

PAK ELEKTRON LIMITED
FINANCIAL STATEMENTS

For the year ended

30-Jun-06

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of PAK ELEKTRON LIMITED ("the Company") as at June 30, 2006 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 purpose 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 include 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) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) 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, except for the change in accounting policy as stated in note 2.2 to the financial statements with which we concur;

- (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion 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 Company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended;
- (d) in our opinion, Zakat deductible at source under 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.

M. YOUSUF ADIL SALEEM & CO.
Chartered Accountants

Lahore, October 09, 2006

PAK ELEKTRON LIMITED

BALANCE SHEET

AS AT JUNE 30, 2006

AS AT JUNE 30, 2006				Restated			
		2006	2005			2006	2005
	Note	(Rupees in thousand)			Note	(Rupees in thousand)	
SHARE CAPITAL AND RESERVES				NON-CURRENT ASSETS			
Share capital	3	1,215,873	1,136,194	Property, plant and equipment	14	3,144,904	2,716,401
Reserves	4	1,467,619	1,167,070	Intangible assets	15	602,465	249,880
		2,683,492	2,303,264			3,747,369	2,966,281
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT							
	5	464,171	488,601				
NON CURRENT LIABILITIES				Long-term investments			
Long-term financing	6	250,365	393,924		16	11,227	60,711
Liabilities against assets subject to finance lease	7	182,487	123,092				
Deferred Liabilities				Long-term deposits			
Taxation	8	409,093	345,996		17	38,811	25,541
Employee benefits	8	62	-				
Deferred income - grant-in-aid	9	69,814	73,488				
		911,821	936,500				
CURRENT LIABILITIES				CURRENT ASSETS			
Trade and other payables	10	1,599,580	836,697	Stores, spares and loose tools	18	58,543	52,713
Interest / mark-up accrued on loans and other payables	11	226,709	140,210	Stock-in-trade	19	2,576,026	1,963,765
Short-term borrowings	12	3,795,340	2,879,827	Trade debts	20	2,614,396	1,853,889
Current portion of long term-liabilities				Loans and advances	21	225,113	218,179
Long-term financing	6	321,496	362,825	Trade deposits and short-term prep.	22	287,034	236,489
Liabilities against assets subject to finance lease	7	105,132	62,287	Other receivables	23	9,266	270,471
Provision for taxation		-	8,685	Other financial assets	24	91,022	35,596
		6,048,257	4,290,531	Cash and bank balances	25	448,934	335,261
CONTINGENCIES AND COMMITMENTS						6,310,334	4,966,363
	13						
		10,107,741	8,018,896			10,107,741	8,018,896

The annexed notes from 1 to 45 form an integral part of these financial statements

NASEEM SAIGOL
Chief Executive Officer

HAROON A. KHAN
Managing Director

PAK ELEKTRON LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 (Rupees in thousand)	Restated 2005
Sales		11,042,160	8,075,382
Less: sales tax and discount	26	1,634,142	1,287,500
Sales - net		9,408,018	6,787,882
Cost of goods sold	27	7,360,351	5,298,489
Gross profit		2,047,667	1,489,393
Other operating income	28	112,553	60,014
		2,160,220	1,549,407
Distribution cost	29	590,412	402,348
Administrative expenses	30	262,482	285,676
Other operating expenses	31	25,108	23,625
Finance cost	32	742,130	450,888
Share of loss of associate		23,337	5,995
Profit before taxation		516,751	380,875
Provision for taxation	33	74,609	95,701
Profit for the year		442,142	285,174
Earnings per share		Rupees	(Restated) Rupees
Basic	35	6.30	4.53
Diluted	35	5.79	4.27

The annexed notes from 1 to 45 form an integral part of these financial statements

NASEEM SAIGOL
Chief Executive Officer

HAROON A. KHAN
Managing Director

PAK ELEKTRON LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2006

		2006	Restated 2005
	Note	(Rupees in thousand)	
Cash flows from operating activities			
Profit before taxation		516,751	380,875
Adjustments for:			
Depreciation on property, plant and equipment		162,275	146,621
Amortization of intangible assets		14,699	14,699
Provision against custom duty refundable		-	41,751
Share of loss of associates		23,337	5,995
Provision for impairment in value of investment		-	91,517
Reversal of provision for impairment in value of investment		(15,853)	-
Finance cost		742,130	450,888
Provision for doubtful receivables		32,827	(14,252)
Provision for obsolete and slow moving stocks		4,580	-
Reversal of provision against slow moving and obsolete finished goods		(3,170)	-
Payable to insurance company - written back		(22)	-
Provision for compensated absences		15,728	-
Dividend income		(2,050)	(714)
Gain due to change in the fair value of investments		(55,426)	(17,366)
Amortization of grant in aid		(3,674)	(3,868)
(Gain)/ loss on disposal of property, plant and equipment		(1,502)	153
		913,879	715,424
Operating cash flows before changes in working capital		1,430,630	1,096,299
Changes in working capital	40	(770,712)	(1,660,395)
Cash generated from / (used in) operations		659,918	(564,096)
Finance cost paid		(656,172)	(423,883)
Income taxes refund / (paid) - net		19,723	(32,521)
		(636,449)	(456,404)
Net cash from / (used in) operating activities		23,469	(1,020,500)
Cash flows from investing activities			
Fixed capital expenditure incurred		(400,798)	(462,674)
Proceeds from disposal of property, plant and equipment		2,824	4,810
Cash flow on acquisition of PDEL net of cash acquired	41	317	-
Purchase of other financial assets		-	(700)
Increase in long term deposits		(13,248)	(12,468)
Dividends received		2,050	714
Net cash used in investing activities		(408,855)	(470,318)
Cash flows from financing activities			
Repayment of long-term financing		(278,258)	(322,049)
Repayment of liabilities against assets subject to finance lease		(88,402)	(52,269)
Proceeds from sale & leaseback activities		36,550	-
Increase in short-term borrowings		915,513	982,250
Dividends paid		(86,344)	(22,877)
Proceeds from issue of share capital		-	1,123,108
Net cash from financing activities		499,059	1,708,163
NET INCREASE IN CASH AND CASH EQUIVALENTS		113,673	217,345
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		335,261	117,916
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	448,934	335,261

The annexed notes from 1 to 45 form an integral part of these financial statements

NASEEM SAIGOL
Chief Executive Officer

HAROON A. KHAN
Managing Director

PAK ELEKTRON LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2006

(Rupees in thousand)

Note	Share capital	Capital reserves		Revenue reserves		Total	Surplus on revaluation of property, plant and equipment
		Premium on issue of shares	Reserve for bonus shares	Unappropriated profit			
Balance as at June 30, 2004 as previously reported	236,876	6,662	71,063	509,634	824,235	1,576,346	
Effect of change in accounting policy:							
Associates share of profit / (loss)	16.2	-	-	-	61,522	61,522	
Reversal of provision for slow moving and obsolete work in process	19.2			7,199	7,199		
Balance as at June 30, 2004 as restated	236,876	6,662	71,063	578,355	892,956	1,576,346	
Profit for the year - restated	16.2	-	-	285,174	285,174	-	
Dividend for the year ended June 30, 2004		-	-	(23,688)	(23,688)	-	
Issue of bonus shares		71,063	-	(71,063)	-	-	
Issue of right shares		153,969	384,923	-	538,892	-	
Issue of preference shares		605,000	-	-	605,000	-	
Issue of interim bonus shares		69,286	(69,286)	-	-	-	
Expenses relating to preference issue		-	(20,784)	-	(20,784)	-	
Transfer from surplus on revaluation of property, plant and equipment for current year - net of deferred tax		-	-	25,714	25,714	(25,714)	
Reversal of surplus relating to leasehold land		-	-	-	-	(1,062,031)	
Balance as at June 30, 2005	1,136,194	301,515	-	865,555	2,303,264	488,601	
Profit for the year		-	-	442,142	442,142	-	
Dividend for the year ended 2005		-	-	(86,344)	(86,344)	-	
Transferred to reserve for bonus shares			(79,679)	79,679			
Issue of bonus shares		79,679	-	(79,679)	-	-	
Transfer from surplus on revaluation of property, plant and equipment for current year - net of deferred tax		-	-	24,430	24,430	(24,430)	
Balance as at June 30, 2006	1,215,873	221,836	-	1,245,783	2,683,492	464,171	

