


Half Yearly Report
December 31,

2009

PAKISTAN ENGINEERING COMPANY LIMITED

A Company of 

PAKISTAN ENGINEERING CO. LTD.

6/7-Ganga Ram Trust Building
Shahrah-e-Quaid-e-Azam,
Lahore, Pakistan.

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Board of Directors

Mr. Ghulam Rasool Ahpan
(Chairman)
Mr. M. Imtiaz-ur-Raheem
(Chief Executive)
Mr. Khizar Hayat Khan
Mr. Muhammad Arif Habib
Mr. Rashid Ali Khan
Mr. Liaqat Mohammad
Mr. Mohammad Shabir Malik
Mr. Muhammad Iqbal
Mirza Mahmood Ahmad

Audit Committee

Mirza Mahmood Ahmad
(Chairman)
Mr. Liaqat Mohammad
(Member)
Mr. Mohammad Shabir Malik
(Member)
Mr. Muhammad Iqbal
(Member)

Chief Financial Officer / Company Secretary

Mian Anwar Aziz

Auditors

Fazal Mahmood & Company
(Chartered Accountants)

Bankers

National Bank of Pakistan
United Bank Limited
Arif Habib Bank Limited

Registered and Corporate Office

6-Ganga Ram Trust Building,
Shahrah-e-Quaid-e-Azam, Lahore.
Phone: 042-37320225-27
Fax: 042-37323108
E mail: info@peco.com.pk

Branches

Karachi
Islamabad

Plant

Kot Lakhpat, Lahore.

Web Site

[http:// www.Peco.com.pk](http://www.Peco.com.pk)

Registrar & Share Transfer Office

M/s Scarlet IT System (Pvt) Limited
Hassan Plaza, 6-A, Jail Road, Lahore.

Dear Shareholders,

Assalam-o-Alaikum

On behalf of PECO Board of Directors, I feel pleasure to present the half yearly Condensed Interim Financial Statements for the period July – December, 2009 alongwith Auditors' Review.

Over view

During the period under review adversities aggravated further due to escalation in terrorist acts, load shedding of electricity and load management of gas, which adversely affected economic position of the country as a whole, where Government had to increase petroleum prices twice in July and December 2009. Imported items prices in local currency increased due to appreciation of Dollar viz a viz Rupee. These factors contributed to inflationary trends. Salaries & wages had to be increased to compensate employees to the possible extent. The entire increase in costs could not be passed on the customers, because of very tough competition from Local as well as Foreign suppliers. Efforts were therefore made to get orders mix so that business volume as well profitability could be maintained. The major supplies to WAPDA consisted of 132 KV, 220 KV & 11 KV towers. There was no telecommunication towers demand during the period under review.

Materials from Pakistan Steel and Steel Rolling Mills were also not available as per production plan, due to above factors, which was also a major disturbance during the period.

Financial Results

The sale revenue during the period ended on 31.12.2009 was Rs. 715.3 million against Rs. 425.9 million of the same period of last year, an increase of Rs. 289.4 million (68%). The gross profit earned by your Company for the period ending on December 31, 2009 was Rs. 141.3 million against Rs. 71.1 million of same period of last year. This showed an increase of Rs. 70.2 million (99%). Operating expenses during the period under review increased from Rs. 25.518 million to Rs. 37.495 million (47%). Better sales mix, material management have helped in achieving excellent results.

Your Company has earned after tax profit of Rs. 57.2 million during the first half of the year ending on 31.12.2009 against Rs. 35.7 million of the corresponding period of the last year showing a significant increase of 60%.

The Company is making efforts to pay back old loans, which helped in revival of our relations with NBP thus allowing us required credit & other facilities. During the period an amount of Rs. 55.9 million has been paid to NBP against old loans. The credit facilities were utilized from National Bank of Pakistan during the period under review, therefore, financial charges were Rs. 10.4 million against Rs. 3.6 million of the corresponding period.

Overall performance during the first half of the year inspite of above adverse factors was very satisfactory.

