HALF YEARLY REPORT
DECEMBER 31, 2008

PAKISTAN ENGINEERING COMPANY LIMITED

A COMPANY OF STATE ENGINEERING

BOARD OF DIRECTORS
Major General (R) Zaheer Ahmad Khan (Chairman)
Mr. M. Imtiaz-ur-Raheem (Chief Executive)
Mr. Muhammad Niaz Butt
Mr. Muhammad Arif Habib
Mr. Rashid Ali Khan
Mr. Liaqat Mohammad
Mr. Mohammad Shabir Malik
Mr. Muhammad Iqbal
Mirza Mahmood Ahmad

BOARD AUDIT COMMITTEE
Mr. Liaqat Mohammad - Chairman
Mr. Mohammad Shabir Malik - Member
Mr. Muhammad Iqbal - Member
Mr. M. Imtiaz-ur-Raheem - Member

CHIEF FINANCIAL OFFICER & CO. SECRETARY
Mian Anwar Aziz

BANKERS
National Bank of Pakistan
United Bank Limited
Arif Habib Bank Limited

AUDITORS
Fazal Mahmood & Co.
Chartered Accountants

REGISTERED AND HEAD OFFICE
6-Ganga Ram Trust Building,
Shahrah-e-Quaid-e-Azam, Lahore

BRANCHES
Karachi
Islamabad

PLANT
Kot Lakhpat, Lahore.

REGISTRAR
M/s SCARLET IT Systems (Pvt) Ltd.
301-A, Nizam Chambers, Shahrah-e-Fatima Jinnah, Lahore

WEB SITE
http://www.peco.com.pk

Dear Shareholders,

Assalamo o Alakum

On behalf of PECO Board of Directors, I feel pleasure to present the half yearly Condensed Interim financial statements for the period July - December, 2008 alongwith Auditors Review.

During first half of the year, the whole world has experienced financial crises, increased steel prices, and increase in bank lending rates. These factors, coupled with extensive electricity and gas load shedding had adverse affects on production, and profitability of your company. These crises were dealt with aggressive management to minimize the impact of these negative factors, on the operations.

Inspite of these odd factors, first half of the financial year 2008-09 was closed with better results as compared with previous year. The company achieved sales of Rs.425.9 Million, which was higher by Rs. 56.9 Million (15%) compared to the corresponding period of last year. During the period under review, the sale of 11KV towers was about 88% of the total sales. Because of high steel prices, the major orders of High Transmission Towers were held back by WAPDA.

Tele Communication Tower business was however affected due to political disturbances in NWFP, world crises in general, and projects deferment in particular by the Telecom companies.

Inspite of above factors, Gross profit increased to Rs. 71.120 Million against Rs. 69.049 Million of the same period of last year. Net profit before Tax also showed an increase of Rs. 10.3 Million (25%) compared with corresponding period of last year.

Future outlook

The order in hand as on 1st January, 2009 were Rs. 752 million, which indicates that current year shall be better period for your company. The steel prices have been reduced now, which shall be exploited favorably. Two more production lines have been established to cope with increased work load. Machines have been extensively renovated. Pumps, Electric Motor are in operation besides the structure (STR) division. However these shall be in swing during next year.

Comments on Auditor's Review

a) Markup on out standing amount of custom and import duties

The markup on account of custom & other import duties was provided for three years, but Board of Directors had reversed it in the year 1999, since as per their interpretation there is no mention of charging any markup in ECC & Cabinet decision. However, in view of different Govt. interpretation, the matter will be discussed by BoD committee with Government as decided by the Board.

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, as per the understanding there is no decision of charging mark up in CCOP directive. The matter shall, however, be taken up by the board committee with the Govt. in the near future, to settle these matters.

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

On behalf of company management I take this opportunity to thank the Board of Directors and all our valued customers, stakeholders and Bankers for their continued support. PECO customers continue to repose their confidence in view of the improvements in the delivery schedules and high quality products which is your company' commitment.

I expect the same co-operation, coordination and support from all of you for the second half of the year enabling the company to achieve its target.

On behalf of the Board.

(Major General (R) Zaheer Ahmad Khan)
CHAIRMAN

Lahore, February 21, 2009

REVIEW REPORT TO THE MEMBERS

PECO

Introduction

We have reviewed the accompanying condensed interim balance sheet of Pakistan Engineering Company Limited as at December 31, 2008 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, 2008 and December 31, 2007 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2008.

