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COMPANY INFORMATION

BOARD OF DIRECTORS

Major General (R) Zaheer Ahmad Khan (Chairman)
Mr. M. Imtiaz-ur-Raheem (Chief Executive)
Mr. Niamat Ullah 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 & CO. SECRETARY

Mian Anwar Aziz

BANKERS

National Bank of Pakistan
United Bank Ltd.
Arif Habib Bank Ltd.

AUDITORS

Fazal Mahmood & Co.
Chartered Accountants

REGISTERED AND HEAD OFFICE

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

BRANCHES

Karachi
Islamabad

PLANT

Kot Lakhpat, Lahore.

WEB SITE

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



VISION STATEMENT

A sustainable growth oriented company and market leader in Steel Towers for Electricity Transmission and Telecommunication.

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 58th Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7- Davis Road, Lahore, on Thursday, November 15, 2007 at 10.30 A.M. to transact the following business:-

1. To confirm Minutes of 57th Annual General Meeting held on October 31, 2006.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2007 together with the Auditors' and Directors' reports thereon.
3. To approve dividend. The Directors have recommended final dividend of 65% i.e. Rs. 6.50 per share for the year ended June 30, 2007.
4. To appoint Auditors for the year ending June 30, 2008 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 2008.
5. To transact any other business with the permission of the chair.

BY ORDER OF THE BOARD

(Mian Anwar Aziz)
Company Secretary

Lahore: October 20, 2007

NOTES:

1. The Share Transfer Books of the company shall remain closed from November 8, 2007 to November 15, 2007 (both days inclusive) and no transfer will be registered during that time. Transfers received in order at the Corporate Affairs Department of the Company at 6/7 Ganga Ram Trust Building, Shakra-e-Quaid-e-Azam, Lahore, at the close of business on November 7, 2007 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 REVIEWS

Aslam-o-Alakum Wa Rehmatullah Wa Barkatauh

It is my pleasure to present the 58th Annual Audited Report, performance review and steps being taken to make it again a leading company of the country.

MARKETING AND SALES

It was committed in the previous year report that telecommunication steel towers business opportunity shall be exploited to reduce dependence on single but regular customer WAPDA where your company had been supplying Electricity Transmission and Distribution Steel Towers 11 KV, 132 KV, 220 KV & 500 KV. Telecommunication towers customers are highly quality conscious and demand on time delivery. The marketing efforts in this direction had been successful, and your company was able to get orders and make sales of Rs. 308 millions during the year under review, which includes 65 towers export to Afghanistan. Marketing efforts are progressing to increase market share by establishing business relations with new customers entering into this field. Hopefully more share shall be available during the coming year. Every Customer has different design and materials required, which make the manufacturing difficult due to skills and machines available in your company. However, these challenges are being accepted and met as per customer requirement.

During the year most of the tenders for High Transmission Electricity Towers, which were participated could not be finalized by WAPDA, therefore 11 KV towers business available was captured in tough competition with large number of private sector manufacturers. Thus most of these towers business was at very low margin.

A large business of 11 KV, towers worth Rs.180 million, required by AJK Electricity department, for rehabilitation of earth quake hit areas was obtained through negotiation by maintaining previous prices.

OPERATING RESULTS

The sales during the year were Rs.983 million, the highest ever in the history of the company. It was 18% higher than previous year. The company had taken wise and timely decision to make entry in the tele-communication towers business, otherwise orders from our single customer WAPDA during the year were not sufficient to utilize the capacity available. Similar efforts in future to diversify the product line, and finding new customers shall be continued to ensure continuity of growth path. The production capacity is also being enhanced through replacement of critical old machines with modern, efficient machines and equipment.

During the year all orders were delivered on time and no late delivery penalty was involved, as the company had to suffer from this penalty during the previous two years. All the operations were carried out without any loans. Previous loans due were repaid during the year.

Gross Profit earned during the year was Rs. 223 million, 23% of sales, as against Rs.217 million, 26% of sales during previous year. Although the Gross Profit was higher than previous year, but as a percentage of sales it decreased by 3%, due to very high increase of Zinc prices. The Zinc average prices increased from Rs.130,000 per ton to Rs. 241,000 per ton. The additional burden on this account was Rs. 83 million, which could not be entirely passed on to customers due to cut throat competition and to get business remaining competitive with others.

