



PAKISTAN ENGINEERING
COMPANY LIMITED

QUARTERLY REPORT 30 SEPTEMBER 2014



COMPANY INFORMATION

QUARTERLY REPORT 2014

Board of Directors

Mr. Muhammad Arif Azim
(Chairman)
Mr. Shafqat-ur-Rehman Ranjha
(Chief Executive)
Mr. Arif Ibrahim
Mr. Muhammad Arif Habib
Mr. Rashid Ali Khan
Mr. Liaqat Mohammad
Mr. Muhammad Iqbal
Mirza Mahmood Ahmad
Mr. Muhammad Iqbal Awan

Board Audit & Risk Management Committee

Mirza Mahmood Ahmad (Chairman)
Mr. Liaqat Mohammad
Mr. Muhammad Iqbal
Mr. Muhammad Iqbal Awan

Board Finance Committee

Mr. Rashid Ali Khan (Chairman)
Mr. Arif Ibrahim
Mr. Liaqat Mohammad

Board HR & Remuneration Committee

Mr. Muhammad Arif Azim
(Chairman)
Mr. Arif Ibrahim
Mr. Muhammad Iqbal
Mr. Muhammad Iqbal Awan

CFO & Company Secretary

Mian Anwar Aziz

Auditors

M/s. Tariq Abdul Ghani
Maqbool & Company
Chartered Accountants

Bankers

National Bank of Pakistan
United Bank Limited
Summit Bank

Legal Advisor

Sardar Zulfiqar Umar Khan Thahim

Registered Office

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

Phones : 042 37 32 0225-7

Fax No. : 042 37 32 3108

E-Mail : info@peco.com.pk

Website : <http://www.peco.com.pk>

Plants : Kot Lakhpat
Lahore.

Share Registrar:

M/s. Scarlet IT System (Pvt) Ltd.
24-Ferozpur Road,
Near Mozang Chungi,
Lahore.

DIRECTOR'S REPORT

Dear Shareholders,
Assalam-o-Alakum

Overview

I feel honoured to present the Un-audited Accounts for the first quarter of the year 2014-15 ended on September 2014. The current financial year started with orders in hand of Rs. 1,066 million. During the period under review transmission line towers were supplied to WAPDA and NTDC. The Company has orders in hand worth Rs. 944 million as on 30.09.2014 and orders in pipe line worth Rs. 654 million. In view of the Govt. priorities on electrification and electricity load management there is a big potential in transmission line towers business.

Financial Results

The sales during the period ended on September 30,2014 were Rs. 179.9 million as against Rs. 6.8 million during the corresponding period of last year, showing an increase of Rs. 173 million. The Company earned a gross profit of Rs. 31.4 million (17.4%) against gross loss of Rs. 17.7 million compared with same period last year. The net profit before tax was Rs. 14.3 million (8%) against net loss of Rs. 35.6 million of same period last year.

It is a matter of pleasure to mention that after four years of consecutive losses the Company was able to earn net profit of Rs. 14.3 million in the period under report. The Management of your Company is striving hard to maintain its trend of sales and profitability for the remaining period of the year.

Future Outlook

The current orders with WAPDA/NTDC are on good prices and reasonable margins. The Management of your Company is working hard to increase production and minimize production cost. Keeping in view the orders in hand and prospective business of transmission line towers and telecommunication towers, it is anticipated that performance of your Company during the rest of the year would be relatively better.

Acknowledgement

I take this opportunity to thank all our valued Customers, Suppliers and Bankers for their confidence and continued support, staff members for their dedication and hard work. I would also like to thank our Board of Directors for their guidance and support for the improvement of Company's business and good will.

I am looking forward to a much better future of the Company.

