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Half Yearly Report 2012



PECO

PAKISTAN ENGINEERING COMPANY LIMITED

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COMPANY INFORMATION

Board of Directors
Mrs. Rukhsana Saleem (Chairperson)
Mr. Babar Hassan Bharwana
(Chief Executive)
Mr. Abdul Jabbar Ali
Mr. Muhammad Arif Habib
Mr. Rashid Ali Khan
Mr. Liaqat Mohammad
Mr. Muhammad Iqbal
Mirza Mahmood Ahmad
Mr. Muhammad Iqbal Awan

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

Board Finance Committee
Mr. Rashid Ali Khan (Chairman)
Mr. Muhammad Arif Habib
Mr. Abdul Jabbar Ali

Board HR & Remuneration Committee
Mrs. Rukhsana Saleem (Chairperson)
Mr. Muhammad Iqbal
Mr. Abdul Jabbar Ali
Mr. Muhammad Iqbal Awan

Auditors
M/s. Fazal Mahmood & Co.
Chartered Accountants

Bankers
National Bank of Pakistan
United Bank Limited
Summit Bank

Legal Advisor
Sardar Zulfiqar Umar KhanThahim

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

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Web : http://www.peco.com.pk
Plants : Kot Lakhpat
Lahore.

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

DIRECTOR'S REVIEW

Dear Shareholders,

Assalamo-o-Alakum

On behalf of the PECO Board of Directors, I hereby present half yearly condensed Interim Statements for the period July-December, 2012 along with the Auditors' review.

Over View

During the period under review the performance of the Company was not up to the mark due to overall slump in business in the country. The main reasons were interrupted supply of electricity and gas, increase in furnace oil price, electricity, and other input costs. There remained an intensive competition especially in 11 Kv towers which also affected the Company's performance and profitability. The Company, however, has entered into Tele-Communication business which has big potential in the coming years.

Financial Performance

The sale revenue for the period ended on December 31, 2012 was Rs. 333 million against Rs. 353 million of the same period last year. This showed decreased of Rs. 20 million (6%). There was a gross loss of Rs. 31 million against gross loss of Rs. 28 million of the corresponding period last year. This was due to the higher input costs viz raw material, electricity and furnace oil, lesser production and intensive competition.

Operating expenses during the period were Rs. 24 million against Rs. 30 million same period last year. This showed a decrease of Rs. 6.0 million (20%).

Loss after taxation was Rs. 42.6 million against loss of Rs. 56.3 million of the same period last year, a decrease of Rs. 13.7 million.

Future Outlook

Despite some hard pressing issues, the Company has orders in hand of Rs. 773 million as on December 31,2012 and orders in pipe line are worth of Rs. 492 million. Hectic efforts are being made to improve the productivity, efficiency and to curtail production cost.

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 of ECC therefore, management believe no mark up is payable.

Acknowledgement

I thank members of the Board of Directors, all Stakeholders, Banks / Financial Institutions, our valued Customers and Suppliers for their continues support and assistance. I also thank the Management, Executives and Workers of the Company for their hard work, dedication and commitment towards job and look forward to get the same cooperation in future.

On behalf of the Board

Lahore: February 28, 2013

(Mrs. Rukhsana Saleem)
(Chairperson)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of **PAKISTAN ENGINEERING COMPANY LIMITED** as at December 31, 2012 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 (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 the quarters ended December 31, 2012 and December 31, 2011 in the condensed interim profit and loss account and condensed interim statement of comprehensive income have not been reviewed, as we are required to review only the cumulative figures for the six-months period ended December 31, 2012.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity ". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with international standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

a) Interest amounting to Rs. 41.989 million (accumulated rupees 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 the provision for interest in respect of paragraph (a) 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, if any, of the matter referred to in the preceding paragraph, nothing has come to our attention that causes us to believe that accompanying condensed interim financial information as of and for the six-months period ended December 31, 2012 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 the company has incurred gross loss of Rs. 31.174 million and after tax loss of Rs. 42.618 million, resulting in accumulated losses of Rs. 1,171.249 million. These conditions along with the other matters as set forth in note.3 indicate the existence of material uncertainty which may cast significant doubt on the company's ability to continue going concern. Our report is not qualified in this matter.

ii. Note.7.1.1, 7.2.1, 7.3.1, 7.4.1, 7.5.1, 10.3 and 10.4 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 the Privatization Commission and Finance Division as per their confirmation in respect of which reconciliation exercise is currently in progress through Ministry of Finance. The confirmations in respect of Government Escrow Account Loan (Ref: note.7.2) was received for the period ended December 31, 2010 in which only the amount relating to custom and other import duties was 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 for the period Ended December 31, 2011. However, despite of our confirmation request and several reminders no confirmation

has 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, 2012. The ultimate outcome of the matter cannot presently be determined. Our report is not qualified in this matter.

