changes in prices, and market pressures for best possible operating efficiencies and in time deliveries to customers.

Extensive load shedding of Electricity & Gas not only increased cost of manufacturing due to use of Generators, but also adversely affected the productivity.

The entire operations and development were managed from own resources without bank borrowings. The old loan of National Bank repaid during the year was Rs. 58.134 million, as per agreed re schedule. It is our intention to pay balance principal amount and mark up during next two years period. NBP has renewed the banking facilities to your Company in view of improved creditability, and repayment capability.

Pumps, Electric Motors & Foundry shops which were started again are showing satisfactory progress, and expected to show good results during the current year. The production facilities and equipment are being up graded simultaneously to produce good quality product.

OPERATING RESULTS:-

The Company was able to achieve budgeted target, and sales were Rs. 1.362 Billion compared with Rs. 1.037 Billion previous year, an increase of 31 % inspite of adverse factors as stated above.

Gross profit earned was Rs. 326 million, against Rs. 221 million last year, an increase of Rs. 105 million (48 %). The gross profit as percentage to sales also increased to 24 %, as against 21 % last year. Similarly operating profit also increased to Rs. 248 million (49 %).

The Company as a result of re-scheduling of old loan, had to incorporate Rs. 75 million under the head financial expenses on account of agreed mark up pertaining to previous years. Therefore net profit before tax shown is Rs. 201 million, whereas factual net profit before tax for the year was Rs. 276 million.

TECHNOLOGY UP GRADATION:-

Your Company after up grading Steel Structure Division production equipments, is focusing now on Pumps, Electric Motors & Foundry technology up gradation. Some in house efforts are in progress. However major up gradation can only be made with technical collaboration from developed countries.

Efforts are under way to seek technical help for up gradation of technology and equipments. Without up gradation, it is not possible to compete in the local market, and also enter into foreign markets.

FUTURE STRATEGY:-

With the up gradation of technology and production facilities in Pumps, Electric Motors and Foundry, it has been planned to diversify to produce high tech and value added products.

Tractor parts & components shall be made & supplied in local market after up gradation of foundry.

Supply of Electricity Transmission and Communication Towers in foreign potential countries is being tried, with consortium of local Companies manufacturing cables, insulators and installation experience, to grow in this business, till your Company is able to handle turn key projects, such arrangements with foreign companies are also being tapped.

ACKNOWLEDGMENT:-

I take opportunity to thank all members of Board of Directors of the Company for their guidance and support, valuable customers & suppliers for their confidence in PECO.

I also take this opportunity to thank WAPDA & AJK electricity department for their continued support.

I also thank the executives and employees of the company for their dedication, enhanced commitment and hard work for reviewing image of well renowned high tech engineering Company. I look forward to the bright future of the Company.

Date: October 3, 2009
Lahore

Ghulam Rasool Ahpan
(Chairman)

DIRECTOR'S REPORT

The Directors of your Company take pleasure in presenting the 60th Annual Report with the Audited Accounts and the Auditors' Report thereon for the year ended 30th June 2009.

FINANCIAL RESULTS AND APPROPRIATIONS

	Year ended <u>30.06.2009</u>	(Rs. IN THOUSAND) Year ended <u>30.06.2008</u>
Profit from Operations	165,118	157,563
Other Income	44,309	18,784
Workers Profit Participant Fund	(8,256)	(7,878)
Profit before Taxation	201,171	168,469
Taxation		
Current year	(17,653)	(5,185)
Prior years	(101)	(38)
Deferred	(49,469)	(53,799)
Profit after Tax	133,948	109,447

APPROPRIATIONS

The following appropriations were made during the year.

	(Rs. IN THOUSAND)	(Rs. IN THOUSAND)
Un-appropriated Profit (Loss) brought forward	(1,168,990)	(1,245,196)
Less: Final dividend for the year 2007 @ Rs. 6.50 per share		(36,987)
Less: Interim dividend for the half year ended on 31 Dec 2008 @ 5 per share.	(28,451)	
Profit for the year	133,948	109,447
Transfer from "surplus on Revaluation of Fixed Assets"	<u>7,290</u>	<u>3,746</u>
Loss carried Forward:	<u>(1,056,203)</u>	<u>(1,168,990)</u>

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 30th June, 2009, future prospects and the significant development plans & decisions. The directors endorse the contents of the review and may be read with Directors' Report.

OPERATING & FINANCIAL DATA

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

BOARD OF DIRECTORS

The Board of Directors comprises of one executive and eight non-executive directors. The current members of the Board of Directors have been listed in the "Company Information". During the year under review there was no change in Private Directors, however, there was change in Govt. nominated Directors and the present Govt. nominated Directors are:

- 1) Mr. Ghulam Rasool Ahpan
- 2) Mr. M. Imtiaz ur Raheem
- 3) Mr. Khizar Hayat Khan

BOARD OF DIRECTORS MEETINGS

During the year 2008-09, six meetings of the Board of Directors were held. The attendance of the Board members was as follows:

Major. General (R) Zaheer Ahmad Khan	5
Mr. M. Intiaz ur Raheem	6
Mr. Muhammad Niaz Butt	4
Mr. Khizar Hayat Khan	1
Mr. Muhammad Arif Habib	4
Mr. Liaqat Mohammad	6
Mr. Rashid Ali Khan	6
Mr. Mohammad Shabir Mailk	6
Mr. Muhammad Iqbal	6
Mirza Mahmood Ahmad	5

PATTERN OF SHAREHOLDING

The pattern of shareholding of the company is annexed.

EARNING PER SHARE

Profit per share for the year ended 30th June, 2009 was Rs. 23.54 as compared to Rs: 19.23 in the last year.

AUDITORS

The present Auditors M/s Fazal Mahmood & Company, Chartered Accountants, being eligible, offer themselves for re-appointment. The Board of Directors, on the recommendation of the Audit Committee recommended M/s Fazal Mahmood & Company Chartered Accountants for the next term.

COMMENTS ON AUDITORS REPORT

a- OUTSTANDING AMOUNT OF CUSTOM & IMPORT DUTIES

The Markup has not been provided since there was no decision of charging mark up by the Cabinet of the Government. The amount of Custom & Import Duties is payable out of sale proceeds of the Badami Bagh land of the company. The land was handed over to Privatization Commission in the year 1995 for sale.

b- INTEREST ON FUNDS PROVIDED BY GOVT. FOR COMPULSORY SEPARATION SCHEME

The charging of mark - up on Federal Govt. Loan for Compulsory Separation Scheme (CSS) was not in CCOP decision. The mark up matter has been taken up with the Government by the Company Board Committee.

The above issue of mark up on custom duty & CSS was discussed in Departmental Accounts Committee on 16.08.2008 & DAC recommended Para for settlement, which was subsequently settled.

c- INTEREST ON WORKERS' PROFIT PARTICIPATION FUND

The jobs have been given to the Contractor and he is responsible for their service matters and they work under his supervision to carry out specific jobs. Therefore, management is of the view that it is not leviable in our case.

d- GOVERNMENT OF PAKISTAN LOANS

Request for direct balance confirmation was sent to relevant Ministries to obtain the confirmation of long term loan liability of Government of Pakistan appearing in the books of the company. A Committee of representative of Ministry of Finance, Ministry of Industries and Production, Privatization Commission and PECO has been formed to reconcile the amount of loans.

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. There is no 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.

AUDIT COMMITTEE

Audit Committee was established by the Board in its meeting held on 30th September, 2002 to assist the Board in discharging its responsibilities for Corporate Governance, Financial Reporting and Corporate Control. The committee consists of four members including the Chairman of the Committee. The Committee is having quarterly meetings to review the accounts and internal controls.

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

Mr. Liaqat Mohammad	Chairman
Mr. Mohammad Shabir Malik	Member
Mr. Muhammad Iqbal	Member
Mr. M. Imtiaz ur Raheem	Member

SAFETY AND ENVIRONMENTS

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

TRADING IN COMPANY'S SHARES

Directors, CEO, CFO, Company Secretary and their spouse and minor children have made no transaction of company's shares during the year.

OUTSTANDING STATUTORY DUES

Detail of outstanding statutory dues is given in Note No. 20 to the Accounts.

DIVIDEND

The Directors recommended the payment of final cash dividend at the rate of Rs. 7.50 (75%) per share out of the profit available for the year. This is in addition to interim cash dividend of Rs. 5.00 (50%) per share paid during the year, thus making total cash dividend of Rs.12.50 (125%) per share for the year 2009.

QUALITY CONTROL

To ensure implementation of the Management System, Internal Quality Audits, Surveillance Audits Management Review meetings are conducted regularly.

BUSINESS PLANS & ACHIEVEMENT OF TARGETS

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

COMMUNICATION

Communication with the shareholders is given high priority. Annual, Half Yearly and Quarterly Accounts are circulated to them within the time specified in the Companies Ordinance, 1984. Every opportunity is given to the individual shareholders to attend and ask freely the questions about the company's affairs at the Annual General Meeting.

Annual and quarterly accounts are also placed on our website for convenience of share-holders.

