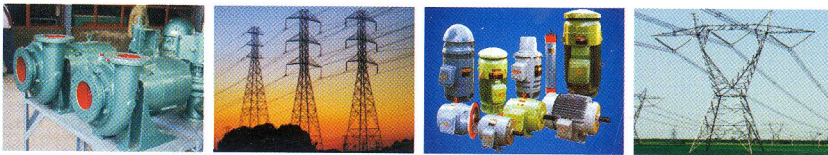




PAKISTAN ENGINEERING  
COMPANY LIMITED

# HALF YEARLY REPORT 2014



CONTENTS



Company Information	2
Director's Review	3
Auditor's Review Report	5
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

## COMPANY INFORMATION



### 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

### Auditors

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

### Bankers

National Bank of Pakistan  
United Bank Limited  
Summit Bank

### Legal Advisor

Sardar Zulfiqar Umar KhanThahim

### Board Audit & Risk Management Committee

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

### 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

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

Plants : Kot Lakhpat  
Lahore.

### 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

### Shares Registrar

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

### CFO & Company Secretary

Mian Anwar Aziz

## DIRECTOR'S REVIEW



Dear Shareholders,  
Assalam-o-alaikum

On behalf of the Board of Directors of PECO, I am pleased to present the Directors' review report together with half yearly condensed interim financial statements for six months ended 31 December 2014 and the Auditors' review report.

### **Performance Outlook**

During the period under review, the performance of the Company was relatively better and your Company has taken turn around after four years of continuous losses. Orders from WAPDA/DISCOS at good margin were obtained and are being executed. National Bank of Pakistan has also renewed the credit facilities in favour of PECO which shall help out in reducing the financial constraints faced by the Company. Management of your Company is striving hard to achieve better turn over/profitability during the current financial year.

### **Financial Performance**

The sales revenue for six months ended on 31 December 2014 was Rs. 341 million against Rs. 28 million of the corresponding period last year. There was a gross profit of Rs. 48 million, against gross loss of Rs. 37 million of the corresponding period of last year. Increase in Sales / Gross Profit was mainly due to comparatively higher production, lower cost of production, better sale prices of 132 Kv towers and efficient procurement of raw material.

Operating expenses during the period were Rs. 33 million against Rs. 26 million of the same period last year, an increase of Rs. 7 million due to higher Freight and Forwarding expenses as most of the orders were on FCS (Free on Consignee' Site) basis.

There was a profit after tax of Rs. 8 million, against loss of Rs. 31 million of the same period last year, meaning a net increase in profit of Rs. 39 million.

### **Future Outlook**

At present the Company has orders in hand and in pipe line of



Rs.1,474 million alongwith orders under evaluation of Rs. 469 million of transmission line towers. Most of the orders are at good prices with reasonable margin. As NBP has renewed our credit facilities, it is therefore, anticipated that performance of the company during rest of year would be better than the first half.

#### **Comments on Auditors Review**

- A) The mark up on custom and other import duties has not been provided as the matter is under active reconciliation by the Board Loan Committee with Government of Pakistan.
- B) The management believes, on the basis of orders in hand and those in the pipeline, the Company will operate as a "going concern" till indefinite period. The Board of Directors have no intention to curtail the business activity of the Company and are fully committed to maintain the going concern of the Company in the foreseeable future.
- C) The matter of reconciliation of GoP/PC loan is in progress. Principal amount of Rs. 1,790.845 million has been reconciled and mark up is under active reconciliation. Since there was no mention of mark up in any of the decision of CCOP and ECC therefore, management believe no mark up is payable.

#### **Acknowledgement**

I, on behalf of the Board of Directors, thank the company management, all our valued customers, banks, financial institutions, other market intermediaries and shareholders for their continued support, assistance and trust and hope that this cooperation and support continues to grow in the future. I would also like to express appreciation for the services, loyalty and efforts being continuously rendered by the employees of the Company and hope that they will continue to do so in future.

On behalf of the Board

Lahore: February 23, 2015

(Muhammad Arif Azim)  
(Chairman)



### **Introduction**

We have reviewed the accompanying condensed interim balance sheet of **Pakistan Engineering Company Limited** as at December 31, 2014 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 condensed interim financial information for the six-months period then ended (herein-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for the interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures for quarters ended December 31, 2014 and December 31, 2013 in the condensed interim profit and loss account and condensed interim statement of comprehensive income have not been reviewed and we do not express a conclusion thereon as we are required to review only the cumulative figures for the six-months period ended December 31, 2014.