FAZAL MAHMOOD & COMPANY
Chartered Accountants
(A member firm of JHI)
Engagement Partner:Fazal Mahmood

Lahore: February 28, 2013

CONDENSED INTERIM BALANCE SHEET (UN-AUDITED)

AS AT DECEMBER 31, 2012

	Note	Dec 31, 2012	Jun 30, 2012
		.....(Rupees in '000).....	
		(Un-Audited)	(Audited)
ASSETS			
NON - CURRENT ASSETS			
Property, plant & equipment	11	4,869,643	4,884,456
Long term security deposits		663	663
		4,870,306	4,885,119
Land held for sale	12	314,724	314,724
CURRENT ASSETS			
Stores, spares and loose tools		142,102	133,052
Stock-in-trade		203,721	397,216
Trade debts		341,619	190,300
Loans & advances		7,156	5,238
Trade deposits, prepayments & other receivables		41,019	39,554
Cash and bank balances	13	18,134	58,491
		753,751	823,851
TOTAL ASSETS		5,938,781	6,023,694
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Share capital	6	56,902	56,902
Revenue reserve - general		10,000	10,000
Accumulated loss		(1,171,249)	(1,134,148)
		(1,104,347)	(1,067,246)
Surplus on revaluation of fixed assets		4,876,692	4,882,209
NON - CURRENT LIABILITIES			
Government of Pakistan loans - secured	7	1,790,848	1,790,848
Long term borrowings - secured	8	-	-
Deferred tax liability - net		39,068	61,327
		1,829,916	1,852,175
CURRENT LIABILITIES			
Trade & other payables		213,152	230,723
Mark-up accrued - on short term borrowing		3,331	3,757
Short term borrowing - secured	9	108,350	108,638
Current maturity of long term borrowings		6,266	5,670
Provision for taxation - net		5,421	7,768
		336,520	356,556
CONTINGENCIES AND COMMITMENTS	10	-	-
TOTAL EQUITY & LIABILITES		5,938,781	6,023,694

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

(Babar Hassan Bharwana)
(CHIEF EXECUTIVE)

(Muhammad Iqbal)
(DIRECTOR)

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE QUARTER & SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

	Note	Quarter ended 31, December		Six Months ended 31, December	
		2012	2011	2012	2011
		.....Rupees in '000.....			
Sales - net		150,804	94,312	333,030	352,872
Less: cost of sales	14.	170,462	94,883	364,204	381,248
GROSS (LOSS)		(19,658)	(571)	(31,174)	(28,376)
Selling and distribution Expenses		1,440	521	2,690	2,227
Freight and forwarding Expenses		128	314	525	2,686
Administrative expenses		8,184	13,039	20,701	24,975
		9,752	13,874	23,916	29,888
(LOSS) FROM OPERATIONS		(29,410)	(14,445)	(55,090)	(58,264)
Other operating charges		190	11,137	390	11,253
Finance costs		5,662	5,805	11,849	13,612
		(35,262)	(31,387)	(67,329)	(83,129)
Other operating income		(1,093)	(836)	(2,626)	(2,540)
(LOSS) BEFORE TAXATION FOR THE PERIOD		(34,169)	(30,551)	(64,703)	(80,589)
TAXATION					
- Current		174	(2,485)	174	101
- Deferred		(22,259)	(24,365)	(22,259)	(24,365)
		(22,085)	(26,850)	(22,085)	(24,264)
(LOSS) AFTER TAXATION FOR THE PERIOD		(12,084)	(3,701)	(42,618)	(56,325)
(LOSS) PER SHARE - BASIC & DILUTED - Rupees		(2.12)	(0.65)	(7.49)	(9.90)

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, 2012

	Quarter ended 31, December		Six Months ended 31, December	
	2012	2011	2012	2011
	.....Rupees in '000.....			
(LOSS) AFTER TAXATION FOR THE PERIOD	(12,084)	(3,701)	(42,618)	(56,325)
Other Comprehensive Income	-	-	-	-
TOTAL COMPREHENSIVE (LOSS)	(12,084)	(3,701)	(42,618)	(56,325)

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

(Babar Hassan Bharwana)
(CHIEF EXECUTIVE)

(Muhammad Iqbal)
(DIRECTOR)

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

	Note	December 31, 2012	December 31, 2011
		.....(Rupees in '000).....	
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss) before taxation		(64,703)	(80,589)
Adjustments:			
Depreciation		14,314	14,821
Finance costs		7,390	9,997
Interest on WPPF		3,000	3,188
Provision for gratuity		10	22
Amortization expense		596	427
(Profit) on sale of assets held for Sale		(16)	-
(Loss) before working capital changes		(39,409)	(52,134)
Adjustments for working capital changes			
Decrease in current assets		29,743	320,177
(Decrease) in current liabilities		(20,580)	(209,447)
Cash (utilized in) / generated from operating activities		(30,246)	58,596
Finance costs paid		(7,816)	(8,936)
Gratuity paid		-	(18)
Workers' profit participation paid		-	(1,251)
Long term security deposits		-	(100)
Income tax paid		(2,521)	(8,859)
Net Cash (utilized in) / generated from operating activities		(40,583)	39,432
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure in property, plant & equipment		(593)	(10,790)
Capital work in progress		(423)	(5,359)
Sale proceeds from disposal of fixed assets		1,530	-
Net cash inflow / (outflow) from investing activities		514	(16,149)
CASH FLOW FROM FINANCING ACTIVITIES			
Movement in short-term borrowings		(288)	-
Dividends paid		-	(3)
Net cash (outflow) from financing activities		(288)	(3)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(40,357)	23,280
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		58,491	58,335
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	13	18,134	81,615

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

(Babar Hassan Bharwana)
(CHIEF EXECUTIVE)

(Muhammad Iqbal)
(DIRECTOR)

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

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

	Share Capital	Revenue reserve. General	Accumulated Loss	Total
		.....Rupees in '000.....		
BALANCE AS AT JULY 1, 2011	56,902	10,000	(1,045,849)	(978,947)
Total comprehensive loss for the period				
Loss for the period ended December 31, 2011	-	-	(56,325)	(56,325)
Other comprehensive income	-	-	-	-
	-	-	(56,325)	(56,325)
Surplus on realization of fixed assetts realized during the period on account of:				
- incremental depreciation charged thereon-net of tax	-	-	5,807	5,807
BALANCE AS AT DECEMBER 31, 2011	56,902	10,000	(1,096,367)	(1,029,465)
Total comprehensive loss for the period				
Loss for the period ended June 30, 2012	-	-	(43,588)	(43,588)
Other comprehensive income	-	-	-	-
	-	-	(43,588)	((43,588)
Surplus on realization of fixed assetts realized during the period on account of:				
- incremental depreciation charged thereon-net of tax	-	-	5,807	5,807
BALANCE AS AT JUNE 30, 2012	56,902	10,000	(1,134,148)	(1,067,246)
Total comprehensive loss for the period				
Loss for the period ended December 31, 2012	-	-	(42,618)	(42,618)
Other comprehensive income	-	-	-	-
	-	-	(42,618)	(42,618)
Surplus on realization of fixed assetts realized during the period on account of:				
- incremental depreciation charged thereon-net of tax	-	-	5,517	5,517
BALANCE AS AT DECEMBER 31, 2012	56,902	10,000	(1,171,249)	(1,104,347)

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

(Babar Hassan Bharwana)
(CHIEF EXECUTIVE)

(Muhammad Iqbal)
(DIRECTOR)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

1. THE COMPANY AND ITS OPERATIONS

Pakistan Engineering Company Limited (a State Enterprise) was incorporated in Pakistan on February 15, 1950 under the Companies Act, 1913 (Now Companies Ordinance, 1984) as a public limited company. Its shares are quoted on all Stock Exchanges of Pakistan. The company is principally engaged in the manufacturing and sale of engineering products. The major products of the Company are electricity transmission and communication towers, electric motors, pumps and steel rolled products etc. The Company had earlier closed down its all divisions, except Structure (STR) division, and was principally engaged in the manufacturing and sale of electricity transmission and communication towers. A rehabilitation plan was approved by the Federal Cabinet to improve the viability of the project and according to the plan Badami Bagh Works was closed down and its land has been offered for sale by the Privatization Commission. 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. The Government of Pakistan had modified its earlier decision and allowed to keep the structure division of the company operative i.e. company will not be wound up. At present structure, pumps, electric motor, foundary and rolling mills 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, 2012 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, 2012 and 2011 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 conjuction with the company's audited annual financial Statements for the year ended June 30, 2012.

3. BASIS OF ACCOUNTING

"The Company has incurred gross loss of Rs. 31.174 million and after tax loss of Rs.42.618 million resulting in accumulated loss of Rs. 1,171.249 million (June 30, 2012: Rs.1,134.148 million) as at December 31, 2012. During the period stress on business stability emerged mainly from power and gas shortages, increase in petroleum prices and general inflation resulting in slow down of overall economic activity. The increase in material and other input costs could not be passed on to the customers due to very tough competition in the local market. Further, as a result of decrease in turnover, excessive load shedding of electricity, rescheduling of gas supply through gas load management, increase in petroleum, electricity and gas rates, increase in the prices of raw materials and due to severe competition, the company encountered profitability and liquidity problems which resulted in low performance as compared to the previous periods.

Keeping in view the above position, efforts have been made to get orders mix so that business volume as well as profitability can be maintained. Management of the Company is also endeavoring for up gradation of the foundry division. The management of the company has also signed a Memorandum of Understanding with a foreign company which also reflects management's plans for diversification and easing out liquidity problems. The management is hopeful that subject to the commencement of commercial operations of the Rolling Mills Division at full capacity and procurement of the new furnace, the Company will be able to minimize its costs of production and hence will be able to compete in the tender business, and therefore achieve better turnover in the upcoming period. The company is also in the process of renewing its financing facility with banks and recovering its outstanding debts. This support from the financial

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

institutions and improved working capital management will also help to overcome the liquidity and working capital problems of the company."

Further, despite of the crisis faced, the company has been able to maintain its current ratio at 2.21:1 which is still quite positive and has orders in hand of Rs. 775.755 million and orders in pipeline of Rs. 459.110 million. The liabilities of the company payable to the Government of Pakistan shall be met from the sale proceeds of Badami Bagh land, the value of which has been estimated at Rs. 2,894.6 million and surplus land of Kot Lakhpat works. In this regard Badami Bagh Land has been offered for sale by the Privatization Commission and expressions of interests have been received by Privatization Commission. Further, mark-up claimed by the GoP is under dispute and the BoD and the management believe that no mark-up is payable in the absence of any agreement.

The Government of Pakistan (through SEC) is one of the major shareholders and has provided in past continued support to the company and expressed its commitment in order to maintain the going concern status of the company. This support is evident from the fact that GoP had in the past provided loans and financial support to the company. Furthermore, the Ministry of 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, had confirmed that the Government of Pakistan had considered the recommendations of Privatization Commission and hence the Government had allowed Pakistan Engineering Company Limited to continue as going concern in the field of Tower manufacturing shop (Structure Division) i.e. Pakistan Engineering Company Limited would not be wound up. Furthermore, the company was allowed to hire needed workforce on job-to-job basis on contract/daily wages. This decision helped to improve the efficiency of the Structure Division (STR) and contributed towards the revenue generation of the company. However, taking into consideration, the successful operations of the Structure Division (STR) of the company and demand of pumps and motors, the Board of Directors decided to bring into operation Pumps, Electric Motor, Foundry and Rolling Mills divisions of the company as well.

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

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, 2012, 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, 2012.

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

	Dec 31, 2012	Jun 30, 2012
	.....(Rupees in '000).....	
	(Un-Audited)	(Audited)

6. SHARE CAPITAL

Authorized share capital:

9,000,000 Ordinary shares of Rs.10/- each	90,000	90,000
100,000 7.5% Cumulative redeemable preference shares of Rs. 100/- each	10,000	10,000
	100,000	100,000
Issued, subscribed and paid up capital:		
3,162,144 Ordinary shares of Rs. 10/- each fully paid in cash	31,621	31,621
2,528,101 Ordinary shares of Rs. 10/- each issued as fully paid up bonus shares	25,281	25,281
	56,902	56,902

6.1 State Engineering Corporation (Pvt.) Limited, an associated company, holds 1,415,723 (June 30, 2012: 1,415,723) ordinary shares of Rs.10/- each as at December 31, 2012.

