بِسْمِ اللّٰہِ الرَّحْمٰنِ الرَّحِیْمِ

الرَّاشِی وَالْمُرْتَشِی کِلَاھُمَا فِی النَّار

رشوت لینے والا اور دینے والا دونوں جہنمی ہیں

Contents

COMPANY INFORMATION

Board of Directors

Mr. Ghulam Rasool Ahpan (Chairman)
Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz(Mil) (Chief Executive)
Ms. Nuzhat Fatima
Mr. Muhammad Arif Habib
Mr. Rashid Ali Khan
Mr. Liaqat Mohammad
Mr. Mohammad Shabir Malik
Mr. Muhammad Iqbal
Mirza Mahmood Ahmad

Board Audit Committee

Mirza Mahmood Ahmad (Chairman)
Mr. Liaqat Mohammad
Mr. Muhammad Iqbal
Mr. Mohammad Shabir Malik

Board Finance Committee

Mr. Rashid Ali Khan (Chairman)
Mr. Muhammad Arif Habib
Ms. Nuzhat Fatima

Board HR Committee

Mr. Muhammad Iqbal (Chairman)
Mr. Mohammad Shabir Malik
Mr. Liaqat Mohammad

Receivable Committee

Mr. Liaqat Mohammad (Chairman)
Brig. Balal Ahmed Khan (Retd)
Mr. Muhammad Iqbal
Mr. Mohammad Shabir Malik

H.O. & Registered Office

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

Plant

Kot Lakhpat, Lahore.

CFO & Company Secretary

Mian Anwar Aziz

Bankers

National Bank of Pakistan
United Bank Limited
Summit Bank

External Auditors

M/s Fazal Mahmood & Co.
Chartered Accountants

Shares Registrar

M/s Scarlet IT System (Pvt) Ltd
24 – Ferozpur Road,
Near Mozang Chungi, Lahore

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

* Safes, Strong Room Doors & Steel Lockers.

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

* Foundry Products.

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

* Rolled Products

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

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.

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.

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.

Statement of Ethics & Business Practices

1. The Company's Policy is to conduct business with honesty and integrity and to 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 interest should be avoided, where it exists it should be disclosed and guidance sought.

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

FINANCIAL HIGHLIGHTS

Rs. in Million

	2011	2010	2009	2008	2007	2006
Trading Results						
Sales – Net	712.177	1,677.379	1,361.633	1,036.919	983.499	834.706
Cost of Sales	677.119	1,371.129	1,035.306	806.727	760.336	617.264
Gross Profit	35.058	306.250	326.327	221.188	223.163	217.442
Admn, Gen. & Selling Exp.	71.595	87.464	78.157	63.315	58.130	38.703
Operating Profit/(Loss)	(36.537)	218.786	248.170	157.873	165.033	178.739
Financial Charges	17.540	30.684	82.551	8.260	8.591	17.994
Other Charges etc.	8.960	0.757	0.501	1.054	10.838	47.909
Other Income	8.312	5.474	44.309	18.784	63.304	6.815
Profit/(Loss) before Tax	(54.725)	183.223	201.171	168.469	201.628	113.668
Net Profit/(Loss) after Tax	(30.594)	114.538	133.948	109.447	312.047	1,089.494
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	4,884.234	4,879.205	4,592.772	1,501.608	1,446.760	1,447.021
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
Fixed Capital Expenditure	5,211.929	5,199.613	4,910.765	1,819.125	1,765.647	1,763.133
Key Indicators						
Gross Profit / (Loss) Ratio	4.92	18.26	23.97	21.33	22.69	26.05
Operating Profit / (Loss) Ratio	(5.13)	13.04	18.23	15.23	16.78	21.41
Operation Expenses Ratio	10.05	5.21	5.74	6.11	5.91	4.64
Profit/(Loss) Before Tax Ratio	(7.68)	10.92	14.77	16.25	20.50	13.62
Net Profit/(Loss) Ratio	(4.30)	6.83	9.84	10.56	31.73	13.12
Earning Per Share	(5.38)	20.13	23.54	19.23	54.84	19.24
Working Capital Turnover	610.342	716.449	737.846	650.119	577.894	420.406
Current ratio	2.32	4.28	3.01	3.74	3.63	2.46
Quick ratio	1.10	2.24	1.41	2.12	2.16	1.34

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 62nd Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7- Davis Road, Lahore, on Monday, October 31, 2011 at 10.30 A.M. to transact the following business: -

1. To confirm Minutes of 61st Annual General Meeting held on October 30, 2010.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2011 together with the Auditors' and Directors' reports thereon.
3. To appoint Auditors for the year ending June 30, 2012 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 2012.
4. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD
(Mian Anwar Aziz)
Company Secretary

Lahore: September 27, 2011.

NOTES:

1. The Share Transfer Books of the company shall remain closed from 24, October 2011 to 01, November 2011. (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 System (Pvt.) Limited, 24 Ferozpur Road, Near Mozang Chungi, Lahore at the close of business on October 23, will be treated in time.
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, Shahra-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. 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 alongwith the audited financial statements of the Company for the year ended June 30, 2011.

Performance Outlook

During the year under review stress on business stability emerged mainly from Power and Gas shortages, increase in petroleum prices and general inflation slow down of the overall economic activity. The increase in material and other input costs could not be passed on to the customers due to very tough competitions in the local market. 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 has made an endeavor for upgradation of Foundry Division.

Product Diversification

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

- -Solar Batteries
- -Solar UPS / Generators
- -Solar Rickshaw
- -Up gradation of Foundry

Financial Performance

The sale revenue for the year ended 30.06.2011 was Rs. 712 million lower by 58 % compared to the previous year' sale revenue of Rs. 1,677 million. The gross profit earned during the year, however was Rs. 35 million against Rs. 306 million compared to the last year. The loss after tax during the period under review from continuous operations was Rs. 36 million against profit of Rs. 114 million of last year.

Earning per share dropped to Rs. (5.38) per share against Rs. 20.13 per share of the corresponding of the last 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 decreased by 18 % as compared to the previous year mainly due to decrease in sale. Financial charges also decreased from Rs. 30.7 million of last year to Rs. 17.5 million during the current period.

	Rupees in Thousand	
FINANCIAL RESULTS AND APPROPRIATIONS	Year ended 30.06.2011	Year ended 30.06.2010
Profit / (Loss) from Operations	(63,037)	187,345
Other Income	8,312	5,474
Workers' Profit Participation Fund	-	(9,596)
Profit/(Loss) before Taxation	(54,725)	183,223
Taxation:		
Current Year	(7,896)	(67,757)
Deferred	26,636	(1,192)
Profit/(Loss) after Tax from Continuing Operations	(35,985)	114,274

APPROPRIATIONS:

	Rupees in Thousand	
	Year ended 30.06.2011	Year ended 30.06.2010
The following appropriations were made during the year.		
Un appropriated Profit (Loss) brought forward	(1,006,015)	(1,056,203)
Less: Final dividend for the year ended June 30, 2009 and June 30, 2010 @ Rs. 7.50 per share & Rs. 5.00 per share respectively.	(28,451)	(42,677)
Dividend for the half year ended on 31 Dec. 2009 @ Rs. 5.00 per share.	-	(28,451)
Profit / (Loss) for the year	(30,594)	114,538
Transfer from "Surplus on Revaluation of Fixed Assets"	19,211	14,164
Effect of restatement of figures	-	(7,386)
Loss Carried Forword	(1,045,849)	(1,006,015)

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:

1) Mr. Ghulam Rasool Ahpan
2) Brig Balal Ahmed Khan (Retd.) Sitara-e-Imtiaz (Mil.)
3) Ms. Nuzhat Fatima

BOARD OF DIRECTORS MEETINGS

During the year 2010-11, five meetings of the Board of Directors were held. The attendance of the Board members was as follows:

Mr. Ghulam Rasool Ahpan	5
Khawaja Shaukat Ali	5
Mr Khizar Hayat Khan	3
Mr. Muhammad Arif Habib	2
Mr. Liaqat Mohammad	5
Mr. Rashid Ali Khan	4
Mr. Mohammad Shabir Mailk	4
Mr. Muhammad Iqbal	5
Mirza Mahmood Ahmad	3
Mr. Ahsan Ali Mangi	1

An orientation course was arranged for the directors to acquaint them with their duties and responsibilities and to enable them to manage the affairs of the company.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the company is annexed.

EARNING PER SHARE

Loss per share for the year ended 30th June, 2011 was Rs. 5.38 as compared to Profit per Share of Rs. 20.13 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.

1. 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.

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 for CSS. The issue of interest on funds provided by the Govt. has been taken up by the members of PECO Loans Committee with the Govt. of Pakistan, and the issue is pending for settlement.

c- INTEREST ON WORKERS' PROFIT PARTICIPATION FUND
Interest on Workers' Profit Participation Fund amounting to Rs. 18.327 million has been provided in the accounts for the year ended on 30.06.2011. The amount was utilized by the Company and interest has been accrued in terms of provision of Workers' Profit Participation Fund Act.

d- GOVERNMENT OF PAKISTAN LOANS
The Govt. of Pakistan provided funds for (i) Shifting of Plant and Machinery from Badami Bagh to Kot Lakhpat, (ii) Custom duties, Port charges and Railway Freight, and (iii) VSS/CSS, etc. etc. The Members of the PECO Loan Committee took up the issue with the Govt. of Pakistan for resolving. In this regard, various meetings have been held, lastly on 9.6.2011 and 23.7.2011, and the matter is pending for settlement.

STATEMENT IN COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The Board regularly reviews the company's strategic direction. Annual plans and performance targets for business are set by the Chief Executive and are reviewed in total by the Board in the light of the Company's overall objectives. The Board is committed to maintain the high standards of good Corporate Governance. The company has been in compliance with the provisions set out by the Securities & Exchange Commission of Pakistan and accordingly amended listing rules of the Stock Exchanges.

The Board of Directors State that:

1. The financial statements prepared by the management of the company, fairly present its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained.
3. Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There is no doubt upon the company's ability to continue as a "Going Concern".
7. There has been no material departure from the best practices of Corporate Governess, as detailed in the Listing Regulations.
8. The Company has fully complied with the Best Practices on Transfer Pricing as contained in the listing regulations of the stock 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, ensures their independence with respect to the services performed for the Company and makes 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. Mohammad 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. 9 to the Accounts.