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.

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, 2008 (accumulated Rs. 208.575 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. 1.345 million for the half year ended December 31, 2008 (accumulated Rs. 4.735 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. 2.288 million (June 2008: Rs. 3.587million) 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. 16.795 million and accumulated loss would have been increased by Rs. 255.299 million.

d) Loan from bank amounting to Rs.142.450 million has been classified as long term loan on the basis of negotiation.

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, 2008 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.9 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 21, 2009

FAZAL MAHMOOD & COMPANY
Chartered Accountants

CONDENSED INTERIM BALANCE SHEET (UN-AUDITED)

PECO

AS AT DECEMBER 31, 2008

	Note	December 31, 2008	June 30, 2008
		Rs. in 000	
FIXED CAPITAL EXPENDITURE			
NON CURRENT ASSETS			
Property, Plant and Equipment-Tangible		1,495,634	1,501,608
Assets subject to Finance Lease		800	888
Capital Work in Progress		5,006	1,905
Land Held for Sale		314,724	314,724
		1,816,164	1,819,125
LONG TERM SECURITY DEPOSITS		2,756	2,416
DEFERRED TAXATION		-	12,755
		1,818,920	1,834,296
CURRENT ASSETS			
Stores, Spares and Loose Tools		134,984	114,944
Stock-in-trade		388,747	268,784
Assets held for sale		29,737	29,737
Trade Debtors		324,343	366,921
Loans & advances to Employees		2,530	964
Advances to Others		39,196	25,895
Trade Deposits, Prepayments & other Receivable		21,910	24,584
Short Term Investments		-	31,500
Cash and bank balances		24,230	24,482
		965,677	887,811
CURRENT LIABILITIES			
Trade Creditors		147,178	87,053
Accrued Liabilities		11,116	11,450
Deposits & Advance payments		40,421	25,080
Other Liabilities		62,046	74,734
Unclaimed Dividend		6,162	6,195
Accrued Mark-up - On Secured Loans		-	534
Short Term borrowings		-	26,906
Current portion of Liabilities Against Assets Subject to Finance Lease		1,078	555
Provision for Taxation		-	5,185
		268,001	237,692
Net Current Assets		697,676	650,119
Total Assets Less Current Liabilities		2,516,596	2,484,415
CONTINGENCIES AND COMMITMENTS	5	-	-
NON CURRENT LIABILITIES			
GOVERNMENT OF PAKISTAN LOAN	9	1,790,848	1,790,848
LONG TERM LOAN		142,450	149,026
DEFERRED TAXATION		3,740	-
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		-	681
		1,937,038	1,940,555
NET TOTAL ASSETS		579,558	543,860
REPRESENTED BY:			
Share Capital		56,902	56,902
Revenue Reserves - General		10,000	10,000
Accumulated (Loss)		(1,130,513)	(1,168,990)
		(1,063,611)	(1,102,088)
Surplus on Revaluation of Fixed Assets		1,643,169	1,645,948
		579,558	543,860

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

M. Imtiaz-ur-Raheem
(Chief Executive)

Mohammad Shabir Malik
(Director)

CONDENSED INTERIM
PROFIT AND LOSS ACCOUNT (UN-AUDITED)

PECO

FOR THE HALF YEAR ENDED DECEMBER 31, 2008

	Note	Oct - Dec 2008	Jul - Dec 2008	Oct - Dec 2007	Jul - Dec 2007
		Rs. in 000			
Sales		275,009	425,902	192,638	369,069
Cost of Goods Sold	6	226,275	354,782	158,543	300,020
GROSS PROFIT		48,734	71,120	34,095	69,049
OPERATING EXPENSES					
Selling and Distribution expenses		2,587	3,791	1,746	4,086
Freight and Forwarding expenses		3,859	4,884	5,069	6,260
General and Administrative expenses		6,030	16,843	9,923	19,672
		12,476	25,518	16,738	30,018
OPERATING PROFIT BEFORE FINANCIAL CHARGES		36,258	45,602	17,357	39,031
Other Charges		225	349	347	549
Financial charges		1,559	3,650	1,782	3,262
		34,474	41,603	15,228	35,220
Other Income		(2,761)	(12,771)	(5,139)	(8,499)
		37,235	54,374	20,367	43,719
Workers profit participation fund		2,080	2,080	1,761	1,761
PROFIT BEFORE TAXATION		35,155	52,294	18,606	41,958
TAXATION					
Current		(754)	-	963	1,845
Prior		101	101	38	38
Deferred		16,495	16,495	11,954	11,954
PROFIT AFTER TAXATION		19,313	35,698	5,651	28,121
Earnings per Share-Basic		3.39	6.27	0.99	4.94

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

CONDENSED INTERIM
STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED DECEMBER 31, 2008

	Paid up Ordinary Share Capital	Revenue Reserve	Accumul-ated Loss	Total
	Rs. in 000			
Balance as at June 30, 2007	56,902	10,000	(1,245,196)	(1,178,294)
Final Dividents for the year ended june 30,2007@Rs.6.5/share	-	-	(36,987)	(36,987)
Profit after taxation for the half year ended December 31, 2007	-	-	28,121	28,121
Amount of incremental depreciation transferred from surplus on revaluation of fixed assets	-	-	1,874	1,874
Balance as at December 31, 2007	56,902	10,000	(1,252,188)	(1,185,286)
Profit after taxation for the period from Jan. 01, 2008 to June 30, 2008	-	-	81,326	81,326
Amount of incremental depreciation transferred from surplus on revaluation of fixed assets	-	-	1,872	1,872
Balance as at June 30, 2008	56,902	10,000	(1,168,990)	(1,102,088)
Profit after taxation for the half year ended Dec. 31, 2008	-	-	35,698	35,698
Amount of incremental depreciation transferred from surplus on revaluation of fixed assets	-	-	1,781	1,781
Transfer from surplus on Revaluation of Fixed Assets:			998	998
Balance as at December 31, 2008	56,902	10,000	(1,130,513)	(1,063,611)

M. Imtiaz-ur-Raheem
(Chief Executive)

Mohammad Shabir Malik
(Director)

CONDENSED INTERIM
CASH FLOW STATEMENT (UN-AUDITED)

PECO

FOR THE HALF YEAR ENDED DECEMBER 31, 2008

	December 31, 2008	December 31, 2007
	Rs. in 000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before Taxation	52,294	41,958
Adjustments for:		
Depreciation	7,326	5,904
Amortization of leased assets	89	111
Financial Charges	3,650	3,262
Provision for worker's Profit Participation Fund	2,080	1,761
Provision for gratuity and pension	17	241
(Profit) on sale of fixed assets	(8,633)	(482)
(Profit) on sale of assets held for sale	-	(2,825)
Profit before working capital changes	56,823	49,930
Adjustment for working capital changes		
(Increase)/Decrease in current Assets	(80,145)	67,619
Increase/(Decrease) in current Liabilities	62,649	(49,954)
Cash Generated from operations	39,327	67,595
Financial Charges Paid	(4,184)	(3,541)
Gratuity Paid	(14)	(241)
Workers' Profit Participation Fund Paid	(2,288)	(888)
Income Tax Paid	(3,261)	(3,672)
Net Cash inflow from Operating Activities	29,580	59,253
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Work in Progress	(3,101)	(45,697)
Purchase of tangible fixed assets	(5,956)	(3,807)
(Increase) in Long Term Security Deposits	(340)	-
Sale proceeds on disposal of fixed assets	13,238	4,498
Net Cash inflow/(Out flow) from investing activities	3,841	(45,006)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) in Short term & Long term loans	(33,482)	(28,808)
Dividend Paid &	(33)	(85)
Payment of lease liability	(158)	(146)
Net cash (out flow) from financing activities	(33,673)	(29,039)
Net (decrease) in cash and cash equivalents	(252)	(14,792)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	24,482	104,921
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	24,230	90,129

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

M. Imtiaz-ur-Raheem
(Chief Executive)

Mohammad Shabir Malik
(Director)

FOR THE HALF YEAR ENDED DECEMBER 31, 2008

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, bicycles, 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 and Foundry have been re-started 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, 2008.

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 reviewd by the auditors as required by the Code of Corporate Governance.

4. BASIS OF ACCOUNTING

During the half year ended Company has earned after tax profit of Rs.35.698 which has reduced the accumulated loss by that amount.The company has accumulated losses of Rs.1,130.513 million as at December 31, 2008. 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 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 on assumption that the company will continue as a going concern and consequently do no include any adjustments that might be necessary if going concern assumption was not appropriate.

5. 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 Rs2.517 million (June 30, 2008 Rs. 2.517 million).
- Gurantees of Rs.337.193 Million (June 30, 2008:Rs.413.134 Million) issued by the banks and insurance company on behalf of the company.
- Letters of credit for raw material and store items amounting to Rs.Nil (June 30, 2008:Rs. 24.016 million).

6. COST OF GOODS SOLD

	Oct - Dec 2008	Jul - Dec 2008	Oct - Dec 2007	Jul - Dec 2007
	Rs. in 000			
Raw material consumed	255,820	398,999	**131,685**	**268,947**
Stores and spares consumed	10,255	19,365	**11,160**	**23,815**
Salaries and wages (including all benefits)	17,454	27,955	**7,842**	**17,293**
Fuel and power	10,162	17,646	**7,353**	**14,774**
Inspection Fee	1,110	1,421	**176**	**347**
Service charges	317	661	**586**	**839**
Processing Charges	-	20	**36**	**2,684**
Repair and maintenance	529	762	**224**	**874**
Insurance	136	273	**121**	**241**
Research & Development	-	-	**156**	**999**
Rent rates & Taxes	381	381	**101**	**335**
Travelling and conveyance	351	351	**12**	**53**
Printing & Stationary	221	221	**66**	**196**
Postage & Telephone	115	115	**39**	**83**
Vehicle Running Expenses	62	327	**307**	**494**
Other expenses	-	199	**39**	**357**
Depreciation	2,801	5,713	**2,279**	**4,548**
	299,714	474,409	**162,182**	**336,879**
(Increase) / Decrease in Work in Process Inventory	(53,680)	(96,441)	**(4,426)**	**(2,448)**
COST OF GOODS MANUFACTURED	246,034	377,968	**157,756**	**334,431**
(Increase) / Decrease in Finished Goods Inventory	(19,759)	(23,186)	**787**	**(34,411)**
	226,275	354,782	**158,543**	**300,020**

FOR THE HALF YEAR ENDED DECEMBER 31, 2008

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

Description	December 31, 2008 Rs. in 000 Acquisition	December 31, 2008 Rs. in 000 Disposal	June 30, 2008 Rs. in 000 Acquisition	June 30, 2008 Rs. in 000 Disposal
OWNED ASSETS:				
Factory Building	-	-	3,999	
Plant & Machinery	453	17,314	57,300	-
Furniture & Fixtures	2,682	-	3,791	500
Vehicles	2,602	-	2,813	710
Tools	219	-	156	-
	5,956	17,314	68,059	1,210

	December 31, 2008	June 30, 2008
	Rs. in 000	
8. CAPITAL WORK IN PROGRESS		
Plant & Machinery - Under Installation	790	-
Civil Works	4,216	1,905
	5,006	1,905
9. GOVERNMENT OF PAKISTAN LOAN	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. 612.922 million and mark up of Rs. 838.519 million as at June 30, 2008 & December 31, 2008 without providing any agreement/ basis for chaging the markup, inspite of written request made to Privatization Commission by the auditors. 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 chaging any markup. The principal liability confirmed by Privatization Commission is higher by Rs. 131.454 million. This difference represents the additional gratuities and the responsibility to pay this liability is that of Privatization Commission as per the agreement with PECO and not the liability of the company.

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 should also be borne by the Privatization Commission.

The issue of payment of Government loan and mark up were also taken up in the BOD meeting and a Committee was formed to take up the matter with Ministry of Finance to resolve the above issues.

10. TRANSACTIONS WITH RELATED PARTIES

	Jul - Dec 2008	Jul - Dec 2007
	Rs. in 000	
Dividend payable to SEC	-	9,202
Reimbursement of expenses of SEC	98	251
Payment to Pakistan Machine Tools	1,000	782
Payment to Heavy Electrical Complex	-	49
		277

11. NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors in its meeting held on February 21, 2009 has proposed an interim dividend of Rs. 5.00 per share amounting to Rs. 28.451 millions.

12. DATE OF AUTHORIZATION

The financial statements have been authoriesed for issue by Board of Directors on February 21, 2009.

13. GENERAL

(a) Figures have been rounded off to the nearest thousand rupee.

(b) For the pupose of better presentation , comparative figures of Rent, rates and taxes (Rs 335,000), Travelling and conveyance (Rs.53,000), Printing and Stationery (Rs.196,000),Postage and Telephone (Rs.83,000) relating to factory have been transferred from General and Administrative Expenses to Cost Of Sale.

M. Imtiaz-ur-Raheem
(Chief Executive)

Mohammad Shabir Malik
(Director)

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