



Pakistan Engineering Company Limited



**Half Yearly
Report
2010**

14. COST	2010 F	2010	2009 S A L 2009 S	
	Oct-Dec	Jul-Dec	Oct-Dec Jul-Dec	
	----- Rupees in '000 -----			
Raw material consumed	123,337	241,740	198,304	449,132
Stores and spares consumed	18,278	37,955	45,263	59,917
Salaries and wages (including all benefits)	18,495	36,196	19,502	39,875
Fuel and Power	14,649	22,538	10,612	21,115
Inspection Fee	1,108	1,110	965	1,063
Service Charges	138	210	4	126
Processing Charges	1,754	1,754	11,820	12,604
Repair & Maintenance	965	2,001	479	1,409
Insurance	156	313	156	313
Research & Development	-	-	285	1,158
Rent, Rates & Taxes	194	400	195	403
Traveling & conveyance	55	176	285	285
Printing & stationery	248	351	276	276
Postage & Telephone	116	197	155	155
Vehicle running Expenses	444	790	238	616
Other Expenses	83	173	66	495
Depreciation	6,499	12,921	10,664	12,968
	186,519	358,825	299,269	601,910
<i>Decrease in Work in Process Inventory</i>	4,855	10,585	81,735	45,199
Cost of Goods Manufactured	191,374	369,410	381,004	647,109
<i>(Increase) in Finished Goods Inventory</i>	(11,300)	(7,252)	60,844	(73,147)
Cost of Sales	180,074	362,158	441,848	573,962

15. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties/associated undertakings, other than remuneration and benefits to key management personnel under the terms of their employment are as under.

December. 31, 2010 June. 30, 2010
----- Rupees in '000 -----

Reimbursement of expenses of SEC	-	188
Paid to SEC	-	3,675
Payable to SEC	1,429	1,429
Sale to Pakistan Machine Tool	2,826	-
Receivable from Pakistan Machine Tool Factory	2,826	-

Maximum amount due from associated undertakings at the end of any month was of Rs. 0.537 Million (June 30, 2010: Rs. 0.537 million).

16. DATE OF AUTHORIZATION

These financial statements have been authorised for issue by Board of Directors on February 26, 2011.

17. GENERAL

Figures have been rounded off to the nearest thousand rupee.

Corporate Information	2
Director's Review	4
Auditor's Review Report	6
Balance Sheet	8
Profit & Loss Account	9
Statement of Comprehensive Income	9
Cash Flow Statement	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

Board of Directors

Mr. Ghulam Rasool Ahpan
(Chairman)
Khawaja Shaukat Ali
(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

Board Audit Committee

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

Board Receivables Committee

Mr. Liaqat Mohammad
(Chairman)
Khawaja Shaukat Ali
(Member)
Mr. Mohammad Shabir Malik
(Member)
Mr. Muhammad Iqbal
(Member)

Board Finance Committee

Mr. Rashid Ali Khan
(Chairman)
Mr. Muhammad Arif Habib
(Member)
Mr. Muhammad Iqbal
(Member)

Board H.R. Committee

Mr. Khizar Hayat Khan
(Chairman)
Mr. Liaqat Mohammad
(Member)
Mr. Mohammad Shabir Malik
(Member)

**Chief Financial Officer /
Company Secretary**
Mian Anwar Aziz

Auditors
Fazal Mahmood & Company
(Chartered Accountants)

**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

Web: <http://www.Peco.com.pk>

Bankers

National Bank of Pakistan

United Bank Limited

Summit Bank Limited

Plant

Kot Lakhpat, Lahore.

Shares Registrar

M/s Scarlet IT System (Pvt)
Limited

24, Ferozpur Road, Lahore.

Branches

Karachi

Islamabad

Legal Advisor

Mian Farzand Ali

Dear Shareholders

Assalam-o-Alaikum

On behalf of PECO Board of Directors, I hereby present the half yearly condensed interim statements for the period July-December, 2010, along with the Auditor's Review.

