

## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of Nishat Hospitality (Private) Limited ('company') as at June 30, 2016 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) in our opinion, proper books of account 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 account 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;



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*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
23-C, Aziz Avenue, Canal Bank, Gulberg-V, P.O.Box 39, Lahore-54660, Pakistan  
Tel: +92 (42) 3571 5868-71 / 3577 5747-50 Fax: +92 (42) 3577 5754 [www.pwc.com/pk](http://www.pwc.com/pk)*



- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement 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, 2016 and of the loss, changes in equity and its cash flows 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).

  
Chartered Accountants

Lahore, October 3, 2016

**Engagement Partner:** Muhammad Masood

**NISHAT HOSPITALITY (PRIVATE) LIMITED**  
**BALANCE SHEET AS AT JUNE 30, 2016**

	Note	2016 Rupees	2015 Rupees	Note	2016 Rupees	2015 Rupees
<b>EQUITY AND LIABILITIES</b>						
<b>SHARE CAPITAL AND RESERVES</b>						
Authorised share capital		1,200,000,000	1,200,000,000			
120,000,000 (2015 : 120,000,000) ordinary shares of Rs 10 each						
Issued, subscribed and paid up share capital		1,199,999,901	1,199,999,010			
119,999,901 (2015 : 119,999,901) ordinary shares of Rs 10 each						
Accumulated loss		(184,626,168)	(173,630,552)			
		1,015,372,842	1,026,368,458			
<b>NON - CURRENT LIABILITIES</b>						
Deferred liability	6	2,736,208	-			
Deferred taxation	7	2,736,208	-			
<b>CURRENT LIABILITIES</b>						
Trade and other payables	8	20,026,856	47,347,113			
Short term borrowings - unsecured	9	292,000,000	359,768,750			
Accrued finance cost	10	717,600	249,867			
		312,744,456	407,365,730			
<b>CONTINGENCIES AND COMMITMENTS</b>						
	11	1,330,853,506	1,433,734,188			
<b>ASSETS</b>						
<b>NON - CURRENT ASSETS</b>						
Property, plant and equipment	12	1,152,047,733	1,274,992,360			
Intangible assets	13	17,190,090	14,677,589			
Long term deposits		1,077,500	1,077,500			
Deferred taxation	7	75,099,897	60,330,820			
		1,245,415,220	1,351,078,269			
<b>CURRENT ASSETS</b>						
Stores and spares	14	8,796,323	6,181,455			
Stock-in-trade		1,280,607	1,277,657			
Trade debts	15	31,510,952	24,931,411			
Income tax recoverable		17,363,996	18,123,155			
Advances, deposits, prepayments and other receivables	16	7,892,261	25,839,746			
Cash and bank balances	17	18,594,147	6,302,495			
		85,438,286	82,655,919			
		1,330,853,506	1,433,734,188			

The annexed notes 1 to 35 form an integral part of these financial statements.

  
Iqbal N. Malik  
Chief Executive

  
Director

# NISHAT HOSPITALITY (PRIVATE) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016 Rupees	2015 Rupees
Revenue	18	328,046,992	265,473,728
Cost of sales and services	19	<u>(289,657,033)</u>	<u>(309,927,794)</u>
<b>Gross profit</b>		38,389,959	(44,454,066)
Administrative expenses	20	(54,991,987)	(55,128,243)
Other expenses	21	(144,213)	-
Other income	22	<u>11,812,019</u>	<u>827,527</u>
<b>Loss from operations</b>		(4,934,222)	(98,754,782)
Finance cost	23	<u>(14,264,851)</u>	<u>(22,145,409)</u>
<b>Loss before taxation</b>		(19,199,073)	(120,900,191)
Taxation	24	8,203,457	40,284,227
<b>Loss after taxation</b>		<u><u>(10,995,616)</u></u>	<u><u>(80,615,964)</u></u>
<b>Loss per share - basic and diluted</b>	25	<u><u>(0.09)</u></u>	<u><u>(0.67)</u></u>

The annexed notes 1 to 35 form an integral part of these financial statements.

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*Iqbal Malik*

**Chief Executive**

*Yasir Khan*

**Director**

# NISHAT HOSPITALITY (PRIVATE) LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2016

	2016 Rupees	2015 Rupees
Loss for the year	(10,995,616)	(80,615,964)
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-
<i>Items that will not be reclassified subsequently to profit or loss</i>	-	-
<b>Total comprehensive loss for the year</b>	<u>(10,995,616)</u>	<u>(80,615,964)</u>

The annexed notes 1 to 35 form an integral part of these financial statements.



*Imran Mulla*

**Chief Executive**



**Director**

# NISHAT HOSPITALITY (PRIVATE) LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016 Rupees	2015 Rupees
<b>Cash flows from operating activities</b>			
Cash generated from / (used in) operations	26	116,774,714	(114,689,435)
Finance cost paid		(13,797,118)	(22,701,620)
Income tax paid		(5,806,461)	(3,730,702)
<b>Net cash generated from / (used in) operating activities</b>		<b>97,171,135</b>	<b>(141,121,757)</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(10,014,573)	(27,090,283)
Proceeds from sale of property, plant and equipment		908,810	840,000
Purchases of intangible assets		(8,004,970)	-
Security deposit paid		-	(13,000)
<b>Net cash used in investing activities</b>		<b>(17,110,733)</b>	<b>(26,263,283)</b>
<b>Cash flows from financing activities</b>			
Repayment of / proceeds from short term borrowings - net		(67,768,750)	165,901,510
<b>Net cash inflow from financing activities</b>		<b>(67,768,750)</b>	<b>165,901,510</b>
<b>Net increase / decrease in cash and cash equivalents</b>		<b>12,291,652</b>	<b>(1,483,530)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>6,302,495</b>	<b>7,786,025</b>
<b>Cash and cash equivalents at the end of the year</b>	27	<b>18,594,147</b>	<b>6,302,495</b>

The annexed notes 1 to 35 form an integral part of these financial statements.

