



NOTE TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2007

1. THE COMPANY AND ITS OPERATIONS

Pakistan Engineering Company Limited (a State Enterprise) was incorporated in Pakistan on February 15, 1950 under the Companies Act, 1913 (Now Companies Ordinance, 1984) as a public limited company. Its shares are quoted on all Stock Exchanges of Pakistan. The company is principally engaged in the manufacturing and sale of engineering products. The major products of the company are electricity transmission and communication towers, bicycles, electric motors, pumps and steel rolled products etc. The Company has closed down its all divisions, except Structure (STR) division, and is 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 has modified its earlier decision and allowed to keep the structure division of the company operative i.e. company will not be wound up.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Accounting

The company has accumulated losses of Rs.1,245.196 million (2006: Rs.1,530.257 million) as at June 30, 2007. The Board of Directors of the Company has resolved that since the company earned after tax profit of Rs. 509.623 million during the last three years and the company is also in profit for the quarter ended September 30, 2007. Furthermore, 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. The foregoing factors and considering the future plans the company will be able to generate profits and as such these will wipe off the accumulated losses in future years. In this regard Badami Bagh Land has been offered for sale by the Privatization Commission and expression of interests have been received by Privatization Commission. The Company has already closed down its all divisions, except Structure (STR) division, and had terminated its employees through compulsory separation scheme.

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

Keeping in view all these factors, the Board of Directors is of the firm resolution that the going concern assumption is considered appropriate and these Financial Statements have been prepared on assumption that the company will 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 and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Where the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

Following Standards and amendments of approved accounting standards are effective for accounting period beginning July 01,2007. These Standards are either not relevant to the company's operations or are not expected to have significant impact on the company's financial statements other than increase in disclosures in certain cases:

IAS-1 Presentation of financial statements	
Capital Disclosures	effective from January 1, 2007
IFRS-2 Share Based Payment	effective from January 1, 2007
IFRS-3 Business Combinations	effective from January 1, 2007
IFRS-5 Non-current Assets Held For Sale & Discontinued Operations	effective from January 1, 2007
IFRS-6 Exploration For & Evaluation of Mineral Resources	effective from January 1, 2007

2.3 Accounting Convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold land carried out in 1991 & 2001 and of the steel structure and plant and machinery shifted from Badami Bagh Works to Lakhpat Works in the year 1997 and short term investments carried at amortised cost.



2.4 Use of Estimate & Judgment

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

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

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

Borrowing costs pertaining to the construction and erection are capitalized up to the date of completion. Depreciation on operating fixed assets is charged to income on reducing balance method at the rates specified in note No. 3 to the accounts to write off the cost over their estimated useful lives.

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

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

Capital Work -in -Progress

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

2.6 Assets Subject to Finance Lease

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

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

2.7 Stocks, Stores, Spare Parts and Loose Tools

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

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

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

2.8 Trade Debts

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

2.9 Other Receivables

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

2.10 Associated Undertakings / Related Parties

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

2.11 Compliance with Experts Advisory Cell (EAC)

Beside the relevant International Accounting Standards and the Companies Ordinance, 1984 the company also complies with the requirements of accounting manual for public sector industries prepared by the Expert Advisory Cell, Ministry of Industries and Production, Government of Pakistan while preparing the financial statements.

2.12 Foreign Currency Translation

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

2.13 Employees Retirement Benefits

a) Defined contribution plan

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

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

2.14 Trade and other Payables

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

2.15 Taxation

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

2.16 Deferred Tax

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.17 Revenue Recognition

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

2.18 Borrowing Costs

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

2.19 Liabilities Against Assets Subject to Finance Lease

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

2.20 Provisions

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

2.21 Cash and Bank

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

2.22 Cash and Cash Equivalent

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

**2.23 Short term Investments**

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

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

2.24 Impairment of Assets

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

2.25 Investment Property

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

2.26 Financial Instruments

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

2.27 Off Setting Of Financial Assets and Financial Liabilities

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

2.28 Dividend & Appropriation to reserves

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



Rupees in Thousand

D E S C R I P T I O N	COST				DEPRECIATION				Written Down Value as on June 30, 2007	Rate
	As at July 01, 2006	Additions	Deletions	As on June 30, 2007	As at July 01, 2006	Deletions for the year	As on June 30, 2007			
Freehold Land	1,250,000	-	-	1,250,000	-	-	-	1,250,000	-	
Office Building	3,171	-	-	3,171	2,592	29	2,621	550	5	
Factory Buildings (Including Steel Structure)	221,767	-	-	221,767	105,487	5,814	111,301	110,466	5	
Plant and Machinery	234,804	2,180	41	236,943	163,897	16	167,456	69,487	5	
Furniture and Fixtures	19,054	2,732	-	21,786	14,661	-	15,218	6,568	10	
Vehicles	7,899	6,746	776	13,869	3,912	702	4,967	8,902	20	
Tools	5,293	-	-	5,293	4,418	-	4,506	787	10	
Total Rs. 2007	1,741,988	11,658	817	1,752,829	294,967	718	306,069	1,446,760		
Total Rs. 2006	1,741,362	3,618	2,992	1,741,988	286,553	(2,607)	294,967	1,447,021		

3.1 Land, Building Steel Structure and Plant and Machinery of the company were revalued in the year 1991, 1997 and 2001 the detail of which is given in the note 27.

