

## **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, 2016** 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-month 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 quarter ended December 31, 2016 and December 31, 2015 in the condensed interim profit and loss account and condensed interim statement of comprehensive income have not been reviewed and we do not express a conclusion thereon as we are required to review only the cumulative figures for the six-months period ended December 31, 2016.

### **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**

1. Loan from Privatization Commission of Pakistan aggregating to Rs. 481.469 million (Ref. note. 4.2.1) and an amount aggregating to Rs. 112.937 million in respect of Government Escrow Account (Ref. note. 4.2.2) have been outstanding since many years. Carrying amount of these liabilities remained unconfirmed due to non-availability of confirmation from the related authorities of Government of Pakistan despite of repeated reminders.
2. The interest free loan from Government of Pakistan as referred to in note 4.2 amounting to Rs. 1,790.848 million is being shown in financial statements at historical cost in contravention of 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 this contravention cannot be determined in absence of relevant information.

## **Qualified Conclusion**

Based on our review, except for the effect of the matter referred to in the preceding paragraphs 1 and 2, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the six months' period ended December 31, 2016 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 to the condensed interim financial information, which states that in previous years Privatization Commission and Finance division have claimed additional principal and markup on the above loan liabilities, however, the Board of Directors and the management do not agree with the additional liabilities claimed and the claim of Government of Pakistan regarding the payment of interest is disputed.
- ii. Note. 8 to the condensed interim 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 conclusion is not qualified in respect of these matter.

**Dated:**

Lahore

**TARIQ ABDUL GHANI MAQBOOL & CO.**  
CHARTERED ACCOUNTANTS

**ENGAGEMENT PARTNER:**  
MALIK HAROON AHMAD (FCA)

## **DIRECTORS' REVIEW**

Dear Shareholders

Assalam-o-Alaikum

On behalf of the Board of Directors of PECO, I am pleased to present the Directors' review report together with half yearly condensed interim financial information for six months ended December 31, 2016 and the Auditors' review report.

### **Performance Outlook**

The current financial year started with orders in hand of Rupees 798.71 million and presently Company has orders in hand worth Rupees 713.45 million besides order in pipeline worth Rupees 583.88 million, the Purchase Orders (PO) of which are expected to be issued soon in favor of PECO and we are expecting good business in next quarter. During the period under review transmission line towers were supplied to IESCO, QESCO, GEPCO, LESCO and NETRACON. Government priorities, on electrification and electricity load management, depict a big potential of transmission line towers business in Pakistan.

However, along with the potential opportunities, the business of electricity transmission towers, in Pakistan, has also become significantly competitive due to entry of many foreign companies in this business. After careful study of these challenges, your Company is gearing up to meet such competition through better marketing policies, extensive market research, product development, product diversification, updating technical production capabilities and better working capital management.

During the period under review, the performance of the company was better and the Company has captured reasonable market share to meet the challenges by its foreign competitors. Orders from WAPDA/DISCOS at reasonable 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 six months ended on December 31, 2016 was Rupees 546.50 million against Rupees 713.07 million of the corresponding period last year, a decrease of Rupees 166.58 million (23.36%). There was a gross profit of Rupees 75.18 million, against gross profit of Rupees 109.96 million of the corresponding period of last year, a decrease of Rupees 34.78 million (31.63%). Decrease in Sales/Gross Profit was mainly due to intense competition, low margins in new orders and increase in raw material prices.

Operating expenses during the period were Rupees 50.96 million against Rupees 38.72 million of the same period last year, an increase of Rupees 12.24 million due to high Freight and Forwarding expenses as most of the orders were on FCS (Free on Consignee' Site) basis.

There was a profit after tax of Rupees 29.02 million, against Profit of Rupees 41.03 million of the same period last year, meaning a decrease in profit of Rupees 12.01 million (29.27%).

### **Future Outlook**

At present the company has orders in hand and in pipe line worth Rupees 1.30 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.

Keeping the narrow working capital of the Company in view, potential Joint Venture (JV) arrangements are in process with various multinational companies to enhance operational

capacities of PECO on a fast track. Discussions with a few reputable foreign counterparts to enhance production and product diversification are at advanced stage.

### **Comments on Auditor's Review**

The issue of Government of Pakistan and Privatization Commission Loans has been discussed with representatives of GoP, PC and MoF. As a result of various meetings, the principal loan except Rupees 131.45 million (being the additional gratuity paid by Privatization Commission at its own) has been reconciled.

