



Pakistan Engineering Company Limited

**A n n u a l
R e p o r t
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Vision Statement

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

Mission Statement

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



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Company Information

Board of Directors

Mr. Ghulam Rasool Ahpan
(Chairman)

Khawaja Shaukat Ali
(Chief Executive)

Mr. Khizar Hayat Khan

Mr. Muhammad Arif Habib

Mr. Liaqat Mohammad

Mr. Rashid Ali Khan

Mirza Mahmood Ahmad

Mr. Mohammad Shabir Malik

Mr. Muhammad Iqbal

Board Audit Committee

Mirza Mahmood Ahmad
(Chairman)

Mr. Liaqat Mohammad

Mr. Muhammad Iqbal

Mr. Mohammad Shabir Malik

Board Receivable Committee

Mr. Liaqat Mohammad
(Chairman)

Khawaja Shaukat Ali

Mr. Muhammad Iqbal

Mr. Mohammad Shabir Malik

CFO & Company Secretary

Mian Anwar Aziz

External Auditors

M/s Fazal Mahmood & Co.
Chartered Accountants

Head Office & Registered Office

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

Plant

Kot Lakhpat, Lahore

Shares Registrar

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

Bankers

National Bank of Pakistan
United Bank Limited
Summit Bank Limited

Legal Advisor:

Mian Farzand Ali

Web Site

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

Email

info@peco.com.pk

Our Products

PECO is playing a vital role in the manufacturing of qualitative engineering goods of international standard. Its products have earned reputation due to quality and reliability. PECO present products range includes the following:

Steel Structure

- Electricity Transmission & Distribution Line Towers. (11, 132, 220 & 500 Kv)
- Telecommunication Towers. (Green Field & Roof Top)



Pumps & Turbines

PECO produces Mono Block & Non Clogging Pumps, Multi Stage Centrifugal Pumps, Deep Well & Agro Turbines of various capacities & heads as per requirements of the customers. PECO pumps range also includes Sludge Pumps and the Pumps utilized in Sugar & Chemical industries.



Electric Motors

PECO manufactures following range of electric motors:
-Horizontal Foot Mounted Motors in Drip Proof & T.E.F.C. Enclosures.
-Flange Mounted Squirrel Cage Induction Motors.
-Vertical Hollow Shaft Motors in Drip Proof & Totally Enclosed Fan Cooled Enclosures.



Foundry Products.

- Grey & S.G. Iron Castings.
- Bronze Castings.
- Aluminum Alloy Castings.



Rolled Products

- Angles
- Plain Bars
- Deformed Bars (Grade 60 & 40)



Safes, Strong Room Doors & Steel Lockers.

- Steel Safes – 30", 60", 72"
- Strong Room Doors & Steel Lockers for Banks





Year at a Glance

Key Figures

	(Rs. in Million)	
	<u>2010</u>	<u>2009</u>
Sales	1,677	1362
Gross Profit	306	326
Profit Before Tax	188	201
Tax	69	67
Profit After Tax	119	134
Shareholders Equity	57	57
Total Assets	6,168	6,018
Fixed Assets (Net)	5,202	4,914
Earning Per Share (Rupee)	20.93	23.54



Quality Policy

We are committed to maintain our Customer's satisfaction by delivering the qualitative products and services in accordance with their needs and requirements. Customer's feed back is continuously reviewed for quality improvement to have continued customer's confidence and trust in our products. Quality policy and objectives are reviewed on yearly basis.



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.



The Company History

A very modest size industry called the Batala Engineering Company (BECO), was set up in Batala, India to produce chaff cutters and simple agricultural implements. Six years later this agrarian based industry added Machine Tools in its production line, and just before partition of India, it was ranked among the top three manufacturers of machine tools in India. After partition in August, 1947, the company migrated to Pakistan and made a fresh start in Lahore.

Here in Pakistan it started re-building the engineering set up, under a corporate status and got it registered in the year 1951 as company listed on stock exchange. The company entered into technical collaboration with world renowned organizations from Germany, Holland, Japan, United Kingdom and USA, to lay the foundations of a modern engineering enterprise. The company developed very rapidly under the entrepreneurship of a family group migrated from India. In twenty years time it was capable to manufacture Machine Tools, Diesel Engines, Pumps & Tube Well Accessories, Electric Motors, Textile Looms, Bicycles, Agricultural implements, Steel Structures, Concrete Mixers, General Engineering supported by Steel Melting, Steel Rolling, Steel Foundry, Cast Iron & Non ferrous castings, Central Tool Room, Forging, Electroplating, Galvanizing, Materials Testing & Research Laboratories, Engineering and Design Departments. The company rapidly developed into a key industry of Asia.

The Govt. of Pakistan took over its management in the year 1972, under economic reforms policy. After nationalization, under Govt. control the company performance during most of the years was unsatisfactory. The Govt. decided in the year 2002 to reorganize and re structure the company. The main feature of restructuring scheme was to close some of the product lines and continue with profitable products, with the help of qualitative manpower. The Govt. subsequently in the year 2003 under privatization policy, offloaded some shares, through stock exchange. Resultantly private share holding is now 67% and government 33%. The composition of Board has accordingly changed with six private shareholders elected Directors out of nine Directors. This Private/Govt. partnership has helped in bringing change for efficient decision making, liberty to ground management in managing operations, modernize production facilities and better working conditions. The company has become vibrant after the above actions, thus earning profit and is on the path of continuous development. The Share price has also increased manifold.

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

Sale - Cost of Sale- GrossProfit



Financial Highlights

Rs. in Million

	2010	2009	2008	2007	2006	2005
Trading Results						
Sales – Net	1,677.379	1,361.633	1,036.919	983.499	834.706	852.150
Cost of Sales	1,371.129	1,035.306	815.731	760.336	617.264	588.017
Gross Profit	306.250	326.327	221.188	223.163	217.442	264.133
Admn. Gen. & Selling Exp.	87.464	78.157	54.311	58.130	38.703	44.485
Operating Profit	218.786	248.170	166.877	165.033	178.739	219.648
Financial Charges	26.118	82.551	8.260	8.591	17.994	19.815
Other Charges etc.	10.353	8.757	8.932	18.118	53.892	110.486
Other Income	5.880	44.309	18.784	63.304	6.815	3.043
Profit before Tax	188.195	201.171	168.469	201.628	113.668	92.390
Profit after Tax	119.104	133.948	109.447	312.047	1,09.494	88.082
Dividend						
Cash Dividend	56.902	71.128	-	51.212	17.071	-
Dividend Per Share (Rs.)	10.00	12.50	-	9.00	3.00	-
Financial Position						
Property, Plant & Equipment	4,879.205	4,592.772	1,501.608	1,446.760	1,447.021	1,454.809
Paid up Capital	56.902	56.902	56.902	56.902	56.902	56.902
Reserves	10.000	10.000	10.000	10.000	10.000	10.000
Capital Expenditure (Net)	5,201.551	4,913.690	1,834.296	1,834.616	1,765.308	1,773.735
Key Indicators						
Gross Profit Ratio	18.26	23.97	21.33	22.69	26.05	31.00
Operating Profit Ratio	13.04	18.23	16.09	16.78	21.41	25.78
Operation Expenses Ratio	5.21	5.74	5.24	5.91	4.64	5.22
Profit Before Tax Ratio	11.22	14.77	16.25	20.50	13.62	10.84
Net Profit Ratio	7.10	9.84	10.56	31.73	13.12	10.34
Earning Per Share	20.93	23.54	19.23	54.84	19.24	15.48
Working Capital	728.401	737.846	650.119	577.894	420.406	148.946
Current ratio	4.06	3.01	3.74	3.63	2.46	1.24
Quick ratio	2.19	1.41	2.12	2.16	1.34	0.47

Notice is hereby given that the 61st Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7- Davis Road, Lahore, on Saturday, October 30, 2010 at 10.30 A.M. to transact the following business: -

1. To confirm Minutes of 60th Annual General Meeting held on October 31, 2009.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2010 together with the Auditors' and Directors' reports thereon.
3. To approve dividend. The Directors have recommended final dividend of 50% i.e. Rs. 5.00/- per share for the year ended June 30, 2010. This is in addition to interim cash dividend Rs. 5.00 (50%) per share paid during the year, thus making total cash dividend of Rs. 10.00 (100%) per share for the year 2010.
4. To appoint Auditors for the year ending June 30, 2011 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 2011.
5. To transact any other business with the permission of the chair.

BY ORDER OF THE BOARD

(Mian Anwar Aziz)
Company Secretary

Lahore: September 28, 2010

NOTES:

1. The Share Transfer Books of the company shall remain closed from 23, October 2010 to October 31, 2010 (both days inclusive) and no transfer will be registered during that time. Transfers received in order at the office of the Registrar of the Company M/s Scarlet IT Systems (Pvt) Limited, Hassan Plaza, 6-A, Jail Road, Lahore, at the close of business on October 22 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.

DIRECTOR'S REPORT

To The Shareholders

The Board of Directors are pleased to submit to the shareholders their Annual Report along with the audited financial statements of the Company for the year ended June 2010.

PERFORMANCE OUTLOOK

During the year under review stress on business stability emanated mainly from Power and Gas shortages, increase in petroleum prices and general inflation slow down of the overall economic activity. The prices of imported items increased due to appreciation of Dollars against Pak rupee. Salaries / Wages of the employees / Workers had to be increased to compensate them. The increase in costs could not be passed on to the customers due to very tough competitions in the local as well in foreign markets. Efforts were therefore, made to get orders mix so that business volume as well as profitability could be maintained. The major supplies to WAPDA during the year under review consisted of 132 KV, 220 KV & 11 KV towers. There was no tele-communication towers demand during the year.