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*Iman M Khan*

Chief Executive

*Iman M Khan*  
Director

# NISHAT HOSPITALITY (PRIVATE) LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2016

	Rupees		
	Share capital	Accumulated loss	Total
<b>Balance as on July 01, 2014</b>	1,199,999,010	(93,014,588)	1,106,984,422
Loss for the year	-	(80,615,964)	(80,615,964)
Other comprehensive income for the year	-	-	-
<b>Total comprehensive loss for the year</b>	-	(80,615,964)	(80,615,964)
Ordinary shares issued against cash	-	-	-
<b>Total contributions by and distributions to owners of the Company</b>	-	-	-
<b>Balance as on June 30, 2015</b>	1,199,999,010	(173,630,552)	1,026,368,458
Loss for the year	-	(10,995,616)	(10,995,616)
Other comprehensive income for the year	-	-	-
<b>Total comprehensive loss for the year</b>	-	(10,995,616)	(10,995,616)
<b>Balance as on June 30, 2016</b>	<u>1,199,999,010</u>	<u>(184,626,168)</u>	<u>1,015,372,842</u>

The annexed notes 1 to 35 form an integral part of these financial statements.

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Chief Executive

  
Director

# **NISHAT HOSPITALITY (PRIVATE) LIMITED**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016**

## **1. The Company and its operations**

Nishat Hospitality (Private) Limited ('the Company') was incorporated in Pakistan on July 01, 2011 as a private limited company under the Companies Ordinance, 1984. It is a wholly owned subsidiary of Nishat Mills Limited, a listed company. The address of the registered office of the Company is 1-B Aziz Avenue, Canal Bank, Gulberg V, Lahore. The principal activity of the Company is to carry on the business of hotel, cafes, restaurants and lodging or apartment houses, bakers and confectioners in Pakistan and outside Pakistan.

## **2. Basis of preparation**

**2.1** 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.

### **2.2 Initial application of standards, amendments or an interpretation to existing standards**

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

#### **2.2.1 Standards, amendments to published standards and interpretations that are effective in the current year and are relevant to the Company**

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on or after July 1, 2015 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements.

#### **2.2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company**

There are certain standards, amendments to the approved accounting standards and interpretations that are mandatory for the Company's accounting periods beginning on or after July 1, 2016 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements.

## **3. Basis of measurement**

These financial statements have been prepared under the historical cost convention.





### 3.1

### Critical accounting estimates and judgments

The Company's significant accounting policies are stated in note 4. 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 of 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. The areas involving higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

#### (a) Useful lives, patterns of economic benefits and impairments

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of assets for possible impairment on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

#### (b) Taxation

The Company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its views on items of material nature are in accordance with the law, the amounts are shown as contingent liabilities.

### 4. Significant accounting policies

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

#### 4.1 Taxation

##### Current

Provision of 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 tax made in previous years arising from assessments framed during the year for such years.

##### Deferred

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 utilised.

Deferred tax is calculated at the rates that are expected to apply to the period 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 to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.



#### **4.2 Property, plant and equipment**

Property, plant and equipment except freehold land and capital work-in-progress are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Cost of property, plant and equipment consists of historical cost, borrowing cost pertaining to erection / construction period of qualifying assets and other directly attributable costs of bringing the asset to working condition. Freehold land and capital work-in-progress are stated at cost less any recognized impairment loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss account during the period in which they are incurred.

Depreciation on all property, plant and equipment is charged to the profit and loss account on the reducing balance method, except for crockery which is being depreciated using the straight line method, so as to write off the historical cost of such assets over its estimated useful life at annual rates mentioned in note 12.1 after taking into account their residual values.

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the profit and loss account in the year the asset is de-recognized.

#### **4.3 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-in-progress. These are transferred to operating fixed assets as and when these assets are available for use.

#### **4.4 Major spare parts and stand-by equipment**

Major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one year. Transfers are made to operating assets category as and when such items are available for use.

#### **4.5 Intangible assets**

Amortisation on additions to intangible assets is charged from the date when the asset is acquired or capitalised upto the date when the asset is de-recognized.

The Company assesses at each balance sheet date whether there is any indication that intangible assets may be impaired. If such an indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

#### **4.6 Trade debts**

Trade debts are carried at original invoice value less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

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#### **4.7 Employee retirement benefits**

##### **(a) Defined contribution plan - Provident Fund**

There is an approved contributory provident fund for all permanent employees. Equal monthly contributions are made by the Company and the employees to the fund at the rate of 9.5% of basic salary.

##### **(b) Accumulating compensated absences**

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit and loss account.

Retirement benefits are payable to employees on completion of prescribed qualifying period of service under these schemes.

#### **4.8 Stores and spares**

Usable stores and spares are valued principally at lower of weighted average cost and net realizable value, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make a sale.

#### **4.9 Stock-in-trade**

Stock-in-trade is valued at lower of weighted average cost and net realizable value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make a sale.

#### **4.10 Borrowings**

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, these are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest rate basis.

Finance costs are accounted for on an accrual basis and are shown as accrued finance cost to the extent of the amount remaining unpaid.