However, there is a disagreement on markup on the said loans and PECO management is of the firm view that markup is not payable on these loans in the absence of any agreements. The matter of reconciliation of GoP/PC loan is in progress. Principal amount of Rupees 1,790.85 million has been reconciled and markup is under active reconciliation. Since there was no mention of mark up in any of the decisions of CCOP and ECC, therefore, management believes no markup is payable.

The Board of Directors in its various meetings has always resolved that all amount due under the law to the Government of Pakistan (GoP) for any loan given to PECO shall be paid including any markup due on the same loans. The Board has also offered GoP to adjust its liabilities to GoP by disposal of Badami Bagh Land which according to the recent valuation is Rupees 4,605.13 million and which seems to be in excess of the amount being claimed by GoP as amount due from PECO.

### **Acknowledgement**

I take this opportunity to thank all our valued customers, suppliers and bankers for their confidence and continued support, staff members for their dedication and hard work. I would also like to thank our Board of Directors for their continued support in improvement of Company's business and good will. I am looking forward to a much better future from the Company, in'sha'Allah.

On behalf of the Board

Dated: February 27, 2016  
Lahore

Mairaj Anees Ariff  
Chief Executive



**PAKISTAN ENGINEERING COMPANY LIMITED**  
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)**  
**FOR THE QUARTER & SIX MONTHS PERIOD ENDED DECEMBER 31, 2016**

	Note	Quarter ended		Six months ended	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
----- Rupees in '000 -----					
Sales - net		250,045	397,857	546,497	713,074
Cost of sales	10	207,687	336,265	471,314	603,116
<b>Gross profit</b>		<b>42,358</b>	<b>61,592</b>	<b>75,183</b>	<b>109,958</b>
Selling and distribution expenses		2,170	1,387	3,980	2,724
Freight and forwarding expenses		10,951	5,584	12,954	8,043
Administrative expenses		16,829	13,803	34,028	27,949
Other operating charges		2,651	4,743	2,942	5,451
		<b>32,601</b>	<b>25,517</b>	<b>53,904</b>	<b>44,167</b>
Other operating income		1,695	1,594	12,740	2,020
<b>Operating profit</b>		<b>11,452</b>	<b>37,669</b>	<b>34,019</b>	<b>67,811</b>
Finance cost		4,167	3,717	8,806	7,691
<b>Profit before taxation for the period</b>		<b>7,285</b>	<b>33,952</b>	<b>25,213</b>	<b>60,120</b>
<b>Taxation</b>					
- Current		1,314	7,068	4,460	10,220
- Prior		1,186	1,256	1,186	1,256
- Deferred		(9,452)	7,617	(9,452)	7,617
		<b>(6,952)</b>	<b>15,941</b>	<b>(3,806)</b>	<b>19,093</b>
<b>Profit after taxation for the period</b>		<b>14,237</b>	<b>18,011</b>	<b>29,019</b>	<b>41,027</b>
<b>Earnings per share - Basic and diluted</b>	11	<b>2.50</b>	<b>3.17</b>	<b>5.10</b>	<b>7.21</b>

The annexed notes from 01 to 18 form an integral part of this condensed interim financial information.

Mairaj Anees Ariff  
**CHIEF EXECUTIVE**

Muhammad Iqbal  
**DIRECTOR**

**PAKISTAN ENGINEERING COMPANY LIMITED**  
**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)**  
**FOR THE QUARTER & SIX MONTHS PERIOD ENDED DECEMBER 31, 2016**

	Quarter ended		Six months ended	
	2016	2015	2016	2015
----- Rupees in '000 -----				
<b>Profit after taxation for the period</b>	<b>14,237</b>	<b>18,011</b>	<b>29,019</b>	<b>41,027</b>
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>14,237</b>	<b>18,011</b>	<b>29,019</b>	<b>41,027</b>

