
PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1 GENERAL INFORMATION

- 1.1 Pak Elektron Limited ("PEL" or "the Company") was incorporated in Pakistan on March 03, 1956 as a public limited company under the Companies Act, 1913 (replaced by the Companies Ordinance, 1984). Registered office of the Company is situated at 17 - Aziz Avenue, Canal Bank, Gulberg - V, Lahore. The Company is currently listed on all three Stock Exchanges of Pakistan. The principal activity of the Company is manufacturing and sale of electrical capital goods and domestic appliances.

These activities are organized under following divisions:

Power Division: manufacture of Switchgear, Energy meters and Transformers.

Appliances Division: manufacture and assembling of Refrigerators, Air conditioners, Microwave ovens, Televisions and Washing machines.

- 1.2 The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and directions issued by the Securities and Exchange Commission of Pakistan ("SECP"), and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

- 2.2 Following International Financial Reporting Standards ("IFRSs") and interpretations of accounting standards issued by International Financial Reporting Interpretations Committee ("IFRIC") are either not relevant to Company's operations or are not expected to have significant impact on the Company's financial statements other than increased disclosures in certain cases:

Title of IFRSs	Effective from accounting period on or after
IFRS 2 - Share based payment	January 1, 2007
IFRS 3 - Business Combinations	January 1, 2007
IFRS 5 - Non-current assets held for sale and discontinued operations	January 1, 2007
IFRS 6 - Exploration for and evaluation of mineral resources	January 1, 2007
IFRIC 10 - Interim financial reporting and impairment	November 1, 2006
IFRIC 11 - Group and treasury share transactions	March 1, 2007
IFRIC 12 - Services concession arrangements	January 1, 2008

2.3 Accounting convention

These financial statements have been prepared under the historical cost convention modified by: -

- revaluation of certain property, plant and equipment
- financial instruments at fair value

The principal accounting policies adopted are set out below:

2.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liabilities. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

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2.5 Employee benefits

2.5.1 Defined contribution plan

The Company operates an approved funded contributory provident fund for all its permanent employees. Equal monthly contributions are made both by the Company and the employees at the rate of 10% of basic salary and cost of living allowance, where applicable, to cover the obligation.

Interest at the rate of 15% per annum is payable to the fund on the balance utilized by the Company which is charged to profit and loss account.

Employees are entitled for retirement benefits after completion of probation period.

2.5.2 Gratuity

The Company operated an un-funded gratuity scheme covering all its eligible employees till June 30, 1996.

2.5.3 Compensated absences

The Company provides for compensated absences for all eligible employees in accordance with the rules of the Company.

2.6 Deferred Income grant-in-aid

Grant was received from United Nations Industrial Development Organization under Montreal Protocol for phasing out Ozone Depleting Substance ("ODS"). Grant relating to property, plant and equipment is treated as deferred income and an amount equivalent to depreciation charged on such assets is transferred to profit and loss account.

2.7 Trade and other payables

Liabilities for trade and other payables are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the Company or not.

2.8 Provisions

Provisions are recognized when the Company has a present, legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

2.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost except lease hold land, building, machinery and tools, which are stated at re-valued amount, less accumulated depreciation / amortization and any identified accumulated impairment in value. Capital work-in-progress and stores held for capital expenditure are stated at cost. Cost includes borrowing cost as referred to in accounting policy for borrowing cost. Assets produced internally are valued by taking the material at moving average cost, labour at actual cost and factory overheads proportionate to labour cost.

Assets' residual values, if significant and their useful lives are reviewed and adjusted, if required, at each balance sheet date.

Depreciation is charged to income on reducing balance method using the rates specified in property, plant and equipment schedule except for leasehold land which is being amortized proportionately for the period of use in accordance with lease agreements.

In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and up to the month preceding the disposal respectively.

Gains or losses on disposal of assets, if any, are recognized in profit and loss account for the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and assets so replaced, if any, are retired.

Surplus arising on revaluation is credited to surplus on revaluation of property, plant and equipment. The surplus on revaluation of property, plant and equipment to the extent of incremental depreciation charged on the related assets is

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transferred by the Company to its unappropriated profit.

Assets subject to finance lease

Assets subject to finance lease are depreciated over their expected useful lives on the same basis as owned assets.

Capital work-in-progress

All expenditures connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when these assets are available for use.

2.10 Intangible assets

Goodwill

Intangible assets representing goodwill are amortized over a period of twenty (20) years.

Technology transfer

The intangible assets in respect of technology transfer are amortized over the useful life of plant and machinery involved in use of such technology.

2.11 Investments

Investments in equity instruments of subsidiaries and associated companies

These investments are accounted for using equity method of accounting and initially are recognized at cost.

Available for sale investments

Investment securities held by the Company which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognized at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available are measured at cost as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value are recognized directly in the equity under fair value reserve until sold, collected or otherwise disposed off at which time the cumulative gain or loss previously recognized in equity is included in profit and loss account.

Financial assets at fair value through profit or loss

These are investments designated at fair value through profit or loss at inception. These are initially measured at fair value and changes on re-measurement are taken to profit and loss account.

De-recognition

All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.12 Stores, spare parts and loose tools

Stores, spare parts and loose tools are valued at lower of moving average cost or net realizable value less allowance for obsolete and slow moving items. Goods in bonded warehouse and in-transit are valued at cost comprising invoice price plus other charges incurred thereon.

2.13 Stock-in-trade

Stock-in-trade, except for stock in transit and in bonded warehouses, are valued at lower of cost or net realizable value.

Stock-in-transit and in bounded warehouses are valued at cost comprising invoice value plus other charges paid thereon up to balance sheet date.

The cost in relation to raw material, packing material and goods purchased for resale represent the average moving cost.

Average manufacturing cost in relation to work-in-process and finished goods, consists of direct material, labour and a proportion of manufacturing overheads based on normal capacity.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessarily incurred in order to make the sale.

2.14 Trade debts and other receivables

Trade debts and other receivables are carried at their original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when

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identified.

2.15 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, cash in transit and balances with banks.

2.16 Impairment

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amounts, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognized as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

2.17 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. A financial asset and a financial liability are offset and the net amount reported in the balance sheet, if the Company has a legal enforceable right to set-off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The particular recognition methods adopted by the Company are disclosed in the individual policy statements associated with each item of financial instruments.

Off-setting of financial assets and financial liabilities

A financial asset and a financial liability are offset and the net amount reported in the balance sheet, if the Company has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.18 Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

- Sales of goods are recognized when goods are delivered and title has been passed.
- Commission income is recognized on receipt of credit advice from supplier.
- Profit on saving account and investment is accrued on a time basis with reference to the principal outstanding and at the effective profit rate applicable.
- Dividend income from investments is recognized when right to receive payment has been established.

2.19 Recognition of Contract revenue, expenses and expected losses

- Contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by using the Percentage of Completion method.
- The expected loss is recognized as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

2.20 Borrowings

Loans and borrowings are recorded at the proceeds received. Financial charges are accounted for on accrual basis and are included in interest / mark-up payables on loans and other payables to the extent of amount remaining unpaid, if any.

2.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investments of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing

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cost eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which these are incurred.

2.22 Taxation

Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemption available, if any or minimum taxation at the rate of one half percent of the turnover whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The charge for current tax also includes prior year adjustments, where considered, arising due to assessments finalized during the year.

Deferred

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In this regard the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" issued by the Institute of Chartered Accountants of Pakistan.

Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

2.23 Foreign Currencies

Transactions in currencies other than Pakistani Rupees are recorded at the rates of exchange prevailing on the date of transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing on the balance sheet date, except where forward exchange contracts have been entered into for repayments of liabilities, in that case, the rates contracted for are used.

Gains and losses arising on re-translation are included in net profit or loss for the period.

2.24 Related party transactions

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price with reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

2.25 Dividend

Dividend is recognized as a liability in the financial statements in the period in which it is paid.