Future outlook

We continued to take decisive action necessary to optimize production and reduce cost. In the next six month of year 2009-2010, we foresee that the business environment will continue to remain challenging. However, with a dedicated and hardworking team it shall be their endeavour to convert challenges into opportunities.

Some encouraging signs are that our re- started products viz, Pumps, Motors and Turbines have been welcomed by the market and Govt. department. The Company is fully aligned with the vision to expand business operations. I am confident that the management of your Company has the ability and will act prudently to expand the business of the Company, in the best interest of all stake holders.

Comments on Auditor's Review

- a) **Markup on outstanding amount of custom and import duties:**
The markup on account of custom & other import duties as per interpretation is not required to be charged as per ECC & Cabinet decision. However, the matter is being discussed by BoD committee with Government as per Board guidelines and meetings are in progress.
- b) **Interest on funds provided by the Government for CSS**
The markup on the loan given by Government of Pakistan for Compulsory Separation Scheme has also not been provided. The matter however, is under consideration by the Govt. and hopefully the matter would be settled.
- c) **Interest on Workers Profit Participation Fund**
The production jobs have been given to the Contractor and he is responsible for service matters of his employees. They work under his supervision to carry out specific jobs. Management is therefore of the view that WPPF and interest is not leviable in our case.

Acknowledgment

I am thankful to the members of the Board of Directors of the Company, shareholders, and bankers, financial institutions, our valued customers and suppliers for their support and assistance. I also thank the executives and other employees of the Company for their dedication and hard work and look forward to get the same cooperation in future.

On behalf of the Board.

Lahore, February 19, 2010

(Ghulam Rasool Ahpan)
CHAIRMAN

AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of Pakistan Engineering Company Limited as at December 31, 2009 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the half year then ended (here-in-after referred to as the “interim financial information”). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2009 and December 31, 2008 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2009.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

- a) Interest amounting to Rs. 41.989 million (accumulated Rs. 41.989) @ 14% for three years relating to custom and other import duties has not been provided, which is not in accordance with order of Government of Pakistan. The management is of the view that since there was no mention of charging any interest or surcharge in the ECC and cabinet decision, therefore, mark up is not leviable.
- b) Interest amounting to Rs. 15.450 million for the half year ended December 31, 2009 (accumulated Rs. 239.475 million) has not been provided on funds provided by Government of Pakistan for compulsory

separation scheme. According to the management, the mark up is not payable and the issue is being taken up with the government by Board committee in the light of legal opinion available and the decision of the competent authorities.

- c) Interest amounting to Rs. 1.324 million for the half year ended December 31, 2009 (accumulated Rs. 7.108 million) has not been provided for on the funds utilized by the company as required under the Companies Profit (Workers' Profit Participation Act, 1968). An amount of Rs. 6.618 million (June 2009: Rs. 4.206 million) was utilized from the Workers' Profit Participation Fund for welfare of "workers on contract".

Had the provision for interest in respect of paragraphs (a) to (c) been made in the interim financial information, the profit for the year would have been lower by Rs. 16.774 million and accumulated loss would have been increased by Rs. 288.572 million.

Qualified Conclusion

Based on our review, except for the effect, if any, of the matters referred to in the preceding paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at December 31, 2009 is not prepared, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan.

Without qualifying our opinion we draw attention to Note. 10 to the interim financial information regarding non reconciliation of Privatization Commission Loan as per their confirmation. The ultimate outcome of the matter cannot presently be determined.

Lahore, February 19, 2010

FAZAL MAHMOOD & COMPANY
Chartered Accountants

CONDENSED INTERIM BALANCE SHEET (UN-AUDITED)