The annexed notes from 1 to 45 form an integral part of these financial statements

NASEEM SAIGOL
Chief Executive Officer

HAROON A. KHAN
Managing Director

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

6 LONG - TERM FINANCING - Secured

	Descriptions	Note	2006 (Rupees in thousand)	2005	Mark up	Security	Repayment
6.1	From banking companies and financial institutions						
6.1.1	Demand finance II:		100,000	166,667	*Base rate plus 4% p.a. with floor of 9% p.a. (2005: base rate plus 4% p.a. with floor of 8% p.a.)	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 guarantee of all directors of the Company. First charge over present and future fixed assets of the Company of Rs. 2,400 million. Demand promissory note executed by the Company. Personal guarantee of all directors of the Company.	Twelve half yearly equal installments of Rs. 33.333 million commenced from March 31, 2002.
6.1.2	Demand finance III:		-	25,841	Markup rate as provided in 6.1.1	Secured against securities as provided in 6.1.1	Forty monthly installments of Rs. 2.5 million each started from September 2002 along with five half yearly installments of Rs. 12.5 million from September 2002.
6.1.3	Demand finance IV:		82,500	137,500	Markup rate as provided in 6.1.1	Secured against securities as provided in 6.1.1	Twelve half yearly equal installments of Rs.27.500 million from March 31, 2002 .
6.1.4	Demand finance V:		30,488	47,912	Markup rate as provided in 6.1.1	Secured against securities as provided in 6.1.1	Eighteen quarterly installments of Rs. 4.35 million along with mark up starting from September 2003.
6.1.5	Demand finance VI & VII:		67,128	85,760	Markup rate as provided in 6.1.1	Secured against securities as provided in 6.1.1	Eighteen quarterly installments started from June 2003 and ending on December 2007.
6.1.6	Demand finance VIII:		124,560	175,000	*Base rate plus 4% p.a. with floor of 9% p.a. (2005: base rate plus 4% p.a. with floor of 9% p.a)	Secured against securities as provided in 6.1.1	Eight bi- annual installments of Rs. 25 million each starting from December 31, 2004.
6.1.7	Demand finance		42,857	71,429	KIBOR plus 5 % p.a. with floor of 11% p.a. (2005: KIBOR plus 4% p.a. with floor of 11% p.a.)	First pari passu charge over present and future fixed assts of the Company comprising land, building, plant and machinery of Rs. 133.333 million. Personal guarantees of all directors of the Company.	Forty two equal monthly installments starting from May 2004.
6.1.8	Term finance		10,023	16,640	10% p.a. (2005: 10% p.a.)	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.
6.1.9	Demand finance 1 **	6.3	41,366	-	Provided in note 6.3	First registered hypothecation charge over current assets of the Company ranking pari passu with 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

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

6.1.10	Demand finance 2 **	6.3	36,102	-	Provided in note 6.3	Secured against securities as provided in 6.1.9	Repayment is included in note 6.1.9
6.1.11	Finance 3 **		6,837	-	9% p.a. (2005: NIL)	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	Repayable in 35 monthly un-equal installments from April 2003 to March 2007 along with outstanding balance of Demand finance 4
6.1.12	Term finance conversion from: Short term finance		30,000	30,000	14% p.a. (2005: 12% p.a.)	First charge over current assets of the Company of Rs. 70 Million Personal guarantees of sponsoring directors.	Profit will be paid on quarterly basis starting from January 01, 2006, whereas principle amount would be redeemed at the maturity i.e. December 31, 2008.
Total			<u>571,861</u>	<u>756,749</u>			
Less: current portion			<u>321,496</u>	<u>362,825</u>			
			<u>250,365</u>	<u>393,924</u>			

* The base rate means KIBOR (6 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)

** As stated in Note 1.3, The Honourable High Court of Lahore approved the scheme of merger between Pak Elektron Limited (PEL) and Pel Daewoo Electronics Limited (PDEL) with effect from July 1, 2005. Accordingly these liabilities were transferred to the books of PEL.

6.2 Current portion includes overdue installments of Rs. 63.634 million (2005: 53.982 million)

6.3 Pel Daewoo Electronics Limited, 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 31 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. MCB Bank, however, has not exercised this right despite the fact that the Company committed defaults in repayment.

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 be further securitized by creation of security interest over the dividends to be declared by Kohinoor Energy Limited (an

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 dividends 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 this 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, 2006

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 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.

1.3 Merger of Pel Daewoo Electronics Limited and Pak Elektron Limited

The Honourable Lahore High Court - Lahore vide its order dated September 14, 2006 approved the scheme of merger between Pak Elektron Limited (PEL) and Pel Daewoo Electronics Limited (PDEL) w.e.f. July 1, 2005. Pursuant to the scheme of merger the entire business, assets, properties, rights, authorizations, licenses, privileges and liabilities of PDEL stand transferred and vested in the Company. All law suits, appeals, arbitrations, investigations and other legal proceedings by or against PDEL are deemed as suits, appeals and legal proceedings by or against PEL. PDEL, without winding up, stands dissolved and cease to exist w.e.f. July 1, 2005. Accordingly, the effects of said merger have been incorporated in these financial statements in accordance with the accounting treatment relating to acquisitions using purchase method.

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 Adoption of revised International Accounting Standards

In the current year, certain changes to International Accounting Standards (IASs) and Interpretations that are relevant to operations of the Company became effective. The changes in these IASs and Interpretations have resulted in additional disclosures and improvements in presentation of financial statements with no effect on results of operations except in respect of investment in associates as mentioned below:

Investment in associates - change in accounting policy

During the year, revised International Accounting Standard - 28, Investments in Associates - revised 2004 (revised IAS), became effective. To comply with the requirements of revised IAS, the Company has changed its policy for accounting of investment in associates. These investments are now accounted for using equity method, whereas, previously these were accounted for using cost method. The change in accounting policy has been applied retrospectively. The impact of change in accounting policy on profit is provided in note 16.2 to the financial statements.

2.3 Accounting convention

The 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.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

Assets held under finance leases are recognised 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 (note 2.20).

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 equally at the rate of ten percent of basic salary and cost of living allowance, where applicable, to cover the obligation.

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

Retirement benefits are payable to staff on completion of probation period as per Company's policy.

2.5.2 Gratuity

The Company operated an un-funded gratuity scheme covering all its eligible employees till June 30, 1996. Liability for the period upto June 30, 1996 was worked-out and provided for in these financial statements.

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 note 2.20. 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 upto the

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

month preceding the disposal respectively.