3.2 Depreciation for the year has been allocated as follows:

	Rupees in Thousand	
	2007	2006
Cost of Goods Sold	9,477	9,949
General and Administrative Expenses	2,343	1,072
	<u>11,820</u>	<u>11,021</u>

3.4 Carrying value of the assets if not revalued are:

Particulars	Cost	Accumulated Depreciation	WDV
	Rs.(000)	Rs.(000)	Rs.(000)
Free Hold Land	753	-	753
Factory Buildings (Including Steel Structure)	78,217	53,700	24,517
Plant and Machinery	187,943	147,917	40,026
Total - 2007	<u>266,913</u>	<u>201,617</u>	<u>65,296</u>
Total - 2006	<u>264,733</u>	<u>198,221</u>	<u>66,512</u>

Rupees in Thousand

D E S C R I P T I O N	COST				AMORTIZATION				Written Down Value as on June 30, 2007	Rate %
	As at July 01, 2006	Additions	As on June 30, 2007	As on July 01, 2006	for the year	As on June 30, 2007				
Vehicles	2,307	-	2,307	919	278	1,197	1,110	20		
Total Rs. 2007	2,307	-	2,307	919	278	1,197	1,110			
Total Rs. 2006	2,307	-	2,307	572	347	919	1,388			

4.1 Amortization has been charged to General and Administrative Expenses.



		Rupees in Thousand	
		2007	2006
5. CAPITAL WORK IN PROGRESS			
	Civil Works	1,396	-
	Plant & Machinery	1,657	-
		3,053	-
6. LAND HELD FOR SALE		314,724	314,724
	This represents land of 260.495 kanals of Badami Bagh Works which has been closed down. The title documents of land has been handed over to the Privatization Commission for sale. The sale proceeds of this land will be utilized for payment of long term loan liabilities as stated in note no 23. The fair value of the land is estimated at Rs. 2,214.00 million (2006: Rs. 2,214.00 million). Expression of interests have been received by Privatization Commission in this regard from many parties.		
7. DEFERRED TAXATION			
	Debit / (Credit) balance arising in respect of :		
	Unused Tax Losses	87,916	-
	Minimum Tax available for carry forward	8,386	-
	Provision for Doubtful Debts	14,828	-
	Provision for Slow moving store	3,500	-
	Finance Lease Arrangements	148	-
	Surplus on revaluation of assets	(46,550)	-
	Accelerated Tax Depreciation Allowances	(1,674)	-
		66,554	-
8. STORES, SPARES AND LOOSE TOOLS			
	Stores	25,112	24,708
	Spares parts	71,333	57,816
	Loose Tools	24,983	24,905
		121,428	107,429
	Less: Provision for slow moving items	10,000	-
		111,428	107,429
8.1	Stores and spares relating to discontinued operations are of Rs. 44.836 million against which provision of Rs. 10.000 million has been made (2006:Rs. 44.860 Million).		
9. STOCK IN TRADE			
	Raw material	100,657	90,378
	Work in process	95,580	77,663
	Finished goods	15,469	46,883
		211,706	214,924
9.1	Stock in trade relating to discontinued operations are of Rs. 76.194 million (2006:Rs. 83.586 million).		
10. ASSETS HELD FOR SALE			
	Store	1,073	1,161
	Machinery	29,737	30,771
		30,810	31,932
10.1	The above amount represents the stores and machinery of closed down shops of Kot Lakhpat Works (Machine Tool and Power Loom division) as well as the assets transferred from Badami Bagh Works but not installed.		
11. TRADE DEBTORS - UN SECURED			
	Associated undertakings	537	537
	WAPDA	259,327	215,569
	Others	37,436	33,201
		297,300	249,307
	Less: Provision for bad and doubtful debts		
	Associated undertakings	537	537
	WAPDA	10,514	10,514
	Others	25,064	25,472
		36,115	36,523
		261,185	212,784



- 11.1 Trade debtors other than those against which provision has been made are considered good by the management.
- 11.2 Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (2006: Rs.0.537 million).
- 11.3 Trade debtors include an amount of Rs. 7.617 million(2006: Rs. 7.617) million receivable from M/s Metropolitan Steel Corporation Limited against which the company is under the process of initiating the recovery proceedings.

		Rupees in Thousand	
		2007	2006
11.4	Provision for Bad and Doubtful Debts		
	Opening balance	36,523	58,211
	Add: Provision for the year	-	32,365
	Less: Recovery of bad debts / adjustments	408	41
	Less: Bad debts written off	-	54,012
		<u>408</u>	<u>54,053</u>
	Closing Balance	36,115	36,523
12.	<u>LOANS AND ADVANCES TO EMPLOYEES - Unsecured and Considered Good</u>	<u>1,689</u>	<u>50</u>

These include an amount of Rs. 0.961 million (2006: Rs. Nil million) outstanding for Chief Executive, which carries mark up ranging from @ 3.750% to 5.623% and Rs. Nil million (2006: Nil million) for executives, which are the maximum balances during the year. The loans and advances are considered good.

