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COMPANY INFORMATION

BOARD OF DIRECTORS

Major General (R) Zaheer Ahmad Khan (Chairman)
Mr. M. Imtiaz-ur-Raheem (Chief Executive)
Mr. Muhammad Niaz Butt
Mr. Muhammad Arif Habib
Mr. Rashid Ali Khan
Mr. Liaqat Mohammad
Mr. Mohammad Shabir Malik
Mr. Muhammad Iqbal
Mirza Mahmood Ahmad

BOARD AUDIT COMMITTEE

Mr. Liaqat Mohammad - Chairman
Mr. Mohammad Shabir Malik - Member
Mr. Muhammad Iqbal - Member
Mr. M. Imtiaz ur Raheem - Member

CHIEF FINANCIAL OFFICER & CO. SECRETARY

Mian Anwar Aziz

BANKERS

National Bank of Pakistan
United Bank Limited
Arif Habib Bank Limited

AUDITORS

Fazal Mahmood & Co.
Chartered Accountants

REGISTERED AND HEAD OFFICE

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

BRANCHES

Karachi
Islamabad

PLANT

Kot Lakhpat, Lahore.

WEB SITE

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

VISION STATEMENT

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

MISSION STATEMENT

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

To bring the company on sound financial footings. Market leader with technological edge, services and customer satisfaction.

CORPORATE STRATEGY

To accomplish excellent results through increased earnings in the best interest of all stake holders. To be a responsible employer to take care of the employees in their career planning and reward.

Being a good corporate citizen, contributing to the development of society through harmony in all respects.

STATEMENT OF ETHICS & BUSINESS PRACTICES

- 1 The Company's policy is to conduct business with honesty and integrity and be Ethical in all its dealings showing respect for the interest of those with whom it has relationship.
- 2 The Company complies with all laws and regulations. All employees are expected to familiarize themselves with laws and regulations governing their individual areas of responsibility, and not to transgress them. In case of any doubt the employees are expected to seek necessary advice. The Company believes in fair competition and supports appropriate competition laws.
- 3 The Company does not support any political party nor contribute to the funds of groups whose activities promote party interests.
- 4 The Company is committed to provide services, which consistently offer, value in terms of price and quality and satisfy customer needs and expectations.
- 5 The Company is committed to run its business in an environment that is sound and sustainable. As a good corporate entity, the Company recognizes its social responsibilities and will endeavor to contribute to community activities as a whole.
- 6 The Company believes in and fully adheres to the principles of reliability and Credibility in its financial reporting and in transparency of business transactions.
- 7 The Company is an equal opportunity employer. Its employee recruitment and promotional policies are free of any gender bias and are merit and excellence oriented. It believes in providing its employees safe and healthy working conditions and in maintaining good channels of communications.
- 8 The Company expects its employees to abide by certain personal ethics whereby Company information and assets are not used for any personal advantage or gain. Any conflict of interests should be avoided, where it exists it should be disclosed and guidance sought.

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 59th Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7- Davis Road, Lahore, on Saturday, November 15, 2008 at 10.30 A.M. to transact the following business:-

1. To confirm Minutes of 58th Annual General Meeting held on November 15, 2007.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2008 together with the Auditors' and Directors' reports thereon.
3. To appoint Auditors for the year ending June 30, 2009 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 2009.
4. To transact any other business with the permission of the chair.

BY ORDER OF THE BOARD

(Mian Anwar Aziz)
Company Secretary

Lahore: October 20, 2008

NOTES:

1. The Share Transfer Books of the company shall remain closed from November 8, 2008 to November 15, 2008 (both days inclusive).
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, Shahr-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.

CHAIRMAN'S REVIEW

Aslam-o-Alakum Wa Rehmatullah Wa Barkatauh

It is my pleasure to present the 59th Annual Audited Report, with performance review of the operating results of the Company for the year ended on June 30, 2008.

The year under review was difficult period for the business, because of many challenges at the national level, particularly the steel products industry. The steel prices had been jumping up with acceleration internationally, which is evident from the steel billet prices which increased from Rs. 32,650 per ton to Rs. 54,350 per ton during the year. The industry like yours who are in tender business were the worst hit, being fixed price contracts and neck to neck competition with local as well as foreign suppliers. Economic activities got slowed down during the year due to load shedding of electricity / gas, lawyers' movements, increased suicide bombing, political murders, change of Government etc. The Government Projects were also slowed down because of funds shortage and abnormal uprising cost of their projects.

Inspite of above adverse factors the management has been able to deal with these situations, by better planning in material procurement, preparation of bids, cost reduction and hard work. In the accelerated jumping prices of steel, materials timely arrangement at best possible price was really very difficult task.

The product mix of electricity transmission towers was not favourable as visualized, and 220 KV order was nil against budgeted target of 2,400 tons.

The entire operations and development work were managed from own resources without bank borrowing, which enhanced your company competitive position viz a viz competitors who have to pay heavy financial charges on their operational funds. The Company inspite of materials short availability, managed to complete orders in time, without levy of late penalties.

Pumps, Electric Motors and Foundry have been re-started in the last quarter of the year under review. Team comprising of engineers from the related field has been recruited to carry out these operations in more professional manners.

OPERATING RESULTS

The sales during the year inspite of difficulties were Rs. 1,037 million compared with Rs. 983 million during last year showing an increase of 5%. Tele communication tower business value was more by 14% compared with previous year, however, there was slight decline of 6% in WAPDA orders compared with last year.

Gross profit earned was Rs. 230 million during the year, higher by Rs. 7 million compared with last year.

Net profit earned from operations was Rs. 158 million as against Rs. 146 million in previous year.

BALANCING, MODERNIZATION AND REPLACEMENT

The Company successfully installed CNC line for Punching & Shearing of Steel Angles and Steel Plates and one Hydraulic drilling & cutting machine. Extensive renovation of Galvanizing Plant has been carried out besides installing a small Kettle also to minimize the Zinc consumption and reduce wastage.

FUTURE PROSPECTS

Your Company has started Pump manufacturing, alongwith Electric Motors & Foundry. Presently we shall confine to concentrate on the old range of our products i.e. Centrifugal Pumps, Submersible Pumps, Non Clogging Pumps, Deep well Turbine Pumps, Tube well accessories etc.

Foundry which is mother shop is planned to be up graded not only to produce quality casting for self requirement, but also to meet requirement of tractor parts, and other automotive parts. There is a bright prospect of foundry products locally as well as export, because developed countries are shedding this industry due to pollution concerns and its dirty nature. Proper study is under progress for gradual up-gradation of Foundry equipments, to produce good quality and economical castings. Machining center for customized machining of the casted parts is also under study, and most of the machines are available with us.

