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**NATIONAL ENGINEERING SERVICES  
PAKISTAN (PRIVATE) LIMITED**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2015**

EY Ford Rhodes  
Chartered Accountants  
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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **National Engineering Services Pakistan (Private) Limited** (the Company) as at **30 June 2015** and the related 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 financial 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 statement of comprehensive income 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, except for the changes as stated in Note 2.1 with which we concur;
  - 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;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2015 and of the total comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) In our opinion, no Zakat deductible at source under the Zakat and Ushr Ordinance, 1980.

Without qualifying our opinion, we draw attention to note 9 to the financial statements which describes the uncertainties related to the outcome of litigation between the company and Punjab Revenue Authority regarding applicability of Punjab Sales Tax Act on Services.



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The annual financial statements of the company for the year ended 30 June 2014 were audited by another firm of Chartered Accountants whose report dated 26 November 2015 expressed an unmodified opinion with emphasis of matter paragraph.

*Ernst & Young Farooq Hameed Side Hy)*

**Chartered Accountants**  
**Audit Engagement Partner: Farooq Hameed**  
**Lahore: 27 June 2016**

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2015**

	Note	2015	2014
----- (Rupees in '000) -----			
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital 500,000 (2014: 500,000) ordinary shares of Rs 10 each		5,000	5,000
Issued, subscribed and paid up capital	5	1,500	1,500
Revenue reserves		9,351,843	8,289,116
		<u>9,353,343</u>	<u>8,290,616</u>
<b>NON-CURRENT LIABILITIES</b>			
Employee retirement and other benefits	6	682,035	624,039
Liabilities against assets subject to finance lease	7	1,233	2,356
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	1,215,696	996,558
Provision for taxation		456,262	272,423
		<u>1,671,958</u>	<u>1,268,981</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	9	<u>11,708,569</u>	<u>10,185,992</u>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property and equipment	10	1,203,705	1,238,955
Intangible assets	11	7,871	1,938
Investment property	12	15,000	15,000
Investments	13	5,315	5,298
Investment in associates	14	50,749	47,464
Loans and advances	15	6,559	6,446
Long term security deposits		32,475	33,893
Deferred taxation	16	240,404	207,985
		<u>1,562,078</u>	<u>1,556,979</u>
<b>CURRENT ASSETS</b>			
Drawing and stationery stores		5,465	6,236
Contract fee receivable	17	7,033,029	6,045,851
Advances, deposits and prepayments	18	587,367	630,218
Interest accrued		4,153	5,105
Other receivables		207,007	113,171
Short term investments	19	1,251,500	731,313
Cash and bank balances	20	1,057,970	1,097,119
		<u>10,146,491</u>	<u>8,629,013</u>
		<u>11,708,569</u>	<u>10,185,992</u>

The annexed notes 1 to 34 form an integral part of these financial statements.

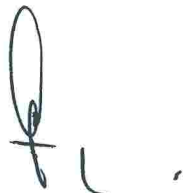
  
 Chief Executive

  
 Director

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Note	2015	2014
		----- (Rupees in '000) -----	
Consultancy services fee	21	6,912,193	6,253,700
Operating cost	22	<u>(5,491,896)</u>	<u>(4,932,186)</u>
Operating profit		1,420,297	1,321,514
Finance cost	23	<u>(7,859)</u>	<u>(4,065)</u>
		1,412,438	1,317,449
Other income	24	<u>281,285</u>	<u>102,554</u>
Other expenses	25	<u>(142)</u>	<u>-</u>
Share of profit from associates - net		<u>3,285</u>	<u>3,761</u>
		284,428	106,315
Profit before taxation		<u>1,696,866</u>	<u>1,423,764</u>
Taxation	26	<u>(529,517)</u>	<u>(254,032)</u>
Profit after taxation		<u><u>1,167,349</u></u>	<u><u>1,169,732</u></u>

The annexed notes 1 to 34 form an integral part of these financial statements.



Chief Executive



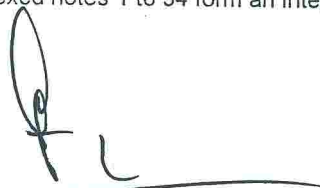
Director



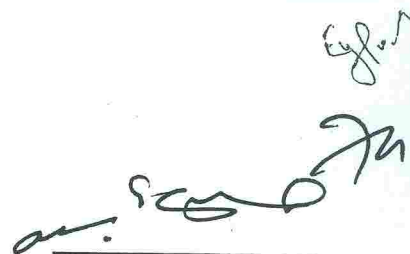
NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED  
 STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>	<u>2014</u>
	----- (Rupees in '000) -----	----- (Rupees in '000) -----
Profit for the year	1,167,349	1,169,732
<b>Items that will not be reclassified to profit and loss account</b>		
Re-measurement of post employment benefit obligation - actuarial (loss) / gain	(149,436)	79,128
Tax effect of gain on employees' retirement benefits	49,314	(26,112)
Other comprehensive (loss) / income for the year	(100,122)	53,016
Total comprehensive income for the year	<u>1,067,227</u>	<u>1,222,748</u>

The annexed notes 1 to 34 form an integral part of these financial statements.