13. ADVANCES TO OTHERS

	Suppliers - Unsecured and Considered Good	13.1	2,941	2,062
	Income Tax		12,556	7,679
	Letters of credit		3,269	339
			<u>18,766</u>	<u>10,080</u>
13.1	Suppliers		5,769	4,890
	Less: Provision for bad and doubtful debts		2,828	2,828
			<u>2,941</u>	<u>2,062</u>

14. TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE

	Trade deposits - Considered good	14.1	600	-
	Margin against bank guarantee - Considered good	14.2	1,472	13,617
	Letter of Credit - Margin		-	20,442
	Short term prepayments		2,514	1,219
	Claims receivable		497	97
	Interest Accrued		407	939
	Sales tax refundable		-	1,482
			<u>5,490</u>	<u>37,796</u>
14.1	Balance as on Closing date		3,517	2,917
	Less: Provision against doubtful balances		2,917	2,917
			<u>600</u>	<u>-</u>
14.2	Balance as on Closing date		1,533	13,678
	Less: Provision against doubtful balances		61	61
			<u>1,472</u>	<u>13,617</u>

15. SHORT TERM INVESTMENTS - Held to Maturity

	Term Deposits with banks	<u>51,500</u>	<u>60,000</u>
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Rupees in Thousand

		2007	2006
15.1	The interest rate on these Investments ranges from 9.5% to 11.5 % per annum.		
16. CASH AND BANK BALANCES			
Cash in hand		403	262
Cash with banks			
Current accounts		5,617	3,235
Saving accounts	16.1	98,694	29,200
Escrow account	16.2	207	219
		104,518	32,654
		104,921	32,916
16.1	The company is maintaining saving account with different banks with interest on the daily product basis which ranges from 5% to 8.5% (2006 : 6% to 8%).		
16.2	This represents unutilised credit facility on NBP finances relating to ADP-19 and ADP-46 Projects.		
17. TRADE CREDITORS			
People Steel Mills, Karachi		2,327	2,827
Others		64,375	58,388
		66,702	61,215
18. ACCRUED LIABILITIES			
Accrued expenses		19,456	10,405
		19,456	10,405
19. DEPOSITS AND ADVANCE PAYMENTS			
Advances from customers	19.1	8,709	9,240
Dealership securities	19.2	2,312	2,312
Retention and earnest money		1,259	1,012
		12,280	12,564
19.1	These include interest free advances from associated companies amounting to Rs. 1.242 million (2006: Rs.3.958 million).		
19.2	These are payable on demand and do not carry interest.		
20. OTHER LIABILITIES			
Gratuity payable to SEC Pension Fund Trust	20.1	-	-
Payable to preference shareholders	20.2	787	788
Payable to State Engineering Corporation (Private) Limited (an associated undertaking)		20,218	20,280
Sales Tax Payable		18,717	-
Workers Profit Participation Fund	20.3	15,357	10,846
Others		14,559	14,820
		69,638	46,734
20.1 Movement of Pension Payable is as under:			
Opening balance		-	1,025
Provision for the year		49	440
		49	1,465
Less:			
Payment to SEC Pension Fund		49	1,465
		-	-
20.2	The amount is payable to preference shareholders on account of principal amount due.		
20.3 Workers Profit Participation Fund			
Opening balance		10,846	4,863
Add:			
Allocation for the year		7,280	5,983
Less:			
Utilized		(2,769)	-
		15,357	10,846



		Rupees in Thousand	
		2007	2006
21. SHORT TERM BORROWINGS			
	From National Bank of Pakistan under mark up arrangements- Secured:		
	NBP - Demand Finance	-	100,589
	From PICIC Commercial Bank under mark up arrangements- Secured:		
	Running Finance	21.1 40,806	-
	From Related parties:		
	State Engineering Corporation (Pvt.) Ltd.	21.2 -	1,000
		40,806	101,589

21.1 This have been obtained from PICIC Commercial Bank on mark up basis and is secured against lien on term deposit certificates. The borrowings form a part of total credit facility available to the extent of Rs. 45 million (2006: Rs. Nil). Unavailed facility as at balance sheet date is Rs. 4 million. Mark up is paid at the rate ranging from 14.5% per annum to 13.50% per annum.

21.2 This loan was unsecured and interest free.

22. CONTINGENCIES AND COMMITMENTS

Contingencies

- Claims not acknowledged as debts in respect of various sub judice cases filed against the company for which the maximum possible liabilities could be approximately Rs. 2.517 million (2006: Rs. 2.717 Million).
- Guarantees of Rs. 299.712 Million (2006: 188.498 Million) issued by the banks and insurance company to different parties on behalf of the company.

Commitments

- Letters of credit for machinery, raw material and store items amounting to Rs. 50.543 Million (2006: Rs. 39.895 million).

23. GOVERNMENT OF PAKISTAN LOAN- Secured

The amount includes funds provided by the Government, bank loan of the company taken over by the Government and amount payable by the company to different Government department like Customs and Karachi Port Trust. According to the Cabinet Committee Division decision dated 30th May 1994 and 2005 these loans will be settled against the proceeds from Land held for sale (Refer Note no. 6). Therefore, these have been classified as long term payables.

	Privatization commission loan	23.1	481,469	481,469
	Government Escrow account	23.2	112,937	112,937
	Other Government Loan	23.3	100,000	100,000
	Federal Government loan for compulsory separation scheme	23.4	309,000	309,000
	Federal Government Bonds	23.5	787,442	787,442
			1,309,379	1,309,379
			1,790,848	1,790,848
23.1	The break up of interest free loan from Privatization Commission is as follows:			
	Loan for VSS/CSS and Salaries		281,082	281,082
	Loan for shifting of machinery		75,819	75,819
	Loan for Energy bills and Import duties		124,568	124,568
			481,469	481,469
23.2	The break up of Government Escrow account is as follows:			
	Customs and other import duties	23.2.1	86,984	86,984
	Pakistan Railways freight		12,989	12,989
	Karachi Port Trust		12,964	12,964
			112,937	112,937

23.2.1 The customs and other import duties balance carries interest @ 14% per annum which has not been accounted for upto June 30, 2007, amounting to Rs. 41.989 million (2006: Rs. 41.989 million).