Gains or losses on disposal of assets, if any, are recognised 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 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

Intangible assets representing goodwill on acquisition of PAL is recognised as an asset is amortised over a period of twenty (20) years. Goodwill acquired on acquisition of PDEL is tested for impairment as stated in note 2.25.

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 recognised 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 recognised directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognised in equity is included in profit and loss account.

Financial assets at fair value through profit or loss

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

Derecognition

All investments are de-recognised 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, spares and loose tools

Stores, spares 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 bounded warehouses, are valued at lower of cost or net realizable value.

Stock in transit and in bounded warehouse are valued at cost comprising invoice value plus other charges paid thereon upto balance sheet date.

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

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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 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 recognised 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 recognised 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 recognised 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 is 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 is 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 the 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 recognised when goods are delivered and title has passed.
- Commission income is recognized on receipt of credit advice from supplier.
- Profit on saving account and investment is accrued on a time basis, by 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.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

2.19 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.

2.20 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 cost eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.21 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.

2.22 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 retranslation are included in net profit or loss for the period.

2.23 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 by 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.

2.24 Dividend

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

2.25 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date,

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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. As stated in Note 1.3, the Company has acquired the remaining 40% shares of PEL Daewoo Electronics Limited and subsequently merged PDEL with itself. The Company is in the process of allocating the resulting goodwill to its cash generating units which will be completed before the end of the next financial year.

2.26 Segment reporting

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	2006	2005	
			(Rupees in thousand)		
	Authorized				
	150,000,000 (2005: 150,000,000) ordinary shares of Rs. 10 each		1,500,000	1,500,000	
	100,000,000 (2005: 100,000,000) preference shares of Rs. 10 each				
	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				
	Number of shares				
	2006	2005			
		Ordinary shares of Rs. 10/- each fully paid			
	23,749,434	23,749,434	In cash	237,494	237,494
	36,792,128	28,824,215	As bonus shares	367,921	288,242
			Other than cash		
	137,500	137,500	Against machinery	1,375	1,375
	408,273	408,273	Issued on acquisition of Pel Appliances Ltd	4,083	4,083
	61,087,335	53,119,422	3.1	610,873	531,194
		Fully paid A class preference shares of Rs. 10/- each			
	60,500,000	60,500,000	Issued for cash	605,000	605,000
	121,587,335	113,619,422		1,215,873	1,136,194
3.1	Reconciliation of number of shares of Rs. 10/- each:		2006	2005	
	Ordinary shares		Number of shares		
	At the beginning of the year		53,119,422	23,687,591	
	Add: Issued during the year				
	- for cash		-	15,396,934	
	- as bonus share		7,967,913	14,034,897	
	At the end of the year		61,087,335	53,119,422	
3.2	A Class Preference shares				

The Company issued A class preference shares of Rs. 605 million against total shares amounting to Rs. 625 million. Annual dividend of Rs. 0.95 per share (9.5%) will be payable on these preference shares when and if declared by the Company but shall be paid prior to any dividend payable to ordinary shareholders on a cumulative basis. The summary of other terms and conditions are as follows:

Voting right

Preference shares do not carry any voting rights.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006****Call option**

The Company shall have an option to call the issue, subject to maximum of 75% 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% 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 convert up to 25% of their holding in accordance with the specified conversion ratio on any conversion date by giving a thirty days notice to the issuer.

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 ten (Rs. 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 = The higher of (a) par value of ordinary share i.e. Rupees ten (Rs. 10/-), or (b) an amount representing thirty two and a half percent (32.5%) discount to the average price of the common share quoted in the daily quotation of KSE during last twelve months prior to the conversion date.

Conversion after the 5th anniversary

A = Rupees ten (Rs. 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 thirty two and a half percent (32.5%) 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 Rs. 10/- each which is 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%) will be payable on these preference shares but shall be paid prior to any dividends payable to ordinary shareholders on a cumulative basis.

3.4 Term Finance Certificates

The Company is also in the process of raising funds through listed, asset backed Term Finance Certificates (TFCs), to be issued by a Special Purpose Vehicle (SPV) incorporated under the Companies' (Asset Backed Securitization) Rules 1999. The issue amounts to Rs. 800 million will carry mark-up @ 6 months-KIBOR + 2.5% per annum and will be redeemed in 60 equal monthly installments including mark-up thereon commencing from the date of issuance. For this purpose a SPV in the name of Prime Electronics Securitization Company Limited has been incorporated and other formalities are being complied with.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

Capital:				
Premium on issue of shares	4.1	221,836	301,515	
Revenue:				
Unappropriated profits		1,245,783	865,555	
		<u>1,467,619</u>	<u>1,167,070</u>	
4.1 Premium on issue of shares				
Balance at beginning of the year		301,515	6,662	
Premium received against right issue during the year		-	384,923	
		<u>301,515</u>	<u>391,585</u>	
Less: Transferred to reserve for bonus shares	4.2	79,679	69,286	
Expenses relating to preference shares issuance		-	20,784	
Balance at end of the year		<u>221,836</u>	<u>301,515</u>	
4.2 Reserve for bonus shares				
Balance at beginning of the year		-	71,063	
Add: Transfer from premium on issue of shares		79,679	69,286	
		<u>79,679</u>	<u>140,349</u>	
Less: Bonus shares issued during the year		79,679	140,349	
Balance at end of the year		<u>-</u>	<u>-</u>	
		2006	2005	
5 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net of tax		(Rupees in thousand)		
Surplus on revaluation of property, plant and equipment at beginning of the year		488,601	1,576,346	
Less: - Transfer to unappropriated profit on account of incremental depreciation charged during the year - net of deferred taxation		24,430	25,714	
- Surplus relating to leasehold land set off against the related assets.		-	1,062,031	
Surplus on revaluation of property, plant and equipment at end of the year		<u>464,171</u>	<u>488,601</u>	

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
7 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	(Rupees in thousand)	
Present value of minimum lease payments	287,619	185,379
Less: Current portion	105,132	62,287
	<u>182,487</u>	<u>123,092</u>

- 7.1 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 ranging from 8% to 16% (2005: 8% to 20%) per annum.

Purchase options are available to the Company after the expiry of lease periods. The Company intends to exercise its 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.

- 7.2 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:-

	2006	2005		
	Rupees in thousands			
	Olopo wo "rgcug" r c{ o gpw	Rtgugpv' xcng'qht' o lolo wo "rgcug" r c{ o gpw	Minimum lease payments	Present value of minimum lease payments
Within one year	128,912	105,132	75,079	62,287
After one year but not more than five years	202,780	182,487	130,304	123,092
	<u>331,692</u>	<u>287,619</u>	<u>205,383</u>	<u>185,379</u>
Less: Finance cost allocated to future periods	44,073		20,004	
Present value of minimum lease payments	<u>287,619</u>	<u>287,619</u>	<u>185,379</u>	<u>185,379</u>
Less: Current portion	<u>105,132</u>	<u>105,132</u>	<u>62,287</u>	<u>62,287</u>
	<u>182,487</u>	<u>182,487</u>	<u>123,092</u>	<u>123,092</u>

8 DEFERRED LIABILITIES

Taxation	8.1	409,093	345,996
Employee benefits:			
Gratuity	8.2	62	-
		<u>409,155</u>	<u>345,996</u>

8.1 Deferred tax liability on taxable temporary differences:

Tax depreciation allowance	341,366	258,007
Finance lease	39,621	16,983
Surplus on revaluation of property, plant and equipment	249,937	263,691
	<u>630,924</u>	<u>538,681</u>

Deferred tax asset on deductible temporary differences

Grant in aid		(25,313)
Provision for obsolete and slow moving inventories	(7,305)	(9,185)
Provision for doubtful debts and advances	(99,467)	(85,482)
Other provisions	(15,216)	(26,778)
Available tax losses	(25,786)	-
Provision for leave absences	(5,505)	-
Minimum tax adjustable against future tax liability	(47,040)	-
Available tax credits	(21,512)	(45,927)
	<u>(221,831)</u>	<u>(192,685)</u>
	<u>409,093</u>	<u>345,996</u>

- 8.2 Deferred liability for gratuity relates to former PEL Daewoo Electronics Limited. The year-end balance represents balance

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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 its eligible employees and accrual of gratuity was ceased accordingly.