Chief Executive



Director

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Note	2015	2014
----- (Rupees in '000) -----			
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	894,075	841,053
Income taxes paid		(328,782)	(208,191)
Employee benefits paid		(109,926)	(138,574)
(Increase) / decrease in loans and advances		(113)	1,287
Decrease / (increase) in long term security deposits		1,418	(18,189)
Net cash generated from operating activities		<u>456,672</u>	<u>477,386</u>
<b>Cash flows from investing activities</b>			
Purchase of operating fixed assets - net		(50,604)	(72,258)
Purchase of intangible assets		(9,411)	(469)
Proceeds from disposal of property and equipment		4,306	6,606
Proceeds from redemption of units in mutual fund		20,000	18,000
Short term investments - net		(36,172)	(47,246)
Acquisition of subsidiary - net		(17)	-
Interest received		78,573	41,902
Net cash used in investing activities		<u>6,675</u>	<u>(53,465)</u>
<b>Cash flows from financing activities</b>			
Lease rentals paid		(1,123)	(352)
Dividend paid		(3,000)	(162)
Finance cost		(7,859)	(4,065)
Net cash used in financing activities		<u>(11,982)</u>	<u>(4,579)</u>
<b>Net increase in cash and cash equivalents</b>		<b>451,365</b>	<b>419,342</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,690,230</b>	<b>1,270,888</b>
<b>Cash and cash equivalents at the end of the year</b>	28	<b><u>2,141,595</u></b>	<b><u>1,690,230</u></b>

The annexed notes 1 to 34 form an integral part of these financial statements.

  
 Chief Executive

  
 Director

NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED JUNE 30, 2015

	Share capital	General reserve	Unappropriated profit	Total
		----- (Rupees in '000) -----		
Balance as at June 30, 2013	1,500	5,917,563	1,151,805	7,070,868
Final dividend for the year ended June 30, 2013 Rs. 20 per share	-	-	(3,000)	(3,000)
Transfer to general reserve	-	994,007	(994,007)	-
Profit for the year	-	-	1,169,732	1,169,732
Other comprehensive income for the year	-	-	53,016	53,016
Total comprehensive income	-	-	1,222,748	1,222,748
Balance as at June 30, 2014	1,500	6,911,570	1,377,546	8,290,616
Final dividend for the year ended June 30, 2014 at Rs 30 per share	-	-	(4,500)	(4,500)
Transfer to general reserve	-	1,165,232	(1,165,232)	-
Profit for the year	-	-	1,167,349	1,167,349
Other comprehensive income for the year	-	-	(100,122)	(100,122)
Total comprehensive income	-	-	1,067,227	1,067,227
Balance as at June 30, 2015	1,500	8,076,802	1,275,041	9,357,843

The annexed notes 1 to 34 form an integral part of these financial statements.

  
 Chief Executive

  
 Director

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**1 THE COMPANY AND ITS OPERATIONS**

The company was incorporated in 1973 under Companies Act, 1913 (now Companies Ordinance, 1984). The company is wholly owned by the Federal Government of Pakistan and is engaged in providing engineering consultancy services in Pakistan and abroad. The registered office of the company is situated at 1-C, Block N, Model Town Extension, Lahore.

**2 BASIS OF PREPARATION**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 (the Ordinance). Approved accounting standards comprise such International Financial Reporting Standards as notified under the provisions of the Ordinance. Wherever the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

**2.1 Standards, interpretations and amendments to published approved accounting 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:

**2.1.1 Standards, amendments to published standards and interpretations that are effective in current year**

The Company has adopted the following new and amended IFRS interpretations which became effective during the year.

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19	Employee Benefits – (Amendment) - Defined Benefit Plans: Employee Contributions

**Improvements to Accounting Standards Issued by the IASB in December 2013**

IFRS 2	Share-based Payment - Definitions of vesting conditions
IFRS 3	Business Combinations - Accounting for contingent consideration in a business combination
IFRS 3	Business Combinations - Scope exceptions for joint ventures
IFRS 8	Operating Segments - Aggregation of operating segments
IFRS 8	Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13	Fair Value Measurement - Scope of paragraph 52 (portfolio exception)
IAS16	Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation / amortization
IAS 24	Related Party Disclosures - Key management personnel
IAS 40	Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on the financial statements.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in September 2014. Such improvements are generally effective for accounting periods beginning on or after 01 January 2016 . The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

2.1.2 Standards issued but not yet effective

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (Periods beginning on or after)
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IAS 1 Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 16 and 38 Property, Plant and Equipment and intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 16 and 41 Property, Plant and Equipment and Agriculture - Agriculture: Bearer Plants (Amendment)	01 January 2016
IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)	01 January 2016

The Company expects that the adoption of the above revisions and amendments of the standards will not materially affect the Company's financial statements in the period of initial application or later period.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

Standard	Effective date (Periods beginning on or after)
IFRS 1 First-time adoption of International Financial Reporting standards	01 January 2009
IFRS 9 Financial Instruments: Classification and Measurement	01 January 2018
IFRS 14 Regulatory Deferral Accounts	01 January 2016
IFRS 15 Revenue from Contracts with Customers	01 January 2018
IFRS 16 Leases	01 January 2019

The management will assess the impact of the above standards when these are notified by the SECP in accordance with the effective date in the notification.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain employee benefits are recognized on the basis mentioned in note 4.7. In these financial statements, except for cash flow statement, all the transactions have been accounted for on accrual basis.