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



		Rupees in Thousand	
		2007	2006
23.4	Federal Government of Pakistan provided to PECO a loan of Rs. 309.000 million @ 10% mark up p.a. to pay off the staff through Compulsory Separation Scheme vide letter No. 1(26) CF 111/93 dated 4th March 2002. Interest on this loan up to year ended June 30, 2007, amounting to Rs. 162.225 million(2006: Rs.131.325 million) including the effect of Rs. 30.900 million (2006: Rs. 30.900 million) for the year has not been accounted for as the company intends to take up its waiver with Government of Pakistan.		
23.5	Interest bearing bonds	655,138	655,138
	Interest free bonds	132,304	132,304
		787,442	787,422

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

24. LONG TERM LOANS

	From National Bank Of Pakistan - Classified	24.1	149,026	153,814
24.1	The above includes principal amounting to Rs. 127.926 million (2006:Rs.132.714 million) and mark up amounting to Rs. 21.10 million(2006:Rs. 21.10 million). National Bank of Pakistan has declared these loans as classified loans. The Bank has confirmed the outstanding liability without charging any mark up and these loans do not carry any mark up. These loans are secured by First charge over present and future, current and fixed assets of the company. The management of the company has approached the bank and is under the process of finalizing the repayment schedule of these loan liabilities. Since these liabilities are payable over more than one year, therefore, these liabilities are shown as long term.			

25. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - SECURED

	Opening balance	1,808	2,063
	Payments made during the year	(275)	(255)
	Present value of Minimum Lease Payments	1,533	1,808
	Current portion - (Due within one year)	(297)	(275)
	Closing balance - (Due after one year but within five years)	1,236	1,533
25.1	The company has entered into lease agreements with Askari Commercial Bank Ltd. and Askari Leasing Limited to acquire vehicles. Present value of minimum lease payments has been discounted at interest rates ranging from 5% to 8.38% per annum which approximately equate the rates implicit in the lease agreements. The liability is partly secured against the deposit of Rs. 0.916 million (2006: Rs. 0.916 million). The company intends to exercise its option to purchase the leased assets upon completion of lease period.		
25.2	The amount of future payments for finance lease and the period in which these payments become due are:		
	Due within one year	347	347
	Due after one year but within five years	1,258	1,605
	Minimum lease Payments (MLP)	1,605	1,952
	Less:		
	Finance charge	(72)	(144)
	Present value of Minimum Lease Payments	1,533	1,808

26. SHARE CAPITAL

Authorized Capital:

9,000,000 (2006: 9,000,000) Ordinary shares of Rs. 10/- each	90,000	90,000
100,000 (2006: 100,000) 7.5% Cumulative redeemable preference shares of Rs. 100/- each	10,000	10,000
	100,000	100,000



	Rupees in Thousand	
	2007	2006
Issued, Subscribed and Paid up Capital:		
3,162,144 (2006: 3,162,144) Ordinary shares of Rs. 10/- each fully paid in cash	31,621	31,621
2,528,101 (2006: 2,528,101) Ordinary shares of Rs. 10/- each issued as fully paid up bonus shares	25,281	25,281
	56,902	56,902

26.1 State Engineering Corporation (Pvt.) Ltd., an associated company, holds 1,415,723 (2006:1,415,723) ordinary shares of Rs. 10/- each as at June 30, 2007.

27. REVALUATION SURPLUS

Free hold land	27.1	1,563,246	1,563,246
Building Structure on Free hold Land	27.2	55,866	90,472
Plant and Machinery	27.3	30,582	49,156
		1,649,694	1,702,874
27.1 Free Hold Land			
Surplus on revaluation carried out in 1991		925,530	925,530
Surplus on revaluation carried out in 2001	27.4	645,075	645,075
		1,570,605	1,570,605
Less:			
Adjustment on account of sale of part of Badami Bagh Works Land in 2001		7,359	7,359
		1,563,246	1,563,246
27.2 Building Structure			
Surplus on revaluation carried out on June 30, 1997	27.5	143,550	143,550
Less:			
Surplus relating to incremental depreciation charged in prior years transferred to accumulated loss		53,078	48,316
Prior years		2,941	4,762
Current year - Net of deferred tax		1,583	-
Related deffeted tax liability	27.8		
		57,602	53,078
Less:			
Related deferred tax liability		31,665	-
Balance at the beginning of the year		1,583	-
Incremental depreciation		30,082	-
		55,866	90,472
27.3 Plant and Machinery			
Surplus on revaluation carried out on June 30, 1997	27.6	96,063	96,063
Less:			
Adjustment on account of sale to date		22,267	21,474
		73,796	74,589
Less:			
Surplus relating to incremental depreciation charged in prior years transferred to accumulated loss		25,433	23,807
Prior years		(231)	-
Adjustment on account of sale		1,004	1,626
Current year - Net of deffered tax	27.8	540	-
Related deferred tax liability			
		26,746	25,433
Less:			
Related deferred tax liability		17,205	-
Balance at the beginning of the year		(197)	-
Realized on disposal of assets		(540)	-
Incremental depreciation		16,468	-
	27.7	30,582	49,156