2.26 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

2.27 Segment reporting

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A segment is a distinguishable component within a company that is engaged in providing products and under a common control environment (business segment), or in providing within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

3	SHARE CAPITAL	Note	2007	2006
			(Rupees in thousand)	
	Authorized			
	150,000,000 (2006: 150,000,000) ordinary shares of Rs. 10 each		1,500,000	1,500,000
	100,000,000 (2006: 100,000,000) preference shares of Rs. 10 each divided in to:			
	62,500,000 class A preference shares of Rs. 10 each		625,000	625,000
	37,500,000 class B preference shares of Rs. 10 each		375,000	375,000
			1,000,000	1,000,000
			2,500,000	2,500,000
	Issued, subscribed and paid up			
	2007	2006		
	Number of shares	Ordinary shares of Rs. 10 each fully paid		
	23,749,434	23,749,434	In cash	237,494
			Other than cash:	237,494
	137,500	137,500	-against machinery	1,375
	408,273	408,273	-issued on acquisition of Pel Appliances Limited	4,083
	52,063,963	36,792,128	-as bonus shares	520,639
	76,359,170	61,087,335		367,921
			3.1	763,591
		Fully paid A class preference shares of Rs. 10 each		610,873
	60,500,000	60,500,000	Issued for cash	605,000
	136,859,170	121,587,335		605,000
				1,368,591
				1,215,873
3.1	Reconciliation of number of shares of Rs. 10 each:		2007	2006
	Ordinary shares		Number of shares	
	At beginning of year		61,087,335	53,119,422
	Add: Issued during the year as bonus shares		15,271,835	7,967,913
	At end of year		76,359,170	61,087,335

3.2 A Class Preference shares

The Company has issued A class preference shares of Rs. 605 million against authorized shares capital of this clause amounting to Rs. 625 million. Annual dividend of Rs. 0.95 per share (9.50%) will be payable on these preference shares on a cumulative basis. The summary of other terms and conditions is as follows:

Voting right

Preference shares do not carry any voting rights.

Call option

The Company shall have an option to call the issue, subject to maximum of 75.00% of the total issue, within ninety days of the end of the each financial year commencing from third anniversary of the issue and ending of the fifth anniversary of the issue by giving at least thirty days notice.

The Company shall have an option to call 100.00% of the outstanding issue size in whole or part within ninety days of the end of each financial year commencing from the fifth anniversary of the issue by giving at least thirty days notice.

Conversion option

Preference shares will be convertible at the option of the investors into ordinary shares of the Company. This option will be available from the third anniversary till the fifth anniversary of the issue. During this period preference share holders can convert up to 25.00% of their holding in accordance with the specified conversion ratio on any conversion date by giving a thirty days notice to the issuer.

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In case the Company does not exercise the call option within ninety days of the fifth anniversary of the issue, the investors will have the option to convert their entire holding of preference shares in full or part at the conversion ratio on any conversion date by giving a thirty days notice to the Company.

Conversion ratio

The conversion of preference share will be based on the conversion Ratio A/B, where

Conversion between 3rd and 5th anniversary

A = Rupees 10 plus any cumulative unpaid dividend on a preference share up to the end of the financial year immediately prior to the applicable conversion date.

B = The higher of (a) par value of ordinary share i.e. Rupees 10, or (b) an amount representing 32.50% discount to the average price of the common share quoted in the daily quotation of Karachi Stock Exchange (KSE) during last twelve months prior to the conversion date.

Conversion after the 5th anniversary

A = Rupees 10 plus any cumulative unpaid dividends on a preference share up to the end of the financial year immediately prior to the applicable conversion date.

B = An amount representing 32.50% discount or at discount as per applicable law whichever is lower to the average price of the common share quoted in the daily quotation of KSE during the last twelve months prior to the conversion date.

3.3 B Class preference shares

The Company is in the process of issuing B class listed, cumulative, non-voting right, preference shares to existing preference shareholders at par value of Rupees 10 each which are convertible into non-voting ordinary shares. The approval of the members has been obtained by special resolution in extra-ordinary general meeting of members held on June 01, 2005. Annual dividend of Rs. 1.10 per share (11.00%) will be payable on these preference shares on a cumulative basis.

4	RESERVES	Note	2007	2006
			(Rupees in thousand)	
	Capital:			
	Premium on issue of shares	4.1	69,118	221,836
	Revenue:			
	Unappropriated profits		1,803,565	1,245,783
			<u>1,872,683</u>	<u>1,467,619</u>
4.1	Premium on issue of shares			
	Balance at beginning of year		221,836	301,515
	Less: transferred to reserve for bonus shares	4.2	152,718	79,679
	Balance at end of year		<u>69,118</u>	<u>221,836</u>
4.2	Reserve for bonus shares			
	Balance at beginning of year		-	-
	Add: transfer from premium on issue of shares		152,718	79,679
			<u>152,718</u>	<u>79,679</u>
	Less: bonus shares issued during the year		152,718	79,679
	Balance at end of year		<u>-</u>	<u>-</u>
5	SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net of tax			
	Surplus on revaluation of property, plant and equipment at beginning of year		464,171	488,601
	Surplus on revaluation of property, plant and equipment carried out during the year		603,359	-
			<u>1,067,530</u>	<u>488,601</u>
	Less:			
	- deferred taxation relating to revaluation surplus carried out during the year		211,176	-

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- transfer to unappropriated profit on account of incremental depreciation charged during the year - net of deferred taxation

33,013 24,430

Surplus on revaluation of property, plant and equipment at end of year

823,341 464,171

6 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

2007 2006
(Rupees in thousand)

Present value of minimum lease payments

290,132 287,619

Less: current portion

103,105 105,132

187,027 182,487

6.1 The Company has entered into lease / ijara agreements with various leasing companies / banks / modarabas to acquire various assets. The rentals under these lease / ijara agreements are payable on monthly / quarterly basis in arrears and are subject to mark-up rate ranged from 7.50 % to 15.15% (2006: 8.00% to 16.00%) per annum.

Purchase options are available to the Company after the expiry of lease periods. The Company intends to exercise this option to purchase the leased assets at its salvage value upon the completion of respective lease periods.

Taxes, repairs and insurance costs are borne by the Company.

6.2 The amount of future minimum lease payments together with the financial charges allocated to future period and the periods during which they fall due are as follows:-

2007 2006

..... (Rupees in thousand)

	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
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Within one year

142,486 103,105 128,912 105,132

After one year but not more than five years

202,072 187,027 202,780 182,487

344,558 290,132 331,692 287,619

Less: finance cost allocated to future periods

54,426 - 44,073 -

Present value of minimum lease payments

290,132 290,132 287,619 287,619

Less: current portion

103,105 103,105 105,132 105,132

187,027 187,027 182,487 182,487

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7 LONG-TERM FINANCING - Secured