As at December 31, 2009

	<u>DEC. 31, 2009</u>	<u>JUNE 30, 2009</u>
	(Rupees in Thousand)	
FIXED CAPITAL EXPENDITURE		
NON CURRENT ASSETS		
Property, Plant and Equipment-Tangible	4,878,045	4,592,772
Assets subject to Finance Lease	-	710
Capital Work in Progress	4,301	2,559
Land Held for Sale	314,724	314,724
	5,197,070	4,910,765
LONG TERM SECURITY DEPOSITS	1,939	2,925
	5,199,009	4,913,690
CURRENT ASSETS		
Stores, Spares and Loose Tools	142,646	142,403
Stock-in-trade	537,625	445,460
Assets held for sale	25,654	25,654
Trade debtors	347,439	347,364
Loans & advances to Employees	1,537	1,022
Advances to Others	48,270	67,717
Trade Deposits, Prepayments & others Receivables	56,063	46,366
Cash and bank balances	35,513	28,250
	1,194,747	1,104,236
CURRENT LIABILITIES		
Trade Creditors	150,284	143,023
Accrued Liabilities	8,216	9,419
Deposits & Advance payments	11,640	15,289
Other Liabilities	45,126	81,591
Unclaimed Dividend	12,461	7,803
Accrued Mark-up - On Secured Loans	5,120	30,932
Short Term borrowings	122,325	-
Current Portion of Long Term Loan	70,975	59,725
Current Portion of Liabilities against assets subject to finance lease	-	955
Provision for Taxation	34,190	17,653
	460,337	366,390
NET CURRENT ASSETS	734,410	737,846
Total Assets Less Current Liabilities	5,933,419	5,651,536
CONTINGENCIES AND COMMITMENTS	5 -	-
NON-CURRENT LIABILITIES		
GOVERNMENT OF PAKISTAN LOANS	9 1,790,848	1,790,848
LONG TERM LOAN	51,032	76,317
DEFERRED TAXATION	139,234	36,714
	1,981,114	1,903,879
NET TOTAL ASSETS	3,952,305	3,747,657
REPRESENTED BY:		
Share Capital	56,902	56,902
Revenue Reserves-General	10,000	10,000
Accumulated (Loss)	(1,035,257)	(1,056,203)
	(968,355)	(989,301)
Surplus on Revaluation of Fixed Assets	4,920,660	4,736,958
	3,952,305	3,747,657

The annexed notes form an integral part of this condensed interim financial information.

CHIEF EXECUTIVE

DIRECTOR

CONDENSED INTERIM PROFIT & LOSS ACCOUNT (UN-AUDITED)



FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	<u>2009</u> <u>Oct-Dec</u> (Rupees in Thousand)	<u>2009</u> <u>Jul-Dec</u> (Rupees in Thousand)	<u>2008</u> <u>Oct-Dec</u> (Rupees in Thousand)	<u>2008</u> <u>Jul-Dec</u> (Rupees in Thousand)
Sales	534,925	715,312	275,009	425,902
Cost of Goods Sold	441,848	573,962	226,275	354,782
GROSS PROFIT	93,077	141,350	48,734	71,120
OPERATING EXPENSES				
Selling and Distribution expenses	4,001	6,178	2,587	3,791
Freight and Forwarding Expenses	4,924	7,799	3,859	4,884
General and Administrative expenses	10,898	23,518	6,030	16,843
	19,823	37,495	12,476	25,518
OPERATING PROFIT BEFORE FINANCIAL CHARGES	73,254	103,855	36,258	45,602
Other charges	220	372	225	349
Financial charges	6,676	10,363	1,559	3,650
OPERATING PROFIT	66,358	93,120	34,474	41,603
Other income	(766)	(2,198)	(2,761)	(12,771)
	67,124	95,318	37,235	54,374
Workers' Profit Participation Fund	4,656	4,656	2,080	2,080
PROFIT BEFORE TAXATION	62,468	90,662	35,155	52,294
TAXATION				
- Current	24,322	34,190	(754)	-
- Prior	(879)	(879)	101	101
- Deferred	148	148	16,495	16,495
	23,591	33,459	15,842	16,596
PROFIT AFTER TAXATION	38,877	57,203	19,313	35,698
Earning per share-Basic	6.83	10.05	3.39	6.27

The annexed notes form an integral part of this condensed interim financial information.