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' 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 27, 2011	Ghulam Rasool Ahpan	Brig Balal Ahmed Khan (Retd)
Lahore		(Sitara -e- Imtiaz)
	(Chairman)	Chief Executive

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2011

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 NBFI 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 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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
Chief Executive

Lahore:
Dated: Sept. 27, 2011

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 for the year ended June 30, 2011 prepared by the Board of Directors of PAKISTAN ENGINEERING COMPANY LIMITED (the company) to comply with the Listing Regulation No. 35 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 dose not. A review is limited primarily to inquiries of the company's 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 requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transaction and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately place before the audit committee. We are only required to check the approval of the 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 dose not appropriately reflect the status of the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended June 30, 2011.

FAZAL MAHMOOD & COMPANY
Chartered Accountants
Engagement Partner: Sh. Atif Farooq

Lahore:
Sept. 27, 2011

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of PAKISTAN ENGINEERING COMPANY LIMITED as at June 30, 2011 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 million) @ 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 6.2.1).

b) Interest amounting to Rs.30.900 million for the year ended June 30, 2011 (accumulated Rs.285.825 million) has not been provided on funds provided by Government of Pakistan for compulsory separation scheme (CSS). (Ref. Note 6.4).

Had the provision for interest in respect of paragraphs (a) to (b) been made in the financial statements the loss for the year would have been higher by Rs.30.900 million and accumulated loss would have been increased by Rs. 327.814 million.

c) An amount of Rs.10.616 million (2010: Rs.9.112 million) was utilized from the Workers' Profit Participation Fund for welfare of "Workers on Contract" which is not in accordance with the Companies Profits (Workers' Profit Participation) Act 1968. (Ref. Note 9.4)

d) The Government of Pakistan loans (refer Note. 6) have been stated at cost which is not in accordance with the requirement of "IAS-39 Financial Instruments: Recognition and Measurement", which requires financial liabilities to be initially measured at fair value and subsequently to be measured at amortized cost using effective interest method. The management believes that due to uncertainty regarding repayment the fair value and amortized cost cannot be ascertained and therefore these loans have been carried at the value initially recognized. In the absence of an exercise to ascertain the amortized cost of these loans by the management, the financial effect on the financial statements of the required adjustments, if any, cannot be quantified.

Except for the effect of the matters referred to in paragraphs (a) to (d) above and the extent to which they affect the annexed financial statements, we report that;

e) In our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

f) In our opinion:

i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii. the expenditure incurred during the year was for the purpose of the Company's business; and

iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

g) In our opinion, except for the matters referred to in paragraph (a) to (d) above and to the extent to which they 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 the 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 June30, 2011 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year then ended; and

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

We further draw attention to the following notes to the financial statements;

i. note. 2.1 to the financial statements, which states that the Company has incurred after tax loss of Rs. 30.594 million resulting in accumulated loss of Rs.1,045.849 million along with liquidity problems faced by the company. These conditions along with matters as stated in Note.11 to the financial statements indicate the existence of a material uncertainty which may cast doubt about the Company’s ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

ii. note. 6.1.1,6.2.2,6.3,6.5.2,11.1.3 and 11.1.4 to the financial statements, which describes the uncertainty related to the difference between the amount due as per Company’s records and amounts claimed by the Privatization Commission and Finance Division as per their confirmation in respect of which reconciliation exercise is currently in progress through Ministry of Finance. The ultimate outcome of the matter cannot presently be determined. Furthermore, the confirmation from Finance Division in respect of Federal Government loan balances (notes. 6.2, 6.3, 6.4, & 6.5) was received for the period ended December 31, 2010. However, despite of our confirmation request and several reminders no confirmation has been received from the Finance Division in respect of the above Federal Government loan balances for the year ended June 30, 2011. Our opinion is not qualified in respect of this matter.

FAZAL MAHMOOD & COMPANY
Chartered Accountants
Engagement Partner: Sh. Atif Farooq

Lahore:
Sept. 27, 2011

BALANCE
AS AT

EQUITY & LIABILITIES

	Note	2011	2010	2009
		Rupees in Thousand	Re-stated	Re-stated
SHARE CAPITAL & RESERVE				
SHARE CAPITAL	4.	56,902	56,902	56,902
REVENUE RESERVES - GENERAL		10,000	10,000	10,000
ACCUMULATED LOSS		(1,045,849)	(1,006,015)	(1,063,589)
		(978,947)	(939,113)	(996,687)
SURPLUS ON REVALUATION OF FIXED ASSETS	5	4,893,823	4,913,034	4,736,958
NON - CURRENT LIABILITIES				
GOVERNMENT OF PAKISTAN LOANS	6.	1,790,848	1,790,848	1,790,848
LONG TERM BORROWINGS	7.	4,777	12,887	76,317
DEFERRED TAX LIABILITY - Net	8.	113,708	140,344	36,714
		1,909,333	1,944,079	1,903,879
CURRENT LIABILITIES				
Trade & Other Payables	9.	331,285	152,821	264,511
Mark-up Accrued - on Short term borrowing		3,101	5,910	30,932
Short Term Borrowing	10.	108,638	-	-
Current maturity of long term borrowings	7.	-	22,500	59,725
Current maturity of liabilities against assets subject to finance lease		-	-	955
Provision for Taxation - Net		20,768	37,280	-
		463,792	218,511	356,123
CONTINGENCIES AND COMMITMENTS	11.	-	-	-
TOTAL EQUITY AND LIABILITIES		6,288,001	6,136,511	6,000,273

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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
(Chief Executive)

Mohammad Shabir Malik
(Director)

SHEET
JUNE 30, 2011

	Note	2011	2010	2009
		Rupees in Thousand		
			Re-stated	Re-stated
ASSETS				
NON - CURRENT ASSETS				
PROPERTY, PLANT AND EQUIPMENT	12.	4,897,205	4,884,889	4,595,331
ASSETS SUBJECT TO FINANCE LEASE		-	-	710
LONG TERM SECURITY DEPOSITS		1,938	1,938	2,925
		4,899,143	4,886,827	4,598,966
LAND HELD-FOR-SALE	13.	314,724	314,724	314.729
CURRENT ASSETS				
Stores, Spares and Loose Tools	14.	140,221	137,494	142,403
Stock-in-trade	15.	421,776	307,565	445,460
Assets held-for-sale	16.	-	20,556	25,654
Trade Debts	17.	379,676	298,301	347,364
Loans & advances	18.	13,366	12,454	37,186
Trade Deposits, Prepayments & Other Receivables	19.	60,757	74,914	60,266
Cash and Bank balances	20.	58,335	83,676	28,250
		1,074,134	934,960	1,086,583
TOTAL ASSETS		6,288,001	6,136,511	6,000,273

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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
(Chief Executive)

Mohammad Shabir Malik
(Director)

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees in Thousand	
CONTINUING OPERATIONS			Re-stated
Sales - net	21.	712,177	1,677,379
Cost of Sales	22.	(677,119)	(1,371,129)
Gross Profit		35,058	306,250
Selling and Distribution expenses	23.	(11,460)	(11,961)
Freight and Forwarding expenses	24.	(12,955)	(25,587)
General and Administrative expenses	25.	(47,180)	(49,916)
		(71,595)	(87,464)
Operating (Loss) / Profit		(36,537)	218,786
Other Charges	26.	(8,960)	(757)
Financial Charges	27.	(17,540)	(30,684)
		(26,500)	(31,441)
		(63,037)	187,345
Other Income	28.	8,312	5,474
		(54,725)	192,819
Workers' Profit Participation Fund		-	(9,596)
(Loss) / Profit before taxation from continuing operations		(54,725)	183,223
Taxation	29.	18,740	(68,949)
(Loss) / Profit after taxation from continuing operations		(35,985)	114,274
DISCONTINUED OPERATIONS			
Profit for the year after tax from discontinued Operations	30.	5,391	264
(Loss) / Profit after taxation for the year		(30,594)	114,538
		-------- (Rupees) -------	
(LOSS) / EARNINGS PER SHARE	31.		
Continuing and discontinued operations - Basic		(5.38)	20.13
Continuing operations - Basic		(6.32)	20.08

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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
(Chief Executive)

Mohammad Shabir Malik
(Director)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	Rupees in Thousand	
		Re-stated
(Loss) / profit after taxation for the year.	(30,594)	114,538
Other comprehensive income for the year - net of tax	-	-
Total comprehensive (loss) / income for the year- net of tax	(30,594)	114,538

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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
(Chief Executive)

Mohammad Shabir Malik
(Director)

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees in Thousand	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in) / generated from operations	31-A	(10,109)	331,657
Financial Charges Paid		(13,974)	(51,140)
Gratuity Paid		(49)	(47)
Income Tax Paid		(24,580)	(27,852)
Workers' Profit Participation Fund Paid		(10,616)	(9,122)
Net cash (used in) / generated from operating activities		(59,328)	243,496
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed Capital Expenditure		(35,627)	(22,902)
Capital work in progress		(7,287)	(3,125)
Proceeds from disposal of Property, Plant & Equipment		1,005	2,615
Proceeds from disposal of Assets held-for-sale		23,383	2,740
Net cash (used in) investing activities		(18,526)	(20,672)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term borrowings - disbursements		108,638	-
Long term borrowings - (repayments)		(28,791)	(100,655)
Lease liability - (repayments)		-	(38)
Dividends paid		(27,334)	(66,705)
Net cash generated / (used in) financing activities		52,513	(167,398)
Net (decrease) / increase in cash and cash equivalents		(25,341)	55,426
Cash and cash equivalents at the beginning of the year		83,676	28,250
Cash and cash equivalents at the end of the year	20.	58,335	83,676

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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
(Chief Executive)

Mohammad Shabir Malik
(Director)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