On Behalf of the Board

Dated: October 3, 2009
Lahore

Ghulam Rasool Ahpan
(Chairman)

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2009

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 DFI or an NBFII 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 20.10.2007 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 transaction, 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 CEO.
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.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants guidance on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidance in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

By Order of the Board

(M. Imtiaz ur Raheem)
Chief Executive

Dated: October 3, 2009

REVIEW REPORT TO THE MEMBERS

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

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance 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.

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

Based on our review nothing has come to our attention which causes us to believe that the statement of compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2009.

Lahore: October 03, 2009

FAZAL MAHMOOD & COMPANY
Chartered Accountants

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **PAKISTAN ENGINEERING COMPANY LIMITED** as at June 30, 2009 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) Interest amounting to Rs. 41.989 million (accumulated Rs. 41.989) @ 14% for three years relating to custom and other import duties has not been provided, which is not in accordance with order of Government of Pakistan (Ref. Note 23.2.1). The management is of the view that since there was no mention of charging any interest or surcharge in the ECC and cabinet decision, therefore, mark up is not leviable.
- b) Interest amounting to Rs. 30.900 million for the year ended June 30, 2009 (accumulated Rs. 224.025 million) has not been provided on funds provided by Government of Pakistan for compulsory separation scheme. According to the management, the mark up is not payable and the issue is being taken up with the Government by Board Committee in the light of legal opinion available and the decision of the competent authorities. (Ref. Note 23.4)
- c) Interest amounting to Rs. 2.394 million for the year ended June 30, 2009 (accumulated Rs. 5.784 million) has not been provided for on the funds utilized by the company as required under the Companies Profit (Workers' Profit Participation act, 1968) (Ref. Note 20.3). An amount of Rs. 4.206 million (2008: Rs. 3.587 million) was utilised from the Workers' Profit Participation Fund for welfare of "workers on contract".

Had the provision for interest in respect of paragraphs (a) to (c) been made in the financial statements the profit for the year would have been lower by Rs. 33.294 million and accumulated loss would have been increased by Rs. 271.798 million.

- d) Government of Pakistan's loans (Ref. Note 23.2 to 23.5) as at June 30, 2009 remains unconfirmed due to non-availability of direct balance confirmation despite repeated requests sent for confirmation.
- e) In our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- f) In our opinion:
 - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

- ii. the expenditure incurred during the year was for the purpose of the company's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- g) In our opinion, except for the matters referred to in paragraph (a) to (d) 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, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and
- h) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without qualifying our opinion we draw attention to Note. 23.1 to the financial statements regarding non-reconciliation of Privatization Commission loan as per their confirmation. The ultimate outcome of the matter cannot presently be determined.

LAHORE: October 03, 2009

FAZAL MAHMOOD & COMPANY
Chartered Accountants
Audit Engagement Partner:
Sheikh Atif Farooq

BALANCE SHEET

AS AT JUNE 30, 2009

	Note	(Rupees in Thousand)	
		2009	2008
NON CURRENT ASSETS			
Property, Plant and Equipment-Tangible	3	4,592,772	1,501,608
Assets subject to Finance Lease	4	710	888
Capital Work in Progress	5	2,559	1,905
Land Held for Sale	6	314,724	314,724
		4,910,765	1,819,125
LONG TERM SECURITY DEPOSITS		2,925	2,416
DEFERRED TAXATION	7	-	12,755
		4,913,690	1,834,296
CURRENT ASSETS			
Stores, Spares and Loose Tools	8	142,403	114,944
Stock-in-trade	9	445,460	268,784
Assets held for sale	10	25,654	29,737
Trade Debtors	11	347,364	366,921
Loans & advances to Employees	12	1,022	964
Advances to Others	13	67,717	25,895
Trade Deposits, Prepayments & other Receivable	14	46,366	24,584
Short Term Investments	15	-	31,500
Cash and bank balances	16	28,250	24,482
		1,104,236	887,811
CURRENT LIABILITIES			
Trade Creditors	17	143,023	87,053
Accrued Liabilities	18	9,419	11,450
Deposits & Advance payments	19	15,289	25,080
Other Liabilities	20	81,591	74,734
Unclaimed Dividend		7,803	6,195
Accrued Mark-up - On National Bank of Pakistan Secured Loan		30,932	534
Short Term borrowings	21	-	26,906
Current portion of long term loan	24	59,725	-
Current portion of Liabilities Against Assets Subject to Finance Lease	26	955	555
Provision for Taxation		17,653	5,185
		366,390	237,692
Net Current Assets		737,846	650,119
Total Assets Less Current Liabilities		5,651,536	2,484,415
CONTINGENCIES AND COMMITMENTS			
	22	-	-
NON CURRENT LIABILITIES			
GOVERNMENT OF PAKISTAN LOANS	23	1,790,848	1,790,848
LONG TERM LOAN	24	76,317	149,026
DEFERRED TAXATION	25	36,714	-
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	26	-	681
		1,903,879	1,940,555
NET TOTAL ASSETS		3,747,657	543,860
REPRESENTED BY:			
Share Capital	27	56,902	56,902
Revenue Reserves - General		10,000	10,000
Accumulated (Loss)		(1,056,203)	(1,168,990)
		(989,301)	(1,102,088)
Surplus on Revaluation of Fixed Assets	28	4,736,958	1,645,948
		3,747,657	543,860

The annexed notes form an integral part of these Financial Statements.

PROFIT AND LOSS ACCOUNT

AS AT JUNE 30, 2009

	Note	(Rupees in Thousand)	
		2009	2008
Sales	29	1,361,633	1,036,919
Cost of Goods Sold	30	(1,035,306)	(815,731)
Gross Profit		<u>326,327</u>	<u>221,188</u>
Selling and Distribution expenses	31	(14,168)	(8,492)
Freight and Forwarding expenses	32	(22,182)	(11,159)
General and Administrative expenses	33	(41,807)	(34,660)
		<u>(78,157)</u>	<u>(54,311)</u>
Operating Profit		<u>248,170</u>	<u>166,877</u>
Other Charges	34	(501)	(1,054)
Financial charges	35	(82,551)	(8,260)
		<u>(83,052)</u>	<u>(9,314)</u>
		<u>165,118</u>	<u>157,563</u>
Other Income	36	44,309	18,784
		<u>209,427</u>	<u>176,347</u>
Workers profit participation fund		(8,256)	(7,878)
Profit before Taxation		<u>201,171</u>	<u>168,469</u>
Taxation	37	(67,223)	(59,022)
Profit after Taxation		<u>133,948</u>	<u>109,447</u>
		Rupees	Rupees
Earning per Share - Basic	38	<u>23.54</u>	<u>19.23</u>

The annexed notes form an integral part of these Financial Statements.

CASH FLOW STATEMENT

AS AT JUNE 30, 2009

	Note	(Rupees in Thousand)	
		2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit before Taxation		201,171	168,469
<i>Adjustments for:</i>			
Depreciation		15,189	13,077
Amortization of leased assets		178	222
Financial Charges		82,551	8,260
Provision for gratuity		55	263
Profit on sale of Operating Fixed Assets		(29,794)	(732)
Workers Profit Participation Fund		8,256	7,878
Profit on sale of assets held for sale		(634)	(2,825)
Profit before working capital changes		276,972	194,612
(Increase)/ Decrease in stores, spares and loose tools		(27,459)	(3,516)
(Increase)/ Decrease in stock in trade		(176,676)	(57,078)
(Increase)/ Decrease in assets held for sale		-	-
(Increase)/ Decrease in trade debtors		19,557	(105,736)
(Increase)/ Decrease in loans and advances to employees		(58)	725
(Increase)/ Decrease in advances to others		(36,847)	(4,240)
(Increase)/ Decrease in trade deposits, prepayments and other receivables		(21,782)	(19,094)
(Increase)/ Decrease in short term investments		31,500	20,000
Increase / (Decrease) in trade creditors		55,970	20,351
Increase / (Decrease) in accrued liabilities		(2,031)	(8,006)
Increase / (Decrease) in deposits and advance payments		(9,791)	12,800
Increase / (Decrease) in other liabilities		2,807	805
Cash Generated from operations		112,162	51,623
Financial Charges Paid		(7,153)	(8,854)
Gratuity Paid		(55)	(263)
Income Tax Paid		(10,261)	(7,844)
Workers' Profit Participation Fund Paid		(4,206)	(3,587)
Net Cash inflow from Operating Activities		90,487	31,075
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(15,453)	(66,402)
(Increase) in long term security deposits		(509)	(1)
Capital Work in Progress		(1,131)	(509)
Sale proceeds on disposal of fixed assets		42,388	4,764
Net Cash In flow / (Out flow) from investing activities		25,295	(62,148)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) in Short term loans		(26,906)	(13,900)
(Decrease) in Long term loans		(57,984)	-
Payment of lease liability		(281)	(297)
Payment of Dividend		(26,843)	(35,169)
Net cash (out flow) from financing activities		(112,014)	(49,366)
Net increase / (decrease) in cash and cash equivalents		3,768	(80,439)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR		24,482	104,921
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16.	28,250	24,482