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Taxation	Note 4.1
b) Useful life and residual values of property and equipment	Note 4.2
c) Employee benefits	Note 4.7
d) Provision for doubtful receivables	Note 4.13

### 3 BENAZIR EMPLOYEES STOCK OPTION SCHEME

On August 14, 2009, the Government of Pakistan (GOP) launched Benazir Employees Stock Option Scheme ("the Scheme") for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises (non-SOEs) where GOP holds significant investment. The Scheme is applicable to permanent and contractual employees who were in employment of these entities, on the date of launch of the scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The Scheme provides for a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GOP shall transfer 12% of its investment in such SOEs and non-SOEs to a Trust Fund to be created for the purpose by each of such entities. The eligible employees would be allotted units by each Trust Fund in proportion to their respective length of service on retirement or termination such employees would be entitled to receive such amounts from Trust Fund in exchange for the surrendered units as would be determined based on market price for listed entities or breakup value for non-listed entities. The shares relating to the surrendered units would be transferred back to GOP.

The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employee. The balance 50% dividend would be transferred by the respective Trust Fund to Central Revolving Fund Managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Fund to meet the re-purchase commitments would be met by GOP.

The Scheme, developed in compliance with stated GOP Policy of empowerment of employees of State Owned Enterprises need to be accounted for by the covered entities, including the Company, under the provisions of amended International Financial Reporting Standard 2 Share Based Payments (IFRS 2). However, keeping in the view the difficulties that may be faced by entities covered under the scheme, the Securities & Exchange Commission of Pakistan on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan, has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Company for the year would have been higher by Rs. 10,285 thousand (2014: Rs. 55,513 thousand), profit after taxation would have been lower by Rs. 6,891 thousand (2014: Rs. 36,639 thousand), retained earnings would have been lower by Rs. 6,891 thousand (2014: Rs. 36,639 thousand) and reserves would have been higher by Rs. 10,285 thousand (2014: Rs. 55,513 thousand).

## 4 SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Taxation

#### Current

Current income tax expense is based on taxable profit at the current rates of taxation or minimum turnover tax, whichever is higher.

#### 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 basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply 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 income statement, except in the case of items credited or charged to equity in which case it is included in equity.

### 4.2 Property and equipment

#### Owned

Operating fixed assets except freehold land, which is stated at cost, are stated at cost less accumulated depreciation.

Depreciation on additions is charged to the profit and loss account on the reducing balance method, so as to write off the historical cost of an asset over its estimated useful life, at the rates given in note 10.

Depreciation on additions is charged from the month in which the asset is put to use while no depreciation is charged from the month in which an asset is disposed off.

The assets' residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. The profit or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

#### Assets subject to finance lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased assets or if lower, at the present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are recognized in the profit and loss.

Leased assets are depreciated over the useful life of the asset at the rates stated in note 10. However, if there is no reasonable certainty that the Company will obtain ownership by the end of lease term, the asset is depreciated over the shorter of estimated useful life of the asset and lease term.

#### 4.3 Intangible assets

Intangible assets are carried at cost less accumulated amortization and impairment losses. Amortization is charged to income on straight line basis over a period of three years.

Subsequent expenditures on intangibles assets are recognized as an expense when it is incurred, unless the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

#### 4.4 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the company comprises land and is valued using the fair value model.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Fair values are determined based on periodic evaluation performed by an accredited external independent valuer.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

#### 4.5 Capital work in progress

Capital work in progress represents expenditure on property and equipment in course of construction, installation and / or in transit. Transfers are made to relevant category of property and equipment as and when assets become available for use. Capital work in progress is stated at cost, less any identified impairment loss.

#### 4.6 Investments

##### 4.6.1 Available for sale investments

Investments in subsidiaries are stated at cost less impairment. Other investments are being carried at fair value.

##### 4.6.2 Investment in associates

Investments in associates are accounted for by using the equity method to comply with the requirements of IAS 28 "Investments in Associates".

4.6.3 Short term investments

Held for trading

Financial assets are classified as held for trading are acquired for the purpose of selling and purchasing in near term. These investments are initially recognized at fair value. Subsequent to initial recognition these are recognized at fair value unless fair value cannot be reliably measured. Any surplus and deficit on revaluation of investment is recognized in profit and loss account. All purchases and sales of investments are recognized on trade date, which is the date that the Company commits to purchase or sell the investments.