	Share Capital				
	Paid up ordinary share capital	Paid up bonus shares	Revenue Reserve General	Accumuated Loss	TOTAL
	Rupees in Thousand				
Balance as at June 30, 2009 - as previously reported	31,621	25,281	10,000	(1,056,203)	(989,301)
Effect of re-statement as referred in note. 3-A	-	-	-	(7,386)	(7,386)
Balance as at June 30, 2009 - as re-stated	31,621	25,281	10,000	(1,063,589)	(996,687)
Total comprehensive income for the year:					
- Profit after tax for the year ended June 30, 2010	-	-	-	114,538	114,538
Surplus on revaluation of property, plant & equipment realized during the year on account of:					
- Incremental depreciation charged thereon - net of tax	-	-	-	13,327	13,327
- Disposal of property, plant & equipment - net of tax	-	-	-	837	837
	-	-	-	14,164	14,164
Transactions with owners					
Distributions:					
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)
	-	-	-	(71,128)	(71,128)
Balance as at June 30, 2010	31,621	25,281	10,000	(1,006,015)	(939,113)
Balance as at June 30, 2010 - as previously reported	31,621	25,281	10,000	(994,063)	(927,161)
Effect of re-statement as referred in note. 3-A	-	-	-	(11,952)	(11,952)
Balance as at July 1, 2010 - as re-stated	31,621	25,281	10,000	(1,006,015)	(939,113)
Total comprehensive (loss) for the year:					
- (Loss) after tax for the year ended June 30, 2011	-	-	-	(30,594)	(30,594)
Surplus on revaluation of property, plant & equipment realized during the year on account of:					
- Incremental depreciation charged thereon - net of tax	-	-	-	12,226	12,226
- Disposal of assets held for sale - net of tax	-	-	-	6,985	6,985
	-	-	-	19,211	19,211
Transactions with owners					
Distributions:					
Final Dividend for the year ended June 30, 2010 @ Rs. 5.00 per share	-	-	-	(28,451)	(28,451)
	-	-	-	(28,451)	(28,451)
Balance as at June 30, 2011	31,621	25,281	10,000	(1,045,849)	(978,947)

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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
(Chief Executive)

Mohammad Shabir Malik
(Director)

NOTES TO AND FORMING PART OF THE FINANCAIL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Notes:

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 was principally engaged in the manufacturing and sale of electricity transmission and communication towers.

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 had modified its earlier decision and allowed to keep the structure division of the company operative i.e. company will not be wound up. At present structure, pumps, electric motor, foundry and rolling mills division of the company are in operation.

2. BASIS OF PREPARATION

2.1 Basis of Accounting

During the year, the Company has incurred after tax loss of Rs.30.594 million (2010: after tax profit of Rs.114.538 million - restated) resulting in accumulated loss of Rs. 1,045.849 million (June 30, 2010: Rs.1,006.015 million - restated) as at June 30, 2011. Further, as a result of decrease in turnover, excessive load shedding of electricity, rescheduling of gas supply through gas load management, increase in petroleum, electricity and gas rates, increase in the prices of raw materials and due to severe competition, the company encountered liquidity problems which resulted in low performance as compared to the previous year. However, subject to the commencement of commercial operations of the Rolling Mills Division at full capacity and procurement of the new furnace, the Company will be able to minimize its costs of production and hence will be able to compete in the tender business, and therefore achieve better turnover in the upcoming period. The company is also in the process of renewing its financing facility with banks. This continued support from the financial institutions will also help to overcome the liquidity and working capital problems of the company. The management of the company has also signed a Memorandum of Understanding with a foreign company which reflects management's plans for diversification and easing out liquidity problems. Further despite of the crisis faced the company has been able to maintain its current ratio at 2.30:1 which is still quiet positive. 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. Further taking to consideration the current situation the management of the company has also prepared a business plan covering twelve months and there is no plan or intention to curtail the business activities of the company.

Further 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.

The Government of Pakistan (through SEC) is one of the major shareholders and has provided continued support to the company and expressed its commitment in order to maintain the going concern status of the company. This support is evident from the fact that GoP had in the past provided loans and financial support to the company. Furthermore, 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, had confirmed that the Government of Pakistan had considered the recommendations of Privatization Commission and the Government had 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 would not be wound up. Furthermore, the company was allowed to hire needed workforce on job-to-job basis on contract/daily wages. This decision helped to improve the efficiency of the Structure Division (STR) and contributed towards the revenue generation of the company.

In view of the situation set out above, although material uncertainty exists which may cast doubt on the Company's ability to continue as a going concern, the management of the company is confident that the going concern assumption is appropriate for the reasons explained in the above paragraphs 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.

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 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 .

2.4 Standard, amendments and interpretations to approved accounting standards

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned there against are either not relevant to the Company's current operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures:

– IFRS 7	– Financial Instruments Disclosures	(Effective July 1, 2010)
– IAS 1	– Amendment resulting from improvement to IFRSs	(Effective January 1, 2011)
– IAS 1	– Amendment to revise the way other comprehensive income is presented	(Effective July 1, 2012)
– IAS 12	– Income Taxes - Recovery of underlying assets	(Effective January 1, 2012)
– IAS 19	– Employee Benefits	(Effective January 1, 2013)
– IAS 24	– Related Party Disclosures	(Effective January 1, 2011)
– IAS 27	– Consolidated and Separate Financial Statements	(Effective January 1, 2013)
– IAS 28	– Investment in Associates	(Effective January 1, 2013)
– IAS 31	– Investment in Joint Ventures	(Effective July 1, 2010)
– IAS 32	– Financial Instruments Presentation	(Effective February 1, 2010)
– IAS 34	– Interim Financial Reporting	(Effective January 1, 2011)
– IFRIC 13	– Customer Loyalty Programmers	(Effective February 1, 2011)
– IFRIC 14	– The limit on Defined Benefit Asset minimum Funding Equipments and their Interaction	(Effective January 1, 2011)
– IFRIC 19	– Extinguishing Financial Liabilities with Equity Instruments	(Effective July 1, 2010)
– IFRS 1	– First Time Adoption of IFRSs - Improvement to IFRS	(Effective January 1, 2011)
– IFRS 1	– First Time Adoption of IFRSs - Replacement of fixed date for certain exemptions with a date of transition to IFRSs.	(Effective July 1, 2011)
– IFRS 1	– First Time Adoption of IFRSs - Additional Exemption for entities ceasing to Suffer from severe hyper inflation.	(Effective July 1, 2011)
– IFRS 7	– Financial Instruments Disclosures - Improvements to IFRSs	(Effective January 1, 2011)
– IFRS 7	– Financial Instruments Disclosures - Enhancing disclosure about transfer of financial assets.	(Effective July 1, 2011)
– IFRS 10	– Consolidated Financial Statements	(Effective July 1, 2013)
– IFRS 11	– Joint Arrangements	(Effective January 1, 2013)
– IFRS 12	– Disclosure in Interest in Other Entities	(Effective January 1, 2013)
– IFRS 13	– Fair Value Measurement	(Effective January 1, 2013)

2.5 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is the Pakistan Rupee (Rs).

2.6 Use of Estimate & Judgment

The 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statem ents and estimates with a significant risk of material adjustment in the next year are discussed in respective policy notes.

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 Property, Plant and Equipment and Depreciation

property, plant & equipment is 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. Surplus arising on revaluation after considering deficit in other categories, is credited to surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value.

Borrowing costs pertaining to the construction and erection are capitalized up to the date of completion. Depreciation on property, plant & equipment is charged to income on reducing balance method at the rates specified in note No. 12 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within “other income” in profit and loss account.

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 property, plant & equipment as and when assets are available for use.

3.2 Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. 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.

3.3 Inventories

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.

3.4 Trade Debts

Trade debts are recognized 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.

3.5 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.

3.6 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".

3.7 Foreign Currency Translation

Transactions in foreign currency are accounted for at the exchange rates prevailing on the date of transactions. All monetary assets and liabilities denominated in foreign currencies at the year end are translated at exchange rates prevailing at the balance sheet date. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Exchange differences are included in profit and loss account for the year.

3.8 Employees' Retirement Benefits

Defined contribution plan

Up to 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 and one (SEC) nominated permanent employee whose provident fund and pension fund contributions are paid to the funds maintained by the Accountant General of Pakistan Revenue (AGPR) and State Engineering Corporation Limited (SEC) respectively.

3.9 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.

3.10 Taxation

a) Current

Provision of current tax is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

b) Deferred Tax

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination; and that affects neither accounting nor taxable profit or loss, and differences arising on the initial recognition of goodwill.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3.11 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for that sale of goods in the ordinary course of the Company's activities.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred or to be incurred, can be measured reliably and when specific criteria have been met for each of the Company's activities as described below:

a) Sale of goods

Sales revenue is recognized when the goods are dispatched and significant risks and rewards of ownership are transferred to the customer. Revenue from sale of goods is measured at the fair value of consideration received or receivable, net of returns and trade discounts.

b) Income on bank deposits

Interest income on bank deposits is accounted for on the time proportion basis using the applicable rate of return.

c) Others

Scrap sales and miscellaneous receipts are recognized on realized amounts.

3.12 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 capitalized 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.

3.13 Research & Development costs

Research and development costs are charged to income as and when incurred.

3.14 Leases

Finance leases

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are initially recognized at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset in line with normal depreciation policy adopted for assets owned by the Company. Depreciation is charged to profit and loss account.

3.15 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. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.16 Cash and Cash Equivalent

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, cheques in hand, deposits in banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

3.17 Investments

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current.

a) Investments Available for sale

These are initially recognized at cost and at subsequent reporting dates measured at fair values. Gains or losses from changes in fair values are taken to other comprehensive income until disposal at which time these are recycled to profit and loss account.

b) Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortized cost using the effective yield method.

c) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs. After initial measurement loans and receivables are subsequently measured at amortized cost using effective interest rate method less impairment, if any. These are classified as current and non-current assets in accordance with criteria set out by the IFRS.

d) Investments at Fair value through profit or loss - Held for Trading

Investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking, are classified as held for trading and designated as such upon initial recognition. These are stated at fair values with any resulting gains or losses recognized directly in the profit and loss account. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

3.18 Impairment

a) Financial Assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b) Non- Financial Assets

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognized as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.19 Non - Current Assets Held-for-Sale

Non current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and the sale is considered highly probable. They are stated at lower of carrying amount and fair value less cost to sell.

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. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

a) Trade & Other Payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

b) Trade & Other Receivables

Trade and other receivables are recognized and carried at original invoice amount / cost less an allowance for any uncollectible amounts. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

c) 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.

d) Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less subsequent repayments.

3.21 Dividend & Appropriation to reserves

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

3.22 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.23 Contingent Assets

Contingent assets are disclosed when the Company has a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are not recognized until their realization becomes virtually certain.

