بسم الله الرحمن الرحيم

Contents

COMPANY INFORMATION

Board of Directors

Mr. Muhammad Arif Azim (Chairman)
Mr. Shafqat-ur-Rehman Ranjha (Chief Executive)
Mr. Arif Ibrahim
Mr. Muhammad Arif Habib
Mr. Rashid Ali Khan
Mr. Liaqat Mohammad
Mr. Muhammad Iqbal
Mirza Mahmood Ahmad
Mr. Muhammad Iqbal Awan

Board Audit & Risk Management Committee

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

Board Finance Committee

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

Board HR & Remuneration Committee

Mr. Muhammad Arif Azim (Chairman)
Mr. Arif Ibrahim
Mr. Muhammad Iqbal
Mr. Muhammad Iqbal Awan

CFO & Company Secretary

Mian Anwar Aziz

Auditors

M/s. Fazal Mahmood & Co.
Chartered Accountants

Bankers

National Bank of Pakistan
United Bank Limited
Summit Bank

Legal Advisor

Sardar Zulfiqar Umar Khan Thahim

Registered Office

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

Phones : 042 37 32 0225-7
Fax No. : 042 37 32 3108
E-Mail : info@peco.com.pk
Website : http://www.peco.com.pk
Plants : Kot Lakhpat
Lahore.

Share Registrar:

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

OUR PRODUCTS

PECO is playing a vital role in the manufacturing of qualitative engineering goods of international standard. Its products have earned reputation due to quality and reliability. PECO present products range includes the following:

- Steel Structure
  - -Electricity Transmission & Distribution Line Towers. (11, 132, 220 & 500 Kv)
  - -Telecommunication Towers (Green Field & Roof Top)

- Pumps & Turbines

  PECO produces Mono Block & Non Clogging Pumps, Multi Stage Centrifugal Pumps, Deep Well & Agro Turbines of various capacities & heads as per requirements of the customers. PECO pumps range also includes Sludge Pumps and the Pumps utilized in Sugar & Chemical industries.

- Electric Motors

  PECO manufactures following range of electric motors:
  - -Horizontal Foot Mounted Motors in Drip Proof & T.E.F.C. Enclosures.
  - -Flange Mounted Squirrel Cage Induction Motors.
  - -Vertical Hollow Shaft Motors in Drip Proof & Totally Enclosed Fan Cooled Enclosures.

- Safes, Strong Room Doors & Steel Lockers.
  - -Steel Safes – 30”, 60” , 72”
  - -Strong Room Doors & Steel Lockers for Banks

- Foundry Products.
  - - Grey & S.G. Iron Castings.
  - - Bronze Castings.
  - - Aluminum Alloy Castings.

- Rolled Products
  - - Angles
  - - Plain Bars
  - - Deformed Bars (Grade 60 & 40)

Vision Statement

A sustainable growth oriented company and market leader in Steel Towers for Electricity Transmission and Telecommunication, Pumps & Electric Motors

Mission Statement

To replace the old machines & equipment with most modern, efficient machines leading towards automation. To produce quality products at higher efficiency and consistent quality with lower cost.

Corporate Strategy

To accomplish excellent results through increased earnings in the best interest of all stake holders. To be a responsible employer to take care of the employees in their career planning and reward.

Being a good corporate citizen, contributing to the development of society through harmony in all respects.

Quality Policy

We are committed to maintain our Customer's satisfaction by delivering the qualitative products and services in accordance with their needs and requirements. Customer's feed-back is continuously reviewed for quality improvement to have continued customer's confidence and trust in our products. Quality policy and objectives are reviewed on yearly basis.

Our Values

1. The Company's Policy is to conduct business with honesty and integrity and to be Ethical in all its dealings showing respect for the interest of those with whom it has relationship.

2. The Company complies with all laws and regulations. All employees are expected to familiarize themselves with laws and regulations governing their individual areas of responsibility, and not to transgress them. In case of any doubt the employees are expected to seek necessary advice. The Company believes in fair competition and supports appropriate competition laws.

3. The Company does not support any political party nor contribute to the funds of groups whose activities promote party interests.

4. The Company is committed to provide services, which consistently offer, value in terms of price and quality and satisfy customer needs and expectations.

5. The Company is committed to run its business in an environment that is sound and sustainable. As a good corporate entity, the Company recognizes its social responsibilities and will endeavor to contribute to community activities as a whole.

6. The Company believes in and fully adheres to the principles of reliability and credibility in its financial reporting and in transparency of business transactions.

7. The Company is an equal opportunity employer. Its employee recruitment and promotional policies are free of any gender bias and are merit and excellence oriented. It believes in providing its employees safe and healthy working conditions and in maintaining good channels of communications.

8. The Company expects its employees to abide by certain personal ethics whereby Company information and assets are not used for any personal advantage or gain. Any conflict of interest should be avoided, where it exists it should be disclosed and guidance sought.

The Board of Directors has constituted the 'Board Audit & Risk Management Committee' to ensure compliance of above principles.

FINANCIAL HIGHLIGHTS

Rs. in Million

	2014	2013	2012	2011	2010	2009
Trading Results						
Sales – Net	219.559	385.771	522.873	712.177	1,677.379	1,361.633
Cost of Sales	277.684	464.930	593.414	680.309	1,371.129	1,035.306
Gross Profit/(Loss)	(58.125)	(79.159)	(70.541)	31.868	306.250	326.327
Admn, Gen. & Selling Exp.	53.667	53.705	57.131	71.595	87.464	78.157
Other Operating Charges	0.834	0.809	12.471	8.960	0.757	0.501
Other Operating Income	5.205	6.669	13.685	8.312	5.474	44.309
Operating Profit/(Loss)	(107.421)	(127.004)	(126.458)	(40.375)	223.503	291.978
Financial Charges	20.440	26.479	25.748	17.540	30.684	82.551
Workers Profit Participation fund	-	-	-	-	9.596	8.256
Profit/(Loss) before Tax	(127.861)	(153.483)	(152.206)	(57.915)	183.223	201.171
Net Profit/(Loss) after Tax	(68.953)	(83.107)	(99.913)	(30.594)	114.538	133.948
Dividend						
Cash Dividend	-	-	-	-	56.902	71.128
Dividend Per Share (Rs.)	-	-	-	-	10.00	12.50
Financial Position						
Property, Plant & Equipment	8,628.440	8,661.023	4,865.129	4,884.234	4,879.205	4,592.772
Paid up Capital	56.902	56.902	56.902	56.902	56.902	56.902
Reserves	10.000	10.000	10.000	10.000	10.000	10.000
Fixed Capital Expenditure	8,945.504	8,978.087	5,199.180	5,211.929	5,199.613	4,910.765
Key Indicators						
Gross Profit Ratio	(26.47)	(20.52)	(13.49)	4.47	18.26	23.97
Operating Profit Ratio	(48.93)	(32.92)	(24.19)	(5.67)	13.32	21.44
Operation Expenses Ratio	24.44	13.92	10.93	10.05	5.21	5.74
Profit/(Loss) Before Tax Ratio	(58.23)	(39.79)	(29.11)	(8.13)	10.92	14.77
Net Profit Ratio	(31.41)	(21.54)	(19.11)	(4.30)	6.83	9.84
Earning Per Share	(12.12)	(14.61)	(17.56)	(5.38)	20.13	23.54
Working Capital Turnover	285.000	380.318	467.295	610.342	716.449	737.846
Current ratio	1.70	2.69	2.31	2.32	4.28	3.01
Quick ratio	0.57	1.26	0.82	1.10	2.24	1.41

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 65th Annual General Meeting of Pakistan Engineering Company Limited will be held at Hotel Ambassador, 7-Davis Road, Lahore, on Friday, 31 October 2014 at 11.00 A.M. to transact the following business: -

1. To confirm Minutes of 64th Annual General Meeting held on Thursday, 31 October 2013.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended 30 June 2014 together with the Auditors' and Directors' report thereon.
3. To appoint auditors and fix their remuneration. M/s. Fazal Mahmood & Company retire and in their place the Company received Notices under Section 253 (2) of the Companies Ordinance, 1984 from Shareholders for appointing M/s. Tariq Abdul Ghani Maqbool & Company, Chartered Accountants, as auditor for the year ending on 30 June, 2015. The Audit Committee and the Board of Directors have also recommended to appoint M/s. Tariq Abdul Ghani Maqbool & Compnay, Chartered Accountants as the Auditors for the year 2014-15.
4. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD
(Mian Anwar Aziz)
Company Secretary

Lahore: 29 September 2014

NOTES:

1. The Share Transfer Books of the Company shall remain closed from 24 October 2014 to 31 October 2014 (Both days inclusive) and no transfer will be registered during that time. Transfers received in order at the office of the Registrar of the Company M/s Scarlet IT System (Pvt.) Limited, 24 Ferozpur Road, Near Mozang Chungi, Lahore at the close of business on 23 October 2014 will be treated in time.
2. A member entitled to attend and vote at this meeting is entitled to appoint any person as a proxy and vote on his / her behalf. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the time of the meeting.
3. Any individual Beneficial Owner of the Central Depository Company (CDC), entitled to vote at this meeting must bring his/her Computrized National Identity Card (CNIC) or passport (in case of foreigner) alongwith CDC account number to prove his/her identity and in case of proxy must enclose an attested copy of his/her CNIC or passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. Members are requested to notify us immediately of any change in their Registered address currently available with us.
5. The Registrar of the Company is, M/s SCARLET IT Systems Ltd. 24 – Ferozpur Road, Near Mozang Chungi, Lahore.
6. Members who have not yet submitted photocopy of their Computerized National Identity Cards(CNIC) to the Company are requested to send the same at the earliest.

DIRECTORS' REPORT

To The Shareholders

The Directors of Pakistan Engineering Company Limited (PECO) are pleased to present the 65th Annual Report accompanied by the audited accounts for the financial year ended 30 June 2014.

PERFORMANCE OUTLOOK

Although sentiments internationally have broadly improved, developing economies like Pakistan are still facing the challenge of economic recovery and growth. Prices within the global steel industry remain volatile. Steel prices are, by and large, dictated by iron ore, coking coal and various ferrous metal prices and subject to seasonality. The economic situation in Pakistan that houses PECO manufacturing facility remains tenuous and unpredictable. Your Company is however geared to meet the challenges in terms of technical capability, manufacturing capacity and market acceptance of its products.

During the year 2013-14, we directed all our efforts to improve the financial and operational condition of the Company to create a fair value for our shareholders. During the year, performance was not up to the mark mainly due to unstable law and order situation, acute energy crises, costly raw materials and low orders in hand. These factors adversely affected performance of the Company but due to efforts and hard work of management, last quarter of the year 2013-14 shows anticipative improvement.

During the year, the turnover of the Company could not reach the desired level where as last quarter of the year 2013-14 fetched 69.49% of total turnover of the year. There was no remarkable demand of telecommunication towers during the year. Sale of Pumps and Motors also remained on the lower side.

The Board of directors and management has critically analyzed the present situation and has made efforts to improve the sales orders, efficiency, productivity, expedite production and reduce expenses. The outcome of such efforts are encouraging and management is expecting a profitable first quarter of the year 2014-15.

FINANCIAL PERFORMANCE

Operating results of the Company for the year 2013-14 are not so good. The overall performance of the Company turned out to be below our expectation. As against last years' sale of 386 million, it could achieve sales of only Rs. 220 million which was 43% lower. The short fall in turn-over was mainly due to poor orders in hand, delay in award of one of the major projects, constraints in procurement of raw material and delay in renewal of credit facilities by NBP. Due to efforts of management, results are encouraging and financial position of the Company has improved in the last quarter of year 2014. Although the management has strict control on expenses, yet these measures could not contribute to the company to sustain a Gross Loss of Rs. 58 million compared to a loss of Rs. 79 million during the previous year. The loss before tax during the period under review was Rs. 128 million against previous year loss of Rs. 153 million.

Loss per share decreased from Rs. 14.61 per share to Rs. 12.12 per share during the year under review.

Low production was the major reason for this substantial loss during the year. Fixed overheads could not be absorbed properly by the products as production remained below the break even point. Other reasons were lesser orders in hand at the beginning of the year, raw material constraints, non renewal of credit facilities from National Bank, load shedding of electricity/ gas, intense competition especially for 11 and 132 Kv towers.

	Rupees in Thousand	
	Year ended 30.06.2014	Year ended 30.06.2013
FINANCIAL RESULTS AND APPROPRIATIONS		
(Loss) before Taxation for the year	(127,861)	(153,483)
Taxation	58,908	70,376
(Loss) after Tax	(68,953)	(83,107)
Appropriations:		
(Loss) for the year	(68,953)	(83,107)
Transfer from "Surplus on Revaluation of Fixed Assets"	19,105	14,191
(Loss) Carried Forward to Accumulated Loss	(49,848)	(68,916)

OPERATING & FINANCIAL DATA

Operating and Financial data and key ratios of the Company for the last six years are annexed.