Statement of Comprehensive Income (Un-Audited)

FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	<u>2009</u> <u>Oct-Dec</u> (Rupees in Thousand)	<u>2009</u> <u>Jul-Dec</u> (Rupees in Thousand)	<u>2008</u> <u>Oct-Dec</u> (Rupees in Thousand)	<u>2008</u> <u>Jul-Dec</u> (Rupees in Thousand)
Profit After Taxation	38,877	57,203	19,313	35,698
Other Comprehensive Income				
Surplus on revaluation of fixed assets incremental depreciation	8,577	9,877	2,740	4,275
income tax relating to component of other comprehensive income	(3,002)	(3,457)	(959)	(1,496)
	5,575	6,420	1,781	2,779
Total Comprehensive Income	44,452	63,623	21,094	38,477

The annexed notes form an integral part of this condensed interim financial information.

CHIEF EXECUTIVE

DIRECTOR

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)



FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
	(Rupees in Thousand)	
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Profit before taxation	90,662	52,294
Adjustments for:		
Depreciation	14,798	7,326
Amortization of leased assets	71	89
Financial Charges	10,363	3,650
Provision for W.P.P.F.	4,656	2,080
Provision for gratuity and pension	21	17
(Profit)/ on sale of fixed assets	(1,020)	(8,633)
	<hr/>	<hr/>
Profit before working capital changes	119,551	56,823
Adjustments for working capital changes		
(Increase)/Decrease in Current Assets	(95,432)	(80,145)
Increase/(Decrease) in Current Liabilities	(32,094)	62,649
Cash (Utilized) / Generated from Operations	(7,975)	39,327
	<hr/>	<hr/>
Financial Charges Paid	(36,175)	(4,184)
Gratuity Paid	(19)	(14)
Worker's Profit Participation paid	(6,618)	(2,288)
Income Tax Paid	(4,590)	(3,261)
	<hr/>	<hr/>
Net Cash (Outflow) / Inflow from Operating Activities	(55,377)	29,580
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital Work in Progress	(1,742)	(3,101)
Purchase of tangible fixed assets	(7,447)	(5,956)
Decrease / (Increase) in Long term Security deposits	986	(340)
Sale proceeds on disposal of fixed assets	1,527	13,238
	<hr/>	<hr/>
Net Cash (Outflow) / Inflow from Investing Activities	(6,676)	3,841
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Increase / (Decrease) in Short term & Long term loans	108,290	(33,482)
Dividends paid	(38,019)	(33)
Payment of lease liability	(955)	(158)
	<hr/>	<hr/>
Net cash Inflow / (Outflow) from Financing Activities	69,316	(33,673)
Net increase / (decrease) in cash and cash equivalents	7,263	(252)
Cash and Cash Equivalents at beginning of the period	28,250	24,482
	<hr/>	<hr/>
Cash and Cash Equivalents at end of the period	35,513	24,230

CHIEF EXECUTIVE

DIRECTOR

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)



FOR THE HALF YEAR ENDED DECEMBER 31, 2009

	(Rupees in Thousand)			
	Paid up ordinary share capital	Revenue reserve	Accumulated Loss	Total
Balance as at June 30, 2008	56,902	10,000	(1,168,990)	(1,102,088)
Total Comprehensive income for the half year ended December 31, 2008	-	-	38,477	38,477
Balance as at December 31, 2008	56,902	10,000	(1,130,513)	(1,063,611)
Dividend for the half year ended December 31, 2008 @ Rs. 5.00 Per Share			(28,451)	(28,451)
Total Comprehensive income for the half year ended June 30, 2009			102,761	102,761
Balance as at June 30, 2009	56,902	10,000	(1,056,203)	(989,301)
Dividend for the year ended June 30, 2009 @ Rs. 7.50 Per Share			(42,677)	(42,677)
Total Comprehensive income for the half year ended December 31, 2009			63,623	63,623
Balance as at December 31, 2009	56,902	10,000	(1,035,257)	(968,355)

CHIEF EXECUTIVE

DIRECTOR

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)



FOR THE HALF YEAR ENDED DECEMBER 31, 2009

1. THE COMPANY AND ITS OPERATIONS

Pakistan Engineering Company Limited (a State Enterprise) was incorporated in Pakistan on February 15, 1950 under the Companies Act, 1913 (Now Companies Ordinance, 1984) as a public limited company. Its shares are quoted on all Stock Exchanges of Pakistan. The company is principally engaged in the manufacturing and sale of engineering products. The major products of the company are electricity transmission and communication towers, electric motors, pumps and steel rolled products etc. The Company has closed down its all divisions, except Structure (STR) division, and is principally engaged in the manufacturing and sale of electricity transmission and communication towers. With the approval of the Board of Directors of the company, Pumps, Electric motors, Foundry and Rolling mill divisions have been restarted and are in operation.