During the year under review, however, management of the company focused on development of Pumps, Motors / Turbines and Foundry Division. The technical team and the management of PECO is endeavoring to find technology partners for upgrading high value added pump for various applications and up gradation of Foundry for cost reduction, better quality, enhanced capacity to under take auto part & other castings.

Further more various development works were carried out at Foundry, Electric Motors & Structure Division in order to improve efficiency & productivity.

PRODUCT DIVERSIFICATION

The Company is planning to diversify its Products and feasibility of manufacturing of following products is under way:

- a- Electricity Transformers
- b- Auto Parts

FINANCIAL PERFORMANCE

The sale revenue of Rs. 1.677 billion for the year was higher by 23 % compared to the previous year. The gross profit earned however was lower by Rs. 20.0 million compared to the last year. The profit after tax of Rs. 119.104 million was earned for the year as compared to Rs. 133.948 million during the previous year.



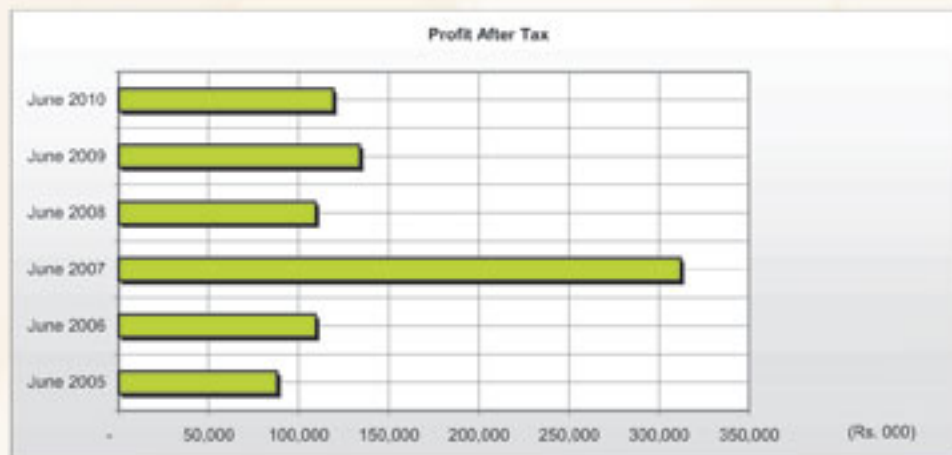
The decrease in profitability during the current year compared to the corresponding year is mainly attributable to the impact of intensive competition, narrow margins and high input costs.

Operating expenses during the year increased by 12 % as compared to the previous year mainly due to increase in salary / wages, office renovation & repairs expenses and increase in freight /forwarding rates. Financial charges however, decreased from Rs. 82.5 million of last year to Rs. 26.1 million during the current period.

The Company paid off all bank loans due till 30.06.2010 during the period under review.

FINANCIAL RESULTS AND APPROPRIATIONS

	Rupees in Thousand	
	Year ended 30.06.2010	year ended 30.06.2009
Profit from Operations	191,911	165,118
Other Income	5,880	44,309
Workers Profit Participant Fund	(9,596)	(8,256)
Profit before Taxation	188,195	201,171
Taxation		
Current year	(68,778)	(17,653)
Prior years	879	(101)
Deferred	(1,192)	(49,469)
Profit after Tax	119,104	133,948



APPROPRIATIONS

The following appropriations were made during the year.

	<u>Rupees in Thousand</u>	
Un-appropriated Profit (Loss) brought forward	(1,056,203)	(1,168,990)
Less: Final dividend for the year 2009 @ Rs. 7.50 per share	(42,677)	
Less: Interim dividend for the half year ended on 31 Dec 2009 @ Rs.5 per share.	(28,451)	(28,451)
Profit for the year	119,104	133,948
Transfer from "Surplus on Revaluation of Fixed Assets"	<u>14,164</u>	<u>7,290</u>
Loss carried Forward	<u>(994,063)</u>	<u>(1,056,203)</u>

OPERATING & FINANCIAL DATA

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

BOARD OF DIRECTORS

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

- a- Mr. Ghulam Rasool Ahpan
- b- Khawaja Shaukat Ali
- c- Mr. Khizar Hayat Khan

BOARD OF DIRECTORS MEETINGS

During the year 2009-10, six meetings of the Board of Directors were held. The attendance of the Board members was as follows:

Mr. Ghulam Rasool Ahpan	5
Major General (R) Zaheer Ahmad Khan	1
Mr. M. Imtiaz ur Raheem	5
Khawaja Shaukat Ali	1
Mr. Khizar Hayat Khan	5
Mr. Muhammad Arif Habib	5
Mr. Liaqat Mohammad	6
Mr. Rashid Ali Khan	5
Mr. Mohammad Shabir Mailk	6
Mr. Muhammad Iqbal	6
Mirza Mahmood Ahmad	5

PATTERN OF SHAREHOLDING

The pattern of shareholding of the company is annexed.

EARNING PER SHARE

Profit per share for the year ended 30th June, 2010 was Rs. 20.93 as compared to Rs: 23.54 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

In accordance with Cabinet decision dated 30.5.1994, the company's loans including payment of customs and import duties alongwith accrued mark up are to be payable on realization of sale proceeds of PECO Badami Bagh land which was handed over to Privatization Commission in 1995 for sale. However, the land is still to be disposed of by Privatization Commission, therefore issue of charging mark is yet to be resolved.

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

In compliance to CCOP decision dated 2.1.2002, Finance Division provided loan to PECO for release of its employees through Compulsory Separation Scheme, which was to be recovered through the liquidation/winding up of the company. The company was later allowed to function, thus the CCOP decision could not be implemented in letter and spirit and status of the company has changed. Therefore, the issue is pending settlement.

c- INTEREST ON WORKERS' PROFIT PARTICIPATION FUND

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

d- GOVERNMENT OF PAKISTAN LOANS

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

Whereas, PECO Board has also constituted a committee to reconcile the accounts of PECO loans (mentioned at a, b & d) & mark up with the Govt.

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:

- a- 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.
- b- Proper books of accounts have been maintained.
- c- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d- 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.
- e- The system of internal control is sound in design and has been effectively implemented and monitored.
- f- There is no doubt upon the company's ability to continue as a "Going Concern".
- g- There has been no material departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.
- h- The Company has fully complied with the Best Practices on Transfer Pricing as contained in the listing regulations of the stock exchanges.

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:

Mirza Mahmood Ahamd	Chairman
Mr. Liaqat Mohammad	Member
Mr. Mohammad Shabir Malik	Member
Mr. Muhammad Iqbal	Member

SAFETY AND ENVIRONMENTS

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

TRADING IN COMPANY'S SHARES

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

OUTSTANDING STATUTORY DUES

Detail of outstanding statutory dues is given in note No. 19 to the Accounts.

DIVIDEND

The Directors by majority recommended the payment of final cash dividend at the rate of Rs. 5.0 per share out of the profit available for the year. This is in addition to interim cash dividend of Rs. 5.0 (50%) per share paid during the year, thus making total cash dividend of Rs. 10.0 per share for the year 2010.

QUALITY CONTROL

To ensure implementation of the Management System, Internal Quality Audits, Surveillance Audits, Management Review Meetings are conducted regularly. The Company is also certified for ISO 14000: 2004 (Environmental Management System).

BUSINESS PLANS & ACHIEVEMENT OF TARGETS

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

COMMUNICATION

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

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

On Behalf of the Board

Dated: September 28, 2010
Lahore

Ghulam Rasool Ahpan
(Chairman)

Khawaja Shaukat Ali
Managing Director

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 NBF1 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

(Khawaja Shaukat Ali)
Chief Executive

Lahore:

Dated: September 28, 2010

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 of the Karachi, Islamabad and Lahore stock Exchanges, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the board's statement on internal control covers all controls and the effectiveness of such internal controls.

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

Based on our review nothing has come to our attention which causes us to believe that the statement of compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2010.

Lahore:
Dated: September 28, 2010

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, 2010 and the related profit and loss account, statement of comprehensive income, 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 22.2.1). The management is of the view that since there was no mention of charging any interest or surcharge in the ECC and cabinet decision, therefore, mark up is not leviable.
- b) Interest amounting to Rs.30.900 million for the year ended June 30, 2010 (accumulated Rs.254.925 million) has not been provided on funds provided by Government of Pakistan for compulsory separation scheme. According to the management, the mark up is not payable and the issue is being taken up with the Government by Board Committee in the light of legal opinion available and the decision of the competent authorities. (Ref. Note 22.4)
- c) Interest amounting to Rs.2.259 million for the year ended June 30, 2010 (accumulated Rs.8.043 million) has not been provided for on the funds utilized by the company as required under the Companies Profit (Workers' Profit Participation act, 1968) (Ref. Note 19.3). An amount of Rs.9.122 million (2009: Rs.4.206 million) was utilised from the Workers' Profit Participation Fund for welfare of "workers on contract".

Had the provision for interest in respect of paragraphs (a) to (c) been made in the financial statements the profit for the year would have been lower by Rs.33.159 million and accumulated loss would have been increased by Rs. 304.957 million.

- d) Government of Pakistan's loans (Ref. Note 22.2 to 22.5) as at June 30, 2010 remains unconfirmed due to non-availability of direct balance confirmation despite repeated requests sent for confirmation.
- e) Except for the effect, if any, of the matters referred to in paragraphs (a) to (d) above, 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. Except for the effect of the matter referred to in paragraphs (a) to (d) above if any, 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 the changes as described in note 2.3 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;
- 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, statement of comprehensive income, 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, 2010 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- h) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without qualifying our opinion we draw attention to Note. 22.1 to the financial statements regarding non-reconciliation of Privatization Commission loan as per their confirmation. The ultimate outcome of the matter cannot presently be determined.

LAHORE:
Dated: September 28, 2010

FAZAL MAHMOOD & COMPANY
Chartered Accountants

	Note	(Rupees in Thousand)	
		2010	2009
NON CURRENT ASSETS			
Property, Plant and Equipment-Tangible	4	4,879,205	4,592,772
Assets subject to Finance Lease	5	-	710
Capital Work in Progress	6	5,684	2,559
Land Held for Sale	7	314,724	314,724
		5,199,613	4,910,765
LONG TERM SECURITY DEPOSITS		1,938	2,925
		5,201,551	4,913,690
CURRENT ASSETS			
Stores, Spares and Loose Tools	8	137,494	142,403
Stock-in-trade	9	307,565	445,460
Assets held for sale	10	20,556	25,654
Trade Debtors	11	298,301	347,364
Loans & advances to Employees	12	1,175	1,022
Advances to Others	13	77,934	67,717
Trade Deposits, Prepayments & other Receivable	14	39,757	46,366
Cash and bank balances	15	83,676	28,250
		966,458	1,104,236
CURRENT LIABILITIES			
Trade Creditors	16	50,546	143,023
Accrued Liabilities	17	5,779	9,419
Deposits & Advance payments	18	13,012	15,289
Other Liabilities	19	59,306	81,591
Unclaimed Dividend		12,226	7,803
Accrued Mark-up - On National Bank of Pakistan Secured Loan		5,910	30,932
Short Term Borrowings	20	-	-
Current portion of long term loan	23	22,500	59,725
Current portion of Liabilities Against Assets Subject to Finance Lease	25	-	955
Provision for Taxation		68,778	17,653
		238,057	366,390
Net Current Assets		728,401	737,846
Total Assets Less Current Liabilities		5,929,952	5,651,536
CONTINGENCIES AND COMMITMENTS			
21			
NON CURRENT LIABILITIES			
GOVERNMENT OF PAKISTAN LOANS	22	1,790,848	1,790,848
LONG TERM LOAN	23	12,867	76,317
DEFERRED TAXATION-NET	24	140,344	36,714
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	25	-	-
		1,944,079	1,903,879
NET TOTAL ASSETS		3,985,873	3,747,657
REPRESENTED BY:			
Share Capital	26	56,902	56,902
Revenue Reserves - General		10,000	10,000
Accumulated (Loss)		(994,063)	(1,056,203)
		(927,161)	(989,301)
Surplus on Revaluation of Fixed Assets	27	4,913,034	4,736,958
		3,985,873	3,747,657

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

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	(Rupees in Thousand)	
		2010	2009
Sales	28	1,677,379	1,361,633
Cost of Goods Sold	29	(1,371,129)	(1,035,306)
Gross Profit		306,250	326,327
Selling and Distribution expenses	30	(11,961)	(14,168)
Freight and Forwarding expenses	31	(25,587)	(22,182)
General and Administrative expenses	32	(49,916)	(41,807)
		(87,464)	(78,157)
Operating Profit		218,786	248,170
Other Charges	33	(757)	(501)
Financial charges	34	(26,118)	(82,551)
		(26,875)	(83,052)
		191,911	165,118
Other Income	35	5,880	44,309
		197,791	209,427
Workers profit participation fund		(9,596)	(8,256)
Profit before Taxation		188,195	201,171
Taxation	36	(69,091)	(67,223)
Profit after Taxation		119,104	133,948
		Rupees	Rupees
Earning per Share - Basic	37	20.93	23.54

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Note</u>	<u>(Rupees in Thousand)</u>	
		<u>2010</u>	<u>2009</u>
Profit after taxation		119,104	133,948
Other comprehensive income		-	-
Total comprehensive income		119,104	133,948

The annexed notes form an integral part of these financial statements.

Khawaja Shaukat Ali
(Chief Executive)

Mohammad Shabir Malik
(Director)

	Note	(Rupees in Thousand)	
		2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit before Taxation		188,195	201,171
Adjustments for:			
Depreciation		30,073	15,189
Depreciation on Machinery transferred from Held for Sale to own use		1,108	-
Amortization of Leased Assets		44	178
Financial Charges		26,118	82,551
Provision for Gratuity		47	55
Profit on sale of Operating Fixed Assets		(1,220)	(29,794)
Workers' Profit Participation Fund		9,596	8,256
Profit on sale of Assets Held for Sale		(406)	(634)
Profit before Working Capital changes		253,555	276,972
Decrease / (Increase) in Stores, Spares and Loose Tools		4,909	(27,459)
Decrease / (Increase) in Stock in trade		137,895	(176,676)
Decrease in Trade Debtors		49,063	19,557
(Increase) in Loans and advances to Employees		(153)	(58)
Decrease / (Increase) in Advances to Others		861	(36,847)
Decrease / (Increase) in Trade Deposits, Prepayments and other Receivables		6,609	(21,782)
Decrease in Short term Investments		-	31,500
(Decrease) / Increase in Trade Creditors		(92,477)	55,970
(Decrease) in Accrued Liabilities		(3,640)	(2,031)
(Decrease) in Deposits and Advance payments		(2,277)	(9,791)
(Decrease) / Increase in Other Liabilities		(22,759)	2,807
Cash Generated from Operations		331,586	112,162
Financial Charges Paid		(51,140)	(7,153)
Gratuity Paid		(47)	(55)
Income Tax Paid		(27,852)	(10,261)
Workers' Profit Participation Fund Paid		(9,122)	(4,206)
Net cash inflow from operating activities		243,425	90,487
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Tangible Fixed Assets		(22,902)	(15,453)
Decrease / (Increase) in Long Term Security Deposits		71	(509)
Capital Work in Progress		(3,125)	(1,131)
Sale proceeds on disposal of Fixed Assets		2,615	37,671
Sale proceeds on disposal of Assets Held for Sale		2,740	4,717
Net cash (outflow) / inflow from investing activities		(20,601)	25,295
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) in Short term loans		-	(26,906)
(Decrease) in Long term loans		(100,655)	(57,984)
Payment of Lease Liability		(38)	(281)
Payment of Dividend		(66,705)	(26,843)
Net cash (outflow) from financing activities		(167,398)	(112,014)
Net increase in cash and cash equivalents		55,426	3,768
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR		28,250	24,482
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	15.	83,676	28,250

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

	Share Capital		Revenue Reserves	Accumulated (loss)	TOTAL
	Paid up ordinary share capital	Paid up bonus shares	General		
Balance as at June 30, 2008	31,621	25,281	10,000	(1,168,990)	(1,162,088)
Total comprehensive income for the year	-	-	-	133,948	133,948
Transaction with owners					
Distribution					
Dividend for the half year ended December 31, 2008 @ Rs. 5.00 per share	-	-	-	(28,451)	(28,451)
Transfer from "Surplus on Revaluation of Fixed Assets":					
Incremental Depreciation- Current Year - Net Off Tax	-	-	-	3,511	3,511
Transfer from surplus on Revaluation of Fixed Assets On Disposal of fixed assets - Net Off Tax	-	-	-	3,779	3,779
Balance as at June 30, 2009	31,621	25,281	10,000	(1,056,203)	(989,301)
Total comprehensive income for the year	-	-	-	119,104	119,104
Transaction with owners					
Distribution					
Final Dividend for the year ended June 30, 2009 @ Rs. 7.50 per share	-	-	-	(42,677)	(42,677)
Dividend for the half year ended December 31, 2009 @ Rs. 5.00 per share	-	-	-	(28,451)	(28,451)
Transfer from "Surplus on Revaluation of Fixed Assets":					
Incremental Depreciation- Current Year - Net Off Tax	-	-	-	13,327	13,327
Transfer from surplus on Revaluation of Fixed Assets On Disposal of fixed assets - Net Off Tax	-	-	-	837	837
Balance as at June 30, 2010	31,621	25,281	10,000	(994,063)	(927,161)

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

1. THE COMPANY AND ITS OPERATIONS

Pakistan Engineering Company Limited (a State Enterprise) was incorporated in Pakistan on February 15, 1950 under the Companies Act, 1913 (Now Companies Ordinance, 1984) as a public limited company. Its shares are quoted on all Stock Exchanges of Pakistan. The company is principally engaged in the manufacturing and sale of engineering products. The major products of the company are electricity transmission and communication towers, electric motors, pumps and steel rolled products etc. The Company had earlier closed down its all divisions, except Structure (STR) division, and is principally engaged in the manufacturing and sale of electricity transmission and communication towers. At present structure, pumps, electric motor, foundry and rolling mills division of the company are in operation.

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

2. BASIS OF PREPARATION

2.1 Basis of Accounting

The company has accumulated losses of Rs. 994,063 million (2009: Rs. 1,056,203 million) as at June 30, 2010. The company has earned after tax profit of Rs. 784,040 million during the five years period ended 30, June 2010, which has resulted in the reduction of accumulated losses. The liabilities of the company payable to the Government of Pakistan shall be met from the sale proceeds of Badami Bagh land and surplus land of Kot Lakhpat works. In this regard Badami Bagh Land has been offered for sale by the Privatization Commission and expression of interests have been received by Privatization Commission. There has been no arrear or discontinuance of dividend. The company has maintained a positive and improved operating cash flow, along with improvement in key financial ratios. The company has paid off substantial amount of its long term liabilities towards banking institutions during the year and there is no plan to curtail the business activities of the company.