ON BEHALF OF THE BOARD

Dated: 31 October 2014
Lahore

Shafqat-ur-Rehamn Ranjha
(Chief Executive)

CONDENSED INTERIM BALANCE SHEET (UN-AUDITED)

AS AT 30 SEPTEMBER 2014

| | 30 September 2014 | 30 June 2014 |
|---|------------------------------|--------------|
| | ----- (Rupees in '000) ----- | |
| ASSETS | | |
| NON - CURRENT ASSETS | | |
| Property, plant and equipment | 8,609,716 | 8,630,780 |
| Long term investment | 663 | 663 |
| Long term deposits | 964 | 964 |
| | 8,611,343 | 8,632,407 |
| | | |
| Free hold land - held for sale | 314,724 | 314,724 |
| CURRENT ASSETS | | |
| Stores, spares and loose tools | 142,100 | 137,717 |
| Stock-in-trade | 272,317 | 322,338 |
| Trade debts - unsecured | 175,290 | 152,677 |
| Advances | 6,007 | 5,430 |
| Trade deposits, prepayments and other receivables | 27,674 | 29,366 |
| Advance income tax | 39,240 | 35,100 |
| Cash and bank balances | 10,262 | 7,151 |
| | 672,890 | 689,779 |
| | | |
| TOTAL ASSETS | 9,598,957 | 9,636,910 |
| EQUITY & LIABILITIES | | |
| SHARE CAPITAL & RESERVES | | |
| Share capital | 56,902 | 56,902 |
| Revenue reserve - general | 10,000 | 10,000 |
| Accumulated loss | (1,223,223) | (1,252,912) |
| | (1,156,321) | (1,186,010) |
| | | |
| Surplus on revaluation of fixed assets | 8,566,901 | 8,582,247 |
| NON - CURRENT LIABILITIES | | |
| Government of Pakistan - secured | 1,790,848 | 1,790,848 |
| Deferred tax liability - net | 45,046 | 45,046 |
| | 1,835,894 | 1,835,894 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 240,406 | 283,492 |
| Mark-up accrued - on short term borrowing | 3,726 | 12,936 |
| Short term borrowing - secured | 108,351 | 108,351 |
| | 352,483 | 404,779 |
| | | |
| CONTINGENCIES AND COMMITMENTS | | |
| | | |
| TOTAL EQUITY AND LIABILITIES | 9,598,957 | 9,636,910 |

The annexed notes form an integral part of these financial statements.

SHAFQAT-UR-REHMAN RANJHA
(CHIEF EXECUTIVE)

MUHAMMAD IQBAL
(DIRECTOR)

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)



FOR THE QUARTER ENDED
30 SEPTEMBER 2014

| | Note | 30 September 2014 | 30 September 2013 |
|--|------|------------------------------|----------------------|
| | | ----- (Rupees in '000) ----- | |
| Sales - net | | 179,991 | 6,816 |
| Cost of sales | 5 | <u>(148,638)</u> | <u>(24,512)</u> |
| Gross Profit / (Loss) | | 31,353 | (17,696) |
| Selling and distribution expenses | | <u>(1,474)</u> | <u>(1,055)</u> |
| Freight and forwarding expenses | | <u>(3,032)</u> | <u>(32)</u> |
| Administrative expenses | | <u>(12,885)</u> | <u>(12,394)</u> |
| Other operating charges | | <u>(161)</u> | <u>(140)</u> |
| | | <u>(17,552)</u> | <u>(13,621)</u> |
| Other operating income | | 6,120 | 1,811 |
| Operating Profit / (Loss) | | 19,921 | (29,506) |
| Finance cost | | <u>(5,577)</u> | <u>(6,082)</u> |
| Profit / (Loss) before taxation | | 14,344 | (35,588) |
| Taxation | | - | - |
| Profit / (Loss) after taxation for the period | | 14,344 | (35,588) |
| | | ----- (Rupees) ----- | |
| BASIC AND DILUTED EARNING / (LOSS) PER SHARE | | | |
| Continuing and discontinued operations - Basic | | <u>2.52</u> | <u>(6.25)</u> |

The annexed notes form an integral part of these financial statements.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)

FOR THE QUARTER ENDED 30 SEPTEMBER 2014

| | | 30 September 2014 | 30 September 2013 |
|---|--|------------------------------|----------------------|
| | | ----- (Rupees in '000) ----- | |
| Profit / (Loss) after taxation for the period | | 14,344 | (35,588) |
| Other comprehensive income for the period | | - | - |
| Total comprehensive income / (loss) for the period | | 14,344 | (35,588) |

The annexed notes form an integral part of these financial statements.

