

**AL-HAQ SECURITIES (PRIVATE) LIMITED
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

- (d) Amendments to IAS 7, 'Statement of cash flows' are applicable for annual periods beginning on or after January 01, 2017. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not likely to have a material impact on the Company's financial statements.

There are a number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and, therefore, have not been presented here.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

- (i) Estimate of useful lives and residual values of depreciable assets and provision for impairment there against [note 5.1];
- (ii) Classification and valuation of investments [note 5.3];
- (iii) Provision for taxation [note 5.7] and
- (iv) Provisions [note 5.8].

5. SUMMARY 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 the years presented, unless otherwise stated.

5.1 Operating fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is charged to income by applying reducing balance method at the rates specified in note 6. Depreciation on additions to fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Normal repairs and replacements are taken to profit and loss account. Major improvements and modifications are capitalised and assets replaced, if any, other than those kept as stand-by, are retired.

Gain / loss on disposal of fixed assets, if any, is taken to profit and loss account.

5.2 Intangible assets

Trading Right Entitlement Certificate

In the absence of active market price, Trading Right Entitlement Certificate has been carried at the same value that was determined when the membership card of Lahore Stock Exchange Limited was swapped under the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 with the shares of Lahore Stock Exchange Limited and Trading Right Entitlement Certificate after changing of impairment, if required (note 7.1).

5.3 Investments**(a) Available for sale**

Investments, which are intended to be held for an undefined period of time but may be sold in response to the need for liquidity or changes in interest rates are classified as available for sale.

Subsequent to initial recognition these are re-measured to fair value, with any resultant gain or loss being recognised in other comprehensive income. Gains or losses on available for sale investments are recognised in other comprehensive income until the investments are sold or disposed off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in other comprehensive income is reclassified to profit and loss account.

The Company uses latest stock exchange quotations to determine the fair value of its quoted investments.

(b) At fair value through profit and loss

These are held for trading purpose. An investment is classified in this category if acquired principally for the purpose of selling in the short-term. Investments in this category are classified as current assets. These are stated at fair value with any resulting gain or losses recognised directly in profit or loss account.

5.4 Impairment losses

The carrying amounts of the Company's assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of provisions for impairment losses. If any indications exist, the recoverable amounts of such assets are estimated and impairment losses or reversals of impairment losses are recognised in the profit and loss account. Reversal of impairment loss is restricted to the original cost of the asset.

5.5 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash-in-hand and balances with banks.

5.6 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

5.7 Taxation**(a) Current and prior year**

Provision for current year's taxation is determined in accordance with the prevailing law of taxation on income enacted or substantially enacted by the balance sheet date and is based on current rates of taxation being applied on the taxable income for the year, after taking into account, tax credits and rebates available, if any. The tax charge also includes adjustments, where necessary, relating to prior years which arise from assessments finalised during the year.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

Deferred tax asset and liability is measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

5.8 Provisions

Provisions are recognised when the Company has a present 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 obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

5.9 Borrowings and borrowing costs

All borrowings are recorded at the proceeds received. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are charged to income in the period in which these are incurred.

5.10 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable on the following basis:

- brokerage income is accounted for on 'accrual basis'.
- capital gains and losses on sale of investments are recorded on the date of sale.
- dividend income is accounted for when the right of receipt is established.

5.11 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include deposits, due from clients, advances, investments, bank balances, trade and other payable and accrued mark-up. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