Net Profit before tax earned was Rs. 202 million as against Rs.114 million in previous year. This high increase was due to saving in financial cost because of no bank loan, and reversal of Rs. 45 million liability of mark up provided during previous years, but not required now.

BALANCING, MODERNIZATION AND REPLACEMENT

After take over by the Government in the year 1972, no plans for BMR could be made, because of poor financial position and lack of interest to improve the machines and equipment except addition of one CNC line in the year 1983 for punching and shearing of steel angles. It has now become very old and its spares are also not available. Since we are living now in highly competitive and quality conscious world, therefore it has become essential to replace 40-50 years old machines and equipment as soon as possible, to reduce cost, ensure delivery time and improve quality.



In the first phase the critical machines are being replaced with modern, automatic version. Therefore one CNC line for punching and shearing of steel angles, which is the latest model with added functions has been imported to replace old machine. Two more machines, one CNC plates cutting, punching and marking, and other Hydraulic drilling and cutting machine have also been imported. These three machines shall be in production by January, 2008.

In the second phase another CNC Fast line for punching and shearing small steel angles to increase capacity in view of coming business, has been ordered and expected to be available before the end of the next financial year.

The four steel rolling mills have also become highly inefficient and frequently break downs. The electric motors are also not in proper working order. Steel Rolling Mills are also being renovated to produce all required steel angles ourselves. Presently about 70% steel angles are being purchased from outside sources. Electric Motors of Rolling Mills are also being imported to replace and serve as stand-by motors. One Electric Motor 1000 KW has already reached the works, and ready for installation.

There are three Galvanizing plants for Hot Dip Zinc quoting on steel towers. Two are in working order, and third one needs total re-making. Zinc price has shown very steep increase, during two years, therefore Zinc cost component in total cost has gone high. It is therefore required to take necessary steps to bring down Zinc consumption at international level. To achieve this goal, Galvanizing Kettle 12 Meter long has been recently imported from U.S.A. after about 24 years, which shall eliminate wastage of Zinc due to frequent leakage of old kettles, and heavy repairs cost to put these in working order. One small kettle 4 Meter is also being arranged to galvanize small pieces which are major component of total goods to be galvanized. It shall also help in reducing the Zinc cost .

Foreign consultant has also been hired to advise to improve process and technology. Hopefully it shall also be of great help in controlling / reducing cost of Zinc quoting, besides improving quality of quoting.

Local consultant has also been hired to prepare plan to balance the machines & equipment, better layout of machines, improvement / change in production process & techniques.

The allied machines & equipment are also being replaced and renovated to supplement the efforts to increase production.

FUTURE PROSPECTS

The company in addition to its conventional Electricity Transmission Towers, is making sincere efforts to increase its market share of telecommunication towers by developing relations with new customers and tailoring production techniques & facilities to suit the design changes.

Re-start of Pumps, a hot selling item of PECO, is expected in November, 2007. Initially company shall concentrate on the old range of its products viz Centrifugal Pumps, Non Clogging Pumps, Deep well Turbine Pumps, Tube well Accessories and Submersible Pumps. Technology partners are being found to produce good design of traditional pumps & high value added industrial pumps.

ACKNOWLEDGEMENT

I am thankful to the members of the Board of Directors of the company, valued customers and suppliers for their continuous support and assistance.

I also take this opportunity to thank WAPDA, AJK electricity department for their faith, confidence and continued support. I am also thankful to M/s Huwai, ZTE Chinese companies and Nokia-Siemens joint venture for confidence on our capability, and support.

I also thank the executives and other employees of the company for their dedication, commitment and hard work and look forward for making this company most modern, quality manufacturer, and meeting the commitment with the customers.

Dated: October 20, 2007
Lahore

Major General (R) Zaheer Ahmad Khan
(Chairman)



DIRECTOR'S REPORT

The Directors of your Company take pleasure in presenting the 58th Annual Report with the Audited Accounts and the Auditors' Report thereon for the year ended 30th June 2007.

FINANCIAL RESULTS AND APPROPRIATIONS

	(Rs. in Thousand)	
	Year ended 30.06.2007	Year ended 30.06.2006
Profit from Operations	208,908	119,651
Workers Profit Participant Fund	(7,280)	(5,983)
Profit before Taxation	201,628	113,668
Taxation		
Current year	(4,917)	(4,174)
Prior years	(88)	-
Deferred	115,424	-
Profit after Tax	312,047	109,494

Appropriations

The following appropriations were made during the year.