In order to utilize idle facilities of closed bicycle plant, efforts are in progress to utilize these for manufacturing of motor cycle parts for Chinese version motor cycle manufactures.

In view of disturbances in the country and uncertainty affecting business and Government projects, marketing efforts are being directed to export Electricity Transmission and Telecommunication Towers to Middle East and Africa.

ACKNOWLEDGEMENT

I take opportunity to thank all members of Board of Directors of the Company for their guidance and support, valuable customers & suppliers for their confidence in PECO.

I also take this opportunity to thank WAPDA, AJK electricity department for their faith, confidence and continued support. I am also thankful to M/s Huawei, ZTE Chinese companies for their confidence on our capability, and support for our products.

I also thank the executives and employees of the company for their dedication, enhanced commitment and hard work for making this company most modern high tech engineering Company. I shall look forward to the bright future of the Company.

Major General (R) Zaheer Ahmad Khan
(Chairman)

Dated: October 20, 2008
Lahore

DIRECTOR'S REPORT

The Directors of your Company take pleasure in presenting the 59th Annual Report with the Audited Accounts and the Auditors' Report thereon for the year ended 30th June 2008.

FINANCIAL RESULTS AND APPROPRIATIONS

	(Rs. in Thousand)	
	<u>Year ended</u> <u>30.06.2008</u>	<u>Year ended</u> <u>30.06.2007</u>
Profit from Operations	157,563	145,604
Other Income	18,784	63,304
Workers Profit Participant Fund	(7,878)	(7,280)
Profit before Taxation	168,469	201,628
Taxation		
Current year	(5,185)	(4,917)
Prior years	(38)	(88)
Deferred	(53,799)	115,424
Profit after Tax	109,447	312,047

APPROPRIATIONS

The following appropriations were made during the year.

Un-appropriated Profit (Loss) brought forward	(1,245,196)
Less: Final dividend for the year 2007@ Rs. 6.5 per share.	(36,987)
Profit for the year	109,447
Transfer from "surplus on Revaluation of Fixed Asset"	<u>3,746</u>
Loss carried forward	<u>(1,168,990)</u>

OPERATIONAL REVIEW, FUTURE OUTLOOK & SIGNIFICANT PLANS & DECISIONS

The Chairman's review included in the Annual Report deals with the performance of the company for the year ended 30th June, 2008, future prospects and the significant development plans & decisions. The directors endorse the contents of the review and may be read with Directors' Report.

OPERATING & FINANCIAL DATA

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

BOARD OF DIRECTORS

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

- 1) Major General (R) Zaheer Ahmad Khan
- 2) Mr. M. Imtiaz ur Raheem
- 3) Mr. Muhammad Niaz Butt

**BOARD OF DIRECTORS MEETINGS**

During the year 2007-08, four meetings of the Board of Directors were held. The attendance of the Board members was as follows:

Mian Suhail Aslam	2
Major. General (R) Zaheer Ahmad Khan	1
Mr. M. Imtiaz ur Raheem	3
Mr. Muhammad Arif Habib	3
Mr. Liaqat Mohammad	4
Mr. Rashid Ali Khan	4
Mr. Mohammad Shabir Mailk	4
Mr. Muhammad Iqbal	4
Mirza Mahmood Ahmad	3
Mr. Niamat ullah Khan	3
Mr. Muhammad Niaz Butt	1

PATTERN OF SHAREHOLDING

The pattern of shareholding of the company is annexed.

EARNING PER SHARE

Profit per share for the year ended 30th June, 2008 was Rs: 19.23 as compared to Rs: 54.84 in the last year.

AUDITORS

The present Auditors M/s Fazal Mahmood & Company, Chartered Accountants, being eligible, offer themselves for re-appointment. The Board of Directors, on the recommendation of the Audit Committee recommended M/s Fazal Mahmood & Company Chartered Accountants for the next term.

COMMENTS ON AUDITORS REPORT**a- OUTSTANDING AMOUNT OF CUSTOM & IMPORT DUTIES**

The Markup has not been provided since there was no decision of charging mark up by the Cabinet of the Government. The amount of Custom & Import Duties is payable out of sale proceeds of the Badami Bagh land of the company. The matter of payment is being taken up with Government by the Company Board Committee.

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

The charging of mark - up on Federal Govt. Loan for Compulsory Separation Scheme (CSS) was not in CCOP decision. The matter of payment is being taken up with the Government by the Company Board Committee.

c- INTEREST ON WORKERS' PROFIT PARTICIPATION

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

d- GOVERNMENT OF PAKISTAN LOANS

Request for direct balance confirmation was sent to relevant Ministries to obtain the confirmation of long term loan liability of Government of Pakistan appearing in the books of the company. The principal amount of loan has been reconciled and agreed with Ministry of Finance. The matter is being taken up with the Government by Board Committee.

STATEMENT IN COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

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

The Board of Directors state that:

1. The financial statements prepared by the management of the company, fairly present its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained.
3. Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There is no doubt upon the company's ability to continue as a "Going Concern".
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.
8. The Company has fully complied with the Best Practices on Transfer Pricing as contained in the listing regulations of the stock exchange.

AUDIT COMMITTEE

Audit Committee was established by the Board in its meeting held on 30th September, 2002 to assist the Board in discharging its responsibilities for Corporate Governance, Financial Reporting and Corporate Control. The committee consists of four members including the Chairman of the Committee. The Committee is having quarterly meetings to review the accounts and internal controls.

The Board Audit Committee is responsible for reviewing reports of the company's financial results, audit and adherence to standards of the system of management controls. The Committee reviews the procedures for ensuring their independence with respect to the services performed for the Company and make recommendations to the Board of Directors. The present constitution of the Committee is as under:

Mr. Liaqat Mohammad	Chairman
Mr. Mohammad Shabir Malik	Member
Mr. Mohammad Iqbal	Member
Mr. M. Imtiaz ur Raheem	Member



SAFETY AND ENVIRONMENTS

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

TRADING IN COMPANY'S SHARES

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. 20 to the Accounts.

QUALITY CONTROL

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

COMMUNICATION

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

Major General (R) Zaheer Ahmad Khan
(Chairman)

Dated: October 20, 2008
Lahore

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED JUNE 30, 2008

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 NBFIs 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 has maintained complete record of particulars of significant policies along with the dates on which they were approved or amended.
7. All the powers of the Board have been duly exercised and decisions on material transaction, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. The Board arranged orientation courses for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of four members, of whom three are non executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants guidance on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidance in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

By order of the Board

(M. Imtiaz ur Raheem)
Chief Executive

Dated: October 20, 2008

REVIEW REPORT TO THE MEMBERS

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the board of directors of **Pakistan Engineering Company Limited** to comply with the listing regulation No. 37 (Chapter XI) of the Karachi stock Exchange (Guarantee) Limited, Chapter XIII of the Lahore Stock Exchange (Guarantee) Limited and Chapter XI of the Islamabad Stock Exchange (Guarantee) Limited, respectively where the company is listed.