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE QUARTER ENDED 30 SEPTEMBER 2014

| | | 30 September 2014 | 30 September 2013 |
|---|--|------------------------------|----------------------|
| | | ----- (Rupees in '000) ----- | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit / (Loss) before taxation | | 14,344 | (35,588) |
| Adjustments for: | | | |
| Depreciation | | 9,414 | 9,885 |
| Financial charges | | 4,189 | 3,595 |
| Interest on workers' profit participation fund | | 1,388 | 2,488 |
| Provision for gratuity | | 3 | 5 |
| Gain on sale of property, plant and equipment | | <u>(1,342)</u> | <u>-</u> |
| Profit / (Loss) before working capital changes | | 27,996 | (19,615) |
| Movements in working capital | | | |
| (Increase) / decrease in current assets | | 24,140 | (12,809) |
| Increase / (decrease) in current liabilities | | <u>(44,477)</u> | <u>(15,025)</u> |
| Cash generated from / (used in) operations | | 7,659 | (47,449) |
| Finance costs paid | | <u>(13,399)</u> | <u>(3,650)</u> |
| Income tax paid | | <u>(4,140)</u> | <u>(186)</u> |
| Net cash (utilized in) operating activities | | (9,880) | (51,285) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Fixed capital expenditure | | <u>(60)</u> | <u>-</u> |
| Proceeds from disposal of property, plant and equipment | | <u>13,051</u> | <u>-</u> |
| Net cash generated from investing activities | | 12,991 | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Long term borrowings - (repayments) | | - | (3,030) |
| Net cash (utilized in) financing activities | | - | (3,030) |
| Net increase / (decrease) in cash and cash equivalents | | 3,111 | (54,315) |
| Cash and cash equivalents at the beginning of the period | | 7,151 | 71,333 |
| Cash and cash equivalents at the end of the period | | 10,262 | 17,018 |

The annexed notes form an integral part of these financial statements.

SHAFQAT-UR-REHMAN RANJHA
(CHIEF EXECUTIVE)

MUHAMMAD IQBAL
(DIRECTOR)

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

QUARTERLY REPORT 2014

FOR THE QUARTER ENDED 30 SEPTEMBER 2014

| | Issued, subscribed and paid up capital | Revenue reserve - General | Accumulated loss | TOTAL |
|--|--|---------------------------|--------------------|--------------------|
| (Rupees in '000) | | | | |
| Balance as at 30 June 2013 | 56,902 | 10,000 | (1,203,064) | (1,136,162) |
| - (Loss) after tax for the year ended 30 June 2014 | - | - | (68,953) | (68,953) |
| - Other comprehensive income | - | - | - | - |
| Total comprehensive (Loss) for the year | - | - | (68,953) | (68,953) |
| - Surplus on revaluation of fixed assets realized on account of incremental depreciation - net off tax | - | - | 19,105 | 19,105 |
| Balance as at 30 June 2014 | 56,902 | 10,000 | (1,252,912) | (1,186,010) |
| - Profit after tax for the period ended 30 September 2014 | - | - | 14,344 | 14,344 |
| - Other comprehensive income | - | - | - | - |
| Total comprehensive income for the period | - | - | 14,344 | 14,344 |
| - Surplus on revaluation of fixed assets realized on account of incremental depreciation - net off tax | - | - | 4,538 | 4,538 |
| - Surplus realized on account of disposal of revalued machinery - net off tax | - | - | 10,808 | 10,808 |
| Balance as at 30 September 2014 | 56,902 | 10,000 | (1,223,223) | (1,156,321) |

The annexed notes form an integral part of these financial statements.