		2006	2005
		(Rupees in thousand)	
9	DEFERRED INCOME - GRANT IN AID		
	Balance at beginning of the year	73,488	77,356
	Less: Transferred to income	28	3,868
		<u>69,814</u>	<u>73,488</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 U.S.\$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 has been 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 and started its operation in January 2003. The grant amounting to Rs. 3,674,371/- (2005: Rs. 3,867,759/-) has been included in other income in proportion to depreciation charged on related plant and machinery keeping in view the matching principle.

		2006	2005
		(Rupees in thousand)	
10	TRADE AND OTHER PAYABLES		
	Creditors	470,490	241,761
	Foreign bills payable	10.1	763,517
	Accrued liabilities	81,225	48,233
	Advances from customers	117,731	75,011
	Sales tax payable	10.2	98,650
	Regulatory duty payable	10.2	2,262
	Employees' provident fund	10.3	20,151
	Compensated absences	15,728	3,520
	Unpaid and unclaimed dividend	-	811
	Others	10.4	29,826
		<u>1,599,580</u>	<u>836,697</u>

10.1 Foreign bills payable are secured against bills of exchange accepted by the Company in favour of suppliers.

10.2 These include balances transferred from former PDEL due to merger (see note 1.3). PEL Daewoo had not accepted Regulatory Duty and Sales Tax levies aggregating Rs.2.262 million and Rs.7.037 million respectively on imported raw materials and filed writ petitions with the Honourable Peshawar High Court against these levies. The Honourable Peshawar High Court decided the writ petitions in favour of the Company. The Department filed appeal against the judgment of the Honourable Peshawar High Court before the Honourable Supreme Court of Pakistan, which dismissed the appeal for Regulatory Duty whereas the writ petition regarding sales tax is still pending with the Honourable Supreme Court of Pakistan.

10.3 The Company is providing mark up at the rate of 15% (2005: 15%) on the outstanding balance of provident fund.

10.4 Others

	Tax on bonus shares	1,475	1,475
	Workers' profit participation fund	10.4.1	27,093
	Import duties and surcharge payables	-	6,534
	Excise duty on short term finances	19	-
	Workers' welfare fund payable - Net	-	2,529
	Taxes deducted at source under section 153	<u>1,239</u>	<u>1,039</u>
		<u>29,826</u>	<u>35,341</u>

2006 2005

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

10.4. 'Workers' profit participation fund

(Rupees in thousand)

Balance at the beginning of the period		23,764	15,270
Add: Interest on fund utilized in the Company's business	32	1,782	1,158
Less: Amount paid during the year		25,546	15,965
		-	463
Add: Allocation for the year	31	27,093	23,301
Balance at the end of the year		27,093	23,764

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

Long-term financing		27,176	23,400
Liabilities against assets subject to finance lease		647	720
Short-term borrowings		139,667	66,128
Provident fund payable		59,219	49,962
		226,709	140,210

12 SHORT-TERM BORROWINGS

Secured

Banking companies	12.2	3,462,921	2,832,961
Non banking financial companies	12.3	285,000	30,000
		3,747,921	2,862,961

Unsecured

Bank overdraft	12.4	47,419	16,866
		3,795,340	2,879,827

12.1 The aggregate unavailed short term financing facilities as at June 30, 2006 amounted to Rs. NIL (2005: Rs. 100 million).

12.2 These facilities have been obtained from various banks under mark up arrangements for working capital and carry mark up rate ranging from 12.10% to 14.60% (2005: 10.71% to 13.21%) 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. 4,369 million (2005: Rs. 3,417) 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 This facility has been obtained from Trust Modaraba for purchase of raw material and carry mark up at the rate of 16 % (2005: 15%) per annum. This facility is secured against pledge of shares of listed public companies with 30% 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, 2006

13 CONTINGENCIES AND COMMITMENTS

- 13.1 The banks and insurance companies have arranged guarantees, letters of credit and discounting of receivables from WAPDA/ Karachi Electric Supply Company on behalf of the Company as detailed below:

	2006	2005
	(Rupees in thousand)	
Tender bonds	59,092	108,726
Performance bonds	275,677	247,849
Advance guarantees	130,504	29,224
Custom guarantees	8,340	8,606
Letters of credit	414,243	769,404
Bills discounted	538,664	406,930
Foreign guarantees	4,432	8,614
Tax and other disputed liabilities	48,040	48,040

- 13.2 Assessments for tax year 2003 and 2004 were reviewed by the inspecting additional commissioner (IAC) under section 122(5A) vide orders dated April 28, 2005 and dated April 20, 2006. In revised orders, certain expenses amounting in aggregate to Rs. 370.915 million (June 30, 2005: 166.685 million) were disallowed. The Company lodged appeal against said orders with Commissioner of Income Tax (Appeals) (CIT(A)), who vide his order dated June 15, 2006 held that orders passed by IAC were null and void. Further, the return of the Company in respect of tax year 2003 has been selected for total audit under Section 177 (1) (d) of the income tax ordinance, 2001. The Company has submitted required information, however no order has been passed, and therefore assessment of any liability in this regard can not be estimated.

Return for the tax year 2005 filed under universal self assessment scheme was also reviewed by IAC under section 122(5A) vide order dated February 28, 2006 but on appeal CIT(A) vide order dated March 31, 2006 held that order passed by IAC was void.

Appeals filed for the above years before Income tax Appellate Tribunal by the Company as well as by income tax department are pending.

- 13.3 Service charges on imports, imposed by Federal Government aggregating to Rs. 4.325 million (2005: Rs.4.325 million) have been contested by the Company through a writ petition before Honourable Lahore High Court and the same remains subjudice. No provision has been made in these financial statements against this liability as the Company's management, based on lawyer's opinion, expects a favourable outcome.
- 13.4 PEL Daewoo Electronics Limited (PDEL) filed a writ petition with the Honourable Lahore High Court against imposition of Central Excise Duty on lease finances. The Honourable Court dismissed the said petition; PDEL thereafter has filed an appeal against the judgment of the Honourable Court with the Honourable Supreme Court of Pakistan, which is pending adjudication. Excise Duty on lease finances aggregating Rs. 0.233 million has not provided for in the books of accounts. As stated in note 1.3 PDEL was merged into the Company with effect from July 01, 2005 and all the assets and liabilities of PDEL were transferred to the Company.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

- 14.2 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. The leasehold land was revalued again as at June 30, 2004 which resulted in additional surplus of Rs. 444 million.