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

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

Based on our review nothing has come to our attention which causes us to believe that the statement of compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2008.

Lahore:
October 20, 2008

FAZAL MAHMOOD & COMPANY
Chartered Accountants

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **PAKISTAN ENGINEERING COMPANY LIMITED** as at June 30, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:-

- a) 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 23.2.1). The management is of the view that since there was no mention of charging any interest or surcharge in the E.C.C. and Cabinet decision, therefore, markup is not leviable.
- b) Interest amounting to Rs. 30.900 million for the year ended June 30, 2008 (accumulated Rs. 193.125 million) has not been provided on funds provided by Government of Pakistan for compulsory separation scheme. According to the management, the mark up is not payable and the issue is being taken up with the Government by Board Committee in the light of legal opinion available and the decision of the competent authorities. (Ref. Note 23.4).
- c) Interest amounting to Rs. 1.824 million for the year ended June 30, 2008 (accumulated Rs. 3.390 million) has not been provided for on the funds utilized by the company as required under the Companies Profit (Workers' Profit Participation Act, 1968) (Ref. Note 20.3). An amount of Rs. 3.587 million (2007: Rs. 2.769 million) was utilised from the Workers' Profit Participation Fund for welfare of "workers on contract".

Had the provision for interest in respect of paragraphs (a) to (c) been made in the financial statements the profit for the year would have been lower by Rs. 32.724 million and accumulated loss would have been increased by Rs. 238.504 million.

- d) Government of Pakistan's loans (Ref. Note 23.2 to 23.5) and Long Term Loan (Ref. Note 24) as at June 30, 2008 remains unconfirmed due to non availability of direct balance confirmation. Loan from bank has been classified as long term on the basis of negotiation under process (Ref. Note 24).
- e) In our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

- f) In our opinion:
- i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the company's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- g) In our opinion, except for the matters referred to in paragraph (a) to (d) above and to the extent to which these affect the results of the Company and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and
- h) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without qualifying our opinion we draw attention to Note. 23.1 to the financial statements regarding non reconciliation of Privatization Commission loan as per their confirmation. The ultimate outcome of the matter cannot presently be determined.

Lahore:
October 20, 2008

FAZAL MAHMOOD & COMPANY
Chartered Accountants



BALANCE SHEET

AS AT JUNE 30, 2008

		<u>Rupees in Thousand</u>	
	<u>Note</u>	<u>2008</u>	<u>2007</u>
<u>NON CURRENT ASSETS</u>			
Property, Plant and Equipment-Tangible	3	1,501,608	1,446,760
Assets subject to Finance Lease	4	888	1,110
Capital Work in Progress	5	1,905	3,053
Land Held for Sale	6	314,724	314,724
		1,819,125	1,765,647
LONG TERM SECURITY DEPOSITS		2,416	2,415
DEFERRED TAXATION	7	12,755	66,554
		1,834,296	1,834,616
<u>CURRENT ASSETS</u>			
Stores, Spares and Loose Tools	8	114,944	111,428
Stock-in-trade	9	268,784	211,706
Assets held for sale	10	29,737	30,810
Trade Debtors	11	366,921	261,185
Loans & advances to Employees	12	964	1,689
Advances to Others	13	25,895	18,766
Trade Deposits, Prepayments & other Receivable	14	24,584	5,490
Short Term Investments	15	31,500	51,500
Cash and bank balances	16	24,482	104,921
		887,811	797,495
<u>CURRENT LIABILITIES</u>			
Trade Creditors	17	87,053	66,702
Accrued Liabilities	18	11,450	19,456
Deposits & Advance payments	19	25,080	12,280
Other Liabilities	20	74,734	69,638
Unclaimed Dividend		6,195	4,377
Accrued Mark-up - On Secured Loans		534	1,128
Short Term borrowings	21	26,906	40,806
Current portion of Liabilities Against Assets Subject to Finance Lease	25	555	297
Provision for Taxation		5,185	4,917
		237,692	219,601
Net Current Assets		650,119	577,894
Total Assets Less Current Liabilities		2,484,415	2,412,510
CONTINGENCIES AND COMMITMENTS			
	22	-	-
<u>NON CURRENT LIABILITIES</u>			
GOVERNMENT OF PAKISTAN LOAN	23	1,790,848	1,790,848
LONG TERM LOAN	24	149,026	149,026
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	25	681	1,236
		1,940,555	1,941,110
NET TOTAL ASSETS		543,860	471,400
<u>REPRESENTED BY:</u>			
Share Capital	26	56,902	56,902
Revenue Reserves - General		10,000	10,000
Accumulated (Loss)		(1,168,990)	(1,245,196)
		(1,102,088)	(1,178,294)
Surplus on Revaluation of Fixed Assets	27	1,645,948	1,649,694
		543,860	471,400

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



PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2008

	Note	Rupees in Thousand	
		2008	2007
Sales	28	1,036,919	983,499
Cost of Goods Sold	29	(806,727)	(760,336)
Gross Profit		230,192	223,163
Selling and Distribution expenses	30	(8,492)	(10,102)
Freight and Forwarding expenses	31	(11,159)	(12,269)
General and Administrative expenses	32	(43,664)	(35,759)
		(63,315)	(58,130)
Operating Profit before financial charges		166,877	165,033
Other Charges	33	(1,054)	(10,838)
Financial charges	34	(8,260)	(8,591)
		(9,314)	(19,429)
Operating Profit		157,563	145,604
Other Income	35	18,784	63,304
		176,347	208,908
Workers profit participation fund		(7,878)	(7,280)
Profit before Taxation		168,469	201,628
Taxation - Current	36	(59,022)	(110,419)
- Prior		109,447	312,047
Profit after Taxation			
		Rupees	Rupees
Earning per Share - Basic	37	19.23	54.84