3.24 Contingent Liabilities

Contingent liability is disclosed when the Company has a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

3-A RE-STATEMENT

During the year, the Company decided to provide interest on unallocated portion of Workers' Profit Participation Fund in order to comply with the provisions of Companies Profits (Workers' Participation) Act 1968. This liability was not previously recognized as expense. Accordingly, the Company has restated the financial statements retrospectively in accordance with International Accounting Standard - 8 ' Accounting Policies, Changes in Accounting Estimates and Errors' by adjusting the opening balance of the Workers' Profit Participation Fund Liability and Accumulated loss for the earliest prior period presented.

Effects of the re-statement are as follows:

	As at June 30, 2010			As at June 30, 2009		
	Previously Reported	Restated	Effect of Adjustment	Previously Reported	Restated	Effect of Adjustment
Effect on Balance Sheet						
Trade & other Payables						
- Workers' Profit Participation Fund	24,172	36,124	(11,952)	23,698	31,084	(7,386)
Accumulated Loss	(994,063)	(1,006,015)	11,952	(1,056,203)	(1,063,589)	7,386
Decrease in Equity			11,952			7,386
Effect on Profit & Loss						
Financial Charges	26,118	30,684	(4,566)			
Decrease in Profit After Taxation			4,566			
Effect on Earnings per share						
Earnings per share - basic	20.93	20.13	0.80			
Decrease in EPS			0.80			

There was no cash flow impact as a result of the re-statement

4. SHARE CAPITAL

Authorized Capital:

Number of Shares 2011	Number of Shares 2010		2011 (Rupees in '000)	2010 (Rupees in '000)
9,000,000	9,000,000	Ordinary shares of Rs.10/- each	90,000	90,000
100,000	*100,000*	*7.5% Cumulative redeemable preference shares of Rs. 100/- each*	10,000	*10,000*
			100,000	*100,000*

Issued, Subscribed and Paid up Capital:

Number of Shares 2011	Number of Shares 2010		2011	2010
3,162,144	3,162,144	Ordinary shares of Rs.10/- each fully paid in cash	31,621	31,621
2,528,101	2,528,101	Ordinary shares of Rs. 10/- each issued as fully paid up bonus shares	25,281	25,281
5,690,245	5,690,245		56,902	56,902

4.1 State Engineering Corporation (Pvt.) Ltd., an associated company, holds 1,415,723 (2010: 1,415,723) ordinary shares of Rs. 10/- each as at June 30, 2011.

4.2 There has been no movement in issued, subscribed and paid-up capital during the year.

5. SURPLUS ON REVALUATION OF FIXED ASSETS

		2011	2010
Free hold land	5.1	4,661,546	4,661,546
Building structure on free hold land	5.2	94,563	99,541
Plant and machinery	5.3	137,714	151,947
		4,893,823	4,913,034

		Note	2011	2010
			(Rupees in '000)	
5.1	Free Hold Land			
	Surplus on revaluation carried out in 1991	5.4	925,530	925,530
	Surplus on revaluation carried out in 2001	5.4	645,075	645,075
	Surplus on revaluation carried out in 2009	5.4(a)	3,098,300	3,098,300
			4,668,905	4,668,905
	Less: Adjustment on account of sale of part of Badami Bagh Works Land in 2001		7,359	7,359
			4,661,546	4,661,546
5.2	Building Structure			
	Surplus on revaluation carried out in June 30, 1997	5.5	143,550	143,550
	Surplus on revaluation carried out in June 30, 2009	5.5(a)	83,633	83,633
			227,183	227,183
	Less:			
	Surplus on Revaluation of Property, Plant & Equipment realized during the year on account of incremental depreciation charged thereon - net of tax:			
	- Prior years		74,042	65,982
	- Current year	5.8	4,978	5,239
	Related deferred tax liability		2,680	2,821
			81,700	74,042
			145,483	153,141
	Less:			
	Related deferred tax liability in respect of:			
	- Balance at the beginning of the year		53,600	27,149
	- Revaluation carried out on June 30, 2009		-	29,272
	- Incremental depreciation		(2,680)	(2,821)
			(2,680)	26,451
			50,920	53,600
			94,563	99,541
5.3	Plant and Machinery			
	Surplus on revaluation carried out on June 30, 1997	5.6	96,063	96,063
	Surplus on revaluation carried out on June 30, 2009	5.5(a)	209,045	209,045
			305,108	305,108
	Less: Adjustment on account of sale to date		41,644	30,900
			263,464	274,208
	Less:			
	Surplus on Revaluation of Property, Plant & Equipment realized during the year on account of incremental depreciation charged thereon - net of tax in respect of:			
	- Prior years		40,444	28,112
	- Adjustment on account of disposal of Property, Plant & Equipment		-	(112)
	- Current year	5.8	7,248	8,088
	Related deferred tax liability		3,903	4,356
			51,595	40,444
			211,869	233,764
	Less:			
	Related deferred tax liability in respect of:			
	- Balance at the beginning of the year		81,817	14,970
	- Revaluation carried out on June 30, 2009		-	73,166
	- Realized on disposal of assets held for sale		(3,759)	(1,963)
	- Incremental depreciation		(3,903)	(4,356)
			(7,662)	66,847
			74,155	81,817
		5.7	137,714	151,947

5.4 Land of Kot Lakhpat Works was revalued by in 1991 and 2001 M/s NESPAK and M/s Indus Surveyors respectively, resulting in the surplus of Rs. 925.530 million and Rs. 645.075 million respectively.

	2011	2010
	(Rupees in '000)	

5.4(a) The land of Kot Lakhpat works was again 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.

5.5 Steel structure of Badami Bagh Works (Transferred to Kot Lakhpat works) appearing at Rs. Nil was revalued at in 1997 Rs.143.550 million by M/s Indus Surveyors (Private) Limited in 1997 resulting in the surplus of Rs.143.550 million.

5.5(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. 83.633 million and Rs.209.045 million respectively.

5.6 Plant and machinery of Badami Bagh Works (Transferred to Kot Lakhpat works) was revalued by M/s Indus Surveyors in 1997 at Rs. 126.203 million resulting in the surplus of Rs. 96.063 million.

5.7 Net revaluation surplus includes Rs. Nil (2010: 10.744 million) relating to machinery held for sale. (Ref. note.16)

5.8 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.

6. GOVERNMENT OF PAKISTAN LOANS

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 disposal of Land held for sale (Refer Note no. 13). Therefore, these have been classified as long term liabilities. There is no fix repayment schedule or tenure for repayment of these liabilities. These loans have been stated at cost.

Privatization commission loan	6.1	481,469	481,469
Government Escrow account	6.2	112,937	112,937
Other Government Loan	6.3	100,000	100,000
Federal Government loan for compulsory separation scheme	6.4	309,000	309,000
Federal Government Bonds	6.5	787,442	787,442
		1,309,379	1,309,379
		1,790,848	1,790,848

In order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee was constituted as per the decision of Additional Finance Secretary in the meeting held in Government of Pakistan Finance Division (CF Wing), Islamabad. The committee includes representatives from Ministry of Finance, Ministry of Industries & Production, Privatization Commission and Board members from PECO. A meeting of the committee was held during the period on October 7, 2010 at Ministry of Finance (Finance Division) which was attended by representatives of Privatization Commission, Ministry of Industries & Production and PECO. PECO agreed to repay all the outstanding principal, which the company is legally liable along with interest thereon, through disposal proceeds of Badami Bagh Land. However, the management legally believes that they are not liable to pay interest on these loans. Further, the Finance Division was instructed in the meeting to re-examine the issue and confirm the contention of PECO. Decision on this account has not been received till the issue of financial statements. Following, the meeting held at Finance Division the management of the company obtained fresh legal opinion from legal consultants regarding the matter of charging interest on GoP loans. The legal advisor was of the opinion that no markup / interest was payable by PECO to Ministry of Finance and Privatization Commission and instead believed that a case of causing loss to PECO on account of delay caused in disposing off the land at Badami Bagh should be made out, either by raising monitory claim or claiming set-off against the alleged principal loan liability. The management of the company handed over the title documents of the said land to the Privatization commission for disposal in the year 1994 and had Privatization Commission disposed off the land at that time no issue of interest would have risen. Further, two meetings were held on june 9, 2011 between the repersentatives of ministry of finance, privatization commission and ministry of production and PECO loan committee to reconicile the loan liability. However both meetings concluded without any decision or agreement with respect to the reconciliation of loan liability and calculation, payment or mode of payment of interest on Government of Pakistan loan.

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

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

		2011	2010
		(Rupees in '000)	

6.1.1 The Privatization Commission has directly confirmed to the auditors total liability of Rs. 1,646.914 million (2010: Rs. 1,581.995 million) which includes principal loan liability of Rs. 612.922 million and markup of Rs. 1,033.991 million. The management of the company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, and there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993.

6.1.2 During the years ended June 30, 2004 and June 30, 2005 Privatization Commission confirmed to the auditors the loan liability without charging any markup. The company 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. Furthermore the legal advisor is also of firm opinion that the amount of additional gratuities of Rs. 131.454 million should also be borne by the Privatization Commission.

6.1.3 Furthermore, in the meeting held on October 7, 2010 at Finance Division, Privatization Commission was instructed by Ministry of Finance to review the calculation / treatment of the loan amounting to Rs. 131.454 million and come up with firm stance on it. The Privatization Commission was further instructed to sort out the issue of charging interest on VSS loan and come up with sound reason and logic for charging interest thereon.

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

		2011	2010
Customs and other import duties	6.2.1	86,984	86,984
Pakistan Railways freight	6.2.1	12,989	12,989
Karachi Port Trust		12,964	12,964
		112,937	112,937

6.2.1 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 (2010: 41.989 million) as the management believes that there was no mention of charging interest or surcharge in the ECC and Cabinet decision.

6.2.2 During the period the Finance Division for the first time has directly confirmed to the auditors, principal loan liability of Rs. 86.984 million and markup / surcharge on the custom duty of Rs.202.624 million vide letter dated January 28, 2011 whereas, in past Finance Division has never provided any such confirmation. However, the management of the Company do not agree with the markup confirmed by the Finance Division, as there was no mention of charging interest or surcharge in the ECC and Cabinet decision.

6.3 The amount is payable on account of the company's bank loans taken over by the Government in the year 1990. The Finance Division for the first time has directly confirmed to the auditors principal loan liability of Rs.100.00 million and markup of Rs. 180.00 million vide its letter dated January 28, 2011. However, the management of the Company do not agree with the markup confirmed by the Finance Division and believes that this loan is free of interest as PECO being a public sector entity was required to take-up only principal amount of the loan in its books. The legal adviser of the company is also of the firm opinion that no markup is payable by PECO in respect of this loan. Furthermore, in the meeting held at Ministry of Finance in October 2010, Finance Division was instructed to re-examine the issue relating to Rs.100.00 million Loan and interest thereof, to confirm the contention of PECO and decision to be conveyed at its earliest.