Rupees in Thousand

- | | 2007 | 2006 |
|------|---|------|
| 27.4 | Land of Kot Lakhpat Works was again revalued by M/s Indus Surveyors on the average market rate. Value of land was Rs. 604.925 million before revaluation and was revalued at Rs. 1,250.000 million resulting in the surplus of Rs. 645.075 million. | |
| 27.5 | Steel structure of Badami Bagh Works (Transferred to Kot Lakhpat works) were revalued. Value of the structure was Rs. Nil before revaluation, it was revalued at Rs. 143.550 million resulting in the surplus of Rs. 143.550 million. | |
| 27.6 | Plant and machinery of Badami Bagh Works (Transferred to Kot Lakhpat works) was revalued by M/s Indus Surveyors at Rs. 126.203 million resulting in the surplus of Rs. 96.063 million. | |
| 27.7 | Net revaluation surplus includes Rs. 17.720 million (2006: 18.257 million) relating to machinery held for sale. (Ref. note 10) | |
| 27.8 | As required by the Companies Ordinance, 1984, the incremental depreciation charged during the current year on "Plant and Machinery and Steel Structure" has been transferred from the surplus on revaluation of fixed assets to accumulated losses. | |

28. SALES - Net

Gross Sales		
- Local	1,076,141	959,886
- Export	47,009	-
	1,123,150	959,886
Less : Sales Tax	139,651	125,180
	983,499	834,706

29. COST OF GOODS SOLD

Raw material consumed	29.1	607,526	455,819
Stores and spares consumed		53,006	56,963
Salaries and wages (including all benefits)	29.2	33,654	24,822
Fuel and power		30,466	30,001
Inspection Fee		816	195
Service charges		391	838
Processing charges		7,587	-
Repair and maintenance		2,093	2,023
Insurance		367	443
Vehicle running expenses		963	427
Other expenses		493	163
Depreciation	3.2	9,477	9,949
		139,313	125,824
		746,839	581,643
Opening Stock of Work in Process		77,663	90,644
Closing Stock of Work in Process		(95,580)	(77,663)
		(17,917)	12,981
Cost of goods manufactured		728,922	594,624
Opening Stock of Finished Goods		46,883	69,523
Closing Stock of Finished Goods		(15,469)	(46,883)
		31,414	22,640
		760,336	617,264

29.1 Raw Material Consumed

Opening Stock	90,378	202,485
Add:		
Purchases	617,805	343,712
	708,183	546,197
Less:		
Closing Stock	100,657	90,378
	607,526	455,819

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



		Rupees in Thousand	
		2007	2006
30. SELLING AND DISTRIBUTION EXPENSES			
Salaries and wages (including all benefits)		2,485	2,218
Travelling and conveyance		477	137
Entertainment		83	46
Repair and maintenance		35	5
Postage, telegrams and telephone		95	97
Printing, stationery and office supplies		63	19
Publishing of Tender & sale promotion		911	286
Service charges		5,026	2,694
Miscellaneous		927	406
		10,102	5,908
31. FREIGHT AND FORWARDING EXPENSES			
Freight and forwarding expenses		12,269	2,968
32. GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and wages (including all benefits)		20,164	15,051
Provident Fund		59	67
Gratuity		51	440
Travelling and conveyance		1,493	634
Entertainment		330	227
Legal and professional		553	677
Rent, rates, and taxes		1,747	1,735
Fuel, gas and electricity		1,635	1,590
Repair and maintenance		983	465
Postage, telegrams and telephone		675	526
Printing, stationery and office supplies		1,151	772
Advertisement & Publishing of Tender		712	582
Service charges - SEC		-	2,000
Amortization of leased assets	4.1	278	347
Insurance		404	369
Vehicle running expenses		1,441	971
Donation	32.1	-	1,000
Miscellaneous		1,740	1,302
Depreciation	3.2	2,343	1,072
		35,759	29,827
32.1	2007: Rs. Nil (2006:Rs.1.00 million this donation was paid to State Engineering Corporation (Pvt) Ltd. (SEC) for contribution towards President's relief fund for earthquake victims. Mian Suhail Aslam (Chairman of BoDs) is also the Chairman of SEC).		
33. OTHER CHARGES			
Auditor's remuneration	33.1	330	316
Provision for doubtful:			
Trade debts		-	32,365
Security Deposits		-	290
Advances to Suppliers		-	777
Trade Deposits		-	1,574
Bank Guarantee margin		-	61
		-	35,067
Miscellaneous charges		508	2,022
Balances Written off		-	504
Provision against Contingencies		-	10,000
Provision for slow moving stores		10,000	-
		10,508	12,526
		10,838	47,909
33.1 Auditors Remuneration			
Audit Fee		145	130
Half yearly review fee		65	55
Tax consultancy charges		120	131
		330	316

		Rupees in Thousand	
		2007	2006
34. FINANCIAL CHARGES			
Mark up on short term bank borrowings		4,327	15,837
Bank charges and commission	33.1	4,192	2,065
Financial charges on finance lease		72	92
		8,591	17,994

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

35. OTHER INCOME

Income from Financial Assets

Interest / Profit			
-On deposits with banks		4,924	693
-On short term investments		5,387	1,856
Recovery of bad debts		408	41
Mark up provisions written back	35.1	45,055	-
		55,774	2,590

Income from non financial Assets

Miscellaneous income		4,230	892
Gain on disposal of tangible fixed assets	35.2	2,464	3,333
Gain on sale of assets held for sale	35.2	836	-
		7,530	4,225
		63,304	6,815

35.1 This represents mark up provisions relating to previous periods which is no longer payable due to loan being declared as classified loan by the bank and the bank is not charging any mark up on the classified loan (Ref.Note No.24.1) as confirmed by the bank. Therefore the company has written back these mark up provisions, as approved by the Board of Directors of the company.