### **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**

Interest amounting to Rs. 41.989 million (accumulated Rs. 41.989 million) at the rate of 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 (Ref: note 7.2.1). Had this provision for interest been made in the condensed interim financial information, the accumulated loss would have been increased by Rs. 41.989 million.

### **Qualified Conclusion**

Based on our review, except for the effect of the matter referred to in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the six months period ended December 31, 2014 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. 3 to the condensed interim financial information, which states that company has accumulated loss of Rs. 1,222.019 million and negative equity of Rs. 1,155.117 million. These conditions along with other matters as set forth in note. 3 to the financial statements indicate the existence of material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. These financial statements, however, have been prepared on the going concern basis as detailed in aforesaid note. Our report is not qualified in respect of this matter.
- ii. Note. 7.1.1, 7.2.1, 7.3.1, 7.4.1, 7.5.1, 9.3, 9.4 and 9.5 to the condensed interim financial information, which describes the uncertainty related to the difference between the amount due as per company's records and amounts claimed by Privatization Commission and Finance Division as per their confirmation to predecessor auditors in respect of which reconciliation exercise is currently in progress through Ministry of Finance. The confirmation in respect of Government Escrow Loan Account (Ref: note 7.2) was received to predecessor auditors for the period ended December 31, 2010 in which only the amount relating to



custom and other import duties were confirmed and the confirmation in respect of other Government Loan (Ref: note 7.3), Federal Government loan for compulsory separation scheme (Ref: note 7.4) and Federal Government Bonds (Ref: note 7.5) was received to predecessor auditors for the period ended June 30, 2013. As per annual report issued by another auditor on September 29, 2014, no confirmation had been received from the Ministry of Production, Finance Division or from the Federal Board of Revenue in respect of the above stated loan liabilities for the period ended December 31, 2013. The ultimate outcome of the matters cannot presently be determined. Our report is not qualified in respect of this matter.

#### **Other Matter**

The condensed interim financial information of **Pakistan Engineering Company Limited** for the six months period ended December 31, 2013 was reviewed by another auditor who expressed a qualified conclusion on those statements on February 26, 2014.

TARIQ ABDUL GHANI MAQBOOL  
& COMPANY

Chartered Accountants

Engagement Partner:

Lahore: February 23, 2015      Malik Haroon Ahmad



CONDENSED INTERIM BALANCE SHEET (UN-AUDITED)



AS AT DECEMBER 31, 2014

	Note	Dec 31, 2014	Jun 30, 2014
		----- (Rupees in '000) -----	
		(Un-Audited)	(Audited)
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Property, plant and equipment	10	8,595,854	8,630,104
Investment property	11	659	676
Long term investment		683	663
Long term deposits		964	964
		<b>8,598,160</b>	8,632,407
<b>Free hold land - held for sale</b>	12	<b>314,724</b>	314,724
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		133,210	137,717
Stock-in-trade		327,486	322,338
Trade debts		199,058	152,677
Advances		7,000	5,430
Trade deposits, prepayments & other receivables		29,594	29,366
Advance income tax		39,676	35,100
Cash and bank balances	13	10,960	7,151
		<b>746,984</b>	689,779
<b>TOTAL ASSETS</b>		<b>9,659,868</b>	9,636,910
<b>EQUITY &amp; LIABILITIES</b>			
<b>SHARE CAPITAL &amp; RESERVES</b>			
Share capital	6	56,902	56,902
Revenue reserve - general		10,000	10,000
Accumulated loss		(1,222,018)	(1,252,912)
		<b>(1,155,116)</b>	(1,186,010)
<b>Surplus on revaluation of fixed assets</b>		<b>8,559,396</b>	8,582,247
<b>NON - CURRENT LIABILITIES</b>			
Government of Pakistan loans - secured	7	1,790,848	1,790,848
Deferred tax liability - net		48,017	45,046
		<b>1,838,865</b>	1,835,894
<b>CURRENT LIABILITIES</b>			
Trade & other payables		301,636	283,492
Mark-up accrued - on short term borrowing		3,326	12,936
Short term borrowing - secured	8	108,351	108,351
Provision for taxation - net		3,410	-
		<b>416,723</b>	404,779
<b>CONTINGENCIES AND COMMITMENTS</b>	9		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,659,868</b>	9,636,910