The annexed notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

AS AT JUNE 30, 2009

	(Rupees in Thousand)			
	Share Capital	Revenue Reserve	Accumulated Loss	Total
Balance as at June 30, 2007	56,902	10,000	(1,245,196)	(1,178,294)
Dividend for the year ended June 30, 2007 @ Rs. 6.5 per share	-	-	(36,987)	(36,987)
Profit for the year June 30, 2008	-	-	109,447	109,447
Transfer from "Surplus on Revaluation of Fixed Assets":				
Incremental Depreciation - Current Year	-	-	3,746	3,746
Balance as at June 30, 2008	56,902	10,000	(1,168,990)	(1,102,088)
Dividend for the half year ended December 31, 2008 @ Rs. 5.00 per share	-	-	(28,451)	(28,451)
Profit for the year June 30, 2009	-	-	133,948	133,948
Transfer from "Surplus on Revaluation of Fixed Assets":				
Incremental Depreciation- Current Year Net Off Tax	-	-	3,511	3,511
Transfer from surplus on Revaluation of Fixed Assets On Disposal of fixed assets	-	-	3,779	3,779
	56,902	10,000	(1,056,203)	(989,301)

The annexed notes form an integral part of these Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

AS AT JUNE 30, 2009

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. The Company had earlier closed down its all divisions, except Structure (STR) division, and is principally engaged in the manufacturing and sale of electricity transmission and communication towers. At present structure, pumps, electric motors, foundry and rolling mills division of the company are in operation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Accounting

The company has accumulated losses of Rs. 1,056.203 million (2008: Rs. 1,168.990 million) as at June 30, 2009. The liabilities of the company payable to the Government of Pakistan shall be met from the sale proceeds of Badami Bagh land and surplus land of Kot Lakhpat works. In this regard Badami Bagh Land has been offered for sale by the Privatization Commission and expression of interests have been received by Privatization Commission. The Company has already closed down its all divisions, except Structure (STR) division, and had terminated its employees through compulsory separation scheme.

Further more, the Ministry of Industries, Production and Special Initiatives vide it's letters dated February 02, 2005 and August 19, 2005 bearing reference nos. 5(50)/97-SEC(Vol-V) and F. No. 5(50)97-SEC, respectively, has confirmed that the Government of Pakistan has considered the recommendations of Privatization Commission and the Government has allowed Pakistan Engineering Company Limited to continue as going concern in the field of Tower manufacturing shop (Structure Division) i.e. Pakistan Engineering Company Limited will not be wound up. Furthermore, the company has been allowed to hire needed workforce on job-to-job basis on contract/daily wages.

As a result, these Financial Statements 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. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

Following Standards and amendments of approved accounting standards are effective for accounting period beginning on or after July 01, 2009. These Standards are either not relevant to the company's operations or are not expected to have significant impact on the company's financial statements other than increase in disclosures in certain cases:

	Effective for periods Beginning on or after
IAS-1 Presentation of Financial Statements (Revised)	January 01, 2009
IAS-23 Borrowing Cost (Revised)	January 01, 2009
IAS-27 Consolidated and Separate Financial Statements (Revised)	January 01, 2009
IAS-32 Financial Instruments (Amended)	January 01, 2009
IAS-39 Financial Instruments: Recognition and Measurement (Amended)	January 01, 2009
IFRS-2 Share Based Payment (Amended)	January 01, 2009
IFRS-3 Business Combinations (Revised)	July 01, 2009
IFRS-8 Operating Segments	January 01, 2009
IFRIC-15 Agreements for the Construction of Real Estate	January 01, 2009
IFRIC-16 Hedges of a Net Investment in a Foreign Operation	October 01, 2009
IFRIC-17 Distributions of Non-Cash Assets to Owners	July 01, 2009
IFRIC-18 Transfer of Assets from Customers	July 01, 2009

2.3 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, 2001 & 2009 and of the steel structure and plant and machinery shifted from Badami Bagh Works to Kot Lakhpat Works in the year 1997 and short term investments carried at amortized cost.

2.4 Use of Estimate & Judgment

Preparation of financial statements in conformity with International Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Significant areas requiring the use of management estimates in the financial statements relates to provision for doubtful balances, provision for income taxes, useful life and residual values of property plant and equipment. However, assumptions and judgment made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in next year.

2.5 Tangible Fixed Assets and Depreciation - Property, Plant and Equipment

Operating fixed assets are stated at cost less accumulated depreciation less impairment loss, if any, except for freehold land which is stated at revalued amount. Cost of these assets consists of historical cost and directly attributable cost of bringing the assets to working condition.

Borrowing costs pertaining to the construction and erection are capitalized up to 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 cover their estimated useful lives.

Depreciation is charged on the basis of number of days the asset remain in use of the company.

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.

Capital Work -in -Progress

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

2.6 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.

2.7 Stocks, Stores, Spare Parts and Loose Tools

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

Raw material	At moving 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.

2.8 Trade Debts

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

2.9 Other Receivables

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

2.10 Associated Undertakings / Related Parties

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".

2.11 Compliance with Experts Advisory Cell (EAC)

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.

2.12 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.

2.13 Employees Retirement Benefits

a) Defined contribution plan

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

During the year no retirement benefits were paid to employees hired under the contract except chief executive whose provident fund and pension fund contributions are paid to the funds maintained by the State Engineering Corporation (Pvt.) Limited (SEC).

2.14 Trade and other Payables

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

2.15 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.

2.16 Deferred Tax

Deferred tax is recognised using balance sheet liability method on all 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.

2.17 Revenue Recognition

Revenue from sales is recognized on delivery of goods to the customers. Interest income is accounted for on accrual basis.

2.18 Borrowing Costs

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

2.19 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.

2.20 Provisions

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

2.21 Cash and Bank

Cash in hand and cash at banks are carried at nominal cost.

2.22 Cash and Cash Equivalent

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, cheques in hand and deposits in banks.

2.23 Short term Investments

Investments are classified as held to maturity, which are the investments with fixed maturity and the company has the intent and ability to hold until maturity.

All Investments are initially recorded at cost . Held to maturity investments are subsequently carried at amortized cost using the effective interest rate method.

2.24 Impairment of Assets

The carrying amounts of the assets are reviewed at each balance sheet date to identify the circumstances indicated the occurrence of impairment loss or reversal of previous impairment losses. If any such indication exists, the recoverable amount of such assets is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of such assets is increased to the revised recoverable amount. A reversal of the impairment loss is recognized in income.

2.25 Investment Property.

Investment property is initially measured at its transaction cost. The company chooses the cost model method to measure all its investment property in accordance with IAS 40.

2.26 Financial Instruments

All financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when the company loses control of its contractual rights that comprise the financial asset. A financial liability is derecognized when it is extinguished. Any gain or loss on derecognition of the financial assets or liabilities is taken to profit and loss account currently.

2.27 Off Setting Of Financial Assets and Financial Liabilities

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

2.28 Dividend & Appropriation to reserves

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

3. Operating Fixed Assets

	Freehold land	Office building	Factory building	Plant and machinery	Furniture & fixture	Vehicles	Electric Equipments	Tools	Total
(Rupee'000)									
At July 1, 2007									
Cost	1,250,000	3,171	221,767	236,943	21,786	13,869	-	5,293	1,752,829
Accumulated depreciation	-	2,621	111,301	167,456	15,218	4,967	-	4,506	306,069
net book value	1,250,000	550	110,466	69,487	6,568	8,902	-	787	1,446,760
Year ended June 30, 2008									
Opening net book value	1,250,000	550	110,466	69,487	6,568	8,902	-	787	1,446,760
Additions	-	-	3,999	57,300	3,791	2,813	-	156	68,059
Disposals									
Cost	-	-	-	-	(500)	(710)	-	-	(1,210)
Depreciation	-	-	-	-	484	592	-	-	1,076
Net book value	-	-	-	-	(16)	(118)	-	-	-
Depreciation charged for the year		(28)	(5,644)	(4,370)	(844)	(2,107)	-	(84)	(13,077)
closing net book value	1,250,000	522	108,821	122,417	9,499	9,490	-	859	1,501,608
At June 30, 2008									
Cost	1,250,000	3,171	225,766	294,243	25,077	15,972	-	5,449	1,819,678
Accumulated depreciation	-	2,649	116,945	171,826	15,578	6,482	-	4,590	318,070
Net book Value	1,250,000	522	108,821	122,417	9,499	9,490	-	859	1,501,608
At July 1, 2008									
Cost	1,250,000	3,171	225,766	294,243	20,513	15,972	4,564	5,449	1,819,678
Accumulated depreciation	-	2,649	116,945	171,826	11,707	6,482	3,871	4,590	318,070
net book value	1,250,000	522	108,821	122,417	8,806	9,490	693	859	1,501,608
Year ended June 30, 2009									
Opening net book value	1,250,000	522	108,821	122,417	8,806	9,490	693	859	1,501,608
Additions	-	1,244	-	4,301	1,772	4,163	4,231	219	15,930
Revaluation Surplus	3,098,300								3,098,300
Disposals									
Cost	-	-	-	(45,772)	-	-	-	-	(45,772)
Depreciation	-	-	-	37,895	-	-	-	-	37,895
Net book value	-	-	-	(7,877)	-	-	-	-	(7,877)
Depreciation charged for the year		(29)	(5,441)	(6,005)	(961)	(2,391)	(264)	(98)	(15,189)
closing net book value	4,348,300	1,737	103,380	112,836	9,617	11,262	4,660	980	4,592,772
At June 30, 2009									
Cost	4,348,300	4,415	225,766	252,772	22,285	20,135	8,795	5,668	4,888,136
Accumulated depreciation	-	2,678	122,386	139,936	12,668	8,873	4,135	4,688	295,364
Net book Value	4,348,300	1,737	103,380	112,836	9,617	11,262	4,660	980	4,592,772
Depreciation Rate (%)		5	5	5	10	20	10	10	

3.1 Land, Building Steel Structure and Plant and Machinery of the company were revalued in the year 1991, 1997 and 2001 the detail of which is given in the note 28. During the year the land of the company has been revalued by an independent valuer, the detail of which is given in note no. 28.4(a). The revaluation of plant & machinery and building is under process and the management has decided to take the effect of revaluation of building and plant & machinery in the next financial statements.