2. ACCOUNTING POLICIES

This condensed interim financial information has been prepared using the same accounting policies as are applied in the preparation of annual accounts, for the year ended June 30, 2009 except for the change in the policy of borrowing cost and presentation of financial statements.

During the period the company has changed its accounting policy for borrowing cost. Now the borrowing cost directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. The option of immediately expensing borrowing cost has been removed. This change has been made to comply with the requirements of IAS-23 amended borrowing cost which became effective from January 01, 2009. The change in policy has no impact on these financial statements as the company does not have any borrowing cost directly attributable to the acquisition of or construction of qualifying assets.

The company applies revised IAS-1 (presentation of financial statements), which became effective from January 01, 2009. The company has accordingly presented all changes in owner's equity in the statement of changes in equity, whereas, or non owner changes in equity are presented in the statement of comprehensive income. Comparative information have been represented in conformity with the revised standard. The change in accounting policy impacts presentation only without any impact on earning per share.

3. BASIS OF PREPARATION

This condensed interim financial information has been prepared in

accordance with the requirements of International Accounting Standard -34: Interim Financial Reporting and have been reviewed by the auditors as required by the Code of Corporate Governance.

4. **ESTIMATES**

The preparation of condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by the management in applying the company's accounting policies and key sources of estimation of uncertainty are the same as those were applied to the financial statements for the year ended June 30, 2009.

5. **BASIS OF ACCOUNTING**

During the half year ended Company has earned after tax profit of Rs. 57.203 million which has reduced the accumulated loss by that amount. The company has accumulated losses of Rs. 1,035.257 million as at December 31, 2009. Furthermore the liabilities of the company payable to the Government of Pakistan shall be met from the sale proceeds of Badami Bagh land and surplus land of Kot Lakhpat works. The foregoing factors and considering the future plans the company will be able to generate profits and as such these will wipe off the accumulated losses in future years In this regard Badami Bagh Land has been offered for sale by the Privatization Commission and expression of interests have been received by Privatization Commission. The Company has closed down its all divisions, except Structure (STR) , Pumps, Electric motor, Rolling mills and Foundry and had terminated its employees through compulsory separation scheme.

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

As a result these condensed interim financial information have been prepared

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)



FOR THE HALF YEAR ENDED DECEMBER 31, 2009

on assumption that the company will continue as a going concern and consequently do not include any adjustments that might be necessary if going concern assumption was not appropriate.

6. CONTINGENCIES AND COMMITMENTS

- Claim not acknowledged as debts in respect of various subjudice cases filed against company for which the maximum possible liabilities could be approximately Rs. 2.517 million (June 30, 2009 Rs. 2.517 million).

- Guarantees of Rs. 320.007 million (June 30, 2009:Rs. 295.037 Million) issued by the banks and insurance company on behalf of the company.

- Letters of credit for machinery,raw material and store items amounting to Rs. 110.280 million (June 30, 2009:Rs. Nil).

