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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 1 LEGAL STATUS AND OPERATIONS

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. During the period the Company has been appointed as the official distributor of LG Electronics for five domestic appliances.

The Company is currently organized into two main operating divisions - Power Division and Appliances Division. The Company's activities are as follows:

**Power Division:** manufacturing and distribution of transformers, switchgears, energy meters, power transformers, construction of grid stations and electrification works.

**Appliances Division:** manufacturing, assembling and distribution of refrigerators, air conditioners, microwave ovens, televisions, generators and washing machines.

1.2 These financial statements are presented in Pak Rupees, which is the functional currency of the Company and figures are rounded off to the nearest thousand of rupees unless otherwise stated.

### 2 CHANGE IN REPORTING PERIOD

The financial year of the Company has changed from June 30 to December 31. Accordingly, these financial statements cover the period of six months from July 01, 2009 to December 31, 2009. This change has been made to bring the financial year of the Company in line with the financial year followed by M/S. LG Electronics Inc., Korea, with which the Company has entered into distributorship agreement.

The permission for the above change has been obtained from the Commissioner of Income Tax and Securities and Exchange Commission of Pakistan ("SECP"). The corresponding figures shown in these financial statements pertain to the year ended June 30, 2009 and therefore, are not entirely comparable in respect of profit and loss account / other comprehensive income, cash flow statement and statement of changes in equity.

### 3 STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

#### 3.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (the "IASB") as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 3.2 ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the company has adopted the following new Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and as notified by the SECP that are relevant to its operations and effective for company's accounting period beginning on or after January 01, 2009.

- **IAS 1 (REVISED) - PRESENTATION OF FINANCIAL STATEMENTS**

IAS 1 (Revised) - 'Presentation of Financial Statements' (effective for annual periods beginning on or after January 01, 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The Company has adopted the first option.

- **IAS 23 (REVISED) - BORROWING COSTS**

IAS 23 (Revised) - 'Borrowing Costs' (effective from annual periods beginning on or after January 01, 2009). This standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial Instruments: Recognition and Measurement'. The Company's accounting policy on borrowing costs, as disclosed in note 4.19, complies with the above mentioned requirement to capitalise borrowing costs and hence this change has not impacted the Company's accounting policy. The management has assessed that the change in interest calculation method would not have a material impact on the Company's financial statements.

- **IAS 32 (REVISED) - FINANCIAL INSTRUMENTS: PRESENTATION AND IAS 1 - PRESENTATION OF FINANCIAL STATEMENTS**

Amendments to IAS 32 - 'Financial instruments: Presentation' and IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after January 01, 2009) puttable financial instruments and obligations arising on liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.

- **IFRS 3 (REVISED) - BUSINESS COMBINATIONS**

IFRS 3 (Revised) - 'Business Combinations' (applicable for annual periods beginning on or after July 01, 2009) broadens among other things, the definition of business, resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit and loss account / other comprehensive income and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

- **IFRS 7 (REVISED) - FINANCIAL INSTRUMENTS DISCLOSURES**

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

IFRS 7 (Revised) - 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after January 01, 2009). IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and measurement of the entity's financial statements. The application of IFRS 7 has resulted in additional disclosures in the entity's financial statements, however, there is no impact on profit for the period.

- **IFRS 8 - OPERATING SEGMENTS**

IFRS 8 - 'Operating Segments' (effective from annual periods beginning on or after January 01, 2009) replaces IAS 14 - 'Segment Reporting'. This new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Under IFRS 8, operating segments are reported in a manner consistent with the internal reporting purposes by introducing detailed disclosures regarding reportable segments and products. The adoption of this standard has therefore, only resulted in some additional disclosures as given in note 43 to these financial statements.

### 3.3 NEW ACCOUNTING STANDARDS AND IFRS INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following standards, interpretations and amendments to approved accounting standards are effective for accounting periods beginning on or after the dates specified below. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases.

- **IFRS 9 - FINANCIAL INSTRUMENTS**

IFRS 9 - 'Financial instruments' (effective from annual periods beginning on or after January 01, 2013) introduces new requirements for classifying and measuring financial assets that must be applied starting from January 1, 2013 with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting.

- **IFRIC 19 - EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS**

IFRIC 19 - 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after July 1, 2010) clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

### 3.4 INTERPRETATIONS TO EXISTING STANDARDS THAT ARE EFFECTIVE AND NOT APPLICABLE TO THE COMPANY

The following interpretations to existing standards have been published and are mandatory for the Company's accounting year beginning on or after January 01, 2009 but are not relevant for the Company's operations:

Amendment to IFRS 2 - Share-based Payment - Vesting Conditions and Cancellations (effective for annual periods beginning on or after January 01, 2009) clarifies the definition of vesting conditions,

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations.

Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 01, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit and loss account / other comprehensive income.

Amendments to IAS 39 - Financial Instruments: Recognition and Measurement - Eligible hedged Items (effective for annual periods beginning on or after July 01, 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.

IFRS 4 - Insurance Contracts (effective for annual periods beginning on or after January 01, 2009). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires that an entity issuing insurance contracts (an insurer) to disclose information about those contracts.

Amendments to IAS 39 and IFRIC 9 - Embedded Derivatives (effective for annual periods beginning on or after January 01, 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.

Amendment to IFRS 2 - Share-based Payment - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 01, 2010). Currently effective IFRSs requires attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete.

IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 01, 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit and loss account / other comprehensive income.

The interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 01, 2009) states that when a Company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognized in the profit and loss account / other comprehensive income.

IFRIC 18 - Transfers of Assets from Customers (to be applied prospectively to transfers of assets from customers received on or after July 01, 2009). This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

### 3.5 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under circumstances, results of which form the basis of making judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

### PROPERTY, PLANT AND EQUIPMENT

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and

### TAXATION

The Company takes into account the relevant provision of current income tax laws while providing for current and deferred tax as explained in relevant note to these financial statements.

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 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 calculation of value in use 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.

## 4 SIGNIFICANT ACCOUNTING POLICIES

### 4.1 ACCOUNTING CONVENTION

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

- revaluation of certain property, plant and equipment
- financial instruments at fair value
- long-term investment at equity method

### 4.2 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 values 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 payments. 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 / other comprehensive income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's policy on borrowing costs.

### 4.3 IJARAH TRANSACTIONS

Ujrah payments under an Ijarah are recognized as an expense in the profit and loss account / other comprehensive income on a straight-line basis over the Ijarah terms unless another systematic basis are representative of the time pattern of the user's benefit, even if the payments are not on that basis.

### 4.4 EMPLOYEE BENEFITS

#### DEFINED CONTRIBUTION PLAN

The Company operates an approved funded contributory provident fund for all its permanent employees who have completed the minimum qualifying period of service as defined under the respective scheme. Equal monthly contributions are made both by the Company and the employees at the rate of ten percent of basic salary and cost of living allowance, where applicable, to cover the obligation. Contributions are charged to profit and loss account / other comprehensive income.

#### COMPENSATED ABSENCES

The Company provides for compensated absences of its employees on unavailed balance of leaves in the period in which the leaves are earned.

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 4.5 DEFERRED INCOME - GRANT-IN-AID

Grant was received from United Nations Industrial Development Organization ("UNIDO") 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 / other comprehensive income.

### 4.6 TRADE AND OTHER PAYABLES

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

### 4.7 PROVISIONS

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

### 4.8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost except free hold land, building on lease hold land and plant and machinery, which are stated at re-valued amount, less accumulated depreciation and any identified accumulated impairment in value. Lease hold land, capital work-in-progress and stores held for capital expenditure are stated at cost. All other assets are stated at cost less accumulated depreciation and impairment losses, if any. 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 appropriate, at each balance sheet date.

When significant parts of an item of property, plant and equipment have different useful lives, they are recognized as separate items of property, plant and equipment.

Subsequent costs are recognized as separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Depreciation is charged to profit and loss account / statement of comprehensive income commencing when the asset is ready for its intended use by applying the reducing balance method except for computers, which are depreciated by using the straight-line method. Freehold land is not

In respect of additions and disposals during the year, depreciation is charged when the asset is available for use and upto the month preceding the asset's classification as held for sale or derecognition, whichever is earlier, respectively.

Assets are derecognised when disposed or when no future economic benefits are expected from its

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

use or disposal. Gains or losses on disposal of assets, if any, are recognised as and when incurred.

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 profits.

### 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

Capital work-in-progress is stated at cost accumulated up to the balance sheet date less accumulated impairment losses, if any. All expenditure 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.

## 4.9 INTANGIBLE ASSETS

### GOODWILL

Goodwill represents the excess of the cost of business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. This is stated at cost less any accumulated impairment losses, if any.

### 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. Amortization of intangible commences when it becomes available for use.

### COMPUTER SOFTWARE AND ERP

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. These costs are amortized over their estimated useful lives. Amortization of intangible commences when it becomes available for use.

## 4.10 INVESTMENTS

### INVESTMENTS IN EQUITY INSTRUMENTS OF ASSOCIATED COMPANIES

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate have been incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

associates are carried in the balance sheet at cost as adjusted for post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of investment. Losses of an associate in excess of the Company's interest in that associate (which includes any long term interest that, in substance, form part of the Company's net investment in the associate) are recognized only to the extent that the Company has incurred legal or constructive obligation or made payment on behalf of the associate.

### INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

An investment is classified at fair value through profit and loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. All investments classified as investments at fair value through profit and loss are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value, determined on the basis of prevailing market prices, with any resulting gain or loss recognized directly in the profit and loss account / other comprehensive income.

### 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.

#### 4.11 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 up to the balance sheet date.

#### 4.12 STOCK-IN-TRADE

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

Stock-in-transit and stock in bonded warehouse are valued at cost comprising invoice value plus other charges paid thereon up to the balance sheet date.

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

#### 4.13 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

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

considered bad and irrecoverable are written off when identified.

### 4.14 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.

### 4.15 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 / other comprehensive income. 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 amount that would have been determined (net of depreciation and amortization), had no impairment loss been recognized in previous years. 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.

### 4.16 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.

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.

### 4.17 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 transferred.
- 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.

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

- Dividend income from investments is recognized when right to receive payment has been established.

