



# SHAFIQ & CO.

## CHARTERED ACCOUNTANTS

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### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of “**M/S. M.F. STOCKS (PRIVATE) LIMITED**” at **JUNE 30, 2013**, the related profit and loss account, 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) In our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- (b) 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) no expenditure were incurred during the year 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;
- (c) In our opinion and to the best of our information and according to the



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explanations given to us, the balance sheet, profits and loss account, 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 **June 30, 2013** its cash flows and changes in equity for the year then ended; and

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



**Lahore.**

**Dated: September 30, 2013**

**SHAFIQ & CO.**

**Chartered Accountants**

**M/S. M.F. STOCKS (PRIVATE) LIMITED**

**BALANCE SHEET  
AS AT JUNE 30, 2013**

<b>EQUITY &amp; LIABILITIES</b>	<b>NOTE</b>	<b><u>2013</u> RUPEES</b>	<b><u>2012</u> RUPEES</b>
<b><u>Authorised Capital:</u></b>			
300,000/- Ordinary Shares of Rs. 100/- each		<u>30,000,000</u>	<u>30,000,000</u>
<b><u>Issued, Subscribed &amp; Paid up Capital:</u></b>			
170,000/- Ordinary Shares of Rs. 100/- each		17,000,000	17,000,000
Share Deposit Money		2,000,000	-
		<u>19,000,000</u>	<u>17,000,000</u>
<b>CURRENT LIABILITIES</b>			
Accrued & Other Payables		70,000	-
		<u>19,070,000</u>	<u>17,000,000</u>
<b>PROPERTY &amp; ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Trading Rights Entitlement Certificate - TREC	4	4,224,000	-
Long Term Investments	5	8,976,000	-
Long Term Deposits	6	300,000	-
Deffered Cost	7	547,500	340,000
		<u>14,047,500</u>	<u>340,000</u>
<b>CURRENT ASSETS</b>			
Tax Advance		200	-
Cash and Bank Balances	8	5,022,300	16,660,000
		<u>5,022,500</u>	<u>16,660,000</u>
		<u>19,070,000</u>	<u>17,000,000</u>

*Shazanfar Parvez*  
CHIEF EXECUTIVE



*Ykhan*  
DIRECTOR

**M/S. M.F. STOCKS (PRIVATE) LIMITED**  
**PROFIT & LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>NOTE</u>	<u>2013</u> <u>RUPEES</u>	<u>2012</u> <u>RUPEES</u>
Income		-	-
<b><u>OPREATING EXPENSES</u></b>			
Administrative Expenses		-	-
Financial Expenses		-	-
		-	-
Other Income		-	-
<b>Net Profit / (Loss) Before Taxation</b>		-	-
Less: Taxation		-	-
<b>Net Profit / (Loss) After Taxation</b>		-	-
Basic earning / (loss) per share	9	-	-

*Shazanfar Parvez*  
**CHIEF EXECUTIVE**

*YKhan*  
**DIRECTOR**



**M/S. M.F. STOCKS (PRIVATE) LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2013</u> <u>RUPEES</u>	<u>2012</u> <u>RUPEES</u>
<b><u>Operating Activities</u></b>		
Net Profit Before Taxation	-	-
<b>Adjustments</b>		
Financial Expenses	-	-
Depreciation	-	-
<b>Operating profit before working capital change</b>	-	-
<b>Change in working capital</b>		
(Increase)/Decrease in Advances, Deposits & Prepayments	(200)	-
Increase/(Decrease) in Accrued & Other Payable	70,000	-
	<b>69,800</b>	-
Cash Generated form Operating Activities	<b>69,800</b>	-
Taxation	-	-
<b>Cash Outflow from Operating Activities</b>	<b>69,800</b>	-
<b><u>Investing Activities</u></b>		
Trading Rights Entitlement Certificate - TREC	(4,224,000)	-
Long Term Investments	(8,976,000)	-
Long Term Deposits	(300,000)	-
Deffered Cost	(207,500)	(340,000)
<b>Cash Outflow From Investing Activities</b>	<b>(13,707,500)</b>	<b>(340,000)</b>
<b><u>Financing Activities</u></b>		
Proceeds from issue of Share Capital	-	17,000,000
Share Deposit Money	2,000,000	-
<b>Cash Inflow From Financing Activities</b>	<b>2,000,000</b>	<b>17,000,000</b>
<b>Net Cash (Outflow)/Inflow</b>	<b>(11,637,700)</b>	<b>16,660,000</b>
Opening balance of Cash & Bank	16,660,000	-
<b>Cash and Bank Balance at end of Year</b>	<b>5,022,300</b>	<b>16,660,000</b>

*Shazantaz Parwez*  
**CHIEF EXECUTIVE**



*F. Khan*  
**DIRECTOR**

**M/S. M.F. STOCKS (PRIVATE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Share Capital	Share Deposit Money	Un- appropriated Profit / (Loss)	Total
<b>Balance as at July 01, 2011</b>	-	-	-	-
Addition / (Deletion) For The Year	17,000,000	-	-	17,000,000
<b>Balance as at June 30, 2012</b>	<b>17,000,000</b>	-	-	<b>17,000,000</b>
Addition / (Deletion) For The Year	-	2,000,000	-	2,000,000
<b>Balance as at June 30, 2013</b>	<b>17,000,000</b>	<b>2,000,000</b>	-	<b>19,000,000</b>

*Ghazanfar Parwez*  
**CHIEF EXECUTIVE**



*Y. Khan*  
**DIRECTOR**

**M/S. M.F. STOCKS (PRIVATE) LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**1 COMPANY AND ITS OPERATIONS:**

The Company was incorporated on May 30, 2012 as Private Limited Company under the provisions of Companies Ordinance, 1984 in Lahore, Pakistan. The registered office of the company is situated at House # 263-CC, Phase - IV, D.H.A. Lahore Cantt, Lahore. The company is a Trading Right Entitlement Certificate (TREC) holder of Lahore Stock Exchange Limited (formerly Lahore Stock Exchange (Guarantee) Limited) and is engaged in the business of brokerage. The company has not yet started its operations because it has not yet got the brokerage certificate from Securities & Exchange Commission of Pakistan.

**2 BASIS OF PREPARATION:**

**2.1 Statement of Compliance:**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of Accounting and Financial Reporting Standards for Medium Sized Entities (MSE's) issued by the Institute of Chartered Accountants of Pakistan and provisions and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**2.2 Basis of Measurement:**

These financial statements have been prepared under the historical cost convention except otherwise stated in relevant notes.

**3 ACCOUNTING POLICIES:**

**3.1 Fixed Assets - Tangibles:**

The company has not yet purchased any fixed assets.

Operating Property, Plant and Equipment except freehold land shall be stated at cost less accumulated depreciation.

Depreciation shall be provided on Reducing Balance Method to write-off the cost and capitalise over estimated remaining useful life of operating fixed assets. Rates of depreciation shall be stated in the Schedule of Fixed Assets. Depreciation on additions shall be charged from the month the asset is available for use while no depreciation shall be charged in the month in which the assets is disposed off.

Gain / (Loss) on disposals of Property, Plant and Equipment shall be taken to Profit & Loss Account.

Normal repairs and maintenance shall be taken to Profit & Loss Account.

Major improvements shall be capitalised and assets replaced, if any, are retired.

**3.2 Intangibles:**

These are stated at cost less amortization and impairment loss, if any.

Depreciation is charged on an assets in the month it is available for use and no depreciation is charged in the month the said assets is disposed off.



Depreciation is charged using the reducing balance method at the rates specified in the relevant note to the financial statements.

**Trading Right Entitlement Certificate:**

It is stated at cost less impairment, if any. Cost is determined as the value of the membership card with which it has been exchanged. For this purpose, the cost of the membership card has first been allocated to the shares of LSE at their par value of Rs. 10/- and the remaining cost has been allocated to the TREC.

**3.3 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.

**Short term 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.

**Long term investments available for sale:**

These represent shares in Lahore Stock Exchange Limited, a public unlisted company, therefore they have been stated at cost. Cost is determined as the value of membership card with which it has been exchanged. For this purpose, the cost of the membership card has first been allocated to the shares allocated to the shares of LSE @ Rs. 10/- being the par value and remaining cost has been allocated to the TREC.

**3.4 Impairment:**

The Company assesses at each balance sheet date whether there is any indication that a tangible fixed asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Whether carrying value exceeds recoverable amount, assets are written down to the recoverable amount the difference is charged to income of that year.

**3.5 Trade Receivables:**

Trade receivables comprise of receivables from the members of the stock exchange and customers less any estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off as and when identified.

**3.6 Revenue Recognition:**

Revenues are recognized as per the following criteria:

- **brokerage / commission** : at the provision of services i.e. execution of client orders
- **capital gain / loss** : at the disposal of the assets
- **dividends** : when the right to receive the dividend is established
- **bank profit and others** : on accrual basis





**3.7 Taxation:**

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax on turnover whichever is higher.

**3.8 Financial Instruments:**

Financial assets and liabilities are recognised when the Company becomes a party to contractual provisions of the instrument.

All purchases and sales of financial assets are recognized on the trade date.

**3.9 Financial Assets:**

The Company's principal financial assets are long term investment, long term deposit, trade debtors, advances, deposits and prepayments and cash & bank balances.

**3.10 Financial Liabilities:**

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include trade and other payables.

**3.11 Cash and Cash Equivalents:**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statements, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**3.12 Creditors, Accrued & Other Liabilities:**

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services.

**3.13 Provisions:**

Provisions are recorded when the company has a present obligation as a result of past event which is probable to result in an outflow of resources embodying economic benefits and a reliable estimate can be made of the obligation.

**3.14 Off Setting:**

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



	<u>2013</u>	<u>2012</u>
	<u>RUPEES</u>	<u>RUPEES</u>

**4 TRADING RIGHTS ENTITLEMENT CERTIFICATE - TREC:**

Lahore Stock Exchange Limited

4,224,000

-

- 4.1 This represents trading rights in Lahore Stock Exchange Limited which have replaced membership cards of stock exchange pursuant to the promulgation of Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 (the 2012 act). Before demutualization the stock exchanges were functioning as Guarantee Limited Companies, wherein ownership and trading rights were conferred to members through membership cards. Pursuant to demutualization, the ownership in a stock exchange has been segregated from the right to trade on the exchange. Therefore, the membership cards have now been replaced by shares in the exchange representing ownership in the exchange and Trading Rights Entitlements Certificates (TREC) representing rights to trade in the exchange. As result 843,975 shares of Rs. 10/- each have been allotted to the Company out of which 60% of the shares are blocked in a separate account held with CDC and would be sold to strategic investors and general public in future at a price which remains to be finalized, proceeds of which would come to the members, while the remaining 40% are available to members with no condition on their future sale. The Institute of Chartered Accountants of Pakistan in its technical guide dated May 29, 2013, concluded that the demutualization, in substance, had not resulted in exchange of dissimilar assets, and therefore no gain or loss should be recognized and the segregation of ownership rights and the trading rights should be accounted for by allocating the cost / carrying value of the membership card between the two distinct assets on a reasonable basis. The TREC can only be sold or transferred once, however, once sold it would not be sellable / transferable again. The transaction is in nature an exchange of an intangible asset (membership card) with a financial asset (shares) together with an intangible asset (TREC).

The above mentioned face value (Rs. 8,439,750/-) of the shares issued by the LSE to its members including the Company has been determined on the basis of the fair valuation of the underlying assets and liabilities of the Stock Exchange in accordance with the requirements of the Demutualization Act. In other words, shares worth Rs. 8,439,750/- received by the Company represent its share in the fair value of the net assets of the LSE. Under the current circumstances where active market is not available for such shares, this net asset valued based valuation has been considered as the closest estimate of the fair value of the shares.

Further recently, the LSE has introduced a minimum capital regime for the brokers, and for this purpose have valued TREC at Rs. 4,000,000/- as per the decision of the BOD of the LSE. This fact indicates an acceptable level of value for TREC which is also used by the Stock Exchange for risk management and to safeguard the investor's interest. In the absence of an active market for TREC, this assigned value of Rs. 4,000,000/- has been considered as the closest estimate of the fair value of the TREC.

The value of the TREC and shares have thus been measured at the value of the membership card with which they have been exchanged. For this purpose value of the membership card has been allocated between TREC and shares on proportionate basis at ratio of 32:68 which has been determined on the basis of the above estimates of fair value of LSE Shares (Rs. 8,439,750/-) and TREC (Rs. 4,000,000/-). Recently the shares have been recognized at Rs. 8,976,000/- and TREC at Rs. 4,224,000/-



	<u>2013</u> <u>RUPEES</u>	<u>2012</u> <u>RUPEES</u>
<b>5 <u>LONG TERM INVESTMENTS:</u></b>		
LSE Shares - <i>available for sale</i>		
- Blocked	5,385,600	-
- Unblocked	3,590,400	-
<i>(refer note 4.1)</i>	<u>8,976,000</u>	<u>-</u>
<b>6 <u>LONG TERM DEPOSITS:</u></b>		
NCCPL	200,000	-
CDC	100,000	-
	<u>300,000</u>	<u>-</u>
<b>7 <u>DEFERRED COST:</u></b>		
Un-allocated Expenditure	<u>547,500</u>	<u>340,000</u>
<b>8 <u>CASH &amp; BANK BALANCES:</u></b>		
Cash in Hand	1,842,042	3,310,000
Cash at Bank	3,180,258	13,350,000
	<u>5,022,300</u>	<u>16,660,000</u>
<b>9 <u>BASIC EARNINGS / (LOSS) PER SHARE:</u></b>		
Profit / (Loss) After Taxation Attributable to Ordinary Shareholders	<u>-</u>	<u>-</u>
Number of Ordinary Shares Issued & Subscribed At The Year End	<u>170,000</u>	<u>170,000</u>
<b>Basic Earnings / (Loss) Per Share</b>	<u>-</u>	<u>-</u>

There is no dilutive effect on the basic earnings per share.

**10 DATE OF AUTHORIZATION FOR ISSUE:**

These financial statements have been approved and authorized for issue by the Board of Directors of the company on September 30, 2013.

**11 FIGURES:**

- in the accounts have been rounded-off to the nearest of rupees.
- of the previous year have been re-arranged wherever necessary for the purpose of comparison.

*Ghazafar Rasvez*  
CHIEF EXECUTIVE



*YKhaan*  
DIRECTOR