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

**CASH FLOW STATEMENT**

FOR THE YEAR ENDED JUNE 30, 2008

	Note	Rupees in Thousand	
		2008	2007
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Net Profit before Taxation		168,469	201,628
Adjustments for:			
Depreciation		13,077	11,820
Amortization of leased assets		222	278
Financial Charges		8,260	8,591
Provision for gratuity		263	49
Provision for slow moving stores		-	10,000
Profit on sale of Operating Fixed Assets		(732)	(2,464)
Balances Written off		-	(1,044)
Mark up written off		-	(45,055)
Workers Profit Participation Fund		7,878	7,280
Profit on sale of assets held for sale		(2,825)	(836)
Profit before working capital changes		194,612	190,247
(Increase)/ Decrease in stores, spares and loose tools		(3,516)	(13,999)
(Increase)/ Decrease in stock in trade		(57,078)	3,218
(Increase)/ Decrease in assets held for sale		-	88
(Increase)/ Decrease in trade debtors		(105,736)	(48,401)
(Increase)/ Decrease in loans and advances to employees		725	(1,639)
(Increase)/ Decrease in advances to others		(4,240)	(3,809)
(Increase)/ Decrease in trade deposits, prepayments and other receivables		(19,094)	32,307
(Increase)/ Decrease in short term investments		20,000	8,500
Increase / (Decrease) in trade creditors		20,351	5,487
Increase / (Decrease) in accrued liabilities		(8,006)	9,109
Increase / (Decrease) in deposits and advance payments		12,800	702
Increase / (Decrease) in other liabilities		805	18,393
Cash Generated from operations		51,623	200,203
Financial Charges Paid		(8,854)	(11,055)
Gratuity Paid		(263)	(49)
Income Tax Paid		(7,844)	(9,139)
Workers' Profit Participation Fund Paid		(3,587)	(2,769)
Net Cash inflow from Operating Activities		31,075	177,191
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Purchase of tangible fixed assets		(66,402)	(11,658)
(Increase) in long term security deposits		(1)	(240)
Capital Work in Progress		(509)	(3,053)
Sale proceeds on disposal of fixed assets		4,764	4,433
Net Cash (Out flow) / inflow from investing activities		(62,148)	(10,518)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
(Decrease) in Short term loans		(13,900)	(60,783)
(Decrease) in Long term loans		-	(4,788)
Payment of lease liability		(297)	(275)
Payment of Dividend		(35,169)	(28,822)
Net cash (out flow) from financing activities		(49,366)	(94,668)
Net increase / (decrease) in cash and cash equivalents		(80,439)	72,005
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR		104,921	32,916
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16.	24,482	104,921

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2008

	Rupees in Thousand			
	Share Capital	Revenue Reserve	Accumulated Loss	Total
Balance as at June 30, 2006	56,902	10,000	(1,530,257)	(1,463,355)
Final Dividend for the year ended June 30, 2006 @ Rs. 3 per share	-	-	(17,071)	(17,071)
Interim Dividend for the half year ended Dec. 31, 2006 @ Rs. 2.5 per share	-	-	(14,226)	(14,226)
Profit for the year June 30, 2007	-	-	312,047	312,047
Transfer from "Surplus on Revaluation of Fixed Assets": Incremental Depreciation - Current Year	-	-	3,945	3,945
Transfer from Surplus on Revaluation of Fixed Assets: on sale of "Assets held for sale"	-	-	366	366
Balance as at June 30, 2007	56,902	10,000	(1,245,196)	(1,178,294)
Dividend for the year ended June 30, 2007 @ Rs. 6.5 per share	-	-	(36,987)	(36,987)
Profit for the year June 30, 2008	-	-	109,447	109,447
Transfer from "Surplus on Revaluation of Fixed Assets": Incremental Depreciation - Current Year	-	-	3,746	3,746
Balance as at June 30, 2008	56,902	10,000	(1,168,990)	(1,102,088)

The annexed notes form an integral part of these accounts.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2008

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. 1,168.990 million (2007: Rs. 1,245.196 million) as at June 30, 2008. 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. 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 its 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.

As a result, these Financial Statements have been prepared on assumption that the company will continue as a going concern and consequently do not include any adjustments that might be necessary if going concern assumption was not appropriate.

2.2 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan 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 on or after July 01, 2008. 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:

Revised IAS-1 Presentation of Financial Statements
Revised IAS-23 Borrowing Cost
IFRS-2 (Amended) Share Based Payment
IFRS-7 Financial Instruments - Disclosure
IFRS-8 Operating Segments

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 Kot 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 cover 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 amortised 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, 2008	Rate	
	As at July 01, 2007	Additions	Deletions	As on June 30, 2008	As at July 01, 2007	Deletions for the year			As on June 30, 2008
	Freehold Land	1,250,000	-	-	1,250,000	-			-
Office Building	3,171	-	-	3,171	2,621	28	2,649	5	
Factory Buildings (Including Steel Structure)	221,767	3,999	-	225,766	111,301	5,644	116,945	5	
Plant and Machinery	236,943	57,300	-	294,243	167,456	4,370	171,826	5	
Furniture and Fixtures	21,786	3,791	500	25,077	15,218	844	15,578	10	
Vehicles	13,869	2,813	710	15,972	4,967	2,107	6,482	20	
Tools	5,293	156	-	5,449	4,506	84	4,590	10	
Total Rs. 2008	1,752,829	68,059	1,210	1,819,678	306,069	13,077	318,070	1,501,608	
Total Rs. 2007	1,741,988	11,658	(817)	1,752,829	294,967	(718)	306,069	1,446,760	

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	
	2008	2007
Cost of Goods Sold	10,098	9,477
General and Administrative Expenses	2,979	2,343
	<u>13,077</u>	<u>11,820</u>

3.3 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)	82,216	55,047	27,169
Plant and Machinery	245,243	150,814	94,429
Total - 2008	<u>328,212</u>	<u>205,861</u>	<u>122,351</u>
Total - 2007	<u>266,913</u>	<u>201,617</u>	<u>65,296</u>

Rupees in Thousand

D E S C R I P T I O N	COST			AMORTIZATION			Written Down Value as on June 30, 2008	Rate
	As at July 01, 2007	Additions	As on June 30, 2008	As at July 01, 2007	for the year	As on June 30, 2008		
	Vehicles	2,307	-	2,307	1,197	222		
Total Rs. 2008	2,307	-	2,307	1,197	222	1,419	888	%
Total Rs. 2007	2,307	-	2,307	919	278	1,197	1,110	