	Descriptions	Note	2007 (Rupees in thousand)	2006	Mark-up	Security	Repayment
7.1	From banking companies and financial institutions						
7.1.1	Demand finance II		33,334	100,000	*Base rate plus 3.00% (2006: base rate plus 4.00% per annum with floor of 9.00%) per annum.	First pari passu charge over current assets of the Company of Rs. 1,500 million. Lien on outstanding inland bills drawn on WAPDA till adjustment of loan. Personal guarantees of all directors of the Company. First charge over present and future fixed assets of the Company of Rs. 2,400 million.	Twelve half yearly equal installments of Rs. 33.333 million commenced from March 31, 2002.
7.1.2	Demand finance		300,000	-	*Base rate plus 3.00% per annum.	First pari passu charge over fixed assets of the Company and personal guarantees of sponsoring directors of the Company	Sixteen quarterly principal installments of Rs. 18.750 million each commencing from December 31, 2007.
7.1.3	Demand finance IV		27,500	82,500	Mark-up rate as provided in 7.1.1	Secured against securities as provided in 7.1.1	Twelve half yearly equal installments of Rs.27.500 million commenced from March 31, 2002 .
7.1.4	Demand finance V		13,064	30,488	Mark-up rate as provided in 7.1.1	Secured against securities as provided in 7.1.1	Eighteen quarterly installments of Rs. 4.35 million along with mark-up commenced from September 2003.
7.1.5	Demand finance VI & VII		26,449	67,128	Mark-up rate as provided in 7.1.1	Secured against securities as provided in 7.1.1	Eighteen quarterly installments commenced from June 2003.
7.1.6	Demand finance VIII		75,000	124,560	*Base rate plus 3.00% (2006: base rate plus 4.00% with floor of 9.00%) per annum	Secured against securities as provided in 7.1.1	Eight bi-annual installments of Rs. 25 million each commenced from December 31, 2004.
7.1.7	Demand finance		13,905	42,857	KIBOR plus 4.00% (2006: KIBOR plus 5.00% with floor of 11.00%) per annum.	First pari passu charge over present and future fixed assets of the Company comprising land, building, plant and machinery of Rs. 133.33 million. Personal guarantees of all directors of the Company.	Forty two equal monthly installments commenced from May 2004.
7.1.8	Term finance		-	10,023	10.00% (2006: 10.00%) per annum.	Charge over present and future, current and moveable assets of the Company to the extent of Rs. 75 million. Personal guarantees of sponsoring directors of the Company.	As per revised agreement dated September 2002, an amount of Rs. 4.388 million was payable in July 2002 and the balance principal amount of Rs.92.791 million is payable in thirty nine equal monthly installments of Rs 2.8 million each commenced from July 2002. The facility has been fully repaid during the year.
7.1.9	Demand finance 1	7.3	41,366	41,366	Mark-up rate as provided in note 7.3	First registered charge over current assets of the Company ranking pari passu charge in favour of Askari Commercial Bank. First registered pari passu charge by way of equitable mortgage of Company's fixed assets. Personal guarantees of all the directors.	The outstanding balance of loan plus future mark-up of Rs. 4.971 million would be settled as follows: Bi-annually in year 2008 = Rs. 41.219 million Bi-annually in year 2009 = Rs. 41.220 million
7.1.10	Demand finance 2	7.3	36,102	36,102	Mark-up rate as provided in note 7.3	Secured against securities as provided in 7.1.9	Repayment is included in note 7.1.9
7.1.11	Finance 3		-	6,837	9.00% (2006: 9.00%) per annum	First pari passu charge over all present and future current and fixed assets of the Company. Personal guarantees of some of the directors of the Company.	Repayable in 35 monthly un-equal instalments from April 2003 to March 2007 along with outstanding balance of Demand finance 4
7.1.12	Term finance		30,000	30,000	14.00% (2006: 14.00%) per	First charge over current assets of the Company of Rs. 70	Profit will be paid on quarterly basis starting from January 01,

Descriptions	Note	2007 (Rupees in thousand)	2006	Mark-up	Security	Repayment
				annum.	million Personal guarantees of sponsoring directors.	2006, whereas principal amount would be redeemed at the maturity i.e. December 31, 2008.
7.1.13	** Term Finance - convertible to TFCs	463,000	-	Base rate plus 2.50% per annum.	Ranking charge over fixed assets of the Company of Rs. 1,067 million Lien on inland LCs drawn on WAPDA	Sixty equal monthly instalments.
7.1.14	*** Term Finance - PPTFCs	500,000	-	Base rate plus 3.25% per annum.	First pari passu charge over fixed assets of the Company of Rs. 667 million	Six half yearly equal installments of Rs.83.333 million, commencing from December 01, 2009.
Total		<u>1,559,720</u>	<u>571,861</u>			
Less: current portion		<u>245,501</u>	<u>321,496</u>			
		<u>1,314,219</u>	<u>250,365</u>			

* The base rate means KIBOR (six months average ask side rate) and will be set on the last working day at the beginning of each bi-annual period for the mark-up due at the end of that period. (Rate setting date).

** The Company has received this amount against securitization of its receivables from WAPDA, NTDC and various energy distribution companies through PRIME ELECTRONICS SECURITIZATION COMPANY LIMITED ("the SPV"). Under the terms of Assignment Agreement, the Company has also warranted that it shall maintain the amount with SPV that are sufficient to meet at least three months payments to investors. The investor has agreed to subscribe for TFCs having aggregate face value equal to the amount of loan upon the terms and conditions contained in the Assignment Agreement.

*** During the year the Company issued privately placed TFCs amounting to Rs. 500 million to various financial institutions for the purpose of expansion of its power division. TRUST LEASING & INVESTMENT BANK LIMITED has been appointed as trustees to the TFCs issue. TFCs are secured against mortgage charge over land measuring 242 kanals 15 marlas situated at muaza amer siddhu tehsil & distt. Lahore cantt. and land measuring 10 acres bearing plot no. 302, 303 and 305 situated at industrial trading state area tehsil and district Swabi, hypothecation of plant and machinery, reserve fund amounting to Rs. 50 million to be maintained in interest bearing account over the life of TFCs, further the Company would maintain Escrow account for redemption of TFCs.

7.2 Current portion includes overdue instalments of Rs.46.355 million (2006: Rs. 63.634 million)

7.3 The Company, as on 01 May, 2000, entered into an agreement with MCB Bank Limited whereby MCB Bank rescheduled the outstanding principal amounts of running and demand finances aggregating at that time to Rs. 62.715 million.

Mark-up on both the finances as at 31st October, 1999 aggregating Rs.36.102 million was rescheduled as Demand Finance-2 without mark-up.

Failure to comply with any of the terms of the above rescheduling package and non-payment of any instalment as stipulated therein would render the rescheduling package as withdrawn and the liabilities will become repayable immediately.

The outstanding balance would be payable as follows:

	(Rupees in thousand)
Principal outstanding	41,366
Accumulated mark-up	36,102
Mark-up @ 6% per annum	4,971
w.e.f 01 July, 2006 to 30 June, 2008	
	<u>82,439</u>

The Company has entered into a Dividend Securitization Agreement with MCB Bank whereby finance facility will be further securitized by creation of security interest over the dividend to be declared by Kohinoor Energy Limited (an associated company).

As per the terms of the agreement, the Company's sponsoring directors through an irrevocable order pursuant to section 250 of the Companies Ordinance, 1984 directed Kohinoor Energy Limited to pay the entire dividend payables on 11,014,810 shares held in the name of sponsoring directors to MCB Bank. Kohinoor Energy Limited has agreed to abide by the order.

As per dividend securitization agreement an amount of Rs. 82.439 million has been securitized.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