Over view

During the period under review the low performance of the Company, as compared to the corresponding period last year, amongst other factors, is mainly attributed to general slump emerged in the business activity of the country due to load shedding of electricity, rescheduling of gas supply through Gas Load Management, increase in the petroleum, electric and gas rates which led to general inflation viz-a-viz; increase in the prices of raw materials/inputs which resulted in the increase of the cost of production. Furthermore, implementation of Punjab Government decision on increasing the minimum level of wages of employees, which led to cut-throat competition and company could not manage to secure reasonable business.

Since company's survival is dependable on its main production activity relating to manufacturing of towers, during the period under review, it is believed that government funds were diverted to the flood rehabilitation activities, therefore, some of the WAPDA projects were deferred. Increase in the number of local competitors, with cheaper overhead cost as compared to PECO, was another factor which affected the company's performance during the period under review.

Financial Results

The **sales** revenue during the period ended on 31.12.2010 was Rs 378.306 million against Rs 715.312 million of the same period last year. This showed a decrease of Rs 337.006 million (47%). The **gross profit** also decreased from Rs 141.350 million to Rs 16.148 million when compared with the corresponding period of last year. This was also lower by Rs 125.202 million.

Operating Expenses during the period were Rs 40.199 million against operating profit of Rs 103.855 million against same period of last year.

The company's overall performance was not up to mark due to low volume of orders in hand at the beginning of financial year and that substantial orders could not be obtained during the period under review.

Future Outlook

In order to improve the productivity certain strategic decisions have been taken viz; rationalizing of manpower, efficient purchasing, cutting down wastage, production cost and strict control over other overheads. Moreover, to generate funds, efforts are being made to improve the sale of Irrigation Pumps, Electric Motors. In addition, company is planning to develop its Foundry Division and Rolling Mills to restart in-house production facilities for rolling the billets.

Comments on Auditors Review

- a. The markup on account of custom and other import duties has not been charged, as the matter is under active consideration by the BoD Loan Committee with Government.
- b. The markup on the loans given by the Government of Pakistan has not been provided. In this regard, as per Auditor's direction, a fresh opinion from Messrs Asim Hafeez & Associates, Lahore, has been obtained on 22nd February, 2011 which is being examined.
- c. No regular manpower is being inducted by the company since January, 2002, instead orders in hand for specific jobs are completed through contractors under an agreement and company owe no direct responsibility to deal with the service matters of the manpower engaged by the Contractors and manpower position is changed with the change in requirement. However, in order to meet the provisions of The Companies Profits (Workers' Participation) Act, 1968, the issue is being placed before the Board for consideration.

Acknowledgement

I take this opportunity to thank the members of the Board of Directors of the Company, all the stakeholders, Banks/Financial Institutions, our valued customers and suppliers for their continued support and assistance. I also thank the executives, employees and workers of the Company for their dedication and commitments towards job and look forward to get the same cooperation in future.

On behalf of the Board

(Ghulam Rasool Ahpan)
CHAIRMAN

Lahore,
February 26, 2011

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, 2010 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the accounts for the six months period 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 for interim financial reporting. 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 and the condensed interim statement of comprehensive income for the quarters ended December 31, 2010 and December 31, 2009 have not been reviewed, as we are required to review only the cumulative figures for the six months period ended December 31, 2010.

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 million) @ 14% for three years relating to custom and other import duties has not been provided, which is not in accordance with order of Government of Pakistan (Refer Note 11.2.1). 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 six months period ended December 31, 2010 (accumulated Rs. 272.950 million) has not been provided on funds provided by Government of Pakistan for compulsory separation scheme (Refer Note 11.4). 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. 1.106 million for the six months period ended December 31, 2010 (accumulated Rs. 9.149 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. 9.907 million (June 2010: Rs. 9.122 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 loss for the period would have been higher by Rs. 16.556 million and accumulated loss would have been increased by Rs. 324.088 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 of and for the six months period ended December 31, 2010, is not prepared, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our review report, we draw attention to the following uncertainties:

- i. note. 5 to the interim financial information, which states the loss incurred, liquidity problems faced by the company and the reasons for preparation of financial statements on going concern basis.
- ii. note. 11.1, 11.2.2, 11.3, 11.5.1, 10.3 and 10.4 to the interim financial information, which describes the uncertainty related to the difference between the amount due as per the Company's records and amounts claimed by the Privatization Commission and Finance Division as per their confirmation in respect of which reconciliation exercise is currently in progress through Ministry of Finance. The ultimate outcome of the matter cannot presently be determined.