4.1 Amortization has been charged to General and Administrative Expenses.

		Rupees in Thousand	
		<u>2008</u>	<u>2007</u>
5. CAPITAL WORK IN PROGRESS			
	Civil Works	1,905	1,396
	Plant & Machinery	-	1,657
		<u>1,905</u>	<u>3,053</u>
6. LAND HELD FOR SALE		<u>314,724</u>	<u>314,724</u>
	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 (2007: 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	41,668	87,916
	Minimum Tax available for carry forward	10,317	8,386
	Provision for Doubtful Debts	14,825	14,828
	Provision for Slow moving stores	3,500	3,500
	Finance Lease Arrangements	122	148
	Surplus on revaluation of assets	(44,533)	(46,550)
	Accelerated Tax Depreciation Allowances	(13,144)	(1,674)
		<u>12,755</u>	<u>66,554</u>
8. STORES, SPARES AND LOOSE TOOLS			
	Stores	25,519	25,112
	Spares parts	74,250	71,333
	Loose Tools	25,175	24,983
		<u>124,944</u>	<u>121,428</u>
	Less: Provision for slow moving stores	(10,000)	(10,000)
		<u>114,944</u>	<u>111,428</u>
8.1	Stores and spares relating to closed down operations are of Rs. 27.241 million (2007:Rs. 44.836 Million).		
9. STOCK IN TRADE			
	Raw material	117,602	100,657
	Work in process	122,246	95,580
	Finished goods	28,936	15,469
		<u>268,784</u>	<u>211,706</u>
9.1	Stock in trade relating to closed down operations are of Rs. 32.718 million (2007:Rs. 76.194 million).		
10. ASSETS HELD FOR SALE			
	Store	-	1,073
	Machinery	29,737	29,737
		<u>29,737</u>	<u>30,810</u>
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 un-installed machinery transferred from Badami Bagh Works.		
11. TRADE DEBTORS - UN SECURED			
	Associated undertakings	11.2 537	537
	WAPDA, AJK & Telecommunication Companies	370,994	259,327
	Others	11.3 31,502	37,436
		<u>403,033</u>	<u>297,300</u>

		Rupees in Thousand	
		2008	2007
	11.4		
Less: Provision for bad and doubtful debts		537	537
Associated undertakings		10,514	10,514
WAPDA		25,061	25,064
Others		36,112	36,115
		366,921	261,185
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 (2007: Rs.0.537 million).			
11.3 Trade debtors include an amount of Rs. 7.617 million(2007: Rs. 7.617) million receivable from M/s Metropolitan Steel Corporation Limited against which the company has filed suit for execution of Court decision in favor of the Company.			
11.4 <u>Provision for Bad and Doubtful Debts</u>			
Opening balance		36,115	36,523
Less: Recovery of bad debts / adjustments		3	408
Closing Balance		36,112	36,115
12. <u>LOANS AND ADVANCES TO EMPLOYEES - Unsecured and Considered Good</u>		964	1,689
These include an amount of Rs. 0.894 million (2007: Rs. 0.961) outstanding for Chief Executive, which carries mark up ranging from @ 3.750% to 5.623% and Rs. Nil million (2007: Nil million) for executives, which are the maximum balances during the year. The loans and advances are considered good.			
13. <u>ADVANCES TO OTHERS</u>			
Suppliers - Unsecured and Considered Good	13.1	10,323	2,941
Income Tax		15,445	12,556
Letters of credit		127	3,269
		25,895	18,766
13.1 <u>Suppliers</u>			
Suppliers		13,147	5,769
Less:			
Provision for bad and doubtful debts		2,824	2,828
		10,323	2,941
14. <u>TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE</u>			
Trade deposits - Considered good	14.1	600	600
Margin against bank guarantee - Considered good	14.2	16,073	1,472
Letter of Credit - Margin		2,512	-
Short term prepayments		3,493	2,514
Claims receivable		-	497
Interest Accrued		1,057	407
Other Receivable Services		849	-
		24,584	5,490
14.1 Balance as on Closing date		3,517	3,517
Less:			
Provision against doubtful balances		2,917	2,917
		600	600
14.2 Balance as on Closing date		16,134	1,533
Less:			
Provision against doubtful balances		61	61
		16,073	1,472

		Rupees in Thousand	
		2008	2007
15. SHORT TERM INVESTMENTS - Held to Maturity			
Term Deposits with banks		31,500	51,500
15.1	The interest rate on these Investments ranges from 9.25% to 11.5 % per annum.		
16. CASH AND BANK BALANCES			
Cash in hand		869	403
Cash with banks			
Current accounts		3,935	5,617
Saving accounts	16.1	19,471	98,694
Escrow account	16.2	207	207
		23,613	104,518
		24,482	104,921
16.1	The company is maintaining saving account with different banks with interest on the daily product basis which charged @ 8% (2007 : 8% to 8.50%).		
16.2	This represents unutilised credit facility on NBP finances relating to ADP-19 and ADP-46 Projects, which shall be adjust against loan liability.		
17. TRADE CREDITORS			
Creditors		87,053	66,702
		87,053	66,702
18. ACCRUED LIABILITIES			
Accrued expenses		11,450	19,456
		11,450	19,456
19. DEPOSITS AND ADVANCE PAYMENTS			
Advances from customers	19.1	21,559	8,709
Dealership securities	19.2	2,262	2,312
Retention and earnest money		1,259	1,259
		25,080	12,280
19.1	These include interest free advances from associated companies amounting to Rs. 0.183 million (2007: Rs. 1.242 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	773	787
Payable to State Engineering Corporation (Private) Limited (an associated undertaking)		20,163	20,218
Sales Tax Payable		18,505	18,717
Excise Duty Payable		537	-
Workers Profit Participation Fund	20.3	19,648	15,357
Others		15,108	14,559
		74,734	69,638
20.1	<u>Movement of Pension Payable is as under:</u>		
Opening balance		-	-
Provision for the year		263	49
		263	49
Less:			
Payment to SEC Pension Fund		263	49
		-	-
20.2	The amount is payable to preference shareholders on account of principal amount due.		

		Rupees in Thousand	
		2008	2007
20.3	Workers Profit Participation Fund		
	Opening balance	15,357	10,846
	Add:		
	Allocation for the year	7,878	7,280
	Less:		
	Payments	(3,587)	(2,769)
		19,648	15,357
21.	<u>SHORT TERM BORROWINGS</u>		
	From NIB Bank (Formerly PICIC Commercial Bank) under mark up arrangements - Secured:		
	Running Finance	21.1 26,906	40,806
		26,906	40,806
21.1	This have been obtained from NIB Bank (Formerly 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. 27 million (2007: Rs. 45 Million). Unavailed facility as at balance sheet date is Rs. 0.094 million (2007: Rs. 4.000 million). Mark up is paid at the rate ranging from 11% to 13.5% per annum.		
22.	<u>CONTINGENCIES AND COMMITMENTS</u>		
	<u>Contingencies</u>		
-	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 (2007: Rs. 2.517 Million).		
-	Guarantees of Rs. 413.134 Million (2007: 299.712 Million) issued by the banks and insurance company to different parties on behalf of the company.		
	<u>Commitments</u>		
-	Letters of credit for machinery, raw material and store items amounting to Rs. 24.016 Million (2007: Rs. 50.543 million).		
23.	<u>GOVERNMENT OF PAKISTAN LOAN- Secured</u>		
	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

The Privatization Commission has directly confirmed to the auditors the total principal loan liability of Rs. 612.922 million and markup of Rs. 838.519 million. The management and the BOD of the company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, as there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993 and Privatization Commission has never in past confirmed loan liability with markup.