8 DEFERRED LIABILITIES			2007	2006
		Note	(Rupees in thousand)	
- deferred taxation	8.1		736,263	409,093
- employee retirement benefits	8.2		46	62
			<u>736,309</u>	<u>409,155</u>
8.1 Deferred tax liability on taxable temporary differences:				
- tax depreciation allowance			416,743	341,366
- finance lease			55,099	39,621
- surplus on revaluation of property, plant and equipment			443,336	249,937
			915,178	630,924
Deferred tax asset on deductible temporary differences:				
- provision for obsolete and slow moving inventories			(10,900)	(7,305)
- provision for doubtful debts and advances			(119,126)	(99,467)
- other provisions			(16,662)	(15,216)
- provision for Excise duty and sales tax			(8,295)	-
- available tax losses			-	(25,786)
- provision for leave absences			(6,547)	(5,505)
- provision for worker's welfare fund			(5,053)	-
- minimum tax adjustable against future tax liability			(12,332)	(47,040)
- available tax credits			-	(21,512)
			(178,915)	(221,831)
			<u>736,263</u>	<u>409,093</u>
8.2 It represents balance of gratuity provided for till June 30, 1996 in respect of those employees who are still in service of the Company. Effective from July 01, 1996 the Company is operating a contributory provident fund scheme for all of its eligible employees and accrual of gratuity was ceased accordingly.				
9 DEFERRED INCOME GRANT-IN-AID				
Balance at beginning of year			69,814	73,488
Less: transferred to income	28		3,491	3,674
			<u>66,323</u>	<u>69,814</u>
The United Nations Industrial Development Organization vide its contract number 2000/257 dated December 15, 2000 out of the multilateral fund for the implementation of the Montreal Protocol, has given grant-in-aid to the Company for the purpose of phasing out ODS at the Refrigerator and Chest Freezer Plant of the Company. The total grant-in-aid of US \$ 1,367,633 (Rs. 91,073,838) comprises the capital cost of the project included in fixed assets amounting to US\$ 1,185,929 (Rs. 79,338,650) and grant recoverable in cash of US \$181,704 (Rs. 11,735,188) being the incremental operating cost for six months.				
The grant recoverable in cash amounting to Rs.11,735,188 was recognized as income in the year of receipt i.e. year ended June 30, 2001. The value of machinery received in grant was capitalized in year 2001 which started its operation in January 2003. The grant amounting to Rs. 3,490,652 (2006: Rs. 3,674,371) has been included in other income in proportion to depreciation charged on related plant and machinery keeping in view the matching principle.				
10 TRADE AND OTHER PAYABLES				
Creditors			406,795	470,490
Foreign bills payable	10.1		795,573	763,517
Accrued liabilities			108,769	81,225
Advances from customers			111,251	117,731
Sales tax payable			-	98,650
Regulatory duty payable			2,262	2,262
Employees' provident fund	10.2		37,770	20,151
Compensated absences			18,707	15,728
Advance against contracts			34,676	-
Others	10.3		56,929	29,826
			<u>1,572,732</u>	<u>1,599,580</u>
10.1 Foreign bills payable are secured against bills of exchange accepted by the Company in favour of suppliers.				

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

10.2 The Company is providing mark-up at the rate of 15.00% (2006: 15.00%) on the outstanding balance of provident fund.

		2007	2006
	Note	(Rupees in thousand)	
10.3 Others			
Tax on bonus shares		1,475	1,475
Workers' profit participation fund	10.3.1	39,008	27,093
Workers' welfare fund		14,437	-
Excise duty on short-term borrowings		19	19
Tax deducted at source under section 153		1,990	1,239
		<u>56,929</u>	<u>29,826</u>

10.3.1 Workers' profit participation fund

Balance at beginning of year		27,093	23,764
Add: interest on fund utilized in the Company's business	32	3,048	1,782
Less: amount paid during year		<u>29,125</u>	<u>25,546</u>
		1,016	-
 Add: allocation for the year	 31	 <u>37,992</u>	 <u>27,093</u>
Balance at end of year		<u>39,008</u>	<u>27,093</u>

11 INTEREST / MARK-UP ACCRUED ON LOANS AND OTHER PAYABLES

Long-term financing		29,854	27,176
Liabilities against assets subject to finance lease		936	647
Short-term borrowings		123,463	139,667
Provident fund payable		<u>59,045</u>	<u>59,219</u>
		<u>213,298</u>	<u>226,709</u>

12 SHORT-TERM BORROWINGS

Secured

Banking companies	12.2	<u>2,784,957</u>	<u>3,462,921</u>
Non banking financial companies (NBFCs)	12.3	<u>180,000</u>	<u>285,000</u>
		2,964,957	3,747,921

Unsecured

Overdraft	12.4	<u>78,693</u>	<u>47,419</u>
		<u>3,043,650</u>	<u>3,795,340</u>

12.1 The aggregate un-availed short-term financing facilities as at June 30, 2007 amounted to Rs. 420 million (2006: Nil).

12.2 These facilities have been obtained from various banks under mark-up arrangements for working capital and carry mark-up rate ranged from 11.00% to 14.66% (2006: 12.10% to 14.60%) per annum. These facilities are secured against the pledge / hypothecation of raw materials and components, work-in-process, finished goods, machinery, spare parts, charge over book debts, shares of public companies, and other assets having aggregate value of Rs. 3,513 million (2006: Rs. 4,369) and personal guarantees of the sponsoring directors of the Company. These facilities are generally for a period of one year and renewed at the end of the period.

12.3 These facilities have been obtained from NBFCs for purchase of raw material and carry mark-up at the rate of 14.00% to 16.00% (2006: 12.10% to 16.00%) per annum. These facilities are secured against pledge of shares of listed companies with 30.00% margin and personal guarantees of the directors of the Company.

12.4 It represents cheques issued by the Company in excess of balances at bank which have been presented for payments in the subsequent period.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

13 CONTINGENCIES AND COMMITMENTS

- 13.1 The banks and insurance companies have issued guarantees, letters of credit and discounting of receivables on behalf of the Company as detailed below:

	2007 (Rupees in thousand)	2006
Tender bonds	81,380	59,092
Performance bonds	367,156	275,677
Advance guarantees	179,163	130,504
Custom guarantees	10,575	8,340
Letters of credit	561,936	414,243
Bills discounted	1,069,311	538,664
Foreign guarantees	4,432	4,432
Tax and other disputed liabilities	48,040	48,040

- 13.2 Assessments for tax year 2003 to 2005 were reviewed by the Inspecting Additional Commissioner (IAC) under section 122(5A). In revised orders, certain expenses amounting to Rs. 137.15 million (June 30, 2006: 370.915 million) in aggregate were disallowed. The Company has filed appeals for these three years against Commissioner's order with Income Tax Appellate Tribunal which are still pending adjudication.
- 13.3 The return filed for tax year 2006 has been selected by the Commissioner for audit under section 177 of the Income Tax Ordinance, 2001. The audit proceedings have been initiated by the Taxation Officer, however no order in this respect has yet been issued.
- 13.4 The Income Tax Appellate Tribunal has directed to charge separate taxes under section 80C and 80CC of Income Tax Ordinance 1979 instead of charging single tax under section 80D of the said ordinance on turnover from all sources. However, on this issue a reference has been filed by the Company before the Honourable Lahore High Court which is yet subjudiced. Liability of the Company against separate charge of 80C and 80CC for 2000-2001 to 2002-2003 and tax year 2003, 2004 and 2006 amounts to Rs. 56 million.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

14 PROPERTY, PLANT AND EQUIPMENT

(Rupees in thousand)

Particulars	Cost / revaluation				Depreciation				Book value as at 2007	Annual rate of depreciation
	As at July 01, 2006	Additions / (deletions)	Transfers / adjustments	As at 2007	As at July 01, 2006	Charge for the year	Transfers / Adjustments	As at 2007		
Owned										
Land - leasehold (Note 14.3)	13,256	-	-	13,256	3,051	14	-	3,065	10,191	
Land - freehold	394	-	-	394	-	-	-	-	394	
Building on leasehold land	642,548	57,986	85,677	786,211	150,897	26,631	-	177,528	608,683	5%
Building on free hold land	6,508	-	-	6,508	4,214	115	-	4,329	2,179	5%
Plant and machinery	3,061,899	725,475	125,820	3,913,194	908,141	130,063	5,299	1,043,503	2,869,691	5%
Office equipment and furniture	98,563	27,529 (235)	2,727	128,584	34,975	7,267	872 (36)	43,078	85,506	10%
Vehicles	61,783	2,423 (34,467)	23,281	53,020	47,848	2,879	12,128 (23,717)	39,138	13,882	20%
	3,884,951	813,413 (34,702)	237,505	4,901,167	1,149,126	166,969	18,299 (23,753)	1,310,641	3,590,526	
Held under finance lease										
Plant and machinery	342,324	62,726	(35,414)	369,636	20,069	15,863	(5,299)	30,633	339,003	5%
Office equipment	5,385	-	(2,727)	2,658	1,244	229	(872)	601	2,057	10%
Vehicles	105,700	61,403	(23,281)	143,822	31,274	18,177	(12,128)	37,323	106,499	20%
	453,409	124,129	(61,422)	516,116	52,587	34,269	(18,299)	68,557	447,559	
Capital work-in-progress										
Building on leasehold land	3,543	89,093	(85,677)	6,959					6,959	
Plant and machinery	4,714	87,026	(90,406)	1,334					1,334	
	8,257	176,119	(176,083)	8,293	-	-	-	-	8,293	
2007	4,346,617	1,113,661 (34,702)	-	5,425,576	1,201,713	201,238	- (23,753)	1,379,198	4,046,378	
2006	3,759,289	628,650 (41,322)	214,655 (214,655)	4,346,617	1,042,888	162,275	15,988 (19,438)	1,201,713	3,144,904	

Transfer to owned assets includes both transfers from capital work-in-progress on the related assets becoming available for use and leased assets on completion of the respective lease arrangements.