35.2 Detail of Disposal of Tangible Fixed Assets during the year

Description	Oroginal / Revalued Cost	Accumulated Depreciation	Written Down Value	Sale Price	Profit/ Loss	Mode of sale	Particular of Purchaser
Plant & Machinery	41	16	25	41	16	Negotiation	Pakistan Machine Tool Factory, Karachi
Vehicles Suzuki Mehran (LXN-8830)	324	266	58	194	136	Tender	Waqas Masood 610-N Samnabad Lahore
Road Roller (1 Nos.)	102	100	2	600	598	Tender	Tariq Mahmood Chak No. 99/6-R P.O Khas Distt Sahiwal
Tractor Trollies (20.16 MT)	20	19	1	423	422	Tender	
Tractors (8 Nos.)	330	317	13	1,305	1,292	Tender	Nadeem ul Haq H No. 22/24 Block No.13 Farooq Azam Road Sargodha
Plant & Machinery - Held For Sale	1,034	-	1,034	1,870	836	Tender	Pakistan Machine Tool Factory, Karachi
TOTAL - 2007	1,851	718	1,133	4,433	3,300		
TOTAL - 2006	2,992	2,607	385	3,718	3,333		



	Rupees in Thousand	
	2007	2006
36. TAXATION		
Current		
- for the year	(4,917)	(4,174)
- for prior years	(88)	-
Deferred		
- for the year	115,424	-
	<u>110,419</u>	<u>(4,174)</u>

The company's income tax assessments have been finalized upto and including Tax year 2006.

Due to income tax losses, tax provision at 0.5% of turnover u/s 113 of the Income Tax Ordinance, 2001 has been made.

37. BASIC EARNING PER SHARE

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

Profit after Taxation	<u>312,047</u>	<u>109,494</u>
Weighted average number of Ordinary shares	<u>5,690</u>	<u>5,690</u>
Earning per share (Rupees)	<u>54.84</u>	<u>19.24</u>

38. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties/associated undertakings, other than remuneration and benefits to key management personnel's under the terms of their employment (Ref. note 42) and other than the payments made to the retirement benefit plans are as under:

State Engineering Corporation (Pvt) Limited (SEC)

Payment of Short term loan	1,000	2,000
SEC Service Charges	-	2,000
Reimbursement of Expenses	240	233

SEC Pension Fund Trust

Payments made during the year against due contributions	49	1,465
Payment of management expenses	33	44

Pakistan Machine Tool Factory

Sale of Used Machinery	1,911	-
Payment made	800	-

Heavy Mechanical Complex

Sale of Scrap (HMC)	2,675	-
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Heavy Electrical Complex (HEC)

Payments of expenses on behalf of company	-	377
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Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (2006: Rs. 0.537 million).

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

39. DISCONTINUING OPERATIONS

39.1 All divisions of the company, except for the Structure Division (STR) , which consists of Machine Tool, Power Loom, Pumps, Electric Motor, Bicycle, Furnace and Rolling Mill's had been closed during the period 2000 to 2003, as per the instructions of the Government. The Plant and Machinery of two divisions, Machine tool and Power Loom, had been transferred to "Assets held for sale" in the year 2001, and the management has no intention to sell the Plant and machinery of remaining divisions of the company. At present only Structure (STR) division of the company is in operation. The amount of revenue and tax expense from ordinary activities attributable to the discontinuing operations is not material during the current financial reporting period and is disclosed as under:

	Note	Rupees in Thousand	
		2007	2006
Sales		311	617
Income Tax expense	39.2	2	3
Cash flow from operating activities		309	614

39.2 Income tax expense represents the minimum tax U/S 113 of Income Tax ordinance, 2001.



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

40. SEGMENT INFORMATION

Owing to the significant transfer of material at various stages of manufacture between different units, the costing system does not permit a realistic separation of working results of the units and the items produced, accordingly, segment information can not be prepared. However during the current year only Structure (STR) division of the company remain in operation and the operational results of the other divisions also does not meet the minimum threshold as specified in IAS-14.