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

(Shafqat-ur-Rehman Ranjha)  
(CHIEF EXECUTIVE)

(Muhammad Iqbal)  
(DIRECTOR)

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)**



FOR THE QUARTER & SIX MONTHS PERIOD ENDED DECEMBER 31, 2014

Note	Quarter ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
----- (Rupees in '000) -----				
				Restated
Sales - net	160,991	21,223	340,982	28,039
Less: cost of sales	144,108	40,378	292,745	64,890
GROSS PROFIT/(LOSS)	16,883	(19,155)	48,237	(36,851)
Selling and distribution expenses	1,321	1,038	2,795	2,093
Freight and forwarding expenses	2,253	37	5,285	69
Administrative expenses	12,146	11,524	25,031	23,918
	15,720	12,599	33,111	26,080
PROFIT/(LOSS) FROM OPERATIONS	1,163	(31,754)	15,126	(62,931)
Other operating charges	2,119	146	2,280	286
Finance costs	5,003	3,565	10,580	9,647
	(5,959)	(35,465)	2,266	(72,864)
Other operating income	6,038	1,067	12,158	2,878
PROFIT/(LOSS) BEFORE TAXATION FOR THE PERIOD	79	(34,398)	14,424	(69,986)
TAXATION				
- Current	3,410	-	3,410	-
- Deferred	2,971	(39,293)	2,971	(39,293)
	6,381	(39,293)	6,381	(39,293)
PROFIT/(LOSS) AFTER TAXATION FOR THE PERIOD	(6,302)	4,895	8,043	(30,693)
PROFIT/(LOSS) PER SHARE - BASIC & DILUTED - Rupees	(1.11)	0.86	1.41	(5.39)

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

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)**

FOR THE QUARTER & SIX MONTHS PERIOD ENDED DECEMBER 31, 2014

	Quarter ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
----- (Rupees in '000) -----				
				Restated
PROFIT/(LOSS) AFTER TAXATION FOR THE PERIOD	(6,302)	4,895	8,043	(30,693)
Other Comprehensive Income	-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)	(6,302)	4,895	8,043	(30,693)

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

(Shafqat-ur-Rehman Ranjha)  
(CHIEF EXECUTIVE)

(Muhammad Iqbal)  
(DIRECTOR)

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2014

	Note	December 31, 2014	December 31, 2013
----- (Rupees in '000) -----			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit / (Loss) before taxation		14,424	(69,986)
Adjustments:			
Depreciation		18,830	19,628
Finance costs		7,798	7,073
Interest on WPPF		2,782	2,573
Interest on bank deposit		(20)	-
Provision for gratuity		10	62
(Profit) on sale of assets		(4,407)	-
Profit/(Loss) before working capital changes		39,417	(40,650)
Adjustments for working capital changes			
Increase in current assets		(48,822)	(5,046)
Increase / (Decrease) in current liabilities		15,352	(4,850)
Cash generated from / (utilized in) operating activities		5,947	(50,546)
Finance costs paid		(17,407)	(4,041)
Income tax paid		(4,576)	(279)
<b>Net Cash (utilized in) operating activities</b>		<b>(16,036)</b>	<b>(54,866)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure in property, plant & equipment		(155)	(152)
Capital work in progress		-	(315)
Sale proceeds from disposal of property, plant & equipment		20,000	-
<b>Net cash generated from / (utilized in) investing activities</b>		<b>19,845</b>	<b>(467)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Long term borrowings - (repayments)		-	(3,030)
<b>Net cash (utilized in) financing activities</b>		<b>-</b>	<b>(3,030)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>3,809</b>	<b>(58,363)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>7,151</b>	<b>71,333</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	13	<b>10,960</b>	<b>12,970</b>

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

(Shafqat-ur-Rehman Ranjha)  
(CHIEF EXECUTIVE)

(Muhammad Iqbal)  
(DIRECTOR)

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



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2014

	Share Capital	Revenue reserve- General	Accumulated Loss	Total
----- (Rupees in '000) -----				
<b>BALANCE AS AT JULY 01, 2013</b>	<b>56,902</b>	<b>10,000</b>	<b>(1,203,064)</b>	<b>(1,136,162)</b>
Total comprehensive loss for the period				
Loss for the period ended December 31, 2013	-	-	(30,693)	(30,693)
Other comprehensive income	-	-	(30,693)	(30,693)
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon-net of tax	-	-	9,410	9,410
<b>BALANCE AS AT DECEMBER 31, 2013</b>	<b>56,902</b>	<b>10,000</b>	<b>(1,224,347)</b>	<b>(1,157,445)</b>
Total comprehensive loss for the period				
Loss for the period ended June 30, 2014	-	-	(38,260)	(38,260)
Other comprehensive income	-	-	(38,260)	(38,260)
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon-net of tax	-	-	9,695	9,695
<b>BALANCE AS AT JUNE 30, 2014</b>	<b>56,902</b>	<b>10,000</b>	<b>(1,252,912)</b>	<b>(1,186,010)</b>
Total comprehensive loss for the period				
Loss for the period ended December 31, 2014	-	-	8,043	8,043
Other comprehensive income	-	-	8,043	8,043
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon-net of tax	-	-	8,940	8,940
- disposal of revalued machinery-net of tax	-	-	13,911	13,911
<b>BALANCE AS AT DECEMBER 31, 2014</b>	<b>56,902</b>	<b>10,000</b>	<b>(1,222,018)</b>	<b>(1,155,116)</b>

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

HALF YEARLY REPORT 2014

(Shafqat-ur-Rehman Ranjha)  
(CHIEF EXECUTIVE)

(Muhammad Iqbal)  
(DIRECTOR)



**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2014**

**1. THE COMPANY AND ITS OPERATIONS**

Pakistan Engineering Company Limited 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, Shakra-e-Quaid-e-Azam, Lahore.

Keeping in view the Financial condition of the Company, the Government of Pakistan in past had closed down all the divisions of the Company, however, a rehabilitation plan was approved by the Federal Cabinet and according to the plan Structure (STR) division was kept operational and Badami Bagh Works was closed down with its land being offered for sale by the Privatization Commission. Furthermore, the company was allowed to hire needed workforce on job-to-job basis on contract/daily wages. In this regard title deed of Badami Bagh Land was also handed over to the Privatization Commission of Pakistan. Expression of interests have been received by Privatization Commission in this regard from many parties and management is confident that the transaction will be completed very soon. Taking in to consideration the successful operation of the structure division and demand for pumps and motors, the BoD decided to bring other division into operations as well. At present structure, pumps, electric motor and foundry divisions of the company are in operation.

**2. BASIS OF PREPARATION**

This condensed interim financial information of the Company for the six months period ended December 31, 2014 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard - 34: "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where the requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

This condensed interim financial information has, however, been subjected to limited scope review by the statutory auditors of the Company, as required by the Code of Corporate Governance and is 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, 2014 and 2013 are also included in this condensed interim financial information, which were not subject to review.

This condensed interim financial information does not include all the information and disclosures required for full financial statements, and should be read in conjunction with the company's audited annual financial Statements for the year ended June 30, 2014.

This condensed interim financial information has been presented in Pak Rupees, which is the functional and presentation currency of the Company.

**3. BASIS OF ACCOUNTING**

The Company has incurred gross profit of Rs. 48.237 million and profit after tax of Rs. 8.043 million resulting in accumulated loss of Rs. 1,222.018 million (June 30, 2014: Rs.1,252.912 million) and negative equity of Rs. 1,155.116 million (June 30, 2014: Rs.1,186.010 million) as at December 31, 2014. During the period stress on business stability continued mainly from gas shortages and general inflation resulting in slow down of overall economic activity. Despite of such problems, management of the Company took proactive steps to stabilize the overall position of the Company. Management of the Company tried hard to improve the performance and productivity of various business verticals. Due to various strategic decisions, the Company has managed to earn net profits in first six month of financial year 2014-15.

Keeping in view position of the Company, the BoD and the management of the Company has critically analyzed the situation and efforts have been made to get orders mix, improve efficiency and production and reduce overheads, so that business volume as well as profitability can be maintained and improved. In this regard, coal gasifier which was under



## FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2014

installation started commercial production and a new galvanizing kettle has been procured and installed which will save galvanization cost to the company in the next quarter of operations. The BoD and the management is hopeful that the commencement of commercial operations of the new furnace and coal gasifier will help the Company to minimize its costs of production and hence will start to compete in the tender business, and therefore will achieve better turnover in the upcoming period. The existing credit limit of the Company has been renewed and the short term loan of Rupees 108.351 million is converted into long term loan which is to be paid in 05 years in 20 equal quarterly installments effective from March 31, 2015. Such facility will be expired on December 31, 2019. In this regard the Ministry of Finance has also allocated credit ceiling to the Company amounting to Rs. 700 million.

On January 23, 2015, a fresh sanction of Rs. 20 million and Rs. 100 million as running finance and bank guarantee respectively, is allocated by National Bank of Pakistan (NBP). This fresh sanction will be expired on December 31, 2015 and will be renewed annually.

This support from the GoP and financial institutions and improved working capital management will also help to overcome the liquidity and working capital problems of the company. The Company has also repaid majority of its creditors and has also subsequently cleared its long term liabilities towards financial institutions. Further, despite of the severe crisis faced, the company has been able to maintain its current ratio at 1.79:1 which is still quite positive and has orders in hand of Rs. 952.789 million and orders in pipeline of Rs. 521.338 million. As far as the losses are concerned, the company has been operating with a negative equity and accumulated losses for more than 20 years and has a long history of ups and downs, however these conditions have never adversely affected the going concern status of the company.

As per the recorded order of the Government of Pakistan, the principal liabilities payable towards the GoP will be settled only and only through sale proceeds of Badami Bagh Land, the value of which has been estimated at Rs. 2,894.655 million. This value is significantly greater than the value of principal Government liabilities payable which amount to Rs. 1,790.848 million in aggregate. Further, the markup claimed by the Government departments on these liabilities is strongly disputed as there was no mention of charging interest in any agreement or decision. Further, to resolve the issue of charging of markup on the GoP loans a committee was constituted as per the decision of additional Finance Secretary. The committee included representatives from Ministry of Finance, Ministry of Industries and Production, Privatization Commission and Board Members of PECO. The view point of the management was supported from the fact that in the meeting held at Finance Division Islamabad attended by representatives of Privatization Commission, Ministry of Industries and Production and PECO, the Finance Division was instructed by the Chairman of the meeting (representative of Ministry of Industries and Production) to re-examine the issue of charging interest and come up with sound logical reasons. Till date the Finance Division has not been able to present any such documentation or come up with any sound logical reason for charging of interest. Further, the Privatization Commission in its confirmations to the predecessor auditors clearly stated that no formal agreements were signed by and between the Privatization Commission, the said line Ministry and PECO. It also confirmed that the loan amount and any related markup will be recovered from the sale proceeds of Badami Bagh Land. It is further stated that no formal agreements were executed and no definitive terms and conditions exist in relation to the issue of markup and that under the directions of public account committee the matter of charging interest is being reviewed by the committee comprising of Ministry of Industries, Ministry of Finance and Privatization Commission of Pakistan. The legal advisors of the Company are also of firm opinion that markup is not payable, therefore repayment of Government liabilities or claim of markup by GoP will not have any effect on the liquidity of the company and resultantly on the going concern status of the Company. In this regard Badami Bagh Land has already been offered for sale by the Privatization Commission and expressions of interests have been received by Privatization Commission.

The Government of Pakistan (through SEC) is one of the major shareholders with presence on the Board of Directors of the Company and has provided in past continued support to



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2014

the company and expressed its commitment in order to maintain the going concern status of the company. In this regard Ministry of Production and special initiative in its letters dated February 02, 2005 and August 19, 2005 bearing reference no. 5(50)/97-SEC(Vol-V) and F.No.5(50)97-SEC confirmed that the Government of Pakistan upon recommendation of the Privatization Commission has decided to allow Pakistan Engineering Company Limited to continue as a going concern and clearly stated that "there has been no change in the government policy regarding operation of PECO. It is therefore clarified that PECO would not be wound up. The decision to relieve the employees would not affect the operations of the company as it has been decided that PECO may be allowed to hire on job-to-job basis, the needed work force on contract/daily wages". There has been no change in the Government orders and the decision till date thus shall remain effective and PECO being a Public Sector Enterprise enjoys complete support of the Government of Pakistan. Further the Government's commitment to maintaining the going concern status of the Company is also supported by the fact that the Government in past has provided financial support to the Company in the form of interest free loans and financial support and continues to do so in the shape of credit ceilings vide Ministry of Finance, which is aggregated to Rs. 700 million.