14.1 Depreciation for the period has been charged as under:-		2007	2006
	(Rupees in thousand).....	
Cost of goods sold	27.1	186,962	151,131
Administrative expenses	30	14,276	11,144
		<u>201,238</u>	<u>162,275</u>

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

14.2 Disposal of property, plant and equipment

(Rupees in thousand)

Description	Cost	Accumulated depreciation	Book value	Proceeds from disposal of property, plant and equipment	Gain/(loss) on disposal of property, plant and equipment	* Mode of disposal	Particulars of purchaser/ transferee
Motor vehicles							
Honda Civic	550	428	122	122	-		Mr. Jawed Naseem Siddiqui
Suzuki Mehran	354	200	154	163	9		Mr. Kashif Khan
Suzuki Cultus	604	436	168	365	197		Mr. Mohsin Mumtaz Lahore
Suzuki Mehran	354	257	97	69	(28)		Muhammad Hanif
Suzuki Mehran	348	280	68	165	97		Mr. Abid Hassan
Suzuki Mehran	355	285	70	134	64		Mr. Khalid Shah
Suzuki Mehran	348	280	68	145	77		Mr. Kamal Shah
Honda Civic	990	796	194	195	1		Mr. Yousaf H. Ishauq
Suzuki Mehran	355	285	70	74	4		Mr. S. M. Aamir
Honda Civic	990	796	194	195	1		Mr. Homaeer Waheed
Suzuki Mehran	355	286	69	66	(3)		Mr. Shahab Ali
Suzuki Cultus	525	407	118	139	21		Mr. Imtiaz Rashid Mir
Suzuki Mehran	360	279	81	69	(12)		Mian Nazir Ahmed
Suzuki Baleno	674	522	152	144	(8)		Mr. Haroon Ahmed Khan
Honda Civic	1,030	798	232	210	(22)		Mr. Haroon Ahmed Khan
Toyota Corolla	731	574	157	86	(71)		Mr. Umar Farooq Syed
Suzuki Cultus	784	607	177	154	(23)		Mr. Liaqat H. Minto
Suzuki Cultus	525	407	118	155	37		Mr. Rauf Ahmed
Suzuki Cultus	525	407	118	177	59		Mr. Zahidullah Khan
Suzuki Mehran	355	275	80	88	8		Mr. Amir Maqbool
Diahaustu Core-CX	424	328	96	104	8		Malik Naeem Ullah Khan
Suzuki Mehran	355	275	80	103	23		Mr. Yaqoob Tabassum
Suzuki Mehran	360	279	81	90	9		Mr. Naseer Ud Din Butt
Honda Civic	993	770	223	111	(112)		Mr. Jawed Naseem Siddiqui
Suzuki Mehran	355	275	80	88	8		Mr. Ejaz Ahmed
Suzuki Mehran	355	286	69	121	52		Mr. Asif Hameed
Suzuki Mehran	355	286	69	88	19		Mr. Jalil ur Rehman
Suzuki Cultus	530	427	103	268	165		Mr. Khalid Azeem
Suzuki Cultus	530	427	103	150	47		Mr. Tariq Irani
Suzuki Cultus	530	427	103	130	27		Mr. Aamir Jamil
Suzuki Cultus	530	427	103	130	27		Mr. Ameer Hamza
Suzuki Cultus	530	427	103	139	36		Mr. Col. Shaukat Mehmood
Toyota Corolla	814	630	184	160	(24)		Mr. Aftab Ahmed Wyne
Suzuki Mehran	375	290	85	181	96		Mr. Mahmood Ali Mir

Description	Cost	Accumulated depreciation	Book value	Proceeds from disposal of property, plant and equipment	Gain/(loss) on disposal of property, plant and equipment	* Mode of disposal	Particulars of purchaser/ transferee
Suzuki Mehran	375	290	85	189	104		Syed Nauman Rafiqi
Suzuki Cultus	444	344	100	55	(45)		Mr. Amer Saeed Rana
Suzuki Cultus	560	435	125	66	(59)		Mr. Omer Razzaq
Honda Civic	1,080	838	242	212	(30)		Syed Manzar Hassan
Suzuki Mehran	359	279	80	99	19		Mr. Muhammad Ali
Suzuki Mehran	359	279	80	126	46		Rehman Aslam Wali
Suzuki Mehran	359	264	95	95	-		Mr. Muhammad Hanif
Suzuki Mehran	359	279	80	111	31		Mr. Alamgir Shams Awan
Suzuki Mehran	359	279	80	174	94		Mr. Aqib Yousaf Baig
Honda Civic	739	692	47	300	253		Mr. Shaukat Nazir
Toyota Corolla	849	472	377	291	(86)		Mr. Khalid Azeem
Suzuki Mehran	376	212	164	78	(86)		Mr. Ghulam A. Jehangir
Suzuki Alto	496	276	220	189	(31)		Mr. Khalid Shah
Suzuki Mehran	376	209	167	78	(89)		Mr. Nauman Rafique
Suzuki Mehran	376	209	167	131	(36)		Mr. Amer Riaz
Suzuki Cultus	560	320	240	316	76		Abdul Sami
Suzuki Cultus	560	312	248	191	(57)		Sh. Muhammad Farooq
Suzuki Cultus	560	316	244	199	(45)		Mr. Yaqoob Tabassum
Suzuki Cultus	560	320	240	199	(41)		S. M. Aamer
Suzuki Mehran	371	215	156	122	(34)		Mr. Javed Iqbal
Suzuki Mehran	371	206	165	76	(89)		Mr. Aqeel Qasim
Suzuki Mehran	376	212	164	109	(55)		Mr. Faryal Ahmed
Suzuki Mehran	376	209	167	118	(49)		Mr. Shahid Rafique
Suzuki Mehran	376	215	161	114	(47)		Ch. Arshad Ali
Santro Club	559	260	299	395	96		Mr. Mohsin Mumtaz Lahore
Suzuki Cultus	598	175	423	445	22		Mr. Mohsin Mumtaz Lahore
Suzuki Mehran	465	102	363	305	(58)		Mr. Muhammad Sarwar Lahore
Santro Club	655	126	529	455	(74)		Haji Azam Lahore
Suzuki Mehran	384	175	209	270	61		Mr. Zahir Shah Lahore
Suzuki Cultus	590	338	252	230	(22)		Mian Nazir Ahmed
Suzuki Mehran	395	185	210	225	15		Haji Azam Lahore
Suzuki Mehran	445	59	386	345	(41)		Mr. Tariq Choudhary Lahore
	33,815	23,261	10,554	11,086	532		
Motor cycles	651	456	195	596	401		
Mobile sets	178	25	153	72	(81)		
Others	58	11	47	43	(4)		
2007	34,702	23,753	10,949	11,797	848		
2006	41,322	3,450	37,872	39,374	1,502		

* These vehicles / bikes have been sold to employees upon completion of prescribed period.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

14.3 Property, plant and equipment of the Company i.e. building on leasehold land and machinery were revalued in 1999 and surplus was determined at Rs.910 million. Further revaluation was carried out in 2001 with additional surplus of Rs.144 million and further revaluation was carried out in December 2006 by M/S Hamid Mukhtar & Co. (Pvt) Limited, independent valuers on the approved panel of State Bank of Pakistan, which resulted in additional surplus of Rs. 603 million.