Contract revenue and contract costs relating to long-term construction contracts are recognized as revenue and expenses respectively by reference to stage of completion of contract activity at the balance sheet date. Stage of completion of a contract is determined by applying 'cost-to-cost method'. Under cost-to-cost method stage of completion of a contract is determined by reference to the proportion that contract cost incurred to date bears to the total estimated contract cost. Expected losses on contracts are recognized as an expense immediately.

### 4.18 BORROWINGS

Loans and borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method. Finance cost is accounted for on an accrual basis and is included in current liabilities to the extent of amount remaining unpaid, if any. Overdraft also includes cheques issued by the Company in excess of the balances at bank.

### 4.19 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 recognized in profit and loss account / other comprehensive income in the period in which these are incurred.

### 4.20 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, losses and exemption available, if any. 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, arising due to assessments finalized during the year.

#### DEFERRED

Deferred tax is recognized using the balance sheet liability method in respect of all temporary differences at the balance sheet date between tax base 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" and "Technical Release - 30" of the Institute of Chartered Accountants of Pakistan.

Deferred tax liability is recognized for all taxable temporary differences while deferred 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.

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

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 / other comprehensive income, except in the case of items credited or charged to equity in which case it is included in equity.

### 4.21 FOREIGN CURRENCIES

Transactions in currencies other than Pak 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 translation are included in profit and loss account / other comprehensive income for the year.

### 4.22 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.

### 4.23 DIVIDEND

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

### 4.24 SEGMENT REPORTING

Segment reporting is based on the operating segments that are reported in the manner consistent with internal reporting of the Company. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other operating income & expenses, share of profit/(loss) of associates, finance costs, and provision for taxes.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment. The business segments are engaged in providing products or services which are subject to risks and rewards which differ from the risk and rewards of other segments. Segments reported are Appliances & Power Goods which also reflect the management structure of the Company.

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

	December 31, 2009	June 30, 2009
<b>5 AUTHORIZED CAPITAL</b>		
	(Rupees in thousand)	
150,000,000 (June 30, 2009: 150,000,000) ordinary shares of Rs. 10 each.	1,500,000	1,500,000
100,000,000 (June 30, 2009: 100,000,000) preference shares of Rs. 10 each divided into:		
62,500,000 'A' class preference shares of Rs. 10 each	625,000	625,000
37,500,000 'B' class preference shares of Rs. 10 each	375,000	375,000
	1,000,000	1,000,000
	2,500,000	2,500,000

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

6	ISSUED, SUBSCRIBED AND PAID UP CAPITAL							
	DECEMBER 31, 2009	JUNE 30, 2009		Note	DECEMBER 31, 2009	JUNE 30, 2009		
	Number of shares				(Rupees in thousand)			
			Ordinary shares of Rs. 10 each fully paid					
	23,749,434	23,749,434	In cash		237,494	237,494		
			Other than cash:					
	137,500	137,500	-against machinery		1,375	1,375		
			-issued on acquisition of PEL Appliances Limited		4,083	4,083		
	1,593,725	1,593,725	-issued against conversion of preference shares	6.2	15,937	15,937		
	80,858,023	71,153,755	-as bonus shares		808,581	711,538		
	<u>106,746,955</u>	<u>97,042,687</u>		6.1	<u>1,067,470</u>	<u>970,427</u>		
			Fully paid A class preference shares of Rs. 10 each					
	52,625,000	52,625,000	In cash	6.2	526,250	526,250		
	<u>159,371,955</u>	<u>149,667,687</u>			<u>1,593,720</u>	<u>1,496,677</u>		

6.1	Reconciliation of number of shares of Rs. 10 each:		DECEMBER 31, 2009	JUNE 30, 2009
	Ordinary shares		Number of shares	
	At beginning of the period / year		97,042,687	97,042,687
	Add: - Issued during the period as bonus shares		9,704,268	-
	At end of the period / year		<u>106,746,955</u>	<u>97,042,687</u>

### 6.2 'A' Class Preference Shares

The Company issued 'A' class preference shares to various institutional investors amounting to Rs. 605.00 million against authorized share capital of this class amounting to Rs. 625.00 million. As at December 31, 2009 outstanding balance of such preference shares amounted to Rs. 526.25 million (June 30, 2009: Rs. 526.25 million) after partial conversion of Rs. 78.75 million into ordinary shares during previous years. Annual dividend of Rs. 0.95 per share (9.50%) is payable on these preference shares on a cumulative basis. The Securities and Exchange Commission of Pakistan ("SECP") issued order to Lahore Stock Exchange (Guarantee) Limited ("LSE") dated February 6, 2009 against the listing of these preference shares. However, the Company took up the matter with the Honourable Lahore High Court which granted the Stay Order against the said order of SECP and also directed LSE not to delist the shares. The matter is pending adjudication to date.

#### Voting Right

Preference shares do not carry any voting right.

#### Call Option

The Company had an option to call the issue, subject to maximum of 75% of the total issue, within ninety days of the end of each financial year commencing from third anniversary of the issue and ending on the fifth anniversary of the issue by giving at least thirty days notice.

The Company had 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.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

As per terms of Articles of Association, the Company has exercised its call option after the fifth anniversary and, subsequent to period ended December 31, 2009, the Company issued conversion notices to shareholders on January 15, 2010. However, on the application of a preference shareholder, SECP has withheld the conversion and the matter is pending adjudication to date.

### 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% 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 shares 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 dividend on a preference shares 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.

### B Class preference shares

During the previous year the Company decided not to issue B Class Preference Shares and planned to repay the bridge finance outstanding against these preference shares.

Bridge finance amounting to Rs. 275 million outstanding at June 30, 2009 against these preference shares has been repaid during the six month period ended December 31, 2009.

		DECEMBER 31, 2009	JUNE 30, 2009
		(Rupees in thousand)	
7	<b>RESERVES</b>	Note	
	<b>Capital:</b>		
	Premium on issue of shares	7.1	131,931
	Reserve for bonus shares	7.2	-
	<b>Revenue:</b>		
	Unappropriated profits		2,378,750
		<u>2,461,255</u>	<u>2,510,681</u>
7.1	<b>Premium on issue of shares</b>		
	Balance at beginning of the period / year		131,931
	Add: premium on conversion of preference shares		-
	Balance at end of the period / year	<u>131,931</u>	<u>131,931</u>

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# PAK ELEKTRON LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

	DECEMBER 31, 2009	JUNE 30, 2009
	(Rupees in thousand)	
7.2 Reserve for bonus shares		
Balance at beginning of the period / year	-	-
Add: transfer for issue of bonus shares during the the period / year	97,043	-
	<u>97,043</u>	<u>-</u>
Less: bonus shares issued during the the period / year	97,043	-
Balance at end of the period / year	<u>-</u>	<u>-</u>
8 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net of deferred tax		
Surplus on revaluation of property, plant and equipment at beginning of the period / year	2,788,311	1,940,365
Add: surplus on revaluation of property, plant and equipment during the period / year	2,493,480	1,449,432
	<u>5,281,791</u>	<u>3,389,797</u>
Less:		
- deferred taxation relating to surplus on revaluation carried out during the period / year	839,731	507,301
- transfer to unappropriated profits on account of incremental depreciation charged during the period / year - net of deferred taxation	68,291	94,185
Surplus on revaluation of property, plant and equipment at end of period / year	<u>4,373,769</u>	<u>2,788,311</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 9 LONG-TERM FINANCING - Secured

Description	Note	December 31, 2009 (Rupees in thousand)	June 30, 2009	Mark-up / Profit	Security	Arrangement and repayment
<b>9.1 From banking companies and financial institutions</b>						
Demand finance I		150,000	187,500	KIBOR plus 3.00% per annum (June 30, 2009: KIBOR plus 3.00% per annum). KIBOR (six months average ask side rate) 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.	First pari passu charge over fixed assets of the Company and personal guarantees of sponsoring directors of the Company.	This loan is obtained from the <b>National Bank of Pakistan</b> . This loan is payable in sixteen quarterly equal installments of Rs. 18.750 million each commencing from December 31, 2007.
Demand finance	9.2	20,075	41,075	Aggregate mark-up is Rs. 4.971 million.	First pari passu charge over current assets of the Company. First registered pari passu charge by way of equitable mortgage of Company's fixed assets. Personal guarantees of all the directors.	This loan has been obtained from the <b>MCB Bank Limited</b> . Markup and principal shall be paid semi-annually in four installments commencing from the January 2008.
Term finance		37,334	74,667	Six month KIBOR plus 260 bps (June 30, 2009: Six months KIBOR plus 260 bps).	Charge on present and future fixed assets of the Company. Shares with 30% margin to be maintained at all times.	This loan is obtained from the <b>Pak Oman Investment Company</b> . Markup shall be paid on quarterly basis in arrears, whereas principal amount shall be repaid in six quarterly equal installments, commencing from February 6, 2009.
Sukuk Funds (I)		942,857	1,114,286	Three (3) month KIBOR plus 175 bps (June 30, 2009: Three (3) month KIBOR plus 175 bps) with Floor of 10% and Cap of 25%. Three months KIBOR will be set on the last business day before the first drawn down and subsequently on the last business day prior to the beginning of each semi-annual period for the usage payment due at the end of the period.	First pari passu charge on present and future plant and machinery of the Company amounting to Rs. 1,600 million.	These are issued for the purpose of refinance of existing machinery with diminishing musharakah facility. Profit shall be paid on quarterly basis in arrears, whereas principal amount shall be paid in fourteen consecutive quarterly units commencing from June 30, 2009.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 9 LONG-TERM FINANCING - Secured