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

Mairaj Anees Ariff  
**Chief Executive Officer**

Muhammad Iqbal  
**Director**

**PAKISTAN ENGINEERING COMPANY LIMITED**  
**CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016**

	<u>Note</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
----- Rupees in '000 -----			
Cash generated from operations	12	39,001	111,193
Finance cost paid		(7,781)	(7,580)
Gratuity paid		(334)	(281)
Income tax paid		(4,582)	(70,266)
Workers' profit participation fund paid		(7,212)	-
<b>Net cash generated from operating activities</b>		<b>19,092</b>	<b>33,066</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure incurred		(868)	(10,117)
Proceeds from disposal of Property, plant and equipment		18,151	1,500
Long term deposits		(221)	-
<b>Net cash generated from/(used in) from investing activities</b>		<b>17,062</b>	<b>(8,617)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term borrowings		(751)	(5)
Long term borrowings - (repayments)		(9,752)	(9,751)
<b>Net cash (used in) financing activities</b>		<b>(10,503)</b>	<b>(9,756)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>25,651</b>	<b>14,693</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>21,936</b>	<b>22,500</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	9	<b>47,587</b>	<b>37,193</b>

The annexed notes from 01 to 18 form an integral part of this condensed interim financial information.

Mairaj Anees Ariff  
**#REF!**

Muhammad Iqbal  
**Director**

**PAKISTAN ENGINEERING COMPANY LIMITED**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016**

	Share Capital	Revenue reserve - General	Accumulated loss	Total
(Rupees in thousand)				
<b>Balance as at June 30, 2015 (Audited)</b>	<b>56,902</b>	<b>10,000</b>	<b>(1,165,358)</b>	<b>(1,098,456)</b>
Total comprehensive income for the period				
- Profit for the period ended December 31, 2015	-	-	41,027	41,027
- Other comprehensive income	-	-	-	-
	-	-	41,027	41,027
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon - net of tax	-	-	8,500	8,500
- disposal of revalued machinery - net of tax	-	-	-	-
<b>Balance as at December 31, 2015 (Un-audited)</b>	<b>56,902</b>	<b>10,000</b>	<b>(1,115,831)</b>	<b>(1,048,929)</b>
Total comprehensive profit for the period				
- Profit for the period ended June 30, 2016	-	-	178,459	178,459
- Other comprehensive income	-	-	-	-
	-	-	178,459	178,459
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon - net of tax	-	-	9,519	9,519
- disposal of revalued machinery - net of tax	-	-	2,243	2,243
<b>Balance as at June 30, 2016 (Audited)</b>	<b>56,902</b>	<b>10,000</b>	<b>(925,610)</b>	<b>(858,708)</b>
Total comprehensive profit for the period				
- Profit for the period ended December 31, 2016	-	-	29,019	29,019
- Other comprehensive income	-	-	-	-
	-	-	29,019	29,019
Surplus on revaluation of fixed assets realized during the period on account of:				
- incremental depreciation charged thereon - net of tax	-	-	9,190	9,190
- disposal of revalued machinery - net off tax	-	-	5,245	5,245
<b>Balance as at December 31, 2016 (Un-audited)</b>	<b>56,902</b>	<b>10,000</b>	<b>(882,156)</b>	<b>(815,254)</b>

The annexed notes from 01 to 18 form an integral part of this condensed interim financial information.

Mairaj Anees Ariff  
**Chief Executive Officer**

Muhammad Iqbal  
**Director**

**PAKISTAN ENGINEERING COMPANY LIMITED**  
**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016**

**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 Pakistan Stock Exchange. The registered office of the Company is situated at 6/7 Ganga Ram Trust Building, Shahra-e-Quaid-e-Azam, Lahore. 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.

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 soon. Taking in to consideration the successful operation of the structure division and demand for pumps and motors, the BoD decided to bring other division into operations as well. At present structure, pumps, electric motor and foundry divisions of the company are in operation.

**2 BASIS OF PREPARATION**

This condensed interim financial information of the Company for the six months period ended December 31, 2016 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, 2016 and 2015 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, 2016.

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, 2016.

**4 LONG TERM FINANCES**

Loan from banking companies - Secured	4.1	<b>39,000</b>	48,753
Government of Pakistan - unsecured	4.2	<b>1,790,848</b>	1,790,848
		<b>1,829,848</b>	1,839,601

	<b>(Un-audited)</b>	<b>(Audited)</b>
	<b>Dec 31,</b>	<b>Jun 30,</b>
	<b>2016</b>	<b>2016</b>
	<b>(Rupees in '000)</b>	

**4.1 Loan from National Bank of Pakistan-secured**

**Movement of long term finances - from Banking Companies**

Opening balance	<b>68,256</b>	87,759
Finance availed during the period	-	-
	<b>68,256</b>	87,759
Less: repayment during the period	<b>(9,753)</b>	(19,503)
	<b>58,503</b>	68,256
Less: Current maturity shown under current liabilities	<b>(19,503)</b>	(19,503)
	<b>39,000</b>	48,753

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 December 31, 2019. This is secured against first charge of Rs. 180.585 over movable fixed assets [excluding land and building] of the company.

