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HALF YEARLY

DEC-2015

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Board of Directors

Syed Kaukab Mohyuddin (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. Ansar Javed

**Board Audit & Risk Management
Committee**

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

Board Finance Committee

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

**Board HR & Remuneration
Committee**

Mr. Arif Ibrahim (Chairman)
Mr. Muhammad Iqbal
Mr. Rashid Ali Khan

CFO & Company Secretary

Mian Anwar Aziz

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

Registered Office

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

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Plants : Kot Lakhpat
Lahore.

Shares Registrar

Central Depository Company of Pakistan Ltd.
2nd Floor, 307-Upper Mall, Opposite Lahore
Gymkhana Near Mian Mir Bridge Lahore. 54000



DIRECTORS' REVIEW

Dear Shareholders

Assalam-o-Alaikum

On behalf of the Board of Directors of PECO, I am honored to present the Directors' review report together with half yearly condensed interim financial information for half year ended December 31, 2015 and the Auditors' review report.

Performance Outlook

During the period under review, the performance of the company was comparatively much better and your Company has done a reasonable business. Orders from WAPDA/DISCOS at good margins were obtained and are being executed. Management of your Company is striving hard to achieve better turn over/profitability during the current financial year.

Financial Performance

The sales revenue for half year ended on December 31, 2015 was Rupees 713 million against Rupees 341 million of the corresponding period last year, an increase of Rupees 372 million (109%). There was a gross profit of Rupees 110 million, against gross profit of Rupees 48 million of the corresponding period of last year, an increase of Rupees 62 million (129%). 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 materials and better cost management.

Operating expenses during the period were Rupees 39 million against Rupees 33 million of the same period last year, an increase of Rupees 6 million due to higher Freight and Forwarding expenses as most of the orders were on FCS (Free on Consignee's Site) basis.

There was a profit after tax of Rupees 41 million, against Profit of Rupees 08 million of the same period last year, meaning a net increase in profit of Rupees 33 million (410%).

Future Outlook

At present the company has orders in hand and in pipe line worth Rupees 2 billion of transmission line towers. Most of the orders are at good prices with reasonable margin. It is therefore, anticipated that performance of the company during rest of the year would be better than the first half.

Comments on Auditors' Review

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

Syed Kaukab Mohyuddin
(Chairman)

Dated: February 25, 2016
Lahore

Introduction

We have reviewed the accompanying condensed interim balance sheet of **Pakistan Engineering Company Limited** as at **December 31, 2015** 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 half year then ended here-in-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 quarter ended December 31, 2015 and December 31, 2014 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 half year ended December 31, 2015.

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 of qualified conclusion

1. The interest free loan from Government of Pakistan as referred to in note 4.2, amounting Rs. 1,790.848 million (June 30, 2015: Rs. 1,790.848 million) is being shown at historical cost in contravention with the requirements of IAS-39 which require the same to be recorded at amortized cost as appropriate with an impact on income through profit and loss account. The financial impact of which could not be determined in absence of relevant information.

2. Loan from Government of Pakistan aggregating to Rs. 1,196.44 million (ref. note. 4.2.3, 4.2.4 & 4.2.5) which have been outstanding for many years. Mark up on this loan is reflected in the confirmations given by the related authorities of Government of Pakistan on August 11, 2015, however, the same is not recognized as an expense due to non-acceptance of said liability by the company, legal opinion of the lawyer and minutes of meeting of parties.

3. Loan from Government of Pakistan received through Government Escrow account aggregating to Rs. 112.9 million (ref. note. 4.2.2) have been outstanding for many years. Carrying amount of this loan remained unconfirmed due to non-availability of confirmation from Government of Pakistan despite of repeated reminders.

Qualified conclusion

Based on our review, except for the effect of the matter referred to in the preceding paragraph 1 & 2, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2015 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. 4.2.1.1, 4.2.2.1, 4.2.3.1, 4.2.4.1, 4.2.5.1, 6.3 and 6.4 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 auditors in respect of which reconciliation exercise is currently in progress through Ministry of Finance. The ultimate outcome of the matters cannot presently be determined. Our report is not qualified in respect of this matter.