Description	Note	December 31, 2009 (Rupees in thousand)	June 30, 2009	Mark-up / Profit	Security	Arrangement and repayment
Sukuk Funds (II)		1,100,000	1,100,000	Three month KIBOR plus 100 bps (June 30, 2009: Three month KIBOR plus 100 bps) with Floor of 8% and Cap of 25%. Three months KIBOR will be set on the last business day before the first drawn down and subsequently on the last business day prior to the beginning of each semi-annual period for the usage payment due at the end of the period.	First pari passu charge on present and future property, plant and machinery of the Company amounting to Rs. 1,467 million.	These are issued for the purpose of refinance of existing machinery with diminishing musharakah facility. Profit shall be paid on quarterly basis in arrears, whereas principal amount shall be paid in Sixteen consecutive quarterly units commencing from June 30, 2011.
Term finance		500,000	500,000	Three month KIBOR ask side plus 300 bps (June 30, 2009: Three month KIBOR ask side plus 300 bps).	First charge on present and future fixed assets of the company with 25% margin, assignments of receivables two times of monthly requirements, personal guarantees of sponsoring directors of the Company and mortgage of Land or any other security acceptable to Pak-Libya up to 50% of the financing amount.	This syndicate term finance is obtained from the <b>Pak-Libya Holding Company (Private) Limited</b> for the purpose of meeting its existing operational expenses. Markup on it shall be paid on quarterly basis in arrears, whereas principal amount shall be paid in twenty quarterly equal installments of Rs. 25 million each commencing from August 26, 2010.
Demand Finance II		600,000	553,238	Three month KIBOR average plus 3% per annum (June 30, 2009: Three month KIBOR average ask side plus 3% per annum). KIBOR will be set on the last working day before start of the calendar quarter for which mark-up is to be applied.	First charge of Rs. 750 million on fixed assets of new transformer unit and first charge on all present and future fixed assets of Rs 250 million out of existing charge by way of execution joint pari passu agreement.	This loan is obtained from the <b>National Bank of Pakistan</b> for the purpose of setting up a new Transformer Manufacturing plant of the Company. First disbursement was made on June 30, 2009 amounting to Rs. 553.238 million, while final disbursement of Rs. 46.762 million was disbursed during the period. Mark-up shall be paid on quarterly basis in arrears, whereas principal amount shall be paid in eighteen consecutive quarterly installments of Rs. 33.333 million each, with six months grace period, commencing from December 31, 2009.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 9 LONG-TERM FINANCING - Secured

Description	Note	December 31, 2009 (Rupees in thousand)	June 30, 2009	Mark-up / Profit	Security	Arrangement and repayment
Term finance PPTFCs	9.3	1,050,000	600,000	Six months KIBOR plus 300 bps (June 30, 2009: Six months KIBOR plus 300 bps) . KIBOR will be set for the first time on the issue date and then on the first day of the start of each six months period form mark-up due at the end of that period	First pari passu charge over fixed assets including land, building, plant and machinery to fully secure facility amount with 25% margin in favors of he trustee. Personal guarantee of Mr. Naseem Saigol.	Company has issued Privately Placed Term Finance Certificates ("PPTFCs") of Rs. 50 million each for the purpose of financing its capacity expansion program. It is arranged from the Faysal Bank Limited (Trustee), Pak Iran Joint Investment Company Limited and Bank of Punjab. Redemption of PPTFC will be in twelve semi-annually installments commencing from march 31, 2010. Profit will be paid semi annually.
Demand finance IV - SUKUK		171,430	-	6 months KIBOR + 2.50% p.a. KIBOR will be set on the last working day before start of the calendar half year for which mark-up is to be applied.	First joint pari passu charge of Rs. 2,400 million on fixed assets of the Company.	This loan is obtained from the <b>National Bank of Pakistan</b> . This loan has limit up to Rs. 342.856 million. Principal amount shall be paid in twelve quarterly installments of Rs. 28.571 million in arrears. Grace period of one and half year up to march 31, 2011.
Demand finance III		291,050	-	6 months KIBOR + 2.50% p.a. KIBOR will be set on the last working day before start of the calendar half year for which mark-up is to be applied.	First joint pari passu charge of Rs. 2,400 million on fixed assets of the Company	This loan is obtained from the <b>National Bank of Pakistan</b> to support the Capacity Expansion Program (CAPEX) of the company. This loan has the limit upto Rs. 400 million. Mark-up shall be paid on quarterly basis. Principal amount will be paid in sixteen quarterly installments of Rs. 25 million each with 1st installment shall become due on December 31, 2010 including the grace period of one year upto December 31, 2010.
<b>Total</b>		<u>4,862,746</u>	<u>4,170,766</u>			
Less: current portion		<u>783,597</u>	<u>677,349</u>			
		<u>4,079,149</u>	<u>3,493,417</u>			

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 9 LONG-TERM FINANCING - Secured

Description	Note	December 31, 2009	June 30, 2009	Mark-up / Profit	Security	Arrangement and repayment
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(Rupees in thousand)

- 9.2 The Company entered into a dividend securitization agreement in November 2004 with **MCB Bank Limited** whereby finance facility was arranged to pay off the outstanding balance in respect of Demand finance, from **MCB Bank Limited** by creation of security interest over the dividend to be declared by Kohinoor Energy Limited (an associated company).
- 9.3 This amount was received against issuance of twenty Privately Placed Term Finance Certificates ('PPTFCs') of Rs. 50 million each for the purpose of expansion of its power division. However, the Company has issued certificates of PPTFCs subsequently on March 02, 2010. **FAYSAL BANK LIMITED** has been appointed as trustee to the PPTFCs issue. Reserve fund equal to 1/6th of the installment amount on monthly basis has to be maintained with **FAYSAL BANK LIMITED**.
- 9.4 These facilities carry mark-up rate ranging from 12.60% to 16.73% (June 30, 2009: 12.54% to 17.81%)
- 9.5 Maturity profile of the Company's borrowing is as follows:

Maturity	December 31, 2009	June 30, 2009
	(Rupees in thousand)	
6 months or less	383,003	339,419
6-12 months	400,594	337,930
1-5 years	3,710,399	3,205,917
Over 5 years	368,750	287,500
	<u>4,862,746</u>	<u>4,170,766</u>

- 9.6 The carrying amount under long-term financing is same as its fair value.
- 9.7 Current portion includes overdue installments amounting to Rs. 20.075 million (June 30, 2009: Rs. 21.000 million).

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

	DECEMBER 31, 2009	JUNE 30, 2009
<b>10 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>	(Rupees in thousand)	
Present value of minimum lease payments	202,327	189,311
Less: current portion	82,959	85,944
	<u>119,368</u>	<u>103,367</u>

10.1 The Company has entered into lease agreements with various leasing companies, banks and modarabas to acquire various assets. The rentals under these lease agreements are payable on monthly / quarterly basis in arrears and are subject to mark-up rate ranging from 12.36% to 16.58% (June 30, 2009: 7.53% to 19.43%) 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.

10.2 The amounts of future payments and the periods in which these will be due are as follows:-

	DECEMBER 31, 2009		JUNE 30, 2009	
	..... (Rupees in thousand) .....			
	Minimum lease payments	Present value	Minimum lease payments	Present value
Not later than one year	103,925	82,959	104,852	85,944
Later than one year but not later than five years	120,908	119,368	119,433	103,367
	<u>224,833</u>	<u>202,327</u>	<u>224,285</u>	<u>189,311</u>
Less: amount representing finance cost	22,506	-	34,974	-
Present value of minimum lease payments	<u>202,327</u>	<u>202,327</u>	<u>189,311</u>	<u>189,311</u>
Less: current portion	82,959	82,959	85,944	85,944
	<u>119,368</u>	<u>119,368</u>	<u>103,367</u>	<u>103,367</u>

10.3 Maturity profile of the Company's finance lease is as follows:

	DECEMBER 31, 2009	JUNE 30, 2009
<b>Maturity</b>	(Rupees in thousand)	
6 months or less	39,779	45,772
6 - 12 months	43,180	40,172
1 - 5 years	119,368	103,367
	<u>202,327</u>	<u>189,311</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

		DECEMBER 31, 2009	JUNE 30, 2009
		(Rupees in thousand)	
<b>11 DEFERRED TAXATION</b>	<b>Note</b>		
Deferred taxation	11.1	<u>2,883,631</u>	<u>2,013,543</u>
<b>11.1 This comprises following:</b>			
Deferred tax liability on taxable temporary differences:			
- tax depreciation allowance		1,286,768	545,587
- finance lease		70,804	84,651
- surplus on revaluation of property, plant and equipment		2,273,849	1,470,890
		3,631,421	2,101,128
Deferred tax asset on deductible temporary differences:			
- provision for obsolete and slow moving inventories		(7,735)	(7,602)
- provision for doubtful debts and advances		(76,483)	(58,268)
- available tax losses		(628,646)	-
- provision for excise duty and sales tax		-	(8,295)
- provision for leave absences		(10,870)	(10,843)
- provision for security deposit		-	(1,883)
- provision for advances to employees		-	(507)
- provision for finished goods		-	(187)
- minimum tax adjustable against future tax liability		(24,056)	-
		(747,790)	(87,585)
		<u>2,883,631</u>	<u>2,013,543</u>
<b>12 DEFERRED INCOME</b>			
Deferred income on:			
- grant-in-aid	12.1	58,360	59,857
- sale and lease back activities	12.2	42,748	50,350
		<u>101,108</u>	<u>110,207</u>
<b>12.1 Grant-in-aid</b>			
Balance at beginning of the the period / year		59,857	63,007
Less: transferred to income	32	1,497	3,150
Balance at end of the period / year		<u>58,360</u>	<u>59,857</u>

The UNIDO 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. 1,496,500 (June 30, 2009: Rs. 3,150,314) has been included in other income in proportion to depreciation charged on related plant and machinery keeping in view the matching principle.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