Held to maturity

Financial assets are classified as held to maturity represent investments with fixed maturity in respect of which Company has the positive intent and ability to hold till maturity. These are initially recognized at cost including transaction costs and are subsequently carried at amortized cost.

4.7 Long term employment benefits

- (a) The company operates a funded gratuity scheme that requires contributions to be made to a separately administrated funds. The cost of defined benefit retirement plan (gratuity) is determined using actuarial valuations (projected unit credit method) performed by an independent actuary. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. All assumptions are reviewed at each reporting date and take into account factors such as prevailing interest rates, increments and promotions awarded by the Company in the recent past and projected for the future, health and age profile of employees. Gratuity is paid to employees at the termination of service at the rate of number of years of association multiplied by the last drawn salary.
- (b) The company provides liability for accumulated compensated absences of its permanent and contract staff as per company policy. Compensated absence of an employee are accumulated throughout the term of employment to the maximum accumulation of 180 days and can be availed on the termination of service, however encashment of compensated absence is allowed to the maximum of 28 days.
- (c) The company operates a recognized provident fund for all permanent employees. Monthly contributions are made both by the company and employees @ of 10 % of basic and technical pay . Charge for the year in respect of provident fund amounted to Rs. 73,422 thousands (2014: 70,462 thousands).
- (d) The company provides long term association benefit to its permanent employees. Under the plan, the employees who have completed ten years of service are entitled to receive one month's salary, twenty years of service are entitled to receive two months salary and thirty years of service are entitled to receive three months salary. At each year end, the management records provision based on the proportionate number of years worked by each employee.

4.8 Foreign currencies

Transactions in foreign currencies are accounted for in Pak Rupees at the rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated into Pak Rupees at the rate of exchange prevailing at the balance sheet date.

4.9 Revenue recognition

Revenue is recognized to the extent that it is probable that the future economic benefits will flow to the company and the revenue can be measured reliably.

The company recognizes:

- revenue when services are rendered, over the contractual period or as and when services are rendered to customers.



- Dividend income is recognized when the right to receive the payment is established
- Income from bank deposits is recognized on accrual basis; and
- Rental income is recognized on accrual basis and is included in other income in profit or loss account.

#### 4.10 Provisions

Provisions are recognized when the company has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made.

#### 4.11 Financial instruments

All financial assets and liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial asset. Financial liabilities are derecognized from the balance sheet when the obligation is extinguished, discharged, cancelled or expired.

Any gain / loss on the recognition and derecognition of the financial assets and liabilities is included in the profit and loss account for the year to which it arises.

(a) **Long and short term deposits**

These are stated at cost which represents the fair value of consideration given.

(b) **Receivables**

Receivables are carried at original invoice amount less provision made for receivables considered doubtful of recovery. Debts considered irrecoverable are written off.

(c) **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits with banks, other short term investments with original maturities of three months or less and bank overdrafts.

For the purposes of cash flow statement, cash and cash equivalents comprise of cash in hand, cash in transit, bank balances and short term investments at maturity.

(d) **Trade and other payables**

Liabilities for trade and other payable are carried at amortized cost.

#### 4.12 Dividends and appropriations to reserves

Dividend and appropriations to reserves are recognized in the financial statements of the period in which these are approved.

#### 4.13 Provision for doubtful debts

The Company reviews its trade and other receivables at each reporting date to assess whether provision should be recorded in profit and loss account for any doubtful receivables. Especially, judgment by management is required in the estimation of the amount and timing of future cash flows while determining the extent of provision required. Such estimates are based on assumption about a number of factors including credit history of counter party. Actual cash flows may differ resulting in subsequent changes to the provisions.

#### 4.14 Contingencies and commitments

Contingent liabilities are disclosed when:

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

#### 4.15 Related party transactions

Transactions involving related parties arising in the normal course of business are conducted at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Parties are said to be related if they are able to influence the operating and financial decisions of the Company and vice versa.



**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**

	2015	2014
	----- (Rupees in '000) -----	----- (Rupees in '000) -----
5	<b>Issued, subscribed and paid up capital</b>	
	50,000 (2014: 50,000) ordinary shares of Rs 10 each fully paid in cash	
	500	500
	100,000 (2014: 100,000) ordinary shares of Rs 10 each issued as fully paid bonus shares	
	<u>1,000</u>	<u>1,000</u>
	<u>1,500</u>	<u>1,500</u>
6	<b>Employees retirement and other benefits</b>	
	These are composed of:	
	Accumulated compensated absences	
	614,321	568,250
	Long term association benefit	
	<u>67,714</u>	<u>55,789</u>
	<u>682,035</u>	<u>624,039</u>
6.1	Short term retirement benefits are disclosed in note 18.	
7	<b>Liabilities against assets subject to finance lease</b>	
	Present value of the minimum lease payments	
	2,356	2,790
	Less : Advance adjustment	
	<u>(628)</u>	<u>-</u>
	<u>1,728</u>	<u>2,790</u>
	Less : current portion shown under current liabilities	
	<u>(495)</u>	<u>(434)</u>
	<u>1,233</u>	<u>2,356</u>