D)

ii. Note. 8 to the condensed financial information which states that the Badami Bagh land has been classified as held for sale. The documents for sale are with Privatization Commission since 1994 and part of the land has been sold in 2001. However no progress has been made to date and the land is still being classified as held for sale for the reasons stated in the relevant note. Our opinion is not qualified in respect of this matter.

TARIQ ABDUL GHANI MAQBOOL & CO.
CHARTERED ACCOUNTANTS

Engagement Partner:
Malik Haroon Ahmad, FCA

Dated: February 25, 2016
Lahore

PAKISTAN ENGINEERING COMPANY LIMITED
CONDENSED INTERIM BALANCE SHEET



AS AT DECEMBER 31, 2015

		(Un-Audited)	(Audited)
	Note	Dec 31, 2015	Jun 30, 2015
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
(Rupees in thousand)			
Share capital		56,902	56,902
Revenue reserve - general		10,000	10,000
Accumulated loss		(1,115,831)	(1,165,358)
		(1,048,929)	(1,098,456)
Surplus on revaluation of fixed assets		8,550,912	8,559,413
NON - CURRENT LIABILITIES			
Long term finances	4	1,849,351	1,859,104
Deferred liabilities		66,817	57,059
		1,916,168	1,916,163
CURRENT LIABILITIES			
Trade and other payables		893,060	526,012
Short term finances - secured	5	19,995	20,000
Current portion of long term finances		19,503	19,503
Accrued mark-up		2,359	3,099
Provision for taxation		11,476	9,553
		946,393	578,167
CONTINGENCIES AND COMMITMENTS			
	6		
TOTAL EQUITY AND LIABILITIES		10,364,544	9,955,287
ASSETS			
NON - CURRENT ASSETS			
(Rupees in thousand)			
Property, plant and equipment	7	8,580,117	8,588,036
Investment property		626	642
Long term investment		725	704
Long term deposits		620	620
		8,582,088	8,590,002
Free hold land - held for sale	8	314,724	314,724
CURRENT ASSETS			
Stores, spares and loose tools		119,771	131,772
Stock in trade		602,268	411,431
Trade debts-unsecured		547,552	381,153
Advances		6,832	9,196
Trade deposits, prepayments and other receivables		26,270	27,377
Tax refunds due from Government		127,846	67,132
Cash and bank balances	9	37,193	22,500
		1,467,732	1,050,561
TOTAL ASSETS		10,364,544	9,955,287

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director



PAKISTAN ENGINEERING COMPANY LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE QUARTER AND HALF YEAR ENDED DECEMBER 31, 2015

	Note	Quarter ended		Six months ended	
		Dec 31, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
		(Rupees in thousand)		(Rupees in thousand)	
Sales - net		397,857	160,991	713,074	340,982
Cost of sales	10	(336,265)	(144,108)	(603,116)	(292,745)
Gross profit		61,592	16,883	109,958	48,237
Selling and distribution expenses		(1,387)	(1,321)	(2,724)	(2,795)
Freight and forwarding expenses		(5,584)	(2,253)	(8,043)	(5,285)
Administrative expenses		(13,803)	(12,146)	(27,949)	(25,031)
		(20,774)	(15,720)	(38,716)	(33,111)
Profit from operations		40,818	1,163	71,242	15,126
Other operating charges		(4,743)	(2,119)	(5,451)	(2,280)
Finance cost		(3,717)	(5,003)	(7,691)	(10,580)
		32,358	(5,959)	58,100	2,266
Other operating income		1,594	6,038	2,020	12,158
Profit before taxation for the period		33,952	79	60,120	14,424
Taxation					
- Current		(7,068)	(3,410)	(10,220)	(3,410)
- Prior		(1,256)	-	(1,256)	-
- Deferred		(7,617)	(2,971)	(7,617)	(2,971)
		(15,941)	(6,381)	(19,093)	(6,381)
Profit/(loss) after taxation for the period		18,011	(6,302)	41,027	8,043
Earnings/(loss) per share - basic and diluted - Rupees		3.17	(1.11)	7.21	1.41

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

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE QUARTER AND HALF YEAR ENDED DECEMBER 31, 2015

	Quarter ended		Six months ended		
	Dec 31, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014	
		(Rupees in thousand)		(Rupees in thousand)	
Profit/(loss) after taxation for the period	18,011	(6,302)	41,027	8,043	
Other comprehensive income	-	-	-	-	
Total comprehensive income/(loss)	18,011	(6,302)	41,027	8,043	

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director

PAKISTAN ENGINEERING COMPANY LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2015



	Note	Dec 31, 2015	Dec 31, 2014
(Rupees in thousand)			
Cash generated from operations	11	111,193	5,947
Finance cost paid		(7,580)	(17,407)
Gratuity paid		(281)	-
Income tax paid		(70,266)	(4,576)
Net cash generated from / (used in) operating activities		33,066	(16,036)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(9,834)	(155)
Capital work-in-progress		(283)	-
Proceeds from disposal of Property, plant and equipment		1,500	20,000
Net cash (used in) / generated from investing activities		(8,617)	19,845
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term borrowings		(5)	-
Long term borrowings - (repayments)		(9,751)	-
Net cash (used in) financing activities		(9,756)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		14,693	3,809
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		22,500	7,151
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD 9		37,193	10,960

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director



PAKISTAN ENGINEERING COMPANY LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED DECEMBER 31, 2015

	Share Capital	Revenue reserve - General	Accumulated loss	Total
.....(Rupees in thousand).....				
BALANCE AS AT JULY 01, 2014 - as restated (Audited)	56,902	10,000	(1,238,882)	(1,171,980)
Total comprehensive income for the period				
Profit 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	-	-	5,652	5,652
BALANCE AS AT DECEMBER 31, 2014 (Un audited)	56,902	10,000	(1,216,247)	(1,149,345)
Total comprehensive profit for the period				
Profit for the period ended June 30, 2015	-	-	37,229	37,229
Other comprehensive income	-	-	-	-
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon - net of tax	-	-	9,397	9,397
- disposal of revalued machinery - net of tax	-	-	4,263	4,263
BALANCE AS AT JUNE 30, 2015 (Audited)	56,902	10,000	(1,165,358)	(1,098,456)
Total comprehensive profit for the period				
Profit for the period ended December 31, 2015	-	-	41,027	41,027
Other comprehensive income	-	-	-	-
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon - net of tax	-	-	41,027	41,027
- disposal of revalued machinery - net off tax	-	-	8,500	8,500
BALANCE AS AT DECEMBER 31, 2015 (Un audited)	56,902	10,000	(1,115,831)	(1,048,929)

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director

PAKISTAN ENGINEERING COMPANY LIMITED
SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2015

1 LEGAL STATUS AND NATURE OF BUSINESS

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 division 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, 2015 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, 2015 and 2014 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, 2015. This condensed interim financial information has been presented in Pak Rupees, which is the functional and presentation currency of the Company.

3 ACCOUNTING POLICIES AND ESTIMATES

The accounting policies, related judgments, estimates and related assumptions adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the company for the year ended June 30, 2015.

4 LONG TERM FINANCES

Loan from banking companies - secured
 Government of Pakistan - unsecured

4.1
 4.2

	(Un-audited)	(Audited)
	Dec 31,	Jun 30,
	2015	2015
	(Rupees in thousand)	
	58,503	68,256
	1,790,848	1,790,848
	1,849,351	1,859,104

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

Shafqat-ur-Rehman Ranjha
 Chief Executive

Muhammad Iqbal
 Director



PAKISTAN ENGINEERING COMPANY LIMITED

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED))
FOR THE HALF YEAR ENDED DECEMBER 31, 2015