14.4 Had there been no revaluation the cost, accumulated depreciation and book value of revalued assets would have been as follows:

	(Rupees in thousand)		
	Cost	Accumulated depreciation	Book value
Building on lease hold land	625,092	144,049	481,043
Plant and machinery	2,427,904	695,070	1,732,834
	<u>3,052,996</u>	<u>839,119</u>	<u>2,213,877</u>

15	INTANGIBLE ASSETS	Note	2007 (Rupees in thousand)	2006
	Technology transfer agreements			
	Technology transfer agreements	15.1	12,825	-
	Less: amortization to date		522	-
	Balance at end of year		12,303	-
	Reconciliation of carrying amount of goodwill			
	Goodwill on acquisition of Pel Appliances Limited	15.2	293,977	293,977
	Less: amortization to date		73,495	58,796
	Balance at end of year		220,482	235,181
	Goodwill on acquisition of Pel Daewoo Electronics Limited	15.3	367,284	367,284
	Less: amortization to date		18,364	-
			<u>348,920</u>	<u>367,284</u>
			<u>581,705</u>	<u>602,465</u>

15.1 The Company has obtained technology of single phase and three phase digital meters and also of power transformer from different foreign companies. The intangible asset is amortized on the same rate as of the depreciation of relevant plant.

15.2 Goodwill on acquisition of Pel Appliances Limited is being amortized over a period of twenty years starting from the year ending June 30, 2003.

15.3 Goodwill on acquisition of Pel Daewoo Electronics Limited is being amortized over a period of twenty years starting from the year ending June 30, 2007.

16 LONG-TERM INVESTMENTS

Investment in associate - equity method

Kohinoor Power Company Limited

Ownership interest %

23.10%

23.10%

Cost on investment

2,772,000 shares (2006: 2,772,000 shares)

Share of post acquisition profit - net of dividend

Less: provision for impairment in value of investment

	54,701	54,701
	44,352	32,190
	99,053	86,891
	86,579	75,664
	<u>12,474</u>	<u>11,227</u>

16.1 The results of associated company for last three years reflect a continues increase in loss for the year and it has not been able to pay dividend since 2003. Further, the chances of improvement in its result are remote and depend upon heavy capital investment. Considering all these factors, the amount of investment has been impaired to the extent that is recoverable from

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

the sale of shares.

16.2 Financial statements and information of the associated company

The assets, liabilities and equity of Kohinoor Power Company Limited as at June 30, 2007 and related revenue and profit / (loss) for the year then ended based on latest financial statements are as follows:

	Note	2007 (Rupees in thousand)	2006 (Rupees in thousand)
Assets		593,358	674,848
Liabilities		271,694	405,781
Revenue		127,592	278,144
Profit for the year		52,650	(101,096)
Market value per share (Rupees)		4.50	4.05
17 LONG-TERM DEPOSITS			
Security deposits with leasing companies		48,869	43,300
Less: current portion		13,537	4,489
		<u>35,332</u>	<u>38,811</u>
18 STORES, SPARE PARTS AND LOOSE TOOLS			
Stores		1,271	1,380
Machinery maintenance spare parts		46,325	42,879
Loose tools		27,249	24,753
		74,845	69,012
Less: Provision for slow moving and obsolete items		10,469	10,469
		<u>64,376</u>	<u>58,543</u>
19 STOCK-IN-TRADE			
Raw materials and components			
In stores	19.1	1,449,391	1,068,886
In bonded warehouse		5,094	40,204
In-transit		254,025	385,480
Less: Provision for slow moving and obsolete items		20,139	7,015
		1,688,371	1,487,555
Work-in-process		429,383	640,795
Finished goods		390,460	451,069
Less: provision for slow moving and obsolete items		535	3,393
		<u>389,925</u>	<u>447,676</u>
		<u>2,507,679</u>	<u>2,576,026</u>
19.1	Raw material in stores amounting to Rs. 12.037 million (2006: Rs. 9.621 million) issued for processing is lying with vendors.		
19.2	Stocks with carrying value of Rs. 2,290 million (2006: Rs. 2,257 million) have been pledged as security with certain banks against financing facilities.		
20 TRADE DEBTS			
Considered good:			
- against normal sales		2,742,747	2,614,396
- due from contractee		204,899	-
		<u>2,947,646</u>	<u>2,614,396</u>
Considered doubtful		301,879	248,282
		<u>3,249,525</u>	<u>2,862,678</u>
Less: provision for doubtful debts		301,879	248,282
		<u>2,947,646</u>	<u>2,614,396</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

21	LOANS AND ADVANCES	Note	2007 (Rupees in thousand)	2006
	Advances to employees - Unsecured considered good:			
	- purchases		3,721	670
	- expenses		3,714	5,366
	- others	21.1	1,282	1,832
			<u>8,717</u>	<u>7,868</u>
	Advances to employees - Unsecured considered doubtful		1,449	1,449
	Less: provision for doubtful advances		1,449	1,449
			<u>8,717</u>	<u>7,868</u>
	Advances to suppliers and contractors		232,327	195,845
	Less: provision for doubtful advances		37,031	34,459
			<u>195,296</u>	<u>161,386</u>
	Advance excise duty and sales tax	21.2	23,700	23,700
	Less: provision for doubtful advances		23,700	-
			<u>-</u>	<u>23,700</u>
	Retention money		63,314	-
	Advance income tax		48,314	32,159
			<u>315,641</u>	<u>225,113</u>

21.1 These are interest free, unsecured advances given to employees.

21.2 It includes an amount of Rs. 11.914 million (2006: Rs. 11.914 million) on account of regulatory duty, levy of which has been challenged by the Company. The concerned authority has adjudged the case in favour of the Company.

It also includes Rs. 11.725 million (2006: Rs. 11.725 million) on account of custom duty and sales tax. In 1996 the Company has lodged a claim for Rs. 27.835 million with Assistant Collector Customs, Central Excise and Sales Tax for the custom duty and sales tax under SRO No. 108(1)/95 dated February 12, 1995 out of which a claim of Rs. 16.111 million was accepted. The writ filed for the balance amount of Rs. 11.725 million was decided in favour of the Company by the Honourable Peshawar High Court vide its order dated August 02, 2001. The custom authorities filed appeal before the Supreme Court of Pakistan against the judgment of the Honourable Peshawar High court. Based on legal opinion and expectations of favourable outcome the amount is considered to be recoverable by the management. However the Company has made the provision for the same amount.