Lahore: February 26, 2011

FAZAL MAHMOOD & COMPANY
Chartered Accountants
Engagement Partner: Sh. Atif Farooq

CONDENSED INTERIM BALANCE SHEET (UN-AUDITED)



As at December 31, 2010

ASSETS	Notes	<u>DEC. 31, 2010</u>	<u>JUNE 30, 2010</u>
		----- Rupees in '000 -----	
<u>NON CURRENT ASSETS</u>			
Property, Plant and Equipment	6	4,888,514	4,879,205
Capital Work in Progress		5,409	5,684
Land Held for Sale	7	314,724	314,724
		5,208,647	5,199,613
LONG TERM SECURITY DEPOSITS		2,372	1,938
		<u>5,211,019</u>	<u>5,201,551</u>
<u>CURRENT ASSETS</u>			
Stores, Spares and Loose Tools		131,498	137,494
Stock-in-trade		292,963	307,565
Assets held for sale		-	20,556
Trade debts		509,515	298,301
Loans & advances to Employees		237	1,175
Advances to Others		54,953	77,934
Trade Deposits, Prepayments & other Receivables		33,705	39,757
Cash and bank balances	8	10,509	83,676
		1,033,380	966,458
<u>CURRENT LIABILITIES</u>			
Trade Creditors		158,171	50,546
Accrued Liabilities		19,756	5,779
Deposits & Advances		25,936	13,012
Other Liabilities		39,813	59,306
Unclaimed Dividend		16,289	12,226
Mark-up Accrued on Secured Loans		916	5,910
Short Term Financing	9	24,196	-
Current Maturity of Long Term Financing	12	11,250	22,500
Provision for Taxation		72,561	68,778
		368,888	238,057
NET CURRENT ASSETS		<u>664,492</u>	<u>728,401</u>
<i>Total Assets Less Current Liabilities</i>		<u>5,875,511</u>	<u>5,929,952</u>
CONTINGENCIES AND COMMITMENTS	10	-	-
<u>NON-CURRENT LIABILITIES</u>			
GOVERNMENT OF PAKISTAN LOANS	11	1,790,848	1,790,848
LONG TERM FINANCING	12	11,119	12,887
DEFERRED TAXATION		129,164	140,344
		1,931,131	1,944,079
NET TOTAL ASSETS		<u>3,944,380</u>	<u>3,985,873</u>
<u>REPRESENTED BY:</u>			
Share Capital	13	56,902	56,902
Revenue Reserve - General		10,000	10,000
Accumulated (Loss)		(1,022,458)	(994,063)
		(955,556)	(927,161)
SURPLUS ON REVALUATION OF FIXED ASSETS		4,899,936	4,913,034
		<u>3,944,380</u>	<u>3,985,873</u>

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

Khawaja Shaukat Ali
Chief Executive

Mohammad Shabir Malik
Director

CONDENSED INTERIM PROFIT & LOSS ACCOUNT (UN-AUDITED)



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

	2010	2010	2009	2009
	Oct-Dec	Jul-Dec	Oct-Dec	Jul-Dec
	Rupees in '000			
Sales	180,266	378,306	534,925	715,312
Cost of Sales	180,074	362,158	441,848	573,962
GROSS PROFIT	192	16,148	93,077	141,350
OPERATING EXPENSES				
Selling and Distribution expenses	2,729	5,722	4,001	6,178
Freight and Forwarding Expenses	5,465	9,263	4,924	7,799
General and Administrative expenses	13,247	25,214	10,898	23,518
	21,441	40,199	19,823	37,495
(LOSS) / PROFIT FROM OPERATIONS	(21,249)	(24,051)	73,254	103,855
Other charges	120	365	220	372
Financial charges	1,998	2,932	6,676	10,363
	(23,367)	(27,348)	66,358	93,120
Other income	(2,417)	(6,909)	(766)	(2,198)
	(20,950)	(20,439)	67,124	95,318
Workers' Profit Participation Fund	-	-	4,656	4,656
(LOSS) / PROFIT BEFORE TAXATION	(20,950)	(20,439)	62,468	90,662
TAXATION				
- Current	3,783	3,783	24,322	34,190
- Prior	-	-	(879)	(879)
- Deferred	(11,180)	(11,180)	148	148
	(7,397)	(7,397)	23,591	33,459
(LOSS) / PROFIT FOR THE PERIOD	<u>(13,553)</u>	<u>(13,042)</u>	<u>38,877</u>	<u>57,203</u>
(LOSS) / EARNING PER SHARE - BASIC	<u>(2.38)</u>	<u>(2.29)</u>	<u>6.83</u>	<u>10.05</u>