	(Un-Audited) Dec 31, 2015	(Audited) Dec 31, 2014
4.1 LOAN FROM BANKING COMPANIES - SECURED		
Movement of long term finances - from Banking Companies / Financial Institutions		
(Rupees in thousand)		
Opening balance	87,759	87,759
Finance availed during the period	-	-
	87,759	87,759
Less: repayment during the period	(9,753)	-
	78,006	87,759
Less: Current maturity shown under current liabilities	(19,503)	(19,503)
	58,503	68,256

4.1.1 The financing forms part of total credit facility available to the extent of Rs. 108.351 million. The loan carries markup @ 3 months KIBOR plus 2.50%. The credit facility of the Company will be expired on Decmber 31, 2019. This is secured against first charge of Rs. 180.585 over movable fixed assets [excluding land and building] of the company.

4.2 GOVERNMENT OF PAKISTAN LOANS - UNSECURED

Privatization Commission Loan	4.2.1	481,469	481,469
Government Escrow account	4.2.2	112,937	112,937
Other Government Loan	4.2.3	100,000	100,000
Federal Government loan for compulsory separation scheme	4.2.4	309,000	309,000
Federal Government Bonds	4.2.5	787,442	787,442
		1,309,379	1,309,379
		1,790,848	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. 08) 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 of interest is strongly disputed (refer note 6.3, 6.4 & 6.5) 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 sector 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

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director

PAKISTAN ENGINEERING COMPANY LIMITED 
SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2015

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.

Further, the Finance Division was instructed in the meeting to re-examine the issue and confirm the contention of PECO. 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 had 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. Further, meetings were held between the representatives of Ministry of Finance, Privatization Commission and Ministry of Production and the PECO Loan Committee to reconcile the loan liabilities. However, these meetings concluded without any decision or agreement with respect to the reconciliation of loan liabilities and calculation, payment or mode of payment of interest on Government of Pakistan loans. Further, as agreed no SRO, notification, documentation was provided by the Ministry of Finance to substantiate their view point on the issue of levy of markup on Government loans and it was agreed to refer PECO's view points to Ministry of Finance who may refer the matter to Ministry of Law to form their verdict. Further, the principal amount of these loans has been agreed except for additional gratuities and in respect of the amounts disputed, the BoD and the management is of the opinion that an arbitrator should be appointed who should be acceptable to both the parties. Further, under the directions of public accounts 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.

(Un-audited)	(Audited)
Dec 31, 2015	Jun 30, 2015

(Rupees in thousand)

4.2.1 The break up of 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
	481,469	481,469

4.2.1.1 This represents interest free loan provided by Privatization Commission to PECO for payment of salaries, energy bills, shifting of plant & machinery from Badami Bagh to Kot Lakhpat and payment of outstanding essential liabilities. According to the Cabinet Committee Division decision, Privatization Commission would adjust its loan liability against the sale proceeds of Badami Bagh Land and surplus land of Kot Lakhpat, if needed, and in this regard title documents of Badami Bagh Land were handed over to the Privatization Commission in 1994 by PECO. During the year, the Privatization Commission has directly confirmed to the auditors total liability of Rupees 1,908.376 million (June 30, 2015: Rupees 1,908.376 million) which includes principal loan liability of Rs. 612.923 million and markup of Rs. 1,295.453 million (refer note 6.3). The BoD and the management of the Company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, and there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993. Further, 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 advisers of the company. The legal advisers are of the firm opinion that since there is no mention of any markup to be charged on this loan in any agreement nor is there any markup agreement in respect of this loan therefore no markup is payable by PECO in respect of this loan.

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director

The BoD and the management firmly believes that as the Company had 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 charging any interest on these loans would have arisen 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 difference of Rs. 131.454 million claimed by the Privatization Commission on account of additional gratuities is because of misapprehension on part of GoP, whereby, PECO is considered responsible to pay Rupees 131.454 million, that infact was the liability of the Privatization Commission under the APSEWEC agreement. As per the APSEWEC agreement Privatization Commission took the liability to make additional gratuity payments, for which purpose it advanced Rs. 131.454 million to PECO. On receiving the said amounts PECO had made the payments as was directed. It is important to note that PECO was not a party to these agreements, therefore, it cannot be held responsible for fulfilling any obligation pertaining to them. The claim of GoP is based on illegitimate assumption. Furthermore, the legal advisors are also of firm opinion that the amount of additional gratuities of Rs. 131.454 million (refer note 6.3) should be borne by the Privatization Commission. In this regard, 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. The Privatization Commission in its confirmation to the auditors has also confirmed that no formal agreements were signed or executed between the Privatization Commission, Ministries and PECO nor definitive terms and conditions exist in relation to the issue of markup and that the Privatization Commission only applied markup as instructed by the Finance Division. Further, 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.

(Un-audited)	(Audited)
Dec 31,	Jun 30,
2015	2015

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

	(Rupees in thousand)	
Customs and other import duties	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>

4.2.2.1 The company has not provided interest on loan relating to custom and other import duties as the BoD and the management believes that there was no clause of charging interest or surcharge in the ECC and Cabinet decision. In spite of confirmation request, no confirmation of custom and other import duties of Rs. 86.984 million, Pakistan railways freight of Rs. 12.989 million and Karachi port trust of Rs. 12.964 million which were received. The legal advisor is also of the firm opinion that no markup is payable by PECO in respect of this loan.

4.2.3 The break up of Other Government loans as follows:

Bank loans taken over	<u>100,000</u>	<u>100,000</u>
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This represents amount payable on account of the company's bank loans taken over by the Government in the year 1990. During the year, the Finance Division has directly confirmed to the auditors principal loan liability of Rs.100.00 million and markup of Rs. 306.00 million (refer note 6.4) vide its letter dated August 11, 2015 for the year ended June 30, 2015. However, the BoD and the management of the Company as detailed above 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 advisers are 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.

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director

PAKISTAN ENGINEERING COMPANY LIMITED
SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2015

	(Un-audited) Dec 31, 2015	(Audited) Jun 30, 2015
	(Rupees in thousand)	
4.2.4 The break up of Federal Government loan for compulsory separation schemes as follows:		
Loan for CSS	<u>309,000</u>	<u>309,000</u>

4.2.4.1 This represents loan provided by the Federal Government of Pakistan to PECO to pay off the staff through Compulsory Separation Scheme vide letter No. 1(26) CF 111/93 dated 4th March 2002. The Finance Division has directly confirmed to the auditors principal loan liability of Rs. 309.00 million and markup of Rs. 396.55 million (refer note 6.4) vide its letter dated August 11, 2015 for the year ended June 30, 2015. The BoD and the management of the company as detailed above do not agree with the markup confirmed and is of the opinion that markup is not payable on this loan liability in the absence of any agreement for markup. The BoD and the management have taken legal opinion and the legal advisor vide his letter dated August 10, 2015 is also of the opinion that no interest is payable as the letter dated March 04, 2002, referred by the GoP to substantiate claim of payment of interest @ 10% per annum against loan of Rs. 309.00 million was in the absence of perusal of relevant decisions / formative documents was misconceived and did not place any payment obligation on PECO. The letter was contrary to the decisions / documents and did not establish any liability to pay interest @ 10% per annum and that any alleged premium in the absence of agreement is void and unfair. In the absence of a contractual arrangement / agreement no interest can be claimed and in the absence of any agreement the alleged claim of interest tantamount to a penalty, which is construed as penal interest in nature and could not be granted unless loss/ damage proved through substantial evidence, which in the instant case will be all more difficult on account of handing over of land of Badami Bagh of PECO for sale/disposal. In view of the above, BoD and the management along with the legal advisor firmly believe that the alleged claim of GoP appears to be misconceived and without any basis and recommend that the aforesaid dispute should be referred to some impartial body for resolution under some ADR mechanism, where claims / encounter claims of the respective parties be examined, considered and decided. Furthermore, in order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee has been constituted as per the decision of Additional Finance Secretary. The management of PECO intends to pay back the Government of Pakistan Loans after the reconciliation of differences as per the records and facts available with the committee representatives.

4.2.5 The break up of Federal Government Bonds is as follows:

Interest bearing bonds	<u>655,138</u>	<u>655,138</u>
Interest free bonds	<u>132,304</u>	<u>132,304</u>
	<u>787,442</u>	<u>787,442</u>

4.2.5.1 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. During the year the Finance Division vide its letter dated August 11, 2015 directly confirmed to the auditors total principal loan liability of Rs.787.442 million and interest of Rs. 2,098.86 million (refer note 6.4) for the year ended June 30, 2015. However, the BoD and the management of the Company as detailed above 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 advisers are 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.

5 SHORT TERM FINANCES - SECURED

From NBP Bank under markup arrangements - Secured:

- Cash Finance	<u>19,995</u>	<u>20,000</u>
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The annexed explanatory notes form an integral part of this condensed interim financial information.

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Chief Executive

Muhammad Iqbal
Director



PAKISTAN ENGINEERING COMPANY LIMITED

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2015

5.1 This running finance facility was availed from National Bank of Pakistan to meet working capital requirement of Company. This is secured against first charge of Rs. 26.66 million over current and movable fixed assets (excluding land and building) of the company. The financing forms part of total credit facility available to the extent of Rs. 20.00 million. The loan carries markup @ 3 months KIBOR plus 2.50%. This facility has been expired on December 31, 2015. The company is in the process of renewal of above said facility.

6 CONTINGENCIES AND COMMITMENTS

Contingencies

- 6.1 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 Rs. 2.517 million (June 30, 2015: Rs. 2.517 million).
- 6.2 Guarantees of Rs. 307.59 million (June 30, 2015: Rs. 292.17 million) issued by the banks and insurance companies to different parties on behalf of the company.
- 6.3 The Privatization Commission has claimed additional loan liability amounting to Rs. 131.454 million and mark up amounting to Rs. 1,295.45 million (Ref: Note 4.2.1.1). 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 agree 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 has 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 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 financial statements in respect of the additional loan and markup claimed.
- 6.4 The Finance Division vide its letter dated August 11, 2015, for the year ended June 30, 2015 has claimed an amount of Rs. 2,801.41 million in respect of markup payable on remaining Government of Pakistan Loans (Ref: Note 4.2.3.1, 4.2.4.1 & 4.2.5.1). 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 was 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 annual 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 financial statements in respect of the markup claimed.
- 6.5 The Company has filed an appeal before Appellate Tribunal Inland Revenue Lahore against the order of Commissioner Inland Revenue (Appeals). The said appeal has been adjudicated, whereby the assessing officer is directed to carry forward loss at Rupees 170.644 million to the tax year 2009 and onwards. The revenue impact of the said case still not adjusted by the department. The legal advisor of the company is of firm opinion that the outcomes of the case will be in favour of the company.
- 6.6 The Sui Gas authorities have claimed an amount of Rupees 19.21 million (June 30, 2015: Rupees 19.21 million). The Company has filed an appeal against the claim and the case is pending in the civil court. The outcome of the matter cannot presently be determined.

Commitments

- 6.7 Commitments as at December 31, 2015 date are Rs. Nil. (June 30, 2015: Nil).

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

Shafqat-ur-Rehman Ranjha
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Muhammad Iqbal
Director

PAKISTAN ENGINEERING COMPANY LIMITED
SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2015

	Note	(Un-audited) Dec 31, 2015	(Audited) Jun 30, 2015
7 PROPERTY, PLANT AND EQUIPMENT			
		(Rupees in thousand)	
Operating assets - at net book value	7.1	8,562,658	8,570,860
Capital work in progress - at cost	7.2	17,459	17,176
		<u>8,580,117</u>	<u>8,588,036</u>

7.1 Detail of additions & disposals at net book value along with depreciation charged during the period are as follows:

DESCRIPTION

Opening net book value	8,570,860	8,627,764
Additions / surplus during the period / year		
Factory building on freehold land	571	-
Plant and machinery	2,262	5,663
Office equipment	35	125
Computers	117	229
Vehicles	6,827	1,095
Electric Equipments	22	-
Tools	-	425
	9,834	7,537
Disposals during the period / year		
Plant and machinery	-	27,360
Vehicles	287	-
Depreciation charged thereon	287	27,360
Closing net book value	17,749	37,081
	<u>8,562,658</u>	<u>8,570,860</u>

7.2 Capital Work in Progress - at cost

Civil Works	2,239	2,239
Plant & Machinery	-	289
Advances to suppliers	15,220	14,648
	<u>17,459</u>	<u>17,176</u>

7.3 The company has the possession and control of the land and holds valid title. The mutation of the freehold land in the land revenue records is in process.