During the years ended June 30, 2004 and June 30, 2005 Privatization Commission has confirmed to the auditors the loan liability without charging any markup. The principal liability confirmed by Privatization Commission is higher by Rs. 131.454 million. This difference represents the additional gratuities and the responsibility to pay this liability is that of Privatization Commission as per the agreement with PECO and not the liability of the company.

Rupees in Thousand

	2008	2007
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The company has also obtained legal opinion from the legal adviser of the company. The legal adviser is of the firm opinion that since there is no mention of any markup to be charged on this loan nor is there any markup agreement in respect of this loan therefore no markup is payable by PECO in respect of this loan. In the opinion of the legal adviser the amount of additional gratuities should also be borne by the Privatization Commission.

Furthermore, the auditors of the company has sent two letters to Privatization Commission on the forgoing differences, after a reply was given to the auditors on the foregoing points by the audit committee of the company. In response to the letters of the auditors the Privatization Commission has again confirmed the liability of Rs. 1,451.442 million stating that "the Commission has no further comments to add". The Privatization Commission did not provide any agreement / basis for charging the markup, inspite of written request made to Privatization Commission by the auditors.

The issue of payment of Government loan and markup were also taken up in the BOD meeting and a Committee was formed to take up the matter with Ministry of Finance to resolve the above issues.

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 for three years which has not been accounted for upto June 30, 2008, amounting to Rs. 41.989 million (2007: Rs. 41.989 million).

23.3 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.

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, 2008, amounting to Rs. 193.125 million (2007: Rs.162.225 million) including the effect of Rs. 30.900 million (2007: 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	787,442

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

24. LONG TERM LOANS

From National Bank Of Pakistan - Classified	24.1	149,026	149,026
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24.1 The above includes principal amounting to Rs. 127.926 million (2007: Rs. 127.926 million) and mark up amounting to Rs. 21.10 million (2007:Rs. 21.10 million). National Bank of Pakistan has declared these loans as classified loans. The Bank confirmed the outstanding liability in year 2007 without charging any mark up i.e 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	1,533	1,808
Payments made during the year	(297)	(275)
Present value of Minimum Lease Payments	1,236	1,533
Current portion - (Due within one year)	(555)	(297)
Closing balance - (Due after one year but within five years)	681	1,236

		Rupees in Thousand	
		2008	2007
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 (2007: 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	577	347
	Due after one year but within five years	681	1,258
	Minimum lease Payments (MLP)	1,258	1,605
	Less:		
	Finance charge	(22)	(72)
	Present value of Minimum Lease Payments	1,236	1,533
26.	<u>SHARE CAPITAL</u>		
	<u>Authorized Capital:</u>		
	9,000,000 (2007: 9,000,000) Ordinary shares of Rs. 10/- each	90,000	90,000
	100,000 (2007: 100,000) 7.5% Cumulative redeemable preference shares of Rs. 100/- each	10,000	10,000
		100,000	100,000
	<u>Issued, Subscribed and Paid up Capital:</u>		
	3,162,144 (2007: 3,162,144) Ordinary shares of Rs. 10/- each fully paid in cash	31,621	31,621
	2,528,101 (2007: 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 (2007:1,415,723) ordinary shares of Rs. 10/- each as at June 30, 2008.		
27.	<u>REVALUATION SURPLUS</u>		
	Free hold land	27.1 1,563,246	1,563,246
	Building Structure on Free hold Land	27.2 53,073	55,866
	Plant and Machinery	27.3 29,629	30,582
		1,645,948	1,649,694
27.1	<u>Free Hold Land</u>		
	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	<u>Building Structure</u>		
	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	57,602	53,078
	Prior years		
	Current year	27.8 2,793	2,941
	Related deferred tax liability	1,504	1,583
		61,899	57,602

		Rupees in Thousand	
		<u>2008</u>	<u>2007</u>
Less:			
Related deferred tax liability			
	Balance at the beginning of the year	30,082	31,665
	Incremental depreciation	(1,504)	(1,583)
		28,578	30,082
		53,073	55,866
27.3	Plant and Machinery		
	Surplus on revaluation carried out on June 30, 1997	96,063	96,063
	Less		
	Adjustment on account of sale to date	22,267	22,267
		73,796	73,796
Less:			
Surplus relating to incremental depreciation charged in prior years transferred to accumulated loss			
	Prior years	26,746	25,433
	Adjustment on account of sale	-	(231)
	Current year	953	1,004
	Related deferred tax liability	513	540
		28,212	26,746
Less:			
Related deferred tax liability			
	Balance at the beginning of the year	16,468	17,205
	Realized on disposal of assets	-	(197)
	Incremental depreciation	(513)	(540)
		15,955	16,468
		29,629	30,582
27.4	Land of Kot Lakhpat Works was again revalued by M/s Indus Surveyors on the average market rate. Value of land before revaluation was Rs. 604.925 million was revalued at Rs. 1,250 million resulting in the surplus of Rs. 645.075 million.		
27.5	Steel structure of Badami Bagh Works (Transferred to Kot Lakhpat works) appearing at Rs. Nil was revalued at Rs. 143.550 million resulting in the surplus of Rs. 143.550 million.		
27.6	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 (2007: 17.720 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	1,184,480	1,076,141
	- Export	-	47,009
		1,184,480	1,123,150
	Less : Sales Tax	137,590	139,651
	Excise Duty	9,160	-
	Rebate, allowances, discount and commission	811	-
		1,036,919	983,499