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

FOR THE QUARTER ENDED 30 SEPTEMBER 2014

1. THE COMPANY AND ITS OPERATIONS

Pakistan Engineering Company Limited (a State Public Sector 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 registered office of the Company is situated at 6/7 Ganga Ram Trust Building, Shahra-e-Quaid-e-Azam, Lahore.

2. BASIS OF PREPARATION

2.1 Statement of compliance

This condensed interim financial information is un-audited and is being submitted to shareholders as required by section 245 of the Companies Ordinance. This condensed interim financial information of the Company for the quarter ended 30 September 2014 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. This condensed interim financial information should be read in conjunction with the preceding audited annual published financial statements of the Company for the year ended 30 June 2014.

These condensed interim financial information is presented in Pakistan Rupee which is also the Company's functional currency and all financial information presented has been rounded off to the nearest thousand.

2.2 Critical accounting estimates and judgements

The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 30 June 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computations adopted for the preparation of this condensed interim financial information are the same as applied in the preparation of the preceding audited annual published financial statements of the Company for the year ended 30 June 2014.

4. CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

- 4.1 Claims not acknowledged as debts in respect of various sub judice cases filed against the company for which the maximum possible liabilities could be approximately Rupees 2.517 million (30 June 2014: Rupees 2.517 million).
- 4.2 Guarantees of Rupees 260.530 million (30 June 2014: Rupees 256.452 million) issued by the banking and insurance companies to different parties on behalf of the company.
- 4.3 The Company has filed an appeal before CIR (A) against the order of Additional Commissioner Inland Revenue (ACIR). The ACIR has passed an order under section 122 (5A) of the Income Tax Ordinance, 2001 for tax years 2008, 2009 and 2010 whereby a demand of Rupees 180.649 million (30 June 2014: Rupees 180.649 million) has been raised. No provision against the demand has been made in these financial statements as the Company is hopeful of a favorable outcome

SHAFQAT-UR-REHMAN RANJHA
(CHIEF EXECUTIVE)

MUHAMMAD IQBAL
(DIRECTOR)

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



of appeal based on opinion of the legal advisor. Further, the company had also impugned selection of its tax affairs for amended assessment under section 122 (5A) of the Income Tax Ordinance, 2001 for tax year 2008 in Honorable Lahore High Court, Lahore through writ petition which in the opinion of the legal advisor will be decided in the company's favor.

- 4.4 The Sui Gas authorities have claimed an amount of Rupees 29.21 million (30 June 2014: Rupees 29.21 million). The Company has filed an appeal against the claim and the case is pending in the court of law. The outcome of the matter cannot presently be determined.

COMMITMENTS

- 4.5 Capital expenditure commitments outstanding as at 30 September 2014 amounted to Nil (30 June 2014: Nil).

| | 30 September 2014 | 30 September 2013 |
|--|----------------------|----------------------|
| ----- (Rupees in '000) ----- | | |
| 5. COST OF SALES | | |
| Raw material consumed | 120,545 | 10,498 |
| Stores and spares consumed | 15,763 | 1,033 |
| Salaries and wages (including all benefits) | 16,065 | 10,122 |
| Fuel and power | 6,644 | 2,081 |
| Traveling and conveyance | 137 | 198 |
| Postage, telegrams and telephone | 102 | 61 |
| Printing, stationery and office supplies | 45 | 144 |
| Inspection fee | 1,626 | 15 |
| Processing charges | - | 354 |
| Service charges | 938 | 293 |
| Rent, rate and taxes | 260 | 194 |
| Repair and maintenance | 294 | 178 |
| Insurance | 246 | 246 |
| Vehicle running expenses | 658 | 304 |
| Other expenses | 534 | 98 |
| Depreciation | 8,001 | 8,394 |
| | 171,859 | 34,213 |
| (Increase) / decrease in work in process inventory | (24,361) | (12,116) |
| Cost of goods manufactured | 147,498 | 22,097 |
| (Increase) / decrease in finished goods inventory | 1,140 | 2,415 |
| | 148,638 | 24,512 |