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 leasehold land	132,126	80,693	51,433
Plant and machinery	967,172	468,527	498,645
	#####	549,220	550,078

14.3 Leasehold land

The lease agreement for land (Lahore factory) was executed on June 20, 1956 for a period of thirty years commencing from 1955 and transferred to the Company on acquisition of the business operations located on the said leasehold land from Malik Brothers. The Company exercised its option of extending the lease term on its expiry term for further thirty years (from February 11, 1985 to February 10, 2015) in accordance with the terms and conditions of the lease agreement. On expiry of this term lease agreement is renewable at the discretion of Government for another term of thirty years.

Company revalued the leasehold land in 1999, 2001 and 2004 and accordingly recorded revaluation surplus of Rs 605 million, Rs 13 million and Rs 444 million respectively.

In the financial year ended 2005, the Company reversed the entire amount of surplus on revaluation of leasehold land of Rs. 1,062 considering the substance of lease agreement for land which does not transfer the ownership at end of lease term in 2015 rather the lease agreement is renewable for another term of 30 years.

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

15	INTANGIBLE ASSETS		2006	2005
			(Rupees in thousand)	
	Reconciliation of carrying amount of goodwill			
	Good will arised on acquisition of Pel Appliances Limited	15.1	293,977	293,977
	Less: Amortization to date		58,796	44,097
	Balance at the end of the year		235,181	249,880
	Goodwill arised on acquisition of Pel Daewoo Electronics Limited	15.2	367,284	-
			602,465	249,880

15.1 Goodwill arised on acquisition of Pel Appliances Limited is amortized over a period of twenty years and remaining period of amortization of good will is sixteen years.

15.2 During the year the Company acquired the remaining 40% shares in it's subsidiary Pel Daewoo Electronics Limited. Subsequently, as provided in note 1.3 to the financial statements, PDEL was merged with the Company with effect from July 1, 2005. This transaction has resulted in generation of goodwill amounting to Rs. 367 million. As the decision of the Honourable Lahore High Court was finalized at a later stage, the Company has not allocated the goodwill to cash generating units. However, based on future feasibility of Television product line of PEL, the management estimates that there has been no impairment of goodwill in current year. IAS 36 Impairment of Assets, requires that if the initial allocation of goodwill acquired in a business combination cannot be completed before the end of the annual period in which the business combination is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date. Accordingly, the allocation of goodwill to cash generating units of the Company will be completed before the end of the financial year ending June 30, 2007.

16	LONG-TERM INVESTMENTS		2006	Restated 2005
			(Rupees in thousand)	
	Investment in subsidiary - at cost			
	PEL Daewoo Electronics Limited	16.1	-	42,000
	Investment in associates - equity method			
	Kohinoor Power Company Limited	16.2	86,891	110,228
	2,772,000 shares (2005: 2,772,000 shares)			
	Less: provision for impairment in value of investment	16.3	75,664	91,517
			11,227	18,711
			11,227	60,711

16.1 As stated in note 1.3, during the year, the Company acquired the remaining 40% shares of PDEL. Subsequently PDEL has been merged with the Company, as approved by the Honorable High Court vide it's decision dated September 14, 2006. The merger is effective from July 01, 2005.

16.2 As mentioned in note 2.2 to the financial statements, during the year, the Company changed its policy of accounting for investment in associates. The effect of restatement of accumulated profit with corresponding effect on investment in associate, due to change in accounting policy, is summarized below:

	(Rupees in thousand)
Effect on periods prior to 2005	
Increase in accumulated profit due to recognition of share of profit of associate.	61,522
Effect on year ending June 30, 2005	
Profit for the year - as previously reported	346,696
Effect of change in accounting policy:	
- Increase in provision for impairment in value of investment	(55,527)
- Recognition of share of loss of associate	(5,995)
Decrease in profit for the year	(61,522)
Profit for the year - as restated	285,174

16.3 The results of associated company for last three years reflect a continues increase in loss for the year and it has not been

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

able to pay dividends 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 the sale of shares.

16.4 Financial statements and information of the associated company

The assets, liabilities and equity of Kohinoor Power Company Limited as at June 30, 2006 and related revenue and profit / (loss) for the year then ended based on latest financial statements are as follows:

	2006	2005
	(Rupees in thousand)	
Assets	674,848	735,075
Liabilities	405,781	364,911
Revenue	278,144	243,545
Loss for the year	(101,096)	(25,062)
PEL's share in shareholders' equity	45023'	23.01%
Market value per share (Rupees)	607	6.75

17 LONG-TERM DEPOSITS

Security deposits with leasing companies	43,300	28,668
Less: Current portion	4,489	3,127
	<u>38,811</u>	<u>25,541</u>

18 STORES, SPARE PARTS AND LOOSE TOOLS

Stores	1,380	537
Machinery maintenance spares	42,879	40,827
Loose tools	24,753	21,818
	69,012	63,182
Less: Provision for slow moving and obsolete items	(10,469)	(10,469)
	<u>58,543</u>	<u>52,713</u>

19 STOCK-IN-TRADE

		2006	2005
		(Rupees in thousand)	
Raw materials and components			
In stores	19.1	1,109,090	927,168
In bonded warehouse		-	257,674
In transit		385,480	133,103
Less: Provision for slow moving and obsolete items		(7,015)	(2,435)
		1,487,555	1,315,510
Work-in-process	19.2	640,795	525,301
Finished goods		451,069	129,517
Less: Provision for slow moving and obsolete items	19.3	(3,393)	(6,563)
		447,676	122,954
		<u>2,576,026</u>	<u>1,963,765</u>

19.1 Raw material in stores of Rs. 9.621 million (2005: Rs. 8.758 million) issued for processing is lying with vendors.

19.2 Specific provision against work in process was created against some special orders which were cancelled. However this inventory was utilized in other processes in preceding years. Accordingly, provision amounting to Rs. 7 million has been reversed and the effect has been taken in opening retained earnings.

19.3 Provision against specific finished goods amounting to Rs. 3 million has been reversed during the year as the goods have been sold.

19.4 Stocks with carrying value of Rs. 2,257 million (2005: Rs. 1,380 million) have been pledged as security with certain banks against financing facilities.

20 TRADE DEBTS - unsecured	2006	2005
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PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

		(Rupees in thousand)	
Trade debts			
- Considered good		2,614,396	1,853,889
- Considered doubtful		248,282	211,133
		2,862,678	2,065,022
Provision for doubtful debts		(248,282)	(211,133)
		2,614,396	1,853,889
21 LOANS AND ADVANCES			
Advances to employees - unsecured considered good			
Purchases		2,119	6,008
Expenses		5,366	9,016
Others	21.1	1,832	2,089
		9,317	17,113
Less: Provision for doubtful advances		(1,449)	(1,449)
		7,868	15,664
Advances to suppliers and contractors		195,845	144,135
Less: Provision for doubtful advances		(34,459)	(30,209)
		161,386	113,926
Advance excise duty and sales tax	21.2	23,700	23,695
Advance income tax		32,159	64,894
		225,113	218,179
21.1 These are interest free, unsecured advances given to employees.			
21.2 It includes an amount of Rs. 11.914 million (2005: Rs. 11.914 million) on account of regulatory duty, levy of which has been challenged by the Company. The matter is under litigation and the Company is confident of a favourable decision.			
It also includes Rs11.725 million (2005: Rs.11.725 million) on account of custom duty and sales tax. In 1996 the Company had lodged a claim for Rs. 27.835 million with A.C. Customs, Central Excise and Sales Tax for the custom duty and sales tax under SRO No108(1)/95 dated February 12, 1995 out of which 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 have since filed an appeal before Supreme Court against the judgment of Honourable Peshawar High court, which is pending.			
It also includes a receivable amounting to Rs.4,675 transferred from the books of former Pel Daewoo Electronics Limited on merger (See note 1.3).			
22 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Letters of credit		1,629	6,837
Security deposits		36,835	28,081
Less: Provision for security deposits considered doubtful		(5,379)	(5,379)
		31,456	22,702
Current portion of long term deposits		4,489	3,127
Margin deposits		228,530	188,751
Prepayments		20,930	15,072
		287,034	236,489
23 OTHER RECEIVABLES			
Due from related parties	23.1	-	258,991
Custom duty refundable	23.2	41,751	41,751
Less: Provision against custom duty refundable		41,751	41,751
		-	-
Other receivables		9,266	11,480
		9,266	270,471
		2006	2005