		Rupees in Thousand	
		2008	2007
29. COST OF GOODS SOLD			
Raw material consumed	29.1	683,550	607,526
Stores and spares consumed		63,819	53,006
Salaries and wages (including all benefits)	29.2	43,473	33,654
Fuel and power		34,712	30,466
Inspection Fee		1,008	816
Service charges		979	391
Processing charges		2,627	7,587
Research and Development		3,128	-
Repair and maintenance		1,378	2,093
Insurance		479	367
Vehicle running expenses		973	963
Other expenses		636	493
Depreciation	3.2	10,098	9,477
		163,310	139,313
		846,860	746,839
Opening Stock of Work in Process		95,580	77,663
Closing Stock of Work in Process		(122,246)	(95,580)
		(26,266)	(17,917)
Cost of goods manufactured		820,194	728,922
Opening Stock of Finished Goods		15,469	46,883
Closing Stock of Finished Goods		(28,936)	(15,469)
		(13,467)	31,414
		806,727	760,336
29.1 Raw Material Consumed			
Opening Stock		100,657	90,378
Add:			
Purchases		700,495	617,805
		801,152	708,183
Less:			
Closing Stock		117,602	100,657
		683,550	607,526
29.2	This includes amount paid to contractor for wages of workers on contract.		
30. SELLING AND DISTRIBUTION EXPENSES			
Salaries and wages (including all benefits)		2,581	2,485
Travelling and conveyance		673	477
Entertainment		59	83
Repair and maintenance		8	35
Postage, telegrams and telephone		122	95
Printing, stationery and office supplies		89	63
Publishing of Tendor & sale promotion		1,548	911
Service charges		2,673	5,026
Miscellaneous		739	927
		8,492	10,102
31. FREIGHT AND FORWARDING EXPENSES			
Freight and forwarding expenses		11,159	12,269

		Rupees in Thousand	
		2008	2007
32. GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and wages (including all benefits)		24,506	20,164
Provident Fund		90	59
Gratuity		263	51
Travelling and conveyance		1,767	1,493
Entertainment		368	330
Legal and professional		812	553
Rent, rates, and taxes		2,001	1,747
Fuel, gas and electricity		1,303	1,635
Repair and maintenance		2,615	983
Postage, telegrams and telephone		768	675
Printing, stationery and office supplies		1,554	1,151
Advertisement		685	712
Training		136	-
Amortization of leased assets	4.1	222	278
Insurance		442	404
Vehicle running expenses		1,662	1,441
Miscellaneous		1,491	1,740
Depreciation	3.2	2,979	2,343
		43,664	35,759
33. OTHER CHARGES			
Auditor's remuneration	33.1	352	330
Miscellaneous charges		702	508
Provision against Contingencies		-	10,000
		702	10,508
		1,054	10,838
33.1 Auditors Remuneration			
Audit Fee		145	130
Half yearly review fee		65	55
Tax consultancy charges		142	120
		352	330
34. FINANCIAL CHARGES			
Mark up on short term bank borrowings		2,392	4,327
Bank charges and commission	34.1	5,818	4,192
Financial charges on finance lease		50	72
		8,260	8,591
34.1 Bank guarantee commission paid by the company is charged over the period of contract.			
35. OTHER INCOME			
<u>Income from Financial Assets</u>			
Interest / Profit			
-On deposits with banks		4,405	4,924
-On short term investments		3,164	5,387
Recovery of bad debts		7	408
Mark up provisions written back		-	45,055
		7,576	55,774
<u>Income from non financial Assets</u>			
Miscellaneous income		7,651	4,230
Gain on disposal of tangible fixed assets	35.1	732	2,464
Gain on sale of assets held for sale	35.1	2,825	836
		11,208	7,530
		18,784	63,304

35.1 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
<u>Furniture & Fixture</u>	500	484	16	266	250	Tender	Haider Ali & Co. Misri Shah, Lahore
<u>Vehicles</u> Toyota Corolla	710	592	118	600	482	Insurance Claim	IGI Insurance Co. Lahore
<u>Store-Held For Sale</u>	1,073	-	1,073	3,898	2,825	Tender	East End Export (Pvt) Ltd. Kot Lakhpat Lahore.
TOTAL - 2008	2,283	1,076	1,207	4,764	3,557		
TOTAL - 2007	1,851	718	1,133	4,433	3,300		

Rupees in Thousand

	<u>2008</u>	<u>2007</u>
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 36. TAXATION

Current		
for the year	(5,185)	(4,917)
for prior years	(38)	(88)
Deferred		
for the year	(53,799)	115,424
	(59,022)	110,413

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, hence, tax charge reconciliation has not been presented.

 37. BASIC EARNING PER SHARE

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

Profit after Taxation (Rupees in Thousand)	109,447	312,047
Weighted average number of Ordinary shares (in Thousand)	5,690	5,690
Earning per share (Rupees)	19.23	54.84

 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
Re-imbusement of Expenses	322	240

SEC Pension Fund Trust

Payments made during the year against due contributions	263	49
Payment of management expenses	49	33

Pakistan Machine Tool Factory (MTF)

Sale of Used Machinery	-	1,911
Payment made	782	800

Heavy Mechanical Complex (HMC)

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

Payments of expenses on behalf of company	277	-
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Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (2007: 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 such as Structure Division (STR), 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 Structure (STR), Pumps, Electric motor and Rolling Mills division of the company are 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	
		2008	2007
Sales		-	311
Income Tax expense	39.2	-	2
Cash flow from operating activities		-	309

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 of previous period 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. 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 as specified in IAS-14.

41. FINANCIAL INSTRUMENTS

Rupees in Thousand

	Interest/ mark-up beraing			Non Interest/ mark-up beraing			TOTAL	
	Maturity upto one year	Maturity after one year	sub total	Maturity upto one year	Maturity after one year	sub total	2008	2007
FINANCIAL ASSETS								
Long term security deposit	-	-	-	-	2,416	2,416	2,416	2,415
Trade debtors	-	-	-	366,921	-	366,921	366,921	261,185
Loans and advances to employees	67	827	894	70	-	70	964	1,689
Advances to others	-	-	-	10,323	-	10,323	10,323	2,941
Trade deposits and other receivable	-	-	-	21,091	-	21,091	21,091	2,976
Short Term Investments	31,500	-	31,500	-	-	-	31,500	51,500
Cash and bank balances	19,471	-	19,471	5,011	-	5,011	24,482	104,921
	51,038	827	51,865	403,416	2,416	405,832	457,697	427,627
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	149,026
Lease liabilities	555	681	1,236	-	-	-	1,236	1,533
Short term loans	26,906	-	26,906	-	-	-	26,906	40,806
Deposits and advance payments	-	-	-	3,521	-	3,521	3,521	3,571
Trade creditors	-	-	-	87,053	-	87,053	87,053	66,702
Accrued liability / mark up	-	-	-	10,560	-	10,560	10,560	20,584
Unclaimed dividend	-	-	-	6,195	-	6,195	6,195	4,377
Other liabilities	-	-	-	36,044	-	36,044	36,044	35,564
	27,461	396,665	424,126	143,373	1,543,890	1,687,263	2,111,389	2,113,011
Expected Gap	23,577	(395,838)	(372,261)	258,619	(1,541,474)	(1,282,855)	(1,655,116)	(1,685,384)

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 its 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

	2008		2007	
	Chief Executive	Director	Chief Executive	Director
-----Rupees in Thousand-----				
Remuneration	1,357	1,380	1,314	1,200
Reimbursable expenses	493	-	383	-
Gratuity	218	-	51	-
Provident fund	39	-	59	-
Perquisites	90	-	90	-
	2,197	1,380	1,897	1,200
Number of persons	1	1	1	-

42.1 Amount charged in the accounts for 8 directors for Meeting fees were Rs. 0.580 million (2007 : Rs. 0.500 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. CAPITAL RISK MANAGEMENT

The company's objective when managing capital is to safe guard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stake holders: and to maintain strong capital base to support the development of its business.