5.12 Off-setting of financial assets and liabilities

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

6. OPERATING FIXED ASSETS - tangible

	Furniture and fixtures	Office equipment	Total
At July 1, 2015			
Cost	61,100	1,287,519	1,348,619
Accumulated depreciation	46,948	1,088,404	1,145,352
Net book value	14,152	189,115	203,267
Year ended June 30, 2016			
Opening net book value	14,152	189,115	203,267
Additions	-	86,500	86,500
Depreciation charge	2,123	41,341	43,464
Closing net book value	12,029	234,274	246,303
At June 30, 2016			
Cost	61,100	1,374,019	1,435,119
Accumulated depreciation	49,071	1,139,745	1,188,816
Net book value	12,029	234,274	246,303
Year ended June 30, 2017			
Opening net book value	12,029	234,274	246,303
Additions	-	49,160	49,160
Depreciation charge	1,804	40,791	42,595
Closing net book value	10,225	242,643	252,868
At June 30, 2017			
Cost	61,100	1,423,179	1,484,279
Accumulated depreciation	50,875	1,180,536	1,231,411
Net book value	10,225	242,643	252,868
Annual depreciation rate (%)	15	15	

7. INTANGIBLE ASSETS

	Note	2017 ----- Rupees -----	2016
Trading Right Entitlement Certificate - PSX	7.1	5,000,000	5,000,000
Room at LSE		4,600,000	4,600,000
		9,600,000	9,600,000

7.1 In accordance with the requirements of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 (the Act), the Company received Trading Right Entitlement Certificate (TREC) and equity shares of LSE Financial Services Ltd. (formerly Lahore Stock Exchange Ltd.) in lieu of its membership card of Lahore Stock Exchange Ltd. The Company's entitlement in respect of shares of LSE Financial Services Ltd. was determined on the basis of the valuation of assets and liabilities of Lahore Stock Exchange Ltd. as approved by the SECP. The Company has been allotted with 843,975 shares of LSE Financial Services Ltd. (formerly Lahore Stock Exchange Ltd.), having face value of Rs.10 each.

7.2 As at June 30, 2013 the active market value of TREC and equity shares of LSE Financial Services Ltd. was not available. The allocation of the carrying amount of membership card to the composite assets i.e. TREC and equity shares was made on proportionate basis at ratio of 32:68 which was determined on the basis of fair value estimate of LSE Financial Services Ltd.

8. LONG TERM INVESTMENT	2017		2016	
	----- Rupees -----			
LSE Financial Services Ltd. (Formerly Lahore Stock Exchange Ltd.) 843,975 (2016: 843,975) ordinary shares of Rs.10 each	23,798,868		23,798,868	
Less: accumulated impairment loss	(8,911,149)		(8,911,149)	
	<u>14,887,719</u>		<u>14,887,719</u>	
9. SECURITY DEPOSITS				
Deposits with:				
Pakistan Stock Exchange Ltd.	9,000,000		200,000	
National Clearing Company of Pakistan	1,100,000		400,000	
Pakistan Mercantile Exchange Ltd.	750,000		750,000	
	<u>10,850,000</u>		<u>1,350,000</u>	
10. SHORT TERM INVESTMENTS - held for trading				
	No. of shares		Market value	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	----- Rupees -----			
226	226	Allied Bank Ltd.	20,254	20,332
229	229	Arif Habib Corporation Ltd.	9,442	9,034
599	599	Adamjee Insurance Company Ltd.	40,947	30,046
8,166	9,666	Askari Bank Ltd.	164,708	180,561
3	3	Akzo Nobel Pakistan Ltd.	720	554
140	140	Azgard Nine Ltd.	1,558	554
2,202	2,202	Aisha Steel Mills Ltd. Preference	52,143	-
255	255	Attock Refinery Ltd.	97,558	71,436
500	500	Al-Azhar Textile Mills Ltd. - Freeze	-	-
2,009	2,009	Bank Alfalah Ltd.	80,762	51,370
592	2,518	Bank Al Habib Ltd.	33,596	108,576
109	100	Biafo Industries Ltd.	27,282	26,000
500	500	BankIslami Pakistan Ltd.	6,650	-
2	2	The Bank Of Khyber	32	25
6,316	316	The Bank Of Punjab	62,622	2,541
3,721	-	The Bank Of Punjab - right	149	-
8	-	Best Way Cement Limited	1,753	-
5,100	5,100	Byco Petroleum Pakistan Ltd.	97,410	104,754
2,350	2,350	Capital Assets Leasing Corporation Ltd.	26,761	-
234	234	First Capital Mutual Fund	2,340	-
10	10	The Crescent Textile Mill Ltd.	375	195
612	612	Crescent Steel & Allied Products Ltd.	146,005	70,141
5,500	500	Dewan Cement Ltd.	110,990	7,240
-	10,000	Dewan Farooq Motor	-	141,600
342	342	D.G. Khan Cement Company Ltd.	72,901	65,148
14,013	269,280	Dewan Salman Fibre Ltd.	57,033	578,952
257	257	Efu General Insurance Ltd.	37,265	30,390
287	287	Efu Life Assurance Ltd.	78,925	56,252
1,601	1,463	Faysal Bank Ltd.	36,022	19,180
1,007	1,007	Fatima Fertilizer Company Ltd.	33,926	34,178
1,318	1,318	First Capital Securities Corp Ltd.	5,114	3,163
834	834	First Dawood Investment Bank Ltd.	2,677	851
500	500	Fauji Fertilizer Bin Qasim Ltd.	21,420	26,505
58,542	313,359	Carry forward	1,329,340	1,639,576