7. COST OF GOODS SOLD

(Rupees in Thousand)

	2009 Oct-Dec	2009 Jul-Dec	2008 Oct-Dec	2008 Jul-Dec
Raw material consumed	198,304	449,132	255,820	398,999
Stores and spares consumed	45,263	59,917	10,255	19,365
Salaries and wages (including all benefits)	19,502	39,875	17,454	27,955
Fuel and Power	10,612	21,115	10,162	17,646
Inspection Fee	965	1,063	1,110	1,421
Service Charges	4	126	317	661
Processing Charges	11,820	12,604	-	20
Repair & Maintenance	479	1,409	529	762
Insurance	156	313	136	273
Research &Development	285	1,158	-	-
Rent rates & Taxes	195	403	381	381
Traveling and conveyance	285	285	351	351
Printing and stationery	276	276	221	221
Postage and Telephone	155	155	115	115
Vehicle running Expenses	238	616	62	327
Other Expenses	66	495	-	199
Depreciation	10,664	12,968	2,801	5,713
	299,269	601,910	299,714	474,409
(Increase) decrease in Work in Process Inventory	81,735	45,199	(53,680)	(96,441)
Cost of Goods Manufactured	381,004	647,109	246,034	377,968
(Increase) in Finished Goods Inventory	60,844	(73,147)	(19,759)	(23,186)
Cost of Goods Sold	441,848	573,962	226,275	354,782

8. ACQUISITION AND DISPOSAL OF PROPERTY PLANT AND EQUIPMENT (AT COST)

DESCRIPTION	(Rupees in Thousand)			
	December. 31, 2009		June. 30, 2009	
	ACQUISITION	DISPOSAL	ACQUISITION	DISPOSAL
OWNED ASSETS:				
Office Building	-	-	1,244	-
Plant & Machinery	488	-	4,301	(45,772)
Furniture & Fixture	2,732	-	1,772	-
Vehicles	3,581	(2,277)	4,163	-
Electric Equipments	499	-	4,231	-
Tools	147	-	219	-
	7,447	(2,277)	15,930	(45,772)
Vehicle - Transfer From Leas	2,307	-	-	-
	9,754	(2,277)	15,930	(45,772)

	(Rupees in Thousand)	
	December. 31, 2009	June. 30, 2009
9. <u>CAPITAL WORK IN PROGRESS</u>		
Civil Works	3,516	1,774
Plant & Machinery -Under installation	785	785
	4,301	2,559
10. <u>GOVERNMENT OF PAKISTAN LOAN</u>	1,790,848	1,790,848

The above includes Privatization Commission Loan of Rs. 481.469 million. The Privatization Commission directly confirmed to the auditors' the total principal loan liability of Rs. 612.923 million and mark up of Rs. 704.349 million without providing any agreement/ basis for changing the markup. The management and the BOD of the company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without mark up, as there was no mention of charging mark up in the recorded decisions. The foregoing loans have been outstanding since 1993 and Privatization Commission has never in past confirmed loan liability with mark up.

During the years ended June 30, 2004 and June 30, 2005 Privatization Commission has confirmed to the auditors' the loan liability without changing any markup. The company has also obtained legal opinion from the legal adviser of the company. The legal adviser is of the firm opinion that since there is no mention of any mark up to be charged on this loan nor is there any mark up agreement in respect of this loan therefore no mark up is payable by PECO in respect of this loan. In the opinion of the legal adviser the amount of additional gratuities of Rs. 131.454 million should also be borne by the Privatization Commission.

Furthermore, as mentioned above in order to reconcile the principal and markup

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)



FOR THE HALF YEAR ENDED DECEMBER 31, 2009

amounts with respect to Government of Pakistan Loans, a committee has been constituted as per the decision of Additional Finance Secretary. The management of PECO intends to pay back the Government of Pakistan Loans after the reconciliation of differences as per the records and facts available with the committee representatives.

11. TRANSACTIONS WITH RELATED PARTIES

	<u>2009</u> <u>Jul-Dec</u>	<u>2008</u> <u>Jul-Dec</u>
	(Rupees in Thousand)	
Dividend paid to SEC	9,556	-
Reimbursement of expenses of SEC	183	98
Paid to SEC	3,675	-
Payment to Pakistan Machine Tool	-	1,000

12. DATE OF AUTHORIZATION

These financial statements have been authorised for issue by Board of Directors on February 19, 2010.

13. NON ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Board of Directors in their meeting held on February 19, 2010 has approved Interim cash dividend @ 50% amounting to Rs. 28.451 million on the existing paid up value of the ordinary share capital.

14. GENERAL

Figures have been rounded off to the nearest thousand rupee.