		DECEMBER 31, 2009	JUNE 30, 2009
		(Rupees in thousand)	
<b>12.2 Sale and lease back activities</b>	<b>Note</b>		
Gain on sale and lease back activities at beginning of the year		50,350	19,989
Addition made during the period / year	17.5	6,006	48,769
		56,356	68,758
Less: transferred to income	32	13,608	18,408
Gain on sale and lease back activities at end of the the period / year		<u>42,748</u>	<u>50,350</u>
<p>This represents the balance of sale proceeds over the carrying amount of machinery and vehicles under the sale and lease back arrangements that resulted in finance lease. The excess is being amortized over the lease period of three years.</p>			
<b>13 TRADE AND OTHER PAYABLES</b>			
Creditors		363,509	509,542
Foreign bills payable	13.1	531,614	527,365
Accrued liabilities		74,409	137,008
Advances from customers		147,533	136,929
Employees' provident fund		7,643	6,607
Compensated absences		31,057	30,981
Advance against contracts	38	57,135	105,708
Workers' profit participation fund	13.2	34,740	21,138
Workers' welfare fund		11,252	6,685
Others		25,188	24,739
		<u>1,284,080</u>	<u>1,506,702</u>
<b>13.1</b>	Foreign bills payable are secured against bills of exchange accepted by the Company in favour of suppliers.		
<b>13.2</b>	<b>Workers' profit participation fund</b>		
Balance at beginning of the period / year		21,138	33,854
Add: interest on funds utilized in the Company's business	36	1,585	3,809
- allocation for the period / year	35	12,017	21,138
Less: amount paid during period / year		-	37,663
Balance at end of the period / year		<u>34,740</u>	<u>21,138</u>
<b>13.3</b>	Interest on workers' profit participation fund has been provided at the rate of 15.00% (June 30, 2009: 15.00%) per annum.		
<b>14 INTEREST / MARK-UP ACCRUED ON LOANS AND OTHER PAYABLES</b>			
Mark up accrued on:			
- long-term financing		94,590	52,522
- liabilities against assets subject to finance lease		73	176
- short-term borrowings		239,100	284,624
		<u>333,763</u>	<u>337,322</u>
<b>15 SHORT-TERM BORROWINGS</b>			
<b>Secured</b>			
Borrowings from:			
- banking companies	15.2	4,234,131	3,549,311
- non banking finance companies (NBFCs)	15.3	100,000	100,000
		4,334,131	3,649,311
<b>Unsecured</b>			
Book overdraft	15.4	372,759	297,204
		<u>4,706,890</u>	<u>3,946,515</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

- 15.1 The aggregate un-availed short-term borrowing facilities as at December 31, 2009 amounts to Rs. 322.09 million (June 30, 2009: Rs. 852.91 million).
- 15.2 These facilities have been obtained from various banks under mark-up arrangements for working capital requirements and carrying mark-up rate ranging from 14.45% to 17.76% (June 30, 2009: 13.09% to 19.70%) 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. 4,550 million (June 30, 2009: Rs. 3,527 million) 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.
- 15.3 This facility has been obtained from NBFCs for purchase of raw material and carries mark-up rate ranging from 13.59% to 16.73% (June 30, 2009: 12.90% to 18.70%) per annum. This facility is secured against pledge of shares of listed companies with 25% margin and personal guarantees of the directors of the Company.
- 15.4 This represents cheques issued by the Company in excess of balances at bank which have been presented for payments in the subsequent period.

### 16 CONTINGENCIES AND COMMITMENTS

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

	DECEMBER 31, 2009	JUNE 30, 2009
	(Rupees in thousand)	
<b>16.1 Contingencies</b>		
Tender bonds	204,293	113,186
Performance bonds	637,473	559,025
Advance guarantees	181,864	275,629
Custom guarantees	13,051	13,051
Bills discounted	1,853,454	1,757,158
Foreign guarantees	9,393	9,393

The Collector Customs, Sales Tax and Federal Excise (Appeals) Lahore rejected the Company's stance that the electric meters fall under zero rated regime and directed the Company to deposit sales tax amounting to Rs. 36.458 million on sale of electric meters during the year 2006. The Company has filed an appeal before the Custom, Excise and Sales Tax Appellate Tribunal Lahore against the order of the Collector Customs, Sales Tax and Federal Excise (Appeals). The management is hopeful that the decision will be made in favour of the Company and accordingly has not recognized this liability.

The Company received notices from Excise & Taxation Department, Karachi regarding professional tax from the year 2001 amounting to Rs. 100,000 for the Company and Rs. 1,650 for the employees of the Company (which total to Rs. 101,650 per year). The liability accumulates to Rs. 1,016,500 till December 31, 2009. However, the Company pays professional tax in the province of Punjab and therefore has taken up the matter to the Honourable Sindh High Court. The matter is pending adjudication to date.

### 16.2 Commitments

Letters of credit	1,590,575	540,714
Capital commitment	-	144,793

The aggregate amount of ujarah payments for Ijarah financing and the period in which these payments will become due are as follows:

Not later than one year	95,748	93,302
Later than one year but not later than five years	66,010	84,617
	<u>161,758</u>	<u>177,919</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 17 PROPERTY, PLANT AND EQUIPMENT AT DECEMBER 31, 2009

Particulars	Cost / revaluation				Accumulated depreciation				Book value as at December 31, 2009	Annual rate of depreciation	
	As at July 01, 2009	Additions / (disposals)	Transfers / (adjustments)	Revaluation Surplus	As at December 31, 2009	As at July 01, 2009	Charge for the period	Transfers / (disposals) / (adjustments)			As at December 31, 2009
(Rupees in thousand)											
<b>Owned</b>											
Leasehold land	13,256	-	-	-	13,256	-	-	-	-	13,256	
Freehold land	174,468	2,077	-	94,248	270,793	-	-	-	-	270,793	
Building on leasehold land	1,195,183	-	32,075	-	1,227,258	249,140	23,606	-	272,746	954,512	5%
Building on freehold land	6,508	-	1,737,980	664,728	2,409,216	4,438	7,473	-	11,911	2,397,305	5%
Plant and machinery	7,148,750	268,824 (49,840)	1,651,951	1,734,504	10,754,189	1,399,608	152,010	5,845 (9,628)	1,547,835	9,206,354	5%
Office equipment and furniture	135,078	20,069	-	-	155,147	45,140	4,971	-	50,111	105,036	10%
Computer hardware & allied items	68,455	3,805	-	-	72,260	31,243	5,908	-	37,151	35,109	30%
Vehicles	132,015	5,554 (19,558)	1,493	-	119,504	68,977	6,201	221 (5,440)	69,959	49,545	20%
	8,873,713	300,329 (69,398)	3,423,499	2,493,480	15,021,623	1,798,546	200,169	6,066 (15,068)	1,989,713	13,031,910	
<b>Held under finance lease</b>											
Plant and machinery	390,245	44,000	(84,052)	-	350,193	5,870	9,680	(5,845)	9,705	340,488	5%
Vehicles	67,475	9,096	(1,493)	-	75,078	4,432	6,731	(221)	10,942	64,136	20%
	457,720	53,096	(85,545)	-	425,271	10,302	16,411	(6,066)	20,647	404,624	
<b>Capital work-in-progress</b>											
Building on leasehold land	33,494	3,430	(32,075)	-	4,849	-	-	-	-	4,849	
Building on freehold land	1,143,122	610,568	(1,737,980)	-	15,710	-	-	-	-	15,710	
Plant and machinery	1,020,821	547,123	(1,567,899)	-	45	-	-	-	-	45	
	2,197,437	1,161,121	(3,337,954)	-	20,604	-	-	-	-	20,604	
<b>December 31, 2009</b>	<b>11,528,870</b>	<b>1,514,546 (69,398)</b>	<b>3,423,499 (3,423,499)</b>	<b>2,493,480</b>	<b>15,467,498</b>	<b>1,808,848</b>	<b>216,580</b>	<b>6,066 (21,134)</b>	<b>2,010,360</b>	<b>13,457,138</b>	

17.1 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.

17.2 Depreciation for the period / year has been allocated as under:-

	Note	DECEMBER 31, 2009	JUNE 2009
Cost of sales	31.1	204,674	292,300
Administrative expenses	34	11,906	23,005
		<u>216,580</u>	<u>315,305</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 17.3 PROPERTY, PLANT AND EQUIPMENT AT JUNE 30, 2009

Particulars	Cost / revaluation					Accumulated depreciation				Book value as at June 30, 2009	Annual rate of depreciation
	As at July 01, 2008	Additions / (disposals)	Transfers / (adjustments)	Revaluation Surplus	As at June 30, 2009	As at July 01, 2008	Charge for the year	Transfers / (disposals) / (adjustments)	As at June 30, 2009		
(Rupees in thousand)											
<b>Owned</b>											
Leasehold land	13,256	-	-	-	13,256	-	-	-	-	13,256	
Freehold land	150,903	23,565	-	-	174,468	-	-	-	-	174,468	
Building on leasehold land	1,022,269	1,464	16,378	155,072	1,195,183	208,238	40,902	-	249,140	946,043	5%
Building on free hold land	6,508	-	-	-	6,508	4,438	-	-	4,438	2,070	5%
Plant and machinery	5,775,306	195,777	36,632	1,294,360	7,148,750	1,199,616	223,227	6,019	1,399,608	5,749,142	5%
	-	(153,325)	-	-	-	-	-	(29,254)	-	-	
Office equipment and furniture	108,045	30,099	-	-	135,078	38,011	8,342	-	45,140	89,938	10%
	-	(3,066)	-	-	-	-	-	(1,213)	-	-	
Computer hardware & allied items	63,602	4,853	-	-	68,455	16,108	15,135	-	31,243	37,212	30%
Vehicles	126,563	40,674	28,525	-	132,015	52,363	17,708	12,569	68,977	63,038	20%
	-	(63,747)	-	-	-	-	-	(13,663)	-	-	
	7,266,452	296,432	81,535	1,449,432	8,873,713	1,518,774	305,314	18,588	1,798,546	7,075,167	
		(220,138)						(44,130)			
<b>Held under finance lease</b>											
Plant and machinery	299,454	127,341	(36,550)	-	390,245	6,722	5,167	(6,019)	5,870	384,375	5%
Vehicles	65,357	30,643	(28,525)	-	67,475	12,177	4,824	(12,569)	4,432	63,043	20%
	364,811	157,984	(65,075)	-	457,720	18,899	9,991	(18,588)	10,302	447,418	
<b>Capital work-in-progress</b>											
Building on leasehold land	23,060	26,812	(16,378)	-	33,494	-	-	-	-	33,494	
Building on freehold land	94,344	1,048,778	-	-	1,143,122	-	-	-	-	1,143,122	
Plant and machinery	20,135	1,000,768	(82)	-	1,020,821	-	-	-	-	1,020,821	
	137,539	2,076,358	(16,460)	-	2,197,437	-	-	-	-	2,197,437	
<b>June 30, 2009</b>	<b>7,768,802</b>	<b>2,530,774</b>	<b>81,535</b>	<b>1,449,432</b>	<b>11,528,870</b>	<b>1,537,673</b>	<b>315,305</b>	<b>18,588</b>	<b>1,808,848</b>	<b>9,720,022</b>	
		<b>(220,138)</b>	<b>(81,535)</b>					<b>(62,718)</b>			

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 17.4 Disposal of property, plant and equipment

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
-------------	------	--------------------------	------------	---------------------------------------------------------	----------------------------------------------------------	------------------	--------------------------------------

..... (Rupees in thousand) .....