7. GOVERNMENT OF PAKISTAN LOANS - SECURED

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

These represent funds provided by the Government, bank loan of the company taken over by the Government and amount payable by the company to different Government department like Customs and Karachi Port Trust. According to the Cabinet Committee Division decision dated 30th May 1994 and 2005 these loans will be settled against the proceeds from disposal of Land held for sale (Refer Note no. 12) and surplus land of Kot Lakhpat, if necessary. 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 loan liability and calculation, payment or mode of payment of interest on Government of Pakistan loans due to which their 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 mark up on the above loan liabilities as explained in relevant notes, 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 by the BoD and the management as there had never been any agreement in this regard. Further, the above loans 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. A meeting of the committee was held on October 7, 2010

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

Dec 31, 2012 Jun 30, 2012
.....(Rupees in '000).....
(Un-Audited) (Audited)

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. 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. 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 monitory claim or claiming set-off against the alleged principal loan liability. The management of the company handed over the title documents of the said land to the Privatization Commission for disposal in the year 1994 and had Privatization Commission disposed off the land at that time no issue of interest would have risen. 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 liability. However, these meetings concluded without any decision or agreement with respect to the reconciliation of loan liability 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.

7.1 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

7.1.1 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 and in this regard title documents of Badami Bagh Land were handed over to the Privatization Commission in 1994 by PECO. The Privatization Commission had directly confirmed to the auditors total liability of Rs. 1,745.453 million (June 30, 2012: Rs. 1,712.190 million) which includes principal loan liability of Rs. 612.923 million and markup of Rs. 1,132.53 million. 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 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

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no issue of charging any interest on these loans would have risen 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 monitory 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 Rs. 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 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. Further, Privatization Commission in its confirmation to the auditors has also confirmed that no formal agreements were signed between the Privatization Commission, Ministries and PECO and that no formal agreements were executed hence no definitive terms and conditions exist in relation to the issue of changing markup on the said loans and that the Privatization Commision only applied markup as instructed by the Finance Division without any agreement for doing so, which also supports the management's stance wih respect to charging of interest on these loans.

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

Customs and other import duties	**86,984**	86,984
Pakistan Railways freight	**12,989**	12,989
Karachi Port Trust	**12,964**	12,964
	112,937	112,937

7.2.1 The company has not provided interest amounting to Rs. 41.989 million (accumulated 41.989 million) @ 14% for three years relating to custom and other import duties (2012:41.989 million) as the BoD and the management believes that there was no mention of charging interest or surcharge in the ECC and Cabinet Decision. The Finance Division for the first time directly confirmed to the auditors principal loan liability in respect of custom and other import duties of Rs. 86.984 million and markup / surcharge on custom duty of Rs. 202.624 million vide letter dated January 28, 2011, whereas, in past Finance Division has never provided any such confirmation. The Finance Division vide its letter dated February 06, 2012 sent direct confirmation for the period ended December 31, 2011 to the auditors in respect of the other government loans, but did not confirm the liability in respect of customs and other import duties nor did it claim any markup. However, the Finance Division requested the auditors to confirm the said liabilities from FBR. FBR Islamabad in its reply to the auditors vide letter bearing ref: C. No. 6(3) Coord/2004-Misc asked them to confirm the liabilities from the local FBR authorities. Requests for balance confirmation has been responded to by the local FBR authorities till date.

7.3 The break up of Other Government loans as follows:

Bank loans taken over	**100,000**	100,000
	100,000	100,000

7.3.1 This represents amount payable on account of the company's bank loans taken over by the Government in the year 1990. The Finance Division directly confirmed to the auditors principal loan liability of Rs.100.00 million and markup of Rs.193.50 million vide its letter dated February 06, 2012 for

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the period ended December 31, 2011. However, the BoD and the management of the Company do not agree with the markup confirmed by the Finance Division and believes that this loan is free of interest as PECO being a public sector entity was required to take-up only principal amount of the loan in its books. The legal 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.