6.4 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 the year ended June 30, 2011, accumulating to Rs. 285.825million (June 2010: Rs.254.925 million) including the effect of the current period, has not been accounted for.

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.

6.5

		2011	2010
Interest bearing bonds		655,138	655,138
Interest free bonds	6.5.1 & 6.5.2	132,304	132,304
		787,442	787,442

6.5.1 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.

		2011	2010
		(Rupees in '000)	

6.5.2 The Finance Division for the first time vide its letter dated January 28, 2011 has directly confirmed to the auditors total principal loan liability of Rs.787.442 million and interest of Rs.1,006.131 million vide its letter dated January 28, 2011, whereas, in past no such confirmation was provided. However, the management of the Company do not agree with the markup confirmed by the Finance Division and is of firm opinion that the Government is liable to pay any interest there on, and that there was no agreement for charging any interest thereon. Furthermore, the legal adviser is also of the firm opinion that no markup is payable by the Company in respect of this loan in the absence of any specific markup agreement.

7. LONG TERM BORROWINGS - SECURED

	Note	2011	2010
From National Bank Of Pakistan	7.1	4,777	35,387
Less:			
Current maturity shown under current liabilities		-	22,500
		4,777	12,887

7.1 The above includes old markup amounting to Rs. 4.777 million (2010:Rs. 12.887 million), and frozen markup of Rs. Nil million (2010: Rs. 22.50 million) . The old markup of Rs. 4.777 million is interest free and is repayable in four equal quarterly installments commencing from September 2012 and repayable by June 2013. During the year an amount of Rs. 6.291 million on account of LG/LC cash margin released on retirement was adjusted against the outstanding liability of this loan. These loans are secured by First charge over present and future, current and fixed assets of the company.

7.2 Using prevailing market interest rates for equivalent loan of 17.506%, the fair value of the old markup loan is estimated at Rs.4.777 million. The difference of Rs.1,819 million between the gross proceeds and the fair value of the loan is the benefit derived from the interest free loan and has been recognized as gain (refer note.28). Fair value has been determined using discounting techniques.

8. DEFERRED TAX LIABILITY - Net

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity and when there is an intention to settle the balances on net basis.

The offset amounts are as follows:

	Note	2011	2010
Deferred tax liabilities	8.1	154,362	158,185
Deferred tax assets	8.2	(40,654)	(17,841)
Deferred tax liabilities (net)		113,708	140,344

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

8.1 Deferred tax liabilities in respect of taxable temporary differences:

	Note	2011	2010
Surplus on Revaluation of Property, Plant & Equipment	8.4.1	125,075	135,417
Accelerated Tax Depreciation Allowances	8.4.1	29,287	22,768
		154,362	158,185

8.2 Deferred tax assets in respect of deductible temporary differences:

	Note	2011	2010
Provision for Doubtful Balances	8.4.2	(14,209)	(14,341)
Provision for Stores	8.4.2	(3,500)	(3,500)
Minimum tax available for carry forward		(7,294)	-
Unabsorbed Business losses	8.4.2	(15,651)	-
		(40,654)	(17,841)

8.3 The gross movement on deferred income tax account is as follows:

	2011	2010
As at July 1	140,344	36,714
Charge for the year - profit and loss account (note. 29)	(26,636)	1,192
Related Deferred tax on Revaluation surplus	-	102,438
As at June 30	113,708	140,344

8.4 The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within same jurisdiction, is as follows:

	2011	2010
	(Rupees in '000)	

8.4.1 The deferred income tax liability is related to temporary differences between carrying amount of property, plant & equipment excluding land and revaluation surplus on property, plant & equipment and their corresponding tax base.

	2011	2010
As at July 1	158,185	54,990
Charge for the year - profit and loss account	(3,823)	757
Related Deferred tax on Revaluation surplus	-	102,438
As at June 30	154,362	158,185

8.4.2 The deferred income tax asset is related to temporary differences between carrying amount of provisions for slow moving stores, doubtful debts, minimum tax and business losses and their corresponding tax base.

	2011	2010
As at July 1	(17,841)	(18,276)
Charge for the year - profit and loss account	(22,813)	435
As at June 30	(40,654)	(17,841)

9. TRADE & OTHER PAYABLES

	Note	2011	2010 Re-stated	2009 Re-stated
		Rupees in Thousand		
Creditors		237,305	50,546	143,023
Accrued Liabilities		17,701	5,779	9,419
Advances from customers	9.1	8,775	9,353	11,768
Dealership securities	9.2	4,588	2,226	2,262
Retention and earnest money		612	1,433	1,259
Gratuity payable to AGPR Gratuity Fund		206	-	-
Payable to preference shareholders	9.3	773	773	773
Payable to State Engineering Corporation (Private)		-	-	-
Limited (SEC) (an associated undertaking)		96	1,429	5,401
Sales Tax Payable		-	16,089	30,902
Excise Duty Payable		2,934	1,473	3,011
Workers' Profit Participation Fund	9.4	31,883	36,124	31,084
Unclaimed Dividend		13,343	12,226	7,803
Others		13,069	15,370	17,806
		331,285	152,821	264,511

9.1 These include interest free advances from associated companies amounting to Rs. 0.183 million (2010: Rs.0.183 million).

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

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

9.4 Reconciliation of Workers' Profit Participation Fund

	2011	2010 Re-stated	2009 Re-stated
	Rupees in Thousand		
Opening balance	36,124	31,084	23,913
Add:			
Allocation for the year	-	9,596	8,256
Interest for the year	6,375	4,566	3,621
	6,375	14,162	11,877
Less:			
Payments	(10,616)	(9,122)	4,206
	31,883	36,124	31,089

10. SHORT TERM BORROWINGS

	Note	2011	2010
		Rupees in Thousand	
From NBP Bank under markup arrangements - Secured:			
Cash Finance	10.1	108,638	-

	2011	2010
	(Rupees in '000)	

10.1 During the year short term cash finance was obtained from NBP on markup basis and is secured against first charge over current and fixed assets of the company. The financing form part of total credit facility available to the extent of Rs. 250 million. The loan carries markup @3 months kibor plus 2% without floor and cap. The Company is in the proeess of renewing its credit ficility with the bank.

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

11.1.1 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 (2010: Rs. 2.517 Million).

11.1.2 Guarantees of Rs. 357.956 Million (2010: 326.584 Million) issued by the banks and insurance company to different parties on behalf of the company.

11.1.3 The Privatization Commission has claimed additional loan liability amounting to Rs. 131.454 million and mark up amounting to Rs. 1,033.991 million (Ref: Note 6.1.1). The management of the company in the minutes of the meeting held on October 7, 2010 at Ministry of Finance to reconcile the principal and mark up amounts with respect to Govt. of Pakistan loans does not agrees with the stance of Privatization Commission in respect of additional loan and mark up claimed. Privatization Commission has been instructed by the Ministry of Finance to review the calculation / treatment of a loan amounting Rs.131.454 million and has been asked to come up with firm stance on the foregoing loan amounting to Rs. 131.454 million. Further, Privatization Commission has been instructed to sort out the issue of charging interest on VSS loan and Privatization Commission has been asked to come up with sound reason and logic for charging interest on the above loan. The legal advisor of the company is also 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, therefore, no markup is payable by the company in respect of this loan. The management is confident that the ultimate outcome of the matter will result in favor of the company and hence no provision has been made in these financial statements in respect of the additional loan and markup claimed.

11.1.4 During the year, the Finance Division vide its letter dated January 28, 2011, has claimed an amount of Rs. 1,661.705 million in respect of markup payable on remaining Government of Pakistan Loans (Ref: Note 6.2.2, 6.3, 6.4 & 6.5.2). However, the management of the company is of the opinion that no markup is payable in the absence of any agreement for markup. The matter has been taken up by the Ministry of Finance, in meeting held on October 7, 2010, to reconcile the principal and Mark up amounts with respect to Govt. of Pakistan loans, which has instructed the Finance Division to re-examine the issue relating to Rs. 100.00 million loan and interest thereof, to confirm the contention of PECO. Decision on this account would be conveyed to company at the earliest. Till the issue of annual accounts no such decision has been received by company. Furthermore, the company has also obtained the opinion from the legal advisor, who is also of opinion that no markup is payable. The management is confident that the ultimate outcome of the matter will result in favor of the company and hence no provision has been made in these financial statements in respect of the markup claimed.

11.1.5 The Sui Gas authorities have claimed an amount of Rs.31.730 million. The Company has filed an appeal against the claim and the case is pending in the court of law. The outcome of the matter cannot presently be determined.