The amount of future payments of the lease and the period in which these payments will become due are as follows:

	2015	2014		
	----- (Rupees in '000) -----	----- (Rupees in '000) -----		
	<b>Minimum lease payments (MLPs)</b>	<b>Financial charges not yet due</b>	<b>Present value of MLPs</b>	<b>Present value of MLPs</b>
Not later than one year	656	161	495	434
Later than one year but not later than five years:	<u>1,377</u>	<u>144</u>	<u>1,233</u>	<u>2,356</u>
	<u>2,033</u>	<u>305</u>	<u>1,728</u>	<u>2,790</u>

7.1 Present value of minimum lease payments has been discounted using the 12 month KIBOR + 3%. Rentals are paid in monthly equal installments. Taxes, repairs and insurance costs are borne by the Company. In case of earlier termination, the Company shall have to pay entire rentals for unexpired period of lease agreement.

	2015	2014
	----- (Rupees in '000) -----	----- (Rupees in '000) -----
8	<b>Trade and other payables</b>	
	Retention money payable	
	9,458	7,604
	Sundry creditors	
	492,147	486,071
	Accrued liabilities	
	113,837	84,547
	Advances from customers	
	270,107	272,786
	Employees' bonus payable	
	185,925	128,756
	Dividend Payable	
	4,500	3,057
	Sales tax payable	
	125,422	4,749
	Liabilities against assets subject to finance lease	
	495	434
	Other liabilities	
	<u>13,805</u>	<u>8,554</u>
	<u>1,215,696</u>	<u>996,558</u>

9 Contingencies and commitments

9.1 Contingencies

- Guarantees given by Commercial Banks and an Insurance Companies on behalf of the company amounting to Rs. 3,195,140 thousand (2014: Rs 4,070,580 thousand).
- Claims against the Company not acknowledged as debts amounted to Rs. 4,491 thousand (2014: Rs 1,035 thousand).
- Assessing Officer passed order u/s 122 in respect of Tax Year 2009 and raised a demand of Rs. 405 million. Being aggrieved with the orders of the department, the Company preferred appeal before Commissioner Inland Revenue - Appeals [CIR(A)]. CIR(A) vide order dated 17 September 2015 amended the assessment order by an appeal effect order amounting to Rs. 129 million by rejecting all disallowances except sub consultancy fee, foreign remittance and depreciation. The Company filed an appeal before Appellant Tribunal

Inland Revenue (ATIR) against the orders of CIR(A) which is pending adjudication. The management of the company based on the opinion of its legal advisor is confident of favorable outcome and accordingly, no provision has been made in these financial statements.

- (d) Additional Commissioner Inland Revenue (ACIR) invoked the provisions of section 122(5A) and raised a demand of Rs. 336 million for Tax Year 2012. Being aggrieved, the Company preferred appeal before CIR(A) against the order of ACIR and the CIR(A) vide its order revised the demand to Rs. 51 million. Being aggrieved with the decision of CIR(A), both the Company and department preferred appeal before ATIR who revised the demand to Rs. 86 million based on the available records. The Company, simultaneously filled a reference application before Honorable Lahore High Court (LHC) which is pending for adjudication. An interim stay was however been granted by LHC. The management of the company based on the opinion of its legal advisor is confident of favorable outcome and accordingly, no provision has been made in these financial statements.
- (e) Punjab Revenue Authority (PRA) issued notices for levy of sales tax on services in Tax Year 2014. This matter has been challenged before the Lahore High Court, Lahore (LHC) on the grounds that NESPAK is a company which is owned and controlled by Federal Government and effect of the levy should not be retrospective on the contracts executed by NESPAK prior to this levy. Secondly, against the present contracts, the levy has been challenged under Art.165 of the Constitution, on the basis of Doctrine of Immunity of instrumentalities based on 2014 CLC 590 (LHC) and 2013 PTD 2048 (KHC). The matter is pending adjudication before Lahore High Court. However, interim and conditional stay have been granted. Later, on another CM was filed which was heard on 17 August 2015 in which LHC ordered the office to notice for 28 August 2015. On said date, Court remained occupied with local government election petitions and was adjourned for 24 September 2014. The interim Order has not been revoked by Court. In similar nine cases before LHC, PRA has been restrained by LHC from adopting any coercive measures against petitioners till 14 October 2015. Subsequently, Commissioner Appeals issued an order directing additional commissioner to decide the case after providing appellant a reasonable opportunity of being heard. No order has been passed after the said date.

Sindh Revenue Board (SRB) issued notices to NESPAK for levy of sales tax on services rendered subsequent to 01 July 2014. This matter has also been challenged before the Sindh High Court on the grounds that NESPAK is company which is owned and controlled by Federal Government and the effect of the levy should not be retrospective on the contracts executed by the Company prior to the levy. On the basis of two judgments cited as 2014 CLC 590 (LHC) and 2013 PTD 2048 (KHC), the Sindh High Court has restrained the Sindh Revenue Authority from passing of final order against NESPAK. The matter is pending for adjudication.