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

3.2 Electric Equipments, previously included under furniture & fixtures is now disclosed separately for more appropriate presentation.

3.3 Depreciation for the year has been allocated as follows:

	(Rupees in Thousand)	
	2009	2008
Cost of Goods Sold	11,544	10,098
General and Administrative Expenses	3,645	2,979
	15,189	13,077

3.3 Carrying value of the assets if not revalued are:

Particulars	Cost	Accumulated Depreciation	WDV
	Rs.(000)	Rs.(000)	Rs.(000)
Free Hold Land	753	-	753
Factory Buildings (Including Steel Structure)	85,157	56,406	28,751
Plant and Machinery	203,772	117,462	86,310
Total - 2009	289,682	173,868	115,814
Total - 2008	328,212	205,861	122,351

4. Assets Subject to Finance Lease

	Vehicles -(Rupee'000)-
At July 1, 2007	
Cost	2,307
Accumulated depreciation	1,197
net book value	<u>1,110</u>
Year ended June 30, 2008	
Opening net book value	1,110
Additions	-
Disposals	
Cost	-
Depreciation	-
Net book value	-
Depreciation charged for the year	(222)
closing net book value	<u>888</u>
At June 30, 2008	
Cost	2,307
Accumulated depreciation	1,419
Net book Value	<u>888</u>
At July 1, 2007	
Cost	2,307
Accumulated depreciation	1,419
net book value	<u>888</u>
Year ended June 30, 2008	
Opening net book value	888
Additions	-
Disposals	
Cost	-
Depreciation	-
Net book value	-
Depreciation charged for the year	(178)
closing net book value	<u>710</u>
At June 30, 2008	
Cost	2,307
Accumulated depreciation	1,597
Net book Value	<u>710</u>
Rate of Amortization (%)	20

4.1 Amortization has been charged to General and Administrative Expenses.

		(Rupees in Thousand)	
		2009	2008
5. CAPITAL WORK IN PROGRESS			
	Civil Works	1,774	1,905
	Plant & Machinery	785	-
		2,559	1,905
6. LAND HELD FOR SALE		314,724	314,724
	This represents land of 260.495 kanals of Badami Bagh Works which has been closed down. The title documents of land has been handed over to the Privatization Commission for sale. The sale proceeds of this land will be utilized for payment of long term loan liabilities as stated in note no 23. The fair value of the land is estimated at Rs. 2,631.500 million (2008: Rs. 2,214.00 million). Expression of interests have been received by Privatization Commission in this regard from many parties.		
7. DEFERRED TAXATION			
	Debit / (Credit) balance arising in respect of :		
	Unused Tax Losses	-	41,668
	Minimum Tax available for carry forward	-	10,317
	Provision for Doubtful Debts	-	14,825
	Provision for Slow moving stores	-	3,500
	Finance Lease Arrangements	-	122
	Surplus on revaluation of assets	-	(44,533)
	Accelerated Tax Depreciation Allowances	-	(13,144)
		-	12,755
8. STORES, SPARES AND LOOSE TOOLS			
	Stores	25,418	25,519
	Spares parts	102,100	74,250
	Loose Tools	24,885	25,175
		152,403	124,944
	Less: Provision for slow moving stores	(10,000)	(10,000)
		142,403	114,944
8.1	Stores and spares relating to closed down operations are of Rs. 24.512 million (2008:Rs. 27.241 Million).		
9. STOCK IN TRADE			
	Raw material	121,752	117,602
	Work in process	216,730	122,246
	Finished goods	106,978	28,936
		445,460	268,784
9.1	Stock in trade relating to closed down operations are of Rs. 28.427 million (2008:Rs. 32.718 million).		
10. ASSETS HELD FOR SALE			
	Machinery	25,654	29,737
		25,654	29,737
10.1	The above amount represents machinery of closed down shops of Kot Lakhpat Works (Machine Tool and Power Loom division) as well as the un-installed machinery transferred from Badami Bagh Works.		
11. TRADE DEBTORS - UN SECURED			
	Associated undertakings	537	537
	WAPDA, AJK & Telecommunication Companies	340,820	370,994
	Others	42,119	31,502
		383,476	403,033
	Less: Provision for bad and doubtful debts		
	Associated undertakings	537	537
	WAPDA	10,514	10,514
	Others	25,061	25,061
		36,112	36,112
		347,364	366,921

(Rupees in Thousand)

		<u>2009</u>	<u>2008</u>
11.1	Trade debtors other than those against which provision has been made are considered good by the management.		
11.2	Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (2008: Rs.0.537 million).		
11.3	Trade debtors include an amount of Rs. 7.617 million(2008: Rs. 7.617) million receivable from M/s Metropolitan Steel Corporation Limited against which the company has filed suit for execution of Court decision in favor of the Company.		
11.4	<u>Provision for Bad and Doubtful Debts</u>		
	Opening balance	36,112	36,115
	Less: Recovery of bad debts / adjustments	-	3
	Closing Balance	<u>36,112</u>	<u>36,112</u>
12.	<u>LOANS AND ADVANCES TO EMPLOYEES - Unsecured and Considered Good</u>	<u>1,022</u>	<u>964</u>
	These include an amount of Rs. 0.828 million (2008: Rs. 0.894 M) for house building loan of Chief Executive, which carries mark up ranging from @ 3.750% to 5.623% and Rs. Nil (2008: Rs. Nil) for executives, which are the maximum balances during the year. The loans and advances are considered good.		
13.	<u>ADVANCES TO OTHERS</u>		
	Suppliers - Unsecured and Considered Good	13.1	33,397
	Income Tax		10,323
	Letters of credit		20,420
			13,900
		<u>67,717</u>	<u>25,895</u>
13.1	<u>Suppliers</u>		
	Suppliers		36,221
	Less:		
	Provision for bad and doubtful debts		13,147
		<u>2,824</u>	<u>2,824</u>
		<u>33,397</u>	<u>10,323</u>
14.	<u>TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE</u>		
	Trade deposits - Considered good	14.1	600
	Margin against bank guarantee - Considered good	14.2	38,777
	Letter of Credit - Margin		716
	Short term prepayments		6,256
	Interest Accrued		-
	Other Receivable for Services		17
		<u>46,366</u>	<u>24,584</u>
14.1	Balance as on Closing date		3,132
	Less:		
	Provision against doubtful balances		2,532
		<u>600</u>	<u>600</u>
14.2	Balance as on Closing date		38,838
	Less:		
	Provision against doubtful balances		61
		<u>38,777</u>	<u>16,073</u>
15.	<u>SHORT TERM INVESTMENTS - Held to Maturity</u>		
	Term Deposits with banks		-
			<u>31,500</u>
15.1	These have been matured during the year. The interest rate on these Investments ranges from 9.25% to 10.5% p.a		

		(Rupees in Thousand)	
		2009	2008
16. CASH AND BANK BALANCES			
Cash in hand		777	869
Cash with banks			
Current accounts		3,129	3,935
Saving accounts	16.1	24,137	19,471
Escrow account	16.2	207	207
		27,473	23,613
		28,250	24,482
16.1	The company is maintaining saving account with different banks with interest on the daily product basis which was charged @ 7% to 10.5% (2008 : 8%).		
16.2	This represents unutilised credit facility on NBP finances relating to ADP-19 and ADP-46 Projects, which shall be adjusted against loan liability.		
17. TRADE CREDITORS			
Creditors		143,023	87,053
		143,023	87,053
18. ACCRUED LIABILITIES			
Accrued expenses		9,419	11,450
		9,419	11,450
19. DEPOSITS AND ADVANCE PAYMENTS			
Advances from customers	19.1	11,768	21,559
Dealership securities	19.2	2,262	2,262
Retention and earnest money		1,259	1,259
		15,289	25,080
19.1	These include interest free advances from associated companies amounting to Rs. 0,183 million (2008: Rs.0.183 million).		
19.2	These are payable on demand and do not carry interest.		
20. OTHER LIABILITIES			
Gratuity payable to SEC Pension Fund Trust	20.1	-	-
Payable to preference shareholders	20.2	773	773
Payable to State Engineering Corporation (Private) Limited (an associated undertaking)		5,401	20,163
Sales Tax Payable		30,902	18,505
Excise Duty Payable		3,011	537
Workers Profit Participation Fund	20.3	23,698	19,648
Others		17,806	15,108
		81,591	74,734
20.1	<u>Movement of Pension Payable is as under:</u>		
Opening balance		-	-
Provision for the year		55	263
		55	263
Less:			
Payment to SEC Pension Fund		55	263
		-	-
20.2	The amount is payable to preference shareholders on account of principal amount due.		

		(Rupees in Thousand)	
		2009	2008
20.3	<u>Workers Profit Participation Fund</u>		
	Opening balance	19,648	15,357
	Add:		
	Allocation for the year	8,256	7,878
	Less:		
	Payments	(4,206)	(3,587)
		23,698	19,648

21. SHORT TERM BORROWINGS

From NIB Bank under mark up arrangements- Secured:

Running Finance	21.1	-	26,906
		-	26,906

21.1 This loan was obtained from NIB Bank on mark up basis and was secured against lien on term deposit certificates which were realized during the year against payment of loan. The borrowings form a part of total credit facility available to the extent of Rs. Nil (2008: Rs. 27 Million). Unavailed facility as at balance sheet date (2008: Rs. 0.094 million). Mark up was paid at the rate of 11.5% per annum.

22. 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. 2.517 million (2008: Rs. 2.517 Million).
- Guarantees of Rs. 295.037 Million (2008: 413.134 Million) issued by the banks and insurance company to different parties on behalf of the company.

Commitments

- Letters of credit for machinery, raw material and store items amounting to Rs. Nil (2008: Rs.24.016 million).

23. GOVERNMENT OF PAKISTAN LOAN- Secured

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 Committee Division decision dated 30th May 1994 and 2005 these loans will be settled against the proceeds from Land held for sale (Refer Note no. 6). Therefore, these have been classified as long term payables.

Privatization commission loan	23.1	481,469	481,469
Government Escrow account	23.2	112,937	112,937
Other Government Loan	23.3	100,000	100,000
Federal Government loan for compulsory separation scheme	23.4	309,000	309,000
Federal Government Bonds	23.5	787,442	787,442
		1,309,379	1,309,379
		1,790,848	1,790,848

In order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee has been constituted as per the decision of Additional Finance Secretary in the meeting held in Government of Pakistan Finance Division (CF Wing), Islamabad. This committee comprises of representatives from Ministry of Finance, Ministry of Industries & Production, Privatization Commission and Board members from PECO. The initial meeting was held deciding to constitute a committee and further meeting was scheduled to be held in coming months in order to reconcile the amount of liabilities. The management of PECO intends to pay back the Government of Pakistan Loans after the reconciliation of differences as per the record and facts available with the committee representatives.

23.1 The break up of interest free loan from Privatization Commission is as follows:

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

The Privatization Commission has directly confirmed to the auditors total liability of Rs. 1,516.718 million (2008: Rs. 1,451.442 million) which includes principal loan liability of Rs. 612.922 million and markup of Rs. 903.796 million. The management and the BOD of the company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, as there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993 and Privatization Commission has never in past confirmed loan liability with markup.

During the years ended June 30, 2004 and June 30, 2005 Privatization Commission has confirmed to the auditors the loan liability without charging any markup. The company has also obtained legal opinion from the legal adviser of the company. The legal adviser is of the firm opinion that since there is no mention of any markup to be charged on this loan nor is there any markup agreement in respect of this loan therefore no markup is payable by PECO in respect of this loan. In the opinion of the legal adviser the amount of additional gratuities of Rs. 131.454 million should also be borne by the Privatization Commission.

Furthermore, as mentioned above in order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee has been constituted as per the decision of Additional Finance Secretary. The management of PECO intends to pay back the Government of Pakistan Loans after the reconciliation of differences as per the records and facts available with the committee representatives.

		(Rupees in Thousand)	
		2009	2008
23.2	The break up of Government Escrow account is as follows:		
	Customs and other import duties	86,984	86,984
	Pakistan Railways freight	12,989	12,989
	Karachi Port Trust	12,964	12,964
		<u>112,937</u>	<u>112,937</u>

23.2.1 The customs and other import duties balance carries interest @ 14% per annum for three years which has not been accounted for upto June 30, 2009, amounting to Rs. 41.989 million (2008: Rs. 41.989 million).

23.3 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.

23.4 Federal Government of Pakistan provided to PECO a loan of Rs. 309.000 million @ 10% mark up p.a. to pay off the staff through Compulsory Separation Scheme vide letter No. 1(26) CF 111/93 dated 4th March 2002. Interest on this loan up to year ended June 30, 2009, amounting to Rs. 224.025 million (2008: Rs.193.125 million) including the effect of Rs. 30.900 million (2008: Rs. 30.900 million) for the year has not been accounted for as the company intends to take up the waiver of markup with Government of Pakistan.

The management of the company is of the opinion that markup is not payable on this loan liability in the absense of any agreement for markup. Furthermore, as mentioned above in order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee has been constituted as per the decision of Additional Finance Secretary. The management of PECO intends to pay back the Government of Pakistan Loans after the reconciliation of differences as per the records and facts available with the committee representatives.

23.5	Interest bearing bonds	655,138	655,138
	Interest free bonds	132,304	132,304
		<u>787,442</u>	<u>787,442</u>

These bonds were issued by the Federal Government against the liability of the company towards banks / financial institutions taken up by the Federal Government in the light of Federal Cabinet decision and S.R.O No. 823(1)/94 dated August 28, 1994. Against the principal amount interest bearing bonds and against accrued mark up interest free bonds were issued by the Government. The Government is liable to pay interest @ 12.43% per annum to the Banks / DFI regarding the interest bearing bonds.

24. LONG TERM LOANS

	From National Bank Of Pakistan	136,042	149,026
	Less:		
	Current portion shown under current liabilities	59,725	-
		<u>76,317</u>	<u>149,026</u>

- 24.1 The above includes principal amounting to Rs. 77.926 million (2008: Rs. 127.926 million), old mark up amounting to Rs. 13.116 million (2008:Rs. 21.10 million), and frozen markup of Rs. 45.00 million (2008: Rs. Nil) as a result of rescheduling agreement finalized with National Bank of Pakistan. The principal loan liability of Rs. 77.926 million is repayable in six equal half yearly installments commencing from December 2009 and repayable by June 2012. The frozen markup of Rs. 45.00 million is repayable in four equal quarterly installments commencing from December 2009 and repayable by September 2010, and no markup is to be charged on this facility. The old markup of Rs. 13.116 million is repayable after the complete payment of principal loan liability in four equal quarterly installments with effect from September 2012 and repayable by June 2013. The principal loan liability of Rs. 77.926 million carries markup ranging from 10% to 15.7% p.a. These loans are secured by First charge over present and future, current and fixed

25. DEFERRED TAXATION

Debit / (Credit) balance arising in respect of :
 Surplus on revaluation of fixed assets
 Accelerated Tax Depreciation Allowances
 Provision for Doubtful Debts
 Provision for Slow moving stores
 Finance Lease Arrangements

(Rupees in Thousand)	
2009	2008
42,119	-
12,871	-
(14,690)	-
(3,500)	-
(86)	-
54,990	-

26. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - SECURED

Opening balance	1,236	1,533
Payments made during the year	(281)	(297)
Present value of Minimum Lease Payments	955	1,236
Current portion - (Due within one year)	(955)	(555)
Closing balance - (Due after one year but within five years)	-	681

- 26.1 The company has entered into lease agreements with Askari Commercial Bank Ltd. and Askari Leasing Limited to acquire vehicles. Present value of minimum lease payments has been discounted at interest rates ranging from 5% to 8.38% per annum which approximately equate the rates implicit in the lease agreements. The liability is partly secured against the deposit of Rs. 0.916 million (2008: Rs. 0.916 million). The company intends to exercise its option to purchase the leased assets 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:

Due within one year	955	577
Due after one year but within five years	-	681
Minimum lease Payments (MLP)	955	1,258
Less:		
Finance charge	-	(22)
Present value of Minimum Lease Payments	955	1,236

27. SHARE CAPITAL

Authorized Capital:

9,000,000 (2008: 9,000,000) Ordinary shares of Rs. 10/- each	90,000	90,000
100,000 (2008: 100,000) 7.5% Cumulative redeemable preference shares of Rs. 100/- each	10,000	10,000
	100,000	100,000

Issued, Subscribed and Paid up Capital:

3,162,144 (2008: 3,162,144) Ordinary shares of Rs. 10/- each fully paid in cash	31,621	31,621
2,528,101 (2008: 2,528,101) Ordinary shares of Rs. 10/- each issued as fully paid up bonus shares	25,281	25,281
	56,902	56,902

- 27.1 State Engineering Corporation (Pvt.) Ltd., an associated company, holds 1,415,723 (2008: 1,415,723) ordinary shares of Rs. 10/- each as at June 30, 2009.

28. REVALUATION SURPLUS

Free hold land	28.1	4,661,546	1,563,246
Building Structure on Free hold Land	28.2	50,419	53,073
Plant and Machinery	28.3	24,993	29,629
		4,736,958	1,645,948

		(Rupees in Thousand)	
		2009	2008
28.1	Free Hold Land		
	Surplus on revaluation carried out in 1991	925,530	925,530
	Surplus on revaluation carried out in 2001	645,075	645,075
	Surplus on revaluation carried out in 2009	3,098,300	
		4,668,905	1,570,605
	Less:		
	Adjustment on account of sale of part of Badami Bagh Works Land in 2001	7,359	7,359
		4,661,546	1,563,246
28.2	Building Structure		
	Surplus on revaluation carried out on June 30, 1997	143,550	143,550
	Less:		
	Surplus relating to incremental depreciation charged in prior years transferred to accumulated loss		
	Prior years	61,899	57,602
	Current year	2,654	2,793
	Related deferred tax liability	1,429	1,504
		65,982	61,899
	Less:		
	Related deferred tax liability		
	Balance at the beginning of the year	28,578	30,082
	Incremental depreciation	(1,429)	(1,504)
		27,149	28,578
		50,419	53,073
28.3	Plant and Machinery		
	Surplus on revaluation carried out on June 30, 1997	96,063	96,063
	Less:		
	Adjustment on account of sale to date	27,988	22,267
		68,075	73,796
	Less:		
	Surplus relating to incremental depreciation charged in prior years transferred to accumulated loss		
	Prior years	28,212	26,746
	Adjustment on account of sale	(1,418)	-
	Current year	857	953
	Related deferred tax liability	461	513
		28,112	28,212
	Less:		
	Related deferred tax liability		
	Balance at the beginning of the year	15,955	16,468
	Realized on disposal of assets	(524)	-
	Incremental depreciation	(461)	(513)
		14,970	15,955
		24,993	29,629
28.4	Land of Kot Lakhpat Works was again revalued by M/s Indus Surveyors on the average market rate. Value of land before revaluation was Rs. 604.925 million was revalued at Rs. 1,250 million resulting in the surplus of Rs. 645.075 million.		
28.4(a)	During the year the land of Kot Lakhpat works has been revalued by an independent valuer M/s Indus Surveyors (Private) Limited on the basis of average market rate keeping in view the market conditions. Previously the land was revalued at Rs. 1,250 million and presently the land is revalued at Rs. 4,348.3 million resulting in surplus of Rs. 3,098.3 million.		
28.5	Steel structure of Badami Bagh Works (Transferred to Kot Lakhpat works) appearing at Rs. Nil was revalued at Rs. 143.550 million resulting in the surplus of Rs. 143.550 million.		
28.6	Plant and machinery of Badami Bagh Works (Transferred to Kot Lakhpat works) was revalued by M/s Indus Surveyors at Rs. 126.203 million resulting in the surplus of Rs. 96.063 million.		
28.7	Net revaluation surplus includes Rs. 14.913 million (2008: 17.720 million) relating to machinery held for sale. (Ref. note 10)		

28.8 As required by the Companies Ordinance, 1984, the incremental depreciation charged during the current year on "Plant and Machinery and Steel Structure" has been transferred from the surplus on revaluation of fixed assets to accumulated losses.

(Rupees in Thousand)

29. SALES - Net

	2009	
Sales - Local	1,577,924	1,184,480
Less : Sales Tax	203,407	137,590
Excise Duty	12,884	9,160
Rebate, allowances and discount	-	811
	1,361,633	1,036,919

30. COST OF GOODS SOLD

Raw material consumed	30.1	981,724	683,550
Stores and spares consumed		76,591	63,819
Salaries and wages (including all benefits)	30.2	67,914	50,919
Fuel and power		35,633	34,712
Travelling & Conveyance		758	377
Postage, Telegram & Telephone		264	171
Printing, Stationery and Office Supplies		667	506
Inspection Fee		3,385	1,008
Service charges		1,614	979
Processing charges		17,474	2,627
Research and Development		3,099	3,128
Rent, Rate and Taxes		743	930
Repair and maintenance		4,518	1,378
Insurance		542	479
Vehicle running expenses		918	973
Other expenses		444	210
Depreciation	3.3	11,544	10,098
		226,108	172,314
		1,207,832	855,864
Opening Stock of Work in Process		122,246	95,580
Closing Stock of Work in Process		(216,730)	(122,246)
		(94,484)	(26,666)
Cost of goods manufactured		1,113,348	829,198
Opening Stock of Finished Goods		28,936	15,469
Closing Stock of Finished Goods		(106,978)	(28,936)
		(78,042)	(13,467)
		1,035,306	815,731
30.1 Raw Material Consumed			
Opening Stock		117,602	100,657
Add:			
Purchases		985,874	700,495
		1,103,476	801,152
Less:			
Closing Stock		121,752	117,602
		981,724	683,550

30.2 This includes amount paid to contractor for wages of workers on contract.

31. SELLING AND DISTRIBUTION EXPENSES

Salaries and wages (including all benefits)	2,982	2,581
Travelling and conveyance	776	673
Entertainment	132	59
Repair and maintenance	6	8

		(Rupees in Thousand)	
		2009	2008
	Postage, telegrams and telephone	118	122
	Printing, stationery and office supplies	376	89
	Publishing of Tender and Sales Promotion	3,053	1,548
	Service charges	5,461	2,673
	Miscellaneous	1,264	739
		14,168	8,492
32.	<u>FREIGHT AND FORWARDING EXPENSES</u>		
	Freight and forwarding expenses	22,182	11,159
33.	<u>GENERAL AND ADMINISTRATIVE EXPENSES</u>		
	Salaries and wages (including all benefits)	20,535	17,060
	Provident Fund	51	90
	Gratuity	55	263
	Travelling and conveyance	3,240	1,579
	Entertainment	239	368
	Legal and professional	533	812
	Rent, rates, and taxes	1,557	1,071
	Fuel, gas and electricity	1,752	1,303
	Repair and maintenance	1,366	2,615
	Postage, telegrams and telephone	729	603
	Printing, stationery and office supplies	1,332	1,279
	Advertisement	120	685
	Training	173	136
	Amortization of leased assets	4.1	178
	Insurance	494	442
	Donations	33.1	1,000
	Vehicle running expenses	2,424	1,662
	Miscellaneous	2,384	1,491
	Depreciation	3.3	3,645
		41,807	34,660
33.1	Donation of Rs. 1.00 Million was paid to State Engineering Corporation for onward submission to Prime Minister's Fund for Sawat. The Chairman of SEC is also the Chairman of PECO. The company has no interest in the Donee's Fund.		
34.	<u>OTHER CHARGES</u>		
	Auditor's remuneration	34.1	494
	Miscellaneous charges		352
		7	702
		7	702
		501	1,054
34.1	<u>Auditors Remuneration</u>		
	Audit Fee		200
	Half yearly review fee		65
	Tax consultancy charges		229
			494
			352
35.	<u>FINANCIAL CHARGES</u>		
	Mark up on short term bank borrowings		1,360
	Mark up on Long term Loan	35.1	75,932
	Bank charges and commission	35.2	5,238
	Financial charges on finance lease		21
			82,551
			8,260

35.1 This includes frozen markup of Rs. 45 million, markup of previous year amounting to Rs. 12.862 million and markup of current year amounting to Rs. 18.070 million. The markup has been provided as per the agreement finalized with National Bank of Pakistan. (Ref: note 24)

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

36. OTHER INCOME

		(Rupees in Thousand)	
		2009	2008
<u>Income from Financial Assets</u>			
Interest / Profit			
-On deposits with banks		2,824	4,405
-On short term investments		1,130	3,164
Recovery of Call Deposits		385	7
		4,339	7,576
<u>Income from non financial Assets</u>			
Miscellaneous income			
Gain on disposal of tangible fixed assets	36.1	29,794	732
Gain on sale of assets held for sale	36.1	634	2,825
		39,970	11,208
		<u>44,309</u>	<u>18,784</u>

36.1 Detail of Disposal of Tangible Fixed Assets during the year

(Rupees in Thousand)							
Description	Original / Revalued Cost	Accumulated Depreciation	Written Down Value	Sale Price	Profit / (Loss)	Mode of Sale	Particular of Purchaser
PLANT & MACHINERY							
Electric ARC Furnace-10 Tons HF-3	11,386	10,347	1,039	9,700	8,661	Tender	M/s Qudratullah&Co Lahore
Gantry Crane-3 Tons CAP	5,929	2,420	3,509	3,538	29	Tender	M/s East&Export Kot Lakhpat Lahore
Welding Transformer	15	5	10	72	62	Tender	Mr. Muhammad Akber Badami Bagh Lahore
Electric ARC Furnace-10 Tons HF-1	11,791	10,314	1,477	7,500	6,023	Tender	Mr. Muhammad Ejaz Badami Bagh Lahore
Electric ARC Furnace-10 Tons HF-2	11,385	10,382	1,003	9,500	8,497	Tender	M/s Qudratullah&Co Lahore
Overhead Crane (08 Tons)	808	578	230	2,130	1,900	Tender	M/s Qudratullah&Co Lahore
Tube Mill Allied Machines	4,458	3,849	609	5,231	4,622	Tender	Mr. Riaz Ahmed Wahdat Colony Gujranwala
	45,772	37,895	7,877	37,671	29,794		
Machinery - Held For Sale	4,083	-	4,083	4,717	634	Tender	M/s ZA Associates Lahore
TOTAL - 2009	49,855	37,895	11,960	42,388	30,428		
TOTAL - 2008	2,283	1,076	1,207	4,764	3,557		

37. TAXATION

Current			
for the year		(17,653)	(5,185)
for prior years		(101)	(38)
Deferred			
for the year		(49,469)	(53,799)
		<u>(67,223)</u>	<u>(59,022)</u>

	(Rupees in Thousand)	
	2009	2008
The company's income tax assessments have been finalized upto and including Tax year 2008.		
Accounting profit for the year before tax	201,171	
Reconciliation of tax charge for the year		
Tax on Accounting Profit at applicable rate	70,410	-
Tax effect of amounts that are inadmissible for tax purposes	5,406	-
Tax effect of amounts that are admissible for tax purposes	(5,460)	-
Adjustment of brought forward tax loss	(41,668)	-
Adjustment of minimum tax	(11,035)	-
Tax effect relating to prior years	101	-
Tax effect of timing differences	49,469	-
	<u>67,223</u>	<u>-</u>

(2008: Due to income tax losses, tax provision at 0.5% of turnover u/s 113 of the Income Tax Ordinance, 2001 was made.)

38. BASIC EARNING PER SHARE

There is no dilutive effect on the basic Earning per share of the company, which is based on :

Profit after Taxation (Rupees in Thousand)	133,948	109,447
Weighted average number of Ordinary shares (in Thousand)	5,690	5,690
Earning per share (Rupees)	23.54	19.23

39. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties/associated undertakings, other than remuneration and benefits to key management personnel's under the terms of their employment (Ref. note 47) and other than the payments made to the retirement benefit plans are as under:

State Engineering Corporation (Pvt) Limited (SEC)

SEC Service Charges	5,000	-
SEC Service Charges written off	10,000	-
Reimbursement of Expenses	121	322

SEC Pension Fund Trust

Payments made during the year against due contributions	55	263
Payment of management expenses	-	49

Pakistan Machine Tool Factory

Payment made	-	782
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Heavy Electrical Complex (HEC)

Payments of expenses on behalf of company	-	277
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Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (2008: Rs. 0.537 million).

Purchase/sale of goods and services are made in accordance with accounting policy as explained in note 2.10.

40. DISCONTINUING OPERATIONS

- 40.1 All divisions of the company, such as Structure Division (STR), Machine Tool, Power Loom, Pumps, Electric Motor, Bicycle, Furnace and Rolling Mill's had been closed during the period 2000 to 2003, as per the instructions of the Government. The Plant and Machinery of two divisions, Machine tool and Power Loom, had been transferred to "Assets held for sale" in the year 2001, and the management has no intention to sell the Plant and machinery of remaining divisions of the company. At present Structure (STR), Pumps, Electric Motors, Foundry and Rolling Mills division of the company are in operation. During the year there was no revenue and expense from ordinary activities attributable to the discontinuing operations.
- 40.2 The costing system of the company does not permit a realistic segregation of production cost as explained in note no. 41. Therefore, the expenses attributable to the discontinuing operations is not practicable. However the above results of previous period do not have a material impact on the results of the continuing operations of the company.
- 40.3 The carrying amount of assets of discontinuing operations of Machine Tool and Power Loom as at June 30, is disclosed in note no. 10 and its related revaluation surplus is disclosed in note no. 28.7 of the financial statements.
- 40.4 The carrying amount of stores, spares and loose tools and stock in trade is stated in note no. 8 and 9, respectively.

41. 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. During the current year Structure (STR) Division of the company remain in operation and the operational results of the other divisions i.e. pumps, electric motor and rolling mills does not meet the minimum threshold.

42. FINANCIAL INSTRUMENTS

(Rupees in Thousand)

Interest/ mark-up bearing			Non Interest/ mark-up bearing			TOTAL	
Maturity upto one year	Maturity after one year	sub total	Maturity upto one year	Maturity after one year	sub total	2009	2008

FINANCIAL ASSETS

Long term security deposit	-	-	-	-	2,925	2,925	2,925	2,416
Trade debtors	-	-	-	347,364	-	347,364	347,364	366,921
Loans and advances to employees	-	828	828	194	-	194	1,022	964
Advances to others	-	-	-	33,397	-	33,397	33,397	10,323
Trade deposits and other receivable	-	-	-	40,110	-	40,110	40,110	21,091
Short Term Investments	-	-	-	-	-	-	-	31,500
Cash and bank balances	24,137	-	24,137	4,113	-	4,113	28,250	24,482
	24,137	828	24,965	425,178	2,925	428,103	453,068	457,697

FINANCIAL LIABILITIES

Government of Pakistan Loan	-	395,984	395,984	-	1,394,864	1,394,864	1,790,848	1,790,848
Long Term Loans	25,975	51,951	77,926	33,750	24,366	58,116	136,042	149,026
Lease liabilities	955	-	955	-	-	-	955	1,236
Short term loans	-	-	-	-	-	-	-	26,906
Deposits and advance payments	-	-	-	3,521	-	3,521	3,521	3,521
Trade creditors	-	-	-	143,023	-	143,023	143,023	87,053
Accrued liability / mark up	-	-	-	40,351	-	40,351	40,351	11,450
Unclaimed dividend	-	-	-	7,803	-	7,803	7,803	6,195
Other liabilities	-	-	-	23,980	-	23,980	23,980	36,044
	26,930	447,935	474,865	252,428	1,419,230	1,671,658	2,146,523	2,112,279
Expected Gap	(2,793)	(447,107)	(449,900)	172,750	(1,416,305)	(1,243,555)	(1,693,455)	(1,654,582)

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

42.1 FINANCIAL RISK MANAGEMENT OBJECTIVES

The objective of financial risk management is to minimize potential adverse effects on the financial performance of the company. The company finances its operation through equity, borrowings and management of working capital with a view to maintain reasonable mix between the various sources of finance to minimize risk.

Cash flow risk is the risk that future cash flows associated with monetary financial instruments will fluctuate in amount. Cash flow risk associated with accrued interest in respect of borrowings is referred to in Note 21.

MARKET RISK

Market risk is the risk that value of financial instrument will fluctuate as the result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors effecting all securities traded in the market. Taken as a whole, risk arising from the companies financial instrument is limited as there is no significant exposure to market risk in respect of such instrument.

LIQUIDITY RISK

Liquidity risk is the risk that an enterprises will encounter difficulty in raising funds to meet it's commitments associated with financial instruments. The company manage its liquidity risk exposure by having diversified funding sources and assets are managed with liquidity in mind. To ensure adequate liquidity, the maturity profile is monitored on continuous basis.

Significant balances of financial assets and liabilities shall mature within twelve months as evident from the information presented in Note 42, along with the category of Financial assets.

43. INTEREST RATE RISK

Interest rate risk is the risk that the values of financial instruments will fluctuate due to changes in market interest rates. The Company usually manages miss-matches through risk management strategy where significant change in Gap position can be adjusted. The rates of financing and their maturity period has been disclosed in the relevant notes.

44. FOREIGN EXCHANGE RISK MANAGEMENT

The company does not obtain forward exchange cover to hedge its foreign currency risks, and the company is not exposed to foreign currency risk.

45. CREDIT RISK & CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognized at the reporting that if counter parties fair completely to perform as contracted. Credit risk arises from cash and cash equivalents, financial instruments and deposit with banks and financial institutions, as well as, credit exposures to customers including trade receivables and committed transactions. Out of total financial assets of Rs. 453.068 million, the financial assets that are subject to credit risk amounted to Rs. 452.291 million. The bank balances are placed with banks having favourable credit ratings. For trade receivables, internal risk assessment process determines the credit quality of the customers, taking into account its financial position, past experience and other factors. Individuals risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilization of credit limits is regularly monitored. Accordingly, the credit risk is minimum and the company also believes that it is not exposed to major concentration of credit risk.

46. CAPITAL RISK MANAGEMENT

The company's objective when managing capital is to safe guard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stake holders: and to maintain strong capital base to support the development of its business.

The company manages its capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the company may adjust amount of dividend paid to shareholders or issue new shares. The company is not subject to externally imposed capital requirements.

47. CHIEF EXECUTIVE AND DIRECTORS' REMUNERATION

	2009		2008	
	Chief Executive	Director	Chief Executive	Director
-----Rupees in Thousand-----				
Remuneration	1,583	1,656	1,357	1,380
Reimbursable expenses	695	-	493	-
Gratuity	-	-	218	-
Provident fund	-	-	39	-
Perquisites	86	-	90	-
	<u>2,364</u>	<u>1,656</u>	<u>2,197</u>	<u>1,380</u>
Number of persons	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

47.1 Amount charged in the accounts for 8 directors for Meeting fees were Rs. 1.040 million (2008 : Rs. 0.580 million) for meetings of Board of Directors and sub committees of Board of Directors.

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

48. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue on October 03, 2009 by the Board of Directors of the company.

49. PLANT CAPACITY AND ACTUAL PRODUCTION

	U/M	Capacity	Assessed	Actual Production	
		Installed		2009	2008
Pumps / turbines	No.	3,400	4,000	371	68
Electric motors	No.	16,500	6,500	273	
Rolled material	Tons	80,000	30,000	1,343	3,042
Steel fabrications (STR)	Tons	20,000	30,000	13,286	10,019
Concrete Mixture	No.	350	350	-	-

49.1 The main reason for production below capacity is due to closure of production divisions other than Steel fabrications (STR).

50. NON ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Board of Directors in their meeting held on October 03, 2009 has recommended final cash dividend @ 75% amounting to Rs. 42.676 million on the existing paid up value of the ordinary share capital for approval of the shareholders in the Annual General Meeting to be held on October 31, 2009.

51. GENERAL

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

51.2 The corresponding figures have been reclassified for the purpose of comparison and better presentation. Change made during the year are as follows.

Note	Reclassification from	Note	Reclassification to	Rupees in Thousand Amount
3	Furniture & Fixture	3	Electric Equipments	4,564
	<u>Administrative:</u>		<u>Cost of Sales:</u>	
33	Salaries & Wages	30	Salaries & Wages	7,446
33	Rent Rate & Taxes	30	Rent Rates & Taxes	930
33	Traveling & Conveyance	30	Traveling & Conveyance	188
33	Postage, Telephone & Telegram	30	Postage, Telephone & Telegram	165
33	Printing, Stationery & Office Supplies	30	Printing, Stationery & Office Supplies	275
	<u>Cost of Sales:</u>		<u>Cost of Sales:</u>	
30	Other Expenses	30	Traveling & Conveyance	189
30	Other Expenses	30	Postage, Telephone & Telegram	6
30	Other Expenses	30	Printing, Stationery & Office Supplies	231

TEN YEARS SUMMARY

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
										Rs. 000
Sales - Net	511,501	388,901	122,606	265,165	456,577	852,150	834,706	983,499	1,036,919	1,361,633
Cost of Sales	505,407	449,264	210,373	227,829	395,633	588,017	617,264	760,336	806,727	1,035,306
Trading Profit / (Loss)	6,094	(60,363)	(87,767)	37,336	60,944	264,133	217,442	223,163	230,192	326,327
Other Income	3,038	28,147	12,890	48,377	9,079	3,043	6,815	63,304	18,784	44,308
Admin, General & Selling Exp.	64,818	69,860	62,855	52,112	46,999	44,485	38,703	58,130	63,315	78,157
Financial Expenses	47,014	63,211	66,208	47,479	46,812	19,815	17,994	8,591	8,260	82,551
Workers Profit Participation Fund						4,863	5,983	7,280	7,878	8,256
Other Charges	7,213	2,372	22,224	2,383	2,083	39,268	47,909	10,838	1,054	501
Principal Loan Liability waived by Associated Co's.						16,000				
Net Profit / (Loss) for the year	(109,913)	(167,659)	(226,164)	(16,261)	(25,871)	163,608	113,668	201,628	168,469	201,171
Prior Year's Adjustments / CSS etc.	887	(33,198)	(145,056)	10,036	12,026	71,218				
Profit / (Loss) before Taxation	(109,026)	(200,857)	(371,220)	(6,225)	(13,845)	92,390	113,668	201,628	168,469	201,171
Provision for Taxation	2,557	2,085	690	1,433	2,283	4,308	4,174	(110,419)	59,022	67,223
Profit / (Loss) after Taxation	(111,583)	(202,942)	(371,910)	(7,658)	(16,128)	88,082	109,494	312,047	109,447	133,948
Dividend							17,071	51,212		
Paid Up Capital	56,902	56,902	56,902	56,902	56,902	56,902	56,902	56,902	56,902	5,902
Fixed Capital Expenditure (Net)	1,241,918	1,818,545	1,804,875	1,791,786	1,780,742	1,771,268	1,763,133	1,765,647	1,819,125	4,910,765

PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2009

Incorporation No. 0000348

Shareholders	From	To	Total Shares
1,432	1	100	42,119
584	101	500	137,683
152	501	1,000	107,320
105	1,001	5,000	197,735
23	5,001	10,000	158,395
4	10,001	15,000	50,600
11	15,001	20,000	198,100
3	25,001	30,000	85,400
1	40,001	45,000	43,776
2	45,001	50,000	99,500
1	110,001	115,000	111,400
1	125,001	130,000	128,790
1	130,001	140,000	135,240
1	145,001	150,000	146,500
1	165,001	170,000	165,254
1	505,001	510,000	510,000
1	555,001	560,000	555,710
2	1,400,001	1,416,000	2,816,723
2,326			5,690,245

PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2009

<u>Categories of shareholders</u>	<u>Shares held</u>	<u>Percentage</u>
Directors, Chief Executive Officers, and their spouse and minor children	10,729	0.19%
Associated Companies, Undertakings & Related Parties	1,415,723	24.88%
ICP (including IDBP)	131,330	2.31%
Banks, Development Finance Institutions & Non Banking Financial Institutions	140,606	2.47%
Insurance Companies	229,030	4.02%
Modarabas and Mutual Fund	8,400	0.15%
Share holders holding 10% or more of total capital	2,816,823	49.50%
General Public		
a. Local	1,509,421	26.53%
b. Foreign	2,580	0.05%
Others:		
Joint Stock Companies	791,601	13.91%
Private Limited Companies	1,401,100	24.62%
Investment Companies	12,440	0.22%
Cooperative Societies	6,000	0.11%
Trusts	25,370	0.45%
Associations	162	0.00%
Abandoned Property	5,754	0.10%
Government Authority	1	0.00%

PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2009

ADDITIONAL INFORMATIONS

	<u>% Age</u>	<u>Shares Held</u>
ASSOCIATED COMPANIES, UNDERTAKINGS & RELATED PARTIES		
State Engineering Corporation Ltd.	24.88	1,415,723
INVESTMENT CORPORATION OF PAKISTAN (ICP)		
	2.31	131,330
DIRECTORS, CEO THEIR SPOUSES & MINOR CHILDREN		
Major General (R) Zaheer Ahmad Khan		Govt. Nominee
Mr M. Imtiaz ur Raheem		Govt. Nominee
Mr. Khizar Hayat Khan		Govt. Nominee
Mr. Muhammad Arif Habib	0.02	1,000
Mr. Liaqat Mohammad	0.07	3,700
Mr. Rashid Ali Khan	0.02	1,000
Mr. Mohammad Shabir Malik	0.05	2,950
Mr. Muhammad Iqbal	0.02	1,027
Mirza Mahmood Ahmad	0.02	1,000
Mrs. Uzma Shabir (Wife of Mr. Mohammad Shabir Malik)	0.00	52
PUBLIC SECTOR COMPANIES AND CORPORATIONS		
		Nil
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARBAS & MUTUAL FUNDS		
National Bank of Pakistan - Trustees Department	2.38	135,292
M/s Habib Bank Limited	0.00	25
M/s United Bank Limited	0.09	5,259
M/s Bank of Bahawalpur Ltd	0.00	30
IDBP (ICP Units)	2.26	128,790
M/s Pakistan Insurance Corporation	0.77	43,776
State Life Insurance Corporation Ltd	2.90	165,054
M/s Gulf Insurance Co. Ltd	0.35	20,000
Mudarba & Mutual Funds	0.15	8,400
SHARES HELD BY THE GENERAL PUBLIC		
	26.53	1,509,421
SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL		
State Engineering Corporation Ltd	24.88	1,415,723
Rotocast Engineering Company (Pvt) Limited	24.62	1,401,100
Holding of CDC	61.23	3,484,415

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

FORM OF PROXY

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

I/We _____ of _____
 _____ being a member (s) of Pakistan Engineering Company Ltd. and
 holder of _____ ordinary shares as per Share Register Folio No. _____
 (in case of Central Depository System Account Holder A/c No. _____)

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

as a proxy of vote on my / our behalf at the Annual General Meeting of the Company to be held
 on Saturday, October 31, 2009 at 10:30 a.m. at Hotel Ambassador, 7- Davis Road, Lahore.

Signed this _____ day of _____ 2009.

WITNESS

Signature _____

Name _____

Address _____

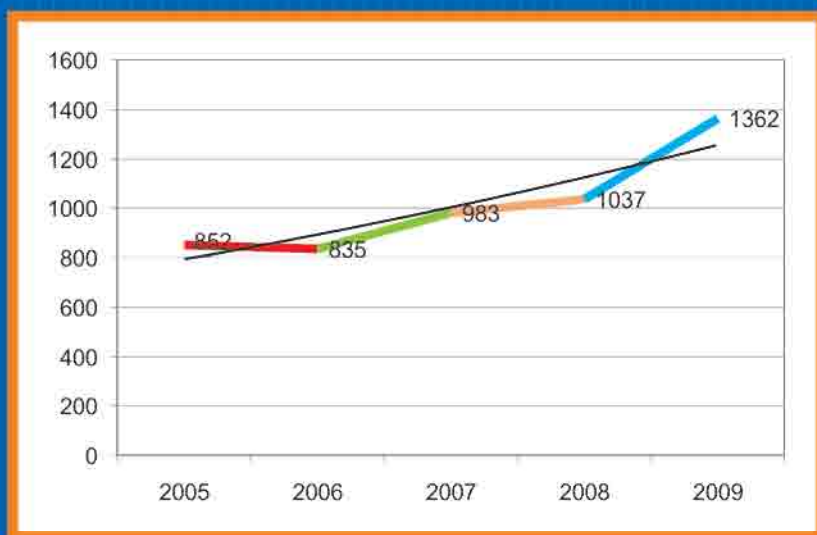
Signature

Please affix
 Rupees five
 Revenue Stamp

Note:

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

ANNUAL REPORT 2009



Pakistan Engineering Company Limited