22 TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

Letters of credit	2,002	1,629
Security deposits	47,515	36,835
Less: provision for security deposits considered doubtful	5,379	5,379
	<u>42,136</u>	<u>31,456</u>
Current portion of long-term deposits	13,537	4,489
Margin deposits	226,939	228,530
Prepayments	22,161	20,930
	<u>306,775</u>	<u>287,034</u>

23 OTHER RECEIVABLES

Commission, insurance claim and other receivables	29,374	9,266
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23.1 The Honorable Supreme Court of Pakistan did not admitted the review application of the Company against decision of the Apex Court regarding levy of regulatory duty imposed under SRO 1050(1)/97. On the basis of said decision the management of the Company has proposed to write-off the Custom duty refundable Rs. 41.751 million (2006: Rs. 41.751million) through resolution in the meeting of Board of Directors of the Company. Provision for the whole amount have already been charged.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

24 OTHER FINANCIAL ASSETS

Investments at fair value through profit & loss

Standard Chartered Bank

(Formerly Union Bank Limited)

Number of shares		Note	2007	2006
2007	2006		(Rupees in thousand)	
			Ordinary shares of Rs. 10 each	
1,230,028	891,326		91,022	35,596
-	338,702		-	-
1,845,042	-		-	-
			-	-
3,075,070	1,230,028		91,022	35,596
Add: gain due to change in the fair value of investment			71,803	55,426
Market value per share is Rs. 52.95 (2006: Rs. 74.00)			162,825	91,022

25 CASH AND BANK BALANCES

In local currency

Cash in hand

Balance with banks:

In current accounts - local currency

In saving accounts - local currency

US Dollar account (US \$ 90.74 @ Rs. 60.50 (2006: US \$ 155.74 @ Rs. 59.60))

	3,343	13,412
25.1	482,658	435,401
	50,568	112
	533,226	435,513
	5	9
	536,574	448,934

25.1 Effective mark-up rate in respect of saving accounts ranges from 2.50% to 4.75% (2006: 2.00% to 2.50%) per annum.

26 REVENUE

Contract revenue

Sales - Local

Sales - Export

Less: - sales tax

- trade discounts

	466,974	-
	12,472,726	10,885,856
	137,970	156,304
	13,077,670	11,042,160
26.1	888,265	842,341
	375,918	791,801
	1,264,183	1,634,142
	11,813,487	9,408,018

26.1 Sales tax includes penalties and additional sales tax of Rs. 2.403 million (2006: Rs. 0.360 million).

27 COST OF GOODS SOLD AND CONTRACT COST

Finished goods at beginning of year

Cost of goods manufactured

Finished goods purchased

Finished goods at end of year

Cost of goods sold

Contract cost

	451,069	129,517
27.1	8,601,779	7,223,755
	328,123	458,148
	8,929,902	7,681,903
	(390,460)	(451,069)
	8,990,511	7,360,351
	293,112	-
	9,283,623	7,360,351

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

		2007 (Rupees in thousand)	2006
27.1	Cost of goods manufactured	Note	
	Work-in-process at beginning of year		640,795
	Raw material and components consumed		7,240,571
	Direct wages	27.2	425,952
	Factory overheads:		
	- salaries and other benefits	27.2	205,073
	- travelling and conveyance		13,849
	- electricity and gas charges		92,951
	- repairs and maintenance		78,244
	- vehicles running and maintenance		5,964
	- insurance		24,155
	- depreciation	14.1	186,962
	- amortization of intangible assets	15	33,585
	- provision for obsolete and slow moving stock		10,266
	- carriage and freight		24,390
	- erection and testing		39,103
	- other factory overheads		9,302
			723,844
			9,031,162
			(429,383)
			8,601,779
			582,558
			7,864,550
			(640,795)
			7,223,755
	Work-in-process at end of year		
27.2	These include employees' retirement benefits amounting to Rs. 19.460 million (2006: Rs. 17.676 million).		
28	OTHER OPERATING INCOME		
	Income from financial assets		
	Gain due to change in the fair value of investment at fair value through profit and loss	24	71,803
	Reversal of provision for doubtful finished goods stock		-
	Provision for diminution in value of investment		(10,915)
	Dividend income		-
	Mark-up income		615
	Income from assets other than financial assets		
	Gain on disposal of property, plant and equipment		848
	Grant-in-aid	9	3,491
	Commission income		33,025
	Exchange gain		(134)
	Others		1,725
	Payable to insurance company written back		-
			100,458
			112,553
29	DISTRIBUTION COST		
	Salaries and benefits	29.1	126,062
	Travelling and conveyance		32,348
	Rent, rates and taxes		38,798
	Electricity and gas charges		4,881
	Repairs and maintenance		3,682
	Vehicles running and maintenance		11,985
	Printing, stationery and periodicals		7,045
	Postage, telegrams and telephones		12,065
	Entertainment and staff welfare		5,962
	Advertisement and sales promotion		139,897
	Insurance		2,638
	Freight and forwarding		132,501
	Contract and tendering		835
	Erection		33,325
	Warranty period services		33,614
	Royalty		3,343

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

			<u>588,981</u>	<u>590,412</u>
29.1	These include employees' benefits amounting to Rs. 10.037 million (2006: Rs. 8.833 million).			
30	ADMINISTRATIVE EXPENSES	Note	2007 (Rupees in thousand)	2006
	Salaries and benefits	30.1	147,796	118,022
	Travelling and conveyance		12,829	12,339
	Rent, rates and taxes		28,586	21,655
	Legal and professional		3,450	5,082
	Electricity and gas charges		11,265	10,072
	Auditors' remuneration	30.2	660	388
	Repairs and maintenance		15,387	8,687
	Vehicles running and maintenance		9,758	8,375
	Printing, stationery and periodicals		4,715	4,910
	Postage, telegrams and telephones		5,177	4,886
	Entertainment and staff welfare		15,841	15,451
	Advertisement		1,213	429
	Insurance		3,669	3,141
	Provision for doubtful debts and advances		79,869	32,827
	Others		2,065	5,074
	Depreciation	14.1	14,276	11,144
			<u>356,556</u>	<u>262,482</u>
30.1	These include employees' benefits amounting to Rs. 10.024 million (2006: Rs. 8.865 million).			
30.2	Auditors' remuneration			
	Annual audit fee		500	300
	Half yearly review		100	80
	Out of pocket expenses		60	8
			<u>660</u>	<u>388</u>
31	OTHER OPERATING EXPENSES			
	Workers' welfare fund - net		14,437	(1,985)
	Workers' profit participation fund	10.3.1	37,992	27,093
			<u>52,429</u>	<u>25,108</u>
32	FINANCE COST			
	Interest / mark-up on secured:			
	- long-term financing		95,646	83,321
	- short-term borrowings		718,645	541,697
	- workers' profit participation fund	10.3.1	3,048	1,782
	- liabilities against assets subject to finance lease		29,128	23,169
	Interest on provident fund payable		4,626	9,592
	Bank charges and commission		86,016	82,569
			<u>937,109</u>	<u>742,130</u>
33	PROVISION FOR TAXATION			
	For the year			
	Current		59,067	50,000
	Deferred		135,157	28,186
			194,224	78,186
	Prior year			
	Current		(49,897)	(38,487)
	Deferred		(19,162)	34,910
			(69,059)	(3,577)

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

125,165	74,609
2007	2006
-----%-----	

33.1 Numerical reconciliation between the average effective tax rate and applicable tax rate

Applicable tax rate	35.00	35.00
Tax effects of amounts that are:		
Allowable for tax purposes	(2.93)	(4.14)
Effect of difference in tax rates under normal assessment and final tax regime	(6.44)	(1.56)
Effect of change in prior year's tax	(9.67)	(0.70)
Tax effect of adjustment of losses	-	(14.68)
Others	1.73	0.52
Average effective tax rate	17.69	14.44

34 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for the year for remuneration including certain benefits to directors and executives of the Company are as follows:-

	Directors		Executives	
	2007	2006	2007	2006
	(Rupees in thousand)			
Remuneration	6,012	5,015	32,724	20,314
House rent	1,719	1,390	12,320	7,373
Utilities	601	501	3,272	2,032
Bonus	-	-	5,576	3,170
Retirement benefits	395	347	3,159	1,886
Reimbursable expenses				
Motor vehicles expenses	463	477	5,395	3,866
Medical expenses	231	238	1,598	1,151
TOTAL	9,421	7,968	64,044	39,792
Number of persons	4	4	42	28

34.1 No remuneration and benefits have been paid to Chief Executive Officer.

34.2 Chief Executive Officer, directors and certain executives have been provided with free use of the Company's owned and maintained cars.