In view of the situation set out above, although material uncertainty exists which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of the business, however, the BoD and the management of the company is strongly committed to maintaining the going concern status of the Company, which is evident from the above paras and is firmly confident that all these conditions are temporary and not permanent and would reverse in the near future and that the going concern assumption is appropriate for the reasons explained in the above paragraphs, therefore, these Financial Statements have been prepared on the assumption that the company will continue as a going concern.

**4. ACCOUNTING POLICIES**

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the preceding audited annual financial statements of the Company for the year ended June 30, 2014, except for changes resulting from initial application of standards, amendments or interpretations to existing standards.

However, amendments/improvements and new interpretations of approved accounting standards effective during the period, wether or not relevant to the Company's operations did not have any material impact on the accounting policies of the Company.

**5. ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of this condensed interim financial information in conformity with approved accounting standards 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 annual audited financial statements for the year ended June 30, 2014.

**6. SHARE CAPITAL**

	Dec 31, 2014	Jun 30, 2014
	----- (Rupees in '000) -----	
	(Un-Audited)	(Audited)
<b>Authorized share capital:</b>		
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
	<u>100,000</u>	<u>100,000</u>
<b>Issued, subscribed and paid up capital:</b>		
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
	<u>56,902</u>	<u>56,902</u>



FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2014

Dec 31, 2014      Jun 30, 2014  
----- (Rupees in '000) -----  
(Un-Audited)      (Audited)

6.1 State Engineering Corporation (Pvt.) Limited, an associated company, holds 1,415,723 (June 30, 2014: 1,415,723) ordinary shares of Rs.10/- each as at December 31, 2014.

**7. GOVERNMENT OF PAKISTAN LOANS - SECURED**

Privatization commission loan	7.1	<b>481,469</b>	481,469
Government Escrow account	7.2	<b>112,937</b>	112,937
Other Government Loan	7.3	<b>100,000</b>	100,000
Federal Government loan for compulsory separation scheme	7.4	<b>309,000</b>	309,000
Federal Government Bonds	7.5	<b>787,442</b>	787,442
		<b>1,309,379</b>	1,309,379
		<b>1,790,848</b>	1,790,848

These represent funds provided by the Government, bank loans of the company taken over by the Government and amounts payable by the company to different Government departments like Customs, Railways and Karachi Port Trust. According to the Cabinet Committee Division decision dated 30th May 1994 and 2005 these liabilities will be settled against the proceeds from disposal of Land held for sale (Refer Note no. 12) and surplus land of Kot Lakhpat, if needed. There is no fix repayment schedule or tenure for repayment of these liabilities. An exercise to reconcile the liabilities is in process and several meetings have been conducted in this regard, however, all these meetings concluded without any decision or agreement with respect to the reconciliation of the loan liabilities and calculation, payment or mode of payment of interest on Government of Pakistan loans due to which there is currently no fixed tenure for repayment of these liabilities nor the total amount of the liability is determinable. In the absence of the availability of a defined repayment schedule due to reasons explained above, the fair value of these loans is not determinable and hence they have been stated at cost.

During the period and in past as well Privatization commission and Finance division have claimed additional principal and markup on the above loan liabilities, however, the BoD and the management do not agree with the additional liabilities claimed and the claim of GoP regarding the payment is strongly disputed (refer note 9.3, 9.4 & 9.5) by the BoD and the management as there had never been any agreement in this regard. Further, the above loan liabilities were picked up by the GoP in order to provide public sector enterprises including PECO to give them clean slate on their liabilities so that they could be privatized and were provided without any specific request from these public sector enterprises, including PECO. In addition to the above, similar public entities which were provided similar reliefs by the GoP have never been asked to make any payments in respect of such reliefs. However, despite of this the BoD and the management of the Company is willing to repay the principal and in order to reconcile the principal and markup amounts with respect to GoP 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 Production, Privatization Commission and Board members from PECO. Several meetings have been taken place till date and in this regard a meeting of the committee was held on October 7, 2010 at Ministry of Finance (Finance Division) which was attended by representatives of Privatization Commission, Ministry of Production and PECO. The BoD and management of PECO agreed to repay all the outstanding principal, which the company is legally liable through disposal proceeds of Badami Bagh Land and surplus Land of Kot Lakhpat, if needed. However, the BoD and the management of the Company believes that they are not liable to pay any interest on these loans in the absence of any agreement. In the most recent meeting held on 27 May 2014 in Privatization Commission, it was mutually agreed by all stakeholders to resolve the above issues at the earliest.

HALF YEARLY REPORT 2014