The Company had earlier closed down its all divisions, except Structure (STR) division, and had terminated its employees through compulsory separation scheme. However, taking in to consideration, the successful operation of the Structure Division (STR) of the company and demand of pumps and motors, the Board of Directors decided to bring into operation Pumps, Electric Motor, Foundry and Rolling Mills division of the company. This decision helped to improve the efficiency of the Structure Division (STR) and contributed towards the revenue generation of the company.

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

Keeping in view all these factors, the board of directors is of firm resolution that the going concern assumption is appropriate and that these Financial Statements have been prepared on the assumption that the company will continue as a going concern, and that there are no material uncertainties that will cast a doubt on the company's ability to continue as a going concern. Therefore, there are no adjustments required that might have been necessary if going concern assumption was not appropriate.

2.2 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board 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.

2.3 Change in Accounting Policies

During the financial year company has changed its accounting policies in following areas:

IAS 1 (Revised), 'Presentation of Financial Statements' is applicable for the company from July 1, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the company shows all owner related changes in equity in statement of changes in equity, whereas all non-owner changes in equity are presented in other comprehensive income. Comparative information is required to be re-presented so that it is in conformity with the revised standard. The company has preferred to present two statements; a profit and loss account (income statement) and a second statement beginning with profit or loss and display components of other comprehensive income (statement of comprehensive income). Comparative information has also been re-presented so it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on profit for the year.

IAS 23 (amendment) 'borrowing costs' is applicable for the company from July 1, 2009. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of the asset. The option of immediately expensing those borrowing costs has been removed. The company has changed its accounting policy in compliance with IAS-23, however, there is no financial effect as a result of change in accounting policy.

Standard amendments and interpretations not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2010.

IFRS 3 (Revised) Business combinations;
 IAS 27 (Revised) Consolidated and separate financial statements;
 IAS 39 (Amendments) Financial instruments: recognition and measurement;
 IFRIC 15 Agreement for the construction of real estate;
 IFRIC 17 Distributions of non-cash assets to owners;
 IFRS 5 (Amendments) - improvements to IFRSs - IFRS 5 Non-current assets held for sale and discontinued operations.
 IFRS 8 - Operating Segments - improvements to IFRSs -

2.4 Basis of Measurement

The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold land, building, steel structure and plant and machinery .

2.5 Use of Estimate & Judgment

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Borrowing costs pertaining to the construction and erection are capitalized up to the date of completion. Depreciation on operating fixed assets is charged to income on reducing balance method at the rates specified in note No. 4 to the accounts to write off the cost cover their estimated useful lives.

Depreciation on addition and deletion is charged on the basis of number of days the asset remain in use of the company. Assets residual values, useful life and depreciation rates are reviewed and adjusted, if appropriate at each balance sheet date. An asset carrying amount is written down immediately to its recoverable amount.

Normal repair and maintenance is charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss, if any on disposal of operating fixed assets is included in the current year income.

3.2 Capital Work -in -Progress

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

3.3 Assets Subject to Finance Lease

Assets under finance lease are stated at lower of present value of minimum lease payments under the agreement or the fair value of the assets. Depreciation on these assets is charged in line with normal depreciation policy adopted for assets owned by the company.

The aggregate amount of obligations relating to these assets are accounted for at net present value of liabilities.

3.4 Stocks, Stores, Spare Parts and Loose Tools

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

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

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

3.5 Trade Debts

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

3.6 Other Receivables

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

3.7 Associated Undertakings / Related Parties

The units controlled by the Ministry of Industries and Production, Government of Pakistan and under common controls are considered as associated undertakings of the company. All transactions between the Company and the associated undertakings are accounted for at an arms length, prices determined using "cost plus method".

3.8 Foreign Currency Translation

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

3.9 Employees Retirement Benefits

a) Defined contribution plan

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

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

3.10 Trade and other Payables

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

3.11 Taxation

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

3.12 Deferred Tax

Deferred tax is recognised using balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.13 Revenue Recognition

Revenue from sales is recognized at the time of dispatch of goods with the transfer of significant risks and rewards of ownership. Interest income is accounted for on accrual basis.

3.14 Borrowing Costs

Mark-up, interest and other charges on borrowings which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs i.e. mark-up, interest and other charges are charged to the profit and loss account in the period in which they are incurred.

3.15 Liabilities Against Assets Subject to Finance Lease

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

3.16 Provisions

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

3.17 Cash and Cash Equivalent

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

3.18 Short term Investments

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

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

3.19 Impairment of Assets

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

3.20 Financial Instruments

All financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost as the case may be. A financial asset is de-recognized when the company loses control of its contractual rights that comprise the financial asset. A financial liability is de-recognized when it is extinguished. Any gain or loss on de-recognition of the financial assets or liabilities is taken to profit and loss account currently.

3.21 Off Setting Of Financial Assets and Financial Liabilities

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

3.22 Dividend & Appropriation to reserves

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

4. Schedule of Property, Plant & Equipment

	Free hold	Building		Plant & machinery	Furniture & Fixtures	Vehicles	Electric Equipment	Tools	Total
	land	Office building	Factory building						
(Rupees in Thousand)									
At July 1, 2008									
Cost	1,250,000	3,171	225,766	294,243	20,513	15,972	4,564	5,449	1,819,678
Accumulated depreciation	-	2,649	116,945	171,826	11,707	6,482	3,871	4,590	318,070
Net book value	1,250,000	522	108,821	122,417	8,806	9,490	693	859	1,501,608
Year ended June 30, 2009									
Opening Net book value	1,250,000	522	108,821	122,417	8,806	9,490	693	859	1,501,608
Additions	-	1,244	-	4,301	1,772	4,163	4,231	219	15,930
Revaluation Surplus	3,098,300	-	-	-	-	-	-	-	3,098,300
Disposals									
Cost	-	-	-	(45,772)	-	-	-	-	(45,772)
Depreciation	-	-	-	37,895	-	-	-	-	37,895
Net book value	-	-	-	(7,877)	-	-	-	-	(7,877)
Depreciation charged for the year	-	(29)	(5,441)	(6,005)	(961)	(2,391)	(264)	(98)	(15,189)
Closing Net book value	4,348,300	1,737	103,380	112,836	9,617	11,262	4,660	980	4,592,772
At June 30, 2009									
Cost	4,348,300	4,415	225,766	252,772	22,285	20,135	8,795	5,668	4,888,136
Accumulated depreciation	-	2,678	122,386	139,936	12,668	8,873	4,135	4,688	295,364
Net book Value	4,348,300	1,737	103,380	112,836	9,617	11,262	4,660	980	4,592,772
At July 1, 2009									
Cost	4,348,300	4,415	225,766	252,772	22,285	20,135	8,795	5,668	4,888,136
Accumulated depreciation	-	2,678	122,386	139,936	12,668	8,873	4,135	4,688	295,364
Net book value	4,348,300	1,737	103,380	112,836	9,617	11,262	4,660	980	4,592,772
Year ended June 30, 2010									
Opening Net book value	4,348,300	1,737	103,380	112,836	9,617	11,262	4,660	980	4,592,772
Additions	-	-	-	11,566	4,452	4,718	2,019	147	22,902
Revaluation Surplus	-	6,251	77,362	209,045	-	-	-	-	292,678
Transfer	-	-	-	1,655	-	666	-	-	2,321
Disposals									
Cost	-	-	-	(650)	-	(3,222)	-	-	(3,872)
Depreciation	-	-	-	25	-	2,452	-	-	2,477
Net book value	-	-	-	(625)	-	(770)	-	-	(1,395)
Depreciation charged for the year	-	(399)	(9,038)	(16,216)	(1,235)	(2,553)	(526)	(106)	(30,073)
Closing Net book value	4,348,300	7,589	171,724	318,261	12,834	13,323	6,153	1,021	4,879,205
At June 30, 2010									
Cost	4,348,300	6,761	180,762	334,452	26,737	22,297	10,614	5,615	4,937,938
Accumulated depreciation	-	1,172	9,038	16,191	13,903	8,974	4,661	4,794	58,733
Net book Value	4,348,300	7,589	171,724	318,261	12,834	13,323	6,153	1,021	4,879,205
Annual Rate of Depreciation (%)	-	5	5	5	10	20	10	10	-

4.1 Building and Plant & Machinery were again revalued on June 30, 2009 by an independent valuer M/s Indus Surveyor Co. (Pvt) Ltd., on the basis of fair value / depreciated market value for the period of use resulting in surplus of Rs. 83.623 million and Rs.209.046 million respectively. However, as the revaluation report was received on October 17th, 2009, after the approval of the financial statements by the Board of Directors, the management decided to incorporate the revaluation in the current financial year. Hence, the effect was incorporated from July 1, 2009.

4.2 Land, Building, Steel Structure and Plant and Machinery of the company were earlier revalued in the year 1991, 1997 and 2001 the detail of which is given in the note 27. The land of the company has been further revalued in the year 2009 by an independent valuer, the detail of which is given in note no. 27.4(a). The company has the possession and control of the land and holds valid title. The mutation of the freehold land in the land revenue records is in process.

4.3 Plant & Machinery includes Machinery transferred from Assets Held for Sale at written down value of Rs. 1.655 million. Further more, vehicles includes an amount of Rs.0.633 million transferred from leased assets upon reaching maturity.