6. ACQUISITION AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT (At Cost)

| | 30 September 2014 | | 30 June 2014 | |
|----------------------|------------------------------|----------|--------------|----------|
| | ----- (Rupees in '000) ----- | | | |
| DESCRIPTION | | | | |
| OWNED ASSETS: | Acquisition | Disposal | Acquisition | Disposal |
| Plant and machinery | - | 12,670 | 6,724 | - |
| Office equipment | - | - | 154 | - |
| Computers | 60 | - | 97 | - |
| Tools | - | - | 5 | - |
| Total | 60 | 12,670 | 6,980 | - |

7. CAPITAL WORK IN PROGRESS

| | 30 Sep 2014 | 30 Jun 2014 |
|------------------------------|-------------|-------------|
| ----- (Rupees in '000) ----- | | |
| Civil works | 2,239 | 2,239 |
| Advance to suppliers | 101 | 101 |
| | 2,340 | 2,340 |

8. TRANSACTIONS WITH RELATED PARTIES

| | 30 Sep 2014 | 30 Jun 2014 |
|---|-------------|-------------|
| ----- (Rupees in '000) ----- | | |
| STATE ENGINEERING CORPORATION (SEC) | | |
| Reimbursement of expenses | 297 | 297 |
| Reimbursement of expenses payable | 192 | 192 |
| Service charges paid | - | 3,000 |
| PAKISTAN MACHINE TOOL FACTORY (PMTF) | | |
| Receivable at the end of the year | 1,571 | 1,571 |

9. DATE OF AUTHORISATION FOR ISSUE

This financial information has been authorized for issue by Board of Directors on 31 October 2014.

10. CORRESPONDING FIGURES

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. Following significant re-arrangement has been made.

| Reclassification from component | Reclassification to component | Rupees '000 |
|---------------------------------|-------------------------------|-------------|
| Cost of sales | Cost of sales | |
| - Raw material consumed | - Processing charges | 354 |

11. GENERAL

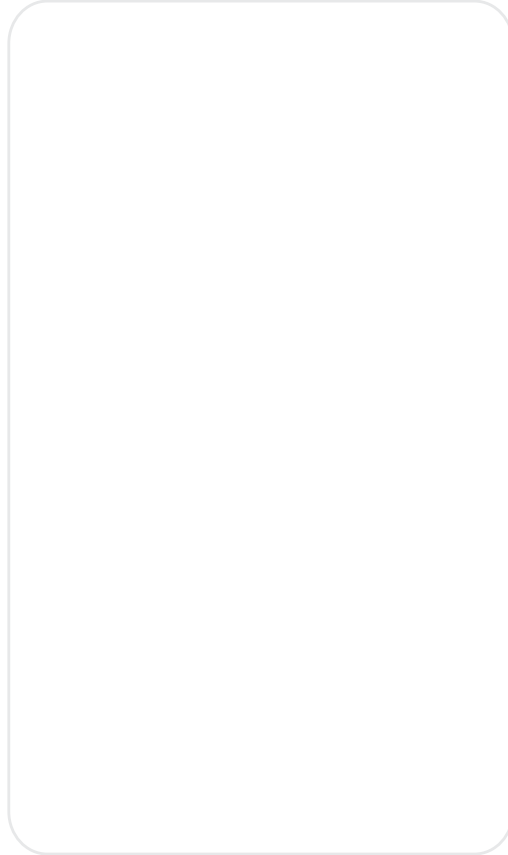
Figures have been rounded off to the nearest thousand rupees.

SHAFQAT-UR-REHMAN RANJHA
(CHIEF EXECUTIVE)

MUHAMMAD IQBAL
(DIRECTOR)



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