8 FREE HOLD LAND - HELD FOR SALE

<u>314,724</u>	<u>314,724</u>
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8.1 This represents land of 263 kanals and 3 marlas of Badami Bagh Works which has been closed down. The fair value of the land is estimated at Rupees 2,894.655 million (June 30, 2015: Rupees 2,894.655 million). The company has the possession and control of the land and holds valid title. As per the Economic Coordination Committee decision the land was handed over to the Privatization Commission for sale and proceeds to be utilized for settlement of outstanding Government liabilities (refer note. 4.2). In this regard the title documents of the land have been handed over to the Privatization Commission for sale in 1994 by National Bank of Pakistan. Since then till date the land has been offered for sale various times by the Privatization Commission of Pakistan. A part of the land was sold in February 2001 by the Privatization Commission of Pakistan and several expression of interests have been received for the remaining portion by Privatization Commission from many parties.

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

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Chief Executive

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PAKISTAN ENGINEERING COMPANY LIMITED

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

FOR THE HALF YEAR ENDED DECEMBER 31, 2015

The Mutation of land is complete as per The Board of Revenue Punjab letter which states that the Government of Punjab has, however, no objection to the disposal of properties of PECO which had vested in the Federal Government. However a letter was issued by the Joint Secretary Ministry of Industries and Production Islamabad directing District Officer Revenue Lahore and copy endorsed to Member Revenue Punjab to stop the above mutation till further instructions, for undisclosed reasons. The BoD and the Management of the Company are till date strongly committed to the plan of selling the Badami Bagh Land and there has been no revocation of the GoP order or any change in the management's stance or plan. Further the Privatization Commission in its most recent and past direct confirmations to the predecessor auditors has also clearly stated that GoP loans would be recovered from the sale proceeds of Badami Bagh Land. Therefore taking to account the fact that the carrying amount of the land would be recovered principally through a sale transaction and not through continuing use and that the management and the GoP are firmly committed to a plan to sell the land and till date there has been no change of plan or revocation of Government order, the land is available for immediate sale, active programs to locate buyers continue to be carried out, the asset is marketed as fair value and it is extremely unlikely that the plan will be significantly be changed or withdrawn. The foregoing facts that events or circumstances which have resulted in the extension of the period to complete the sale beyond one-year are beyond the entity's control, therefore, Badami Bagh Land is classified as "Held for Sale" at lower of its carrying amount or fair value.

(Un-audited) (Audited)
Dec 31, Jun 30,
2015 2015

9 CASH AND BANK BALANCES

	(Rupees in thousand)	
	Dec 31, 2015	Jun 30, 2015
Cash in hand	3,062	327
Cash with banks:		
Current accounts	34,092	21,909
Saving accounts	7	232
Escrow account	32	32
	34,131	22,173
	37,193	22,500

10 COST OF SALES

	Quarter ended		Six months ended	
	Dec 31, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
	(Rupees in thousand)			
Raw material consumed	350,989	96,294	619,771	216,839
Stores and spares consumed	35,398	23,834	78,068	39,597
Salaries, wages and other benefits	21,644	15,240	39,316	31,305
Fuel and power	9,206	6,808	17,568	13,452
Traveling and conveyance	258	72	410	209
Postage, telegram and telephone	156	122	340	224
Printing and stationery	151	220	205	265
Inspection fee	2,440	298	6,510	1,924
Processing and fabrication charges	3,965	1,565	2,176	-
Service charges	1,092	603	1,000	2,503
Rent, rates and taxes	492	131	911	863
Repair and maintenance	265	255	519	425
Insurance	260	548	1,148	501
Vehicle running expenses	578	4	-	1,206
Research and development	-	4	-	4
Other expenses	357	569	920	1,103
Depreciation	8,278	9,904	16,538	17,905
Manufacturing cost	435,529	156,467	788,583	328,325
Increase in work in process	(48,056)	(18,908)	(89,964)	(43,269)
Cost of goods manufactured	387,473	137,559	698,619	285,056
Increase in finished goods	(51,208)	6,549	(95,503)	7,689
	336,265	144,108	603,116	292,745