11.2 Commitments in respect of:

11.2.1 Letters of credit for machinery, raw material and store items amounting to Rs. Nil (2010: 6.421 Million.).

12. PROPERTY, PLANT & EQUIPMENT

	Note	2011	2010
Operating assets	12.1	4,884,234	4,879,205
Capital work in progress - at cost	12.2	12,971	5,684
		4,897,205	4,884,889

12.1 Operating assets

	Free hold land	Building: Office building	Building: Factory building-on free hold land	Plant & machinery	Furniture & Fixtures	Vehicles	Electric Equipment	Tools	Total
	---------- Rupees in '000 ----------								
Net carrying value basis									
Year ended June 30, 2010									
Opening net book value (NBV)	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	77,382	209,045	-	-	-	-	292,678
Transfers	-	-	-	1,655	-	666	-	-	2,321
Disposals									
Cost	-	-	-	(650)	-	(3,222)	-	-	(3,872)
Depreciation	-	-	-	25	-	2,452	-	-	2,477
Written down value	-	-	-	(625)	-	(770)	-	-	(1,395)
Depreciation charge	-	(399)	(9,038)	(16,216)	(1,235)	(2,553)	(526)	(106)	(30,073)
Closing net book value (NBV)	4,348,300	7,589	171,724	318,261	12,834	13,323	6,153	1,021	4,879,205
Gross carrying value basis									
At June 30, 2010									
Cost / Revalued amount	4,348,300	8,761	180,762	334,452	26,737	22,297	10,814	5,815	4,937,938
Accumulated depreciation	-	(1,172)	(9,038)	(16,191)	(13,903)	(8,974)	(4,661)	(4,794)	(58,733)
Net book value (NBV)	4,348,300	7,589	171,724	318,261	12,834	13,323	6,153	1,021	4,879,205
Net carrying value basis									
Year ended June 30, 2011									
Opening net book value (NBV)	4,348,300	7,589	171,724	318,261	12,834	13,323	6,153	1,021	4,879,205
Additions	-	-	1,293	33,119	645	-	503	67	35,627
Disposals									
Cost	-	-	-	-	(143)	(2,229)	-	-	(2,372)
Depreciation	-	-	-	-	50	1,705	-	-	1,755
Net book value	-	-	-	-	(93)	(524)	-	-	(617)
Depreciation charge	-	(380)	(8,586)	(16,937)	(1,308)	(2,023)	(639)	(108)	(29,981)
Closing net book value (NBV)	4,348,300	7,209	164,431	334,443	12,078	10,776	6,017	980	4,884,234
Gross carrying value basis									
At June 30, 2011									
Cost / Revalued amount	4,348,300	8,761	182,055	367,571	27,239	20,068	11,317	5,882	4,971,193
Accumulated depreciation	-	(1,552)	(17,624)	(33,128)	(15,161)	(9,292)	(5,300)	(4,902)	(86,959)
Net book value (NBV)	4,348,300	7,209	164,431	334,443	12,078	10,776	6,017	980	4,884,234
Annual Rate of Depreciation (%)	-	5%	5%	5%	10%	20%	10%	10%	

		2011	2010
		(Rupees in '000)	
12.1.1	Depreciation for the year has been allocated as under:		
	Cost of Sales	26,270	25,886
	General and Administrative Expenses	3,711	4,187
		29,981	30,073

12.1.2 Details of assets disposed off during the year is given in Note. 28.1.1 to the financial statements.

12.1.3 Land, Building and Plant & Machinery were last 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.3,098.3 million, Rs. 83.623 million and Rs.209.046 million respectively.

12.1.4 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. 5.

12.1.5 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.

12.1.6 Office Building represents rooms owned in Uni Tower Karachi.

12.1.7 Had there been no revaluation, the written down value of the revalued assets in the balance sheet would have been:

Particulars	Free Hold Land	Factory Buildings (Including Steel Structure)	Plant & Machinery	Total
	------------------------- Rupees in '000 -------------------------			
Cost	753	86,450	248,874	336,077
Accumulated Depreciation	-	(59,210)	(127,623)	(186,833)
Wdv as at June 30, 2011	753	27,240	121,251	149,244
Wdv as at June 30, 2010	753	27,313	93,849	121,915

		2011	2010
12.2	Capital Work in Progress - at cost		
	Civil Works	6,170	4,899
	Plant & Machinery	6,735	785
	Advances to suppliers	66	-
		12,971	5,684

	2011	2010
13. 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 the land have been handed over to the Privatization Commission for sale. The sale proceeds of this land will be utilized f or re-payment of GoP loans as stated in note.6. The fair value of the land is estimated at Rs. 2,631.5 million (2010: Rs. 2,631.5 million). Expression of interests have been received by Privatization Commission in this regard from many parties. The Company has the Possession and control of the land and hold valid title. The mutation of some portion of land in the land revenue record is in process.

14. STORES, SPARES AND LOOSE TOOLS

	2011	2010
Stores	27,386	30,110
Spares parts	97,916	92,462
Loose Tools	24,919	24,922
	150,221	147,494
Less: Provision for slow moving stores	(10,000)	(10,000)
	140,221	137,494

14.1 Stores and spares relating to closed down operations are of Rs. 22.358 million (2010:Rs. 23.855 Million). These have been valued at moving average cost

	Note	2011	2010
		(Rupees in '000)	
15. STOCK IN TRADE			
Raw material		110,265	133,368
Work in process		188,769	141,471
Finished goods		122,742	32,726
		421,776	307,565

15.1 Stock in trade amounting to Rs. 140.421 million has been valued at net realizable value (2010:Rs. Nil).

15.2 Stock in trade relating to closed down operations are of Rs. 7.771 million (2010:Rs. 22.671 million). These have been valued at cost.

	Note	2011	2010
16. ASSETS HELD-FOR-SALE			
Machinery		-	20,556

16.1 The above represented 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 which was completely disposed off during the year.

	Note	2011	2010
17. TRADE DEBTS - UN SECURED			
Associated undertakings	17.2	4,018	-
WAPDA, AJK & Telecommunication Companies		367,515	284,376
Others	17.3	42,886	49,037
		414,419	333,413
Less: Provision for bad and doubtful debts	17.4		
WAPDA		10,514	10,514
Others		24,226	24,598
		34,740	35,112
		379,679	298,301

17.1 Trade debtors other than those against which provision has been made are considered good by the management.

17.2 Maximum amount due from associated undertakings at the end of any month was of Rs. 4.560 Million (2010: Rs.Nil). Refer note 32.

17.3 Trade debtors include an amount of Rs. 7.617 million (2010: 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.

	Note	2011	2010
17.4 Provision for Bad and Doubtful Debts			
Opening balance		35,112	36,112
Less: Recovery of bad debts / adjustments		372	1,000
Closing Balance		34,740	35,112
18. LOANS AND ADVANCES - Considered Good			
Loan due from:			
- Chief executive	18.1	-	666
Advances to:			
- Employees - Secured		349	509
- Suppliers		13,017	11,279
		13,366	12,454

18.1 This loan was fully repaid during the year and carried mark up ranging from @ 3.750% to 5.623%.

18.2 The loans and advances are considered good.

	2011	2010
18.3 Suppliers	15,841	14,103
Suppliers as at closing date	2,824	2,824
Less: Provision for doubtful balances	13,017	11,279

	Note	2011	2010
		(Rupees in '000)	
19. TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Trade deposits - Considered good	19.1	2,805	600
Letter of Credits		28,281	35,157
Margin against bank guarantee - Considered good	19.2	26,299	29,128
Letter of Credit - Margin		-	6,421
Sales Tax Refundable		324	-
Short term prepayments		3,048	3,608
		60,757	74,914
19.1 Balance as on Closing date		5,337	3,132
Less:			
Provision against doubtful balances		2,532	2,532
		2,805	600
19.2 Balance as on Closing date		26,360	29,189
Less:			
Provision against doubtful balances		61	61
		26,299	29,128
20. CASH AND BANK BALANCES			
Cash in hand		3,764	1,658
Cash with banks:			
- Current accounts		30,339	60,764
- Deposit accounts	20.1	23,980	21,002
- Escrow account	20.2	252	252
		54,571	82,018
		58,335	83,676

20.1 The company is maintaining saving account with different banks with interest on the daily product basis which was charged @ 6% to 7 % (2010 : 6% to 9%).

20.2 This represents unutilized credit facility on NBP finances relating to ADP-19 and ADP-46 Projects, which shall be adjusted against loan liability.

	Note	2011	2010
21. SALES - Net			
Sales - Local		819,305	1,914,853
Less :			
Sales Tax		97,040	223,092
Excise Duty		10,088	14,382
		712,177	1,677,379
22. COST OF SALES			
Raw material consumed	22.1	590,972	901,741
Stores and spares consumed		79,672	112,282
Salaries and wages (including all benefits)	22.2	70,662	84,139
Fuel and power		42,436	42,574
Travelling & Conveyance		377	821
Postage, Telegram & Telephone		354	328
Printing, Stationery and Office Supplies		838	751
Inspection Fee		1,167	2,556
Service charges		937	768
Processing charges		1,754	36,510
Research and Development		-	3,622
Rent, Rate and Taxes		793	791
Repair and maintenance		2,456	4,697
Insurance		621	640
Vehicle running expenses		1,579	1,656
Other expenses		547	748
Depreciation on Transfer from Assets Held-for-Sale		-	1,108
Depreciation	12.1.1	26,270	25,886
		230,463	319,877
		821,435	1,221,618

		2011	2010
		(Rupees in '000)	
Opening Stock of Work in Process		131,332	206,591
Closing Stock of Work in Process		(185,632)	(131,332)
		(54,300)	75,259
Cost of goods manufactured		767,135	1,296,877
Opening Stock of Finished Goods		32,726	106,978
Closing Stock of Finished Goods		(122,742)	(32,726)
		(90,016)	74,252
		677,119	1,371,129

22.1 Raw Material Consumed

Opening Stock		133,368	121,752
Add:			
Purchases		567,869	913,357
		701,237	1,035,109
Less:			
Closing Stock		110,265	133,368
		590,972	901,741

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

23. SELLING AND DISTRIBUTION EXPENSES

Salaries and wages (including all benefits)		3,503	3,562
Traveling and conveyance		346	589
Entertainment		229	144
Repair and maintenance		104	639
Postage, telegrams and telephone		153	152
Printing, stationery and office supplies		110	157
Rent, Rate and Taxes		1,180	110
Publishing of Tender and Sales Promotion		3,139	2,507
Service charges		1,820	2,567
Miscellaneous		876	1,534
		11,460	11,961

24. FREIGHT AND FORWARDING EXPENSES

Freight and forwarding expenses		12,955	25,587

25. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries, wages and benefits		24,681	25,761
Provident Fund		52	52
Gratuity		255	47
Travelling and conveyance		2,175	3,345
Entertainment		455	458
Legal and professional		1,913	630
Rent, rates, and taxes		1,389	1,469
Fuel, gas and electricity		1,824	2,087
Repair and maintenance		489	2,916
Postage, telegrams and telephone		675	861
Printing, stationery and office supplies		1,576	2,035
Advertisement		478	92
Training		19	51
Amortization of leased assets		-	44
Insurance		603	552
Donations	25.1	1,500	-
Vehicle running expenses		2,784	2,691
Miscellaneous		2,601	2,638
Depreciation	12.1.1	3,711	4,187
		47,180	49,916

		2011	2010
		(Rupees in '000)	

25.1 Donation of Rs.1.500 million was paid to State Engineering Corporation for onwards submission to "Prime Minister's Flood Relief Fund - 2010" as per Government of Pakistan's circular No. 137/15/2010-ERC(AC) dated 6th august, 2010 for relief/assistance of the flood victims. The directors and their spouse have no interest in the Donee's Fund. (2010: Nil).