#### Vehicles

						As per Company's	
						Policy	
Daihatsu Cuore	459	310	149	211	62		Wajid Ali Khan
Honda Civic	998	574	424	443	19	-do-	Amir Sattar
Suzuki Alto	512	358	154	210	56	-do-	Amjad Raza
Suzuki Mehran	454	115	339	350	11	-do-	M. Nadeem
Suzuki Cultus	560	383	177	450	273	-do-	Majid Khan
Suzuki Mehran	379	320	59	161	102	-do-	Rooman Sabri
Suzuki Mehran	435	188	247	285	38	-do-	Tanveer
Suzuki Alto	524	119	405	475	70	-do-	Zanwa
Daihatsu Cuore	497	151	346	507	161	Sales & Lease Back	Al-Baraka Islamic Bank
Honda City	872	286	586	851	265	-do-	Al-Baraka Islamic Bank
Honda City	927	281	646	830	184	-do-	Al-Baraka Islamic Bank
Suzuki Baleno	448	130	318	418	100	-do-	Al-Baraka Islamic Bank
Suzuki Cultus	651	213	438	642	204	-do-	Al-Baraka Islamic Bank
Suzuki Cultus	641	210	431	632	201	-do-	Al-Baraka Islamic Bank
Suzuki Cultus	636	208	428	627	199	-do-	Al-Baraka Islamic Bank
Suzuki Mehran	433	142	291	400	109	-do-	Al-Baraka Islamic Bank
Suzuki Mehran	408	134	274	400	126	-do-	Al-Baraka Islamic Bank
Suzuki Mehran	428	140	288	400	112	-do-	Al-Baraka Islamic Bank
Suzuki Mehran	438	133	305	400	95	-do-	Al-Baraka Islamic Bank
Suzuki Mehran	433	131	302	400	98	-do-	Al-Baraka Islamic Bank
Suzuki Mehran	433	131	302	400	98	-do-	Al-Baraka Islamic Bank
Suzuki Mehran	438	133	305	400	95	-do-	Al-Baraka Islamic Bank
Landcruiser Prado	5,150	86	5,064	3,200	(1,864)	-do-	Standard Chartered Leasing Ltd.
Toyota Corolla	1,150	307	843	1,014	171	-do-	Standard Chartered Leasing Ltd.
Suzuki Mehran	465	53	412	427	15	Negotiation	Farukh on cash sale
Suzuki Mehran	504	49	455	420	(35)	Negotiation	Amjad on cash sale
	<u>19,273</u>	<u>5,285</u>	<u>13,988</u>	<u>14,953</u>	<u>965</u>		

Other vehicles	285	155	130	267	137	As per Company's Policy	Various Individuals
Machinery	49,840	9,628	40,212	44,000	3,788	Sales & Lease Back	Orix Leasing Pakistan Ltd.
December 31, 2009	<u>69,398</u>	<u>15,068</u>	<u>54,330</u>	<u>59,220</u>	<u>4,890</u>		
June 30, 2009	<u>220,138</u>	<u>44,130</u>	<u>176,008</u>	<u>223,753</u>	<u>47,745</u>		

17.5 Gain/(loss) has been allocated as follows:	Note	December	June 30,
		31, 2009	2009
(Rupees in thousand)			
Gain/(loss) on disposal of Property, plant and equipment	32	748	(1,026)
Deferred income on sale and lease back	12.2	6,006	48,771
Loss on sale and lease back	35	(1,864)	-
		<u>4,890</u>	<u>47,745</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

17.6 The latest revaluation of building on free hold land, buildings and plant and machinery has been carried out by M/S. Asif Associates (Pvt.) Ltd. independent valuers on the Pakistan Bankers' Association as on December 31, 2009, which resulted in revaluation surplus of Rs. 2,494 million and incorporated in the financial statements for the period. The previous revaluation of building on lease hold land and plant and machinery was carried out 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, which resulted in additional surplus of Rs. 603 million. Revaluation was carried out again on freehold land, building on lease hold land and plant and machinery in 2008 by M/S. Hamid Mukhtar & Co. (Pvt.) Limited, which resulted in additional surplus of Rs. 1,751 million. During the year ended June 30, 2009 revaluation was again carried out by M/S. Asif Associates (Pvt.) Ltd. resulting in a revaluation surplus of Rs. 1,449 million.

The basis used for revaluation of these property, plant and equipment are as follows:

Free hold land	The value of free hold land is ascertained according to the local market value.
Buildings	Present day construction rates for different types of building structures depreciated to account for the age and condition of the building.
Plant and machinery	The value has been determined with reference to prevailing prices of similar plants and machinery depreciated to account for the age, usage and physical condition.

17.7 Had there been no revaluation the cost, accumulated depreciation and book value of revalued assets as at December 31, 2009 would have been as follows:

	Cost	Accumulated depreciation	Book value
	..... (Rupees in thousand) .....		
Freehold land	119,890	-	119,890
Building on lease hold land	2,479,109	214,851	2,264,258
Plant and machinery	4,715,304	918,100	3,797,204
December 31, 2009	<u>7,314,303</u>	<u>1,132,951</u>	<u>6,181,352</u>
June 30, 2009	<u>3,671,236</u>	<u>1,058,710</u>	<u>2,612,526</u>

17.8 Capital work in progress (CWIP) includes an amount of Rs. 194.590 million incurred on trial run production of Unit II. The Company started trial run production on October 01, 2009. The commercial production was started on December 02, 2009 and the profits resulting from trial run production are allocated to plant and machinery and building proportionately.

The details of the trial run production are as follows:

	SIX MONTHS ENDED December 31, 2009 (Rupees in thousand)
Cost of sales	411,022
Sales	<u>(216,432)</u>
Cost of trial run	<u>194,590</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 18 INTANGIBLE ASSETS AT DECEMBER 31, 2009

	Cost			Accumulated Amortization			Net book value as at December 31, 2009	
	As at July 01, 2009	Impairment losses	Additions	As at December 31, 2009	As at July 01, 2009	Amortization for the period		As at December 31, 2009
.....(Rupees in thousand).....								
Technology transfer agreement	75,434	-	-	75,434	6,930	1,713	8,643	66,791
Goodwill	606,867	73,632	-	533,235	91,859	-	91,859	441,376
Softwares	-	-	1,619	1,619	-	212	212	1,407
Intangible assets under development - ERP	-	-	1,560	1,560	-	-	-	1,560
	<b>682,301</b>	<b>73,632</b>	<b>3,179</b>	<b>611,848</b>	<b>98,789</b>	<b>1,925</b>	<b>100,714</b>	<b>511,134</b>

### 18.1 INTANGIBLE ASSETS AT JUNE 30, 2009

	Cost			Accumulated Amortization			Net book value as at June 30, 2009	
	As at July 01, 2008	Impairment losses	Additions	As at June 30, 2009	As at July 01, 2008	Amortization for the year		As at June 30, 2009
.....(Rupees in thousand).....								
Technology transfer agreement	62,405	-	13,029	75,434	3,796	3,134	6,930	68,504
Goodwill	606,867	-	-	606,867	91,859	-	91,859	515,008
	<b>669,272</b>	<b>-</b>	<b>13,029</b>	<b>682,301</b>	<b>95,655</b>	<b>3,134</b>	<b>98,789</b>	<b>583,512</b>

18.2 The Company has obtained technology of single phase meters, three phase digital meters and also of power transformers from different foreign companies. These are amortized on the same rate as of the depreciation of the relevant plant.

18.3 The Company has acquired different softwares for its business purpose. These have been amortized @ 33.33% per annum on reducing balance method.

18.4 Goodwill represents the difference between the cost of the acquisition (fair value of consideration paid) and the fair value of the net identifiable assets acquired at the time of acquisition of Pel Appliances Limited and Pel Daewoo Electronics Limited by Pak Elektron Limited.

The Company engaged RAHMAN SARFARAZ RAHIM IQBAL RAFIQ, Chartered Accountants (the "Consultants") to carry out detailed review and analysis of the business plan and financial information for valuation of goodwill that was recognized on acquisition of Pel Daewoo Electronics Limited. The scope of the consultancy, in accordance with International Standards on Assurance Engagements, was to examine the prospective financial information and value in use of TV Assembly Line. The scope also included examination of the underlying assumptions and the bases used for the preparation of the prospective financial information and the derived value in use.