35 EARNINGS PER ORDINARY SHARE - BASIC AND DILUTED

The calculation of basic and diluted earnings per ordinary share is based on the following data:

Earnings

Profit for the year	582,244	442,142
Less: dividend payable on preference shares	57,475	57,475
Earnings attributable to ordinary shares	524,769	384,667

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	76,359,170	76,359,170
Effect of dilutive potential ordinary shares	11,204,704	15,310,490
	87,563,874	91,669,660

Basic and diluted earnings per share have been calculated through dividing earnings as stated above by weighted average number of ordinary shares.

Basic earnings per share	6.87	5.04
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PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

Diluted earnings per share

6.65

4.82

36 TRANSACTIONS WITH RELATED PARTIES

36.1 Following parties are considered to be related by virtue of common directorship / major shareholding with whom the Company has not entered into any transaction during the year:

- Kohinoor Industries Limited
- Azam Textile Mills Limited
- Saritow Spinning Mills Limited
- Kohinoor Energy Limited
- Saigol Brothers Limited
- Guarantee Life Employment Limited
- Standard Grinding Wheels Industries (Private) Limited
- Innovative Technologies (Private) Limited
- Raytex (Private) Limited
- Saritow (Pakistan) Limited
- Progressive Industries (Private) Limited
- Art Centre (Private) Limited
- Conforce (Private) Limited
- Kohinoor Power Company Limited

37 PLANT CAPACITY AND ACTUAL PRODUCTION

		2007		2006	
	Unit	Annual Production capacity	Actual production during the year	Annual Production capacity	Actual production during the year
Transformers	MVA	3,000	2,243	3,000	2,022
Switchgears	Nos.	4,500	3,347	4,500	3,832
Energy meters	Nos.	1,700,000	912,997	1,700,000	1,266,521
Air conditioners	Tones	90,000	61,161	90,000	41,499
Refrigerators / deep freezers	Cfts	5,000,000	2,899,583	5,000,000	3,552,595
Television	Nos.	70,000	570	70,000	554

Reason for shortfall

The capacity utilization is dependent on overall demand, supply and availability of imported goods in the local market.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

38 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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

Interest / mark-up rate risk management

Interest / mark-up rate risk arise from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. The effective interest / mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

	2007						2006	
	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		
.....Rupees in thousand.....								
Financial assets								
Long-term deposits	-	-	-	13,537	35,332	48,869	48,869	43,300
Trade debts	-	-	-	3,249,525	-	3,249,525	3,249,525	2,862,678
Loans and advances	-	-	-	64,596	-	64,596	64,596	1,832
Trade deposits	-	-	-	269,075	-	269,075	269,075	259,986
Other receivables	-	-	-	29,374	-	29,374	29,374	9,266
Other financial assets	-	-	-	162,825	-	162,825	162,825	91,022
Cash and bank balances	50,568	-	50,568	486,006	-	486,006	536,574	448,934
Total	50,568	-	50,568	4,274,938	35,332	4,310,270	4,360,838	3,717,018
Financial liabilities								
Long-term financing	245,501	1,314,219	1,559,720	-	-	-	1,559,720	571,861
Liabilities against assets subject to finance lease	103,105	187,027	290,132	-	-	-	290,132	287,619
Interest / mark-up accrued on loans and other payables	-	-	-	213,298	-	213,298	213,298	226,709
Short-term borrowings	3,043,650	-	3,043,650	-	-	-	3,043,650	3,795,340
Trade and other payables	-	-	-	1,455,735	-	1,455,735	1,455,735	1,341,458
Total	3,392,256	1,501,246	4,893,502	1,669,033	-	1,669,033	6,562,535	6,222,987
On balance sheet gap - 2007	(3,341,688)	(1,501,246)	(4,842,934)	2,605,905	35,332	2,641,237	(2,201,697)	(2,505,969)
On balance sheet gap - 2006	(4,221,856)	(432,852)	(4,654,708)	2,109,928	38,811	2,148,739	(2,505,969)	

OFF BALANCE SHEET ITEMS

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

Contingencies	1,117,351	-	1,117,351	-	-	-	1,117,351	586,704
Guarantees	-	-	-	642,706	-	642,706	642,706	478,045
Letter of credits	-	-	-	561,936	-	561,936	561,936	414,243
Total - 2007	1,117,351	-	1,117,351	1,204,642	-	1,204,642	2,321,993	1,478,992
Total - 2006	586,704	-	586,704	892,288	-	892,288	1,478,992	-

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. Out of total financial assets of Rs. 4,361million (2006: Rs. 3,717 million), the financial assets which are subject to credit risk amounted to Rs. 3,314 million (2006: Rs. 2,865 million). The Company has developed formal approval process whereby credit limits are applied to its customers. In certain cases the business with government sector customers are secured by way of inland letter of credit. The management also continuously monitors the credit exposure towards the customers and makes provisions against those balances which are considered doubtful of recovery.

Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet commitments. The management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer.

Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the Company is not exposed to any significant foreign currency risk.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

39 SEGMENT REPORTING

	POWER		APPLIANCES		Company	Company
Revenue	2007	2006	2007	2006	2007	2006
	----- (Rupees in thousand) -----					
Inter-segment	-	7,684	-	1,219		
External	6,720,881	4,421,148	5,092,606	4,986,870	11,813,487	9,408,018
	<u>6,720,881</u>	<u>4,428,832</u>	<u>5,092,606</u>	<u>4,988,089</u>	<u>11,813,487</u>	<u>9,408,018</u>
RESULT						
Segment result	498,987	265,272	278,437	299,216	777,424	564,488
Unallocated income / (expenses)						
Other operating income					63,942	94,650
Interest expense					(93,690)	(93,942)
Other operating expenses					(52,429)	(25,108)
Share of profit / (loss) of associate					12,162	(23,337)
Income taxes					(125,165)	(74,609)
Profit for the year					<u>582,244</u>	<u>442,142</u>
OTHER INFORMATION						
Segment assets	3,098,081	2,357,793	6,312,453	5,593,629	9,410,534	7,951,422
Unallocated corporate assets					<u>2,136,245</u>	<u>2,156,319</u>
					<u>11,546,779</u>	<u>10,107,741</u>
Segment liabilities	494,259	352,609	804,801	950,988	1,299,060	1,303,597
Unallocated corporate liabilities					<u>6,183,104</u>	<u>5,656,481</u>
					<u>7,482,164</u>	<u>6,960,078</u>
Capital expenditure	420,291	220,510	529,139	528,315	949,430	748,825
Non-cash items other than depreciation / amortization	5,863	21,299	9,353	28,162	15,216	49,461
Depreciation and amortization	48,057	34,085	134,260	114,368	182,317	148,453

Inter-segment sales

Inter-segment sales have been eliminated from the total.

Inter-segment pricing

Transactions among business segments are recorded at arm's length prices using admissible valuation methods.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

40 MOVEMENT IN WORKING CAPITAL	2007 (Rupees in thousand)	2006
(Increase) / decrease in current assets		
Stores, spare parts and loose tools	(5,833)	(5,782)
Stock-in-trade	58,081	(613,559)
Trade debts	(386,847)	(789,078)
Loans and advances	(100,645)	(43,914)
Trade deposits and short-term prepayments	(10,693)	(50,493)
Other receivables	(20,108)	2,230
	(466,045)	(1,500,596)
(Decrease) / increase in trade and other payables	(29,828)	729,884
	<u>(495,873)</u>	<u>(770,712)</u>

41 NON-CASH TRANSACTIONS

Additions to property, plant and equipment during the year amounting to Rs. 124.129 million (2006: 163.928 million) were financed by new finance leases.

42 DIVIDEND

In respect of current year, the Board of Directors of the Company propose to issue bonus shares @ 25.00% (2006: 25.00%). This dividend is subject to the approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements. This will be accounted for subsequently in the year of issue.

43 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on October 02, 2007.

44 GENERAL

- Figures have been rounded off to the nearest thousand rupees except as stated otherwise.
- Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison.

NASEEM SAIGOL
Chairman / Chief Executive Officer

HAROON A. KHAN
Managing Director