2017	2016		2017	2016
-- No. of shares --			----- Rupees -----	
58,542	313,359	Brought forward	1,329,340	1,639,576
5,848	5,848	First Fidelity Leasing Modaraba	19,009	-
22	22	First Habib Modaraba	241	231
500	500	First National Bank Modaraba	1,560	-
2,274	2,274	First Punjab Modaraba	18,192	-
1,100	1,100	First Tri-Star Modaraba	12,089	-
160	160	First Ucl Modaraba	6,032	3,120
26	26	Golden Arrow Selected Stock Fund Ltd.	343	218
1,330	1,330	Genertech Pakistan Ltd. - Freeze	-	-
111	111	Habib-Adm Ltd.	2,403	2,270
42	42	Honda Atlas Car Pakistan Ltd.	36,443	15,082
856	773	Highnoon Laboratories Pakistan Ltd.	536,087	445,557
60	53	IBL Healthcare Ltd.	7,320	8,417
7	7	ICI Pakistan Ltd.	7,662	3,115
101,812	1,812	Invest Capital Investment Bank Ltd.	214,823	1,975
43	43	IGI Investment Bank Ltd.	130	54
298	298	IGI Insurance Ltd.	94,406	56,864
13	13	Innovative Investment Bank Ltd. - Freeze	-	-
-	43,000	Japan Power Ltd	-	171,570
1,500	1,500	Jahangir Siddiqui & Company Ltd	34,245	29,700
211	211	JS Large Cap. Fund	22,256	-
50,466	50,466	K-Electric Ltd.	348,215	406,756
82	82	Kohinoor Mills Ltd.	3,892	-
420	420	Kohinoor Power Company Ltd.	2,982	3,020
109	109	KSB Pumps Company Ltd.	34,335	-
500	500	Leather Up Ltd.	11,000	4,850
50,584	20,584	Lotte Chemical Pakistan Ltd.	498,252	123,710
14	14	MCB Bank Ltd.	2,946	3,080
436	2,936	Maple Leaf Cement Factory Ltd.	48,553	309,777
273	273	Modaraba Al-Mali	1,092	-
741,000	240,000	Mughal Iron and Steel Industries Ltd	59,820,930	16,125,600
172	172	National Foods Ltd.	46,612	48,332
500	500	National Bank of Pakistan Ltd.	29,505	28,905
2,962	2,962	NIB Bank Ltd.	5,095	5,657
60	60	Nishat Mills Ltd.	9,521	6,474
20,000	20,000	Noorie Textile Mill Ltd - revoked	-	-
2,511	2,511	Pak Elektron Ltd.	277,014	162,336
550	550	Pak Datacom Ltd.	28,325	-
30,000	-	Pervaz Ahmed Securities Ltd.	59,100	-
243	243	Pakistan Engineering Company Ltd.	57,105	-
51,609	51,609	Pakistan International Airlines Corporation Ltd.	301,397	365,392
2,360	2,360	PICIC Investment Fund	35,400	28,668
247	247	Pioneer Cement Ltd.	32,110	26,528
212	212	Pakistan Petroleum Ltd.	31,406	32,871
110	110	Pakistan Stock Market Fund	1,100	-
100	100	Pakistan Telecommunication Co Ltd.	1,561	1,503
803	803	Samba Bank Ltd.	5,741	6,143
2,592	2,592	Standard Chartered Bank Pak Ltd.	60,886	61,819
340	275	The Searle Company Ltd.	174,073	147,441
5,500	5,500	Southern Electric Power Company Ltd. - Freeze	-	-
2,500	2,500	Shif International Hospital Ltd.	825,000	557,477
1,000	1,000	Shahpur Textile Mills Ltd. - Freeze	-	-
354	354	Security Investment Bank Ltd.	1,770	-
510,198	5,050,138	Silk Bank Ltd.	857,133	8,585,235
1,653,563	5,832,665	Carry forward	65,954,632	29,417,124