Above study and consultants report revealed decrease in future revenues and increase in borrowing costs from TV assembly line, as compared to previous business plan, that has resulted in impairment of Rs. 73.63 million in goodwill. The discount rate of 17% p.a. (June 30, 2009: 15% p.a) was used for the calculation of discounted cash flows. The cash flows beyond the five years period have been extrapolated using a steady 3% p.a. growth rate which is consistent with the long-term average growth rate for the industry.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

19	LONG-TERM INVESTMENTS	DECEMBER 31, 2009	JUNE 30, 2009
	Investment in associate at equity method - Quoted	23.00	23.00
	Kohinoor Power Company Limited		
	Ownership interest %	23.00	23.00
		DECEMBER 31, 2009	JUNE 30, 2009
		(Rupees in thousand)	
	Cost of investment	54,701	54,701
	2,910,600 shares (June 30, 2009: 2,910,600 shares)	61,623	59,185
	Share of post acquisition profit - net of dividend received	116,324	113,886
	Less: provision for impairment in value of investment	93,418	92,115
	Note 35	22,906	21,771
19.1	The associated company 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 the sale of shares.		
19.2	Extracts of financial statements of the associated company		
	The assets, liabilities and equity of Kohinoor Power Company Limited as at December 31, 2009 and related revenue and profit for the half year then ended based on latest un-audited financial statements are as follows:		
		DECEMBER 31, 2009	JUNE 30, 2009
		(Rupees in thousand)	
	Note		
	Assets	432,070	448,927
	Liabilities	37,861	63,319
	Revenue	392,994	737,622
	Profit for the year	10,556	40,037
	Share of profit of associate	2,438	9,248
	Market value per share (Rupees)	7.87	7.48
20	LONG-TERM DEPOSITS		
	Security deposits with leasing companies	112,254	100,854
	Less: current portion	20,102	20,675
		92,152	80,179
21	STORES, SPARE PARTS AND LOOSE TOOLS		
	Stores	2,299	2,062
	Spare parts	64,463	59,853
	Loose tools	35,258	31,117
		102,020	93,032
	Less: provision for slow moving and obsolete items	11,299	16,178
		90,721	76,854

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

		DECEMBER 31, 2009	JUNE 30, 2009
		(Rupees in thousand)	
22	STOCK-IN-TRADE		
	Raw material and components		
	- in stores	1,662,365	1,833,573
	- in-transit	580,437	630,229
	Less: provision for slow moving and obsolete items	10,801	5,541
		2,232,001	2,458,261
	Work-in-process	756,549	397,145
	Finished goods	838,729	403,736
	Less: provision for slow moving and obsolete items	535	535
		838,194	403,201
		<u>3,826,744</u>	<u>3,258,607</u>
22.1	Stocks with carrying value of Rs. 2,645 million (June 30, 2009: Rs. 2,442 million) have been pledged as security with certain banks against financing facilities.		
23	TRADE DEBTS - unsecured		
	Considered good:		
	- against sale of goods	2,492,388	2,955,526
	- against execution of contracts	734,831	852,250
		3,227,219	3,807,776
	Considered doubtful	141,972	106,287
		3,369,191	3,914,063
	Less: provision for doubtful debts	141,972	106,287
		<u>3,227,219</u>	<u>3,807,776</u>
23.1	These include receivables from Kohinoor Power Company Limited - associated company in the ordinary course of business amounting to Rs. 25.78 million (June 30, 2009: Rs. 31.15 million).		
23.2	Movement in provision during the year		
	Balance at beginning of the period / year	106,287	60,828
	Provision for the period / year	35,685	45,459
	Balance at the end of the period / year	<u>141,972</u>	<u>106,287</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

			DECEMBER 31, 2009	JUNE 30, 2009
			(Rupees in thousand)	
24	ADVANCES	Note		
	Advances to employees - Considered good:			
	- purchases		14,468	23,990
	- expenses		15,423	8,726
	- traveling		3,984	4,250
	- others	24.1	1,372	1,778
			<u>35,247</u>	<u>38,744</u>
	Advances to employees - considered doubtful		1,449	1,449
	Less: Provision for doubtful advances		1,449	1,449
			<u>35,247</u>	<u>38,744</u>
	Advances to suppliers and contractors	24.2	698,180	529,472
	Less: Provision for doubtful advances against suppliers		76,551	60,194
			<u>621,629</u>	<u>469,278</u>
	Advance excise duty		-	23,700
	Less: Excise duty written off during the year		-	23,700
			-	-
	Retention money:			
	- for contracts in progress	38	150,587	156,703
	- for completed contracts		18,344	21,319
			<u>168,931</u>	<u>178,022</u>
			<u>825,807</u>	<u>686,044</u>

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

24.2 These include advance to Red Communication Arts Private Limited related party in ordinary course of business amounting to Rs. 70.078 million (June 30, 2009: Rs. 60.79 million).

			DECEMBER 31, 2009	JUNE 30, 2009
			(Rupees in thousand)	
25	TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS	Note		
	Security deposits		28,215	28,451
	Less: provision for security deposits considered doubtful		5,379	5,379
			<u>22,836</u>	<u>23,072</u>
	Current portion of long-term deposits	20	20,102	20,675
	Margin deposits		115,177	92,433
	Prepayments		31,218	42,701
	Letters of credit		4,630	1,381
			<u>193,963</u>	<u>180,262</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 26 OTHER FINANCIAL ASSETS

Investments at fair value through profit or loss

Standard Chartered Bank (Formerly Union Bank Limited)

DECEMBER 31, 2009	JUNE 30, 2009	Note	DECEMBER 31, 2009	JUNE 30, 2009
Number of shares			(Rupees in thousand)	
3,075,070	3,075,070	Ordinary shares of Rs. 10 each Balance at beginning of the period / year	26,107	72,295
		Profit/(Loss) due to change in the fair	1,415	(46,188)
<u>3,075,070</u>	<u>3,075,070</u>	32	<u>27,522</u>	<u>26,107</u>

26.1 Market value per share is Rs. 8.95 (June 30, 2009: Rs. 8.49)

### 27 SALES TAX REFUNDABLE

Sales tax refundable

Custom duty refundable

Less: Custom duty refundable written off during the year

DECEMBER 31, 2009	JUNE 30, 2009
(Rupees in thousand)	
154,374	131,593
-	41,751
-	41,751
-	-
<u>154,374</u>	<u>131,593</u>

### 28 CASH AND BANK BALANCES

In local currency

Cash in hand

Balance with banks:

- current accounts

- saving accounts

28.1

In foreign currency

US Dollar account ((US \$ 82.90 @ Rs.84.00) (June 30, 2009: US \$ 84.94 @ Rs. 81.10))

3,464	5,238
119,792	187,689
-	124
119,792	187,813
7	7
<u>123,263</u>	<u>193,058</u>

28.1 Effective mark-up rate in respect of saving accounts is Nil (June 30, 2009: 5.00%) per annum.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

		SIX MONTHS ENDED DECEMBER 31, 2009	YEAR ENDED JUNE 30, 2009
		(Rupees in thousand)	
<b>29 REVENUE</b>	<b>Note</b>		
Contract revenue	38	372,909	1,087,590
Sales - Local		4,773,557	14,750,847
Sales - Export		56,686	279,087
		<u>5,203,152</u>	<u>16,117,524</u>
<b>30 SALES TAX AND DISCOUNT</b>			
Sales tax and excise duty		484,647	1,340,294
Trade discounts		87,074	155,618
		<u>571,721</u>	<u>1,495,912</u>
<b>31 COST OF SALES</b>			
Finished goods at beginning of the period / year		403,736	865,370
Cost of goods manufactured	31.1	3,224,249	9,472,553
Finished goods purchased		120,821	504,761
		3,345,070	9,977,314
Finished goods at end of the period / year		(838,729)	(403,736)
Cost of goods sold		2,910,077	10,438,948
Contract cost	38	238,324	844,848
		<u>3,148,401</u>	<u>11,283,796</u>
<b>31.1 Cost of goods manufactured</b>			
Work-in-process at beginning of the period / year		397,145	577,855
Raw material and components consumed		2,850,735	7,826,042
Direct wages		216,823	487,325
Factory overheads:			
- salaries, wages and benefits	31.2	91,305	224,245
- traveling and conveyance		12,427	31,742
- electricity, gas and water		38,719	133,713
- repairs and maintenance		28,767	87,614
- vehicles running and maintenance		7,145	13,120
- insurance		7,230	34,305
- depreciation	17.2	204,674	292,300
- amortization of intangible assets		1,925	3,134
- provision for obsolete and slow moving stock		381	-
- impairment loss on goodwill	18	73,632	-
- carriage and freight		6,868	22,009
- erection and testing		37,117	122,853
- other factory overheads		5,905	13,441
		<u>516,095</u>	<u>978,476</u>
		3,980,798	9,869,698
Work-in-process at end of the period / year		(756,549)	(397,145)
		<u>3,224,249</u>	<u>9,472,553</u>

31.2 These include employee benefits amounting to Rs. 8.768 million (June 30, 2009: Rs. 24.591 million).

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

		SIX MONTHS ENDED DECEMBER 31, 2009 (Rupees in thousand)	YEAR ENDED JUNE 30, 2009
<b>32</b>	<b>OTHER OPERATING INCOME</b>	<b>Note</b>	
	<b>Income from financial assets</b>		
	Gain due to change in the fair value of investment at fair value through profit and loss	26	1,415
	Mark-up income		-
			500
	<b>Income from assets other than financial assets</b>		
	Reversal of provision of slow moving and obsolete items		-
	Gain on disposal of property, plant and equipment	17.5	748
	Gain on sale and lease back activities	12.2	13,608
	Grant-in-aid	12.1	1,497
	Commission income		19,886
	Exchange gain		150
	Others		3,404
			<u>40,708</u>
			<u>37,088</u>
<b>33</b>	<b>DISTRIBUTION COST</b>		
	Salaries, wages and benefits	33.1	124,172
	Traveling and conveyance		21,181
	Rent, rates and taxes		20,014
	Electricity, gas, fuel and water		3,681
	Repairs and maintenance		1,910
	Vehicles running and maintenance		11,857
	Printing and stationery		3,797
	Postage, telegrams and telephones		7,480
	Entertainment and staff welfare		3,792
	Advertisement and sales promotion		36,783
	Insurance		2,276
	Freight and forwarding		42,614
	Contract and tendering		721
	Warranty period services		28,244
	Others		6,648
			<u>315,170</u>
			<u>892,068</u>

33.1 This includes employee benefits amounting to Rs. 5.60 million (June 30, 2009: Rs. 15.365 million).

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

		SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED JUNE 30,
		2009	2009
		(Rupees in thousand)	
<b>34 ADMINISTRATIVE EXPENSES</b>	<b>Note</b>		
Salaries, wages and benefits	34.1	139,316	277,764
Traveling and conveyance		6,619	14,787
Rent, rates and taxes		22,234	41,526
Ujrah payments		57,899	61,777
Legal and professional		1,390	25,871
Electricity, gas and water		7,523	24,328
Auditors' remuneration	34.2	1,454	1,652
Repairs and maintenance		17,601	19,801
Vehicles running and maintenance		7,681	11,674
Printing, stationery and periodicals		2,679	4,380
Postage, telegrams and telephones		4,470	7,598
Entertainment and staff welfare		11,551	22,961
Advertisement		467	574
Insurance		3,378	8,213
Provision for doubtful debts and advances		52,042	58,539
Depreciation	17.2	11,906	23,005
Others		1,240	4,554
		<u>349,450</u>	<u>609,004</u>
<b>34.1</b>	These include employee benefits amounting to Rs. 5.746 million (June 30, 2009: Rs. 11.921 million).		
<b>34.2 Auditors' remuneration</b>			
Audit fee		1,000	1,000
Half yearly and COCG review and special certificates		250	550
Out of pocket expenses		204	102
		<u>1,454</u>	<u>1,652</u>
<b>35 OTHER OPERATING EXPENSES</b>			
Workers' profit participation fund	13.2	12,017	21,138
Workers' welfare fund		4,567	8,033
Loss on sale and lease back	17.5	1,864	-
Loss due to change in the fair value of investment at fair value through profit and loss	26	-	46,188
Provision for impairment in value of long-term investments	19	1,303	40,422
Loss on disposal of property, plant and equipment	17.5	-	1,026
		<u>19,751</u>	<u>116,807</u>
<b>36 FINANCE COST</b>			
Interest / mark-up on secured:			
- long-term financing		224,561	472,861
- short-term borrowings		320,548	758,516
- workers' profit participation fund	13.2	1,585	3,809
- liabilities against assets subject to finance lease		14,454	25,951
Bank charges and commission		58,763	111,539
		<u>619,911</u>	<u>1,372,676</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

		SIX MONTHS ENDED DECEMBER 31, 2009 (Rupees in thousand)	YEAR ENDED JUNE 30, 2009	
<b>37</b>	<b>PROVISION FOR TAXATION</b>			
	For the period / year			
	Current	24,055	66,927	
	Deferred	10,989	73,054	
		35,044	139,981	
	Prior year			
	Current	6,231	(1,713)	
	Deferred	19,368	(5,217)	
		25,599	(6,930)	
		60,643	133,051	
		SIX MONTHS ENDED DECEMBER 31, 2009	YEAR ENDED JUNE 30, 2009	
<b>37.1</b>	<b>Numerical reconciliation between the average effective tax rate and applicable tax rate</b>			
		----- % -----		
	Applicable tax rate	35.00	35.00	
	Tax effects of amounts that are:			
	Not allowable for tax purpose	(0.80)	6.24	
	Effect of difference in tax rates under normal assessment and final tax regime	(11.17)	(5.68)	
	Effect of change in prior year tax	4.30	(1.76)	
	Average effective tax rate	27.33	33.80	
<b>38</b>	<b>LONG-TERM CONSTRUCTION CONTRACTS</b>			
		(Rupees in thousand)		
	Contract revenue for the period / year	29	372,909	1,087,590
	Contract costs for the period / year	31	238,324	844,848
	Gross profit realized to date		668,195	641,306
	Balance of advance received	13	57,135	105,708
	Retention money receivable	24	150,587	156,703
	Gross amount due from customers		33,030	15,428
	Gross amount due to customers		1,582	18,955
	Estimated future costs to complete projects in progress	38	254,910	305,378

**38.1** As part of the application of percentage of completion method on contract accounting, the project costs are estimated. These estimates are based on the prices of materials and services applicable at that time, forecasted increases and expected completion date at the time of such estimation. Such estimates are reviewed at regular intervals. Any subsequent changes in the prices of materials and services compared to forecasted prices and changes in the time of completion affect the results of the subsequent periods.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 39 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

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

	Directors		Executives	
	DECEMBER 31, 2009	JUNE 30, 2009	DECEMBER 31, 2009	JUNE 30, 2009
	..... (Rupees in thousand) .....			
Remuneration	7,795	16,963	49,627	97,907
House rent	2,055	3,567	17,599	34,977
Utilities	603	1,469	4,777	9,750
Bonus	-	-	9,301	16,087
Employment benefits	457	1,217	4,634	9,310
<b>Reimbursable expenses</b>				
Motor vehicles expenses	304	545	4,703	9,937
Medical expenses	23	98	3,166	5,130
<b>TOTAL</b>	<b>11,237</b>	<b>23,859</b>	<b>93,807</b>	<b>183,098</b>
<b>Number of persons</b>	<b>4</b>	<b>4</b>	<b>87</b>	<b>88</b>

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

39.2 Chief Executive Officer, Directors and Executives have been provided with free use of the Company's cars.

### 40 EARNINGS PER SHARE - BASIC AND DILUTED

	SIX MONTHS ENDED DECEMBER 31, 2009	YEAR ENDED JUNE 30, 2009
--	---------------------------------------------	-----------------------------------

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

	.....(Rupees in thousands).....	
<b>Earnings</b>		
Profit for the period / year	161,251	260,546
Less: dividend payable on preference shares	21,093	49,994
Earnings attributable to ordinary shares	<b>140,158</b>	<b>210,552</b>
<b>Number of shares</b>		
	.....(Numbers).....	
Weighted average number of ordinary shares for the purpose of basic earnings per share	106,746,955	106,746,955
Effect of dilutive potential ordinary shares	23,155,000	27,697,368
	<b>129,901,955</b>	<b>134,444,323</b>

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

<b>Basic earnings per share (Rupees)</b>	<b>1.31</b>	<b>1.97</b>
<b>Diluted earnings per share (Rupees)</b>	<b>1.24</b>	<b>1.94</b>

40.1 In respect of current period, the directors propose to issue bonus shares @ Nil (June 30, 2009: 10%).

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 41 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, directors, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from related parties are shown under receivables and remuneration of directors and key management personnel is disclosed in note 39 to these financial statements. Other significant transactions with related parties are as follows:

Relationship	Nature of transaction	SIX MONTHS	YEAR
		ENDED DECEMBER 31, 2009	ENDED JUNE 30, 2009
		(Rupees in thousand)	
Related parties	Purchase of services	25,373	114,978
	Sales	6,010	-
Compensation of key management personnel	Remuneration and other benefits	10,780	22,642
	Post employment benefits	457	1,217

41.1 All transactions with related parties have been carried out on commercial terms and conditions.

### 42 PLANT CAPACITY AND ACTUAL PRODUCTION

	Unit	Annual Production capacity	SIX MONTHS	YEAR
			ENDED DECEMBER 31, 2009 Actual production during the period	ENDED JUNE 30, 2009 Actual production during the year
Transformers/Power Trf.	MVA	5,000	1,010	2,466
Switchgears	Nos.	4,500	564	4,046
Energy meters	Nos.	1,700,000	225,657	443,307
Air conditioners	Tonnes	90,000	21,545	28,581
Refrigerators/deep freezers	Cfts.	5,000,000	1,283,145	3,156,604

42.1 The under utilization of capacity is mainly attributed to reduced demand.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 43 SEGMENT INFORMATION

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

Types of Segments	Nature of Business
Power Division	Manufacturing and distribution of Transformers, Switch Gears, Energy Meters, Power Transformers and EPC.
Appliances Division	Manufacturing, assembling and distribution of Refrigerators, Air conditioners, Microwave ovens, Televisions, Generators and Washing Machines. The Company, under agreement with LG Electronics Inc., distribute products of LG. However, activities under this distribution arrangement have been aggregated with Appliances division as per criteria given in IFRS-8 "Operating segment".

	Power Division		Appliances Division		Consolidated	
	SIX MONTHS ENDED DECEMBER 31, 2009	YEAR ENDED JUNE 30, 2009	SIX MONTHS ENDED DECEMBER 31, 2009	YEAR ENDED JUNE 30, 2009	SIX MONTHS ENDED DECEMBER 31, 2009	YEAR ENDED JUNE 30, 2009
	------(Rupees in thousand)-----					
Revenue	2,226,034	7,386,430	2,405,397	7,235,182	4,631,431	14,621,612
Less : Intersegment Revenue	-	-	-	-	-	-
Total Revenue	<u>2,226,034</u>	<u>7,386,430</u>	<u>2,405,397</u>	<u>7,235,182</u>	<u>4,631,431</u>	<u>14,621,612</u>
Finance cost	<u>299,433</u>	<u>950,065</u>	<u>318,448</u>	<u>422,611</u>	<u>617,881</u>	<u>1,372,676</u>
Depreciation and Amortization	<u>69,705</u>	<u>99,124</u>	<u>148,799</u>	<u>219,314</u>	<u>218,504</u>	<u>318,438</u>
Segment Profit/(Loss) before tax	<u>124,052</u>	<u>166,464</u>	<u>76,472</u>	<u>191,453</u>	<u>200,524</u>	<u>357,917</u>
Segment assets	<u>9,386,354</u>	<u>6,788,196</u>	<u>11,954,412</u>	<u>10,912,473</u>	<u>21,340,766</u>	<u>17,700,669</u>

	SIX MONTHS ENDED DECEMBER 31, 2009	YEAR ENDED JUNE 30, 2009
	(Rupees in thousand)	
Reconciliation Of Segment Profits :		
Total Profit for Reportable Segments	200,524	357,917
Other Income	21,370	35,680
Profit before Taxation	<u>221,894</u>	<u>393,597</u>
Reconciliation Of Reportable Segment Assets :		
Total Assets for Reportable Segments	21,340,766	17,700,669
Other Corporate Assets	1,594,454	1,369,366
Total Assets	<u>22,935,220</u>	<u>19,070,035</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 44 FINANCIAL INSTRUMENTS

#### 44.1 Capital risk management

The Company's objectives when measuring capital are to safeguard the Company's ability to continue as going concern while providing returns for shareholders and benefits for other stake holders and to maintain an optimal capital structure through debt and equity balance.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue of new shares.

Consistent with others in industry, the Company monitors capital on the basis of gearing ratio. During the period, the Company's strategy was to maintain the gearing ratio between 30% to 40% and 'A' credit rating. The gearing ratios as at December 31, 2009 and June 30, 2009 were as follows:

		DECEMBER 31, 2009	JUNE 30, 2009
(Rupees in thousand)			
Long Term Finances	A	4,862,746	4,170,766
Total Equity	B	8,560,675	6,795,669
Total Capital	C=A+B	13,423,421	10,966,435
Gearing Ratio	D=A / C	36%	38%

It arises on financial instruments because changes in, for example, commodity prices or equity prices. The Company is exposed to price risks arising from equity investments. Equity investments are held for strategic purposes rather than trading purposes. The Company does not actively trade these investments.

#### 44.2 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses), for each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the financial statements.

#### 44.3 Financial risk management objectives

The Company has exposure to the following risks from its use of financial instruments:

Credit risk

Liquidity risk

Market risk

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit department. Internal Audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 44.3.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk the Company maintains procedures covering the application for credit approvals, granting and renewal of counterparty limits and monitoring of exposures against these limits. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

The Company is exposed to credit risk from its operating activities primarily for local trade debts, sundry receivables and other financial assets.

The Company does not hold collateral as security.

The Company's credit risk exposures are categorized under the following headings:

#### Counterparties

The Company conducts major types of transactions with the following counterparties:

#### Trade debts

Trade debts are essentially due from customers against sale of electrical goods. The majority of sales to the Company's customers are made on specific terms. Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other form of credit insurance.

#### Bank and investments

The Company limits its exposure to credit risk by only investing in highly liquid securities and only with counterparties that have a credit rating of at least A1 and A. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	DECEMBER 31, 2009	JUNE 30, 2009
	(Rupees in thousand)	
Investments	22,906	21,771
Other financial assets	27,522	26,107
Trade debts	3,369,191	3,914,063
Advances	170,303	179,800
Trade deposits and short-term prepayments	74,156	86,448
Other receivables	14,952	12,671
Bank balances	119,799	187,820
	<u>3,798,829</u>	<u>4,428,680</u>

Geographically there is no concentration of credit risk.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

General customers	2,634,360	3,332,842
Corporate customers	734,831	581,221
	<u>3,369,191</u>	<u>3,914,063</u>

There is no single significant customer in the trade debts of the Company.

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

	DECEMBER 31, 2009	JUNE 30, 2009
	(Rupees in thousand)	
<b>Aging analysis of trade debts</b>		
1 year or less	2,852,898	3,515,690
1 - 2 year	201,169	181,450
2 - 3 year	178,101	118,345
3 year and above	137,023	98,578
Less: provision for doubtful debts	141,972	106,287
	<u>3,227,219</u>	<u>3,807,776</u>

In determining the recoverability of a trade debt, the Company considers any change in the credit quality of the trade debt from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believes that there is no further provision required in excess of the allowance for doubtful debts.

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The credit quality of cash and bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings.

The credit quality of company's bank balances can be assessed with reference to external credit ratings as follows:

Name of Bank	Ratings Short-term	Ratings Long-term	Rating Agency	Balance As at	
				December 31, 2009	June 30, 2009
Allied Bank Ltd.	A1+	AA	PACRA	866	5,491
Askari Commercial Bank	A1+	AA	PACRA	184	658
Bank Al - Falah Ltd.	A1+	AA	PACRA	13,773	1,933
Bank Al - Habib Ltd.	A1+	AA	PACRA	431	452
Bank of Khyber	A2	BBB	PACRA	1,929	1,755
Bank of Punjab	A1+	AA-	PACRA	8,334	9,165
Barclays Bank	A1+	AA-	S&P	100	100
Faysal Bank Ltd.	A2	AA	JCR-VIS	10,664	12,988
H.S.B.C Bank Ltd.	P1	AA2	MOODY's	31	64
Habib Bank Limited	A1+	AA+	JCR-VIS	4,113	11,894
Habib Metropolitan Bank Ltd.	A1+	AA+	PACRA	4,111	1,380
KASB Bank Ltd.	A1	A	PACRA	5	16,398
MCB Bank Ltd.	A1+	AA+	PACRA	3,042	16,317
Meezan Bank Ltd.	A1	A+	JCR-VIS	13	13,936
My Bank Ltd.	A2	A-	PACRA	8,150	1,426
National Bank of Pakistan	A1+	AAA	JCR-VIS	4,211	45,631
NIB Bank Ltd.	A1+	AA-	PACRA	28,606	15,691
Samba Bank X-Crescent Commercial Bank Ltd.	A1	A	JCR-VIS	167	127
Silk Bank Ltd.	A3	A-	JCR-VIS	3,017	643
Soneri Bank Ltd.	A1+	AA-	PACRA	266	3,186
Standard Chartered Bank	A1+	AA	JCR-VIS	6,762	10,608
The Royal Bank of Scotland	A1+	AA	PACRA	5,360	7,102
United Bank Limited	A1+	AA	JCR-VIS	13,698	8,869
Albarka Islamic Bank	A1	A	JCR-VIS	104	104
Dawood Islamic Bank	A3	A-	JCR-VIS	1,804	1,844
Bank Al-Islamic	A1	A	JCR-VIS	10	10
Arif Habib Bank Ltd.	A3	A-	JCR-VIS	47	47

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### 44.3.2 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 15.1 to these financial statements is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

#### Liquidity and interest risk table

The following table detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities under long term financing agreements based on the earliest date on which the Company can be required to pay. For effective markup rate please see note 9 and 10 to these financial statements.

Carrying amount and contractual cash flows of trade and other financial liabilities are approximately same.

	Carrying amount	
	DECEMBER 31, 2009	JUNE 30, 2009
	(Rupees in thousand)	
<b>Trade and other Payables</b>		
Maturity upto one year	1,413,175	1,601,387
<b>Short term borrowings</b>		
Maturity upto one year	4,706,890	3,946,515
<b>Long term financing</b>		
Maturity upto one year	783,597	677,349
Maturity after one year and upto five years	3,710,399	3,205,917
Maturity after five years	368,750	287,500
<b>Liabilities against assets subject to finance lease</b>		
Maturity upto one year	82,959	85,944
Maturity after one year and upto five years	119,368	103,367
	<u>11,185,138</u>	<u>9,907,979</u>

### 44.3.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

#### (a) Foreign currency risk management

Pak Rupee (PKR) is the functional currency of the Company and as a result currency exposure arise from transactions and balances in currencies other than PKR. The Company's potential currency exposure comprise:

- Transactional exposure in respect of non functional currency monetary items.
- Transactional exposure in respect of non functional currency expenditure and revenues.

The potential currency exposures are discussed below:

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### Transactional exposure in respect of non functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of the Company are periodically restated to PKR equivalent, and the associated gain or loss is taken to the profit and loss account. The foreign currency risk related to monetary items is managed as part of the risk management strategy.

### Transactional exposure in respect of non functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as a part of overall risk management strategy.

### Exposure to foreign currency risk

The Company's exposure to foreign currency risk is as follows based on notional amounts:

	DECEMBER 31, 2009	JUNE 30, 2009
	(USD in thousand)	
Foreign bills payable	2,429.00	5,289.00
Cash and bank balances	0.08	0.08
	<u>2,429.08</u>	<u>5,289.08</u>
	(EUROs in thousand)	
Foreign bills payable	<u>2,762</u>	<u>857</u>

Commitments outstanding at period / year end amounted to Rs. 1,591 million (June 30, 2009: Rs. 540.71 million) relating to letter of credits for import of stores, spare parts and raw material.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	DECEMBER 31, 2009	JUNE 30, 2009	DECEMBER 31, 2009	JUNE 30, 2009
	---- Rupees ----		----- Rupees -----	
USD 1	<u>83.32</u>	<u>78.82</u>	<u>84.30</u>	<u>81.30</u>
EURO 1	<u>121.22</u>	<u>109.5</u>	<u>121.10</u>	<u>114.80</u>

### Foreign currency sensitivity analysis

A 10 percent strengthening of the Pak Rupee against the foreign currencies at December 31, 2009 would have increased/decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2009.

	(Rupees in thousand)	
Increase in profit and loss account	<u>14,611</u>	<u>23,625</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

A 10 percent weakening of the Pak Rupee against the foreign currency at December 31, 2009 would have had the equal but opposite effect on foreign currency to the amounts shown above, on the basis that all other variables remain constant.

#### (b) Interest rate risk management

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period.

#### - Profile

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	DECEMBER 31, 2009	JUNE 30, 2009	DECEMBER 31, 2009	JUNE 30, 2009
	-----% -----		(Rupees in thousand)	
<b>Floating rate instruments</b>				
<b>Financial assets</b>				
Bank balances	Nil	5.00	-	124
<b>Financial liabilities</b>				
Long term financing	12.60 to 16.73	12.54 to 17.81	5,065,073	4,360,077
Short-term borrowings	14.45 to 17.76	13.09 to 19.70	4,334,131	3,649,311
			<u>9,399,204</u>	<u>8,009,512</u>

#### Fair value sensitivity analysis for floating rate instruments

The following table demonstrates the sensitivity to a reasonably possible change in floating interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is only an immaterial impact on the Company's equity.

	Increase / (Decrease) in basis points	Effect on profit before tax
December 31, 2009	%	(Rupees in thousand)
Short term borrowings	1.00	25,588
Long term financing		46,383
Liabilities against assets subject to finance lease		1,212
		<u>73,183</u>
June 30, 2009		
Short term borrowings	1.00	39,654
Long term financing		34,768
Liabilities against assets subject to finance lease		2,876
		<u>77,298</u>

# PAK ELEKTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2009

### (c) Equity Price Risk Management

The Company's unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. The Company's Board of Directors reviews and approves all equity investment decisions.

The Company is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

### 44.4 Determination of fair values

#### Fair value of financial instruments

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 other than in a forced or liquidation sale.

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

	DECEMBER 31, 2009	JUNE 30, 2009
<b>45 WORKING CAPITAL CHANGES</b>		
(Increase) / decrease in current assets		
- Stores, spare parts and loose tools	(8,988)	(573)
- Stock-in-trade	(573,397)	324,907
- Trade debts	544,872	354,506
- Advances	(156,120)	(156,461)
- Trade deposits and short-term prepayments	(14,274)	106,689
- Other receivables	(25,062)	(62,207)
	(232,969)	566,861
Decrease in trade and other payables	(222,698)	(577,050)
	<u>(455,667)</u>	<u>(10,189)</u>

### 46 REARRANGEMENT AND RECLASSIFICATION

From	To	Reason	Amount (Rupees in thousand)
- Trade deposits and short-term prepayments	Long-term	Better Presentatio	49,153

### 47 NON-CASH TRANSACTIONS

Additions to property, plant and equipment during the period amounting to Rs. 53.096 million (June 30, 2009: Rs. 157.984 million) were financed by new finance leases.

### 48 DATE OF AUTHORIZATION FOR ISSUE

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

NASEEM SAIGOL  
Chairman / Chief Executive Officer

HAROON A. KHAN  
Managing Director