Borrowings are classified as a current liability unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

#### **4.11 Financial instruments**

Financial instruments carried on the balance sheet include investments, deposits, trade debts, loans and advances, other receivables, bank balances, long-term financing, liabilities against assets subject to finance lease, short-term borrowings, accrued mark-up and trade and other payables, etc. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instruments at fair value through profit or loss" which are initially measured at fair value.

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Financial assets are de-recognized when the Company loses control of the contractual rights that comprise the financial asset. The Company loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Company surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently.

#### **4.12 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 flows 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 estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated with reference to its current fair value.

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 amounts of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

#### **4.13 Offsetting of financial assets and financial liabilities**


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

#### **4.14 Trade and other payables**

Liabilities for trade and other amounts payable are initially recognized at fair value, which is normally the transaction cost.

#### **4.15 Provisions**

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and 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.



#### 4.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank on current, saving and deposit accounts and other short term highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### 4.17 Revenue recognition

Revenue is generally recognized as services are performed. Hotel revenue primarily represents room rentals and other ancillary service charges.

#### 4.18 Foreign currency transactions and translation

These financial statements are presented in Pak Rupees, which is the Company's functional currency. All monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, while the transactions in foreign currencies during the year are initially recorded in functional currency at the rates of exchange prevailing at the transaction date. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. Exchange gains and losses are recorded in the profit and loss account.

#### 5. Issued, subscribed and paid up share capital

2016 Number of shares	2015 Number of shares		2016 Rupees	2015 Rupees
<u>119,999,901</u>	<u>119,999,901</u>	Ordinary shares of Rs 10 each fully paid in cash	<u>1,199,999,010</u>	<u>1,199,999,010</u>

The holding company, Nishat Mills Limited, holds 119,999,898 ordinary shares of the Company as at June 30, 2016 (2015: 119,999,898).

6. Deferred liability	2016 Rupees	2015 Rupees
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This represents provision for accumulating compensated absences and its movement is as follows:

Opening balance	-	-
Provision during the year	2,736,208	-
	<u>2,736,208</u>	<u>-</u>
Less: Payments made during the year	-	-
Closing balance	<u>2,736,208</u>	<u>-</u>

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	2016 Rupees	2015 Rupees
<b>7. Deferred taxation</b>		
The (asset) / liability for deferred taxation comprises temporary differences relating to:		
<b>Deferred tax liability</b>		
Accelerated tax depreciation	105,896,146	113,699,809
<b>Deferred tax asset</b>		
Deferred liabilities - accumulating compensated absences	(820,862)	-
Unabsorbed tax losses and tax credits	(180,175,181)	(174,030,629)
	<u>(75,099,897)</u>	<u>(60,330,820)</u>

7.1 Deferred tax asset on tax losses available for carry forward and those representing minimum tax paid available for carry forward u/s 113 of the income tax ordinance, 2001 are recognized to the extent that the realisation of related tax benefits through future taxable profits is probable. The Company has not recognized deferred tax assets of Rs Nil (2015: Rs 9,008,237) in respect of business losses and Rs 2,923,754 (2015: Rs 2,923,754) in respect of minimum tax paid and available for carry forward u/s 113 of the Income Tax Ordinance, 2001, as sufficient tax profits would not be available to set these off in the foreseeable future. Minimum tax paid u/s 113 aggregating to Rs 154,465, Rs 114,553 and Rs 2,654,737 would not be available for carry forward against future tax liabilities subsequent to tax years 2017, 2018 and 2020 respectively.

	2016 Rupees	2015 Rupees
<b>8. Trade and other payables</b>		
Trade creditors	14,070,380	34,745,038
Franchise fee payable	1,225,141	1,183,126
Retention money payable	-	4,923,748
Accrued liabilities	1,862,221	4,126,010
Payable to Provident Fund	367,203	-
Due to related party - the holding company	89,496	89,496
Due to statutory authorities	2,393,369	2,273,697
Advances from customers	19,046	5,998
	<u>20,026,856</u>	<u>47,347,113</u>

8.1 This amount is payable to related party Nishat Mills Limited, the holding company, on account of reimbursement of expenses.



9. This represents short term borrowings acquired from Nishat Mills Limited - the holding company. The aggregate facility amounts to Rs 500 million and is repayable on March 25, 2017. The effective rate of markup charged during the year on the outstanding balance ranges from 2.97% to 3.82% per annum.

10. This represents accrued finance charges on the short term loan acquired from Nishat Mills Limited, the holding company.

**11. Contingencies and commitments**

**11.1 Contingencies**

(i) The Company has issued letter of guarantees of Rs 1,084,877 (2015: 1,084,877) in favour of Director, Excise and Taxation, Karachi under the order of Sindh High Court in respect of the suit filed for levy of infrastructure cess.

(ii) Post dated cheques furnished by the Company in favour of the Collector of Customs to cover import levies against imports aggregating to Rs 2,945,455 (2015: 2,945,455).