**PAKISTAN ENGINEERING COMPANY LIMITED**  
**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016**

**4.2 GOVERNMENT OF PAKISTAN LOANS - UNSECURED**

Privatization commission loan	4.2.1	<b>481,469</b>	481,469
Government Escrow account	4.2.2	<b>112,937</b>	112,937
Other Government Loan	4.2.3	<b>100,000</b>	100,000
Federal Government loan for compulsory separation scheme	4.2.4	<b>309,000</b>	309,000
Federal Government Bonds	4.2.5	<b>787,442</b>	787,442
		<b>1,309,379</b>	1,309,379
		<b>1,790,848</b>	1,790,848

These represent funds provided by the government of Pakistan (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 May 30th 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 disputed (refer note 6.3 & 6.4 ) 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 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 meeting held on 13 July 2015 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.

**PAKISTAN ENGINEERING COMPANY LIMITED**  
**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016**

	(Un-audited) Dec 31, 2016	(Audited) Jun 30, 2016
	(Rupees in thousand)	
4.2.1 <b><i>The break up of loan from Privatization Commission is as follows:</i></b>		
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. The forgoing loans have been outstanding since 1993. The company also obtained legal opinion from the legal advisors of the company. The legal advisors 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 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 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 had 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. Neither 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.

4.2.2 <b><i>The break up of Government Escrow account is as follows:</i></b>		
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

- 4.2.2.1 The company has not provided interest amounting to Rs. 41.989 million (accumulated Rs. 41.989 million) @ 14% for three years on loan relating to custom and other import duties (2015: Rs. 41.989 million) 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 requests and several reminders, 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 along with markup/surcharge on custom duty of Rs. 202.624 million was received by the auditors from customs or Pakistan railway or Port Trust.

(Un-audited)                      (Audited)

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	Dec 31, 2016	Jun 30, 2016
	(Rupees in thousand)	
4.2.3 <b>The break up of Other Government loans as follows:</b>		
Bank loans taken over	<u>100,000</u>	<u>100,000</u>
	<b>100,000</b>	<b>100,000</b>
4.2.3.1 This represents amount payable on account of the company's bank loans taken over by the Government in the year 1990. BoD and the management of the Company believes that there is no interest as PECO being a public sector entity was required to take-up only principal amount of the loan in its books. The legal advisor is 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.		
4.2.4 <b>The break up of Federal Government loan for compulsory separation schemes as follows:</b>		
Loan for CSS	<u>309,000</u>	<u>309,000</u>
	<b>309,000</b>	<b>309,000</b>
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 BoD and the management of the company do not agree with the markup claimed by GoP 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 Alternate Dispute Resolution (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 <b>The break up of Federal Government Bonds is as follows:</b>		
Interest bearing bonds	<u>655,138</u>	<u>655,138</u>
Interest free bonds	<u>132,304</u>	<u>132,304</u>
	<b>787,442</b>	<b>787,442</b>
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.		

However, the BoD and the management of the Company as detailed above do not agree with the markup claimed 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 advisor is 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.

(Un-audited)

(Audited)

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	Dec 31, 2016	Jun 30, 2016
	(Rupees in thousand)	

**5 SHORT TERM FINANCES - SECURED**

From NBP Bank under markup arrangements - Secured:

- Running Finance

**49,233**

**49,984**

- 5.1 The financing forms part of total credit facility available to the extent of Rs. 50.00 million( 2015: Rs. 20.00 Million). The loan carries markup @ 3 months KIBOR plus 2.50% . This is secured against first charge of Rs. 66.67 million over current and movable fixed assets (excluding land and building) of the company. This facility has been expired on December 31, 2016. The facility is renewed on January 27, 2017.

**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. 2.912 million (June 30, 2016: Rs. 2.912 million).
- 6.2 Guarantees of Rs. 625.706 million (June 30, 2016: Rs. 581.446 million) issued by the banks and insurance companies to different parties on behalf of the company.
- 6.3 The Privatization Commission through its confirmation dated September 03, 2015 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 January 28, 2011 for the period ended December 2010 has claimed an amount of Rs. 202.624 million in respect of surcharge payable on Custom and Other Import duties (Ref: Note . However, the management of the company is of the opinion that no markup is payable in the absence of any agreement for markup. 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 Finance Division vide its letter dated September 06, 2016, for the year ended June 30, 2016 has claimed an amount of Rs. 671.860 million in respect of additional principal liability and Rs. 2,342.781 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.
- 6.6 The Additional Commissioner Inland Revenue (ACIR) has passed an order under section 122 (5A) of the Income Tax Ordinance, 2001 for tax years 2009 and 2010 whereby a demand of Rs. 53.43 million (2015: Rs.108.43 million) has been raised. No provision against the demand has been made in these financial statements as the Company is able to get refund of Rupees 55.00 million from Federal Board of Revenue in current financial year. The Appellate Tribunal Income Tax (ATIR) has passed an order under section 122 (5A) of Income Tax Ordinance, 2001, whereby brought forward losses of Rs. 170.644 million is allowed by ATIR. As on reporting date, appeal effect decision was pending before ACIR which will result in further refund of Rupees 53.43 million

**Commitments**

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6.7 Commitments as at balance sheet date are Rupees 18.12 million (June 30, 2016: Nil).

		(Un-audited) Dec 31, 2016	(Audited) Jun 30, 2016
(Rupees in thousand)			
<b>7</b>	<b><u>PROPERTY, PLANT AND EQUIPMENT</u></b>		
	Operating assets - at net book value	7.1 14,511,213	14,533,107
	Capital work in progress - at cost	7.2 2,239	2,239
	Advances against capital assets	7.3 22,829	29,159
		<b>14,536,281</b>	<b>14,564,505</b>

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	14,533,107	8,570,860
<u>Additions / surplus during the period / year</u>		
Free hold land	-	5,929,500
Factory building on freehold land	-	13,255
Plant and machinery	-	51,738
Office equipment	104	35
Computers	358	265
Furniture & Fixture	78	-
Vehicles	4,837	6,852
Electric Equipments	165	66
	<b>5,542</b>	<b>6,001,711</b>
<u>Disposals during the period / year</u>		
Plant and machinery	8,698	2,583
Vehicles	-	287
	<b>8,698</b>	<b>2,870</b>
Depreciation charged thereon	<b>18,738</b>	<b>36,594</b>
Closing net book value	<b>14,511,213</b>	<b>14,533,107</b>

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

Civil Works	2,239	2,239
	<b>2,239</b>	<b>2,239</b>

7.3 **Advances against capital assets**

Against vehicles	-	4,745
Against plant and machinery	22,728	24,313
Against ERP software	101	101
	<b>22,829</b>	<b>29,159</b>

7.4 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**

**314,724**      **314,724**

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 based on valuation carried out by an independent valuer is estimated at Rupees 4,605.13 million (June 30, 2016: Rupees 4,605.13 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 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

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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, 2016	Jun 30, 2016
<b>9 CASH AND BANK BALANCES</b>	(Rupees in thousand)	
Cash in hand	2,090	3,593
Cash with banks:		
Current accounts	45,340	17,856
Saving accounts	125	455
Escrow account	32	32
	<u>45,497</u>	<u>18,343</u>
	<u>47,587</u>	<u>21,936</u>