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

CONDENSED INTERIM Statement of Comprehensive Income (Un-Audited) FOR THE HALF YEAR ENDED DECEMBER 31, 2010

(LOSS) / PROFIT FOR THE PERIOD	(13,553)	(13,042)	38,877	57,203
Other Comprehensive Income	-	-	-	-
TOTAL COMPREHENSIVE (LOSS) / INCOME TRANSFERRED TO EQUITY	<u>(13,553)</u>	<u>(13,042)</u>	<u>38,877</u>	<u>57,203</u>

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

Khawaja Shaukat Ali
Chief Executive

Mohammad Shabir Malik
Director

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

	Dec. 31, 2010	Dec. 31, 2009
	----- Rupees in '000 -----	
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
(Loss)/ Profit before taxation	(20,439)	90,662
Adjustments for:		
Depreciation	15,088	14,798
Amortization of leased assets	-	71
Financial Charges	2,932	10,363
Balances Written off	(159)	-
Provision for W.P.P.F.	-	4,656
Provision for gratuity and pension	4	21
(Profit) on sale of Assets held for Sale	(2,827)	(1,020)
(Loss) / Profit before working capital changes	(5,401)	119,551
Adjustments for working capital changes		
(Increase)/Decrease in Current Assets	(153,932)	(95,432)
Increase/(Decrease) in Current Liabilities	124,940	(32,094)
Cash (Utilized) from Operations	(34,393)	(7,975)
Financial Charges Paid	(7,926)	(36,175)
Gratuity Paid	(4)	(19)
Workers' Profit Participation paid	(9,907)	(6,618)
Income Tax Paid	(6,713)	(4,590)
Net Cash (Utilized) from Operating Activities	(58,943)	(55,377)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital Expenditure in property, plant & equipment	(24,397)	(7,447)
Capital work in progress	-	(1,742)
Long term Security deposits	-	986
Sale proceeds from disposal of Assets held for Sale	23,383	1,527
Net Cash (Outflow) from Investing Activities	(1,014)	(6,676)
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Increase in Short term & Long term Financing	11,178	108,290
Dividends paid	(24,388)	(38,019)
Repayment of lease liability	-	(955)
Net cash (Outflow) / Inflow from Financing Activities	(13,210)	69,316
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(73,167)	7,263
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	83,676	28,250
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	8 <u>10,509</u>	<u>35,513</u>

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

Khawaja Shaukat Ali
Chief Executive

Mohammad Shabir Malik
Director

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



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

	Share capital	General reserve	Accumulated Loss	Total
	------(Rupees in Thousand)-----			
BALANCE AS AT JUNE 30, 2009	56,902	10,000	(1,056,203)	(989,301)
Total Comprehensive Income for the period transferred to equity	-	-	57,203	57,203
Final Dividend for the year ended June 30, 2009 @ Rs. 7.50 Per Share	-	-	(42,677)	(42,677)
Surplus on revaluation of fixed assets realised during the period on account of incremental depreciation charged thereon-net of tax	-	-	6,420	6,420
BALANCE AS AT DECEMBER 31, 2009	56,902	10,000	(1,035,257)	(968,355)
Total Comprehensive Income for the period transferred to equity	-	-	61,901	61,901
Dividend for the six month period ended Dec. 31, 2009 @ Rs. 5.00 Per Share	-	-	(28,451)	(28,451)
Surplus on revaluation of fixed assets realised during the period on account of incremental depreciation charged thereon-net of tax	-	-	6,907	6,907
Surplus on revaluation of fixed assets realised during the period on account of disposal charged thereon-net of tax	-	-	837	837
BALANCE AS AT JUNE 30, 2010	56,902	10,000	(994,063)	(927,161)
Total Comprehensive Loss for the period transferred to equity	-	-	(13,042)	(13,042)
Final Dividend for the year ended June 30, 2010 @ Rs. 7.50 Per Share	-	-	(28,451)	(28,451)
Surplus on revaluation of fixed assets realised during the period on account of incremental depreciation charged thereon-net of tax	-	-	6,113	6,113
Surplus on revaluation of assets held for sale realised during the period on account of disposal charged thereon-net of tax	-	-	6,985	6,985
BALANCE AS AT DECEMBER 31, 2010	56,902	10,000	(1,022,458)	(955,556)

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

Khawaja Shaukat Ali
Chief Executive

Mohammad Shabir Malik
Director

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



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

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 had earlier closed down its all divisions, except Structure (STR) division, and is principally engaged in the manufacturing and sale of electricity transmission and communication towers. At present structure, pumps, electric motor, foundry and rolling mills division of the company are in operation.

2. ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial report are the same as those applied in the preparation of the financial statements for the year ended June 30, 2010. Amendments / Improvement & new interpretations of approved accounting standards effective during the period did not have material impact on the Company's condensed interim financial Statements.

3. BASIS OF PREPARATION

This condensed interim financial report of the company for the six months period ended December 31, 2010 has been prepared in accordance with the requirements of International Accounting Standard -34: Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance 1984 have been followed.

These condensed interim financial statements are unaudited but subject to the limited scope review by auditors and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance 1984.

The comparative condensed interim profit and loss account and condensed interim statement of comprehensive income and notes, thereto, for the quarters ended December 31, 2010 and 2009 are also included in these condensed interim financial statements, which were not subject to review.

These condensed interim financial statements do not include all the information and disclosures required in the annual Financial Statements, and

should be read in conjunction with the company's Financial Statements for the year ended June 30, 2010.

4. ESTIMATES

The preparation of condensed interim financial statements requires management to make judgments, 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 judgments 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, 2010.

5. BASIS OF ACCOUNTING

During the period, the company has incurred after tax loss of Rs.13.042 million and has accumulated losses of Rs. 1,022.458 million (June 30, 2010: 994.063 million) as at December 31, 2010. Further, as a result of decrease in turnover, due to severe competition, the company encountered liquidity problems. However, management is confident that with the commencement of commercial operations of the Rolling Mills Division at full capacity, Company will be able to minimize its cost of production and hence will be able to compete in the tender business, and therefore achieve better turnover in the upcoming period. The company has also obtained borrowing facility from financial institutions amounting to Rs. 250 million. This continued support from the financial institutions will also help to overcome the liquidity and working capital problems of the company. Furthermore, the management of the company has also signed a Memorandum of Understanding with a foreign company which reflects management's plans for diversification and easing out liquidity problems.

The liabilities of the company payable to the Government of Pakistan shall be met from the sale proceeds of Badami Bagh land and surplus land of Kot Lakhpat works. In this regard Badami Bagh Land has been offered for sale by the Privatization Commission.

The Government of Pakistan (through SEC) is one of the major shareholders and has provided continued support to the company and expressed its commitment in order to maintain the going concern status of the company. This support is evident from the fact that GoP had in the past provided loans and financial support to the company. Furthermore, the Ministry of Industries, Production and Special Initiatives vide its letters dated February 02, 2005 and August 19, 2005 bearing reference nos.

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



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

5(50)/97-SEC(Vol-V) and F. No. 5(50)97-SEC, respectively, confirmed that the Government of Pakistan had considered the recommendations of Privatization Commission and the Government had 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 would not be wound up. Furthermore, the company was allowed to hire needed workforce on job-to-job basis on contract/daily wages.

Although uncertainties exists which might cast doubt on the company's ability to continue as a going concern, however, the management of the company is confident that the going concern assumption is appropriate for the reasons explained in the above paragraphs and has, as such prepared these condensed interim financial statements on "Going concern" basis and consequently do not include any adjustments that might be necessary, if going concern assumption was not appropriate.

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

<u>DESCRIPTION</u>	<u>December. 31, 2010</u>		<u>June. 30, 2010</u>	
	----- Rupees in '000 -----			
<u>OWNED ASSETS:</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>
Plant & Machinery	23,871	-	11,566	650
Furniture & Fixture	291	-	4,452	-
Vehicles	-	-	4,718	3,222
Electric Equipments	168	-	2,019	-
Tools	67	-	147	-
	<u>24,397</u>	-	<u>22,902</u>	<u>3,872</u>
Transfers from Leased Assets	-	-	666	-
Transfers from Held for Sale	-	-	1,655	-
	<u>24,397</u>	-	<u>25,223</u>	<u>3,872</u>

7. LAND HELD FOR SALE

<u>December. 31, 2010</u>	<u>June. 30, 2010</u>
----- Rupees in '000 -----	
<u>314,724</u>	<u>314,724</u>

This represents land of 260.495 kanals of Badami Bagh Works which has been closed down. The title documents of land has been handed over to the Privatization Commission for sale. The sale proceeds of this land will be utilized for payment of long term loan liabilities as stated in note no 11. The fair value of the land is estimated at Rs. 2,631.5 million (June 30, 2010: Rs. 2,631.5 million).

8. CASH AND BANK BALANCES

Cash in hand	2,431	1,658
Cash with banks:		
Current accounts	7,820	60,764
Saving accounts	6	21,002
Escrow account	252	252
	8,078	82,018
	10,509	83,676

9. SHORT TERM FINANCING

National Bank of Pakistan under markup arrangements - Secured:

Cash Finance	24,196	-
--------------	--------	---

- 9.1 During the year short term cash finance was obtained from NBP on markup basis and is secured against first charge over current and fixed assets of the company. The financing form part of total credit facility available to the extent of Rs. 250 million. The loan carries markup at the rate of 3 months kibar plus 2% without floor and cap.

10. CONTINGENCIES AND COMMITMENTS

Contingencies

- 10.1 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, 2010 Rs. 2.517 million).
- 10.2 Guarantees of Rs. 345.223 million (June 30, 2010:Rs. 326.584 Million) issued by the banks and insurance company on behalf of the company.
- 10.3 The Privatization Commission has claimed additional loan liability amounting to Rs. 131.454 million and mark up amounting to Rs. 1,001.800 million (Ref: Note 11.1). The management of the company in the minutes of the meeting held on October 7, 2010 at Ministry of Finance to reconcile the principal and mark up amounts with respect to Govt. of Pakistan loans does not agrees with the stance of Privatization Commission in respect of additional loan and mark up claimed. Privatization Commission has been instructed by the Ministry of Finance to review the calculation / treatment of a loan amounting Rs. 131.454 million and have been asked to come up with firm stance on the foregoing loan amounting to Rs. 131.454 million. Further, Privatization Commission has been instructed to sort out the issue of charging interest on VSS loan and Privatization Commission has been asked to come up with sound reason and logic for charging interest on the above loan. The legal advisor of the company is also of the firm opinion that since there is no mention of any markup to be charged on this loan nor is there any

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



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

markup agreement, therefore, no markup is payable by the company in respect of this loan. The management is confident that the ultimate outcome of the matter will result in favor of the company and hence no provision has been made in these condensed interim financial statements in respect of the additional loan and markup claimed.

- 10.4 During the period, the Finance Division, has claimed an amount of Rs. 1,661.705 million in respect of markup payable on remaining Government of Pakistan Loans (Ref: Note 11.2.2, 11.3, 11.4 & 11.5.1). However, the management of the company is of the opinion that no markup is payable in the absence of any agreement for markup. The matter has been taken up by the Ministry of Finance, in meeting held on October 7, 2010, to reconcile the principal and Mark up amounts with respect to Govt. of Pakistan loans, which has instructed the Finance Division to re-examine the issue relating to Rs. 100.00 million loan and interest thereof, to confirm the contention of PECO. Decision on this account would be conveyed to company at the earliest. Till the issue of half yearly accounts no such decision has been received by company. Furthermore, the company has also obtained the opinion from the legal advisor, who is also of opinion that no markup is payable. The management is confident that the ultimate outcome of the matter will result in favor of the company and hence no provision has been made in these condensed interim financial statements in respect of the markup claimed.

Commitments

- 10.5 Letters of credit for machinery, raw material and store items amounting to Rs.Nil (June 30, 2010:Rs.6.421 million).

11. GOVERNMENT OF PAKISTAN LOAN

The amount includes funds provided by the Government, bank loan of the company taken over by the Government and amount payable by the company to different Government departments like Customs and Karachi Port Trust. According to the Cabinet Committee Division decision dated 30th May 1994 and 2005 these loans will be settled against the proceeds from the disposal of Land held for sale (Ref: Note 7). Therefore, these have been classified as long term liabilities.

		<u>December. 31, 2010</u>	<u>June. 30, 2010</u>
		----- Rupees in '000 -----	
Privatization commission loan	11.1	481,469	481,469
Government Escrow account	11.2	112,937	112,937
Other Government Loan	11.3	100,000	100,000
Federal Government loan for compulsory separation scheme	11.4	309,000	309,000
Federal Government Bonds	11.5	787,442	787,442
		<u>1,309,379</u>	<u>1,309,379</u>
		<u>1,790,848</u>	<u>1,790,848</u>

In order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee was constituted as per the decision of Additional Finance Secretary in the meeting held in Government of Pakistan Finance Division (CF Wing), Islamabad. The committee includes representatives from Ministry of Finance, Ministry of Industries & Production, Privatization Commission and Board members from PECO. A meeting of the committee was held during the period on October 7, 2010 at Ministry of Finance (Finance Division) which was attended by representatives of Privatization Commission, Ministry of Industries & Production and PECO. PECO agreed to repay all the outstanding principal, which the company is legally liable alongwith interest thereon, through disposal proceeds of Badami Bagh Land. However, the management believes that they are not liable to pay interest on these loans. Further, the Finance Division was instructed in the meeting to re-examine the issue and confirm the contention of PECO. Decision on this account has not been received till the issue of condensed interim statements. Following, the meeting held at Finance Division the management of the company obtained fresh legal opinion from legal consultants regarding the matter of charging interest on GoP Loans. The legal advisor was of the opinion that no markup / interest was payable by PECO to Ministry of Finance and Privatization Commission and instead believed that a case of causing loss to PECO on account of delay caused in disposing off the land at Badami Bagh should be made out, either by raising monetary claim or claiming set-off against the alleged principal loan liability. The management of the company handed over the title documents of the said land to the Privatization commission for disposal in the year 1994 and had Privatization Commission disposed off the land at that time no issue of interest would have risen.

11.1 The break up of interest free loan from Privatization Commission is as follows:

Loan for VSS/CSS and Salaries	281,082	281,082
Loan for shifting of machinery	75,819	75,819
Loan for Energy bills and Import duties	124,568	124,568
	<u>481,469</u>	<u>481,469</u>

The Privatization Commission & Finance Division have directly confirmed to the auditors total liability of Rs. 1,614.723 million as at December 31, 2010 (June 30, 2010: Rs. 1,581.995 million) which includes principal loan liability of Rs. 612.923 million and markup of Rs. 1,001.800 million. The management of the company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, as there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993.

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



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

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

Furthermore, in the meeting held on October 7, 2010 at Finance Division, Privatization Commission was instructed by Ministry of Finance to review the calculation / treatment of the loan amounting to Rs. 131.454 million and come up with firm stance on it. The Privatization Commission was further instructed to sort out the issue of charging interest on VSS loan and come up with sound reason and logic for charging interest thereon.

11.2 The break up of Government Escrow account is as follows:

		<u>December. 31, 2010</u>	<u>June. 30, 2010</u>
		----- Rupees in '000 -----	
Customs and other import duties	11.2.1	86,984	86,984
Pakistan Railways freight		12,989	12,989
Karachi Port Trust		12,964	12,964
		<u>112,937</u>	<u>112,937</u>

11.2.1 The company has not provided interest amounting to Rs.41.989 million (accumulated Rs.41.989 million) @ 14% for three years relating to customs and other import duties.(June 2010: 41.989 million)

11.2.2 During the period the Finance Division for the first time has directly confirmed to the auditors, principal loan liability of Rs. 86.984 million and markup / surcharge on the custom duty of Rs.202.624 million as at December 31, 2010, whereas, in past Finance Division has never provided any such confirmation. However, the management of the Company do not agree with the markup confirmed by the Finance Division, as there was no mention of charging interest or surcharge in the ECC and Cabinet decision.