**11.2 Commitments**

The amount of future payments to Nishat Mills Limited, the holding company, under leave and licence agreement and the period in which these payments will become due are as follows:

	2016 Rupees	2015 Rupees
Not later than one year	16,661,458	15,146,780
Later than one year and not later than five years	111,891,854	101,719,866
Later than five years - cannot be determined due to unspecified period of the agreement	-	-
	<u>128,553,312</u>	<u>116,866,646</u>

**12. Property, plant and equipment**

Operating fixed assets	- note 12.1	1,149,903,460	1,272,975,112
Major spare parts and stand-by equipment		2,144,273	2,017,248
		<u>1,152,047,733</u>	<u>1,274,992,360</u>

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12.1 Operating fixed assets

	Land	Building on leasehold land	Plant and machinery	Electric installation	Office equipment	Furniture, fixture and fittings	Computers	Vehicles	Kitchen equipments	Crockery	Total
<b>COST</b>											
Balance as at July 01, 2014	19,129,036	946,593,578	125,265,085	197,834,868	10,251,042	94,225,103	10,634,867	10,023,127	18,100,364	14,658,540	1,444,625,010
Additions during the year	-	13,274,338	2,950,697	3,890,976	257,378	4,643,728	759,968	908,483	12,350	-	26,698,878
Deletions during the year	-	(1,746,572)	(1,746,572)	(1,746,572)	(1,746,572)	(1,746,572)	(1,746,572)	(902,578)	-	-	(2,649,150)
<b>Balance as at June 30, 2015</b>	<b>19,129,036</b>	<b>959,777,916</b>	<b>126,469,210</b>	<b>201,725,844</b>	<b>10,518,420</b>	<b>96,868,831</b>	<b>11,385,255</b>	<b>10,028,972</b>	<b>18,112,714</b>	<b>14,658,540</b>	<b>1,468,674,738</b>
Balance as at July 01, 2015	19,129,036	959,777,916	126,469,210	201,725,844	10,518,420	96,868,831	11,385,255	10,028,972	18,112,714	14,658,540	1,468,674,738
Additions during the year	-	650,438	3,239,601	5,684,501	233,164	59,644	20,500	-	-	-	9,887,548
Deletions during the year	-	-	-	(194,307)	-	(1,123,831)	-	-	(118,752)	-	(1,436,893)
<b>Balance as at June 30, 2016</b>	<b>19,129,036</b>	<b>960,428,054</b>	<b>129,708,811</b>	<b>207,216,038</b>	<b>10,751,584</b>	<b>95,804,641</b>	<b>11,405,755</b>	<b>10,028,972</b>	<b>17,993,962</b>	<b>14,658,540</b>	<b>1,477,125,393</b>
<b>DEPRECIATION</b>											
Balance as at July 01, 2014	-	30,454,612	4,118,731	6,110,509	254,033	2,948,950	1,081,762	978,172	1,209,997	1,633,189	48,789,955
Charge for the year	-	92,549,622	12,214,877	19,482,297	1,022,101	9,855,080	3,010,067	1,840,845	3,379,738	4,298,365	147,152,992
On deletions during the year	-	(58,379)	(58,379)	-	-	(160)	-	(184,942)	-	-	(243,321)
<b>Balance as at June 30, 2015</b>	<b>-</b>	<b>123,004,234</b>	<b>16,275,229</b>	<b>25,592,806</b>	<b>1,276,134</b>	<b>12,304,030</b>	<b>4,091,829</b>	<b>2,634,075</b>	<b>4,589,735</b>	<b>5,931,554</b>	<b>195,599,626</b>
Balance as at July 01, 2015	-	123,004,234	16,275,229	25,592,806	1,276,134	12,304,030	4,091,829	2,634,075	4,589,735	5,931,554	195,599,626
Charge for the year	-	83,736,542	11,262,697	18,128,359	929,645	8,399,523	2,191,624	1,478,979	2,704,596	2,879,905	131,711,870
On deletions during the year	-	-	-	(160)	-	(152,501)	-	-	-	-	(189,563)
<b>Balance as at June 30, 2016</b>	<b>-</b>	<b>206,740,776</b>	<b>27,537,926</b>	<b>43,721,005</b>	<b>2,205,779</b>	<b>20,551,052</b>	<b>6,283,453</b>	<b>4,113,054</b>	<b>7,257,429</b>	<b>8,811,459</b>	<b>327,221,933</b>
<b>Book value as at June 30, 2016</b>	<b>19,129,036</b>	<b>753,687,278</b>	<b>102,170,885</b>	<b>163,495,033</b>	<b>8,545,805</b>	<b>75,253,589</b>	<b>5,122,302</b>	<b>5,915,918</b>	<b>10,736,533</b>	<b>5,847,081</b>	<b>1,149,903,460</b>
<b>Book value as at June 30, 2015</b>	<b>19,129,036</b>	<b>836,773,682</b>	<b>110,195,981</b>	<b>176,133,038</b>	<b>9,242,286</b>	<b>84,564,801</b>	<b>7,293,426</b>	<b>7,394,897</b>	<b>13,522,979</b>	<b>8,726,986</b>	<b>1,272,975,112</b>
<b>Annual depreciation rate</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>30%</b>	<b>20%</b>	<b>20%</b>	<b>33%</b>	

12.1.1 The depreciation charge for the year has been allocated as follows:

Cost of sales  
Administrative expenses

	June 30 2016	June 30 2015
Cost of sales	118,540,683	132,437,693
Administrative expenses	13,171,187	14,715,299
<b>Total</b>	<b>131,711,870</b>	<b>147,152,992</b>

12.2 Detail of property, plant and equipment disposed off during the year is as follows:

Particulars of assets	2016						Mode of disposal
	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds/adjustment	Gain / (Loss) on disposal	
<b>Kitchen Equipment</b>	Security General Insurance Company Limited	118,752	36,902	81,850	261,000	179,150	Insurance Claim
<b>Electric Installation</b>	Store Return	194,307	160	194,147	194,307	160	Store Return
<b>Furniture, fixture and fittings</b>	Mrs. Syed Bakhtiar	1,123,834	152,501	971,333	647,810	(323,523)	Negotiation
		1,436,893	189,563	1,247,330	1,103,117	(144,213)	
<b>Particulars of assets</b>	<b>Sold to</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>	<b>Sale proceeds/adjustment</b>	<b>Gain / (Loss) on disposal</b>	<b>Mode of disposal</b>
<b>Vehicle</b>	Khurram Motors	902,578	184,942	717,636	840,000	122,364	Negotiation
<b>Plant and Machinery</b>	Captive Aire	1,746,572	58,379	1,688,193	1,746,572	58,377	Return to supplier
		2,649,150	243,321	2,405,829	2,586,572	180,743	

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	Franchise fee	Computer software Rupees	Total
<b>13. Intangible assets</b>			
<b>COST</b>			
Balance as at July 01, 2014	9,834,735	9,630,743	19,465,478
Additions during the year	-	-	-
Balance as at June 30, 2015	<u>9,834,735</u>	<u>9,630,743</u>	<u>19,465,478</u>
Balance as at July 01, 2015	9,834,735	9,630,743	19,465,478
Additions during the year	-	8,004,970	8,004,970
Balance as at June 30, 2016	<u>9,834,735</u>	<u>17,635,713</u>	<u>27,470,448</u>
<b>AMORTIZATION</b>			
Balance as at July 01, 2014	264,056	630,737	894,793
Charge for the year	1,966,947	1,926,149	3,893,096
Balance as at June 30, 2015	<u>2,231,003</u>	<u>2,556,886</u>	<u>4,787,889</u>
Balance as at July 01, 2015	2,231,003	2,556,886	4,787,889
Charge for the year	1,966,947	3,525,522	5,492,469
Balance as at June 30, 2016	<u>4,197,950</u>	<u>6,082,408</u>	<u>10,280,358</u>
Written down value as at June 30, 2015	<u><u>7,603,732</u></u>	<u><u>7,073,857</u></u>	<u><u>14,677,589</u></u>
Written down value as at June 30, 2016	<u><u>5,636,785</u></u>	<u><u>11,553,305</u></u>	<u><u>17,190,090</u></u>
Annual amortization rate	<u><u>20%</u></u>	<u><u>20%</u></u>	

14. This represents food and beverage items.

**15. Trade debts - unsecured**

These are considered good and are interest free. Included in trade debts is an amount of Rs 796,504 (2015: Nil) due from Chief Executive Officer of the Company. Trade debts include the following amounts due from related parties:

	2016 Rupees	2015 Rupees
Nishat Mills Limited - the holding company	317,953	831,065
MCB Bank Limited - associated company	1,703,237	1,315,774
Nishat Hotel & Properties Limited - associated company	1,718,913	1,574,045
Lalpir Power Limited - associated company	175,576	1,883
Nishat Chunian Power Limited - associated company	220,120	-
Nishat Power Limited - associated company	167,866	29,580
Nishat Linen (Private) Limited - associated company	170,520	-
Nishat Dairy (Private) Limited - associated company	41,847	-
Adamjee Insurance Company Limited - associated company	6,960	83,781
D.G. Khan Cement Company Limited - associated company	<u>606,303</u>	<u>74,722</u>
	<u><u>5,129,295</u></u>	<u><u>3,910,850</u></u>

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Ageing analysis of the amounts due from related parties is as follows:

	1 to 3 months	More than 3 months Rupees	Total
Nishat Mills Limited - the holding company	-	317,953	317,953
MCB Bank Limited - associated company	74,945	1,628,292	1,703,237
Nishat Hotel & Properties Limited - associated company	-	1,718,913	1,718,913
Lalpir Power Limited - associated company	148,753	26,823	175,576
Nishat Chunian Power Limited - associated company	-	220,120	220,120
Nishat Power Limited - associated company	21,258	146,608	167,866
Nishat Linen (Private) Limited - associated company	170,520	-	170,520
Nishat Dairy (Private) Limited - associated company	-	41,847	41,847
Adamjee Insurance Company Limited - associated company	6,960	-	6,960
D.G. Khan Cement Company Limited - associated company	18391	587,912	606303
	<u>440,827</u>	<u>4,688,468</u>	<u>5,129,295</u>
		<b>2016 Rupees</b>	<b>2015 Rupees</b>

**16. Advances, deposits, prepayments and other receivables**

Advances - considered good

- To employees	- note 16.1	225,824	484,050
- To suppliers		2,676,440	13,588,636
		2,902,264	14,072,686

Prepayments

- note 16.2	1,503,347	2,203,257
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Balances with statutory authorities - sales tax (considered good)

- Sales tax	2,800,012	9,150,524
- Excise duty	312,325	331,462
	3,112,337	9,481,986

Other receivables - considered good

374,313	81,817
<u>7,892,261</u>	<u>25,839,746</u>

**16.1** Included in advances to employees is an amount due from executives of Rs 52,123 (2015: 59,943).

**16.2** Included in prepayments is an amount due from Security General Insurance Company Limited - an associated company of Rs 541,611 (2015: 525,760).

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		<b>2016</b>	<b>2015</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>17.</b>	<b>Cash and bank balances</b>		
	Balance at bank in:		
	- Current accounts	- note 17.1 16,175,342	4,076,362
	- Saving account	- note 17.2 1,877,719	1,810,473
		<u>18,053,061</u>	<u>5,886,835</u>
	Cash in hand	541,086	415,660
		<u>18,594,147</u>	<u>6,302,495</u>

**17.1** Included in current accounts is an amount of deposit with MCB Bank Limited - an associated company of Rs 15,762,667 (2015: 3,890,107).

**17.2** The balance in saving account bears mark-up at 3.75% (2015: 4.5% to 7%) per annum.

		<b>2016</b>	<b>2015</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>18.</b>	<b>Revenue</b>		
	Room rent	302,334,586	226,914,465
	Services	- note 18.1 78,603,467	81,376,758
		- note 18.2 380,938,053	308,291,223
	Less: Sales tax	(52,891,061)	(42,817,495)
		<u>328,046,992</u>	<u>265,473,728</u>

**18.1** This represents revenue from providing laundry, food services, sale of minibar items and other ancillary services.

**18.2** These include sales and services provided to the following related parties:

	<b>2016</b>	<b>2015</b>
	<b>Rupees</b>	<b>Rupees</b>
Nishat Mills Limited - the holding company	1,304,291	2,862,617
D.G. Khan Cement Company Limited - associated company	3,285,210	1,189,332
MCB Bank Limited - associated company	2,047,157	3,616,602
Lalpir Power Limited - associated company	339,155	1,360,445
Nishat Dairy (Private) Limited - associated company	121,533	315,046
Nishat Hotels & Properties Limited - associated company	3,989,504	2,389,922
Nishat Linen (Private) Limited - associated company	495,218	57,362
Nishat Power Limited - associated company	339,157	233,723
Adamjee Insurance Company Limited - associated company	474,775	604,143
Pakistan Aviators and Aviation (Private) Limited - associated company	23,954	-
Nishat Chunian Power Limited - associated company	410,588	-
Pakgen Power Limited - associated company	-	323,988
	<u>12,830,542</u>	<u>12,953,180</u>

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19.	Cost of sales and services		2016 Rupees	2015 Rupees
	Salaries, wages and other benefits	- note 19.1	44,601,986	48,780,186
	Fuel, electricity and gas		28,151,959	40,907,068
	Food and beverage cost		32,523,812	32,087,874
	SPA cost		-	800,628
	License Fee		3,533,351	684,321
	Uniform cost		476,214	1,101,439
	Decoration expenses		845,901	996,629
	Royalty		13,031,664	9,784,371
	Guest transportation charges		820,737	457,336
	Guest supplies		5,764,715	7,805,865
	Entertainment		-	18,633
	Newspapers and journals		437,285	388,897
	Rent	- note 19.2	13,632,102	12,392,820
	Laundry and dry cleaning		274,760	244,047
	Cleaning supplies		4,133,780	4,029,192
	Communication charges		3,600,863	2,883,478
	Traveling and conveyance		948,141	2,996,413
	Printing and stationary		994,881	953,651
	Repair and maintenance		9,709,803	3,581,776
	Depreciation on property, plant and equipment	- note 12.1.1	118,540,683	132,437,693
	Amortisation of intangible assets	- note 13	5,492,469	3,893,096
	Insurance		2,094,078	1,815,338
	Computer supplies		-	16,842
	Miscellaneous expenses		47,849	870,201
			<u>289,657,033</u>	<u>309,927,794</u>

**19.1** Salaries, wages and other benefits includes Rs 2,084,308 (2015: Rs 1,770,853) and Rs 1,696,449 (2015: Nil), in respect of provident fund contribution by the Company and provision for compensated absences.

**19.2** This represents expense against use of leave and licence of land of Nishat Mills Limited, the holding company.

20.	Administrative expenses		2016 Rupees	2015 Rupees
	Salaries, wages and other benefits	- note 20.1	27,297,095	26,930,672
	Fees and subscription		126,905	154,658
	Printing and stationery		226,214	343,207
	Auditor's remuneration	- note 20.2	691,664	612,545
	Rent, rates and taxes	- note 20.3	4,216,274	4,195,894
	Entertainment		49,210	37,651
	Traveling and conveyance		1,347,969	1,308,069
	Repair and maintenance		723,968	183,214
	Advertisement and business promotion		4,786,022	4,412,350
	Legal and professional charges		1,440,410	1,128,100
	Depreciation on property, plant and equipment	- note 12.1.1	13,171,187	14,715,299
	Postage and telegram		41,733	15,823
	Communication charges		42,289	238,791
	Insurance		271,532	210,372
	Computer supplies		115,061	536,973
	Miscellaneous expenses	- note 20.4	444,454	104,625
			<u>54,991,987</u>	<u>55,128,243</u>

**20.1** Salaries, wages and other benefits includes Rs 1,296,681 (2015: Rs 1,112,897) and Rs 1,039,759 (2015: Nil), in respect of provident fund contribution by the Company and provision for compensated absences.

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		2016 Rupees	2015 Rupees
<b>20.2</b>	<b>Auditor's remuneration</b>		
	Audit fee	632,500	575,000
	Out of pocket expenses	59,164	37,545
		<u>691,664</u>	<u>612,545</u>

**20.3** Includes expense of Rs 1,514,678 (2015: Rs 1,371,494) against use of leave and licence of land of Nishat Mills Limited, the holding company.

**20.4** Includes expense of Rs 5,000 (2015: Nil) against advance to employee written off.

		2016 Rupees	2015 Rupees
<b>21.</b>	<b>Other expenses</b>		
	Loss on disposal of operating fixed assets	144,213	-
		<u>144,213</u>	<u>-</u>

**22. Other income**

**Income from financial assets**

	Income on saving accounts	75,401	110,938
	Exchange gain	211,357	297,090
		<u>286,758</u>	<u>408,028</u>

**Income from non-financial assets**

	Scrap sales	308,146	219,324
	Liabilities written back	10,739,721	-
	Profit on disposal of property, plant and equipment	-	180,743
	Miscellaneous	477,394	19,432
		<u>11,525,261</u>	<u>419,499</u>
		<u>11,812,019</u>	<u>827,527</u>

**23. Finance cost**

	Mark-up on short term borrowings	10,956,066	19,703,275
	Bank charges	3,308,785	2,442,134
		<u>14,264,851</u>	<u>22,145,409</u>

**23.1.** This represents mark-up on short term borrowings acquired from Nishat Mills Limited - the holding company.

		2016 Rupees	2015 Rupees
<b>24.</b>	<b>Taxation</b>		
	Current:		
	- for the year	6,567,103	2,656,931
	- prior year	(1,483)	-
		<u>6,565,620</u>	<u>2,656,931</u>
	Deferred	<u>(14,769,077)</u>	<u>(42,941,158)</u>
		<u>(8,203,457)</u>	<u>(40,284,227)</u>

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	2016 % age	2015 % age
<b>24.1 Tax charge reconciliation</b>		
Numerical reconciliation between the average effective tax rate and the applicable tax rate		
Applicable tax rate	32.00	33.00
Tax effect of amounts that are:		
- Tax losses for which no deferred tax asset has been recognized	50.06	8.36
- Effect of change in tax rate	(5.12)	(5.81)
- Others	(0.01)	(0.03)
- Minimum tax for which no deferred tax asset has been recognized	(34.20)	(2.20)
	10.73	0.32
Average effective tax rate	<u>42.73</u>	<u>33.32</u>

**24.2** In view of available income tax losses, the provision for current taxation represents tax under section 153 read with clause 94 of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

For the purposes of current taxation, the tax losses available for carry forward as at June 30, 2016 is estimated approximately at Rs 600,583,936 (2015: Rs 610,133,281).

		2016	2015
<b>25. Loss per share</b>			
<b>25.1 Loss per share - basic</b>			
Loss for the year	<b>Rupees</b>	(10,995,616)	(80,615,964)
Weighted average number of ordinary shares	<b>Number</b>	119,999,901	119,999,901
Loss per share - basic	<b>Rupees</b>	(0.09)	(0.67)
<b>25.2 Loss per share - diluted</b>			

A diluted loss per share has not been presented as the Company does not have any convertible instruments in issue as at June 30, 2016 and June 30, 2015 which would have any effect on the loss per share if the option to convert is exercised.

	2016 Rupees	2015 Rupees
<b>26. Cash generated from operations</b>		
Loss before tax for the year	(19,199,073)	(120,900,191)
Adjustment for non cash charges and other items:		
- Depreciation on property, plant and equipment	131,711,870	147,152,992
- Amortization on intangible assets	5,492,469	3,893,096
- Provision for accumulated compensated absences	2,736,208	-
- Liabilities written back	(10,739,721)	-
- Finance cost	14,264,851	22,145,409
- Loss / (Gain) on disposal	144,213	(180,743)
Profit before working capital changes	124,410,817	52,110,563
Effect on cash flow due to working capital changes:		
- Increase in trade debts	(6,579,541)	(10,001,025)
- Increase in stores and spares	(2,420,561)	(118,320)
- (Increase) / Decrease in stock-in-trade	(2,950)	86,274
- Decrease in advances, deposits, prepayments and other receivables	17,947,485	29,449,300
- Decrease in trade and other payables	(16,580,536)	(186,216,227)
	(7,636,103)	(166,799,998)
	116,774,714	(114,689,435)
<b>27. Cash and cash equivalents</b>		
Cash and bank balances	18,594,147	6,302,495

**28. Remuneration of Chief Executive, Directors and Executives**

28.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, Directors and Executives of the Company are as follows:

	2016		
	Rupees		
	Chief Executive	Directors	Executives
<b>Short term employee benefits</b>			
Managerial remuneration	-	-	18,472,199
Housing rent	-	-	5,537,260
Medical expenses	-	-	1,847,220
Bonus	-	-	-
Adhoc allowance	-	-	-
Mcal allowance	-	-	-
Cost of living allowance	-	-	-
Special allowance	-	-	4,400
Utilities	-	-	-
	-	-	1,847,220
	-	-	27,708,299
<b>Post employment benefits</b>			
Contribution to provident fund	-	-	1,754,859
<b>Other long term benefits</b>			
Accumulating compensated absences	-	-	1,224,869
	-	-	-
	-	-	30,688,027
<b>Number of persons</b>	<b>1</b>	<b>3</b>	<b>22</b>

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	2015		
	Rupees		
	Chief Executive	Directors	Executives
<b>Short term employee benefits</b>			
Managerial remuneration	-	-	7,854,933
Housing rent	-	-	2,332,915
Medical expenses	-	-	886,644
Bonus	-	-	-
Adhoc allowance	-	-	21,000
Mcal allowance	-	-	-
Cost of living allowance	-	-	24,000
Special allowance	-	-	24,000
Utilities	-	-	785,494
	-	-	11,928,986
<b>Post employment benefits</b>			
Contribution to provident fund	-	-	750,494
<b>Other long term benefits</b>			
Accumulating compensated absences	-	-	-
	-	-	12,679,480
	-	-	12,679,480
<b>Number of persons</b>	<b>1</b>	<b>3</b>	<b>10</b>

The Company also provides the executives with company maintained cars.