7.4 The break up of Federal Government loan for compulsory separation schemes as follows:

Loan for CSS	**309,000**	309,000
	309,000	309,000

7.4.1 "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. 303.850 million vide its letter dated February 06, 2012 for the period ended December 31, 2011. The BoD and the management of the company 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 September 29, 2012 is also of the opinion that no interest is payable as the letter dated 4th March 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 anld 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. "

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

Interest bearing bonds	**655,138**	655,138
Interest free bonds	**132,304**	132,304
	787,442	787,442

7.5.1 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

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bonds. The Finance Division vide its letter dated February 06, 2012 directly confirmed to the auditors total principal loan liability of Rs.787.442 million and interest of Rs.1,618.381 million for the period ended December 31, 2011. However, the BoD and the management of the Company do not agree with the markup confirmed by the Finance Division and is of firm opinion that the Government is liable to pay any interest there on, and that there was no agreement for charging any interest thereon. Furthermore, the legal 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.

8. LONG TERM BORROWINGS - SECURED

National Bank of Pakistan - DF II	4,777	4,777
Accumulated amortization / fair value adjustment	1,489	893
	6,266	5,670
Less: current maturity	(6,266)	(5,670)
	-	-

8.1 The above represents old markup up converted in to long term interest free demand finance loan. It is repayable in four equal quarterly installments commencing from September 2012 and repayable by June 2013. These loans are secured by First charge over present and future, current and fixed assets of the company.

8.2 As the above loan is interest free, the fair value of this financial liability was determined using prevailing market interest rates for equivalent loan of 17.506%. The loan is being amortized using effective interest of 17.506%. During the period as a result of amortization an amount of Rs. 0.566 million has been charged to profit and loss account.. Fair value was determined using discounting techniques.

9. SHORT TERM BORROWING - SECURED

From NBP Bank under markup arrangements - Secured:		
- Cash Finance	108,350	108,638

9.1 This is secured against first charge over current and fixed assets of the company. The financing forms part of total credit facility available to the extent of Rs. 250 million. The loan carries markup @ 3 months kibor plus 2% without floor and cap. The Company is in the process of renewing its credit facility with the bank.

10. CONTINGENCIES AND COMMITMENTS

Contingencies

10.1 Claim not acknowledged as debts in respect of various subjudice cases filed against company for which the maximum possible liabilities could be approximately Rs. 2.517 million (June 30, 2012 Rs. 2.517 million).

10.2 Guarantees of Rs. 340.313 million (June 30, 2012: Rs. 293.091 Million) have been issued by the banks and insurance companies on behalf of the Company.

10.3 The Privatization Commission vide its letter dated January 26, 2012 has claimed additional loan liability amounting to Rs. 131.454 million and mark up amounting to Rs. 1,132.530 million (Ref: Note 7.1.1). 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

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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. Further, three meetings were held on June 9, 2011, July 23, 2011 and January 12, 2012 between the representatives of Ministry of Finance, Privatization Commission and Ministry of Production and the PECO Loan Committee to reconcile the loan liability. However, these meetings concluded without any decision or agreement with respect to the reconciliation of loan liability and calculation, payment or mode of payment of interest on Government of Pakistan loans. 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 this condensed interim financial information in respect of the additional loan and markup claimed.

10.4 The Finance Division vide its letters dated January 28, 2011 and February 6, 2012 has claimed an amount of Rs. 2,318.355 million in respect of markup payable on remaining Government of Pakistan Loans (Ref: Note 7.2,7.3,7.4,7.5). 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, and the 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. Decision on this account would be conveyed to company at the earliest. Till the issue of condensed interim financial information no such decision has been received by company. Furthermore, the company also obtained opinion from the legal advisor, who was also of opinion that no markup is payable. Further, three meetings were held on June 9, 2011, July 23, 2011 and January 12, 2012 between the representatives of Ministry of Finance, Privatization Commission and Ministry of Production and the PECO Loan Committee to reconcile the loan liability. However, these meetings concluded without any decision or agreement with respect to the reconciliation of loan liability and calculation, payment or mode of payment of interest on Government of Pakistan loans. 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 this condensed interim financial information in respect of the markup claimed.

10.5 The Sui Gas authorities have claimed an amount of Rs.31.730 million. The Company has filed an appeal against the claim and the case is pending in the court of law. The outcome of the matter cannot presently be determined.