The company manages its 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 adjust amount of dividend paid to shareholders or issue new shares. The company is not subject to externally imposed capital requirements.

47. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue on October 20, 2008 by the Board of Directors of the company.

48. PLANT CAPACITY AND ACTUAL PRODUCTION

	U/M	Capacity		Actual Production	
		Installed	Assessed	2008	2007
Pumps / turbines	No.	3,400	4,000	68	12
Bicycles	No.	100,000	120,000	-	-
Electric motors	No.	16,500	6,500	-	-
Rolled material	Tons	80,000	30,000	3,042	2,980
Steel fabrications (STR)	Tons	20,000	N.A	10,019	11,580
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.

CHIEF EXECUTIVE

DIRECTOR

TEN YEARS SUMMARY

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
										Rs. 000
Sales - Net	243,680	511,501	388,901	122,606	265,165	456,577	852,150	834,706	983,499	1,036,919
Cost of Sales	315,248	505,407	449,264	210,373	227,829	395,633	588,017	617,264	760,336	806,727
Trading Profit / (Loss)	(71,568)	6,094	(60,363)	(87,767)	37,336	60,944	264,133	217,442	223,163	230,192
Other Income	5,812	3,038	28,147	12,890	48,377	9,079	3,043	6,815	63,304	18,784
Admin, General & Selling Exp.	60,941	64,818	69,860	62,855	52,112	46,999	44,485	38,703	58,130	63,315
Financial Expenses	39,244	47,014	63,211	66,208	47,479	46,812	19,815	17,994	8,591	8,260
Workers Profit Participation Fund							4,863	5,983	7,280	7,878
Other Charges	11,693	7,213	2,372	22,224	2,383	2,083	39,268	47,909	10,838	1,054
Principal Loan Liability waived by Associated Co's.							16,000			
Net Profit / (Loss) for the year	(177,634)	(109,913)	(167,659)	(226,164)	(16,261)	(25,871)	163,608	113,668	201,628	168,469
Prior Year's Adjustments / CSS	30,834	887	(33,198)	(145,056)	10,036	12,026	82,355			
Profit / (Loss) before Taxation	(146,800)	(109,026)	(200,857)	(371,220)	(6,225)	(13,845)	92,390	113,668	201,628	168,469
Provision for Taxation	1,218	2,557	2,085	690	1,433	2,283	4,308	4,174	(110,419)	59,022
Profit / (Loss) after Taxation	(148,018)	(111,583)	(202,942)	(371,910)	(7,658)	(16,128)	88,082	109,494	312,047	109,447
Dividend								17,071	51,212	
Paid Up Capital	56,902	56,902	56,902	56,902	56,902	56,902	56,902	56,902	56,902	56,902
Fixed Capital Expenditure (Net)	1,256,624	1,241,918	1,818,545	1,804,875	1,791,786	1,780,742	1,771,268	1,763,133	1,765,647	1,819,125

PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2008

Shareholders	From	To	Incorporation No. 0000348 Total Shares
1,437	1	100	42,335
587	101	500	138,423
149	501	1,000	103,823
111	1,001	5,000	215,426
23	5,001	10,000	159,245
5	10,001	15,000	67,300
9	15,001	20,000	166,700
1	20,001	25,000	23,000
1	25,001	30,000	27,600
1	30,001	35,000	32,800
1	40,001	45,000	43,776
1	45,001	50,000	50,000
1	65,001	70,000	69,600
1	80,001	85,000	85,000
1	105,001	110,000	106,000
1	125,001	130,000	128,790
1	135,001	140,000	135,240
1	145,001	150,000	146,500
1	165,001	170,000	165,254
1	180,001	185,000	181,610
1	270,001	275,000	275,000
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
2,338			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	0.19%
Associated Companies, Undertakings & Related Parties	1,415,723	24.88%
ICP (includes IDBP Account)	131,330	2.31%
Banks, Development Finance Institutions & Non Banking Financial Institutions	140,606	2.47%
Insurance Companies	229,030	4.02%
Modarabas and Mutual Fund	8,400	0.15%
Share holders holding 10% or more of total capital	2,816,823	49.50%
General Public		
a. Local	1,592,359	27.98%
b. Foreign	2,580	0.05%
Others:		
Joint Stock Companies	687,898	12.09%
Investment Companies	9,090	0.16%
Cooperative Societies	6,145	0.11%
Trusts	30,414	0.53%
Associations	132	0.00%
Abandoned Property	5,754	0.10%
Government Authority	1	0.00%



PATTERN OF SHAREHOLDING

AS OF JUNE 30, 2008

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		
Major General (R) Zaheer Ahmad Khan		Govt. Nominee
Mr. M. Imtiaz ur Raheem		Govt. Nominee
Mr. Niaz Butt		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 Banki Limited	0.09	5,259
M/s Bank of Bahawalpur Ltd	0.00	30
IDBP (ICP Units)	2.26	128,790
M/s Pakistan Insurance Corporation	0.77	43,776
State Life Insurance Corporation Ltd	2.90	165,254
M/s Gulf Insurance Co. Ltd	0.35	20,000
Mudarba & Mutual Funds	0.15	8,400
SHARES HELD BY THE GENERAL PUBLIC		
	27.98	1,592,359
SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL		
State Engineering Corporation Ltd	24.88	1,415,723
Rotocast Engineering Company (Pvt) Ltd.	24.62	1,401,100
Holding of CDC		
	61.08	3,475,692

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



FORM OF PROXY

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

I/We _____ of _____

_____ being a member (s) of Pakistan Engineering Company Ltd. and
 holder of _____ ordinary shares as per Share Register Folio No. _____

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

hereby appoint Mr./ Ms. _____ of _____

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

as a proxy of vote on my / our behalf at the Annual General Meeting of the Company to be held
 on Saturday, November 15, 2008 at 10:30 a.m. at Hotel Ambassador, 7- Davis Road, Lahore.

Signed this _____ day of _____ 2008.

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.