4.4 Depreciation for the year has been allocated as follows:

	(Rupees in Thousand)	
	2010	2009
Cost of Goods Sold	25,886	11,544
General and Administrative Expenses	4,187	3,645
	<u>30,073</u>	<u>15,189</u>

4.5 Carrying value of the assets if not revalued are:

Particulars	Cost	Accumulated Depreciation	WDV
	Rs.(000)	Rs.(000)	Rs.(000)
Free Hold Land	753	-	753
Factory Buildings (Including Steel Structure)	85,157	57,844	27,313
Plant and Machinery	204,319	123,335	80,984
Total - 2010	290,229	181,179	109,050
Total - 2009	289,682	173,868	115,814

5. Assets Subject to Finance Lease

	Vehicles (Rupee in Thousand)
At July 1, 2008	
Cost	2,307
Accumulated Amortization	1,419
Net book value	888
Year ended June 30, 2009	
Opening Net book value	888
Additions	-
Disposals	
Cost	-
Amortization	-
Net book value	-
Amortization charged for the year	(178)
Closing Net book value	710
At June 30, 2009	
Cost	2,307
Accumulated Amortization	1,597
Net book Value	710
At July 1, 2009	
Cost	2,307
Accumulated Amortization	1,597
Net book value	710
Year ended June 30, 2010	
Opening net book value	710
Additions	-
Transfers	
Cost	(2,307)
Amortization	1,641
Net book value	(666)
Disposals	
Cost	-
Amortization	-
Net book value	-
Amortization charged for the year	(44)
Closing Net book value	-
At June 30, 2010	
Cost	-
Accumulated Amortization	-
Net book Value	-
Rate of Amortization (%)	20

5.1 Amortization has been charged to General and Administrative Expenses.

		(Rupees in Thousand)	
		2010	2009
6. CAPITAL WORK IN PROGRESS			
	Civil Works	4,899	1,774
	Plant & Machinery	785	785
		5,684	2,559
7. LAND HELD FOR SALE		314,724	314,724
	This represents land of 260.495 kanals of Badami Bagh Works which has been closed down. The title documents of land has been handed over to the Privatization Commission for sale. The sale proceeds of this land will be utilized for payment of long term loan liabilities as stated in note no 22. The fair value of the land is estimated at Rs. 2,631.5 million (2009: Rs. 2,631.5 million). Expression of interests have been received by Privatization Commission in this regard from many parties.		
8. STORES, SPARES AND LOOSE TOOLS			
	Stores	30,110	25,418
	Spares parts	92,462	102,100
	Loose Tools	24,922	24,885
		147,494	152,403
	Less: Provision for slow moving stores	(10,000)	(10,000)
		137,494	142,403
8.1	Stores and spares relating to closed down operations are of Rs. 23.855 million (2009:Rs. 24.512 Million).		
9. STOCK IN TRADE			
	Raw material	133,368	121,752
	Work in process	141,471	216,730
	Finished goods	32,726	106,978
		307,565	445,460
9.1	Stock in trade relating to closed down operations are of Rs. 25.338 million (2009:Rs. 28.427 million).		
10. ASSETS HELD FOR SALE			
	Machinery	20,556	25,654
		20,556	25,654
10.1	The above amount represents machinery of closed down shops of Kot Lakhpat Works (Machine Tool and Power Loom division) as well as the un-installed machinery transferred from Badami Bagh Works.		
11. TRADE DEBTORS - UN SECURED			
	Associated undertakings	537	537
	WAPDA, AJK & Telecommunication Companies	284,376	340,820
	Others	48,500	42,119
		333,413	383,476
	Less: Provision for bad and doubtful debts	537	537
	Associated undertakings	10,514	10,514
	WAPDA	24,061	25,061
	Others	35,112	36,112
		298,301	347,364
11.1	Trade debtors other than those against which provision has been made are considered good by the management.		
11.2	Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (2009: Rs.0.537 million).		
11.3	Trade debtors include an amount of Rs. 7.617 million(2009: Rs. 7.617) million receivable from M/s Metropolitan Steel Corporation Limited against which the company has filed suit for execution of Court decision in favor of the Company.		
11.4	<u>Provision for Bad and Doubtful Debts</u>		
	Opening balance	36,112	36,112
	Less: Recovery of bad debts / adjustments	1,000	-
	Closing Balance	35,112	36,112

		(Rupees in Thousand)	
		2010	2009
12.	<u>LOANS AND ADVANCES TO EMPLOYEES - Unsecured and Considered Good</u>	1,175	1,022
	These include an amount of Rs. 0.666 million (2009: Rs. 0.828 M) for house building loan of previous Chief Executive, which carries mark up ranging from @ 3.750% to 5.623% and Rs. Nil (2009: Rs. Nil) for executives, which are the maximum balances during the year. The loans and advances are considered good.		
13.	<u>ADVANCES TO OTHERS</u>		
	Suppliers - Unsecured and Considered Good	11,279	33,397
	Income Tax	31,498	20,420
	Letters of credit	35,157	13,900
		<u>77,934</u>	<u>67,717</u>
13.1	<u>Suppliers</u>		
	Suppliers	14,103	36,221
	Less:		
	Provision for bad and doubtful debts	2,824	2,824
		<u>11,279</u>	<u>33,397</u>
14.	<u>TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE</u>		
	Trade deposits - Considered good	600	600
	Margin against bank guarantee - Considered good	29,128	38,777
	Letter of Credit - Margin	6,421	716
	Short term prepayments	3,608	6,256
	Other Receivable for Services	-	17
		<u>39,757</u>	<u>46,366</u>
14.1	Balance as on Closing date	3,132	3,132
	Less:		
	Provision against doubtful balances	2,532	2,532
		<u>600</u>	<u>600</u>
14.2	Balance as on Closing date	29,189	38,838
	Less:		
	Provision against doubtful balances	61	61
		<u>29,128</u>	<u>38,777</u>
15.	<u>CASH AND BANK BALANCES</u>		
	Cash in hand	1,658	777
	Cash with banks		
	Current accounts	60,764	3,129
	Saving accounts	21,002	24,137
	Escrow account	252	207
		<u>82,018</u>	<u>27,473</u>
		<u>83,676</u>	<u>28,250</u>
15.1	The company is maintaining saving account with different banks with interest on the daily product basis which was charged @ 6% to 9% (2009 : 7%-10.5%).		
15.2	This represents unutilised credit facility on NBP finances relating to ADP-19 and ADP-46 Projects, which shall be adjusted against loan liability.		
16.	<u>TRADE CREDITORS</u>		
	Creditors	50,546	143,023
		<u>50,546</u>	<u>143,023</u>

		(Rupees in Thousand)	
		2010	2009
17. ACCRUED LIABILITIES			
Accrued expenses		5,779	9,419
		<u>5,779</u>	<u>9,419</u>
18. DEPOSITS AND ADVANCE PAYMENTS			
Advances from customers	18.1	9,353	11,768
Dealership securities	18.2	2,226	2,262
Retention and earnest money		1,433	1,259
		<u>13,012</u>	<u>15,289</u>

18.1 These include interest free advances from associated companies amounting to Rs. 0.183 million (2009: Rs.0.183 million).

18.2 These are payable on demand and do not carry interest.

19. OTHER LIABILITIES			
Gratuity payable to SEC Pension Fund Trust	19.1	-	-
Payable to preference shareholders	19.2	773	773
Payable to State Engineering Corporation (Private) Limited (an associated undertaking)		1,429	5,401
Sales Tax Payable		16,089	30,902
Excise Duty Payable		1,473	3,011
Workers Profit Participation Fund	19.3	24,172	23,698
Others		15,370	17,806
		<u>59,306</u>	<u>81,591</u>
19.1 Movement of Pension Payable is as under:			
Opening balance		-	-
Provision for the year		47	55
		<u>47</u>	<u>55</u>
Less:			
Payment to SEC Pension Fund		47	55
		<u>-</u>	<u>-</u>
19.2	The amount is payable to preference shareholders on account of principal amount due.		
19.3 Workers Profit Participation Fund			
Opening balance		23,698	19,648
Add:			
Allocation for the year		9,596	8,256
Less:			
Payments		(9,122)	(4,206)
		<u>24,172</u>	<u>23,698</u>

20. SHORT TERM BORROWINGS			
From NBP Bank under markup arrangements - Secured:			
Running Finance	20.1	-	-
20.1	During the year short term borrowing was obtained from NBP on markup basis and was secured against first charge over current and fixed assets of the company. The borrowings form part of total credit facility available to the extent of Rs. 230.974 million. The loan carries markup at the rate of 3 months KIBOR plus 2% without floor and cap.		

21. CONTINGENCIES AND COMMITMENTS

Contingencies

- Claims not acknowledged as debts in respect of various sub judice cases filed against the company for which the maximum possible liabilities could be approximately Rs. 2.517 million (2009: Rs. 2.517 Million).
- Guarantees of Rs. 326.584 Million (2009: 295.037 Million) issued by the banks and insurance company to different parties on behalf of the company.

Commitments

- Letters of credit for machinery, raw material and store items amounting to Rs. 6.421 Million (2009: Nil.).

22. GOVERNMENT OF PAKISTAN LOAN- Secured

The amount includes funds provided by the Government, bank loan of the company taken over by the Government and amount payable by the company to different Government department like Customs and Karachi Port Trust. According to the Cabinet Committee Division decision dated 30th May 1994 and 2005 these loans will be settled against the proceeds from Land held for sale (Refer Note no. 7). Therefore, these have been classified as long term payables.

		(Rupees in Thousand)	
		2010	2009
Privatization commission loan	22.1	481,469	481,469
Government Escrow account	22.2	112,937	112,937
Other Government Loan	22.3	100,000	100,000
Federal Government loan for compulsory separation scheme	22.4	309,000	309,000
Federal Government Bonds	22.5	787,442	787,442
		1,309,379	1,309,379
		<u>1,790,848</u>	<u>1,790,848</u>

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

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

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

The Privatization Commission has directly confirmed to the auditors total liability of Rs. 1,581.995 million (2009: Rs. 1,516.718 million) which includes principal loan liability of Rs. 612.922 million and markup of Rs. 969.073 million. However, the rate of markup and calculation of markup was not provided by the privatization commission in response to the letter of auditors. The management and the BOD of the company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, as there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993 and Privatization Commission has never in past confirmed loan liability with markup.