41. FINANCIAL INSTRUMENTS

Rupees in Thousand

	Interest/ mark-up bearing			Non Interest/ mark-up bearing			TOTAL	
	Maturity upto one year	Maturity after one year	sub total	Maturity upto one year	Maturity after one year	sub total	2007	2006
FINANCIAL ASSETS								
Long term security deposit	-	-	-	-	2,415	2,415	2,415	2,175
Trade debtors	-	-	-	261,185	-	261,185	261,185	212,784
Loans and advances to employees	961	-	961	728	-	728	1,689	50
Advances to others	-	-	-	2,941	-	2,941	2,941	2,062
Trade deposits and other receivable	-	-	-	2,976	-	2,976	2,976	35,095
Short Term Investments	51,500	-	51,500	-	-	-	51,500	60,000
Cash and bank balances	98,694	-	98,694	6,227	-	6,227	104,921	32,916
	151,155	-	151,155	274,057	2,415	276,472	427,627	345,082
FINANCIAL LIABILITIES								
Government of Pakistan Loan	-	395,984	395,984	-	1,394,864	1,394,864	1,790,848	1,790,848
Long Term Loans	-	-	-	-	149,026	149,026	149,026	153,814
Lease liabilities	297	1,236	1,533	-	-	-	1,533	1,808
Short term loans	40,806	-	40,806	-	-	-	40,806	101,589
Deposits and advance payments	-	-	-	3,571	-	3,571	3,571	3,324
Trade creditors	-	-	-	66,702	-	66,702	66,702	61,215
Accrued liability / mark up	-	-	-	20,584	-	20,584	20,584	59,052
Unclaimed dividend	-	-	-	4,377	-	4,377	4,377	1,902
Other liabilities	-	-	-	35,564	-	35,564	35,564	35,888
	41,103	397,220	438,323	130,798	1,543,890	1,674,688	2,113,011	2,209,440
Expected Gap	110,052	(397,220)	(287,168)	143,259	(1,541,475)	(1,398,216)	(1,685,384)	(1,864,358)

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

41.1 FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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



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

42. CHIEF EXECUTIVE AND DIRECTORS' REMUNERATION

	Rupees in Thousand			
	2007		2006	
	Chief Executive	Director	Chief Executive	Director
Remuneration	1,314	1,200	1,314	-
Reimbursable expenses	383	-	383	-
Gratuity	51	-	42	-
Provident fund	59	-	59	-
Perquisites	90	-	90	-
	1,897	1,200	1,888	-
Number of persons	1	1	1	-

42.1 Amount charged in the accounts for 8 directors for Meeting fees were Rs. 0.500 million (2006 : Rs. 0.598 million) for meetings of Board of Directors and sub committees of Board of Directors.

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

43. INTEREST RATE RISK

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

44. FOREIGN EXCHANGE RISK MANAGEMENT

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

45. CONCENTRATION OF CREDIT RISK

The company believes that it is not exposed to major concentration of credit risk.

46. NON ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Board of Directors in their meeting held on 20 October, 2007 has proposed for the approval of members at the next Annual General Meeting a final dividend of Rs. 6.50 per share (2006: Rs. 3.00 per share) amounting to Rs. 36.987 million (2006: 17.071 million). These financial statements do not include the effect of appropriation of proposed dividend as explained in Note No. 2.28.

47. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue on October 20, 2007 by the Board of Directors of the company.

48. PLANT CAPACITY AND ACTUAL PRODUCTION

	U/M	Capacity		Actual Production	
		Installed	Assessed	2007	2006
Pumps / turbines	No.	3,400	4,000	12	2
Bicycles	No.	100,000	120,000	-	-
Electric motors	No.	16,500	6,500	-	-
Rolled material	Tons	80,000	30,000	2,980	2,394
Steel fabrications (STR)	Tons	20,000	N.A	11,580	11,238
Steel ingots	Tons	40,000	60,000	-	-
Concrete Mixture	No.	350	350	2	-

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



49. GENERAL

- 49.1 Figures have been rounded off to the nearest thousand rupee.
- 49.2 The corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison, however, no significant reclassification has been made, except followings for more appropriate presentation.

	<u>From</u>	<u>To</u>	<u>(Rupees in Thousand)</u>
Provision for bad and doubtful debts (Note No. 11)	Others	WAPDA	351
Interest Accrued (Note No.14)	Short Term Investments	Interest Accrued	939
NBP-Classified Loans (Note No. 24)	Short Term Borrowings	Long Term Loans	153,814
Freight and Forwarding Exps. (Note No. 31)	Selling & Distribution Exps.	Freight and Forwarding Exps.	2,968
Cost of Goods Sold (Note No.29)	Other Expenses	Vehicle Running Expenses	427
Cost of sold (Note No.29)	Service Changes	Inspection Fee	195



PATTERN OF SHAREHOLDING

AS OF JUNE 30, 2007

Incorporation No. 0000348

Shareholders	From	To	Total Shares
1,446	1	100	42,812
598	101	500	141,909
154	501	1,000	108,199
106	1,001	5,000	204,119
25	5,001	10,000	172,673
3	10,001	15,000	34,700
6	15,001	20,000	109,400
2	20,001	25,000	46,300
1	35,001	40,000	35,650
2	40,001	45,000	88,376
1	45,001	50,000	50,000
1	95,001	100,000	100,000
1	125,001	130,000	128,790
1	135,001	140,000	135,240
1	145,000	150,000	146,500
1	160,000	165,000	163,000
1	165,000	170,000	165,254
1	270,000	275,000	275,000
2	495,000	500,000	1,000,000
1	1,125,000	1,130,000	1,126,600
1	1,415,001	1,420,000	1,415,723
2,355			5,690,245

<u>Categories of shareholders</u>	<u>Share held</u>	<u>Percentage</u>
Directors, Chief Executive Officers, and their spouse and minor children	10,729	0.189%
Associated Companies, Undertakings & Related Parties	1,415,723	24.880%
ICP (includes IDBP Account)	131,330	2.308%
Banks, Development Finance Institutions & Non Banking Financial Institutions	140,845	2.475%
Insurance Companies	229,030	4.025%
Modarabas and Mutual Fund	0	0.000%
Share holders holding 10% or more of total capital	2,542,323	44.679%
General Public		
a. Local	3,394,692	59.658%
b. Foreign	2,080	0.037%
Others:		
Joint Stock Companies	316,820	5.568%
Investment Companies	6,550	0.115%
Cooperative Societies	6,145	0.108%
Trusts	30,414	0.534%
Associations	132	0.002%
Abandoned Property	5,754	0.101%
Government Authority	1	0.000%