26. OTHER CHARGES

	Note	2011	2010
Auditors' Remuneration	26.1	734	609
Miscellaneous charges		134	148
Termination Benefits	26.2	8,092	-
		8,960	757

26.1 Auditors' Remuneration

	2011	2010
Audit Fee	500	500
Half yearly review fee	65	65
Tax consultancy charges	169	44
	734	609

26.2 This represents additional gratuities payable to ex-employees released from serves under CCS 2004-2005 as per order of the court.

27. FINANCIAL CHARGES

	Note	2011	2010
		Rupees in Thousand	
			Re-stated
Mark - up on short term borrowings		4,998	12,248
Mark - up on Long term Borrowings		-	8,134
Interest on Workers' Profit Participation Fund	9.4	6,375	4,566
Bank charges and commission	27.1	6,167	5,688
Financial charges on finance lease		-	48
		17,540	30,684

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

28. OTHER INCOME

	Note	2011	2010
		(Rupees in '000)	
Income from Financial Assets			
Interest / Profit			
- On deposits with banks		1,294	2,102
Gain from Financial Liabilities			
Gain on measurement of financial liability at fair value	7.2	1,819	-
Income from Non - Financial Assets			
Miscellaneous income		4,811	2,152
Gain on sale of Property, Plant & Equipment	28.1.1	388	1,220
		5,199	3,372
		8,312	5,474

28.1 DETAIL OF DESPOSALS OF FIXED AEETS

	Cost	Acc. Dep.	NBV	Proceeds	Profit/ (Loss)	Particulars of Buyers
	------------------------ Rupees in '000 ------------------------					
28.1.1 PROPERTY, PLANT & EQUIPMENT						
Furniture fixtures						
-as per company policy						
- Photocopy machine	143	50	93	20	(73)	Business Aids Corporation Mcloed Road Lahore.
Vehicles						
-tender						
- Toyota Vitz	800	347	453	735	282	Chaudhary Muhammad Imran Kareem Park Ravi Road Lahore
- Fork Lifter	1,429	1,358	71	250	179	Shoukat Traders Badami Bagh Lahore.
Sub Total 2011	2,372	1,755	617	1,005	388	
Sub Total 2010	3,872	2,477	1,395	2,615	1,220	

		NBV	Proceeds	Profit/ (Loss)	Particulars of Buyers
		------------------------ Rupees in '000 -----------------------			
28.1.2 ASSETS HELD FOR SALE					
-tender					
- Machinery at machine tool & power loom shop		16,365	9,574	(6,791)	Shoukat Traders Badami Bag Lahore.
- Machinery in bicycle division		-	2,593	2,593	Hamza Trading Corp. Sidique colony badami bag Lahore.
- Old BBW machinery		4,191	11,216	7,025	Al-Noor Trading Corp. Meher Din Road Missri Shah Lahore.
Sub Total	2011	20,556	23,383	2,827	
Sub Total	2010	2,334	2,740	406	

29. TAXATION

	2011	2010
	(Rupees in '000)	
Current		
for the year	(7,896)	(68,636)
for prior years	-	879
Deferred		
for the year	26,636	(1,192)
	18,740	(68,949)

29.1 The current tax provision represents the minimum tax on turnover for the year due under Section 113 of Income Tax Ordinance, 2001. Therefore reconciliation of tax charge for the year is not required.

29.2 The company's income tax assessments have been finalized up to and including tax year 2010.

30. DISCONTINUED OPERATIONS

The Company in past had closed down its all divisions, except Structure (STR) division, and had terminated its employees through compulsory separation scheme. In this regard Badami Bagh works was completely discontinued and the title documents of the land were handed over to the Privatization Commission for sale. Furthermore, the relevant machinery was transferred over to Kot Lakhpat and was classified as Held for sale. 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. However the bicycle, Machine Tool and Power Loom still remains discontinued.

Analysis of Profit for the year from discontinued operations

The combined results of the discontinued operations (i.e. bicycle division, power loom and machine tool) included in the profit and loss accounts are set out below.

Profit for the year from discontinued operations			
Sale of bicycle division inventory		17,222	-
Less: Cost of sales			
Opening Stock of Work in Process		10,139	10,139
Raw material Consumed		7,484	-
Closing Stock of Work in Process		(3,137)	(10,139)
		14,486	-
Net income		2,736	-
Gain on disposal of Assets Held for Sale	28.1.2	2,827	406
Profit before tax from discontinued operations		5,563	406
Taxation		(172)	(142)
Profit after tax from discontinued operations		5,391	264
Net Cash inflows from operating activities		2,736	-
Net Cash inflows from Investing activities		23,383	2,740
Net Cash inflows		26,119	2,740

		2011	2010
		(Rupees in '000)	
			Restated
31. BASIC (LOSS) / EARNING PER SHARE			
Continuing and discontinued operations - Basic			
(Loss) / Profit after Taxation (Rupees in '000)		(30,594)	114,538
Weighted average number of Ordinary shares (No. in '000) out standing during the year		5,690	5,690
(Loss) / Earning per share (Rupees)		(5.38)	20.13
Continuing operations - Basic			
(Loss) / Profit after Taxation (Rupees in '000)		(35,985)	114,274
Weighted average number of Ordinary shares (No. in '000) out standing during the year		5,690	5,690
(Loss) / Earning per share (Rupees)		(6.32)	20.08

There is no dilutive effect on the basic (Loss) / Earning per share of the company.

		2011	2010
31-A CASH GENERATED FROM OPERATIONS			
(Loss) / Profit before Taxation		(49,162)	183,629
Adjustments for:			
Depreciation		29,981	30,073
Depreciation on Machinery transferred from held-for- sale to own use		-	1,108
Amortization of Leased Assets		-	44
Financial Charges		17,540	30,684
Provision for Gratuity		255	47
Provision for Termination benefits		3,485	-
Workers' Profit Participation Fund		-	9,596
Gain on Mearurement of financial liability at fair value		1,819	-
Gain on sale of Property, Plant & Equipment		(388)	(1,220)
Gain on sale of Assets held-for-sale		(2,827)	(406)
		46,227	69,926
Profit before Working Capital changes		(2,935)	253,555
Movements in working capital			
(Increase) / decrease in current assets:			
(Increase) / Decrease in Stores, Spares and Loose Tools		(2,727)	4,909
(Increase) /Decrease in Stock in trade		(114,211)	137,895
(Increase) / Decrease in Trade Debts		(81,378)	49,063
(Increase) in Loans and Advances		(912)	(153)
Decrease in Trade Deposits, Prepayments and Other Receivables		14,157	6,609
Increase / (decrease) in current liabilities:			
Increase / (Decrease) in Trade & Other payables		177,897	(121,153)
		(7,174)	78,031
		(10,109)	331,586
Changes in Long term Security deposits		-	71
Cash (Used in) / Generated from Operations		(10,109)	331,657

32. 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.37) are as under:

		2011	2010
		(Rupees in '000)	
State Engineering Corporation (Pvt) Limited (SEC)			
- Outstanding SEC Service Charges Paid		2,070	3,675
- Service charges payable to SEC		99	1,357
- SEC Pension Fund Trust - Payments made during the year		49	47
- Reimbursement of Expenses		76	188
Pakistan Machine Tool Factory			
- Sale made during the year		6,266	-
- Receivable at the end of the year	32.1	4,018	-
Heavy Mechanical Complex Taxila			
- Advance outstanding		183	183

32.1 Maximum amount due from the associated undertakings at the end of any month was of Rs. 4.560 Million (2010: Rs.Nil).

32.2 Purchase/sale of goods and services are made in accordance with accounting policy as explained in note 3.6.

33. DISCONTINUED OPERATIONS

33.1 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.

33.2 The carrying amount of assets of discontinued operations is disclosed in note no. 16 and its related revaluation surplus is disclosed in note no. 5.7 of the financial statements.

33.3 The carrying amount of stores, spares and loose tools and stock in trade is stated in note no. 14 and 15, respectively. Further results from discontinued operations which have material effect have been disclosed in Note. 30.

34. SEGMENT INFORMATION

Owing to the significant transfer of material at various stages of manufacturing 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 remained in operation and the operational results of the other divisions i.e. pumps, electric motor and rolling mills do not meet the minimum threshold. The financial information has been prepared on the basis of single reportable segment.

35. FINANCIAL RISK MANAGEMENT

35.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Board is also responsible for developing and monitoring the Company’s risk management policies.

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 analyze 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.

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.

35.2 Financial assets and liabilities by category and their respective maturities

	June 30, 2011		June 30, 2010	
	Maturity up to one year	Maturity After one year	Maturity up to one year	Maturity After one year
	------------------------ Rupees in ‘000 ------------------------			
FINANCIAL ASSETS				
Long term security deposits	-	1,938	-	1,938
Trade debts -net of impairment	379,679	-	298,301	-
Loans and advances	349	-	1,175	-
Trade Deposits, Prepayments & Other Receivables	29,104	-	36,149	-
Cash & bank balances	58,335	-	83,676	-
Total	467,467	1,938	419,301	1,938

	June 30, 2011		June 30, 2010	
	Maturity up to one year	Maturity After one year	Maturity up to one year	Maturity After one year
	------------------------ Rupees in '000 -----------------------			
FINANCIAL LIABILITIES				
Government of Pakistan Loans	-	1,790,848	-	1,790,848
Long term borrowings	-	4,777	22,500	12,887
Short term borrowings	108,638	-	-	-
Trade & Other Payables	287,693	-	89,782	-
Mark-up Accrued- On Short term borrowing	3,101	-	5,910	-
Total	399,432	1,795,625	118,192	1,803,735
On balance sheet date gap	68,035	(1,793,687)	301,109	(1,801,797)
OFF - BALANCE SHEET ITEMS				
Letter of guarantees	357,956		326,584	

35.3 Fair Values

The carrying values of the financial assets and financial liabilities approximate their fair values except for Government of Pakistan loans as disclosed in note. 6 to the financial statements. 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. If the transaction is not based on market terms, or if a market price cannot be readily determined, then an estimate of future cash payments or receipts, discounted using the current market interest rate for a similar financial instrument, is used to approximate the fair value.

35.4 Financial Risk Factors

The Company has exposures to the following risks from its use of financial instruments:
- Credit Risk
- Liquidity Risk
- Market Risk

35.4.1 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 long term security deposits, loans and advances to employees, deposits, trade debts, other receivables and bank balances .

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.