After the issuance of above notices, the Company got itself registered with PRA and SRB in prior years and deposited approximately Rs. 136 million till 30 June 2015. However, sales tax has not been charged to all customers and sales tax returns have not been filed with PRA and SRB as the matter is subjudice and management of the Company, based on the opinion of its tax advisor, is confident of favourable outcome of such cases. Further, management of the Company believes that if any such tax is imposed later on by PRA and SRB, the same would be passed through to its customers as allowed by the agreements executed with most of its customers.

- (f) Mr.Asad I.A. Khan, ex-MD NESPAK, filed constitutional petition to restrain NESPAK from lodging FIR against him and to allow him to purchase NESPAK property i.e. vehicle LED-9091 PRADO. The constitutional petition was filed on 17-06-2014. On the last date of hearing, Sindh High Court has asked the Petitioner to satisfy the Court about the maintainability of petition. The management is confident of favourable outcome and accordingly, there is no need of any adjustment in these financial statements.
- (g) Other than the above cases, a number of legal cases have been filed against the Company by individuals / employees / local authorities at various forums relating to several disputes / difference of opinion. Because of their nature, it is not possible to quantify their financial impact at present. However, the management and the Company's legal advisors are of the view that the outcome of these cases is expected to be favorable and a liability, if any, arising on the settlement of these cases is not likely to be material. Accordingly, no provision has been made for any liability that may arise as a result of these cases in these financial statements.

## 9.2 Commitments

Capital commitments amounts to Rs. Nil thousands (2014: 17,879)

	Note	2015	2014
		----- (Rupees in '000) -----	
10 Property and Equipment			
Operating fixed assets	10.1	1,203,705	1,057,170
Capital work-in-progress	10.2	-	181,785
		<u>1,203,705</u>	<u>1,238,955</u>

NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED

10.1 Operating fixed assets

10.1.1 Owned

Note	Land		Buildings on freehold land	Furniture and fittings	Office and electrical equipment	Computers	Telephone installation	Drawing and survey equipment	Vehicles	Total
	Freehold	Leasehold								
(Rupees in '000)										
<b>Net carrying value basis</b>										
<b>Year ended June 30, 2015</b>										
	340,040	2,694	447,520	45,200	86,903	28,564	3,973	19,884	79,878	1,054,656
	-	-	123,115	44,835	41,366	11,490	161	84	11,338	232,389
	-	-	-	(348)	(318)	-	-	(213)	(3,569)	(4,448)
	-	(245)	(22,765)	(5,038)	(18,519)	(12,417)	(805)	(4,994)	(16,336)	(81,119)
	-	-	-	(5)	(4)	1	(1)	225	-	216
	<u>340,040</u>	<u>2,449</u>	<u>547,870</u>	<u>84,644</u>	<u>109,428</u>	<u>27,638</u>	<u>3,328</u>	<u>14,986</u>	<u>71,311</u>	<u>1,201,694</u>
<b>Gross carrying value basis</b>										
<b>As at 30 June, 2015</b>										
	340,040	8,083	705,902	154,171	292,104	179,206	18,582	53,339	195,139	1,946,566
	-	(5,634)	(158,032)	(69,527)	(182,676)	(151,568)	(15,254)	(38,353)	(123,828)	(744,872)
	<u>340,040</u>	<u>2,449</u>	<u>547,870</u>	<u>84,644</u>	<u>109,428</u>	<u>27,638</u>	<u>3,328</u>	<u>14,986</u>	<u>71,311</u>	<u>1,201,694</u>
	-	33 year lease	5	10	20	35	20	25	20	
<b>10.1.2 Leased</b>										
	-	-	-	-	-	-	-	-	2,514	2,514
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	(503)	(503)
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	2,011	2,011
	<u>340,040</u>	<u>2,449</u>	<u>547,870</u>	<u>84,644</u>	<u>109,428</u>	<u>27,638</u>	<u>3,328</u>	<u>14,986</u>	<u>73,322</u>	<u>1,203,705</u>
<b>Total</b>										
<b>Net carrying value basis</b>										
<b>Year ended June 30, 2014</b>										
	340,040	2,939	469,808	48,236	105,436	30,567	4,886	26,221	96,046	1,124,179
	-	-	1,194	2,439	5,987	9,846	103	295	6,330	26,194
	-	-	-	(414)	(3,098)	(2)	-	(29)	(2,804)	(6,347)
	-	(245)	(23,482)	(4,956)	(21,387)	(11,841)	(988)	(6,601)	(19,587)	(89,087)
	-	-	-	(105)	(35)	(6)	(28)	(2)	(107)	(283)
	<u>340,040</u>	<u>2,694</u>	<u>447,520</u>	<u>45,200</u>	<u>86,903</u>	<u>28,564</u>	<u>3,973</u>	<u>19,884</u>	<u>79,878</u>	<u>1,054,656</u>
	340,040	8,083	582,787	109,709	251,220	167,716	18,421	53,029	193,603	1,724,608
	-	(5,389)	(135,267)	(64,509)	(164,317)	(139,152)	(14,448)	(33,145)	(113,725)	(669,952)
	<u>340,040</u>	<u>2,694</u>	<u>447,520</u>	<u>45,200</u>	<u>86,903</u>	<u>28,564</u>	<u>3,973</u>	<u>19,884</u>	<u>79,878</u>	<u>1,054,656</u>
	-	33 year lease	5	10	20	35	20	25	20	
<b>Leased</b>										
	-	-	-	-	-	-	-	-	3,142	3,142
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	(628)	(628)
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	2,514	2,514
	<u>340,040</u>	<u>2,694</u>	<u>447,520</u>	<u>45,200</u>	<u>86,903</u>	<u>28,564</u>	<u>3,973</u>	<u>19,884</u>	<u>82,392</u>	<u>1,057,170</u>