Commitments

10.6 Letters of credit for machinery, raw material and store items amounting to Rs.Nil (June 30, 2012:Rs.Nil).

11. PROPERTY, PLANT AND EQUIPMENT

Operating assets - at net book value	4,849,893	4,865,129
Capital work in progress - at cost	19,750	19,327
	4,869,643	4,884,456

11.1 Detail of additions and disposals at net book value along with depreciation charged during the period / year are as follows:

DESCRIPTION		
Opening net book value	4,865,129	4,884,235
Additions during the period / year		
Factory building on freehold land	-	8,381
Office equipment	264	87
Furniture & Fixture	48	29
Computers	41	110
Vehicles	-	2,046

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Electric Equipments	-	158
Tools	240	-
	593	10,811
Disposals during the period / year		
Vehicles	1,515	-
	1,515	-
Depreciation charged thereon	14,314	29,917
Closing net book value	4,849,893	4,865,129

11.2 **Capital Work in Progress - at cost**

Civil Works	6,323	6,323
Plant & Machinery	13,326	12,903
Advances to suppliers	101	101
	19,750	19,327

11.3 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.

12. LAND HELD FOR SALE

	314,724	314,724

12.1 This represents land of 260.495 kanals of Badami Bagh Works which has been closed down. The title documents of the land have been handed over to the Privatization Commission for sale. The sale proceeds of this land will be utilized for payment of long term loan liabilities as stated in note no. 7. The fair value of the land is estimated at Rs. 2,894.6 million (June 30, 2012: Rs. 2,631.5 million). Expression of interests have been received by Privatization Commission in this regard from many parties. The company has the possession and control of the land and holds valid title .The mutation of some portion of land in the land revenue records is in process.

13. CASH AND BANK BALANCES

Cash in hand	1,700	850
Cash with banks:		
Current accounts	5,799	55,597
Saving accounts	10,603	1,790
Escrow account	32	254
	16,434	57,641
	18,134	58,491

	Quarter ended 31, December		Six Mounths ended 31, December	
	2012	2011	2012	2011
	.....Rupees in '000.....			

14. COST OF SALES

Raw material consumed	24,549	19,372	100,711	135,297
Stores and spares consumed	7,066	7,096	30,991	37,444
Salaries and wages (including all benefits)	19,573	9,057	33,754	24,511
Fuel and Power	2,459	3,661	5,360	13,725
Inspection Fee	-	55	20	260
Service Charges	38	48	43	74
Repair & Maintenance	148	730	469	989
Insurance	111	111	221	221
Rent, Rates & Taxes	191	120	375	387

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	Quarter ended 31, December		Six Mounths ended 31, December	
	2012	2011	2012	2011
	.....Rupees in '000.....			
Traveling & conveyance	102	71	202	142
Printing & stationery	89	171	274	289
Postage &Telephone	39	81	84	170
Vehicle running Expenses	582	539	1,124	879
Other Expenses	264	72	470	204
Depreciation	6,519	6,360	12,462	12,835
	61,730	47,544	186,560	227,427
Decrease / (Increase) in Work in Process Inventory	31,863	(17,302)	113,348	86,346
Cost of Goods Manufactured	93,593	30,242	299,908	313,773
Decrease / (Increase) in Finished Goods Inventory	76,869	64,641	64,296	67,475
	170,462	94,883	364,204	381,248

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	.....(Rupees in '000).....	
	(Un-Audited)	(Audited)

15. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties / associated undertakings are as under:

State Engineering Corporation (Pvt) Limited (SEC)		
- Outstanding SEC Service Charges Paid	1,000	1,000
- Service charges payable to SEC	-	600
- Reimbursement of Expenses payable	75	221
- Reimbursement of Expenses	320	483
Pakistan Machine Tool Factory		
- Sale made during the period / year	-	5,315
- Receivable at the end of the period / year	1,570	9,333

15.1 Maximum amount due from the associated undertakings at the end of any month was of Rs. 4.056 Million (June 30, 2012: Rs.9.333 Million).

15.2 All related party transactions are approved by the Board of Directors and accounted for at arm's length, prices determined using "cost plus method".

16. 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, 2012 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 month period ended December 31, 2011.

17. FINANCIAL RISK MANAGMENT

The companies financial risk management objectives and policies are consistent with those disclosed in the audited annual financial statements of the company as at and for the year ended June 30, 2012.

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18. 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 28, 2013.

19. GENERAL

Figures have been rounded off to the nearest thousand rupee.

(Babar Hassan Bharwana)
(CHIEF EXECUTIVE)

(Muhammad Iqbal)
(DIRECTOR)