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

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

22.2 The break up of Government Escrow account is as follows:

Customs and other import duties	22.2.1	86,984	86,984
Pakistan Railways freight	22.2.1	12,989	12,989
Karachi Port Trust		12,964	12,964
		<u>112,937</u>	<u>112,937</u>

22.2.1 The company has not provided interest amounting to Rs.41.989 million (accumulated Rs.41.989 million) @ 14% for three years relating to customs and other import duties.(2009: 41.989 million)

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

- 22.4 Federal Government of Pakistan provided to PECO a loan of Rs. 309.000 million @ 10% mark up p.a. to pay off the staff through Compulsory Separation Scheme vide letter No. 1(26) CF 111/93 dated 4th March 2002. Interest on this loan up to year ended June 30, 2010, amounting to Rs. 254.925 million (2009: Rs.224.025 million) including the effect of Rs. 30.900 million (2009: Rs. 30.900 million) for the year has not been accounted for as the company intends to take up the waiver of markup with Government of Pakistan.

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

	(Rupees in Thousand)	
	2010	2009
22.5 Interest bearing bonds	655,138	655,138
Interest free bonds	132,304	132,304
	787,442	787,442

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

23. LONG TERM LOANS

From National Bank Of Pakistan	23.1	35,387	136,042
Less:			
Current portion shown under current liabilities		22,500	59,725
		12,887	76,317

- 23.1 The above includes principal amounting to Rs. Nil (2009: Rs. 77.926 million), old markup amounting to Rs. 12.887 million (2009:Rs. 13.116 million), and frozen markup of Rs. 22.50 million (2009: Rs. 45.00 million) . The principal loan liability of Rs. 77.926 million was fully paid during the year. Out of the frozen markup of Rs. 45.00 million , Rs 22.5 million was paid during the year and balance 22.5 million is repayable in two equal quarterly installments by September 2010. This frozen markup does not carry any interest. The old markup of Rs. 12.887 million is interest free and is repayable in four equal quarterly installments commencing from September 2012 and repayable by June 2013. The principal loan liability carries markup @ 12.82% p.a. These loans are secured by First charge over present and future, current and fixed assets of the company.

24. DEFERRED TAXATION-NET

Deferred tax liability comprises of taxable / (deductible) temporary differences in respect of the following:

Taxable Temporary Differences:

Surplus on revaluation of fixed assets	135,417	42,119
Accelerated Tax Depreciation Allowances	22,768	12,871

Deductible Temporary Differences:

Provision for Doubtful Debts	(14,341)	(14,690)
Provision for Slow moving stores	(3,500)	(3,500)
Finance Lease Arrangements	-	(86)
	140,344	36,714

25. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - SECURED

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

- 25.1 The company had entered into lease agreements with Askari Commercial Bank Ltd. and Askari Leasing Limited to acquire vehicles. During the year, all of the leases matured and the company exercised its option to purchase the leased assets upon completion of lease period.

(Rupees in Thousand)

		2010	2009
25.2	The amount of future payments for finance lease and the period in which these payments become due were:		
	Due within one year	-	955
	Due after one year but within five years	-	-
	Minimum lease Payments (MLP)	-	955
	Less:		
	Finance charge	-	-
	Present value of Minimum Lease Payments	-	955
26.	SHARE CAPITAL		
	<i>Authorized Capital:</i>		
	9,000,000 (2009: 9,000,000) Ordinary shares of Rs. 10/- each	90,000	90,000
	100,000 (2009: 100,000) 7.5% Cumulative redeemable preference shares of Rs. 100/- each	10,000	10,000
		<u>100,000</u>	<u>100,000</u>
	<i>Issued, Subscribed and Paid up Capital:</i>		
	3,162,144 (2009: 3,162,144) Ordinary shares of Rs. 10/- each fully paid in cash	31,621	31,621
	2,528,101 (2009: 2,528,101) Ordinary shares of Rs. 10/- each issued as fully paid up bonus shares	25,281	25,281
		<u>56,902</u>	<u>56,902</u>
26.1	State Engineering Corporation (Pvt.) Ltd., an associated company, holds 1,415,723 (2009: 1,415,723) ordinary shares of Rs. 10/- each as at June 30, 2010.		
27.	REVALUATION SURPLUS		
	Free hold land	27.1	4,661,546
	Building structure on free hold land	27.2	99,541
	Plant and machinery	27.3	151,947
		<u>4,913,034</u>	<u>4,736,958</u>
27.1	Free Hold Land		
	Surplus on revaluation carried out in 1991		925,530
	Surplus on revaluation carried out in 2001	27.4	645,075
	Surplus on revaluation carried out in 2009	27.4(a)	3,098,300
			<u>4,668,905</u>
	Less:		
	Adjustment on account of sale of part of Badami Bagh Works Land in 2001		7,359
			<u>4,661,546</u>
27.2	Building Structure		
	Surplus on revaluation carried out on June 30, 1997	27.5	143,550
	Surplus on revaluation carried out on June 30, 2009	27.5(a)	83,633
	Less:		
	Surplus transferred to accumulated loss in respect of incremental depreciation charged in:		
	Prior years		65,982
	Current year	27.8	5,239
	Related deferred tax liability		2,821
			<u>8,060</u>
			<u>74,042</u>
			<u>61,899</u>
			<u>1,429</u>
			<u>4,083</u>
			<u>65,982</u>

Less:			
Related deferred tax liability			
Balance at the beginning of the year		27,149	28,578
Related deferred tax liability on Revaluation carried out on June 30, 2009		29,272	-
Incremental depreciation		(2,821)	(1,429)
		26,451	(1,429)
		53,600	27,149
		99,541	50,419

27.3 Plant and Machinery

Surplus on revaluation carried out on June 30, 1997	27.6	96,063	96,063
Surplus on revaluation carried out on June 30, 2009	27.5(a)	209,045	-
Less:			
Adjustment on account of sale to date		30,900	27,988
		274,208	68,075
Less:			
Surplus transferred to accumulated loss in respect of incremental depreciation charged in:			
Prior years		28,112	28,212
Adjustment on account of sale		(112)	(1,418)
Current year	27.8	8,088	857
Related deferred tax liability		4,356	461
		12,444	1,318
		40,444	28,112
Less:			
Related deferred tax liability			
Balance at the beginning of the year		14,970	15,955
Related deferred tax liability on Revaluation carried out on June 30, 2009		73,166	-
Realized on disposal of assets		(1,963)	(524)
Incremental depreciation		(4,356)	(461)
		66,847	(985)
		81,817	14,970
	27.7	151,947	24,993

- 27.4 Land of Kot Lakhpat Works was revalued by M/s Indus Surveyors on the average market rate. Value of land before revaluation was Rs. 604.925 million was revalued at Rs. 1,250 million resulting in the surplus of Rs. 645.075 million.
- 27.4(a) The land of Kot Lakhpat works was revalued as at June 30, 2009 by an independent valuer M/s Indus Surveyors (Private) Limited on the basis of average market rate keeping in view the market conditions. The land was revalued at Rs. 4,348 million resulting in surplus of Rs. 3,098.3 million.
- 27.5 Steel structure of Badami Bagh Works (Transferred to Kot Lakhpat works) appearing at Rs. Nil was revalued at Rs. 143.550 million resulting in the surplus of Rs. 143.550 million.
- 27.5(a) Building and Plant & Machinery were again revalued on June 30, 2009 by an independent valuer M/s Indus Surveyor Co. (Pvt) Ltd., on the basis of present depreciated market value for the period of use resulting in surplus of Rs. 83.623 million and Rs.209,045 million respectively. However, as the revaluation report was received on October 17th, 2009, after the approval of the financial statements by the Board of Directors, the management decided to incorporate the revaluation in the current financial year. Hence, the effect was incorporated from July 1, 2009.
- 27.6 Plant and machinery of Badami Bagh Works (Transferred to Kot Lakhpat works) was revalued by M/s Indus Surveyors at Rs. 126.203 million resulting in the surplus of Rs. 96.063 million.
- 27.7 Net revaluation surplus includes Rs. 10,744 million (2009: 14,913 million) relating to machinery held for sale. (Ref. note 10)
- 27.8 As required by the Companies Ordinance, 1984, the incremental depreciation charged during the current year on "Plant and Machinery, Building & Steel Structure" has been transferred from the surplus on revaluation of fixed assets to accumulated losses.