\* Represent foreign exchange differences on assets held at foreign branches.

74

NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED

10.2	Capital work-in-progress	Note	2015	2014
			----- (Rupees in '000) -----	
	Civil works			
	Opening balance		181,785	135,725
	Additions during the year		19,233	46,060
	Transfers during the year		(201,018)	-
			<u>-</u>	<u>181,785</u>
11	Intangible assets			
	Computer software - Net carrying value basis			
	Opening net book value (NBV)		1,938	2,914
	Additions (at cost)		9,411	469
	Amortization	22	(3,478)	(1,445)
	Closing net book value (NBV)		<u>7,871</u>	<u>1,938</u>
	Computer software - Gross carrying value basis			
	Cost		17,737	8,326
	Accumulated amortization		(9,866)	(6,388)
	Net book value (NBV)		<u>7,871</u>	<u>1,938</u>
	Amortization rate % per annum		33.33	33.33
12	Investment property			
	Land		<u>15,000</u>	<u>15,000</u>
	Based on the valuation carried out by an independent valuer on February 25, 2014 and the management's best estimate, the fair value of investment property at 30 June 2015 is Rs 15,000 thousand (2014: 15,000 thousands).			
13	Investments		2015	2014
			----- (Rupees in '000) -----	
	Subsidiary undertakings - unquoted ( Available for sale)			
	Nespak and Partners LLC, Muscat, Oman			
	13,000 (2014: 13,000) ordinary shares of Omani Riyal 1 each		1,736	1,736
	Equity held: 65% (2014: 65%)			
	Mohammad Hisham Aitah - Nespak, Riyadh, Saudi Arabia			
	49 (2014: 49) ordinary shares of Saudi Riyal 2,000 each		1,328	1,328
	Equity held: 49% (2014: 49%)			
	National Engineering Services Pakistan Limited - Doha, Qatar			
	98,000 (2014: 98,000) ordinary shares of Qatari Riyal 1,000 each		2,234	2,234
	Equity held: 49% (2014: 49%)			
	National Engineering Services Pakistan Limited - UK			
	100 (2014: Nil) ordinary shares of GBP 1 each		17	-
	Equity held: 100% (2014: 0%)			
			<u>5,315</u>	<u>5,298</u>
13.1	The company is not consolidating these subsidiaries as the Securities and Exchange Commission (SECP) of Pakistan has granted exemption to the company from consolidation and investment in these subsidiaries is recorded at cost net of impairment if any.			
14	Investment in Associates - unquoted	Note	2015	2014
			----- (Rupees in '000) -----	
	Corporation House (Private) Limited			
	200,000 (2014: 200,000) ordinary shares of Rs 10 each		11,055	10,538
	Share of net profit for the year		604	517
			11,659	11,055
	Engineering Consulting Associates (Nigeria) Limited			
	6,000 (2014: 6,000) ordinary shares of Naira 1 each		91	91
	Less: Impairment		(91)	(91)
			-	-
	Turpak International (Private) Limited			
	60,000 (2014: 60,000) ordinary shares of Rs 100 each		36,409	33,165
	Share of net profit for the year		2,681	3,244
			39,090	36,409
	Technology and Resource Development (Private) Limited			
	4,000 (2014: 4,000) ordinary shares of Rs 100 each	14.1	400	400
	Less: Impairment		(400)	(400)
			-	-
			<u>50,749</u>	<u>47,464</u>

*M. Akbar*

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**

14.1 One share is held in the name of Mr. Amjad. A. Khan, Managing Director of the company.

14.2 The aggregate share of the company in assets, liabilities, revenue and profit or loss of its associated companies is as follows:

Name	Percentage interest held	Assets	Liabilities	Revenue	Profit *
----- (Rupees in '000) -----					
<b>June 30, 2015</b>					
Corporation House (Private) Limited	25%	12,068	409	1,028	604
Turkpak International (Private) Limited	50%	46,447	7,357	48,933	2,681
<b>June 30, 2014</b>					
Corporation House (Private) Limited	25%	11,435	380	934	517
Turkpak International (Private) Limited	50%	43,098	6,689	51,249	3,244

\* Share of profit of associates is net of taxation.

	Note	2015	2014
----- (Rupees in '000) -----			
<b>15 Loans and advances - considered good</b>			
Muhammad Hisham Aitah, Riyadh, Saudi Arabia - unsecured		1,632	1,632
Abdulla Zayed M A Al-Khayarin, Doha, Qatar - unsecured		2,326	2,326
Dar-al-Handasah LLC, Muscat, Oman - unsecured		1,085	1,085
	15.1	5,043	5,043
Employee loans	15.2	2,341	2,828
Less : Current maturity	18	(900)	(1,500)
		1,441	1,328
Advance due from Pakistan Hydro Consultant		75	75
		<u>6,559</u>	<u>6,446</u>

15.1 This represents interest free loan given to related parties.

15.2 Loans to employees represent house building and motorcycle loans provided to employees in accordance with company policy. These loans are secured against the employees provident fund balances. Loans for motorcycle and house building carry interest at the rate of 4% per annum (2014: 4% per annum) and 10% per annum (2014: 10% per annum), respectively.

	Note	2015	2014
----- (Rupees in '000) -----			
<b>16 Deferred tax asset</b>			
The deferred tax asset comprise temporary differences arising due to:			
Accelerated tax depreciation		(107,821)	(109,398)
Provision for doubtful debts		401,266	419,738
Re-measurement of employees' retirement benefits		(53,041)	(102,355)
		<u>240,404</u>	<u>207,985</u>
Deferred tax is calculated in full on temporary differences under the liability method			
Opening balance		207,985	188,110
Credited to profit and loss account		(16,895)	45,987
Charged recognized in other comprehensive income		49,314	(26,112)
Closing balance		<u>240,404</u>	<u>207,985</u>

*Amjad Khan*

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**

	Note	2015	2014		
----- (Rupees in '000) -----					
17	Contract fee receivable				
	Considered good	7,033,029	6,045,851		
	Considered doubtful	1,215,957	1,093,482		
		<u>8,248,986</u>	<u>7,139,333</u>		
	Less: Provision for doubtful debts	(1,215,957)	(1,093,482)		
		<u>7,033,029</u>	<u>6,045,851</u>		
17.1	Due from subsidiaries				
	Nespak and Partners LLC, Muscat, Oman	947,993	693,338		
	Muhammad Hisham Aitah-Nespak, Riyadh, Saudi Arabia	395	34,993		
	National Engineering Services Pakistan Limited, UK	2,745	-		
	National Engineering Services Pakistan Limited, Doha, Qatar	272,613	208,371		
		<u>1,223,746</u>	<u>936,702</u>		
	Due from associates				
	Turkpak International (Private) Limited	1,838	762		
	Technology and Resource Development (Private) Limited	4,318	3,701		
	NESPAK Foundation	8,876	11,713		
	Federal Government and departments	4,007,861	3,700,343		
	Provincial governments and departments	2,036,839	1,671,766		
		<u>6,059,732</u>	<u>5,388,285</u>		
17.2	Provision for doubtful debts				
		General	Specific	2015	2014
----- (Rupees in '000) -----					
	Opening balance	136,450	957,032	1,093,482	1,110,788
	Charge for the year	28,586	93,889	122,475	161,145
		<u>165,036</u>	<u>1,050,921</u>	<u>1,215,957</u>	<u>1,271,933</u>
	Less: Written off during the year	-	-	-	(178,451)
	Closing balance	<u>165,036</u>	<u>1,050,921</u>	<u>1,215,957</u>	<u>1,093,482</u>
17.3	Ageing analysis of contract fee receivable				
	The ageing analysis of contract fee receivable from related party is as follows:				
	Up to 6 months			3,361,811	2,633,056
	More than 6 months less than 1 year			625,996	1,057,382
	More than 1 year			3,295,671	2,634,549
				<u>7,283,478</u>	<u>6,324,987</u>
18	Advances, deposits and prepayments				
	Current maturity of long term loans - considered good	15		900	1,500
	Advances to employees - considered good			17,343	15,005
	Advances to suppliers and contractors - considered good			24,468	1,150
	Retention and earnest money			191,379	166,438
	Prepayments			6,033	4,485
	Margins on bank guarantees			23,371	70,436
	Receivable from Turkpak International (Private) Limited			199	199
	Due from Nespak Gratuity Fund Trust	18.1		252,723	332,355
	Due from Nespak Foundation - a related party			4,825	-
	Due from Nespak Provident Fund Trust			34,814	25,079
	Due from Staff welfare fund trusts			31,312	12,943
	Lease key money			-	628
				<u>587,367</u>	<u>630,218</u>
18.1	The amounts recognized in the balance sheet are as follows:				
	Present value of defined benefit obligation	18.1.1		1,306,238	1,072,954
	Fair value of plan assets	18.1.2		(1,558,961)	(1,405,309)
				<u>(252,723)</u>	<u>(332,355)</u>

*[Handwritten Signature]*