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 was:

	2011	2010
	(Rupees in '000)	
Long term security deposits	1,938	1,938
Trade debts - net of impairment	379,679	298,301
Loans and advances	349	1,175
Trade Deposits, Prepayments & other Receivables	29,104	36,149
Cash & bank balances	58,335	83,676
	469,406	421,239

The Company's most significant amount receivable is from WAPDA which is included in total carrying amount of trade debts as at reporting date.

For trade debts, internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Aging of trade debts is regularly reviewed by the Board's Receivables Committee and necessary actions are taken in respect of overdue balances. The company assesses the credit quality of the counter parties as satisfactory. Bank balances are held only with reputable banks with high quality credit ratings. Loans and advances to employees are not exposed to any material credit risk since these are secured against their salaries. Geographically there is no concentration of credit risk. The maximum exposure to credit risk for trade debts at the reporting date are with customers within the country.

The aging of trade debts at the reporting date was:

	June 30, 2011		June 30, 2010	
	Gross	Impairment	Gross	Impairment
Not yet due	252,878	-	133,956	-
Past due 1-30 days	22,645	-	62,494	-
Past due 31-60 days	4,145	-	30,938	-
Past due 61-90 days	5,658	-	558	-
Over 90 days	129,093	34,740	105,467	35,112
	414,419	34,740	333,413	35,112

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

35.4.2 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:

Non - derivative financial liabilities - 2011	Upto 1 year	1 to 5 years	Total
Government of Pakistan Loans	-	1,790,848	1,790,848
Long term borrowings	-	4,777	4,777
Short term borrowings	108,638	-	108,638
Trade & Other payables	287,693	-	287,693
Accrued mark-up	3,101	-	3,101
June 30, 2011	399,432	1,795,625	2,195,057

Non - derivative financial liabilities - 2010	Upto 1 year	1 to 5 years	Total
Government of Pakistan Loans	-	1,790,848	1,790,848
Long term borrowings	22,500	12,887	35,387
Trade & Other payables	89,782	-	89,782
Accrued mark-up	5,910	-	5,910
June 30, 2010	118,192	1,803,735	1,921,927

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effectively as at June 30, 2011. The rates of mark-up have been disclosed in note 7 and 1 to the financial statements respectively. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

35.4.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Company is exposed to interest rate and currency risks.

a) 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.

b) Interest Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changesin 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 analyze 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, 2011, if interest rates on company's bank borrowings had been 1% higher / lower the markup expenses would have been higher / lower by 0.518 million (2010: Rs. 1.469 million).

36. CAPITAL RISK 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:

(i) 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, the Company's ability to continue as going conern is disclosed in note 2.1 to t he financial statements,and

(ii) 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.

	2011	2010
	(Rupees in '000)	
The gearing ratio as at June 30, 2011 and June 30, 2010 are as follows:		
Debt	1,904,325	1,826,235
Equity	(978,947)	(939,113)
Total equity and debt	925,316	887,122
Gearing Ratio	205.796%	205.861%

37. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements in respect of remuneration including benefits applicable to the chief executive, directors and executives of the Company are given below.

	2011			2010		
	Chief Executive	Director	Executives	Chief Executive	Director	Executives
	---------------- Rupees in '000 ----------------					
Remuneration	2,402	2,280	8,127	2,190	2,076	6,276
Reimbursable expenses	529	-	-	598	-	-
Perquisites	-	522	-	67	-	-
	2,931	2,802	8,127	2,855	2,076	6,276
Number of persons	1	1	5	1	1	5

37.1 Aggregate amount charged in the accounts for 8 directors for Meeting fees were Rs.0.038 million and reimbursable expenses were Rs. 1.612 million (2010: Rs. 1.660 million) for meetings of Board of Directors and sub committees of Board of Directors.

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

38. AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements have been authorized for issue on Sept. 27, 2011 by the Board of Directors of the company.

39. PLANT CAPACITY AND ACTUAL PRODUCTION

	U/M	Capacity Installed	Capacity Assessed	Actual Production 2011	Actual Production 2010
Pumps / turbines	No.	3,400	4,000	414	392
Electric motors	No.	16,500	6,500	556	543
Rolled material	Tons	80,000	30,000	190	1,437
Foundry	Tons	4,000	4,800	228	270
Steel fabrications (STR)	Tons	20,000	30,000	7,669	11,206
Concrete Mixers	No.	350	350	-	-

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

40. CORRESPONGING FIGURES

Corresponding figures have been classified / re-arranged for the purpose of comparison and better presentation.

Reclassification from Component	Reclassification to Component	Rupees '000
Trade creditors	Trade and other payables	
- Trade creditors	- Trade creditors	50,546
Accrued liabilities	Trade and other payables	
- Accrued liabilities	- Accrued liabilities	5,779
Deposits and advance payments	Trade and other payables	
- Deposits and advances	- Deposits and advances	13,012
Other liabilities	Trade and other payables	
- Other liabilities	- Other liabilities	59,306
Unclaimed dividend	Trade and other payables	
- Unclaimed dividend	- Unclaimed dividend	12,226
Advances to others	Provision for taxation - net	
- Income tax	Provision for taxation - net	31,498
Advances to others	Trade Deposit, prepayments and other Receivables	
- Letter of credit	- Letter of credit	12,877

41. GENERAL

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

Brig. Balal Ahmed Khan (Retd)
Sitara-e-Imtiaz (Mil)
(Chief Executive)

Mohammad Shabir Malik
(Director)

PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2011

Incorporation No. 0000348

Shareholders	From	To	Total Shares
1,450	1	100	41,621
585	101	500	136,275
147	501	1,000	102,114
104	1,001	5,000	196,866
21	5,001	10,000	144,895
3	10,001	15,000	36,375
5	15,001	20,000	94,400
3	25,001	30,000	83,707
1	30,001	35,000	32,345
2	35,001	40,000	80,000
1	40,001	45,000	43,776
1	45,001	50,000	46,100
1	50,001	60,000	57,070
1	65,001	70,000	65,627
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	145,500
1	165,001	170,000	165,254
1	400,001	500,000	452,701
1	505,001	510,000	510,000
1	1,400,001	1,405,000	1,401,100
1	1,415,001	1,420,000	1,415,723
2,335			5,690,245

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive Officers, & their spouse and minor childern	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%
Share holders holding 10% or more of total capital	2,816,823	49.50%
General Public		
a. Local	1,580,087	27.77%
b. Foreign	2,580	0.05%
Others:		
Joint Stock Companies	730,660	12.84%
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%
Abandand Properties Organization	5,754	0.10%
Government Authority	1	0.00%

PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2011

ADDITIONAL INFORMATIONS

	% Age	Shares Held
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. Muhammad 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
SHARES HELD BY THE GENERAL PUBLIC	27.77	1,580,087
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	61.48	3,498,379

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

FORM OF PROXY

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

I/We ______________________________ of ______________________________

______________________________ being a member (s) of Pakistan Engineering Company Ltd. and

holder of ____________________ ordinary shares as per Share Register Folio No. __________

(in case of Central Depository System Account Holder A/c No. ______________________________)

hereby appoint Mr./ Ms. ______________________________ of ______________________________

(or failing him / her) Mr./Ms. ______________________________ of ______________________________

as a proxy of vote on my / our behalf at the Annual General Meeting of the Company to be held

on Monday, October 31 2011 at 10:30 a.m. at Hotel Ambassador, 7- Davis Road, Lahore.

Signed this ____________________ day of ____________________ 2011.

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.

PAKISTAN ENGINEERING COMPANY LIMITED

MINUTES OF THE 61ST ANNUAL GENERAL MEETING OF PAKISTAN ENGINEERING COMPANY LIMITED HELD ON SATURDAY, OCTOBER 30, 2010 AT 10:30 AM AT HOTEL AMBASSADOR, LAHORE

Khawaja Shaukat Ali, Managing Director, was elected by the shareholders, to act as Chairman for the meeting. The meeting commenced with recitation from the Holy Quran by Qari Furqan Shah.

The Secretary, Mr. Anwar Aziz welcomed the shareholders and introduced Khawaja Shaukat Ali, Managing Director, Mr. Muhammad Iqbal and Mr. Liaqat Mohammad Directors of the Company, present in the meeting.

Items of the agenda were then taken up:

AGENDA ITEMS	MINUTES
1. To confirm the minutes of 60th Annual General Meeting held on October 31, 2009.	The Minutes of Annual General Meeting held on October 31, 2009 were circulated with the Notice of 61st Annual General Meeting to all the shareholders. The minutes were unanimously confirmed and signed by the Chairman.
2. To receive consider and adopt the Audited Accounts of the Company for the year ended June 30, 2010 to-gather with the Auditors' and Directors' report thereon.	The Chairman presented the audited accounts of the company for the year ended June 30, 2010 together with the Auditors' Report and Directors' Report to the members. The Directors Report was taken as read. The Chairman of the meeting Khawaja Shaukat Ali briefly stated that: Your Company achieved the highest ever sales of Rs. 1,677 million inspite of very adverse business environments viz load shedding of Electricity and Gas and terrorist activities. These factors affected all the industrial units in the country. Net Profit before tax for the year was Rs. 188 million. The Company has paid all installments of Principal and mark up to the banks during the year. Technical collaboration is being sought from foreign countries to up grade Pumps, Motors and Automotive parts. Diversification can only be possible with technical support.

	The Accounts together with the Auditors' and Directors' Report thereon for the year ended on June 30, 2010 were approved by the shareholders.
3. To approve dividend for the year ended June 30, 2010.	The Directors recommended Cash Final Dividend @ Rs. 5/- per share (50 %) per share besides Interim Dividend of Rs. 5/- (50 %) per share. The shareholders unanimously approved dividend @ Rs. 10/- per share (100%) for the year ending 30 June, 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 re-appointment, have offered themselves for re-appointment.	The previous auditors M/s Fazal Mahmood & Company, Chartered Accountants being eligible, offered them selves for appointment. Shareholders unanimously approved the appointment of M/s Fazal Mahmood & Company, Chartered Accountants as auditors of the Company for the year ended June 30, 2011 at a remuneration of Rs. 500,000/- plus out of pocket expenses of Rs. 15,000/-. Half yearly review fee of Rs. 65,000/- was also approved by the shareholders.

There being no other item on the Agenda the meeting was concluded with thanks to the Chair.

MINUTES CONFIRMED

CHAIRMAN