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

(Rupees in thousand)

23.1 Due from related parties

Pel Daewoo Electronics Ltd	-	258,991
	-	258,991

23.1. During the year, the Company acquired the remaining 40% shares of Pel Daewoo Electronics Limited (PDEL). Subsequently PDEL has been merged with the Company, as approved by the Honourable High Court vide its decision dated September 14, 2006. The merger is effective from July 01, 2005 (See note 1.3).

23.2 The matter was decided by Honourable Lahore High Court in favour of the Company granting exemption from levy of regulatory duty imposed under SRO 1050(1)/97. On appeal by the department, the Honourable Supreme Court of Pakistan reversing the judgment of Honourable Lahore High Court decided the matter against the Company vide their judgment dated January 12, 1999. A review petition filed under article 188 of the Constitution of Pakistan before the Apex Court is still subjudice. 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.

24 OTHER FINANCIAL ASSETS

Investments at fair value through profit & loss

Union Bank Limited

Number of shares

2006	2005	Ordinary shares of Rs. 10 each		
891,326	649,265	Balance at beginning of the year	35,596	17,530
-	70,021	Right shares received	-	700
338,702	172,040	Bonus shares received	-	-
<u>1,230,028</u>	<u>891,326</u>		<u>35,596</u>	<u>18,230</u>
Add: Gain due to change in the fair value of investment			28	55,426
Market value per share is Rs. 74.00 (2005: Rs. 39.95)				<u>91,022</u>
				<u>35,596</u>

24.1 The Company has changed classification of investments from available for sale, as previously stated, to investment at fair value through profit & loss under provisions of IAS 39 upon first time application of revised IAS 39. The change in classification has no impact on profit and loss as previously recognized.

25 CASH AND BANK BALANCES

In local currency

Cash in hand	13,412	6,764
Balance with banks:		
In current accounts - local currency	435,401	328,298
In saving account - local currency	112	186
	435,513	328,484
US Dollar account (US \$ 155.74 @ Rs. 59.60 (2005: US \$ 215.74 @ Rs. 60.40))	9	13
	<u>448,934</u>	<u>335,261</u>

25.1 Effective mark-up rate in respect of saving accounts ranges from 2% to 2.5% (2005: 2% to 2.5%) per annum.

25.2 Cash and bank balances include Rs. 317,000 acquired on acquisition of Pel Daewoo Electronics Limited.

26 Sales Tax includes penalties and additional sales tax of Rs. 0.360 million (2005: Rs.0.021 million).

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

		2006	2005
		(Rupees in thousand)	
27	COST OF GOODS SOLD		
	Finished goods at beginning of the year	129,517	68,919
	Cost of goods manufactured	27.1	7,223,755
	Finished goods purchased		458,148
		7,681,903	5,359,087
	Finished goods at end of the year	(451,069)	(129,517)
		<u>7,360,351</u>	<u>5,298,489</u>

27.1 Cost of goods manufactured

	Work in process at beginning of the year	525,301	410,571
	Raw material and components consumed	6,397,803	4,369,922
	Direct wages	27.2	358,888
	Factory overheads:		
	Salaries and other benefits	27.2	164,818
	Travelling and conveyance		16,241
	Electricity and gas		91,745
	Repairs and maintenance		58,897
	Vehicles running and maintenance		5,629
	Insurance		16,308
	Depreciation	14.1	151,131
	Amortization of intangible assets	15	14,699
	Provision for obsolete and slow moving stock		4,580
	Carriage and freight		20,309
	Erection and testing		31,587
	Other factory overheads		6,614
	Less charged to		
	Components fabricated		-
		582,558	446,500
		<u>7,864,550</u>	<u>5,456,779</u>
	Work in process at end of the year	(640,795)	(525,301)
		<u>7,223,755</u>	<u>4,931,478</u>

27.2 These include employees' retirement benefits amounting to Rs. 17.676 million (2005: Rs. 7.480 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	55,426	17,366
	Reversal of provision for doubtful finished goods stock	19.3	3,170	-
	Reversal of provision for diminution in value of investment	16	15,853	-
	Dividend income	36.1	2,050	714
	Mark-up income :			
	From bank saving account		-	1
	From related parties			
	Pel Daewoo Electronics Limited	36.1	-	24,779
	Saigol Qingqi	36.1	-	1,225
			-	26,004

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

		2006	2005
Income from assets other than financial assets		(Rupees in thousand)	
Gain / (loss) on disposal of property, plant and equipment		1,502	(153)
Grant in aid	9	3,674	3,868
Commission income		30,209	12,214
Exchange gain		647	-
Payable to insurance company written back	28.1	22	
		<u>112,553</u>	<u>60,014</u>

28.1 It relates to former PEL Daewoo Electronics Limited and has been incorporated on its merger with Pak Elektron Limited (see note 1.3)

29 DISTRIBUTION COST

Salaries and benefits	29.1	97,096	69,990
Travelling and conveyance		30,078	21,933
Rent, rates and taxes		26,575	16,480
Electricity and gas		4,164	3,293
Repairs and maintenance		2,107	2,029
Vehicles running and maintenance		10,348	8,565
Printing, stationery and periodicals		6,898	4,426
Postage, telegrams and telephones		11,479	10,401
Entertainment and staff welfare		5,064	10,151
Advertisement and sales promotion		146,969	111,313
Insurance		2,413	1,855
Freight and forwarding		144,508	101,442
Contract and tendering		610	255
Errection		73,545	22,514
Warranty period services		28,558	15,982
Royalty		-	1,719
		<u>590,412</u>	<u>402,348</u>

29.1 These include employees' benefits amounting to Rs. 8.833 million (2005: Rs. 2.914 million).

		2006	Restated 2005
30 ADMINISTRATIVE EXPENSES		(Rupees in thousand)	
Salaries and benefits	30.1	118,022	84,928
Travelling and conveyance		12,339	6,616
Rent, rates and taxes		21,655	14,280
Legal and professional		5,082	4,146
Electricity and gas charges		10,072	8,988
Auditors' remuneration	30.2	388	310
Repairs and maintenance		8,687	6,944
Vehicles running and maintenance		8,375	6,960
Printing, stationery and periodicals		4,910	4,688
Postage, telegrams and telephones		4,886	5,016
Entertainment and staff welfare		15,451	10,235
Advertisement		429	819
Insurance		3,141	2,263
Provision for doubtful debts and advances		32,827	(14,252)
Provision for custom duty refundable		-	41,751
Provision for impairment in value of investment in associate	16	-	91,517
Others		5,074	-
Depreciation	14.1	11,144	10,467
		<u>262,482</u>	<u>285,676</u>