#### 29. Transactions with related parties

The related parties comprise the holding company, associated undertakings, other related parties, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 28. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transaction	2016	2015
		Rupees	Rupees
i. Holding company	Short term borrowings	67,768,750	165,901,510
	Markup paid on short term borrowings	10,488,333	20,259,486
	Purchase of goods and services	-	14,703,855
	Sale of services	1,304,291	2,862,617
ii. Associated companies	Purchase of goods and services	4,098,182	3,619,967
	Sale of services	11,526,251	10,090,563
iii. Post employment benefit plans	Expense charged in respect of retirement benefit plans - Provident Fund	3,380,989	2,883,750

*A*



		2016	2015
<b>30.</b>	<b>Capacity</b>		
	Nishat Suites - Average occupancy	80	73
	Total rooms available during the year	22,326	22,265
<b>31.</b>	<b>Number of employees</b>		
	Total number of employees as at June 30	183	173
	Average number of employees during the year	178	172
		<b>2016</b>	<b>2015</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>32.</b>	<b>Provident fund</b>		
(i)	Size of the Fund	11,460,859	6,902,900
(ii)	Cost of investments made	11,075,720	6,756,874
(iii)	Fair value of investments	11,093,656	6,822,083
(iv)	Percentage of investments made	97%	99%

**32.1** The breakup of fair value of investments is:

	2016		2015	
	Rupees	% age	Rupees	% age
Special account in a scheduled bank	5,452,329	48%	6,822,083	99%
Investment in Mutual funds - Listed	5,641,327	49%	-	0%
	11,093,656	97%	6,822,083	99%

The figures for 2016 are based on the un-audited financial statements of the Provident Fund. Investments out of Provident Fund have been made in accordance with the provisions of section 227 of the Ordinance and the rules formulated for this purpose except for:

- the total investment in any one Mutual fund should not exceed 20% of the size of the provident fund.

### **33. Financial risk management**

#### **33.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Company's Board of Directors (the Board). The Board has provided 'Risk Management Policy' covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of this policy.

The Company's overall risk management procedures to minimise the potential adverse effects of financial market on the Company's performance are as follows:

*M*

**(a) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to three types of market risk: currency risk, other price risk and interest rate risk.

**(i) 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. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company's foreign exchange risk exposure is limited to the outstanding foreign currency commitments at any balance sheet date.

**(ii) Other price risk**

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity price risk as it does not have any investment in equity securities.

**(iii) Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

	2016 Rupees	2015 Rupees
<b>Fixed rate instruments:</b>		
<b>Financial assets</b>		
Bank balances - saving account	<u>1,877,719</u>	<u>1,810,473</u>
<b>Financial liabilities</b>		
Accrued finance cost	<u>717,600</u>	<u>249,867</u>
<b>Net exposure</b>	<u>1,160,119</u>	<u>1,560,606</u>

**(b) Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises primarily from advances against capital work in progress, trade debtors, other receivables and deposits with banks. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2016 Rupees	2015 Rupees
Long term deposit	1,077,500	1,077,500
Trade debts - unsecured	31,510,952	24,931,411
Advances, deposits, prepayments and other receivables	3,276,577	14,154,503
Bank balances	<u>18,053,061</u>	<u>5,886,835</u>
	<u>52,840,590</u>	<u>44,972,749</u>

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company believes that it is not exposed to major concentration of credit risk.

The credit quality of Company's bank balances can be assessed with reference to external credit ratings as follows:

	Rating		Rating Agency	2016	2015
	Short term	Long term		Rupees	Rupees
MCB Bank Limited	A1+	AAA	PACRA	15,762,667	3,890,107
National Bank of Pakistan	A1+	AAA	PACRA	309,448	1,237
Bank Alfalah Limited	A1+	AA	PACRA	1,980,946	1,995,491
				<u>18,053,061</u>	<u>5,886,835</u>

### (c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

	Carrying amount Rupees	Less than one year Rupees	More than one year Rupees
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The following are the contractual maturities of financial liabilities:

#### At June 30, 2016

Accrued finance cost	717,600	717,600	-
Trade and other payables	20,026,856	20,026,856	-
Short term borrowings - unsecured	<u>292,000,000</u>	<u>292,000,000</u>	-
	<u>312,744,456</u>	<u>312,744,456</u>	-

#### At June 30, 2015

Accrued finance cost	249,867	249,867	-
Trade and other payables	47,347,113	47,347,113	-
Short term borrowings - unsecured	<u>359,768,750</u>	<u>359,768,750</u>	-
	<u>407,365,730</u>	<u>407,365,730</u>	-

### 33.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

### 33.3 Financial instruments by categories

Assets as per balance sheet	Loans and receivables	
	2016 Rupees	2015 Rupees
Long term deposit	1,077,500	1,077,500
Trade debtors	31,510,952	24,931,411
Advances, deposits and other receivables	3,276,577	14,154,503
Cash and bank balances	<u>18,594,147</u>	<u>6,302,495</u>
	<u>53,381,676</u>	<u>45,388,409</u>

**Financial liabilities at  
amortised cost**

**2016  
Rupees**                      **2015  
Rupees**

**Liabilities as per balance sheet**

Accrued finance cost	717,600	249,867
Trade and other payables	20,026,856	47,347,113
Short term borrowings - unsecured	292,000,000	359,768,750
	<u>312,744,456</u>	<u>407,365,730</u>

**33.4 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. As the Company is a wholly equity financed company, capital comprises all components of equity (shares capital and accumulating losses) as mentioned on the face of balance sheet, and is raised as required, through the approval of the Board of Directors.

**34. Date of authorisation for issue**

These financial statements were authorised for issue on October 3<sup>rd</sup>, 2016 by the Board of Directors of the Company.

**35. Corresponding figures**

Corresponding figures have been re-arranged and re-classified wherever necessary, for the purposes of comparison.

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Chief Executive

  
Director