BOARD OF DIRECTORS

The Board comprises of one Executive, four non executive and four independent directors. During the year under review there were changes in Govt. nominated directors. The present Government nominated directors are Mr. Shafqat-ur-Rehman Ranjha, Mr. M. Arif Ibrahim and Mr. M. Arif Azim.

BOARD OF DIRECTORS MEETINGS

During the year 2013-14, Five meetings of the Board were held. The attendance of the Board members was as follows:

Raja Muhammad Abbas	2
Mr. Babar Hassan Bharwana	3
Mr. Abdul Jabbar Ali	1
Mr. Muhammad Arif Habib	5
Mr. Liaqat Mohammad	5
Mr. Rashid Ali Khan	4
Mr. Muhammad Iqbal Awan	5
Mr. Muhammad Iqbal	5
Mirza Mahmood Ahmad	4
Mr. M. Arif Ibrahim	3
Mr. M. Arif Azim	2
Mr. Shafqat-ur-Rehman Ranjha	2

Those Directors, who have not attended the required number of meetings, have applied for leave of absence which was duly granted by the Board.

PATTERN OF SHAREHOLDING AND SHARES TRADED

The pattern of shareholding and additional information regarding pattern of shareholding is attached separately.

No trading in the shares of the Company was carried out by the Directors, the Chief Executive Officer and the Company Secretary and their spouses and minor children during the year under review.

EARNING / LOSS PER SHARE

Loss per share for the year ended 30 June 2014 was Rs. 12.12 as compared to loss per Share of Rs. 14.61 of the last year.

AUDITORS

Messrs Fazal Mahmood & Company Chartered Accountants retire and in their place the company received notices under section 253(2) of the Companies Ordinance, 1984 from shareholders for appointing Messrs Tariq Abdul Ghani Maqbool & Co. Chartered Accountants as Auditor for the year ending on 30 June 2015. The Audit Committee and the Board of Directors have also recommended to appoint Messrs Tariq Abdul Ghani Maqbool & Co. Chartered Accountants as the Auditor for the year 2014-2015.

COMMENTS ON AUDITOR'S REPORT

i. OUTSTANDING AMOUNTS OF CUSTOMS AND IMPORT DUTIES

In accordance with cabinet decision dated 30.05.1994, the company's loans including payment of customs and import duties along with accrued markup are to be payable on realization of sale proceeds of PECO Badami Bagh land which was handed over to Privatization Commission in 1994.

ii. GOING CONCERN ASSUMPTION

Financial and operational problems are part of the business and do not persist for a longer period. The Board of directors and management has critically analyzed the present situation and are making efforts to improve the sales orders, efficiency and productivity, expedite production and reduce expenses. The results of the efforts are encouraging as is evident from the fact that PECO has managed to improve its position in last quarter of the year 2014. Current ratio of the Company for the year 2014 is 1.70:1 which is still better than the acceptable business norms. The company has orders in hand of Rs. 1,085.96 million and orders in pipeline of Rs. 101.76 million at good margins. Due to hard work and continuous efforts of management, bulk of raw material has been procured for the completion of orders in hand on timely basis.

The Board of directors and the management is of the firm view that the Company has neither intention nor any plan to close down its existing operations and shall continue its operations in the foreseeable future. Therefore these financial statements have been prepared on the assumption that the company will continue as a going concern.

iii. GoP / PC LOANS

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 Rs. 131.454 million (being the additional gratuity paid by Privatization Commission at its own) has been reconciled.

However, there is a dispute 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.

Furthermore, Privatization Commission vide its letters has confirmed that there is no formal agreement between Ministry of Finance, Privatization Commission and PECO management on the issue of markup.

SUBSEQUENT EVENTS

No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which this Balance Sheet relates and the date of the Directors' report.

STATEMENT ON CORPORATE FINANCIAL REPORTING FRAME WORK

The Company has complied with all the requirements of the code of Corporate Governance by the listing regulations.

Accordingly the Directors are pleased to confirm the following:

i. The financial statements together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.

ii. Proper books of accounts of the Company have been maintained.

iii. Appropriate accounting policies have been consistently applied in the preparation of financial statements which conform to the International Accounting Standards as applicable in Pakistan. The accounting estimates, wherever required are based on reasonable and prudent judgment.

iv. The International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.

v. The system of Internal Control is sound in design and has been effectively implemented and monitored.

vi. There are no significant doubts upon the Company's ability to continue as a going concern.

vii. There has been no material departure from the best practices of Corporate Governance, as required by the listing regulations.

viii. There has been a significant drop in production, sales and profitability of the Company for the year 2014. The net sales dropped to Rs. 219.559 million from Rs. 385.771 million of last year i.e. 43% mainly due to low productivity, raw material constraints, non renewal of credit facilities by National Bank, load shedding of electricity and gas and intensive competition of 11 & 132 Kv towers. As a result the after tax loss amounted to Rs. 68.953 million Compared with the last yeas loss of Rs. 83.107 million.

ix. The key operating and financial data for the last six years is annexed.

AUDIT AND RISK MANAGEMENT COMMITTEE

Audit and Risk Management Committee were established by the Board to assist the directors in discharging their responsibilities, Corporate Governance, Financial Reporting and Corporate Control. The Committee consists of four members. Three members including Chairman of the Committee are Independent and one is non executive director.

The Board Audit and Risk Management Committee is responsible for reviewing reports of the company's financial results, audit and adherence to standards of the system of management controls. The Committee reviews the procedures, ensures their independence with respect to the services performed for the Company and makes recommendations to the Board of Directors.

The Audit and Risk Management Committee held five meetings during the year under review, each before the Board of Directors meeting to review the financial statements, internal audit reports and compliance of the Corporate Governance requirements. These meetings included meeting with external auditors before and after completion of audit and other statutory meetings as required by the Code of Corporate Governance.

The present constitution of the Committee is as under:

Mirza Mahmood Ahamd	Chairman
Mr. Liaqat Mohammad	Member
Mr. Muhammad Iqbal	Member
Mr. Muhammad Iqbal Awan	Member

DIRECTOR'S TRAINING PROGRAMME

The Board arranges orientation courses for its directors as and when needed to apprise them of their duties and responsibilities. The incoming directors are also provided with appropriate briefing and orientation material to enable them first-hand knowledge on the working of the Company. During the year under review one director has acquired the certification under Director's Training Programme that meets the criteria specified by the SECP.

CODE OF CONDUCT

In order to put in place professional standards and corporate values for promotion of integrity of the Board, senior management and other employees, the Board has approved and disseminated a Code of Conduct, defining therein acceptable and unacceptable behaviors. The same has been placed on the Company's Website.

NUMBER OF EMPOLYES

The number of empolyes as on 30 June 2014 were 432 compared to 335 of last year.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

Human Resource and Remuneration Committee was established by the Board to assist the Directors in discharging their responsibilities with regard to selection, evaluation, compensation and carrier planning of key management personnel. It is also involved in recommending improvements in Company's human resource policies and procedures and their periodic review. The Committee consists of three members. Two members of the Committee are Independent and one is non executive director.

RELATED PARTY TRANSACTIONS

All transactions with related parties are reviewed and approved by the Board. The Board approved pricing policy for related party transactions as disclosed in the notes to the accounts.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Stock Exchanges in their Listing Regulations, relevant for the year ended 30 June 2014 have been duly complied with. A statement to this effect is annexed with the report.

WEB PRESENCE

Company's periodic financial statements for the current financial year including annual reports for the last three years are available on the Company's website www.peco.com.pk for information of the investors.

SAFETY AND ENVIRONMENTS

The company strictly complies with the standards of the safety rules & regulations. It also follows environmental friendly policies.

OUTSTANDING STATUTORY DUES

Detail of outstanding statutory dues is given in note No. 9 to the Accounts.

QUALITY CONTROL

To ensure implementation of the Management System, Internal Quality Audits, Surveillance Audits, Management Review Meetings are conducted regularly. The Company is also certified for ISO 14000: 2004 (Environmental Management System).

BUSINESS PLANS & ACHIEVEMENT OF TARGETS

Short medium and long term targets are set by the Board. Management endeavors to achieve those through better planning, concerted efforts and hard work. Each year a comprehensive business plan is chalked out and duly approved by the Board. The management believes that based on orders in hand and expansion in production and marketing facilities, the Company will operate as a "Going Concern" till indefinite period.

COMMUNICATION

Communication with the shareholders is given high priority. Annual, Half Yearly and Quarterly Accounts are circulated to them within the time specified in the Companies Ordinance, 1984. The Company also has a web site, which contains up to date information on Company's activities and financial reports.

Every opportunity is given to the individual shareholders to attend and ask freely the questions about the Company' affairs at the Annual General Meeting.

ACKNOWLEDGEMENT

The Board would like to thank all of their stakeholders and customers particularly including NTDC, DISCOs, NATRACON and AJK electricity transmissioncompany for their support and loyalty. Such support has enabled the Company to not only meet normal commercial challenges but also those posed by security issues and tough economic conditions.

The Board would also like to thank suppliers of the Company for their valuable support and sheer confidence. Such confidence has allowed the Company to perform well in a difficult business environment.

The Board would like to thank executives, staff members and workers of the Company for their commitment, dedication and hard work. We continue to pray to Allah for the continued success of your Company and for the benefit of all stakeholders, and the country in general.

For and on Behalf of the Board

Dated: 29 September 2014
Lahore

(Muhammad Arif Azim)
Chairman

STATEMENT OF COMPLIANCE
WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board constitutes the following Directors:

   Independent Directors
   Mr. Rashid Ali Khan
   Mr. Muhammad Iqbal
   Mr. Muhammad Iqbal Awan
   Mirza Mahmood Ahmad

   Executive Directors
   Mr. Shafqat-ur-Rehman Ranjha

   Non-Executive Directors
   Mr. Muhammad Arif Azim
   Mr. Arif Ibrahim
   Mr. Muhammad Arif Habib
   Mr. Liaqat Mohammad

   The independent directors' meets the criteria of independence under Claus i (b) of the CCG.
2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Company has a policy to fill up any casual vacancy occurring in the Board within 90 days.
5. The Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non executive directors, have been taken by the board/shareholders.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.

9. The Board arranges orientation courses for its directors as and when needed to apprise them of their duties and responsibilities. The incoming directors are also provided with appropriate briefing and orientation material to enable them first hand knowledge on the working of the Company. Some of the present directors meet the criteria of exemption under clause (xi) of the Code and are accordingly exempted from director' training programme. The Company will arrange training programme for rest of the directors as provided under CCG.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit and Risk Management Committee. It comprises of four members, of whom one is non executive director, and three directors including Chairman of the committee are independent director.
16. The meetings of the Audit and Risk Management Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises of four members, of whom two are independent directors and two including Chairman of the Committee are non executive directors.
18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles contained in the CCG have been complied with.

By Order of the Board

Dated: 29 September 2014
Lahore

Shafqt-ur-Rehman Ranjha
(Managing Director)

REVIEW REPORT TO THE MEMBERS

ON THE STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE AND PUBLIC SECTOR COMPANIES (Corporate Governance) Rules, 2013

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of PAKISTAN ENGINEERING COMPANY LIMITED ("the Company") for the year ended 30 June 2014 to comply with the Listing Regulations of the Karachi, Islamabad and Lahore Stock Exchanges, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the code.

As a part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' Statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendations of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Following instance of non-compliance with the requirement of the Code was observed which is not stated in the Statement of Compliance:

i. The Company has not complied with the requirements of Public Sector Companies (Corporate Governance) Rules, 2013.

Based on our review, except for the above instance of non-compliance, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2014.

Dated: 29 September 2014
Lahore

Fazal Mahmood & Company
Chartered Accountants
Engagement partner: Fazal Mahmood

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of PAKISTAN ENGINEERING COMPANY LIMITED ("the Company") as at 30 June 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:-

a) Interest amounting to Rs. 41.989 million (accumulated Rs. 41.989 million) @ 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 6.2.1). Had the provision for interest been made in the financial statements the long term liabilities and accumulated loss would have increased by Rs. 41.989 million.

Except for the effect, if any, of the matter referred to in paragraph (a) above and the extent to which it may affect the annexed financial statements, we report that;

b) In our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

c) In our opinion:

i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

ii. the expenditure incurred during the year was for the purpose of the Company's business; and

iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

d) In our opinion, except for the effect, if any, of the matter referred to in paragraph (a) above and the extent to which it may affect the annexed financial statements and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year then ended; and

e) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to the following uncertainties:

i. Note. 2.1 to the financial statements, which states that the Company has incurred gross loss of Rs. 58.125 million and after tax loss of Rs. 68.953 million for the year ended 30 June 2014, resulting in accumulated loss of Rs. 1,252.912 million as of 30 June 2014. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

ii. Note 6.1.1,6.2.1,6.3.1,6.4.1,6.5.1,11.1.3,11.1.4 and 11.1.5 to the financial statements, 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 and the fact that the confirmation in respect of Government Escrow Account Loan (Refer note. 6.2) was received for the period ended 31 December 2010 vide letter dated 28 January 2011, and despite of confirmation requests and several reminders no confirmation has been received from the Privatization Commission, Ministry of Railways or from the Federal Board of Revenue in respect of the above mentioned liabilities for the year ended 30 June 2014. The ultimate outcome of the matter cannot presently be determined. Our opinion is not qualified in respect of this matter.

iii. Note 15 to the financial statements which states that the Badami Bagh Land has been classified as held for sale. The documents for sale are with Privatization Commission since 1994 and part of the Land has been sold in 2001. However no progress has been made to date and the Land is still being classified as Held for Sale for the reasons stated in the relevant note. Our opinion is not qualified in respect of this matter.

Dated: 29 September 2014
Lahore

Fazal Mahmood & Company
Chartered Accountants
Engagement partner: Fazal Mahmood

BALANCE
AS AT

	Note	2014	2013
		........(Rupees in '000)........	
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Share capital	4.	56,902	56,902
Revenue reserve - general		10,000	10,000
Accumulated loss		(1,252,912)	(1,203,064)
		(1,186,010)	(1,136,162)
SURPLUS ON REVALUATION OF FIXED ASSETS	5.	8,582,247	8,595,650
NON - CURRENT LIABILITIES			
Government of Pakistan - secured	6.	1,790,848	1,790,848
Long term borrowings - secured	7.	-	-
Deferred tax liability - net	8.	45,046	109,657
		1,835,894	1,900,505
CURRENT LIABILITIES			
Trade and other payables	9.	283,492	111,031
Mark-up accrued - on short term borrowing		12,936	3,115
Short term borrowing - secured	10.	108,351	108,351
Current maturity of long term borrowings	7.	-	3,030
		404,779	225,527
CONTINGENCIES AND COMMITMENTS	11.		
TOTAL EQUITY AND LIABILITIES		9,636,910	9,585,520

The annexed notes form an integral part of these financial statements.

Shafqat-ur-Rehman Ranjha
(Managing Director)

SHEET
30 JUNE 2014

	Note	2014	2013
		........(Rupees in '000)........	
ASSETS			
NON - CURRENT ASSETS			
Property, plant and equipment	12.	8,630,780	8,663,363
Long term investment	13.	663	624
Long term deposits	14.	964	964
		8,632,407	8,664,951
Free hold land - held for sale	15.	314,724	314,724
CURRENT ASSETS			
Stores, spares and loose tools	16.	137,717	129,279
Stock in trade	17.	322,338	191,326
Trade debts - unsecured	18.	152,677	136,869
Advances	19.	5,430	4,781
Trade deposits, prepayments and other receivables	20.	29,366	40,898
Advance income tax		35,100	31,359
Cash and bank balances	21.	7,151	71,333
		689,779	605,845
TOTAL ASSETS		9,636,910	9,585,520

Muhammad Iqbal
(Director)

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014	2013
		........(Rupees in '000)........	
CONTINUING OPERATIONS			
Sales - net	22.	219,559	385,771
Cost of sales	23.	(277,684)	(464,930)
Gross (Loss)		(58,125)	(79,159)
Selling and distribution expenses	24.	(7,307)	(5,294)
Freight and forwarding expenses	25.	(2,004)	(358)
Administrative expenses	26.	(44,356)	(48,053)
Other operating charges	27.	(834)	(809)
		(54,501)	(54,514)
Other operating income	29.	5,205	6,669
Operating (Loss)		(107,421)	(127,004)
Finance cost	28.	(20,440)	(26,479)
(Loss) before taxation from continuing operations		(127,861)	(153,483)
Taxation - Continuing Operations	30.	58,908	70,376
(Loss) after taxation from continuing operations		(68,953)	(83,107)
DISCONTINUED OPERATIONS			
Profit for the year after tax from discontinued operations	31.	-	-
(Loss) after taxation for the year		(68,953)	(83,107)
BASIC AND DILUTED (LOSS) PER SHARE	32.	-------- (Rupees) -------	
Continuing and discontinued operations - Basic		(12.12)	(14.61)
Continuing operations - Basic		(12.12)	(14.61)

The annexed notes form an integral part of these financial statements.

Shafqat-ur-Rehman Ranjha
(Managing Director)

Muhammad Iqbal
(Director)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	........(Rupees in '000)........	
(Loss) after taxation for the year	(68,953)	(83,107)
Other comprehensive income for the year	-	-
Total comprehensive (loss) for the year	(68,953)	(83,107)

The annexed notes form an integral part of these financial statements.

Shafqat-ur-Rehman Ranjha
(Managing Director)

Muhammad Iqbal
(Director)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014	2013
		........(Rupees in '000)........	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (utilized in) / generated from operations	33.	(45,005)	39,919
Finance costs paid		(5,278)	(16,242)
Gratuity Paid		(108)	-
Income tax paid		(3,741)	(2,817)
Net cash (utilized in) / generated from operating activities		(54,132)	20,860
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(6,980)	(23,190)
Capital work in progress		-	16,987
Proceeds from disposal of property, plant & equipment		-	2,662
Investments		(39)	(624)
Net cash (utilized in) investing activities		(7,019)	(4,165)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term borrowings - (repayments)		-	(287)
Long term borrowings - (repayments)		(3,030)	(3,566)
Dividend paid		(1)	-
Net cash (utilized in) financing activities		(3,031)	(3,853)
Net (decrease) / increase in cash and cash equivalents		(64,182)	12,842
Cash and cash equivalents at the beginning of the year		71,333	58,491
Cash and cash equivalents at the end of the year	21.	7,151	71,333

The annexed notes form an integral part of these financial statements.

Shafqat-ur-Rehman Ranjha
(Managing Director)

Muhammad Iqbal
(Director)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Issued, subscribed and paid up capital	Revenue Reserve - General	Accumuated Loss	TOTAL
	--------------------------	(Rupees in '000)	--------------------------	
Balance as at 30 June 2012	56,902	10,000	(1,134,148)	(1,067,246)
- (Loss) after tax for the year ended 30 June 2013	-	-	(83,107)	(83,107)
- Other comprehensive income	-	-	-	-
Total comprehensive (Loss) for the year	-	-	(83,107)	(83,107)
Surplus on revaluation of fixed assets realized on account of incremental depreciation - net off tax	-	-	14,191	14,191
Balance as at 30 June 2013	56,902	10,000	(1,203,064)	(1,136,162)
- (Loss) after tax for the year ended 30 June 2014	-	-	(68,953)	(68,953)
- Other comprehensive income	-	-	-	-
Total comprehensive (Loss) for the year	-	-	(68,953)	(68,953)
Surplus on revaluation of fixed assets realized on account of incremental depreciation - net off tax	-	-	19,105	19,105
Balance as at 30 June 2014	56,902	10,000	(1,252,912)	(1,186,010)

The annexed notes form an integral part of these financial statements.

Shafqat-ur-Rehman Ranjha
(Managing Director)

Muhammad Iqbal
(Director)

1. LEGAL STATUS AND OPERATIONS

Pakistan Engineering Company Limited (a State Public Sector 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 registered office of the Company is situated at 6/7 Ganga Ram Trust Building, Shahra-e-Quaid-e-Azam, Lahore.

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

2. BASIS OF PREPARATION

2.1 Basis of Accounting

The Company has incurred gross loss of Rs. 58.125 million and after tax loss of Rs. 68.953 million resulting in accumulated loss of Rs. 1,252.912 million (30 June 2013: Rs. 1,203.064 million) and negative equity of Rs. 1,186.009 million (30 June 2013: Rs. 1,136.162 million) as at 30 June 2014. During the year stress on business stability continued 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, increase in petroleum and electricity rates, increase in the prices of raw materials and due to severe competition, the company encountered profitability and liquidity problems which have resulted in extremely low performance as compared to the previous years.

Keeping in view the above position, the BoD and the management of the Company has critically analyzed the present situation and efforts have been made to get orders mix, improve efficiency and production and reduce overheads, so that business volume as well as profitability can be maintained and improved. In this regard, coal gasifier which was under installation in last year started commercial production during the year resulting in valuable cash savings for the company. The new galvanizing kettle has been procured and installed which will save galvanization cost to the company in the next year of operations. The BoD and the management of the company had also signed a Memorandum of Understanding with a foreign company in the past year in order to diversify the company's operations. The BoD and the management is hopeful that the commencement of commercial operations of the new furnace and coal gasifier will help the Company to minimize its costs of production and hence will start to compete in the tender business, and therefore will achieve better turnover in the upcoming period. The existing credit limit of the Company was renewed for adjustment purposes till 30 April 2014 and the management is still in the process of negotiating the renewal of this facility. The company is also in the process of availing new financing facility from banks, final approval of which is in the final stages and in this regard the Ministry of Finance had also allocated credit ceiling to the Company (being a PSE) amounting to Rs. 700 million. This support from the GoP and financial institutions and improved working capital management will also help to overcome the liquidity and working capital problems of the company. Further, despite of the severe crisis faced, the company has been able to maintain its current ratio at 1.70:1 which is still quite positive and has orders in hand of Rs. 1,085.96 million and orders in pipeline of Rs. 101.76 million. As far as the losses are concerned, the company has been operating with a negative equity and accumulated losses for more than 20 years and has a long history of ups and downs, however these conditions have never adversely affected the going concern status of the company.

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

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

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

2.2 Statement of Compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the ‘Ordinance’) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Ordinance, provisions of and directives issued under the Ordinance. Wherever the requirements of the Ordinance or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Ordinance or the requirements of the said directives prevail.

2.3 Basis of Measurement

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain items of property, plant and equipment which are stated at revalued amounts and certain financial liabilities which are carried at amortized cost. Historical costs is generally based on fair value of the consideration given in exchange for goods and services. The methods used to measure fair values are discussed further in their respective policy notes.

2.4 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Pak Rupees, which is the Company’s functional and presentation currency.

2.5 Critical Accounting Estimates & Judgments

The Company's significant accounting policies are stated in note 3. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment and estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision in future periods if the revision affects both current and future periods.

The areas involving higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

2.5.1 Property, Plant and Equipment

The Company reviews appropriateness of the rates of depreciation / useful lives and residual values used in the calculation of depreciation at each financial year end. Further, the Company estimates revalued amount and useful life of land, building and plant and machinery based on the periodic valuations carried out by independent professional valuers. Any change in estimate in future might effect the carrying amounts of the respective item of property, plant and equipment with corresponding effect on the depreciation charge and impairment, surplus on revaluation and annual transfer of incremental depreciation from surplus on revaluation of fixed assets account to accumulated loss.

2.5.2 Taxation

In making the estimate for income tax payable, the company takes into account the applicable tax laws. Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts use for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary difference when they reverse, based on the laws that have been enacted or substantively enactive by the reporting date. Significant judgment is exercised to determine the amount of net deferred tax liabilities to be recognized.

2.5.3 Stores and spares

The Company reviews the stores and spares for possible impairment on annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of stores and spares with corresponding affect the provision.

2.5.4 Provisions Against Doubtful Balances

The Company reviews its doubtful balances at each balance sheet date to assess the adequacy of the provision there against. In particular, judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

2.5.5 Adoption of new and revised standards and interpretations

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), have been notified by the Securities and Exchange Commission of Pakistan, for the purpose of their applicability in Pakistan vide SRO 633 (1) /2014 dated 10 July 2014. The company is yet to assess the full impact of these standards.

		Effective Date (annual reporting periods beginning or after)
IFRS 2	Share Based Payments (Amendments)	01 July 2014
IFRS 3	Business Combinations (Amendments)	01 July 2014
IFRS 8	Operating Segments (Amendments)	01 July 2014
IFRS 10	Consolidated Financial Statements (Amendments)	01 January 2014
IFRS 11	Joint arrangements	01 January 2014
IFRS 12	Disclosure of Interest in Other Entities (Amendments)	01 July 2014
IFRS 13	Fair Value Measurements (Amendments)	01 July 2014
IAS 16	Property, Plant and Equipment (Amendment)	01 July 2014

IAS 19	Employee Benefits (Amendments)	01 July 2014
IAS 24	Related Party Disclosures (Amendments)	01 July 2014
IAS 27	Separate Financial Statements (Amendments)	01 January 2014
I AS 32	Financial Instruments : Presentation (Amendments)	01 January 2014
IAS 36	Impairment of Assets (Amendments)	01 January 2014
IAS 38	Intangible Assets (Amendments)	01 July 2014
IAS 39	Financial Instruments : Recognition and Measurements (Amendments)	01 January 2014
IAS 40	Investment Property (Amendments)	01 July 2014
IFRIC 21	Levies	01 January 2014

The management anticipates that the adoption of above standards, interpretations and amendments in future periods will not have a material impact on the financial statements other than the impact on presentation and disclosure. The company is yet to assess the full impact of the amendments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Property, Plant and Equipment

Property, plant & equipment is stated at cost or revalued amount less accumulated depreciation and impairment loss, if any, except for freehold land and capital work in progress which is stated at revalued amount/cost less impairment, if any. Cost of these assets consists of historical cost and directly attributable costs of bringing the assets to working condition. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economics benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalized and the asset so replaced is derecognized. The cost of the day to day servicing of property, plant and equipment are recognized in profit or loss account. Surplus arising on revaluation after considering deficit in other categories, is credited to surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated with the revalued amount of the asset. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to accumulated loss. The cost of self constructed assets includes the cost of materials, direct labor and any other cost directly attributable to bringing the assets to a working condition for their intended use. Borrowing costs pertaining to the construction and erection are capitalized up to the date of completion. Depreciation on property, plant & equipment is charged to income on reducing balance method at the rates specified in note No.12 to the accounts to write off the cost over their estimated useful lives. Depreciation on addition and deletion is charged on the basis of number of days the asset remains in use of the company. Assets residual values, useful life's and depreciation rates are reviewed and adjusted, if appropriate, at each balance sheet date.

Impairment test for property, plant and equipment is performed when there is an indication of impairment. At each year end, an assessment is made to determine whether there is any indication of impairment. If any such indications exist, an estimate of the assets recoverable amount is calculated being the higher of the fair value of the asset less cost to sell and the assets value in use. If the carrying amount of the asset exceeds its recoverable amount, the property, plant and equipment is impaired and an impairment loss is charged to the profit and loss account so as the reduce the carrying amount of property, plant and equipment to its recoverable amount. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the property, plant and equipment in its present form and its eventual disposal. An impairment loss is recovered if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefit are expected from its use or disposal. Any gain and losses on disposal or de-recognition (calculated at the difference between the net disposal proceeds and carrying amount of the asset) is taken to profit and loss account. When the revalued assets are sold, the relevant remaining surplus on revaluation is transferred directly to accumulated loss.

3.2 Capital Work -in -Progress

Capital work-in-progress is stated at cost less any identified impairment loss. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-inprogress. These are transferred to operating fixed assets as and when these are available for use.

3.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions. On the basis of its internal reporting structure, the Company considers itself to be a single reportable segment. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The financial information has been prepared on the basis of single reportable segment i.e. "Engineering".

3.4 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally thorough a sale transaction rather then through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sale.

3.5 Discontinued Operations

A discontinued operation is a component of entity that either has been disposed off or is classified as held for sale, and:

a) represents a separate major line of business or geographical area of operations,

b) is a part of a single co-ordinated plan to dispose off a separate major line of business or geographical area of operations or;

c) is a subsidiary acquire exclusively with a view to resale.

The Company in past had closed down its all divisions, except Structure (STR) division, and had terminated its employees through compulsory separation scheme. In this regard Badami Bagh works was completely discontinued and the title documents of the land were handed over to the Privatization Commission for sale. Furthermore, the relevant machinery was transferred over to Kot Lakhpat and was classified as Held for sale. Taking into consideration, the successful operation 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 division of the company. However the Bicycle, Machine Tool and Power Loom divisions still remain discontinued. Taking into account above factor the Company has presented the combined results of the discontinued operations (refer note no. 31) (i.e. bicycle division, power loom and machine tool etc.) separately in the profit and loss account.

3.6 Inventories

These are valued at lower of cost and net realizable value. Cost is determined as follows:

Raw material	At weighted average cost.
Work in Process	At direct material cost, labor and appropriate portion of production overheads.
Finished Goods	At direct material cost, labor and appropriate portion of production overheads.
Goods in Transit	At invoice value plus other charges, if any
Stores, Spare Parts & Loose Tools	At weighted average cost

Net realizable value represents selling price in the ordinary course of business less selling expenses incidental to sales. Provisions against stores, spare and loose tools are provided if there is objective evidence that the items have become obsolete or have become slow moving.

3.7 Trade Debts and Other Receivables

Trade debts and other receivables are recognized initially at invoice value, which approximates fair value, less provision for doubtful debts or allowance for any uncollectable amounts. An estimated provision for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all the amount due according to the original terms of the receivable. The provision is recognized in the profit and loss account. When a trade debt is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account.

3.8 Associated Undertakings / Related Parties

The units controlled by the Ministry of Production, Government of Pakistan and under common controls are considered as associated undertakings of the company. All transactions between the Company and the associated undertakings are accounted for at an arm's length prices determined using "cost plus method" and properly recommended by the audit committee and subsequently approved by the board of directors of the Company.

3.9 Foreign Currency Translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

3.10 Employees' Retirement Benefits

Defined contribution plan

Up to 30 June 2005, company was operating a funded provident fund scheme covering all regular members and monthly contribution was made to the trust @10% of basic pay both by the company and the employees.

Currently retirement benefits are only being paid to Chief Executive and some employees whose provident fund and pension fund contributions are paid to the funds maintained by the Government or their respective departments.

3.11 Trade and other Payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

3.12 Taxation

a) Current

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for taxation made in previous years arising from assessments framed during the year for such years.

b) Deferred Tax

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply for the year when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to other comprehensive income or equity in which case it is included in other comprehensive income or equity.

3.13 Revenue Recognition

Sale of goods

Revenue from sale of goods is recognized when significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of government levies.

Income on bank deposits

Interest income on bank deposits is accounted for on the time proportion basis using the applicable rate of return.

Others

Scrap sales and miscellaneous receipts are recognized on realized amounts.

3.14 Borrowing Costs

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of that asset up to the date of its commissioning.

3.15 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.16 Cash and Cash Equivalent

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Short term borrowings are shown in current liabilities on the balance sheet.

3.17 Investments

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current.

a) Investments Available for sale

These are initially recognized at cost and at subsequent reporting dates measured at fair values. Gains or losses from changes in fair values are taken to other comprehensive income until disposal at which time these are recycled to profit and loss account.

b) Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortized cost using the effective yield method.

c) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs. After initial measurement loans and receivables are subsequently measured at amortized cost using effective interest rate method less impairment, if any. These are classified as current and non-current assets in accordance with criteria set out by the IFRS.

d) Investments at Fair value through profit or loss - Held for Trading

Investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking, are classified as held for trading and designated as such upon initial recognition. These are stated at fair values with any resulting gains or losses recognized directly in the profit and loss account. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

3.18 Impairment

a) Financial Assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b) Non- Financial Assets

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognized as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.19 Financial Instruments

All financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost as the case may be. A financial asset is de-recognized when the company loses control of its contractual rights that comprise the financial asset. A financial liability is de-recognized when it is extinguished. Any gain or loss on de-recognition of the financial assets or liabilities is taken to profit and loss account currently. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

a) Trade & Other Receivables

Trade and other receivables are recognized and carried at original invoice amount / cost less an allowance for any uncollectible amounts. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the reliability of these receivables, appropriate amount of provision is made.

b) Off Setting Of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

c) Interest-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less subsequent repayments.

d) Interest-free borrowings at amortized cost

These are measured at amortized cost. The fair value of these financial liabilities is determined using prevailing market interest rates for equivalent loans.

e) Interest-free borrowings at cost

In the absence of the availability of a realistic means for dtermining fair value, these loans have been stated at cost.

3.20 Dividend & Appropriation to reserves

Dividend distribution to the Company's shareholders and appropriation to reserves is recognized in the financial statements in the period in which these are approved.

3.21 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.22 Contingent Assets

Contingent assets are disclosed when the Company has a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are not recognized until their realization becomes virtually certain.

3.23 Contingent Liabilities

Contingent liability is disclosed when the Company has a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

3.24 Share Capital

Ordinary shares are classified as equity and recognized at their fair value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax.

	2014	2013	2014	2013
	(Number of Shares)		(Rupees in '000)	

4. SHARE CAPITAL

Authorized Capital:

Ordinary shares of Rs.10/- each	9,000,000	9,000,000	90,000	90,000
7.5% Cumulative redeemable preference shares of Rs. 100/- each	100,000	100,000	10,000	10,000
	9,100,000	9,100,000	100,000	100,000

Issued, Subscribed and Paid up Capital:

Ordinary shares of Rs.10/- each fully paid in cash	3,162,144	3,162,144	31,621	31,621
Ordinary shares of Rs. 10/- each issued as fully paid up bonus shares	2,528,101	2,528,101	25,281	25,281
	5,690,245	5,690,245	56,902	56,902

4.1 State Engineering Corporation (Pvt.) Ltd., an associated company, holds 1,415,723 (2013: 1,415,723) ordinary shares of Rs. 10/- each as at 30 June 2014.

5. SURPLUS ON REVALUATION OF FIXED ASSETS

	Note	2014	2013
		(Rupees in '000)	
Free hold land	5.1	8,219,246	8,219,246
Building structure on free hold land	5.2	199,738	207,113
Plant and machinery	5.3	163,263	169,291
		8,582,247	8,595,650
5.1 Free Hold Land			
Surplus on revaluation of Badami Bagh land	5.1.1	313,999	313,999
Surplus on revaluation of Kot Lakhpat land	5.1.2	7,905,247	7,905,247
		8,219,246	8,219,246
5.1.1 Badami Bagh Land			
Surplus on revaluation	5.1.1.1	321,358	321,358
Less: Adjustment on account of sale of part of Badami Bagh Works Land in 2001		7,359	7,359
		313,999	313,999
5.2 Building Structure on freehold land			
Gross surplus on revaluation of Building structure	5.2.1	413,028	413,028
Less:			
Surplus realized on account of incremental depreciation in respect of:			
- Prior years		99,219	88,974
- Current year		10,513	6,762
- Related deferred tax liability		5,178	3,483
		114,910	99,219
		298,118	313,809
Less: Related deferred tax liability in respect of:			
- Balance at the beginning of the year		106,696	48,374
- Change of rate		(3,138)	(1,382)
- New surplus during the year		-	63,187
- Incremental depreciation for the year		(5,178)	(3,483)
		98,380	106,696
Net surplus on revaluation of Building structure		199,738	207,113
5.3 Plant and Machinery			
Gross surplus on revaluation of Plant & machinery	5.3.1	329,947	329,947
Less:			
Surplus realized on account of incremental depreciation in respect of:			
- Prior years		73,445	62,189
- Current year		8,593	7,429
- Related deferred tax liability		4,232	3,827
		86,270	73,445
		243,677	256,502

	2014	2013
	(Rupees in '000)	
Less: Related deferred tax liability in respect of:		
- Balance at the beginning of the year	87,211	70,447
- Change of rate	(2,565)	(2,103)
- New surplus during the year	-	22,604
- Incremental depreciation for the year	(4,232)	(3,827)
	80,414	87,211
Net surplus on revaluation of Plant & Machinery	163,263	169,291

5.1.1.1 This represents revaluation surplus arising on revaluation of land of Badami Bagh works, which was revalued prior to being classified as 'Held for Sale' resulting in surplus of Rs. 321.358 million. (Ref: Note.15)

5.1.2 Kot Lakhpat works was revalued on 19 February 2013 by an independent approved valuer M/s Indus Surveyors (Private) Limited on the basis of average market rate keeping in view the market conditions. The land was revalued at 7,906.000 million resulting in revaluation surplus of Rs. 3,557.700 million. Earlier, the land has been revalued in 1991 by M/s NESPAK and in 2001 & 2009 by M/s Indus Surveyors.

5.2.1 Building structure of Kot Lakhpat works was revalued on 19 February 2013 by an independent approved valuer M/s Indus Surveyors (Private) Limited on the basis of present depreciated market value . The building structure was revalued at 350.884 million resulting in revaluation surplus of Rs. 185.845 million. Earlier, the building structure has been revalued in 1997 & 2009 by M/s Indus Surveyors.

5.3.1 Plant & machinery of Kot Lakhpat works was revalued on 19 February 2013 by an independent approved valuer M/s Indus Surveyors (Private) Limited on the basis of present depreciated market value . The plant & machinery was revalued at 374.062 million resulting in revaluation surplus of Rs. 66.483 million. Earlier, the plant & machinery has been revalued in 1997 & 2009 by M/s Indus Surveyors.

5.4 As required by the Companies Ordinance, 1984, revaluation surplus has been shown in a separate account below equity and the related incremental depreciation charged during the current year on "Plant and Machinery, Building & Steel Structure" has been transferred from the surplus on revaluation of fixed assets to accumulated losses.

6. GOVERNMENT OF PAKISTAN - SECURED

Privatization commission loan	6.1	481,469	481,469
Government Escrow account	6.2	112,937	112,937
Other Government Loan	6.3	100,000	100,000
Federal Government loan for compulsory separation scheme	6.4	309,000	309,000
Federal Government Bonds	6.5	787,442	787,442
		1,309,379	1,309,379
		1,790,848	1,790,848

These represent funds provided by the Government, bank loans of the company taken over by the Government and amounts payable by the company to different Government departments like Customs, Railways and Karachi Port Trust. According to the Cabinet Committee Division decision dated 30th May 1994 and 2005 these liabilities will be settled against the proceeds from disposal of Land held for sale (Refer Note no. 15) 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 year and in past as well Privatization commission and Finance division have claimed additional principal and markup on the above loan liabilities, however, the BoD and the management do not agree with the additional liabilities claimed and the claim of GoP regarding the payment of interest is strongly disputed (refer note 11.1.3,11.1.4 & 11.1.5) by the BoD and the management as there had never been any agreement in this regard. Further, the above loan liabilities were picked up by the GoP in order to provide public sector enterprises including PECO to give them clean slate on their liabilities so that they could be privatized and were provided without any specific request from these public sector enterprises, including PECO. In addition to the above, similar public sector entities which were provided similar reliefs by the GoP have never been asked to make any payments in respect of such reliefs. However, despite of this the BoD and the management of the Company is willing to repay the principal and in order to reconcile the principal and markup amounts with respect to GoP Loans, a committee was constituted as per the decision of Additional Finance Secretary in the meeting held in Government of Pakistan Finance Division (CF Wing), Islamabad. The committee includes representatives from Ministry of Finance, Ministry of Production, Privatization Commission and Board members from PECO. Several meetings have been taken place till date and in this regard a meeting of the committee was held on 07 October 2010 at Ministry of Finance (Finance Division)

	2014	2013
	(Rupees in '000)	

which was attended by representatives of Privatization Commission, Ministry of Production and PECO. The BoD and management of PECO agreed to repay all the outstanding principal, which the company is legally liable through disposal proceeds of Badami Bagh Land and surplus Land of Kot Lakhpat, if needed. However, the BoD and the management of the Company believes that they are not liable to pay any interest on these loans in the absence of any agreement. In the most recent meeting held on 27 May 2014 in Privatization Commission, it was mutually agreed by all stakeholders to resolve the above issues at the earliest.

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 monitary 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.

6.1 The break up of loan from Privatization Commission is as follows:

	2014	2013
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

6.1.1 This represents interest free loan provided by Privatization Commission to PECO for payment of salaries, energy bills, shifting of plant & machinery from Badami Bagh to Kot Lakhpat and payment of outstanding essential liabilities. According, to the Cabinet Committee Division decision, Privatization Commission would adjust its loan liability against the sale proceeds of Badami Bagh Land and surplus land of Kot Lakhpat, if needed and in this regard title documents of Badami Bagh Land were handed over to the Privatization Commission in 1994 by PECO. During the year, the Privatization Commission has directly confirmed to the auditors total liability of Rs. 1,843.100 million (2013: Rs. 1,843.100 million) which includes principal loan liability of Rs. 612.923 million and markup of Rs. 1,230.177 million (refer note 11.1.3) . The BoD and the management of the Company do not agree with the balance confirmed by the Privatization Commission, since all the advances made were without markup, and there was no mention of charging markup in the recorded decisions. The foregoing loans have been outstanding since 1993. Further, during the years ended 30 June 2004 and 30 June 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 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 monitary 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 (refer note 11.1.3) million should be borne by the Privatization Commission. In this regard, in the meeting held on 07 October 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

	2014	2013
	(Rupees in ‘000)	

Privatization Commission was further instructed to sort out the issue of charging interest on VSS loan and come up with sound reason and logic for charging interest thereon. The Privatization Commission in its confirmation to the auditors has also confirmed that no formal agreements were signed or executed between the Privatization Commission, Ministries and PECO nor definitive terms and conditions exist in relation to the issue of markup and that the Privatization Commission only applied markup as instructed by the Finance Division. Further, under the directions of public account committee the matter of charging interest is being reviewed by the committee comprising of Ministry of Industries, Ministry of Finance and Privatization Commission of Pakistan.

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

	2014	2013
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

6.2.1 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 (2013:Rupees 41.989 million) as the BoD as the management believes that there was no mention of charging interest or surcharge in the ECC and Cabinet Decision as detailed above. The Finance Division for the first time directly confirmed to the auditors, only the principal loan liability in respect of custom and other import duties of Rs. 86.984 million and Karachi Port Trust of Rs.12.964 million along with markup / surcharge on custom duty of Rs. 202.624 million (refer note 11.1.4) vide letter dated 28 January 2011, whereas, in past Finance Division has never provided any such confirmation. However, since than the Finance Division has sent direct confirmations but did not confirm the liability in respect of any of the above loans nor did it claim any markup. However the Finance Division requested the auditors to confirm the said liabilities from FBR and Pakistan Railways and despite of confirmation requests and several reminders no confirmation in this respect was received by the auditors from FBR or Pakistan Railways.

6.3 The break up of Other Government loans as follows:

	2014	2013
Bank loans taken over	100,000	100,000
	100,000	100,000

6.3.1 This represents amount payable on account of the company's bank loans taken over by the Government in the year 1990. During the year, the Finance Division has directly confirmed to the auditors principal loan liability of Rs.100.00 million and markup of Rs. 216.000 million (refer note 11.1.5) vide its letter dated 23 July 2014 for the year ended 30 June 2014. However, the BoD and the management of the Company as detailed above do not agree with the markup confirmed by the Finance Division and believes that this loan is free of interest as PECO being a public sector entity was required to take-up only principal amount of the loan in its books. The legal advisers are also of the firm opinion that no markup is payable by PECO in respect of this loan. Furthermore, in the meeting held at Ministry of Finance in October 2010, Finance Division was instructed to re-examine the issue relating to Rs.100.00 million Loan and interest thereof, to confirm the contention of PECO and decision to be conveyed at its earliest.

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

	2014	2013
Loan for CSS	309,000	309,000
	309,000	309,000

6.4.1 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. 381.100 million (refer note 11.1.5) vide its letter dated 23 July 2014 for the year ended 30 June 2014. The BoD and the management of the company as detailed above do not agree with the markup confirmed and is of the opinion that markup is not payable on this loan liability in the absence of any agreement for markup. The BoD and the management have taken legal opinion and the legal advisor vide his letter dated 29 September 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 and without any basis and recommend that the aforesaid dispute should be referred to some impartial body for resolution under some ADR mechanism, where claims / encounter claims of the respective parties be examined, considered and decided. Furthermore, in order to reconcile the principal and markup amounts with respect to Government of Pakistan Loans, a committee has been constituted as per the decision of Additional Finance Secretary. The management of

	2014	2013
	(Rupees in '000)	

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.

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

	2014	2013
Interest bearing bonds	655,138	655,138
Interest free bonds	132,304	132,304
	787,442	787,442

6.5.1 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 28 August 1994. Against the principal amount interest bearing bonds and against accrued mark up interest free bonds were issued by the Government. The Government is liable to pay interest @ 12.43% per annum to the Banks / DFI regarding the interest bearing bonds. During the year the Finance Division vide its letter dated 23 July 2014 directly confirmed to the auditors total principal loan liability of Rs.787.442 million and interest of Rs. 1,969.365 million (refer note 11.1.5) for the year ended 30 June 2014. However, the BoD and the management of the Company as detailed above do not agree with the markup confirmed by the Finance Division and is of firm opinion that the Government is liable to pay any interest there on, and that there was no agreement for charging any interest thereon. Furthermore, the legal advisers are also of the firm opinion that no markup is payable by the Company in respect of this loan in the absence of any specific markup agreement.

7. LONG TERM BORROWINGS - SECURED

	2014	2013
From National Bank of Pakistan -DF II	-	1,211
Accumulated amortization	-	1,819
	-	3,030
Less: Current maturity shown under current liabilities	-	(3,030)
	-	-

7.1 The above represents old markup up converted in to long term interest free demand finance loan. It was repayable in four equal quarterly installments commencing from September 2012 and repayable by June 2013. These loans were secured by First charge over present and future, current and fixed assets of the company. This loan has been completely paid off during the year.

7.2 As the above loan was interest free, the fair value of this financial liability was determined using prevailing market interest rates for equivalent loan of 17.506%. The loan was being amortized using effective interest of 17.506%. During the previous year as a result of amortization an amount of Rs. 0.926 million has been charged to profit and loss account. Fair value was determined using discounting techniques.

8. DEFERRED TAX LIABILITY - NET

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity and when there is an intention to settle the balances on net basis. The applicable tax rate for the purpose of computation of deferred taxation has been changed from 34% to 33% as a result of change is rate as approved by Finance Act 2014.

The offset amounts are as follows:

	Note	2014	2013
Deferred tax liabilities	8.1	205,429	227,255
Deferred tax assets	8.2	(160,383)	(117,598)
Deferred tax liabilities (net)		45,046	109,657

Deferred tax liability and deferred tax asset comprises of taxable / (deductible) temporar y differences in respect of the following:

8.1 Deferred tax liabilities in respect of taxable temporary differences:

	2014	2013
Accelerated Tax Depreciation Allowances	205,429	227,255
	205,429	227,255

8.2 Deferred tax assets in respect of deductible temporary differences:

	2014	2013
Provision for Doubtful & other Balances	(16,813)	(18,194)
Provision for Stores & Spares	(3,300)	(3,400)
Minimum tax available for carry forward	(7,294)	(7,294)
Unabsorbed Business losses	(132,976)	(88,710)
	(160,383)	(117,598)

9. TRADE AND OTHER PAYABLES

	2014	2013
Trader creditors	183,318	11,109
Accrued Liabilities	15,564	21,333
Advances	5,193	4,084
Gratuity payable (related party)	250	286

	Note	2014	2013
		(Rupees in '000)	
Payable to preference shareholders	9.1	773	773
Payable to State Engineering Corporation (Private) Limited (SEC) (an associated undertaking)		192	186
Sales Tax Payable		-	756
Workers' Profit Participation Fund	9.2	53,590	48,250
Unclaimed Dividend		13,311	13,312
Security deposits	9.3	2,000	808
Others		9,301	10,134
		283,492	111,031

9.1 The amount is payable to preference shareholders on account of principal amount due.

9.2 Reconciliation of Workers' Profit Participation Fund

Principal		15,150	15,150
Accumulated interest	9.2.1	38,440	33,100
		53,590	48,250

9.2.1 Movement in Accumulated interest

Opening balance		33,100	23,147
Add: Interest on funds utilized for the company's business	28	5,340	9,953
		38,440	33,100

9.3 These represent security deposits from dealers which, by virtue of agreement are interest free and used in the company's business. These are repayable on cancellation of dealership contract with dealers.

10. SHORT TERM BORROWINGS - SECURED

From NBP Bank under markup arrangements - Secured:			
Cash Finance	10.1	108,351	108,351

10.1 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. 108.351 million. The loan carries markup @ 3 months kibor plus 2.50% without floor and cap. The credit limit of the Company was renewed for adjustment till 30 April 2014. The company is still negotiating with bank for renewal of this facility.

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

11.1.1 Claims not acknowledged as debts in respect of various sub judice cases filed against the company for which the maximum possible liabilities could be approximately Rs. 2.517 million (2013: Rs. 2.517 million).

11.1.2 Guarantees of Rs. 256.452 million (2013: Rs. 340.094 million) issued by the banks and insurance companies to different parties on behalf of the company.

11.1.3 The Privatization Commission has claimed additional loan liability amounting to Rs. 131.454 million and mark up amounting to Rs. 1,230.177 million (Ref: Note 6.1.1). The management of the company in the minutes of the meeting held on 07 October 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.

11.1.4 The Finance Division vide its letter dated 28 January 2011 for the period ended December 2010 has claimed an amount of Rs. 202.624 million in respect of surcharge payable on Custom & Other Import duties (Ref: Note. 6.2.1). 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.

11.1.5 The Finance Division vide its letter dated 23 July 2014, for the year ended 30 June 2014 has claimed an amount of Rs. 2,074 million in respect of markup payable on remaining Government of Pakistan Loans (Ref: Note 6.3.1, 6.4.1 & 6.5.1). 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 07 October

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.

11.1.6 The Company has filed an appeal before CIR (A) against the order of Additional Commissioner Inland Revenue (ACIR). The ACIR has passed an order under section 122 (5A) of the Income Tax Ordinance, 2001 for tax years 2008, 2009 and 2010 whereby a demand of Rs 180.649 million has been raised. No provision against the demand has been made in these financial statements as the Company is hopeful of a favourable outcome of appeal based on opinion of the legal advisor. Further, the company had also impugned selection of its tax affairs for amended assessment under section 122 (5A) of the Income Tax Ordinance, 2001 for tax year 2008 in Honourable Lahore High Court, Lahore through writ petition which in the opinion of the legal advisor will be decided in the company's favour.

11.1.7 The Sui Gas authorities have claimed an amount of Rs. 29.21 million (2013: Rupees 38.94 million). The case is pending with review committe of SNGPL. The outcome of the matter cannot presently be determined.

11.2 Commitments in respect of:

11.2.1 Letters of credit for machinery, raw material and store items amounting to Nil (2013: Nil.).

12. PROPERTY, PLANT AND EQUIPMENT

		2014	2013
		(Rupees in '000)	
Operating fixed assets	12.1	8,628,440	8,661,023
Capital work in progress - at cost	12.2	2,340	2,340
		8,630,780	8,663,363

12.1 Operating fixed assets

	Free hold land	Building: Office building	Building: Factory building-on free hold land	Plant & machinery	Office equipment	Computers	Furniture & Fixtures	Vehicles	Electric Equipment	Tools	Total
	----------	----------	----------	----------	----------	Rupees in '000	----------	----------	----------	----------	----------
Net carrying value basis											
Year ended 30 June 2013											
Opening net book value (NBV)	4,348,300	750	170,481	317,721	2,112	3,155	4,174	10,350	7,204	882	4,865,129
Additions	-	-	3,931	15,097	150	151	-	2,715	906	240	23,190
Revaluation surplus	3,557,700	-	185,845	66,483	-	-	-	-	-	-	3,810,028
Disposals											
Cost	-	-	-	-	-	-	-	(3,384)	-	-	(3,384)
Accumulated depreciation	-	-	-	-	-	-	-	1,427	-	-	1,427
Written down value	-	-	-	-	-	-	-	(1,957)	-	-	(1,957)
Depreciation charge	-	(38)	(11,738)	(16,872)	(225)	(324)	(417)	(4,888)	(760)	(105)	(35,367)
Closing net book value (NBV)	7,906,000	712	348,519	382,429	2,037	2,982	3,757	6,220	7,350	1,017	8,661,023
Gross carrying value basis											
At 30 June 2013											
Cost / Revalued amount	7,906,000	959	354,815	389,159	7,789	7,059	9,775	21,445	15,523	6,122	8,718,646
Accumulated depreciation	-	(247)	(6,296)	(6,730)	(5,752)	(4,077)	(6,018)	(15,225)	(8,173)	(5,105)	(57,623)
Net book value (NBV)	7,906,000	712	348,519	382,429	2,037	2,982	3,757	6,220	7,350	1,017	8,661,023
Net carrying value basis											
Year ended 30 June 2014											
Opening net book value (NBV)	7,906,000	712	348,519	382,429	2,037	2,982	3,757	6,220	7,350	1,017	8,661,023
Additions	-	-	-	6,724	154	97	-	-	-	5	6,980
Depreciation charge	-	(36)	(17,426)	(19,130)	(213)	(301)	(376)	(1,244)	(735)	(102)	(39,563)
Closing net book value (NBV)	7,906,000	676	331,093	370,023	1,977	2,778	3,381	4,976	6,615	920	8,628,440
Gross carrying value basis											
At 30 June 2014											
Cost / Revalued amount	7,906,000	959	354,815	395,883	7,943	7,156	9,775	21,445	15,523	6,127	8,725,626
Accumulated depreciation	-	(283)	(23,722)	(25,860)	(5,965)	(4,378)	(6,394)	(16,469)	(8,908)	(5,207)	(97,186)
Net book value (NBV)	7,906,000	676	331,093	370,023	1,977	2,778	3,381	4,976	6,615	920	8,628,440
Annual Rate of Depreciation (%)	-	5%	5%	5%	10%	10%	10%	20%	10%	10%	

		2014	2013
		(Rupees in '000)	
12.1.1 Depreciation for the year has been allocated as under:			
Cost of Sales	23.	37,393	29,475
Administrative Expenses	26.	2,170	5,892
		39,563	35,367

Depreciation charge is inclusive of incremental depreciation due to revaluation.

12.1.2 Land, Building and Plant & Machinery were recently revalued on 19 February 2013 by an independent valuer M/s Indus Surveyor Co. (Pvt) Ltd, on the basis of fair value / depreciated market value for the period of use resulting in surplus of Rs. 3,557.700 million, Rs. 185.845 million and Rs. 66.483 million respectively. Detail of previous revaluation is provided in Note. 5.

12.1.3 Freehold land represents land of kot lakhpat works. The company has possession and control of the land and holds valid title. 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.

12.1.4 Office Building represents rooms owned in Uni Tower Karachi.

12.1.5 Carrying amount of idle property plant & equipment amounted to Rs. 290.953 million, while carrying amount of assets retired from active use but not classified as held for sale amounted to Rs. 33.991 million.

12.1.6 Had there been no revaluation, the written down value of the revalued assets in the balance sheet would have been:

		2014	2013
Free Hold Land		753	753
Factory Building on free hold land		32,975	34,711
Plant & machinery		126,347	125,928
		160,075	161,392
12.2 Capital Work in Progress - at cost			
Civil Works		2,239	2,239
Plant & Machinery		-	-
Advances to suppliers		101	101
		2,340	2,340
12.2.1 Movement in capital work in progress:			
Opening balance		2,340	19,327
Addition		6,286	-
Capitalized		(6,286)	(14,603)
Expensed		-	(2,384)
Closing balance		2,340	2,340

13. LONG TERM INVESTMENT

		2014	2013
Held to maturity:			
Term deposits in Standard Chartered Bank Limited		663	624
		663	624

13.1 These will mature in June 2016 and carry interest @ 6% per annum.

14. LONG TERM DEPOSITS

		2014	2013
Long term deposits	14.1	964	964
		964	964
14.1 Long term deposits		2,682	2,682
Less: Provision against doubtful deposits	14.1.1	1,718	1,718
		964	964
14.1.1 Movement in provision is as follows:			
Opening balance		1,718	1,718
Provided for the year		-	-
Closing balance		1,718	1,718

15. FREE HOLD LAND - HELD FOR SALE

	2014	2013
FREE HOLD LAND - HELD FOR SALE	314,724	314,724

This represents land of 263 kanals and 3 marlas of Badami Bagh Works which has been closed down. The fair value of the land is estimated at Rs. 2,894.655 million (2013: Rs. 2,894.655 million). The company has the possession and control

	2014	2013
	(Rupees in ‘000)	

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. 6). 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 remaning 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 the Privatization Commission in its most recent and past direct confirmations to the 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 though 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 resluted 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.

16. STORES, SPARES AND LOOSE TOOLS

	2014	2013
Stores	26,112	26,050
Spares parts	97,110	88,767
Loose Tools	24,495	24,462
	147,717	139,279
Less: Provision for slow moving stores	(10,000)	(10,000)
	137,717	129,279

16.1 Stores and spares relating to closed down operations are of Rs. 13.446 million (2013:Rs. 13.434 million). These have been valued at weighted average cost.

16.2 Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

17. STOCK IN TRADE

	Note	2014	2013
Raw material	17.1	153,453	69,689
Work in process		87,494	63,508
Finished goods		81,391	58,129
		322,338	191,326

17.1 Raw material relating to closed down operations are of Rs. 1.483 million (2013:Rs. 1.496 million). These have been valued at weighted average cost / cost.

17.2 Stock in trade amounting to Rs. 8.380 million has been valued at net realizable value.

18. TRADE DEBTS - UN SECURED

	Note	2014	2013
Associated undertaking	18.2	1,571	1,571
WAPDA, AJK & Telecommunication Companies etc.		160,508	140,927
Others	18.3	33,810	37,583
		195,889	180,081
Less: Provision for bad and doubtful debts			
WAPDA		12,677	12,677
Others		30,535	30,535
	18.4	43,212	43,212
		152,677	136,869

18.1 Trade debtors other than those against which provision has been made are considered good by the management.

18.2 Maximum amount due from associated undertakings at the end of any month was of Rs. 1.571 million (2013: Rs.4.056 million). Refer note 34. Further, balance outstanding from associated undertaking is more than 360 days over due.

18.3 Trade debtors include an amount of Rs. 7.617 million (2013: Rs. 7.617 million) receivable from M/s Metropolitan

	2014	2013
	(Rupees in '000)	

Steel Corporation Limited against which the company has filed suit for execution of Court decision in favor of the Company.

18.4 Movement in provision is as follows:

	2014	2013
Opening balance	43,212	43,212
Add: Provision for doubtful debts	-	-
Closing Balance	43,212	43,212

18.5 The ageing analysis of these trade debts is as follows:

	30 June 2014		30 June 2013	
	Gross	Impairment	Gross	Impairment
The aging of trade debts at the reporting date was:				
Not yet due	5,156	-	697	-
Past due 1-30 days	75,810	-	18,492	-
Past due 31-60 days	11,711	-	4,565	-
Past due 61-90 days	1,778	-	49,726	-
Over 90 days	101,434	43,212	106,601	43,212
	195,889	43,212	180,081	43,212

19. ADVANCES

	Note	2014	2013
Considered Good:			
- Employees - secured		434	334
- Suppliers	19.2	4,996	4,447
		5,430	4,781

19.1 Advances other than those against which provision has been made are considered good by the management.

19.2 Suppliers

	2014	2013
Suppliers as at closing date	7,820	7,271
Less: Provision for doubtful balances	2,824	2,824
	4,996	4,447

20. TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2014	2013
Trade deposits - considered good	20.1	770	8,385
Margin against bank guarantee - considered good	20.2	21,637	29,144
Short term prepayments & other receivables		4,770	3,369
Sales tax refundable		2,189	-
		29,366	40,898

		Note	2014	2013
20.1	Balance as on Closing date		3,902	11,517
	Less: Provision against doubtful balances	20.1.1	3,132	3,132
			770	8,385
20.1.1	Movement in provision is as follows:			
	Opening balance		3,132	3,132
	Add: Provision for doubtful balances		-	-
	Closing Balance		3,132	3,132
20.2	Balance as on Closing date		21,698	29,205
	Less: Provision against doubtful balances		61	61
			21,637	29,144

21. CASH AND BANK BALANCES

	Note	2014	2013
Cash in hand		497	1,508
Cash with banks:			
- Current accounts		2,804	66,028
- Deposit accounts	21.1	3,818	3,765
- Escrow account	21.2	32	32
		6,654	69,825
		7,151	71,333

21.1 The company is maintaining saving account with different banks with interest on the daily product basis which was charged @ 6% to 7.5 %. (2013 : 6% to 7.5%).

		2014	2013
		(Rupees in '000)	

21.2 This represents unutilized credit facility on NBP finances relating to ADP-19 and ADP-46 Projects, which shall be adjusted against loan liability.

22. SALES - NET

		2014	2013
Sales - Local		251,813	425,872
Less: Sales tax		32,254	40,101
		219,559	385,771

23. COST OF SALES

	Note	2014	2013
Raw material consumed	23.1	188,091	118,002
Stores and spares consumed		20,074	37,666
Salaries and wages (including all benefits)	23.2	48,788	51,039
Fuel and power		14,946	19,353
Traveling & conveyance		681	525
Postage, telegram & telephone		286	218
Printing, stationery and office Supplies		653	677
Inspection fee		182	30
Processing charges		6,668	2,845
Service charges		3,081	2,995
Rent, rates and taxes		933	779
Repair and maintenance		1,417	1,416
Insurance		976	940
Vehicle running expenses		2,013	2,219
Other expenses		1,508	897
Depreciation	12.1.1	37,393	29,475
		139,599	151,074
		327,690	269,076
Opening stock of work-in-process		60,903	177,280
Closing stock of work-in-process		(85,148)	(60,903)
		24,245	116,377
Cost of goods manufactured		303,445	385,453
Opening stock of finished goods		54,874	134,351
Closing stock of finished goods		(80,635)	(54,874)
		(25,761)	79,477
		277,684	464,930

23.1 Raw material consumed

	2014	2013
Opening stock	69,689	79,345
Add: purchases	271,855	108,346
	341,544	187,691
Less: closing stock	153,453	69,689
	188,091	118,002

23.2 This includes amount paid to contractor for wages of workers on contract. This also includes retirement benefits amounting to Rs. 0.072 million (2013: Rs. 0.051 million) (related party).

24. SELLING AND DISTRIBUTION EXPENSES

	2014	2013
Salaries and wages (including all benefits)	2,694	2,961
Traveling and conveyance	393	602
Entertainment	178	143
Repair and maintenance	7	13
Postage, telegrams and telephone	115	79
Printing, stationery and office supplies	85	182
Rent, rates and taxes	223	206
Publishing of tender and sales promotion	688	772
Commission to distributors	2,646	-
Miscellaneous	278	336
	7,307	5,294

25. FREIGHT AND FORWARDING EXPENSES

	2014	2013
Freight and forwarding expenses	2,004	358

26. ADMINISTRATIVE EXPENSES

	2014	2013
Salaries, wages and benefits	18,952	18,158
Traveling and conveyance	2,410	2,450

	Note	2014	2013
		(Rupees in '000)	
Entertainment		797	586
Legal and professional		1,949	3,208
Rent, rates and taxes		1,104	1,118
Fuel, gas and electricity		1,824	1,875
Repair and maintenance		539	598
Postage, telegram and telephone		839	653
Printing, stationery and office supplies		1,384	1,332
Advertisement		703	1,600
Training		-	64
Insurance		435	361
Vehicle running expenses		3,757	2,742
Miscellaneous		7,493	7,416
Depreciation	12.1.1	2,170	5,892
		44,356	48,053

27. OTHER OPERATING CHARGES

Auditors' remuneration	27.1	834	809
		834	809

27.1 Auditors' remuneration

Audit fee	500	500
Half yearly review fee	65	65
Review of compliance with code of corporate governance	25	25
Tax consultancy charges	244	219
	834	809

28. FINANCE COST

Banks and financial institutions			
Mark - up on short term borrowings		12,936	13,288
Bank charges and commission	28.1	2,164	2,312
Amortization expense	7.2	-	926
		15,100	16,526
Related party			
Interest on workers' profit participation fund	9.2.1	5,340	9,953
		20,440	26,479

28.1 Bank guarantee commission paid by the company is charged over the period of contract.

29. OTHER OPERATING INCOME

Income from Financial Assets		
Interest / profit		
-On deposits with banks	1,127	2,017
-On investments	12	121
Income from Non - Financial Assets		
Miscellaneous income	1,393	981
Rental income	2,673	2,845
Gain on sale of property, plant and equipment	-	705
	4,066	4,531
	5,205	6,669

30. TAXATION

Current		
for the year	-	(250)
for prior years	-	36,558
Deferred		
for the year	58,908	34,068
	58,908	70,376

30.1 The current tax provision represents the final tax under Section 15 of Income Tax Ordinance, 2001. Further, due to gross loss the Company has not provided provision for minimum tax under section 113. As a result reconciliation of tax charge for the year is not required.

30.2 Company's income tax assessment has been finalized up to 2013.

31. DISCONTINUED OPERATIONS

The Company in past had closed down its all divisions, except Structure (STR) division, and had terminated its employees

		2014	2013
		(Rupees in '000)	

through compulsory separation scheme. In this regard Badami Bagh works was completely discontinued and the title documents of the land were handed over to the Privatization Commission for sale. Furthermore, the relevant machinery was transferred over to Kot Lakhpat and was classified as Held for sale. Taking into consideration, the successful operation 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 division of the company. However the Bicycle, Machine Tool and Power Loom divisions still remain discontinued.

Analysis of Profit for the year from discontinued operations

The combined results of the discontinued operations (i.e. bicycle division, power loom and machine tool etc.) included in the profit and loss accounts are set out below.

		2014	2013
Income	31.1	2,758	380
Less: Cost of sales			
Opening inventory		5,860	6,240
Closing inventory		(3,102)	(5,860)
		2,758	380
Net income		-	-
Taxation		-	-
Profit after tax from discontinued operations		-	-

31.1 This represents bicycles given to employees on installments at cost.

32. BASIC AND DILUTED (LOSS) PER SHARE

	2014	2013
Continuing and discontinued operations - Basic		
(Loss) after taxation (rupees in '000)	(68,953)	(83,107)
Weighted average number of Ordinary shares (No. in '000) outstanding during the year	5,690	5,690
(Loss) per share (rupees)	(12.12)	(14.61)
Continuing operations - Basic		
(Loss) after taxation (rupees in '000)	(68,953)	(83,107)
Weighted average number of Ordinary shares (No. in '000) outstanding during the year	5,690	5,690
(Loss) per share (rupees)	(12.12)	(14.61)

There is no dilutive effect on the basic (loss) per share of the company.

33. CASH (UTILIZED IN) / GENERATED FROM OPERATIONS

	2014	2013
(Loss) before taxation	(127,861)	(153,483)
Adjustments for:		
Depreciation	39,563	35,367
Financial charges	15,100	15,600
Interest on workers' profit participation fund	5,340	9,953
Provision for gratuity	72	51
Amortization expense	-	926
Gain on sale of property, plant and equipment	-	(705)
	60,075	61,192
(Loss) before working capital changes	(67,786)	(92,291)
Movements in working capital		
Decrease / (Increase) in current assets:		
Stores, spares and loose tools	(8,438)	3,773
Stock in trade	(131,012)	205,890
Trade debts	(15,808)	53,431
Advances	(649)	457
Trade deposits, prepayments and other receivables	11,532	(1,344)
Increase / (Decrease) in current liabilities:		
Trade and other payables	167,156	(129,696)
	22,781	132,511
	(45,005)	40,220
Changes in Long term deposits and receivables	-	(301)
Cash (utilized in) / generated from operations	(45,005)	39,919

			2014	2013
			(Rupees in '000)	

34. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise GoP, associated companies/undertakings, directors of the Company, key management staff and staff retirement and welfare funds. Details of transactions with related parties during the year other than those which have been disclosed elsewhere in these financial statements are stated below;

		2014	2013
State Engineering Corporation (Pvt) Limited (SEC)			
- Outstanding SEC service charges paid		3,000	2,000
- Reimbursement expenses payable		192	186
- Reimbursement of expenses		297	320
Pakistan Machine Tool Factory			
- Receivable at the end of the year	34.1	1,571	1,571

34.1 Maximum amount due from the associated undertakings at the end of any month was of Rs. 1.571 million (2013: Rs.4.056 million).

34.2 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.

35. DISCONTINUED OPERATIONS

35.1 All divisions of the company ,such as Structure Division (STR) , Machine Tool, Power Loom, Pumps, Electric Motor, Bicycle, Furnace and Rolling Mill had earlier been closed down during the period 2000 to 2003, as per the instructions of the Government. The Plant and Machinery of two divisions , Machine tool and Power Loom, had been transferred to "Assets held for sale" in the year 2001, and the management had no intention to sell the Plant and machinery of remaining divisions of the company. However, taking into consideration, the successful operation 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 division of the company. This decision helped to improve the efficiency of the Structure Division (STR) and contributed towards the revenue generation of the company.

35.2 The carrying amount of assets of discontinued operations is disclosed in note no. 15 and its related revaluation surplus is disclosed in note no. 5.1.1.1 of the financial statements.

35.3 The carrying amount of stores, spares and loose tools and stock in trade is stated in note no. 16 and 17, respectively. Further results from discontinued operations which have material effect have been disclosed in Note. 31.

36. SEGMENT INFORMATION

Segment information is presented on the same basis as that used for internal reporting purposes by the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments. On the basis of its internal reporting structure, the Company considers itself to be a single reportable segment; however, certain information, as required by the approved accounting standards, is presented below. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The financial information has been prepared on the basis of single reportable segment i.e. "Engineering".

36.1 Information about customers

The principal classes of custormers of the company are Government Institutions & telecommunication companies etc.

36.2 Information about geographical areas

All non-current assets of the Company as at 30 June 2014 are located in Pakistan.

36.3 Information about major customers

The Company's most significant customers are electric supply companies.

37. FINANCIAL RISK MANAGEMENT

37.1 Risk management framework

The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

37.2 Financial assets and liabilities by category and their respective maturities

	30 June 2014		30 June 2013	
	Maturity up to one year	Maturity After one year	Maturity up to one year	Maturity After one year
	------------------------ Rupees in '000 ------------------------			
FINANCIAL ASSETS				
Long term investments	-	663	-	624
Long term security deposits - net of impairment	-	964	-	964
Trade debts - net of impairment	152,677	-	136,869	-
Advances	434	-	334	-
Trade deposits, prepayments and other receivables	22,408	-	37,529	-
Cash and bank balances	7,151	-	71,333	-
Total	182,670	1,627	246,065	1,588
FINANCIAL LIABILITIES				
Government of Pakistan Loans	-	1,790,848	-	1,790,848
Long term borrowings	-	-	3,030	-
Short term borrowings	108,351	-	108,351	-
Trade and other payables	278,299	-	105,383	-
Mark-up accrued	12,936	-	3,115	-
Total	399,586	1,790,848	219,879	1,790,848
On balance sheet date gap	(216,916)	(1,789,221)	29,301	(1,789,260)
OFF - BALANCE SHEET ITEMS				
Letter of guarantees	256,452		340,095	

37.3 Fair Values

The carrying values of the financial assets and financial liabilities approximate their fair values except for Government of Pakistan loans as disclosed in note. 6 to the financial statements. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If the transaction is not based on market terms, or if a market price cannot be readily determined, then an estimate of future cash payments or receipts, discounted using the current market interest rate for a similar financial instrument, is used to approximate the fair value.

37.4 Financial Risk Factors

The Company has exposures to the following risks from its use of financial instruments:
- Credit Risk
- Liquidity Risk
- Market Risk

37.4.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from long term security deposit, loans and advances to employees, deposits, trade debts, other receivables and bank balances.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage exposure to credit risk in respect of trade receivables, management reviews credit worthiness, references, establish purchase limits taking into account the customer's financial position, past experience and other factors.

Concenration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date was:

	2014	2013
	(Rupees in '000)	
Long term investments	663	624
Long term security deposits - net of impairment	964	964
Trade debts - net of impairment	152,677	136,869
Advances	434	334
Trade deposits, prepayments and other receivables	22,408	37,529
Bank balances	6,654	69,825
	183,800	246,145

The Company's most significant amount receivable is from WAPDA which is included in total carrying amount of trade debts as at reporting date.

For trade debts, internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Aging of trade debts is regularly reviewed by the Board's Receivables Committee and necessary actions are taken in respect of overdue balances. The company assesses the credit quality of the counter parties as satisfactory. Bank balances are held only with reputable banks with high quality credit ratings. Loans and advances to employees are not exposed to any material credit risk since these are secured against their salaries. Geographically there is no concentration of credit risk. The maximum exposure to credit risk for trade debts at the reporting date are with customers within the country.

	30 June 2014		30 June 2013	
	Gross	Impairment	Gross	Impairment
	------------------------ Rupees in '000 ------------------------			
The aging of trade debts at the reporting date was:				
Not yet due	5,156	-	697	-
Past due 1-30 days	75,810	-	18,492	-
Past due 31-60 days	11,711	-	4,565	-
Past due 61-90 days	1,778	-	49,726	-
Over 90 days	101,434	43,212	106,601	43,212
	195,889	43,212	180,081	43,212

Based on past experience the management believes that no further impairment allowance is necessary as there are reasonable grounds to believe that the amounts will be recovered in short course of time.

37.4.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

Following is the maturity analysis of financial liabilities:

Non - derivative financial liabilities	Up to 1 year	1 to 5 years	Total
Government of Pakistan Loans	-	1,790,848	1,790,848
Short term borrowings	108,351	-	108,351
Trade & other payables	278,299	-	278,299
Accrued mark-up	12,936	-	12,936
30 June 2014	399,586	1,790,848	2,190,434

Non - derivative financial liabilities	Up to 1 year	1 to 5 years	Total
Government of Pakistan Loans	-	1,790,848	1,790,848
Long term borrowings	3,030	-	3,030
Short term borrowings	108,351	-	108,351
Trade & other payables	105,383	-	105,383
Accrued mark-up	3,115	-	3,115
30 June 2013	219,879	1,790,848	2,010,727

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effectively as at 30 June 2014. The rates of mark-up have been disclosed in note 10 to the financial statements respectively. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

37.4.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Company is exposed to interest rate and currency risks.

a) Currency Risk

Currency Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is not significantly expose to currency risk as the company does not maintain bank accounts in foreign currencies.

b) Interest Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and entering into interest rate swap contracts.

The company's interest rate risk arises from short term cash finance facility. The company analyzes its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into accounts various other financing options available.

As at 30 June 2014, if interest rates on company's bank borrowings had been 1% higher / lower the markup expenses would have been higher / lower by Rs. 1.149 million (2013: Rs. 0.7980 million).

38. CAPITAL RISK MANAGEMENT

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

(i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, the Company's ability to continue as going concern is disclosed in note 2.1 to the financial statements, and

(ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

	2014	2013
	(Rupees in '000)	
The gearing ratio as at 30 June is as follows:		
Debt	1,899,198	1,902,229
Equity	(1,186,010)	(1,136,162)
Total equity and debt	713,188	766,067
Gearing Ratio	266.30%	248.31%

39. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements in respect of remuneration including benefits applicable to the chief executive, directors and executives of the Company are given below.

	2014			2013		
	Chief Executive	Director	Executives	Chief Executive	Director	Executives
	------------------------ Rupees in '000 ------------------------					
Remuneration	3,263	-	8,202	2,874	-	7,709
Reimbursable expenses	549	-	-	278	-	-
Perquisites	-	-	684	-	-	642
	3,812	-	8,886	3,152	-	8,351
Number of persons	1	-	8	1	-	9

39.1 Aggregate amount charged in the accounts for 08 directors for Meeting fees were Rs.0 .108 million and reimbursable expenses were Rs. 2.616 million (2013 : Rs. 3.821 million) for meetings of Board of Directors and sub committees of Board of Directors.

39.2 The Chief Executive and one Executive Director is entitled for company maintained car.

40. AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements have been authorized for issue on 29 September 2014 by the Board of Directors of the Company.

41. PLANT CAPACITY AND ACTUAL PRODUCTION

		Capacity		Actual Production	
	U/M	Installed	Assessed	2014	2013
Pumps / turbines	No.	3,400	4,000	59	138
Electric motors	No.	16,500	6,500	14	43
Rolled material	Tons	80,000	30,000	-	-
Foundry	Tons	4,000	4,800	5	-
Steel fabrications (STR)	Tons	20,000	30,000	1,637	1,493
Concrete Mixture	No.	350	350	-	-

41.1 The main reason for production below capacity is due to decrease in orders, increased cost of production and electricity crisis.

42. NUMBER OF EMPLOYEES

	2014	2013
	-------- (Numbers) --------	
Total number of employees as at 30 June were;		
Contractual employees	55	65
Contractor	377	270
	432	335
Average number of employees during the year	384	365

43. CORRESPONDING FIGURES

Corresponding figures have been re-arranged wherever necessary for purposes of better presentation as follows:

Reclassification from component	Reclassification to component	Amount in Rs '000
Cost of Sales	Cost of Sales	
- Raw material consumed	- Processing charges	2,845
- Salaries and wages (including all benefits)	- Service charges	2,896
Trade & other payables	Trade & other payables	
- Advances	- Security deposits	808

44. GENERAL

44.1 Figures have been rounded off to the nearest thousand rupees.

Shafqat-ur-Rehman Ranjha
(Managing Director)

Muhammad Iqbal
(Director)

PATTERN OF SHAREHOLDING
AS AT 30 JUNE 2014

Incorporation No. 0000348

Shareholders	From	To	Total Shares
1,463	1	100	40,580
565	101	500	133,694
146	501	1,000	103,474
116	1,001	5,000	225,312
23	5,001	10,000	163,532
2	10,001	15,000	21,075
5	15,001	20,000	94,400
1	20,001	25,000	21,070
3	25,001	30,000	85,800
5	30,001	45,000	189,121
5	65,001	95,000	403,380
2	105,001	140,000	264,030
1	155,001	200,000	165,254
1	450,001	455,000	452,700
1	505,001	510,000	510,000
1	1,400,001	1,405,000	1,401,100
1	1,415,001	1,420,000	1,415,723
2,341			5,690,245

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive Officers, their spouse and minor childern	8,727	0.15%
Executives	20	0.00%
Associated Companies, Undertakings & Related Parties	1,415,723	24.88%
ICP (including IDBP)	131,330	2.31%
Banks, Development Finance Institutions & Non Banking Financial Institutions	140,606	2.47%
Insurance Companies	229,030	4.02%
Public Sector Companies & Corporations	-	-
Joint Stock Companies	659,977	11.60%
Share holders holding 5% or more of total capital	3,779,523	66.42%
General Public		
a. Local	1,652,156	29.03%
b. Foreign	2,580	0.05%
Others:		
Investment Companies	6,550	0.12%
Private Limited Companies	1,401,100	24.62%
Cooperative Societies	6,145	0.11%
Trusts	30,414	0.53%
Associations	132	0.00%
Abandand Properties Organization	5,754	0.10%
Government Authority	1	0.00%

PATTERN OF SHAREHOLDING
AS AT 30 JUNE 2014

ADDITIONAL INFORMATIONS

	% Age	Shares Held
ASSOCIATED COMPANIES, UNDERTAKINGS & RELATED PARTIES		
State Engineering Corporation Ltd.	24.88	1,415,723
INVESTMENT CORPORATION OF PAKISTAN (ICP)	2.31	131,330
DIRECTORS, CEO THEIR SPOUSES & MINOR CHILDREN		
Mr. Muhammad Arif Azim		Govt. Nominee
Mr. Shafqat-ur-Rehman Ranjha		Govt. Nominee
Mr. Arif Ibrahim		Govt. Nominee
Mr. Muhammad Arif Habib	0.02	1,000
Mr. Liaqat Mohammad	0.07	3,700
Mr. Rashid Ali Khan	0.02	1,000
Mr. Muhammad Iqbal	0.02	1,027
Mirza Mahmood Ahmad	0.02	1,000
Mr. Muhammad Iqbal Awan	0.02	1,000
PUBLIC SECTOR COMPANIES AND CORPORATIONS	-	Nil
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARBAS & MUTUAL FUNDS		
National Bank of Pakistan - Trustees Department	2.38	135,292
M/s Habib Bank Limited	0.00	25
M/s United Bank Limited	0.09	5,259
M/s Bank of Bahawalpur Ltd	0.00	30
IDBP (ICP Units)	2.26	128,790
M/s Pakistan Insurance Corporation	0.77	43,776
State Life Insurance Corporation Ltd	2.90	165,254
M/s Gulf Insurance Co. Ltd	0.35	20,000
SHARES HELD BY THE GENERAL PUBLIC	29.08	1,654,736
SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL CAPITAL		
State Engineering Corporation Ltd	24.88	1,415,723
Rotocast Engineering Company (Pvt) Limited	24.62	1,401,100
Mr. Ahmad Masood Khan	8.96	510, 000
Maha Securities Pvt. Ltd.	7.96	452,700
Holding of CDC	61.79	3,516,139

During the financial year the trading in shares of the Company by the Directors, CEO, CFO, Company Secretary and their spouses and minor children was NIL.

FORM OF PROXY

The Company Secretary,
Pakistan Engineering Company Limited,
6/7-Sir Ganga Ram Trust Building,
Shahra-e-Quaid-e-Azam,
LAHORE

I/We ______________________________ of ______________________________

______________________________ being a member (s) of Pakistan Engineering Company Ltd. and

holder of ____________________ ordinary shares as per Share Register Folio No. ____________

(in case of Central Depository System Account Holder A/c No. ______________________________)

hereby appoint Mr./ Ms. ________________________ of ______________________________

(or failing him / her) Mr./Ms. ________________________ of ____________________________

as a proxy of vote on my / our behalf at the Annual General Meeting of the Company to be held on Friday, 31 October 2014 at 11:00 a.m. at Hotel Ambassador, 7- Davis Road, Lahore.

Signed this ________________ day of ________________ 2014.

WITNESS

Signature ______________________

Name ______________________

Address ____

Signature

Please affix Rupees five Revenue Stamp

Note:

1. A member entitled to attend and vote at the meeting may appoint any other person as his / her proxy to attend and vote instead of him / her. A Corporation being a member of the Company may appoint as its proxy any person authorized by the Directors of Corporation.
2. Proxies in order to be valid must be received at the company's Registered Office not less than 48 hours before the meeting duly stamped, signed and witnessed.
3. In case of Central Depository System Account Holder, an attested copy of identity card should be attached to this Proxy Form.

ANNUAL REPORT 2014

PAKISTAN ENGINEERING COMPANY LIMITED

MINUTES OF THE 64^{TH} ANNUAL GENERAL MEETING OF
PAKISTAN ENGINEERING COMPANY LIMITED HELD ON
THURSDAY, 31 OCTOBER 2013 AT 11:00 AM
AT HOTEL AMBASSADOR, LAHORE

Mr. Muhammad Iqbal, Director, was elected by the shareholders to act as Chairman for the meeting. The meeting commenced with recitation of the Holy Quran by Mr. Suhail Mahmood.

The Company Secretary, Mr. Anwar Aziz welcomed the shareholders and introduced the sitting members of the Board and representatives of M/s. Fazal Mahmood & Company, Chartered Accountants, the Auditor's of the Company, present in the meeting.

Items of the agenda were then taken up:

AGENDA ITEMS	MINUTES
1. To confirm the minutes of 63rd Annual General Meeting of the Company held on Thursday, 25 October 2012.	The Minutes of 63rd Annual General Meeting held on Thursday, 25 October 2012 were circulated with the Notice of 64th Annual General Meeting to all the Shareholders. The minutes were unanimously confirmed and signed by the Chairman.
2. To receive consider & adopt the Audited Accounts of the Company for the year ended 30 June 2013 to-gather with the Auditors' and Directors' reports thereon.	The Chairman presented the audited accounts of the company for the year ended 30 June 2013 together with the Auditors' Report and Directors' Report to the members. The Directors Report was taken as read. The Chairman of the meeting Mr. Muhammad Iqbal briefly stated that year 2012-13 was characterized by overall low activity in the country. The poor performance was mainly attributed to deteriorating law and order situation, acute load shedding of electricity and gas, high level of inflation and depreciation of rupee against dollar. These factors not only adversely affected the overall economic activity and business in the country but deteriorated the performance of the Company also. The turn-over of the company could not touch the desired level. Major supplies to WAPDA consisted of 220 Kv Steel Towers and Gantries. There was no remarkable demand of telecommunication towers during the year. Sale of Pumps and Motors also remained on the lower side. The sale revenue of the Company was Rs. 386 million compared to the previous year' sale revenue of Rs. 523 million. The Gross Loss for the year was Rs. 79 million against Gross Loss of Rs. 71 million of last year. Loss after tax during the period under review was Rs. 83 million against previous year loss of Rs. 100 million. The Chairman further explained that low production was the

major reason for the substantial loss during the year. Other reasons were lesser orders in hand at the beginning of the year, raw material constraints, non renewal of credit facilities from banks, load shedding of electricity/gas and intensive competition especially of 11 and 132 Kv towers in the market.

One shareholder pointed out that sale for the year ended on June, 2013 was only Rs. 386 million and if we see the turn over for the last 3 years it is gradually deteriorating, therefore there is a need to improve the performance of marketing department of the Company. The Chairman explained that electricity and transmission line towers business depends upon tenders and our competitors in 11 Kv and 132 Kv towers quoted rates even below their marginal cost. He further explained that now the situation is improving and award of some major orders to PECO is expected to be finalized shortly. It was assured that by the end of first half of the current financial year orders book and sale would significantly improve.

After this brief question answer session the Accounts together with the Auditors' and Directors' Report thereon for the year ended on 30 June 2013 were approved by the shareholders.

3. To appoint Auditors for the year ending 30 June 2014 and to fix their remuneration. The present Auditors M/s. Fazal Mahmood & Company, Chartered Accountants being eligible for re-appointment, have offered themselves for re-appointment.

The present auditors M/s. Fazal Mahmood & Company, Chartered Accountants being eligible, offered themselves for appointment. Shareholders unanimously approved the appointment of M/s Fazal Mahmood & Company, Chartered Accountants as auditors of the Company for the year ended 30 June 2014 at a remuneration of Rs. 500,000/- plus out of pocket expenses of Rs. 15,000/-. Half yearly review fee of Rs. 65,000/- was also approved by the shareholders.

There being no other item on the Agenda the meeting was concluded with thanks to the Chair.

MINUTES CONFIRMED

CHAIRMAN