		(Rupees in Thousand)	
		2010	2009
28. SALES - Net			
Sales - Local		1,914,853	1,577,924
Less :			
Sales Tax		223,092	203,407
Excise Duty		14,382	12,884
		1,677,379	1,361,633
29. COST OF GOODS SOLD			
Raw material consumed	29.1	901,741	981,724
Stores and spares consumed		112,282	76,591
Salaries and wages (including all benefits)	29.2	84,139	67,914
Fuel and power		42,574	35,633
Traveling & Conveyance		821	758
Postage, Telegram & Telephone		328	264
Printing, Stationery and Office Supplies		751	667
Inspection Fee		2,556	3,385
Service charges		768	1,614
Processing charges		36,510	17,474
Research and Development		3,622	3,099
Rent, Rate and Taxes		791	743
Repair and maintenance		4,697	4,518
Insurance		640	542
Vehicle running expenses		1,656	918
Other expenses		748	444
Depreciation on Transfer from Assets Held for Sale		1,108	-
Depreciation	4.4	25,886	11,544
		319,877	226,108
		1,221,618	1,207,832
Opening Stock of Work in Process		216,730	122,246
Closing Stock of Work in Process		(141,471)	(216,730)
		75,259	(94,484)
Cost of goods manufactured		1,296,877	1,113,348
Opening Stock of Finished Goods		106,978	28,936
Closing Stock of Finished Goods		(32,726)	(106,978)
		74,252	(78,042)
		1,371,129	1,035,306
29.1 Raw Material Consumed			
Opening Stock		121,752	117,602
Add:			
Purchases		913,357	985,874
		1,035,109	1,103,476
Less:			
Closing Stock		133,368	121,752
		901,741	981,724
29.2	This includes amount paid to contractor for wages of workers on contract.		
30. SELLING AND DISTRIBUTION EXPENSES			
Salaries and wages (including all benefits)		3,562	2,982
Traveling and conveyance		589	776
Entertainment		144	132
Repair and maintenance		639	6
Postage, telegrams and telephone		152	118
Printing, stationery and office supplies		157	376
Rent, Rate and Taxes		110	-
Publishing of Tender and Sales Promotion		2,507	3,053
Service charges		2,567	5,461
Miscellaneous		1,534	1,284
		11,961	14,168

		(Rupees in Thousand)	
		2010	2009
31. FREIGHT AND FORWARDING EXPENSES			
	Freight and forwarding expenses	25,587	22,182
32. GENERAL AND ADMINISTRATIVE EXPENSES			
	Salaries and wages (including all benefits)	25,761	20,535
	Provident Fund	52	51
	Gratuity	47	55
	Traveling and conveyance	3,345	3,240
	Entertainment	458	239
	Legal and professional	630	533
	Rent, rates and taxes	1,469	1,557
	Fuel, gas and electricity	2,087	1,752
	Repair and maintenance	2,916	1,366
	Postage, telegrams and telephone	861	729
	Printing, stationery and office supplies	2,035	1,332
	Advertisement	92	120
	Training	51	173
	Amortization of leased assets	5.1	44
	Insurance	552	494
	Donations	32.1	-
	Vehicle running expenses	2,691	2,424
	Miscellaneous	2,638	2,384
	Depreciation	4.4	4,187
		<u>49,916</u>	<u>41,807</u>
32.1	2010 Nil. (2009: Donation of Rs. 1.00 Million was paid to State Engineering Corporation for onward submission to Prime Minister's Fund for Sawat. The Chairman of SEC is also the Chairman of PECO. The company has no interest in the Donee's Fund.)		
33. OTHER CHARGES			
	Auditor's remuneration	33.1	609
	Miscellaneous charges		148
			<u>757</u>
33.1	Auditors Remuneration		
	Audit Fee		500
	Half yearly review fee		65
	Tax consultancy charges		44
			<u>609</u>
34. FINANCIAL CHARGES			
	Mark up on short term bank borrowings		12,248
	Mark up on Long term Loan		8,134
	Bank charges and commission	34.1	5,688
	Financial charges on finance lease		48
			<u>26,118</u>
			<u>82,551</u>

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

35. OTHER INCOMEIncome from Financial Assets

Interest / Profit

-On deposits with banks

-On short term investments

Recovery of Call Deposits

2,102	2,824
-	1,130
-	385
2,102	4,339

Income from non - Financial Assets

Miscellaneous income

Gain on disposal of tangible fixed assets

Gain on sale of assets held for sale

35.1

35.1

2,152	9,542
1,220	29,794
406	634
3,778	39,970
5,880	44,309

35.1 Detail of Disposal of Tangible Fixed Assets during the year

(Rupees in Thousand)

Description	Original / Revalued Cost	Accumulated Depreciation	Written Down Value	Sale Price	Profit / (Loss)	Particular of Purchaser	Mode of Sale
PROPERTY, PLANT & EQUIPMENT - TANGIBLE							
PLANT & MACHINERY							
Centre Lathe CL-305	250	11	239	385	146	Masood-ul-Hassan House No.P1313 Street No.5 Nisar Colony Faisalabad.	Negotiation
Shearing Machine 2" to 2- 1/2"	50	2	48	60	12	M. Ijaz House No.28 Street No.19 Muhalla Nabi Pura Badami Bagh Lahore	Negotiation
End Cropping machine C-04	350	12	338	380	42	M. Ijaz House No.28 Street No.19 Muhalla Nabi Pura Badami Bagh Lahore	Negotiation
Sub-Total	650	25	625	825	200		
VEHICLES							
Toyota Corolla LJZ-241	945	682	263	263	-	Mr Imtiaz ur Raheem 373-A-1 Township Lahore	As per Company Policy
Cultus LXV-8220	540	472	68	360	292	M. Ijaz House No.28 Street No.19 Muhalla Nabi Pura Badami Bagh Lahore	Negotiation
Toyota LXN-8933	894	803	91	547	456	Imran Sarwar House No. 2 Street No.1 Faisal Bazar Kanchy Ammer Sidhu Lahore	Negotiation
Mehran LZP-6680	344	237	107	300	193	Muhammad Hanif House No.181-D Muhalla Gulshan Ravi Lahore.	Negotiation
Tractor	499	258	241	320	79	Nadeem ul Haq House No. 23/24 Block 13 Farooq-E-Azam Road Sergiotha	Negotiation
Sub-Total	3,222	2,452	770	1,790	1,020		
TOTAL	3,872	2,477	1,395	2,615	1,220		
ASSETS HELD FOR SALE							
Grinders, Lathe, Drill & Handpress etc.	2,205	-	2,205	2,380	175	Nawaz & Co Lahore	Negotiation
End Cropping machine C-04 & Billet Shearing Machine	129	-	129	360	231	M. Ijaz House No.28 Street No.19 Muhalla Nabi Pura Badami Bagh Lahore	Negotiation
TOTAL	2,334	-	2,334	2,740	406		
GRAND TOTAL - 2010	6,206	2,477	3,729	5,355	1,626		
GRAND TOTAL - 2009	49,855	37,895	11,960	42,388	30,428		

36. TAXATION	(Rupees in Thousand)	
	2010	2009
Current		
for the year	(68,778)	(17,653)
for prior years	879	(101)
Deferred		
for the year	(1,192)	(49,469)
	<u>(69,091)</u>	<u>(67,223)</u>

The company's income tax assessments have been finalized upto and including Tax year 2009.

Accounting profit for the year before tax	188,195	201,171
Reconciliation of tax charge for the year		
Tax on Accounting Profit at applicable rate @ 35%	(65,868)	(70,410)
Tax effect of amounts that are inadmissible for tax purposes	(10,574)	(5,406)
Tax effect of amounts that are admissible for tax purposes	7,866	5,460
Adjustment of brought forward tax loss	-	41,668
Adjustment of minimum tax	-	11,035
Tax effect relating to prior years	879	(101)
Tax effect of timing differences	(1,192)	(49,469)
Others	(202)	-
	<u>(69,091)</u>	<u>(67,223)</u>

37. **BASIC EARNING PER SHARE**

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

Profit after Taxation (Rupees in Thousand)	119,104	133,948
Weighted average number of Ordinary shares (in Thousand)	5,690	5,690
Earning per share (Rupees)	20.93	23.54

38. **TRANSACTIONS WITH RELATED PARTIES**

Transactions with related parties/associated undertakings, other than remuneration and benefits to key management personnel under the terms of their employment (Ref. note 44) and other than the payments made to the retirement benefit plans are as under:

State Engineering Corporation (Pvt) Limited (SEC)

Outstanding SEC Service Charges Paid	3,675	5,000
SEC Service Charges written off	-	10,000
Reimbursement of Expenses	188	121

SEC Pension Fund Trust

Payments made during the year against due contributions	47	55
---	----	----

Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (2009: Rs. 0.537 million).

Purchase/sale of goods and services are made in accordance with accounting policy as explained in note 3.7.

39. **DISCONTINUING OPERATIONS**

39.1 All divisions of the company ,such as Structure Division (STR) , Machine Tool, Power Loom, Pumps, Electric Motor, Bicycle, Furnace and Rolling Mill's had earlier been closed down during the period 2000 to 2003, as per the instructions of the Government. The Plant and Machinery of two divisions , Machine tool and Power Loom, had been transferred to "Assets held for sale" in the year 2001, and the management had no intention to sell the Plant and machinery of remaining divisions of the company. However, taking in to consideration, the successful operation of the Structure Division (STR) of the company and demand of pumps and motors, the Board of Directors decided to bring into operation Pumps, Electric Motor, Foundry and Rolling Mills division of the company. This decision helped to improve the efficiency of the Structure Division (STR) and contributed towards the revenue generation of the company.

- 39.2 The costing system of the company does not permit a realistic segregation of production cost as explained in note no. 40. Therefore, the expenses attributable to the discontinuing operations is not practicable. However the above results of previous period do not have a material impact on the results of the continuing operations of the company.
- 39.3 The carrying amount of assets of discontinuing operations of Machine Tool and Power Loom as at June 30, is disclosed in note no. 10 and its related revaluation surplus is disclosed in note no. 27.7 of the financial statements.
- 39.4 The carrying amount of stores, spares and loose tools and stock in trade is stated in note no. 8 and 9, respectively.

40. SEGMENT INFORMATION

Owing to the significant transfer of material at various stages of manufacture between different units, the costing system does not permit a realistic separation of working results of the units and the items produced, accordingly, segment information can not be prepared. During the current year Structure (STR) Division of the company remain in operation and the operational results of the other divisions i.e. pumps, electric motor and rolling mills does not meet the minimum threshold. The financial information has been prepared on the basis of single reportable segment.

41. FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL ASSETS as per Balance Sheet

	(Rupees in Thousand)	
	2010	2009
Trade debtors	298,301	347,364
Loans and Advances to Employees	1,175	1,022
Trade deposit & Other Receivables	36,149	40,110
Long term security deposits	1,938	2,925
Cash and bank balances	83,676	28,250
	<u>421,239</u>	<u>419,671</u>

FINANCIAL LIABILITIES as per Balance Sheet

Government of Pakistan Loans	1,790,848	1,790,848
Long term loans	35,387	136,042
Lease liability	-	955
Deposits and advance payments	3,659	3,521
Trade creditors	50,546	143,023
Accrued Liabilities	5,779	9,419
Accrued Mark-up	5,910	30,932
Unclaimed dividend	12,226	7,803
Other Liabilities	17,572	23,980
	<u>1,921,927</u>	<u>2,146,523</u>

41.1 Fair value of financial instruments

The carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

42. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

FINANCIAL RISK MANAGEMENT

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

Risk management framework

The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

42.1 CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and loans to/due from related parties.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage exposure to credit risk in respect of trade receivables, management reviews credit worthiness, references, establish purchase limits taking into account the customer's financial position, past experience and other factors. Limits are reviewed periodically and the customers may transact with the Company only on a prepayment basis.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is

	(Rupees in Thousand)	
	2010	2009
Long term deposits	1,938	2,925
Trade debts	298,301	347,364
Loans and advances to employees	1,175	1,022
Trade deposits and other receivables	36,149	40,110
Cash & bank balances	83,676	28,250
	421,239	419,671

Based on past experience the management believes that no impairment allowance is necessary as there are reasonable grounds to believe that the amounts will be recovered in short course of time.

Bank balances are held only with reputable banks with high quality credit ratings.

42.2 LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. For this purpose the Company has sufficient running finance facilities available from various commercial banks to meet its liquidity requirements. Further liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

Following is the maturity analysis of financial liabilities:

	Upto 1 year	Between 1 to 5 years	Total
Non derivative financial liabilities			
Government of Pakistan Loans	-	1,790,848	1,790,848
Long term loans	22,500	12,887	35,387
Deposits and advance payments	3,859	-	3,859
Trade creditors	50,546	-	50,546
Accrued liabilities	5,779	-	5,779
Accrued mark-up	5,910	-	5,910
Unclaimed dividend	12,226	-	12,226
Other liabilities	17,572	-	17,572
2010	118,192	1,803,735	1,921,927

	Upto 1 year	Between 1 to 5 years	Total
Non derivative financial liabilities			
Government of Pakistan Loans	-	1,790,848	1,790,848
Long term loans	59,725	76,317	136,042
Lease Liability	955	-	955
Deposits and advance payments	3,521	-	3,521
Trade creditors	143,023	-	143,023
Accrued Liabilities	9,419	-	9,419
Accrued mark-up	30,932	-	30,932
Unclaimed dividend	7,803	-	7,803
Other liabilities	23,980	-	23,980
2009	279,358	1,867,165	2,146,523

42.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effectively as at 30 June. The rates of mark-up have been disclosed in note 20 and 23 to the financial statements respectively.

42.3 **MARKET RISK**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

42.3.1 **Currency Risk**

Currency Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is not significantly expose to currency risk as the company does not maintain bank accounts in foreign currencies.

42.3.2 **Interest Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and entering into interest rate swap contracts.

The company's interest rate risk arise from long term demand finance loan and short term running finance facilities. The company analysis its interest rates exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into accounts various other financing options available.

As at June 30, 2010, if interest rates on company's bank borrowings had been 1% higher / lower the markup expenses would have been higher / lower by Rs. 1,469.

42.3.3 **Fair value of financial assets and liabilities**

The carrying values of financial assets and financial liabilities reported in balance sheet approximate their fair values.

43. CAPITAL MANAGEMENT

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

44. CHIEF EXECUTIVE AND DIRECTORS' REMUNERATION

	2010		2009	
	Chief Executive	Director	Chief Executive	Director
	-----Rupees in Thousand-----			
Remuneration	2,190	2,076	1,583	1,656
Reimbursable expenses	598	-	695	-
Perquisites	67	-	86	-
	<u>2,855</u>	<u>2,076</u>	<u>2,364</u>	<u>1,656</u>
Number of persons	1	1	1	1

44.1 Amount charged in the accounts for 8 directors for Meeting fees were Rs. 1.660 million (2009 : Rs. 1.040 million) for meetings of Board of Directors and sub committees of Board of Directors.

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

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue on September 25, 2010 by the Board of Directors of the company.

46. PLANT CAPACITY AND ACTUAL PRODUCTION

	U/M	Capacity Installed	Assessed	Actual Production	
				2010	2009
Pumps / turbines	No.	3,400	4,000	392	371
Electric motors	No.	16,500	6,500	543	273
Rolled material	Tons	80,000	30,000	1,437	1,343
Steel fabrications (STR)	Tons	20,000	30,000	11,206	13,286
Concrete Mixture	No.	350	350	-	-

46.1 The main reason for production below capacity is due to decrease in orders, increased cost of production and electricity crisis.

47. NON ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Board of Directors in their meeting held on September 28, 2010 has recommended final cash dividend @ Rs. 5 / share(i.e 50%) amounting to Rs. 28.451 million on the existing paid up value of the ordinary share capital for approval of the shareholders in the Annual General Meeting to be held on October 30, 2010.

48. GENERAL

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

48.2 The corresponding figures have been reclassified for the purpose of comparison and better presentation. However no significant reclassification was made during the year.

Incorporation No. 0000348

Shareholders	From	To	Total Shares
1,399	1	100	40,145
580	101	500	135,458
142	501	1,000	98,355
103	1,001	5,000	197,631
22	5,001	10,000	153,295
1	10,001	15,000	12,075
5	15,001	20,000	94,400
3	25,001	30,000	86,300
1	30,001	35,000	32,845
1	35,001	40,000	40,000
1	40,001	45,000	43,776
1	45,001	50,000	46,100
1	65,001	70,000	69,600
1	80,001	85,000	80,200
1	90,001	95,000	94,566
1	125,001	130,000	128,790
1	135,000	140,000	135,240
1	145,001	150,000	146,500
1	165,001	170,000	165,254
1	505,001	510,000	510,000
1	560,001	565,000	562,892
1	1,400,001	1,405,000	1,401,100
1	1,415,001	1,420,000	1,415,723
2,270			5,690,245

<u>Categories of shareholders</u>	<u>Shares held</u>	<u>Percentage</u>
Directors, Chief Executive Officers, & their spouse and minor children	10,729	0.19%
Associated Companies, Undertakings & Related Parties	1,415,723	24.88%
ICP (including IDBP)	131,330	2.31%
Banks, Development Finance Institutions & Non Banking Financial Institutions	140,606	2.47%
Insurance Companies	229,030	4.02%
Modarabas and Mutual Fund	8,400	0.15%
Share holders holding 10% or more of total capital	2,816,823	49.50%
General Public		
a. Local	1,455,459	25.58%
b. Foreign	2,580	0.05%
Others:		
Joint Stock Companies	846,192	14.87%
Private Limited Companies	1,401,100	24.62%
Investment Companies	9,090	0.16%
Cooperative Societies	6,145	0.11%
Trusts	30,404	0.53%
Associations	12	0.00%
Abandoned Properties Organization	5,754	0.10%
Government Authority	1	0.00%

	<u>% Age</u>	<u>Shares Held</u>
ASSOCIATED COMPANIES, UNDERTAKINGS & RELATED PARTIES		
State Engineering Corporation Ltd.	24.88	1,415,723
INVESTMENT CORPORATION OF PAKISTAN (ICP)	2.31	131,330
DIRECTORS, CEO THEIR SPOUSES & MINOR CHILDREN		
Mr. Ghulam Rasool Ahpan		Govt. Nominee
Khawaja Shaukat Ali		Govt. Nominee
Mr. Khizar Hayat Khan		Govt. Nominee
Mr. Muhammad Arif Habib	0.02	1,000
Mr. Liaqat Mohammad	0.07	3,700
Mr. Rashid Ali Khan	0.02	1,000
Mr. Mohammad Shabir Malik	0.05	2,950
Mr. Muhammad Iqbal	0.02	1,027
Mirza Mahmood Ahmad	0.02	1,000
Mrs. Uzma Shabir (Wife of Mr. Mohammad Shabir Malik)	0.00	52
PUBLIC SECTOR COMPANIES AND CORPORATIONS		Nil
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARBAS & MUTUAL FUNDS		
National Bank of Pakistan - Trustees Department	2.38	135,292
M/s Habib Bank Limited	0.00	25
M/s United Bank Limited	0.09	5,259
M/s Bank of Bahawalpur Ltd	0.00	30
IDBP (ICP Units)	2.26	128,790
M/s Pakistan Insurance Corporation	0.77	43,776
State Life Insurance Corporation Ltd	2.90	165,254
M/s Gulf Insurance Co. Ltd	0.35	20,000
Mudarba & Mutual Funds	0.15	8,400
SHARES HELD BY THE GENERAL PUBLIC	25.58	1,455,459
SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL		
State Engineering Corporation Ltd	24.88	1,415,723
Rotocast Engineering Company (Pvt) Limited	24.62	1,401,100
Holding of CDC	61.43	3,495,327

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

FORM OF PROXY

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

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

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

as a proxy of vote on my / our behalf at the Annual General Meeting of the Company to be held
 on Saturday, October 30, 2010 at 10:30 a.m. at Hotel Ambassador, 7- Davis Road, Lahore.

Signed this _____ day of _____ 2010

WITNESS

Signature _____

Name _____

Address _____

Signature

Please affix
 Rupees five
 Revenue Stamp

Note:

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





A Company of 

PAKISTAN ENGINEERING COMPANY LIMITED

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