30.1 These include employees' benefits amounting to Rs. 8.865 million (2005: Rs. 3.155 million).

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

30.2 Auditors' remuneration		2006	2005
		(Rupees in thousand)	
Annual audit fee		300	200
Half yearly review		80	50
Out of pocket expenses		8	-
Tax and other services		-	60
		<u>388</u>	<u>310</u>
31 OTHER OPERATING EXPENSES			
Workers' welfare fund - Net	31.1	(1,985)	324
Workers' profit participation fund	10.4.1	27,093	23,301
		<u>25,108</u>	<u>23,625</u>
31.1 Excess provision in respect of workers' welfare fund has been reversed during the year.			
32 FINANCE COST			
Interest/mark-up on secured:			
- long term financing		83,321	90,225
- short term borrowings		541,697	292,996
- workers' profit participation fund	10.4.1	1,782	1,158
- Liabilities against assets subject to finance lease		23,169	13,678
Interest on provident fund payable		9,592	6,958
Bank charges and commission		82,569	45,873
		<u>742,130</u>	<u>450,888</u>
33 PROVISION FOR TAXATION			
For the year			
Current		50,000	51,738
Deferred		28,186	87,016
		<u>78,186</u>	<u>138,754</u>
Prior year			
Current		(38,487)	(43,053)
Deferred		34,910	-
		<u>(3,577)</u>	<u>(43,053)</u>
		<u>74,609</u>	<u>95,701</u>
		2006	2005
		%	
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:			
Inadmissible in determining taxable profit		-	3.34
Allowable for tax purposes		(4.14)	(6.29)
Effect of difference in tax rates under normal assessment and final tax regime		(1.56)	(0.13)
Effect of change in prior year's tax		(0.70)	(6.22)
Tax effect of adjustment of losses		(14.68)	-
Others		0.52	(0.57)
Average effective tax rate		<u>14.44</u>	<u>25.13</u>

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

executives of the Company are as follows:-

	Directors		(Rupees in thousand) Executives	
	2006	2005	2006	2005
Remuneration	5,015	4,558	20,314	12,866
House rent	1,390	1,344	7,373	4,690
Utilities	501	456	2,032	1,286
Bonus	-	-	3,170	2,117
Retirement benefits	347	301	1,886	1,286
Reimbursable expenses				
Motor vehicles expenses	477	390	3,866	2,943
Medical expenses	238	117	1,151	1,066
TOTAL	7,968	7,166	39,792	26,254
Number of persons	4	4	28	20

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

34.2 Chief executive, director and certain executives have been provided with free use of Company owned and maintained cars.

34.3 Executives of the Company include an executive of Pel Daewoo Electronics Limited. (see note 1.3)

35 EARNINGS PER SHARE - BASIC AND DILUTED	(Restated)	
	2006	2005
	(Rupees in thousand)	

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

Earnings

Profit for the year	442,142	285,174
Less: Dividend on preference shares	57,475	33,225
Earnings for the purpose of basic earnings per ordinary share	<u>384,667</u>	<u>251,949</u>

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	61,087,335	55,619,458
Effect of dilutive potential ordinary shares	3.2	15,310,490
	<u>76,397,825</u>	<u>66,805,517</u>

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

Basic earnings per share	<u>6.30</u>	<u>4.53</u>
Diluted earnings per share	<u>5.79</u>	<u>4.27</u>

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

37 PLANT CAPACITY AND ACTUAL PRODUCTION

Unit	2006		2005	
	Production	Actual	Production	Actual

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

		capacity	production	capacity	production
Transformers	MVA	3,000	2,022	2,000	1,356
Switchgears	Nos.	4,500	3,832	3,000	2,660
Energy meters	Nos.	1,700,000	1,266,521	1,200,000	986,085
Air conditioners	Tones	90,000	41,499	36,250	Nil
Refrigerators / deep freezers	Cfts	5,000,000	3,552,595	3,500,000	2,924,905
Television	Nos.	70,000	554	-	-

Reason for shortfall

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

- 37.1 Television product line of the Company represents the product line of former Pel Daewoo Electronics Limited, now merged into the Company w.e.f. July 01, 2005 (see note 1.3)

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

2006 2005
(Rupees in thousand)

40 CHANGES IN WORKING CAPITAL

(Increase) / decrease in current assets

Stores, spares and loose tools

Stock in trade

Trade debts

Loans and advances

Trade deposits and short term prepayments

Other receivables

Increase in trade and other payables

(5,782)	(3,556)
(613,559)	(647,435)
(789,078)	(864,923)
(43,914)	(32,458)
(50,493)	(109,173)
-	(21,878)
(1,502,826)	(1,679,423)
(15,706)	19,028
<u>(1,518,532)</u>	<u>(1,660,395)</u>

41 Acquisition of Pel Daewoo Electronics Limited

During the year the Company acquired its subsidiary, Pel Daewoo Electronics Limited (note 1.3). The fair value of assets acquired and liabilities assumed were as follows:

Cash and bank balances

Advances, deposits, prepayments and other receivables

Trade debts

Stock-in-trade

Stores, spares and loose tools

Security deposits

Property, plant and equipment

Taxation

Accrued mark-up on long-term finances

Trade and other payables

Current portion of long term liabilities

Deferred liability for gratuity

Long term finances and other liabilities

*****539
*****9.499
*****8
*****334
*****6:
*****44
*****59.42;
*****3: 4
*****7634
*****498.4: 64
*****;.2874
*****854
*****: 6.5274

42 NON-CASH TRANSACTIONS

Additions to property, plant and equipment during the year amounting to Rs. 163.928 (2005: 144.543 million) were financed by new finance leases.

43 DIVIDEND

In respect of current year, the directors propose to pay cash dividend of Rs. _____ (2005: Rs. 53.119 million) @ Rs. ____ (2005: Re. 1) per ordinary share of Rs. 10 each. This dividend is subject to 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 payment.

44 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on _____ 2006.

45 GENERAL

- Figures have been rounded off to the nearest thousands rupees except as stated otherwise.
- In addition to restatement of corresponding figures, due to change in accounting policy (note 16.2) and prior year errors (note 19.3), these have been re-arranged and re-classified, wherever necessary, for the purpose of comparison, impact of which is not material.

NASEEM SAIGOL
Chief Executive Officer

HAROON A. KHAN
Managing Director

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

14.4 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
Machinery and tools							
Conveyor & New machinery	19,600	640	18,960	19,600	640	Sale & leaseback	Grays Leasing Company
Auto spot machine	1,600	60	1,540	1,600	60	__do__	__do__
Cabinet punching machine	900	34	866	900	34	__do__	__do__
Gasket welding machine	1,950	73	1,877	1,950	73	__do__	__do__
Air handling units	1,500	50	1,450	1,500	50	__do__	__do__
Cabinet foaming jigs	11,290	695	10,595	11,000	405	Sale & leaseback	Saudi Pak Leasing Company
	36,840	1,552	35,288	36,550	1,262		
Motor vehicles							
Mitsubishi Lancer	1,329	177	1,152	1,179	27	Insurance claim	EFU General Insurance The Mall Lahore.
Suzuki Mehran	404	218	186	300	114	Insurance claim	EFU General Insurance The Mall Lahore.
Suzuki Mehran	355	262	93	89	(4)	Company policy	Mr. Abdul Rehman Mir c/o Pak Elektron Limited
Suzuki Mehran	379	252	127	101	(26)	Company policy	Mr. Arshad Ali c/o Pak Elektron Limited
Suzuki Mehran	395	111	284	316	32	Insurance claim	EFU General Insurance The Mall Lahore.
Suzuki Cultus	590	197	393	467	74	Insurance claim	EFU General Insurance The Mall Lahore.
Suzuki Cultus	525	385	140	106	(34)	Company policy	Mr. Tahir Arshad c/o Pak Elektron Limited
	3,977	1,602	2,375	2,558	183		
Motor cycles	277	201	76	249	173		
Mobile sets	228	95	133	17	(116)		
2006	41,322	3,450	37,872	39,374	1,502		
2005	5,502	539	4,963	4,810	(153)		