11.3 The amount is payable on account of the company's bank loans taken over time by the Government in the year 1990. The Finance Division for the first time has directly confirmed to the auditors principal loan liability of Rs.100.00 million and markup of Rs. 180.00 million as at December 31, 2010. However, the

management of the Company do not agree with the markup confirmed by the Finance Division and believes that this loan is free of interest as PECO being a public sector entity was required to take up only principal amount of the loan in its books. The legal adviser of the company is also of the firm opinion that no markup is payable by PECO in respect of this loan. Furthermore, in the meeting held at Ministry of Finance in October 2010, Finance Division was instructed to re-examine the issue relating to Rs.100.00 million Loan and interest thereof, to confirm the contention of PECO and decision to be conveyed at its earliest.

- 11.4 Federal Government of Pakistan provided to PECO a loan of Rs. 309.000 million @ 10% mark up p.a. to pay off the staff through Compulsory Separation Scheme vide letter No. 1(26) CF 111/93 dated 4th March 2002. Interest on this loan accumulating to Rs. 272.950 million (June 2010: Rs.257.500 million) including the effect of the current period, has not been accounted for. The management of the company is of the opinion that markup is not payable on this loan liability in the absence of any agreement for markup.

	<u>December. 31, 2010</u>	<u>June. 30, 2010</u>
	----- Rupees in '000 -----	
11.5 Interest bearing bonds	655,138	655,138
Interest free bonds	132,304	132,304
	<u>787,442</u>	<u>787,442</u>

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

- 11.5.1 The Finance Division for the first time during the period has directly confirmed to the auditors total principal loan liability of Rs.787.442 million and interest of Rs.1,006.131 million as at December 31, 2010, whereas, in past no such confirmation was provided. However, the management of the Company do not agree with the markup confirmed by the Finance Division and is of firm opinion that the Government is liable to pay any interest there on, and that there was no agreement for charging any interest thereon. Furthermore, the legal adviser is also of the firm opinion that no markup is payable by the Company in respect of this loan in the absence of any specific markup agreement.

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



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2010

12. L O N G T E R M F I N A N C I N G

	<u>December. 31, 2010</u>	<u>June. 30, 2010</u>
	----- Rupees in '000 -----	
National Bank Of Pakistan		
Less:	22,369	35,387
Current maturity shown under current liabilities	<u>11,250</u>	<u>22,500</u>
	<u><u>11,119</u></u>	<u><u>12,887</u></u>

- 12.1 The above includes old markup amounting to Rs. 11.119 million (June 30, 2010:Rs. 12.887 million), and frozen markup of Rs. 11.25 million (June 30, 2010: Rs. 22.50 million). Out of the frozen markup of Rs. 22.50 million , Rs. 11.25 million was paid during the year and balance 11.25 million was repayable in one equal quarterly installment by September 2010. This frozen markup does not carry any interest. The old markup of Rs. 11.119 million is interest free and is repayable in four equal quarterly installments commencing from September 2012 and repayable by June 2013. These loans are secured by First charge over present and future, current and fixed assets of the company.

13. S H A R E C A P I T A L

Authorized Capital:

9,000,000 Ordinary shares of Rs.

10/- each

90,000

90,000

100,000 7.5% Cumulative redeemable
preference shares of Rs. 100/- each

10,000

10,000

100,000

100,000

Issued, Subscribed and Paid up Capital:

3,162,144 Ordinary shares of Rs. 10/-
each fully paid in cash

31,621

31,621

2,528,101 Ordinary shares of Rs. 10/-
each issued as fully paid up bonus shares


25,281

25,281

56,902

56,902

- 13.1 State Engineering Corporation (Pvt.) Ltd., an associated company, holds 1,415,723 ordinary shares of Rs. 10/- each as at December 31, 2010.

A Company of 

PAKISTAN ENGINEERING CO. LTD.

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