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**AUDITED FINANCIAL STATEMENTS**

*FOR THE YEAR ENDED JUNE 30, 2008*

**DESCON ENGINEERING LIMITED**

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**Horwath**

**Horwath Hussain Chaudhury & Co.**  
*Chartered Accountants*

# **Descon Engineering Limited**

Financial Statements for the Year Ended June 30, 2008

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## **DESCON ENGINEERING LIMITED**

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

We have audited the annexed balance sheet of **DESCON ENGINEERING LIMITED** as at June 30, 2008 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) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984.
- (b) in our opinion :
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for change in accounting policies as referred to in Notes 3.1 and 3.19 to the financial statements with which we concur;
  - (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;



- (c) in our opinion and to the best of our information and according to the explanations given to us, except for non compliance with the requirements of IAS - 12 (Income Taxes) with respect to recognition of deferred taxation, 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, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Lahore:

Dated 07 OCT 2008

*Horwath Hussain Chaudhury*  
HORWATH HUSSAIN CHAUDHURY & CO.  
*Chartered Accountants*

## DESCON ENGINEERING LIMITED

## BALANCE SHEET AS AT JUNE 30, 2008

	Note	2008 Rupees	2007 Rupees		Note	2008 Rupees	2007 Rupees
<b>CAPITAL AND LIABILITIES</b>				<b>PROPERTY AND ASSETS</b>			
<b>Share Capital and Reserves</b>				<b>Non Current Assets</b>			
Authorized capital: 50,000,000 (2007: 50,000,000) ordinary shares of Rs.10 each		<u>500,000,000</u>	<u>500,000,000</u>	Property, plant and equipment	13	3,444,275,435	2,982,867,494
Issued, subscribed and paid up capital	4	350,000,000	350,000,000	Investment property	14	187,500,000	187,500,000
Reserves		<u>3,507,884,473</u>	<u>2,644,129,824</u>	Long term investments	15	2,270,812,199	2,043,380,860
		3,857,884,473	2,994,129,824	Long term loans and advances	16	342,669,242	306,154,500
				Long term deposits and prepayments	17	<u>1,433,072,605</u>	<u>1,031,076,599</u>
						7,678,329,481	6,550,979,453
<b>Non Current Liabilities</b>				<b>Current Assets</b>			
Long term financing	5	2,154,890,409	2,257,945,368	Materials, stores and tools	18	2,334,336,577	1,577,154,772
Liabilities against assets subject to finance lease	6	999,053,659	575,259,848	Trade debts	19	8,436,047,132	5,499,920,159
Deferred liability	7	37,937,000	29,850,000	Loans and advances	20	2,242,165,960	2,165,510,812
Long term advances	8	1,066,197,410	1,100,373,511	Trade deposits, short term prepayments and other receivables	21	1,632,829,635	1,683,392,375
				Short term investments	22	35,183,460	-
		4,258,078,478	3,963,428,727	Cash and bank balances	23	1,896,286,971	652,981,067
<b>Current Liabilities</b>						16,576,849,735	11,578,959,185
Trade and other payables	9	8,137,356,700	4,263,580,356				
Accrued markup and interest		184,008,643	150,189,016				
Short term borrowings	10	5,940,138,652	4,652,841,186				
Current portion of long term borrowings	11	817,083,563	821,667,273				
Provision for taxation		<u>1,060,628,707</u>	<u>1,284,102,256</u>				
		16,139,216,265	11,172,380,087				
<b>Contingencies and Commitments</b>							
	12	-	-				
		<u>24,255,179,216</u>	<u>18,129,938,638</u>			<u>24,255,179,216</u>	<u>18,129,938,638</u>

The annexed notes form an integral part of these accounts.



*Suman Chandra*  
CHIEF EXECUTIVE



DIRECTOR

# DESCON ENGINEERING LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2008

	Note	2008 Rupees	2007 Rupees
Revenue	24	25,070,877,587	17,281,051,625
Cost of revenue (2007 - Restated)	25	<u>(22,018,180,863)</u>	<u>(14,494,129,496)</u>
<b>Gross Profit</b>		3,052,696,724	2,786,922,129
Administrative expenses	26	<u>(1,249,281,789)</u>	<u>(960,611,276)</u>
<b>Operating Profit</b>		1,803,414,935	1,826,310,853
Finance costs	27	(1,304,489,570)	(912,791,525)
Other operating expenses	28	(4,454,499)	(28,260,959)
Other operating income	29	<u>1,000,151,455</u>	<u>438,007,706</u>
<b>Profit before Taxation</b>		1,494,622,321	1,323,266,075
Taxation		(635,110,691)	(662,657,638)
<b>Profit after Taxation</b>		<u>859,511,630</u>	<u>660,608,437</u>
<b>Earnings per Share - Basic</b>	30	<u>24.56</u>	<u>18.87</u>

The annexed notes form an integral part of these accounts.



*Srinatharan*  
CHIEF EXECUTIVE

  
DIRECTOR

# DESCON ENGINEERING LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2008

	Note	2008 Rupees	2007 Rupees
<b>CASH GENERATED FROM OPERATIONS</b>	31	2,641,524,207	466,311,158
Income tax paid		(584,361,371)	(436,956,187)
Gratuity paid		(5,786,000)	(45,053,000)
Financial charges paid		(1,270,669,942)	(763,601,017)
<b>Net Cash from / (used in) Operating Activities</b>		780,706,894	(779,299,046)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,294,686,872)	(1,112,615,190)
Long term investments		(227,431,339)	(1,977,026,455)
Long term loans and advances		(36,514,742)	(306,154,501)
Long term deposits and prepayments		(401,996,006)	(285,495,769)
Short term investments		(35,004,230)	-
Proceeds from disposal of property, plant and equipment		120,016,292	126,693,495
Proceeds from disposal of investments available for sale		-	5,062,500
Dividend received		64,660,272	-
Interest income received		12,590,375	18,863,622
<b>Net Cash used in Investing Activities</b>		(1,798,366,250)	(3,530,672,298)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Long term financing		285,958,472	2,253,363,790
Liabilities against assets subject to finance lease - net		(18,734,515)	(537,540,088)
Long term advances		846,443,837	876,674,453
Short term borrowings		1,287,297,466	1,382,847,049
Dividend paid		(140,000,000)	(122,500,000)
<b>Net Cash from Financing Activities</b>		2,260,965,260	3,852,845,204
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		1,243,305,904	(457,126,140)
Cash and cash equivalents at the beginning of the year		652,981,067	1,110,107,207
<b>Cash and Cash Equivalents at the End of the Year</b>		<u>1,896,286,971</u>	<u>652,981,067</u>



*Srinivasan*  
CHIEF EXECUTIVE



DIRECTOR

## DESCON ENGINEERING LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2008

	Share Capital Rupees	Investment Revaluation Reserve Rupees	Translation Reserve Rupees	Unappropriated Profit Rupees	Total Rupees
<b>Balance as at June 30, 2006 as previously reported</b>	350,000,000	(2,185,000)	-	1,992,738,018	2,340,553,018
Change in accounting policy with respect to proposed dividend	-	-	-	122,500,000	122,500,000
<b>Balance as at June 30, 2006 as restated</b>	350,000,000	(2,185,000)	-	2,115,238,018	2,463,053,018
Profit for the year after taxation as restated	-	-	-	660,608,437	660,608,437
Final dividend for the year 2006 paid	-	-	-	(122,500,000)	(122,500,000)
Exchange differences on translating foreign operations	-	-	2,859,535	-	2,859,535
Restatement of staff terminal benefits in foreign operations	-	-	-	(12,076,166)	(12,076,166)
Disposal of investments - available for sale	-	2,185,000	-	-	2,185,000
<b>Balance as at June 30, 2007 as restated</b>	350,000,000	-	2,859,535	2,641,270,289	2,994,129,824
<b>Balance as at June 30, 2007 as previously reported</b>	350,000,000	-	-	2,514,731,520	2,864,731,520
Change in accounting policy with respect to proposed dividend	-	-	-	140,000,000	140,000,000
Change in accounting policy with respect to adoption of IAS - 19 (Employee Benefits)	-	-	-	(1,385,066)	(1,385,066)
Exchange differences on translating foreign operations	-	-	2,859,535	-	2,859,535
Restatement of staff terminal benefits in foreign operations	-	-	-	(12,076,165)	(12,076,165)
<b>Balance as at June 30, 2007 as restated</b>	350,000,000	-	2,859,535	2,641,270,289	2,994,129,824
Profit for the year after taxation	-	-	-	859,511,630	859,511,630
Exchange differences on translating foreign operations	-	-	144,243,019	-	144,243,019
Final dividend for the year 2007 paid	-	-	-	(140,000,000)	(140,000,000)
<b>Balance as at June 30, 2008</b>	350,000,000	-	147,102,554	3,360,781,919	3,857,884,473



**Srinivasan**  
CHIEF EXECUTIVE



DIRECTOR



# DESCON ENGINEERING LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

Note 1

### **The Company and its Operations**

Descon Engineering Limited was incorporated as a private limited company in Pakistan on December 15, 1979 and subsequently converted into unquoted public company on November 29, 1997. The Company is principally engaged in construction / development of infrastructure projects and plants and engineering, procurement and construction projects. The registered office of the Company is situated at 18 km Ferozpur Road, Lahore.

Note 2

### **Basis of Preparation**

#### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan, except for compliance with IAS-12 (Income Taxes). Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

#### **2.2 New accounting standards and IFRIC interpretations that are not yet effective**

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan shall be effective from the dates mentioned against the respective standards and interpretations.

<b>Standards or interpretation</b>	<b>Effective date (accounting period beginning on or after)</b>
IAS 1 - Presentation of Financial Statements	January 01, 2009
IAS 23 - Borrowing Costs	January 01, 2009
IAS 27 - Consolidated and Separate Financial Statements	January 01, 2009
IAS 29 - Financial Reporting in Hyperinflationary Economies	July 01, 2008
IAS 32 - Financial Instruments: Presentation	January 01, 2009
IFRS 2 - Share-Based Payments	January 01, 2009
IFRS 3 - Business Combinations	January 01, 2009
IFRS 7 - Financial Instruments: Disclosures	July 01, 2008
IFRIC 12 - Service Concession Arrangements	January 01, 2008
IFRIC 13 - Customer Loyalty Programmes	July 01, 2008
IFRIC 14 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2008
IFRIC 15 - Agreement for the Construction of Real Estate	October 01, 2009
IFRIC 16 - Hedge of Net Investment in a Foreign Operation	October 01, 2008

Note 2, Basis of Preparation - Continued...

**New accounting standards and IFRIC interpretations  
that are not yet effective - Continued...**

The Company expects that the adoption of above standards and interpretations will have no material impact on the Company's financial statements in the period of initial application.

**2.3 Basis of measurement**

These accounts have been prepared under the historical cost convention without any adjustment for the effect of inflation or current values.

**2.4 Reporting currency**

These financial statements are prepared and presented in Pak Rupees which is the Company's functional and presentation currency.

**2.5 Use of estimates and judgments**

The preparation of financial statements in conformity with IASs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and related assumptions are reviewed on an ongoing basis. Accounting estimates are revised in the period in which such revisions are made.

Significant management estimates in these financial statements relate to the stage of completion of contracts, useful life of property, plant and equipment, slow moving inventory items, doubtful debts and taxation. However, the management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in the financial statements.

Note 3

**Summary of Significant Accounting Policies**

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

**3.1 Staff retirement benefits**

***Defined contribution plan***

The Company operates an approved provident fund for all eligible employees. The Company and employees make equal monthly contributions to the fund at the rate of 10% of basic salary.

## Note 3, Summary of Significant Accounting Policies - Continued...

**Staff retirement benefits - Continued....****Defined benefits plan**

The Company also operates an un-funded gratuity scheme for all its permanent employees. Under this scheme, gratuity is paid to retiring employees on the basis of their last drawn gross salary for each completed year of service, calculated from the start of service subject to the completion of qualifying period.

During the year, the Company has changed its accounting policy on adopting IAS-19 (Employee Benefits) and now the liability in respect of local operations is provided using the actuarial valuation as required under IAS - 19 (Employee Benefits). The change in policy has been applied retrospectively and corresponding figures have been restated to conform to the changed policy. The policy for recognition of actuarial gain / loss is based on minimum 10% corridor approach mentioned under the IAS. Had there been no change in accounting policy, profit before taxation for the previous year and opening retained earnings for the current year would have increased by Rs. 1.385 million.

As per the latest actuarial valuation carried out as at June 30, 2008, the following significant assumptions have been used for calculation of this plan.

	<b>2008</b>	<b>2007</b>
Discount rate	12%	10%
Expected rate of salary increase in future years	10%	8%
Average expected remaining working life time of employees	14 years	14 years
Actuarial valuation method	Projected Unit Credit Method	

**3.2 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 economic benefits will be required to settle the obligation of which a reliable estimate can be made.

**3.3 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 future for goods and services received, whether or not billed to the Company.

**3.4 Taxation**

The provision for current taxation is based on current year profits by using the current rates of tax after taking into account tax rebates and exemptions, if any.

*Note 3, Summary of Significant Accounting Policies - Continued...***3.5 Property, plant and equipment*****Owned assets***

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses except freehold land which is stated at cost. Cost of property, plant and equipment consists of historical cost, borrowing cost pertaining to the construction and erection period and directly attributable cost of bringing assets to working condition.

Depreciation is charged to income on straight line method at the rates specified in Note 13.1.3, applied on monthly basis. Full month's depreciation is charged on additions during the month, whereas no depreciation is charged on assets disposed off during the month. Where an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount over its estimated useful life.

Maintenance and normal repairs are charged to income as and when incurred. Gains or losses on disposal of property, plant and equipment are included in the current year income.

***Leased assets***

The Company accounts for assets acquired under finance lease by recording assets and their related liabilities. The principal values are determined on the basis of discounted values of the total minimum lease payments to be paid by the Company. Finance costs are allocated to the accounting period in a manner so as to provide a constant periodic rate of charge on outstanding liabilities. Depreciation is charged on the same basis as owned assets at the rates specified in Note 13.1.3 to write off the cost of assets over their estimated useful life.

***Capital work-in-progress***

Capital work-in-progress is stated at cost less any identified impairment loss.

**3.6 Investment property**

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The Company values its investment property, comprising plots acquired for capital appreciation purposes, using the cost model.

**3.7 Impairment**

Carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment loss is recognized in the profit and loss account.

Note 3, Summary of Significant Accounting Policies - Continued...

### 3.8 Investments

The management determines the appropriate classification of its investments in accordance with the requirements of International Accounting Standard 27 (Consolidated and Separate Financial Statements), International Accounting Standard 28 (Investments in Associates) and International Accounting Standards 39 (Financial Instruments : Recognition and measurement) at the time of purchase and re-evaluates this classification on a regular basis. Investments are categorized as follows:

#### ***Investment in subsidiaries and associates***

The Company considers its subsidiary company to be such enterprise in which the Company has control and/or ownership of more than half or 50% of the voting power. The Company considers its associates to be such enterprise in which the Company has ownership of not less than twenty percent but not more than fifty percent of the voting power and/or has significant influence through shared directorship but not control. Investments in subsidiaries and associates are accounted for on cost less impairment loss, if any.

#### ***Other investments***

Investments are initially recognized at cost, comprising the consideration paid and cost of transaction except in the case of investments at fair value through profit and loss where transaction costs are charged to profit and loss account when incurred. For listed securities, closing quotations of stock exchanges on last working day of the accounting year are considered for determining the fair value, while for unquoted securities, cost is usually considered as fair value of securities.

Subsequent to initial recognition, investments at fair value through profit and loss and available for sale are carried at fair value. Realized gains and losses are included in the profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in fair value of investments at fair value through profit and loss are included in the profit and loss account in the period in which they arise. Surplus / deficit arising from changes in the fair value of available for sale investments is taken to equity. Interest earned whilst holding investments is reported as interest income using the effective yield method.

#### ***At fair value through profit and loss***

These are securities which are acquired for the purpose of generating profit from short-term fluctuations in market price or dealer's margin, securities in a portfolio in which a pattern of short term profit taking exists or derivatives other than those held as hedging instruments.

*Note 3, Summary of Significant Accounting Policies - Continued...***Investments - Continued....***Held to maturity*

Held to Maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

*Available for sale*

These are investments that do not fall under investments at fair value through profit and loss or held to maturity categories.

**3.9 Construction Contracts**

Construction project costs (due from clients) are costs of work completed but not billed to clients, awaiting approval and expected to be collected in accordance with the contract. Construction project costs include all direct costs such as materials, supplies, equipment depreciation and labour as well as indirect costs such as indirect labour and maintenance. Construction project costs also include general and administrative expenses directly related to these projects. Provisions for estimated losses on incomplete contracts are made in the period in which such losses are determined.

The excess of construction project costs and estimated profits over billings is recognized as "Due from Clients" under current assets in the balance sheet. Billing in excess of cost of estimated earnings on incomplete contracts is recognized as "Due to Clients" under current liabilities.

**3.10 Materials, stores and tools**

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

Construction material and store	-	at moving average cost
Consumable tools and spares	-	at moving average cost

Net realizable value signifies the estimated selling price in the ordinary course of business less necessary cost to make the sale.

**3.11 Trade debts**

Progress billings not yet paid by the customer are included in the balance sheet under "Trade Debts". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Advances from Clients". All outstanding debts are reviewed at the year end. Bad debts, if any, are written off as incurred and provision is made against debts considered doubtful when the collection of the full amount is no longer probable.

*Note 3, Summary of Significant Accounting Policies - Continued...***3.12 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents include cash in hand, cheques in hand and short term deposits with banks.

**3.13 Mark-up, interest and other charges**

Mark-up, interest and other charges on loans and advances are capitalized upto the date of commissioning of the respective asset, acquired out of the proceeds of such loans and advances. All other mark-up, interest and other charges are charged to income currently.

**3.14 Foreign currency transactions**

Transactions in foreign currencies are translated into Pakistani Rupees by applying the foreign exchange rate ruling on the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Pakistani Rupees at the exchange rate prevailing at that date. Foreign currency differences arising on translation are recognized in the profit or loss.

**3.15 Foreign operations**

Assets and liabilities of foreign operations are translated into Pakistani rupees at exchange rates ruling at the reporting date. Income and expenses of foreign operations are translated to Pakistani Rupees at exchange rates prevailing at the transaction date. Foreign currency differences are recognized directly in equity.

**3.16 Related parties transactions**

Transactions in relation to services acquired and provided with related parties are made at arm's length prices determined in accordance with the Comparable Uncontrolled Price Method except for the allocation of common expenses such as utilities, rental and overheads relating to the corporate office shared with related parties, which are on actual basis.

**3.17 Financial instruments**

Financial instruments are recognized when the Company becomes a party to the contract and ceases to recognize when it loses control of contractual rights, in case of financial assets, and in case of financial liability when the liability is extinguished. Any gain or loss on subsequent remeasurement / derecognizing is charged to income.

A financial asset and financial liability is offset 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.

## Note 3, Summary of Significant Accounting Policies - Continued...

**3.18 Revenue*****Construction contracts***

As soon as the outcome of the construction contract is estimated reliably, contract revenues and expenses are recognized in the profit or loss account in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in the contract work, claims and incentive payments to the extent that is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to the percentage of contract costs incurred to date to estimated total costs for the contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that is likely to be recoverable. An expected loss on contract is recognized immediately in the profit and loss account.

***Others***

Dividend on equity investments is recognized when right to receive the dividend is established.

Interest income and profit on short term bank deposits is accounted for on time-apportioned basis on the principal outstanding by using the rate applicable.

Other income is accounted for on accrual basis.

**3.19 Dividends**

Previously dividends were recognized as appropriation from profits during the year, subsequent to their declaration after the balance date. However, consequent to changes in the 5th Schedule to the Companies Ordinance, 1984 the Company has changed its policy and now dividends are treated as appropriation during the period in which these are declared. The change in policy has been made with retrospective effect.

## Note 4

**Issued, Subscribed and Paid Up Capital**

			<b>2008</b>	<b>2007</b>
			Rupees	Rupees
<b>2008</b>	<b>2007</b>			
26,248,750	26,248,750	Ordinary shares of Rs.10 each fully paid in cash	262,487,500	262,487,500
8,751,250	8,751,250	Ordinary share of Rs.10 each issued as bonus shares	87,512,500	87,512,500
<u>35,000,000</u>	<u>35,000,000</u>		<u>350,000,000</u>	<u>350,000,000</u>



## Note 5

**Long Term Financing**

	Note	2008 Rupees	2007 Rupees
<b>Banking companies - Secured</b>			
Syndicate term finance	5.1	1,700,000,000	1,700,000,000
Less: Current portion		(212,500,000)	-
		<u>1,487,500,000</u>	<u>1,700,000,000</u>
Term finances:			
- Local operations	5.2	286,994,992	400,022,231
- Foreign operations	5.3	656,796,843	257,811,132
Less: Current portion		(282,646,759)	(106,133,328)
		<u>661,145,076</u>	<u>551,700,035</u>
		<u>2,148,645,076</u>	<u>2,251,700,035</u>
<b>Loan from related parties - Unsecured</b>			
	5.4	6,245,333	6,245,333
		<u>2,154,890,409</u>	<u>2,257,945,368</u>

- 5.1** This long term financing represents syndicate term finance facility of Rs. 1.850 billion (2007: Rs. 1.850 billion) plus a green-shoe of up to Rs. 150 million, obtained by the Company from consortium of MCB Bank Limited (lead arranges), Allied Bank Limited, ABN-Amro Bank N.V. and Metropolitan Bank Limited to purchase shares of Altern Energy Limited. The loan is repayable in six years with first principal installment payable after thirtieth month from first drawdown. The loan carries mark up at average rate "ask side" of six months KIBOR plus 2.5% (2007: six months KIBOR plus 2.5%) payable biannually. The loan is secured by first ranking, parri pasu charge on movable fixed assets, capital work in progress, all current assets of the Company, pledge on shares of Altern Energy Limited and personal guarantee of directors of the Company.
- 5.2** These finances have been obtained from various banking companies to finance capital expenditure. These loans are repayable in monthly/semi-annual installments which carry mark up at the rates ranging from six months KIBOR plus 2.5% to three months KIBOR plus 2.25% per annum. These loans are secured by ranking pari passu charge against fixed assets of the Company.
- 5.3** These long term finances have been obtained from various banking companies for operations in United Arab Emirates (UAE). The loans are repayable in monthly installments which carry mark up of three months EIBOR plus 1.5% to 3% per annum. These loans are secured by irrevocable corporate guarantees of the Company and irrevocable assignment of projects proceeds of projects financed by banking companies.
- 5.4** This represents interest free loan obtained from director. The terms of repayment have not yet been decided and, therefore, no current portion has been worked out.

## Note 6

**Liabilities against Assets Subject To Finance Lease**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
<b>The amounts of future lease rentals are payable during:</b>		
- 2007-2008		822,746,219
- 2008-2009	470,861,753	331,531,605
- 2009-2010	428,050,896	39,803,571
- 2010-2011	400,908,201	18,083,472
- 2011-2012	251,933,745	10,548,692
- 2012-2013	19,309,089	
	<u>1,571,063,684</u>	<u>1,222,713,560</u>
Add: Security deposits	95,367,202	209,025,118
Gross minimum lease payments	<u>1,666,430,886</u>	<u>1,431,738,678</u>
Less: Financial charges not currently due	(345,440,423)	(140,944,885)
Present value of minimum lease payments	<u>1,320,990,463</u>	<u>1,290,793,793</u>
Current maturity shown under current liabilities	<u>(321,936,804)</u>	<u>(715,533,945)</u>
	<u>999,053,659</u>	<u>575,259,848</u>

Reconciliation between total of minimum lease payments and their present value is as under:

**Gross minimum lease payments:**

- Due not later than one year	470,861,753	882,272,251
- Due later than one year but not later than five years	<u>1,195,569,133</u>	<u>549,466,428</u>
	<u>1,666,430,886</u>	<u>1,431,738,679</u>

**Present value of minimum lease payments:**

- Due not later than one year	321,936,804	715,533,945
- Due later than one year but not later than five years	<u>999,053,659</u>	<u>575,259,848</u>
	<u>1,320,990,463</u>	<u>1,290,793,793</u>

This represents finance lease arrangements for electrical and mechanical equipment and vehicles leased from various leasing companies. Monthly lease rentals include financial charges of 11.96% to 14.30% per annum which are used as discounting factors. Taxes, repairs, replacements and insurance costs are borne by the Company. These leases are secured against partial cash deposits and title of leased assets.

Note 7

**Deferred Liability**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
<b>Staff retirement benefits</b>			
Gratuity (2007: Restated, refer to Note 3.1)	7.1	<u>37,937,000</u>	<u>29,850,000</u>
<b>7.1 Movement in net liability recognised in the balance sheet</b>			
Opening balance		29,850,000	19,278,000
Charge for the year		13,873,000	55,625,000
Benefits paid to outgoing employees		<u>(5,786,000)</u>	<u>(45,053,000)</u>
Closing balance		<u>37,937,000</u>	<u>29,850,000</u>
<b>7.1.1 Movement in present value of defined benefit obligation</b>			
Opening balance		42,824,000	57,791,000
Current service cost		9,070,000	7,865,000
Interest cost		4,613,000	6,108,000
Benefits paid to outgoing employees		<u>(5,786,000)</u>	<u>(45,053,000)</u>
Actuarial (gain) / loss		9,701,000	16,113,000
Closing balance		<u>60,422,000</u>	<u>42,824,000</u>
<b>7.1.2 Charge for the year</b>			
Current service cost		9,070,000	7,865,000
Interest cost		4,613,000	6,108,000
Transitional liability recognized		-	41,652,000
Amortization of actuarial loss		190,000	-
Charge for the year		<u>13,873,000</u>	<u>55,625,000</u>

Note 8

**Long Term Advances**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
Mobilization advance - Secured	3,000,779,332	2,154,335,495
Less: Current portion	<u>(1,934,581,922)</u>	<u>(1,053,961,984)</u>
	<u>1,066,197,410</u>	<u>1,100,373,511</u>

- 8.1** This represents Company's share in mobilization advance obtained from clients against various projects that shall be adjusted through percentage deduction from future interim payments. These advances are secured against guarantees issued by banks.

## Note 9

**Trade and Other Payables**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
Creditors:			
- Secured		172,571,489	158,079,251
- Unsecured		<u>2,880,390,169</u>	<u>1,782,203,292</u>
		3,052,961,658	1,940,282,543
Accrued expenses and other liabilities		1,572,702,679	790,198,347
Advances from clients	9.1	3,424,023,113	1,353,251,014
Due to associated undertakings		-	78,043,644
Retention money of suppliers		82,431,815	92,877,076
Provident fund payable		<u>5,237,435</u>	<u>8,927,732</u>
		<u><u>8,137,356,700</u></u>	<u><u>4,263,580,356</u></u>

**9.1 Advances from clients**

Due to clients		1,073,274,610	84,389,197
Secured advances	9.1.1	416,166,581	214,899,833
Current portion of mobilization advance	8	<u>1,934,581,922</u>	<u>1,053,961,984</u>
		<u><u>3,424,023,113</u></u>	<u><u>1,353,251,014</u></u>

**9.1.1** This represents revolving funds obtained from various clients in advance. These funds are secured against construction materials and supplies and shall be adjusted against project billing according to terms and conditions specified in respective contracts.

## Note 10

**Short Term Borrowings**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
<b>Banking Companies / Financial Institutions</b>			
Borrowings / running finances / FATRs - Secured			
- Local operations	10.1	4,713,373,829	4,117,337,070
- Foreign operations	10.2	<u>1,226,764,823</u>	<u>535,504,116</u>
		<u><u>5,940,138,652</u></u>	<u><u>4,652,841,186</u></u>

**10.1** Running finances / borrowings / FATRs have been arranged from various commercial and investment banks with aggregate facilities of Rs. 10,243 million (2007: 8,002 million) with expiry on various dates latest by June 30, 2009. These arrangements are secured by way of equitable mortgage and pari passu charge or a subsequent charge on the Company's present and future movable and immovable properties and assets. The effective rate of markup ranges from 10.75% to 14% (2007: 10.55% to 14%) per annum on these finances, payable quarterly or as per terms and conditions of borrowings.

**10.2** These borrowings have been obtained from various banking companies for operations in United Arab Emirates (UAE) with aggregate facilities of Rs. 1,393 million (2007: Rs. 540 million) with expiry on various dates. These arrangements are secured by way of irrevocable corporate guarantees of Descon Engineering Limited and irrevocable assignment of proceeds of projects financed by banking companies. The effective rate of markup ranges from one month EIBOR plus 1.2% to 2% per annum payable as per terms and conditions of borrowings.

## Note 11

**Current Portion of Long Term Borrowings**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
Long term financing	495,146,759	106,133,328
Liabilities against assets subject to finance lease	321,936,804	715,533,945
	<u>817,083,563</u>	<u>821,667,273</u>

## Note 12

**Contingencies and Commitments****Contingencies**

- 12.1** Income tax assessments of various assessment / tax years are pending adjudication before appellate forums. No provision / adjustment has been made in these accounts since in the opinion of the management, the cases shall be decided in the Company's favor.
- 12.2** Guarantees given by the banks on behalf of the Company outstanding as at the balance sheet date approximate to Rs. 11,545 million (2007: Rs. 2,066 million.)
- 12.3** Corporate guarantees given by the Company to foreign banks in respect of foreign operations in United Arab Emirates (UAE) outstanding as at the balance sheet date approximate to Rs. 500 million (2007: Rs. 325 million)

**Commitments**

- 12.4** Commitments in respect to various projects under progress amount to Rs. 17,576 million (2007: Rs. 10,191 million).
- 12.5** Commitments in respect of letters of credit amount to Rs. 1,807 million (2007: Rs. 696.880 million) as at the balance sheet date.

Note 13  
Property, Plant and Equipment

	Note	2008 Rupees	2007 Rupees
Operating fixed assets	13.1	2,957,341,432	2,826,392,493
Capital work in progress	13.2	486,934,003	156,475,001
		<u>3,444,275,435</u>	<u>2,982,867,494</u>
<b>13.1 Operating fixed assets</b>			
Owned assets	13.1.1	2,058,088,321	1,416,327,247
Leased assets	13.1.2	899,253,111	1,410,065,246
		<u>2,957,341,432</u>	<u>2,826,392,493</u>

	Land Freehold Rupees	Buildings on Freehold Land Rupees	Plant & Machinery, Electrical and Mechanical Equipment Rupees	Electric Installations and Water Supply Rupees	Furniture and Fixtures Rupees	Office Equipment Rupees	Refrigerators and Air Conditioners Rupees	Vehicles Rupees	Total Rupees
<b>13.1.1 Owned assets</b>									
<b>Cost</b>									
Balance as at July 01, 2007	143,916,974	160,339,757	1,704,305,455	6,742,096	46,116,551	64,604,387	46,803,500	149,238,321	2,322,067,042
Additions / (Deletion)	17,500,000	264,498,002	548,683,840 (202,394,220)	1,817,813 (149,697)	44,932,599 (1,701,484)	17,055,623 (1,745,467)	19,743,728 (1,886,710)	49,996,265 (14,308,597)	964,227,870 (222,186,174)
Transfers	-	-	291,557,270	-	58,618,257	-	-	-	350,175,527
Adjustments	-	28,714,021	42,594,097	-	(8,760,663)	1,301,709	5,271,560	21,730,015	90,850,739
Balance as at June 30, 2008	<u>161,416,974</u>	<u>453,551,780</u>	<u>2,384,746,442</u>	<u>8,410,212</u>	<u>139,205,260</u>	<u>81,216,253</u>	<u>69,932,078</u>	<u>206,656,004</u>	<u>3,505,135,004</u>
<b>Accumulated Depreciation</b>									
Balance as at July 01, 2007	-	49,946,228	712,830,548	3,648,053	23,691,205	24,988,290	23,461,882	67,173,591	905,739,796
For the year	-	22,544,280	368,753,277	746,846	10,144,043	7,330,112	12,054,079	31,730,957	453,303,594
Adjustment or deletion	-	-	(106,724,864)	(149,591)	(1,476,729)	(1,419,836)	(1,771,027)	(9,997,751) (852,112)	(121,539,798) (852,112)
Transfers	-	-	168,443,618	-	24,965,920	-	-	-	193,409,538
Adjustments	-	1,781,062	4,546,659	-	(5,375,147)	418,058	2,741,904	12,873,129	16,985,665
Balance as at June 30, 2008	<u>-</u>	<u>74,271,570</u>	<u>1,147,849,238</u>	<u>4,245,308</u>	<u>51,949,293</u>	<u>31,316,624</u>	<u>36,486,838</u>	<u>100,927,814</u>	<u>1,447,046,683</u>
<b>Written Down Value as at June 30, 2008</b>	<u>161,416,974</u>	<u>379,280,210</u>	<u>1,236,897,204</u>	<u>4,164,904</u>	<u>87,255,968</u>	<u>49,899,629</u>	<u>33,445,240</u>	<u>105,728,190</u>	<u>2,058,088,321</u>
<b>13.1.2 Leased assets</b>									
<b>Cost</b>									
Balance as at July 01, 2007	-	-	2,012,206,842	-	-	-	-	140,622,919	2,152,829,761
Addition / (Deletion)	-	-	1,828,000	-	-	-	-	-	1,828,000
Transfers	-	-	(291,557,270)	-	-	-	-	(58,618,257)	(350,175,527)
Adjustments	-	-	16,652,172	-	-	-	-	(6,557,000)	10,095,172
Balance as at June 30, 2008	<u>-</u>	<u>-</u>	<u>1,739,129,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,447,662</u>	<u>1,814,577,406</u>
<b>Accumulated Depreciation</b>									
Balance as at July 01, 2007	-	-	699,319,383	-	-	-	-	43,445,131	742,764,513
For the year	-	-	338,725,781	-	-	-	-	23,361,366	362,087,147
Adjustment or deletion	-	-	-	-	-	-	-	-	-
Transfers	-	-	(168,443,618)	-	-	-	-	(24,965,920)	(193,409,538)
Adjustments	-	-	9,061,072	-	-	-	-	(5,178,899)	3,882,173
Balance as at June 30, 2008	<u>-</u>	<u>-</u>	<u>878,662,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,661,678</u>	<u>915,324,295</u>
<b>Written Down Value as at June 30, 2008</b>	<u>-</u>	<u>-</u>	<u>860,467,126</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,785,984</u>	<u>899,253,111</u>
<b>Total Written Down Value as at June 30, 2008</b>	<u>161,416,974</u>	<u>379,280,210</u>	<u>2,097,364,330</u>	<u>4,164,904</u>	<u>87,255,968</u>	<u>49,899,629</u>	<u>33,445,240</u>	<u>144,514,174</u>	<u>2,957,341,432</u>
<b>Total Written Down Value as at June 30, 2007</b>	<u>143,916,974</u>	<u>110,393,526</u>	<u>2,373,080,593</u>	<u>1,602,424</u>	<u>12,278,587</u>	<u>39,922,290</u>	<u>27,846,565</u>	<u>117,351,534</u>	<u>2,826,392,493</u>
<b>13.1.3 Depreciation rates</b>									
Depreciation rates	-	5%	10% to 20%	12.5%	12.5%	12.5%	12.5%	20%	

## Note 13, Property, Plant and Equipment - Continued...

**13.1.4** The adjustments in the cost and accumulated depreciation include translation differences which arise from the Company's fixed assets held in foreign currencies translated at the closing rates of exchange and their values at the beginning of the year.

**13.1.5** Depreciation charged has been apportioned as under:

	Note	<u>2008</u>	<u>2007</u>
		Rupees	Rupees
Cost of revenue	25	729,553,706	569,355,083
Administrative expenses	26	85,837,035	38,452,841
		<u>815,390,741</u>	<u>607,807,924</u>

**13.2 Capital work in progress**

Assets under construction	13.2.1	<u>486,934,003</u>	<u>156,475,001</u>
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**13.2.1** Assets under construction include pre-fabricated buildings, machinery and equipment under installation.

## Note 14

**Investment Property**

	Note	<u>2008</u>	<u>2007</u>
		Rupees	Rupees
Investment property	14.1	<u>187,500,000</u>	<u>187,500,000</u>

**14.1** This represents cost of open plots acquired for capital appreciation purposes. The fair value of investment property determined by an independent valuer approximates to its cost as at the balance sheet date.

## Note 15

**Long Term Investments**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
<b>Investments in related parties</b>		
<b><i>Subsidiary - quoted</i></b>		
Altern Energy Limited 190,567,063 (2007: 190,567,063) fully paid ordinary shares of Rs. 10 each, equity held 55.63% (2007: 55.63%) Market value - Rs. 3,792 million (2007: Rs. 3,335 million)	1,989,180,014	1,981,426,455
<b><i>Associated companies - unquoted</i></b>		
ODICO Saudi Riyal 980,000 (2007: 980,000) equity held 49% (2007: 49%)	2,239,250	2,239,250
ODECO Saudi Riyal 3,087,000 (2007: 3,087,000) equity held 49% (2007: 49%)	34,330,580	34,330,580
Tawoos Descon Engineering Company Omani Riyal 73,500 (2007: 73,500) equity held 49% (2007: 49%)	9,290,848	9,290,848
Descon Engineering Qatar, LLC Qatari Riyal 490,000 (2007: 490,000) equity held 49% (2007: 49%)	7,840,000	7,840,000
JGC Descon Engineering (Pvt.) Limited 5,390,000 (2007: Nil) fully paid ordinary shares of Rs.10. each, equity held 49% (2007: Nil)	53,900,000	-
Presson Descon International (Pvt.) Limited 8,328,984 (2007: 825,370) fully paid ordinary shares of Rs.10. each, equity held 50% (2007: 46.5%)	99,621,507	8,253,727
Descon Oxychem Limited 7,441,000 (2007: Nil) fully paid ordinary shares of Rs.10. each, equity held 7% (2007: Nil)	74,410,000	-
	<u>2,270,812,199</u>	<u>2,043,380,860</u>

**15.1** The investments in subsidiary and associated companies are stated at cost.



## Note 16

**Long Term Loans and Advances**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
<b>Considered good</b>			
Loan to subsidiary	16.1	306,154,500	306,154,500
Loans to employees	16.2	43,144,564	-
Less: Current portion		(6,629,822)	-
		36,514,742	-
		<u>342,669,242</u>	<u>306,154,500</u>

**16.1** This represents unsecured long term loan given to Altern Energy Limited (subsidiary company) for acquisition of Rousch (Pakistan) Power Limited. The loan carries mark up at six months KIBOR (ask side) plus 3% per annum (2007: six months KIBOR (ask side) plus 3% per annum) receivable on monthly basis. The repayment of loan shall be made by the subsidiary on improvement of its liquidity position. The loan amount includes Rs. 69.455 million as interest free loan as per the terms of acquisition arrangement.

**16.2** This represents interest free as well as interest bearing loans given to employees for purchase of motor vehicles and construction of houses as per the Company policy. These loans shall be recovered in monthly installments. Interest bearing loans carry interest at 6% per annum, recovered alongwith monthly installments. These loans are secured against provident fund balances.

## Note 17

**Long Term Deposits and Prepayments**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
Margin against guarantees	17.1	681,488,126	30,423,750
Deposits		84,875,901	281,703,670
Retention money deducted by clients		664,941,679	715,004,125
Prepayments		1,766,899	3,945,053
		<u>1,433,072,605</u>	<u>1,031,076,599</u>

**17.1** This represents long term margins held by foreign banks in respect of foreign operations in United Arab Emirates (UAE) as restricted deposits for the issuance of letters of guarantees and are, therefore, not available for day-to-day operations.

## Note 18

**Materials, Stores and Tools**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
Construction materials and stores	1,574,249,877	1,040,855,337
Consumable tools, spares and others	760,086,700	536,299,435
	<u>2,334,336,577</u>	<u>1,577,154,772</u>

## Note 19

**Trade Debts**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
Considered good - unsecured	19.1	8,436,047,132	5,499,920,159
Considered doubtful		<u>14,062,970</u>	<u>14,062,970</u>
		8,450,110,102	5,513,983,129
Less: Provision for doubtful trade debts	19.2	<u>(14,062,970)</u>	<u>(14,062,970)</u>
		<u><u>8,436,047,132</u></u>	<u><u>5,499,920,159</u></u>

**19.1** This includes Rs. 4,616 million (2007: Rs. 1,777 million) due from clients representing cost of completed work but not billed due to pending approvals and are expected to be collected in accordance with the contract terms.

**19.2 Provision for doubtful trade debts**

Opening provision	14,062,970	128,664,378
Add: Provision made during the year	<u>-</u>	<u>14,062,970</u>
	14,062,970	142,727,348
Less: Bad debts written off during the year	<u>-</u>	<u>(128,664,378)</u>
	<u><u>14,062,970</u></u>	<u><u>14,062,970</u></u>

## Note 20

**Loans and Advances**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
Advances (Unsecured - considered good) to:			
- Suppliers / Sub-contractors		1,027,393,885	717,359,311
- Employees		<u>82,601,405</u>	<u>51,240,505</u>
		1,109,995,290	768,599,816
Advance income tax		1,115,540,848	1,389,763,719
Loans to employees - considered good		6,629,822	7,147,277
Short term loan to associated undertaking	20.1	<u>10,000,000</u>	-
		<u><u>2,242,165,960</u></u>	<u><u>2,165,510,812</u></u>

**20.1** This represents unsecured short term loan given to Nimir Resins Limited for working capital requirements at markup of 14% per annum.

## Note 21

**Trade Deposits, Short Term Prepayments  
and Other Receivables**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
Security deposits	55,063,482	302,175,112
Margin against bank guarantees	150,466,575	467,014,256
Prepayments	338,185,492	84,653,697
Inter group current account	603,058,519	559,992,535
Dividend receivable	-	64,660,272
Interest income receivable	60,103,825	28,283,789
Receivable from JV partners	217,076,150	94,900,097
Sales tax refundable	446,539	14,619,892
Other receivables	208,429,053	67,092,726
	<u>1,632,829,635</u>	<u>1,683,392,375</u>

## Note 22

**Short Term Investments**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
<b>At fair value through profit and loss</b>			
MCB dynamic cash fund			
330,498 units (2007: Nil)	22.1	<u>35,183,460</u>	-

**22.1** The investment is measured at fair value in accordance with IAS-39 (Financial Instruments: Recognition and Measurement). The difference between cost and the fair value of investment has been transferred to the profit and loss account.

## Note 23

**Cash and Bank Balances**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
Cash in hand :			
- Head office		2,779,455	7,111,790
- Site offices		28,058,237	15,359,135
		<u>30,837,692</u>	<u>22,470,925</u>
Cash at bank in current accounts:			
- Head office		693,069,134	493,648,055
- Site offices		1,075,930,325	109,867,188
		<u>1,768,999,459</u>	<u>603,515,243</u>
Short term deposits	23.1	<u>96,449,820</u>	<u>26,994,899</u>
		<u>1,896,286,971</u>	<u>652,981,067</u>

**23.1** It carries interest at rates of 5 % to 8 % per annum.

Note 24  
**Revenue**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
Local operations	12,602,369,830	12,897,396,782
Foreign operations	12,468,507,757	4,383,654,843
	<u>25,070,877,587</u>	<u>17,281,051,625</u>

Note 25  
**Cost of Revenue**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
	Note	
Salaries, wages and benefits (2007 - Restated)	3,917,050,014	2,749,024,457
Sub-contracting	3,723,345,700	2,086,132,359
Materials, tools and stores consumed	8,032,199,308	5,265,202,405
Fuel for construction equipment	1,128,170,324	999,614,575
Rental of equipment and vehicles	1,365,475,347	898,263,430
Travelling and conveyance	594,839,167	417,008,767
Boarding and lodging	584,040,662	315,568,548
Repairs and maintenance	410,766,782	386,103,077
Insurance and license fee	96,687,816	76,566,334
Vehicles running cost	119,165,335	98,305,412
Utilities	26,339,946	37,676,132
Printing, stationery and supplies	36,468,181	26,905,354
Telephone and communication	35,770,648	25,076,209
Newspapers, advertisement and subscription	2,562,634	3,185,138
Consulting, tender, legal and professional fees	590,410,282	150,075,046
Staff recruitment and manpower development	24,111,468	6,620,057
Workshop facilities and laboratory tests	170,883,639	71,406,339
Cartage and transportation	293,517,272	241,459,333
Public relations	13,698,074	13,236,772
Rent, rates and taxes	57,321,322	48,976,120
Warranty provisions	11,462,512	7,479,326
Other expenses	54,340,724	889,224
Depreciation	13.1.5 729,553,706	569,355,083
	<u>22,018,180,863</u>	<u>14,494,129,496</u>

## Note 26

**Administrative Expenses**

		<b>2008</b>	<b>2007</b>
	Note	Rupees	Rupees
Salaries, wages and benefits		662,565,023	556,340,662
Materials, tools and stores consumed		23,343,696	44,822,246
Repairs and maintenance		64,348,978	41,189,585
Insurance and license fee		11,507,102	9,306,710
Vehicles running cost		17,404,157	16,780,136
Utilities		20,398,197	15,102,261
Travelling and conveyance		129,682,106	67,391,740
Printing, stationery and office supplies		28,489,309	18,728,826
Telephone, postage and stamps		24,360,677	14,337,222
Newspapers and subscriptions		8,017,217	5,800,685
Advertisement		6,462,554	-
Staff recruitment and manpower development		15,455,015	12,338,432
Public relations and entertainment		14,291,289	3,412,661
Tender and legal expenses		23,696,948	17,093,658
Cartage and transportation		6,662,528	10,638,461
Computer services		13,821,978	20,135,170
Rent, rates and taxes		52,682,435	59,042,228
Rental of vehicles and equipment		12,019,927	5,952,551
Other expenses		26,456,027	1,517,731
Donations		1,718,376	2,227,470
Zakat		61,215	-
Depreciation	13.1.5	85,837,035	38,452,841
		<u>1,249,281,789</u>	<u>960,611,276</u>

## Note 27

**Finance Cost**

		<b>2008</b>	<b>2007</b>
		Rupees	Rupees
Mark up on financing and borrowings		840,375,424	632,684,423
Financial charges on leased assets		209,643,826	135,985,241
Bank guarantees charges		77,442,534	37,603,315
Bank charges		177,027,786	106,518,547
		<u>1,304,489,570</u>	<u>912,791,525</u>

## Note 28

**Other Operating Expenses**

		<b>2008</b>	<b>2007</b>
		Rupees	Rupees
Auditors' remuneration - Local and foreign		4,454,499	4,923,146
Loss on sale of investments - available for sale		-	687,500
Exchange loss		-	4,630,936
Provision for doubtful trade debts		-	14,062,970
Balances written off		-	3,956,407
		<u>4,454,499</u>	<u>28,260,959</u>

## Note 29

**Other Operating Income**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
Foreign remittance on foreign investment	667,790,396	147,333,886
Dividend income	-	63,140,958
Exchange gain	21,667,989	-
Profit on bank deposits	12,600,579	22,903,226
Surplus on remeasurement of investment at fair value through profit and loss	179,230	-
Liabilities written back	7,274,916	-
Gain on disposal of property, plant and equipment	20,222,028	15,153,601
Income from sale of scrap	238,606,485	165,231,850
Interest income on loan to subsidiary and associated undertaking	31,809,832	24,244,185
	<u>1,000,151,455</u>	<u>438,007,706</u>

## Note 30

**Earnings Per Share - Basic**

		<b>2008</b>	<b>2007</b>
Profit after taxation for the year	Rupees	859,511,630	660,608,437
Outstanding weighted average ordinary shares	Number	35,000,000	35,000,000
Earnings per share - Basic	Rupees	<u>24.56</u>	<u>18.87</u>

**30.1 Diluted earnings per share**

There is no dilution effect on the basic earnings per share of the Company as the Company has no such commitment that would result in dilution of earnings of the Company.

## Note 31

**Cash Generated from Operations**

	<b>2008</b>	<b>2007</b>
	Rupees	Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,494,622,321	1,323,266,075
Adjustments for:		
- Depreciation	815,390,741	607,807,924
- Provision for gratuity	13,873,000	55,625,000
- (Gain) on disposal of property, plant and equipment	(20,222,028)	(15,153,601)
- Surplus on remeasurement of investment at fair value through profit and loss	(179,230)	-
- Provision for doubtful trade debts	-	14,062,970
- Balances written off	-	3,956,407
- Loss on sale of investment - available for sale	-	687,500
- Liabilities written back	(7,274,916)	-
- Exchange gain	(21,667,989)	-
- Dividend income	-	(63,140,958)
- Interest income	(44,410,411)	(47,147,411)
- Finance cost	1,304,489,570	826,432,291
	2,039,998,737	1,383,130,122
Operating profit before working capital changes	3,534,621,058	2,706,396,197
(Increase) / decrease in current assets:		
- Materials, stores and tools	(710,078,621)	413,112,954
- Trade debts	(2,850,294,037)	(2,099,112,357)
- Loans and advances	(350,878,020)	(146,888,403)
- Trade deposits, short term prepayments and other receivables	17,722,505	(346,751,069)
Increase / (decrease) in current liabilities:		
- Trade and other payables	3,000,431,322	(60,446,164)
	(893,096,851)	(2,240,085,039)
<b>Cash generated from operations</b>	<b>2,641,524,207</b>	<b>466,311,158</b>

Note 32

**Remuneration of Chief Executive and Directors**

	2008		2007	
	Chief Executive	Directors	Chief Executive	Directors
	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	6,565,203	15,595,866	3,894,682	12,980,166
House rent and utilities	4,268,275	8,620,517	2,284,593	6,725,086
Other perquisites and benefits	240,000	372,000	240,000	336,000
Provident fund contribution	656,523	510,603	381,001	235,307
Reimbursable expenses	30,000	80,400	30,000	37,200
	<u>11,760,001</u>	<u>25,179,386</u>	<u>6,830,276</u>	<u>20,313,759</u>
<b>Number of persons</b>	<u>1</u>	<u>4</u>	<u>1</u>	<u>6</u>

**32.1** The chief executive and directors are provided with free use of Company maintained vehicles.

**32.2** No meeting fee has been paid to the chief executive or directors of the Company.

Note 33

**Transactions with Related Parties**

Related parties comprise subsidiary, associated companies, related group companies, staff retirement funds, directors and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel under the terms of their employment, are as follows:

	2008	2007
	Rupees	Rupees
<b>Subsidiary</b>		
Interest on loan to subsidiary	28,209,370	30,844,647
<b>Associates and related parties</b>		
Services purchased	601,147,854	143,874,282
Services provided	664,647,361	119,044,020
Rent paid	18,543,350	70,299,191
Rent received	55,759,278	-
Managerial services provided	178,316,162	-
Short term loan to associated undertaking	10,000,000	-
Staff retirement fund:		
Company's contribution to employees' provident fund trust	19,764,021	18,607,439

These transactions were carried out in accordance with Company's policy

There were no transactions with key management personnel other than those undertaken as per terms of their employment.