	Quarter ended		Six months ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>10 COST OF SALES</b>	(Rupees in '000)			
Raw material consumed	210,161	350,989	443,583	619,771
Stores and spares consumed	31,676	35,398	62,454	78,068
Salaries, wages and other benefits	20,921	21,644	41,229	39,316
Fuel and power	4,080	9,206	9,242	17,568
Traveling and conveyance	116	258	382	410
Postage, telegram and telephone	178	156	348	340
Printing, stationery and office supplies	220	151	378	205
Inspection fee	1,549	2,440	2,635	3,183
Processing and fabrication charges	4,836	3,965	9,541	6,510
Services and security charges	1,248	1,092	2,378	2,176
Rent, rates and taxes	344	492	747	1,000
Repair and maintenance	813	265	1,374	911
Insurance	260	260	519	519
Vehicle running expenses	502	578	1,111	1,148
Other expenses	1,052	357	1,908	920
Depreciation	8,594	8,278	17,186	16,538
<b>Manufacturing cost</b>	<u>286,550</u>	<u>435,529</u>	<u>595,015</u>	<u>788,583</u>
Increase in work in process	(54,694)	(48,056)	(75,158)	(89,964)
<b>Cost of goods manufactured</b>	<u>231,856</u>	<u>387,473</u>	<u>519,857</u>	<u>698,619</u>
Increase in finished goods	(24,169)	(51,208)	(48,543)	(95,503)
	<u>207,687</u>	<u>336,265</u>	<u>471,314</u>	<u>603,116</u>

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	Quarter ended		Six months ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>11 EARNINGS PER SHARE - BASIC AND DILUTED</b>				
There is no dilutive effect on the basic earnings per share which is based on:				
Profit attributable to ordinary shareholders (Rupees in thousand)	14,237	18,011	29,019	41,027
Weighted average number of ordinary shares (Numbers)	5,690,200	5,690,200	5,690,200	5,690,200
Earnings per share (Rupees)	<u>2.50</u>	<u>3.17</u>	<u>5.10</u>	<u>7.21</u>
			<b>December 31, 2016</b>	<b>December 31, 2015</b>
			<b>(Rupees in '000)</b>	
<b>12 CASH GENERATED FROM OPERATIONS</b>				
Profit before taxation			25,213	60,120
Adjustments for non cash charges and other items:				
Depreciation			18,754	17,765
Financial charges			7,439	6,836
Interest on workers' profit participation fund			1,367	855
Interest on bank deposit			-	(21)
Provision for gratuity			5,220	2,422
Provision for workers' profit participation fund			1,392	3,229
Provision for workers' welfare fund			973	1,227
Gain on sale of property, plant and equipment			(9,452)	(1,213)
Working capital changes		12.1	(11,905)	19,973
			<u>39,001</u>	<u>111,193</u>
<b>12.1 Working capital changes:</b>				
(Increase)/decrease in current assets:				
- Stores, spares and loose tools			(519)	12,001
- Stock in trade			(171,907)	(190,837)
- Trade debts			620,850	(166,399)
- Advances			(6,528)	2,364
- Trade deposits, prepayments and other receivables			(35,602)	1,107
			406,294	(341,764)
(Decrease)/increase in trade and other payables			(418,199)	361,737
			<u>(11,905)</u>	<u>19,973</u>
<b>13 TRANSACTIONS WITH RELATED PARTIES</b>				
Transactions with related parties / associated undertakings are as under:				
<b>State Engineering Corporation (SEC)</b>				
- Outstanding SEC service charges paid			-	1,500
- Expenses payable			81	151
<b>Pakistan Machine Tool Factory</b>				
- Receivable at the end of the period / year			273	1,571
13.1 Maximum amount due from the associated undertakings at the end of any month was of Rupees 0.273 million (30 June 2016: Rupees 1.571 million).				
13.2 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.				
<b>14 FINANCIAL INSTRUMENTS</b>				
The carrying values of the financial assets and financial liabilities as at December 31, 2016 and as at June 30, 2016 approximates their fair values except for Government of Pakistan loans as disclosed in note. 4.2 to the financial statements.				
<b>15 OPERATING SEGMENTS</b>				
This condensed interim financial information has been prepared on the basis of a single reportable segment i.e. "Engineering".				
<b>15.1 Information about products and services</b>				
- Revenue from sales of electricity transmission and communication towers represents 91.01% (June 30, 2016: 98.97%) of total sales.				
<b>15.2 Information about geographical areas</b>				
- 100% (June 30, 2016: 100%) of the gross sales of the Company are made to customers located in Pakistan.				

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**15.3 Information about major customers**

- The Company's most significant customers are electric supply companies.
- Electricity transmission companies (IESCO, QESCO, LESCO, GEPCO and AJK) and tower erection and installation company (NETRACON) accounts for more than 91.01% of the gross sales of the Company for the period.

**16 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 27, 2017.

**17 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, 2016 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, 2015.

**18 GENERAL**

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

Mairaj Anees Ariff  
#REF!

Muhammad Iqbal  
Director