2017	2016		2017	2016
-- No. of shares --			----- Rupees -----	
1,653,563	5,832,665	Brought forward	65,954,632	29,417,124
16	16	Security Leasing Corporation Ltd.	78	26
2,153	2,153	Summit Bank Ltd.	8,870	6,437
2,246	2,246	Soneri Bank Ltd.	32,971	31,938
643	843	Sui Northern Gas Pipelines Ltd.	95,756	23,334
500	500	Sitara Peroxide Ltd.	15,550	9,075
100,000	-	Saudi Pak Leasing Co. Ltd.	243,000	-
500	500	Sargodha Spinning Mills Ltd.	8,000	-
210	210	Sui Southern Gas Company Ltd.	7,646	5,781
627	627	Trust Investment Bank Ltd.	2,144	577
2,408	2,408	Tri-Star Polyester Ltd.	73,300	3,660
310	310	Trust Modaraba	1,271	-
1,000	1,000	Trust Securities & Brokerage Ltd.	16,000	-
5,500	5,500	Tri-Star Power Ltd.	62,810	29,535
350,000	-	World Call Telecom Ltd.	1,067,500	-
1,900	1,900	Zeal Pak Cement Factory Ltd. - Freeze	-	-
2,121,576	5,850,678		67,589,528	29,527,488

10.1 As at June 30, 2017, shares having value of Rs.2.174 million are pledged with National Clearing Company of Pakistan as margin against trading.

11. DUE FROM CLIENTS-Unsecured	Note	2017	2016
		----- Rupees -----	
Considered good		39,683,488	16,737,751
Less: provision for doubtful debts		(2,386,484)	(1,500,892)
		37,297,004	15,236,859
12. ADVANCES AND OTHER RECEIVABLES			
Advance to staff		651,000	254,100
Other receivables		55,000	3,760,402
		706,000	4,014,502
13. CASH AND BANK BALANCES			
Cash in hand		273,544	68,077
Cash at banks - current accounts			
- client accounts		74,970,537	39,120,945
- house accounts		10,239,552	7,045,830
		85,483,633	46,234,852
14. TRADE AND OTHER PAYABLES			
Trade creditors	14.1	94,506,168	38,736,653
Accrued expenses		287,228	250,000
Due to a Director		36,483,813	13,798,610
Others		61,398	67,099
		131,338,607	52,852,362

- 14.1 These include an amount of Rs.10,384 million payable to Mr. Ammar Ul Haq (Director), against his normal trading activity.