Un-appropriation Profit (Loss) brought forward	(1,530,257)
Less: Final dividend 2006 @ Rs. 3 per share	(17,071)
Interim dividend 2007 @ Rs. 2.5 per share	(14,226)
Profit for the year	312,047
Transfer from "surplus on Revaluation of Fixed Asset"	4,311
Loss carried Forward	(1,245,196)

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, 2007, future prospects and the significant development plans & decision. 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, the Govt. nominated Directors were changed and the present Govt. nominated Directors are:

- 1) Major General (R) Zaheer Ahmad Khan
- 2) Mr. M. Imtiaz ur Raheem
- 3) Mr. Niamat ullah Khan



BOARD OF DIRECTORS MEETINGS

During the year 2006-07, four meetings of the Board of Directors were held. The attendance of the Board members was as follows:

Mian Suhail Aslam	4
Mr. M. Imtiaz ur Raheem	4
Mr. M. Arif Habib	2
Mr. Liaqat Mohammad	4
Mr. Rashid Ali Khan	4
Mr. Mohammad Shabir Mailk	4
Mr. Muhammad Iqbal	4
Mirza Mahmood Ahmad	3
Mr. Niamat ullah Khan	1
Syed Tahir Shahbaz	1
Mehr Sher Mohammad	1

PATTERN OF SHAREHOLDING

The pattern of shareholding of the company is annexed.

EARNING PER SHARE

Profit per share for the year ended 30th June, 2007 was Rs: 54.84 as compared to Rs: 19.24 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 mark up payment decisions in the cabinet decisions. The amount is payable out of sale proceeds of the Badami Bagh land of the company. The matter is being taken up with Government by the Board Committee.

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

The mark up matter is being taken up with the Government by the Board Committee in the light of legal opinion available and the decisions of competent authorities available.

c- INTEREST ON WORKERS' PROFIT PARTICIPATION

The Labour Contractor has been hired on job contract basis. Thus there is no employee of the Company. The legal opinions available are in favour and against the provision to be made out of profit earned by the company. The provision made in the books of the company is by adopting prudent policy. The interest on WPPF is therefore not being provided.



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. The principle amount of loan has been reconciled and agreed with Ministry of Finance.

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. Mohammad 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

During the year Mr. Muhammad Arif Habib, Director sold 529,500 ordinary shares of the Company. No other Directors, CEO, CFO, Company Secretary and their spouse and minor children have made any 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. 6.50 (65%) per share out of the profit available for the year. This is in addition to interim cash dividend Rs. 2.50 (25%) per share paid during the year, thus making total cash dividend of Rs.9.00/- (90%) per share for the year 2007.

QUALITY CONTROL

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

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.

On Behalf of the Board

Dated: October 20, 2007
Lahore

Major General (R) Zaheer Ahmad Khan
(Chairman)



TEN YEARS SUMMARY

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Sales - Net	358,081	243,680	511,501	388,901	122,606	265,165	456,577	852,150	834,706	983,499
Cost of Sales	397,251	315,248	505,407	449,264	210,373	227,829	395,633	588,017	617,264	760,336
Trading Profit / (Loss)	(39,170)	(71,568)	6,094	(60,363)	(87,767)	37,336	60,944	264,133	217,442	223,163
Other Income	12,658	5,812	3,038	28,147	12,890	48,377	9,079	3,043	6,815	63,304
Admin, General & Selling Exp.	64,576	60,941	64,818	69,860	62,855	52,112	46,999	44,485	38,703	58,130
Financial Expenses	63,010	39,244	47,014	63,211	66,208	47,479	46,812	19,815	17,994	8,591
Workers Profit Participation Fund								4,863	5,983	7,280
Other Charges	13,030	11,693	7,213	2,372	22,224	2,383	2,083	39,268	47,909	10,838
Principal Loan Liability waived by Associated Co's.								16,000		
Net Profit / (Loss) for the year	(167,128)	(177,634)	(109,913)	(167,659)	(226,164)	(16,261)	(25,871)	163,608	113,668	201,628
Prior Year's Adjustments / CSS		30,834	887	(33,198)	(145,056)	10,036	12,026	82,355		
Profit / (Loss) before Taxation	(167,128)	(146,800)	(109,026)	(200,857)	(371,220)	(6,225)	(13,845)	92,390	113,668	201,628
Provision for Taxation	1,790	1,218	2,557	2,085	690	1,433	2,283	4,308	4,174	(110,419)
Profit / (Loss) after Taxation	(168,918)	(148,018)	(111,583)	(202,942)	(371,910)	(7,658)	(16,128)	88,082	109,494	312,047
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	56,902
Fixed Capital Expenditure (Net)	1,259,635	1,256,624	1,241,918	1,818,545	1,804,875	1,791,786	1,780,742	1,771,268	1,763,133	1,765,647



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED JUNE 30, 2007

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

Lahore:
Dated: October 20, 2007



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.

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, 2007.

Lahore:
October 20, 2007

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, 2007 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 the interest on such loan is to be paid by the Privatization Commission out of sale proceeds of the assets of the company. But the confirmation of management's view from Privatization Commission is not available.
- b) Interest amounting to Rs. 30.900 million for the year ended June 30, 2007 (accumulated Rs. 162.225 million) has not been provided on funds provided by Government of Pakistan for compulsory separation scheme. According to the management, waiver of such interest from the Federal Government shall be requested (Ref. Note 23.4).
- c) Interest amounting to Rs. 1.252 million for the year ended June 30, 2007 (accumulated Rs. 1.566) 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. 2.769 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. 32.152 million and accumulated loss would have been increased by Rs. 205.780 million.

- d) Government of Pakistan's loans (Ref. Note 23) as at June 30, 2007 remains unconfirmed due to non availability of direct balance confirmation. Loan from bank has been classified as long term on the basis of negotiation (Ref. Note 24).
- 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

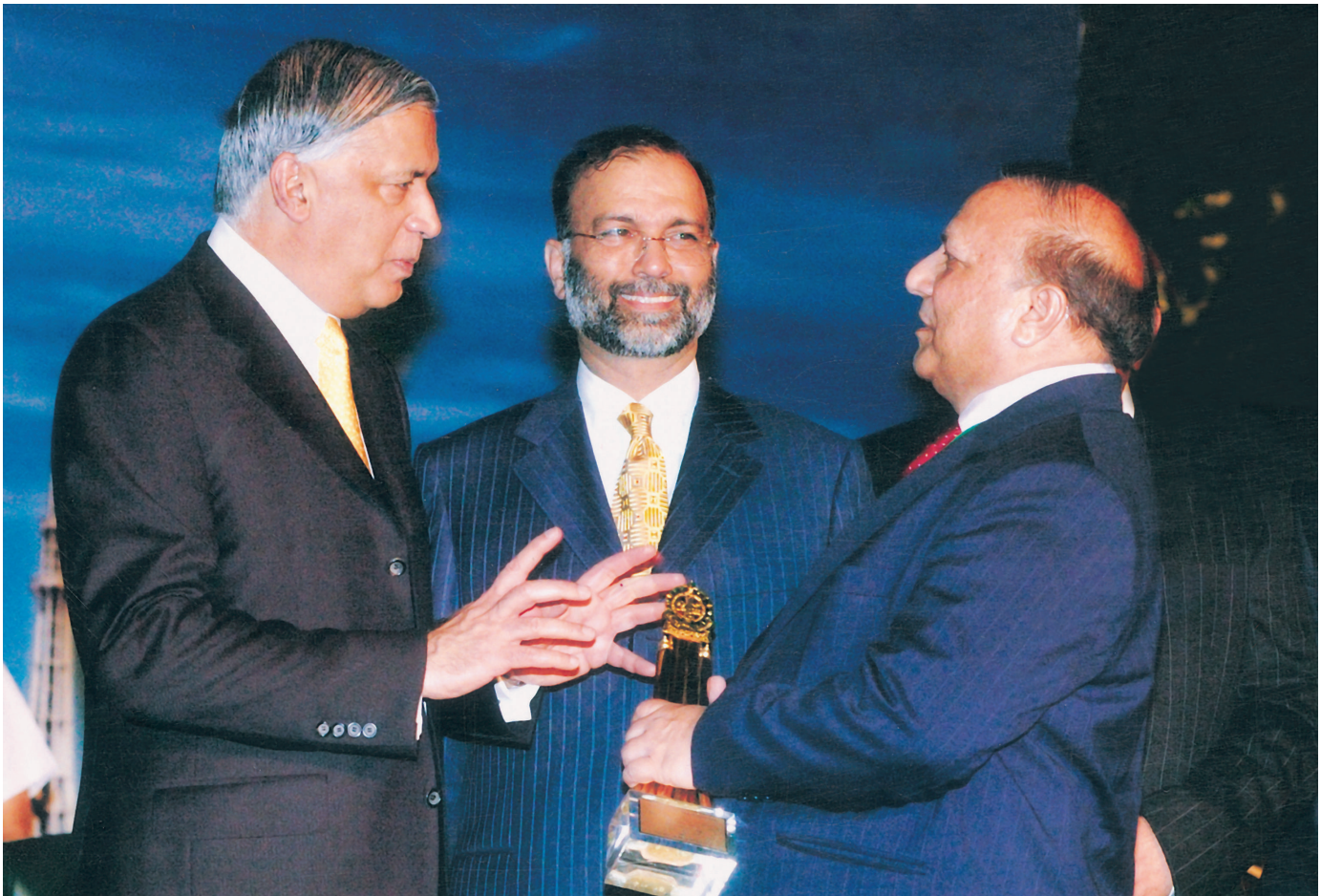


conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

- 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, 2007 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.

LAHORE:
October 20, 2007

FAZAL MAHMOOD & COMPANY
Chartered Accountants



Managing Director PECO, Mr. M. Imtiaz-ur-Raheem receiving LCCI Achievement Award, 2007 (in the category of Engineering) from the Prime Minister of Pakistan, Mr. Shaukat Aziz, at the Award Winning Ceremony held at Governor's House, Lahore on May 15, 2007



BALANCE SHEET

AS AT JUNE 30, 2007

Rupees in Thousand

	Note	2007	2006
NON CURRENT ASSETS			
Property, Plant and Equipment-Tangible	3	1,446,760	1,447,021
Assets subject to Finance Lease	4	1,110	1,388
Capital Work in Progress	5	3,053	-
Land Held for Sale	6	314,724	314,724
		1,765,647	1,763,133
LONG TERM SECURITY DEPOSITS			
DEFERRED TAXATION	7	2,415	2,175
		66,554	-
		1,834,616	1,765,308
CURRENT ASSETS			
Stores, Spares and Loose Tools	8	111,428	107,429
Stock-in-trade	9	211,706	214,924
Assets held for sale	10	30,810	31,932
Trade Debtors	11	261,185	212,784
Loans & advances to Employees	12	1,689	50
Advances to Others	13	18,766	10,080
Trade Deposits, Prepayments & other Receivable	14	5,490	37,796
Short Term Investments	15	51,500	60,000
Cash and bank balances	16	104,921	32,916
		797,495	707,911
CURRENT LIABILITIES			
Trade Creditors	17	66,702	61,215
Accrued Liabilities	18	19,456	10,405
Deposits & Advance payments	19	12,280	12,564
Other Liabilities	20	69,638	46,734
Unclaimed Dividend		4,377	1,902
Accrued Mark-up - On Secured Loans		1,128	48,647
Short Term borrowings	21	40,806	101,589
Current portion of Liabilities Against Assets Subject to Finance Lease	25	297	275
Provision for Taxation		4,917	4,174
		219,601	287,505
Net Current Assets		577,894	420,406
Total Assets Less Current Liabilities		2,412,510	2,185,714
CONTINGENCIES AND COMMITMENTS			
	22	-	-
NON CURRENT LIABILITIES			
GOVERNMENT OF PAKISTAN LOAN	23	1,790,848	1,790,848
LONG TERM LOAN	24	149,026	153,814
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	25	1,236	1,533
		1,941,110	1,946,195
NET TOTAL ASSETS		471,400	239,519
REPRESENTED BY:			
Share Capital	26	56,902	56,902
Revenue Reserves - General		10,000	10,000
Accumulated (Loss)		(1,245,196)	(1,530,257)
		(1,178,294)	(1,463,355)
Surplus on Revaluation of Fixed Assets	27	1,649,694	1,702,874
		471,400	239,519

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



PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2007

	Note	Rupees in Thousand	
		2007	2006
Sales	28	983,499	834,706
Cost of Goods Sold	29	(760,336)	(617,264)
Gross Profit		223,163	217,442
Selling and Distribution expenses	30	(10,102)	(5,908)
Freight and Forwarding expenses	31	(12,269)	(2,968)
General and Administrative expenses	32	(35,759)	(29,827)
		(58,130)	(38,703)
Operating Profit		165,033	178,739
Other Charges	33	(10,838)	(47,909)
Financial charges	34	(8,591)	(17,994)
		(19,429)	(65,903)
		145,604	112,836
Other Income	35	63,304	6,815
		208,908	119,651
Workers profit participation fund		(7,280)	(5,983)
Profit before Taxation		201,628	113,668
Taxation - Current	36	110,419	(4,174)
Profit after Taxation		312,047	109,494
		Rupees	Rupees
Earning per Share - Basic	37	54.84	19.24

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



CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2007

	Note	Rupees in Thousand	
		2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit before Taxation		201,628	113,668
Adjustments for:			
Depreciation		11,820	11,021
Amortization of leased assets		278	347
Financial Charges		8,591	17,994
Provision for doubtful Balances		-	35,067
Provision for gratuity		49	440
Provision for slow moving stores		100,000	-
Profit on sale of Operating Fixed Assets		(2,464)	(3,333)
Balances Written off		(1,044)	504
Mark up written off		(45,055)	-
Workers Profit Participation Fund		7,280	5,983
Profit on sale of assets held for sale		(836)	-
Profit before working capital changes		190,247	181,691
(Increase)/ Decrease in stores, spares and loose tools		(13,999)	4,456
(Increase)/ Decrease in stock in trade		3,218	147,728
(Increase)/ Decrease in assets held for sale		88	348
(Increase)/ Decrease in trade debtors		(48,401)	(66,849)
(Increase)/ Decrease in loans and advances to employees		(1,639)	(17)
(Increase)/ Decrease in advances to others		(3,809)	15,062
(Increase)/ Decrease in trade deposits, prepayments and other receivables		32,307	(27,781)
(Increase)/ Decrease in short term investments		8,500	(60,939)
Increase / (Decrease) in trade creditors		5,487	47,129
Increase / (Decrease) in accrued liabilities		9,109	979
Increase / (Decrease) in deposits and advance payments		702	(39,135)
Increase / (Decrease) in other liabilities		18,393	12,337
Cash Generated from operations		200,203	215,009
Financial Charges Paid		(11,055)	(20,674)
Gratuity Paid		(49)	(1,465)
Income Tax Paid		(9,139)	(4,427)
Workers' Profit Participation Fund Paid		(2,769)	-
Net Cash inflow from Operating Activities		177,191	188,443
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(11,658)	(3,618)
(Increase) in long term security deposits		(240)	(9)
Capital Work in Progress		(3,053)	-
Sale proceeds on disposal of fixed assets		4,433	3,718
Net Cash (Out flow) / inflow from investing activities		(10,518)	91
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) in Short term loans		(60,783)	(100,231)
(Decrease) in Long term loans		(4,788)	(100,908)
Payment of lease liability		(275)	(255)
Payment of Dividend		(28,822)	-
Net cash (out flow) from financing activities		(94,668)	(201,394)
Net increase / (decrease) in cash and cash equivalents		72,005	(12,860)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR		32,916	45,776
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	104,921	32,916

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



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2007

	Rupees in Thousand			
	Share Capital	Revenue Reserve	Accumulated Loss	Total
Balance as at June 30, 2005	56,902	10,000	(1,646,139)	(1,579,237)
Profit for the year June 30, 2006	-	-	109,494	109,494
Transfer from "Surplus on Revaluation of Fixed Assets": Incremental Depreciation - Current Year	-	-	6,388	6,388
Balance as at June 30, 2006	56,902	10,000	(1,530,257)	(1,463,355)
Final Dividend for the year ended June 30, 2006 @ Rs. 3 per share	-	-	(17,071)	(17,071)
Interim Dividend for the half year ended Dec. 31, 2006 @ Rs. 2.5 per share	-	-	(14,226)	(14,226)
Profit for the year June 30, 2007	-	-	312,047	312,047
Transfer from "Surplus on Revaluation of Fixed Assets": Incremental Depreciation - Current Year Net off Tax	-	-	3,945	3,945
Transfer from Surplus on Revaluation of Fixed Assets: on sale of "Assets held for sale"	-	-	366	366
Balance as at June 30, 2007	56,902	10,000	(1,245,196)	(1,178,294)

The annexed notes form an integral part of these accounts.