Note 34

**Financial Instruments and Related Disclosures**

**34.1 Financial assets and liabilities**

Financial assets and liabilities of the Company are as follows:

	2008						Rupees
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Financial assets</b>							
Long term investments	-	-	-	-	2,270,812,199	2,270,812,199	2,270,812,199
Long term loans and advances	-	236,699,500	236,699,500	-	105,969,742	105,969,742	342,669,242
Long term deposits and prepayments	-	-	-	-	1,431,305,706	1,431,305,706	1,431,305,706
Trade debts	-	-	-	8,436,047,132	-	8,436,047,132	8,436,047,132
Loans and advances	-	-	-	89,231,227	-	89,231,227	89,231,227
Trade deposits, short term prepayments and other receivables	-	-	-	1,294,197,604	-	1,294,197,604	1,294,197,604
Short term investments	35,183,460	-	35,183,460	-	-	-	35,183,460
Cash and bank balances	96,449,820	-	96,449,820	1,799,837,151	-	1,799,837,151	1,896,286,971
	<u>131,633,280</u>	<u>236,699,500</u>	<u>368,332,780</u>	<u>11,619,313,113</u>	<u>3,808,087,647</u>	<u>15,427,400,760</u>	<u>15,795,733,540</u>
<b>Financial liabilities</b>							
Long term financing	495,146,759	2,148,645,076	2,643,791,835	-	6,245,333	6,245,333	2,650,037,168
Liabilities against assets subject to finance lease	321,936,804	999,053,659	1,320,990,463	-	-	-	1,320,990,463
Trade and other payables	-	-	-	4,713,333,588	-	4,713,333,588	4,713,333,588
Accrued markup / interest	-	-	-	184,008,643	-	184,008,643	184,008,643
Short term borrowings	5,940,138,652	-	5,940,138,652	-	-	-	5,940,138,652
	<u>6,757,222,215</u>	<u>3,147,698,735</u>	<u>9,904,920,950</u>	<u>4,897,342,231</u>	<u>6,245,333</u>	<u>4,903,587,564</u>	<u>14,808,508,514</u>
Sensitivity Gap	<u>(6,625,588,935)</u>	<u>(2,910,999,235)</u>	<u>(9,536,588,170)</u>	<u>6,721,970,882</u>	<u>3,801,842,314</u>	<u>10,523,813,196</u>	<u>987,225,026</u>
<b>Unrecognized Financial Instruments</b>							
Commitments							
- Letter of credits	-	-	-	1,807,428,062	-	1,807,428,062	1,807,428,062

	2007						Rupees
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Financial assets</b>							
Long term investment	-	-	-	-	2,043,380,860	2,043,380,860	2,043,380,860
Long term loans and advances	-	236,699,500	236,699,500	-	69,455,000	69,455,000	306,154,500
Long term deposits and prepayments	-	-	-	-	1,027,131,546	1,027,131,546	1,027,131,546
Trade debts	-	-	-	5,499,920,159	-	5,499,920,159	5,499,920,159
Loans and advances	-	-	-	58,387,782	-	58,387,782	58,387,782
Trade deposits, short term repayments and other receivables	-	-	-	1,584,118,786	-	1,584,118,786	1,584,118,786
Cash and bank balances	26,994,899	-	26,994,899	625,986,168	-	625,986,168	652,981,067
	<u>26,994,899</u>	<u>236,699,500</u>	<u>263,694,399</u>	<u>7,768,412,895</u>	<u>3,139,967,406</u>	<u>10,908,380,301</u>	<u>11,172,074,700</u>
<b>Financial liabilities</b>							
Long term financing	106,133,328	2,251,700,035	2,357,833,363	-	6,245,333	6,245,333	2,364,078,696
Liabilities against assets subject to finance lease	715,533,945	575,259,848	1,290,793,793	-	-	-	1,290,793,793
Trade and other payables	-	-	-	2,910,329,342	-	2,910,329,342	2,910,329,342
Accrued markup / interest	-	-	-	150,189,016	-	150,189,016	150,189,016
Short term borrowings	4,652,841,186	-	4,652,841,186	-	-	-	4,652,841,186
	<u>5,474,508,459</u>	<u>2,826,959,884</u>	<u>8,301,468,343</u>	<u>3,060,518,358</u>	<u>6,245,333</u>	<u>3,066,763,691</u>	<u>11,368,232,034</u>
Sensitivity Gap	<u>(5,447,513,560)</u>	<u>(2,590,260,384)</u>	<u>(8,037,773,944)</u>	<u>4,707,894,537</u>	<u>3,133,722,073</u>	<u>7,841,616,610</u>	<u>(196,157,334)</u>
<b>Unrecognized Financial Instruments</b>							
Commitments							
- Letter of credits	-	-	-	696,880,477	-	696,880,477	696,880,477

**34.2 Risk management policies**

**34.2.1 Interest / mark up rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk in respect of long term financing, liabilities against assets subject to finance lease, short-term borrowings, long term loans and advances, short term investments and short term deposits with banks. Effective interest rates for monetary financial assets and liabilities are mentioned in respective notes to the accounts.

**34.2.2 Concentration of credit risk and credit exposures of the financial statements**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs. 15,796 million (2007: Rs. 11,172 million) the financial assets which are subject to credit risk amount to Rs. 15,765 million (2007: Rs. 17,150 million). The Company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Company applies credit limits to its customers.

**34.2.3 Foreign exchange risk management**

Foreign currency risk arises mainly where receivables and payables exist due to sale and purchase transaction with foreign undertakings. The Company is exposed to foreign currency risk in respect of receivables and payables in foreign currency and it does not view hedging as being financially feasible owing to excessive costs involved in relation to the deposits at risk.

**34.2.4 Fair value of the financial instruments**

Carrying values of all the financial instruments reflected in the financial statements approximate to their fair values.

Note 35  
**Capital Risk Management**

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchase shares, if possible, selling surplus property, plant and equipment without affecting the optimal production and operating level, and regulate its dividend payout thus maintaining smooth capital management.

In line with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

As on the balance sheet date, the gearing ratio of the Company was as under:

	<u>2008</u> Rupees	<u>2007</u> Rupees
Total borrowings	9,911,166,283	8,307,713,676
Cash and bank balances	<u>(1,896,286,971)</u>	<u>(652,981,067)</u>
<b>Net Debt</b>	8,014,879,312	7,654,732,609
<b>Equity</b>	3,857,884,473	2,994,129,824
<b>Total Capital</b>	<u>11,872,763,785</u>	<u>10,648,862,433</u>
<b>Gearing Ratio</b>	<u>67.51%</u>	<u>71.88%</u>

Note 36  
**Authorization of Financial Statements**

These financial statements were authorized for issue on **07 OCT 2008** by the Board of Directors of the Company.

Note 37  
**General**

Figures have been rounded off to the nearest rupee; and Corresponding figures have been re-arranged, wherever necessary, to facilitate comparison. To comply with the amendments in the 5th schedule to the Companies Ordinance, 1984, during the year the figures of the corresponding year have been re-arranged, wherever necessary, to facilitate comparison. Following material re-arrangements / reclassifications have been made:

Previous classification	Amount Rupees	From	To
Advances from clients	1,268,861,817	Advances from clients	Trade and other payables
Capital work in progress	156,475,001	Capital work in progress	Property, plant and equipment
Long term loans and advances	342,423,930	Long term loans, advances, deposits and prepayments	Long term loans and advances
Long term deposits and prepayments	1,031,076,599	Long term loans, advances, deposits and prepayments	Long term deposits and prepayments
Contract work in progress	536,299,435	Contract work in progress	Materials, stores and tools
Trade debts	84,839,197	Trade debts	Trade and other payables
Loans and advances	2,129,241,382	Advances, deposits, prepayments and other receivables	Loans and advances
Advance income tax	1,389,763,719	Advances, deposits, prepayments and other receivables	Loans and advances



**Sudhakar**  
CHIEF EXECUTIVE



DIRECTOR