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

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Muhammad Iqbal
Director

PAKISTAN ENGINEERING COMPANY LIMITED
SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2015



	(Un-audited) Dec 31, 2015	(Un-audited) Dec 31, 2014
11 CASH GENERATED FROM OPERATIONS (Rupees in thousand)		
Profit before taxation	60,120	14,424
Adjustments for non cash charges and other items:		
Depreciation	17,765	18,830
Financial charges	6,836	7,798
Interest on workers' profit participation fund	855	2,782
Interest on bank deposit	(21)	(20)
Provision for gratuity	2,422	10
Provision for workers' profit participation fund	3,229	-
Provision for workers' welfare fund	1,227	-
Gain on sale of property, plant and equipment	(1,213)	(4,407)
Profit before working capital changes	91,220	39,417
Effect on cash flow due to working capital changes:		
Increase/(decrease) in stores, spares and loose tools	12,001	4,507
(Decrease)/increase in stock in trade	(190,837)	(5,146)
(Decrease) in trade debts	(166,399)	(46,381)
(Decrease) in advances	2,364	(1,574)
Increase in trade deposits, prepayments and other receivables	1,107	(228)
Increase/(decrease) in trade and other payables	361,737	15,352
	19,973	(33,470)
	111,193	5,947

	(Un-audited) Dec 31, 2015	(Audited) June 30, 2015
12 TRANSACTIONS WITH RELATED PARTIES		
Transactions with related parties / associated undertakings are as under:		
State Engineering Corporation (SEC)		
- Outstanding SEC service charges paid	1,500	1,500
- Expenses payable	151	151
- Reimbursement of expenses	-	192
Pakistan Machine Tool Factory		
- Receivable at the end of the period / year	1,571	1,571

12.1 Maximum amount due from the associated undertakings at the end of any month was of Rs. 1.571 million (30 June 2015: Rupees 1.571 million).

12.2 All related party transactions are in accordance with accounting policy and are approved and recommended by the audit committee and subsequently approved by the board of directors. None of the directors had any interest in any transaction.

13 FINANCIAL INSTRUMENTS

The carrying values of the financial assets and financial liabilities as at December 31, 2015 and as at June 30, 2015 approximates their fair values except for Government of Pakistan loans as disclosed in note. 4.2 to the financial statements.

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

Shafqat-ur-Rehman Ranjha
Chief Executive

Muhammad Iqbal
Director



PAKISTAN ENGINEERING COMPANY LIMITED

**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2015**

14 DATE OF AUTHORIZATION

This condensed interim financial information has been approved by the Board of Directors of the Company and authorized for issue on February 25, 2016.

15 CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', corresponding figures in the condensed interim balance sheet comprise of balance sheet as per the annual audited financial statements of the Company for the year ended June 30, 2015 and the corresponding figures in the condensed interim statement profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim cash flow statement comprise of balances of comparable period as per the unaudited condensed interim financial information of the Company for the six months period ended December 31, 2014.

Reclassification from component	Reclassification to component	(Rupees in thousand)
Cost of Sales	Cost of Sales	
- Service charges	- Processing and fabrication charges	64
Trade and other payables	Deferred liabilities	
- Gratuity payables	- Gratuity payables	206
- Others	- Gratuity payables	1,019

16 GENERAL

Figures have been rounded off to the nearest thousand rupees unless stated otherwise.

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

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Chief Executive

Muhammad Iqbal
Director