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

14 PROPERTY, PLANT AND EQUIPMENT

(Rupees in thousand)

Particulars	Cost / revaluation				Depreciation				Book value as at 2006	Annual rate of depreciation
	As at July 01, 2005	Additions* / (deletions)	Transfers** / adjustments	As at 2006	As at July 01, 2005	Charge for the year	Transfers / Adjustments	As at 2006		
Owened										
Land - leasehold (Note 14.2)	12,019	1,237	-	13,256	3,037	14	-	3,051	10,205	
Land - freehold	-	394	-	394	-	-	-	-	394	
Building on leasehold land	505,569	9,416	127,563	642,548	130,859	20,038	-	150,897	491,651	5%
Building on free hold land	6,508	-	-	6,508	4,093	121	-	4,214	2,294	5%
Plant and machinery	2,820,938	214,767 (36,840)	63,034	3,061,899	802,055	107,638	- (1,552)	908,141	2,153,758	5% to 10%
Office equipment and furniture	71,731	27,060 (228)	-	98,563	29,574	5,496	- (95)	34,975	63,588	10%
Vehicles	40,164	1,815 (4,254)	24,058	61,783	30,966	2,697	15,988 (1,803)	47,848	13,935	20%
	3,456,929	254,689 (41,322)	214,655	3,884,951	1,000,584	136,004	15,988 (3,450)	1,149,126	2,735,825	
Held under finance lease										
Plant and machinery	184,220	158,104	-	342,324	7,893	12,176	-	20,069	322,255	5% to 10%
Office equipment	5,385	-	-	5,385	784	460	-	1,244	4,141	10%
Vehicles	87,383	42,375	-	105,700	33,627	13,635	-	31,274	74,426	20%
	276,988	200,479	- (24,058)	453,409	42,304	26,271	- (15,988)	52,587	400,822	
Capital work in progress										
Building on leasehold land	22,143	108,964	(127,563)	3,543					3,543	
Plant and machinery	3,229	64,518	(63,034)	4,714					4,714	
	25,372	173,482	(190,597)	8,257	-	-	-	-	8,257	
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	
2005	4,231,032	595,790 (5,502)	163,580 (1,225,611)	3,759,289	896,806	146,621	(539)	1,042,888	2,716,401	

* Additions made during the year include property, plant and equipment of Rs. 37.209 Million of former Pel Daewoo Electronics Limited (see Note 1.3)

** 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:-

Cost of goods sold
Administrative expenses

	2006	2005
	(Rupees in thousand)	
27	151,131	136,154
30	11,144	10,467
	<u>162,275</u>	<u>146,621</u>

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

38 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arms 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.

	2006							Restated 2005
	INTEREST / MARK-UP BEARING			NON INTEREST / MARK-UP BEARING			TOTAL	TOTAL
	Maturity upto one year	Maturity after one year	Sub- total	Maturity upto one year	Maturity after one	Sub- total		
Rupees in "000".....							
Financial assets								
Long term investments	-	-	-	-	11,227	11,227	11,227	60,711
Long term deposits	-	-	-	4,489	38,811	43,300	43,300	25,541
Trade debts	-	-	-	2,614,396	-	2,614,396	2,614,396	1,853,889
Loans and advances	-	-	-	1,832	-	1,832	1,832	2,089
Trade deposits	-	-	-	259,986	-	259,986	259,986	211,453
Other receivables	-	-	-	9,266	-	9,266	9,266	270,471
Other financial assets	-	-	-	91,022	-	91,022	91,022	35,596
Cash and bank balances	112	-	112	448,822	-	448,822	448,934	335,261
Total	112	-	112	3,429,813	50,038	3,479,851	3,479,963	2,795,011
Financial liabilities								
Long term financing	321,496	250,365	571,861	-	-	-	571,861	756,749
Liabilities against assets subject to finance lease	105,132	182,487	287,619	-	-	-	287,619	185,379
other payables	-	-	-	226,709	-	226,709	226,709	140,210
Short term borrowings	3,795,340	-	3,795,340	-	-	-	3,795,340	2,879,827
Trade and other payables	-	-	-	1,341,458	-	1,341,458	1,341,458	663,089
Total	4,221,968	432,852	4,654,820	1,568,167	-	1,568,167	6,222,987	4,625,254
On balance sheet gap -2006	(4,221,856)	(432,852)	(4,654,708)	1,861,646	50,038	1,911,684	(2,743,024)	(1,830,243)
On balance sheet gap -2005	(3,037,168)	(512,264)	(3,549,432)	1,605,666	152,228	1,757,894	(1,791,538)	(1,830,243)

OFF BALANCE SHEET ITEMS

PAK ELEKTRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

Contingencies	538,664	-	538,664	-	-	-	538,664	406,930
Guarantees	-	-	-	478,045	-	478,045	478,045	403,019
Letter of credits	-	-	-	414,243	-	414,243	414,243	769,404
Total - 2006	538,664	-	538,664	892,288	-	892,288	1,430,952	1,579,353
Total - 2005	406,930	-	406,930	1,172,423	-	1,172,423	1,579,353	-

The effective interest / mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements

Concentration of 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. 3,480 million (2005: Rs.2,795 million), the financial assets which are subject to credit risk amounted to Rs. 2,625 million (2005: Rs. 1,954 million). The Company has developed formal approval process whereby credit limits are applied to its customers. In certain cases the business with government sectors 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, 2006

39 SEGMENT REPORTING

	POWER		APPLIANCES		(Rupees in thousand)	
	2006	2005	2006	2005	Eqo r cp{ 2006	Eqo r cp{ 2005
Sales						
Inter-segment	7,684	5,000	1,219	193		
External	4,421,148	2,728,008	4,986,870	4,059,874	9,408,018	6,787,882
	<u>4,428,832</u>	<u>2,733,008</u>	<u>4,988,089</u>	<u>4,060,067</u>	<u>9,408,018</u>	<u>6,787,882</u>
RESULT						
Segment result	265,272	162,841	299,216	242,343	564,488	405,184
Unallocated expenses						
Other operating income					94,650	59,300
Interest expense					93,942	53,989
Other operating expenses					25,108	23,625
Share of loss of associate					23,337	5,995
Income taxes					74,609	95,701
Profit for the year					<u>442,142</u>	<u>285,174</u>
Segment assets	2,357,793	1,357,945	5,593,629	3,515,424	7,951,422	4,873,369
Unallocated corporate assets					2,156,319	3,145,527
					<u>10,107,741</u>	<u>8,018,896</u>
Segment liabilities	352,609	169,312	950,988	481,693	1,303,597	651,005
Unallocated corporate liabilities					5,656,482	4,576,026
					<u>6,960,079</u>	<u>5,227,031</u>
Capital expenditure	220,510	245,564	528,315	173,334	748,825	418,898
Non-cash items other than depreciation / amortization	21,299	2,830	28,162	7,554	49,461	10,384
Depreciation and amortisation	34,085	33,729	114,368	98,555	148,453	132,284

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.