PATTERN OF SHAREHOLDING

AS OF JUNE 30, 2007

ADDITIONAL INFORMATIONS

	<u>% Age</u>	<u>Shares Held</u>
ASSOCIATED COMPANIES, UNDERTAKINGS & RELATED PARTIES		
State Engineering Corporation Ltd.	24.88	1,415,723
INVESTMENT CORPORATION OF PAKISTAN (ICP)	2.31	131,330
DIRECTORS, CEO THEIR SPOUSES & MINOR CHILDREN		
Mian Suhail Aslam		Govt. Nominee
Mr. M. Imtiaz ur Raheem		Govt. Nominee
Mr. Niamat Ullah 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 Qaiser (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	264
M/s United Bank Limited	0.09	5,259
M/s Bank of Bahawalpur Ltd	0.00	30
IDBP (ICP Units)	2.26	128,790
M/s Pakistan Insurance Corporation	0.77	43,776
State Life Insurance Corporation Ltd	2.90	165,254
M/s Gulf Insurance Co. Ltd	0.35	20,000
Mudarba & Mutual Funds	0.00	-
SHARES HELD BY THE GENERAL PUBLIC	59.66	3,394,692
SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL		
State Engineering Corporation Ltd	24.88	1,415,723
Rotocast Engineering Company (Pvt) Ltd.	19.80	1,126,600
Holding of CDC	60.65	3,451,186

During the year trading in shares of the company by the Directors, CEO, CFO, Company Secretary and their spouses and minor children was as under:

- Mr. Muhammad Arif Habib, Director, sold 529,500 Ordinary shares of the Company.



FORM OF PROXY

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

I/We _____ of _____

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

holder of _____ ordinary shares as per Share Register Folio No. _____

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

hereby appoint Mr./ Ms. _____ of _____

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

as a proxy of vote on my / our behalf at the Annual General Meeting of the Company to be held on Thursday, November 15, 2007 at 10:30 a.m. at Hotel Ambassador, 7- Davis Road, Lahore.

Signed this _____ day of _____ 2007.

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 57th ANNUAL GENERAL MEETING OF
PAKISTAN ENGINEERING COMPANY LIMITED HELD ON
TUESDAY, OCTOBER 31, 2006 AT 10:30 AM
AT HOTEL AMBASSADOR, LAHORE

Mr. M. Imtiaz ur Raheem, 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 Abdullah Shah.

The Chairman welcomed the shareholders and introduced Mr. Liaqat Mohammad and Mr. Muhammad Iqbal, Directors and Mr. Riaz Ahmad, Secretary of the Company, present in the meeting.

Items of the agenda were then taken up:

AGENDA ITEMS

1. To confirm the minutes of 24th Extra Ordinary General Meeting held on March 31, 2006.

2. To receive consider and adopt the Audited Accounts of the Company for the year ended June 30, 2006 together with the Auditors' and Directors' report thereon.

MINUTES

The Minutes of 24th Extra Ordinary General Meeting held on March 31, 2006 which were circulated with the Notice of 57th Annual General Meeting to all the shareholders were unanimously confirmed and signed by the Chairman.

The Chairman presented the audited accounts of the company for the year ended June 30, 2006 together with the Auditors' Report and Directors' Report to the members.

The Chairman's Review was taken as read.

The Chairman elaborated future policies and plans of the company for improvement and stability. Efforts are in progress to diversify in towers / structure, by entering into telecommunication towers business. Pumps manufacturing is in process of re-starting as decided by the company Board, which shall also make positive contribution. Gradually more product lines as considered feasible shall be added.

Mr. Muhammad Asif representative of ICP raised some points regarding provision of Mark up on Government Loans as indicated in Note 21 of the Annual Report 2006. He was of the view that if these provisions are made, then whole profit shall be wiped out.

The Chairman explained that Mark up matter is under review of the company Board, where it is being looked into from all aspects, in the interest of the company. Secondly the Mark up amount if any, is to be met out of sale proceeds of Badami Bagh land, as per decision of CCOP. Hence it is not to be charged to operations. However it shall be dealt with as decided by the Board.

Replying to another observation of a shareholder the Chairman explained that machinery of pump shop was shifted from Badami Bagh Works and installed at Kotlakhpat Works of the company. The same is in working condition and is capable of producing the quality pumps.

Another shareholder proposed that PECO should put its quarterly results on Web Site instead of sending through mail to each and every shareholder. The Chairman noted the proposal for consideration.

After this question answer session the audited accounts presented for the year ended June 30, 2006 alongwith Auditors' report and Directors' report were resolved to be approved and adopted.

3. To approve dividend. The Directors have recommended final cash dividend of 30% i.e. Rs. 3/- per share for the year ended June 30, 2006.

The Chairman explained that Board of Directors' of the Company have recommended final cash dividend of Rs. 3/- per share (30 %) for the year ended June 30, 2006. The same was unanimously approved by the members.

4. To appoint Auditors for the year ending June 30, 2007 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 themselves 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, 2007 at a remuneration of Rs. 130,000/- 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