15. SHORT TERM FINANCE

Short term running finance facility available from Silk Bank Limited under mark-up arrangements aggregate to Rs.40 million (2016: Rs 40 million). This finance facility, during the current financial year, carried mark-up at the rates ranging from 11.04% to 11.35% (2016:11.11% to 12.01%) per annum. This facility is secured against personal guarantee all Directors, hypothecation charge over receivables of the Company of Rs 53.340 million with 25% margin and mortgage of property measuring 2 kanals, located at House # 30, Block S, phase II, DHA Lahore Cantt owned by Ammar ul Haq and Ashan ul Haq (Directors).

16. TAXATION - net	2017	2016
	----- Rupees -----	
Opening balance	122,127	422,266
Add: provision made during the year for:		
- current	552,494	422,750
- prior year	94,391	(722,889)
	646,885	(300,139)
Less: adjusted against completed assessment	(216,518)	-
	552,494	122,127

- 16.1 Income tax assessments of the Company have been finalised by the Income Tax Department or deemed to be assessed under section 120 of the Income Tax Ordinance, 2001 upto the year ended June 30, 2016.

17. CONTINGENCIES AND COMMITMENTS

There was no known contingent liability / commitment as at June 30, 2017 and June 30, 2016.

18. OPERATING REVENUE	2017	2016
	----- Rupees -----	
Brokerage income:		
- retail customers	7,704,205	2,746,184
- proprietary trade	446,020	88,062
	8,150,225	2,834,246
Dividend income	1,871,562	888,044
	10,021,787	3,722,290

19. OTHER INCOME

This represents profit earned on deposit account.

20. ADMINISTRATIVE AND OPERATING EXPENSES	Note	2017 ----- Rupees -----	2016
Salaries and benefits		3,715,600	2,444,540
Director's remuneration		1,380,000	1,200,000
Fees and subscription		244,790	315,495
Travelling and conveyance		20,565	22,290
Auditors' remuneration		250,000	250,000
Printing and stationery		113,505	91,783
Repair and maintenance		102,243	183,785
Entertainment		698,558	312,883
Postage and communication		382,616	469,801
Electricity		419,463	285,832
News paper & periodicals		10,056	9,652
LSE charges		748,429	-
CDC & clearing house charges		649,524	-
Depreciation	6	42,595	43,465
Legal & professional charges		393,727	118,560
Insurance expenses		-	15,500
Donations		293,750	22,400
Others		543,671	41,220
		<u>10,009,092</u>	<u>5,827,206</u>
21. OTHER EXPENSES			
Provision for doubtful debts		885,592	1,500,892
Impairment of intangible assets		-	6,200,000
Impairment of long term investment		-	8,911,149
		<u>885,592</u>	<u>16,612,041</u>
22. FINANCIAL CHARGES			
Mark-up on short term finance		949,195	29,245
Bank charges		36,789	278,741
		<u>985,984</u>	<u>307,986</u>
23. TRANSACTIONS WITH RELATED PARTIES			

The transactions executed with the related parties are normal trading activity carried out by one of the Company's director and short term advances given to the Company. Payable balances to one of the Company's director against his trading activity and advances have been disclosed in note 14 to these financial statements.

24. REMUNERATION OF DIRECTORS

Remuneration paid to two of the Company's directors (2016: two directors) has been disclosed in note 20 to these financial statements.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**25.1 Financial Risk Factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried-out by the Company's finance department under policies approved by the board of directors. The Company's finance department evaluates financial risks based on principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity, provided by the board of directors.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: currency risk, interest rate risk and price risk.

(b) Currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company activities at present does not expose to any currency risk.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates. The Company activities at present only expose it to interest rate risk against short term borrowing.

(d) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result 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 instruments or its issuer or factors affecting all similar financial instruments traded in the market.

The Company's investment in shares of a quoted Company expose it to price risk due to change in the prices of shares of quoted company.

A change of 10% in the price of shares of quoted Companies at reporting date would have increased profit before tax (2016: decreased loss before tax) for the year by Rs.6.758 million (2016: Rs.2,952 million).

25.2 Credit risk exposure and concentration of credit risk

Credit risk represents the risk of a loss if the counter party fails to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties.