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working world**

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

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2019**

EY Ford Rhodes  
Chartered Accountants  
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## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED

### Report on the audit of the financial statements

#### Opinion

We have audited the annexed financial statements of **National Engineering Services Pakistan (Private) Limited** (the Company), which comprise the statement of financial position as at **30 June 2019**, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), 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 2019 and of the loss and other comprehensive income, the changes in equity and its cash flows for the year then ended.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the Director's Report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## **Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017(XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on other legal and regulatory requirements**

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Mr. Sajjad Hussain Gill.



**Chartered Accountants**  
Lahore: 16 July 2021

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

	Note	2019	2018
		-- (Rupees in thousand) --	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	970,292	1,017,164
Intangible assets	6	3,822	6,249
Investment properties	7	105,478	110,240
Investments in subsidiaries	8	2,960	2,977
Investments in associates	9	57,651	53,860
Long term loans and advances	10	43,789	33,167
Long term security deposits		6,533	6,713
Deferred tax asset - net	11	1,187,669	632,874
		<b>2,378,194</b>	<b>1,863,244</b>
<b>Current assets</b>			
Stationery stores		9,244	12,540
Contract fee receivables	12	8,758,348	9,766,365
Loans and advances	13	213,550	273,068
Deposits and prepayments	14	305,851	332,397
Interest accrued		5,974	16,132
Other receivables	15	2,698,594	2,079,318
Short term investments	16	806,377	813,563
Cash and bank balances	17	911,901	991,074
		<b>13,709,839</b>	<b>14,284,457</b>
<b>Total assets</b>		<b>16,088,033</b>	<b>16,147,701</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
<b>Authorized share capital</b>			
500,000 (2018: 500,000) ordinary shares of Rs. 10 each		5,000	5,000
<b>Issued, subscribed and paid up share capital</b>	18	5,000	5,000
<b>Revenue reserves</b>			
- General reserve		11,557,516	11,314,799
- Accumulated losses		(850,854)	(20,273)
<b>Total equity</b>		<b>10,711,662</b>	<b>11,299,526</b>
<b>Non-current liability</b>			
Employees retirement and other benefits	19	781,337	766,616
<b>Current liabilities</b>			
Trade and other payables	20	3,678,925	2,970,050
Liabilities against assets subject to finance lease	21	-	54
Contract liabilities	22	288,955	476,303
Dividend payable		50,000	50,000
Provision for taxation		577,154	585,152
		<b>4,595,034</b>	<b>4,081,559</b>
<b>Total liabilities</b>		<b>5,376,371</b>	<b>4,848,175</b>
<b>Total equity and liabilities</b>		<b>16,088,033</b>	<b>16,147,701</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	23		

The annexed notes from 1 to 37 form an integral part of these financial statements.



Chief Executive



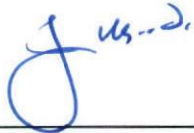
Director

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**  
**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	<u>Note</u>	<u>2019</u>	<u>2018</u>
		-- (Rupees in thousand) --	
Revenue from contracts with customers - net	24	7,139,561	8,315,798
Cost of revenue	25	<u>(8,162,711)</u>	<u>(8,038,718)</u>
Operating (loss) / profit		<u>(1,023,150)</u>	277,080
Finance cost		-	(37)
		<u>(1,023,150)</u>	277,043
Other income	26	<u>1,075,844</u>	588,986
Share of profit / (loss) from associates - net	9	<u>4,415</u>	<u>(2,278)</u>
		<u>1,080,259</u>	586,708
Profit before taxation		<u>57,109</u>	863,751
Taxation	27	<u>(184,554)</u>	<u>(619,682)</u>
(Loss) / profit for the year		<u><u>(127,445)</u></u>	<u>244,069</u>

The annexed notes from 1 to 37 form an integral part of these financial statements.

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Chief Executive

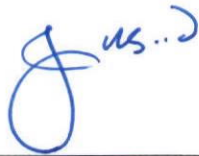


Director

NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED  
 STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 30 JUNE 2019

Note	2019	2018
	-- (Rupees in thousand) --	
(Loss) / profit for the year	(127,445)	244,069
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss in subsequent periods</i>	-	-
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>		
Re-measurement gain / (loss) on employees retirement and other benefits	19.2.1 & 19.3.3 135,000	(1,595)
Tax effect of loss on employees retirement benefits	-	479
Share of other comprehensive loss from associates	9.4 (624)	(236)
Other comprehensive profit / (loss) for the year	134,376	(1,352)
Total comprehensive income for the year	<u>6,931</u>	<u>242,717</u>

The annexed notes from 1 to 37 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 30 JUNE 2019**

Issued, subscribed and paid up share capital	Revenue reserves		Total	
	General reserve	Accumulated profits / (losses)		
----- (Rupees in thousand) -----				
<b>Balance as at 01 July 2017</b>	5,000	10,414,213	687,596	11,106,809
Final dividend for the year ended 30 June 2017 at Rs. 100 per share	-	-	(50,000)	(50,000)
Transfer to general reserve	-	900,586	(900,586)	-
Profit for the year	-	-	244,069	244,069
Other comprehensive loss for the year	-	-	(1,352)	(1,352)
Total comprehensive income	-	-	242,717	242,717
<b>Balance as at 01 July 2018 - as previously reported</b>	<b>5,000</b>	<b>11,314,799</b>	<b>(20,273)</b>	<b>11,299,526</b>
Effect of application of change in accounting policy resulting from adoption of IFRS 9 (note 2.4.1) - net of tax	-	-	(594,795)	(594,795)
<b>Balance as at 01 July 2018 - restated</b>	<b>5,000</b>	<b>11,314,799</b>	<b>(615,068)</b>	<b>10,704,731</b>
Transfer to general reserve	-	242,717	(242,717)	-
Loss for the year	-	-	(127,445)	(127,445)
Other comprehensive income for the year	-	-	134,376	134,376
Total comprehensive income	-	-	6,931	6,931
<b>Balance as at 30 June 2019</b>	<b>5,000</b>	<b>11,557,516</b>	<b>(850,854)</b>	<b>10,711,662</b>

The annexed notes from 1 to 37 form an integral part of these financial statements.

  
 Chief Executive

  
 Director

**NATIONAL ENGINEERING SERVICES PAKISTAN (PRIVATE) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019	2018
-- (Rupees in thousand) --			
Profit before taxation		57,109	863,751
<b>Adjustments to reconcile profit before tax to net cash flows:</b>			
Depreciation of property and equipment - owned	5	83,849	89,230
Depreciation of property and equipment - leased	5	245	502
Depreciation of investment properties	7.2	4,762	5,013
Fair value gain on short term investments - net	26	(4,761)	(4,411)
Amortization of intangible assets	6	3,885	6,840
Impairment loss on investments in subsidiary	8	17	-
Allowance for expected credit losses - net	12.4	878,674	387,261
Allowance for expected credit loss - guarantees	14	13,630	-
Gain on disposal of property and equipment	26	(7,166)	(5,127)
Share of (profit) / loss from associates - net	9	(4,415)	2,278
Employees retirement and other benefits	19.1 & 19.2	24,181	16,961
Gratuity expense	19.3.3	133,570	129,398
Return on bank deposits	26	(56,634)	(83,539)
Finance cost		-	37
		<b>1,126,946</b>	<b>1,408,194</b>
<b>Working capital changes</b>			
<b>(Increase) / decrease in current assets:</b>			
Stationery stores		3,296	(5,301)
Contract fee receivables		(708,396)	(990,595)
Loans and advances		59,518	(63,098)
Deposits and short term prepayments		12,916	(41,529)
Other receivables		(619,276)	(515,070)
<b>Increase / (decrease) in current liabilities:</b>			
Trade and other payables		708,875	691,461
Contract liabilities		(187,348)	-
		<b>(730,415)</b>	<b>(924,132)</b>
<b>Cash generated from operations</b>		<b>396,531</b>	<b>484,062</b>
Income taxes paid		(504,403)	(621,724)
Employee benefits paid		(8,030)	(607,376)
(Increase) / decrease in long term loans and advances		(10,622)	945
Decrease / (increase) in security deposits		180	(23,175)
Net cash flows used in operating activities		<b>(126,344)</b>	<b>(767,268)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment - net		(40,792)	(73,616)
Purchase of intangible assets		(1,458)	(5,909)
Proceeds from disposal of property and equipment		10,736	14,720
Short term investments - net		(673,653)	104,800
Interest received		66,792	75,019
Net cash flows (used in) / from investing activities		<b>(638,375)</b>	<b>115,014</b>
<b>Cash flows from financing activities</b>			
Lease rentals paid		(54)	(610)
Finance cost paid		-	(37)
Net cash flows used in financing activities		<b>(54)</b>	<b>(647)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(764,773)</b>	<b>(652,901)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,676,674</b>	<b>2,329,575</b>
<b>Cash and cash equivalents at the end of the year</b>	28	<b>911,901</b>	<b>1,676,674</b>

The annexed notes from 1 to 37 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 30 JUNE 2019**

**1 THE COMPANY AND ITS OPERATIONS**

National Engineering Services Pakistan (Private) Limited (the Company) was incorporated in 1973 under the Companies Act, 2017. The Company is wholly controlled and owned by the Ministry of Energy (Power Division), Government of Pakistan (GOP). The principle activity of the Company is providing engineering consultancy services in Pakistan and abroad.

**1.1 Geographical location**

The geographical locations and addresses of major business units of the Company are as follows:

<u>Business unit</u>	<u>Geographical location and address</u>
<b>Registered office</b>	1-C, Block N, Model Town Extension, Lahore.
<b>Regional offices</b>	
Lahore	IEEEP Building, 17-C-1, Civic Centre Faisal Town, Lahore.
Islamabad	Nespak House, Sector G-5/2, Islamabad.
Karachi	13th Floor, NICL Building, Abbasi Shaheed Road, Sharah-e-Faisal Karachi.
Peshawar	House no. 24, Sector B-2, Phase-V, Hayatabad, Peshawar.
Quetta	18-19/B, Street no. 2, Phase-III, Shahbaz Town, Quetta Cantt.
<b>Foreign offices:</b>	
Kabul, Afghanistan	House no. 250, Street no. 16, Wazir Akbar Khan, Kabul, Afghanistan.
Dubai, UAE	Office no. 1203, Business Tower, Business Bay, Dubai, UAE.

**2 BASIS OF PREPARATION**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards as applicable in Pakistan comprise of:

- i) International Financial Reporting Standards (IFRS), issued by International Accounting Standard Board (IASB) as notified under the Companies Act, 2017 (the Act); and
- ii) Provisions of and directives issued under the Act.

Where the provisions of and directives issued under the Act differ from the IFRS, the provisions of and directives issued under the Act have been followed.

**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 4.9 and short term investments at fair value through profit or loss.

These are separate financial statements of the Company. The Company is not consolidating its subsidiaries as the Securities and Exchange Commission of Pakistan (SECP) has granted exemption through the letter dated 24 November 2005 with reference number RD-237(I) 2005-3237 to the Company from consolidation and investment in subsidiaries is recorded at cost net of impairment loss if any.

**2.3 Functional and presentation currency**

These financial statements are presented in Pakistan Rupee (PKR), which is the Company's functional currency. All values presented in PKR has been rounded to nearest thousand of rupees, unless when otherwise stated.

**2.4 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.

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#### 2.4.1 Standards, amendments to published standards and interpretations that are effective in current year and are relevant to the Company's operations

The Company has adopted the following accounting standards and the amendments and interpretation of IFRS which became effective for the current year:

##### Standards

IFRS 15	Revenue from contracts with customers
IFRS 9	Financial instruments
IFRIC 22	Foreign currency transactions and advance consideration
IAS 40	Transfers of Investment Property (Amendments)
IFRS 2	Classification and Measurement of Share Based Payment Transactions

The adoption of the above interpretation and amendments did not have any material effect on the financial statements except the following:

##### i) IFRS 15 - Revenue from contracts with customers

The Company has adopted IFRS 15 from 01 July, 2018. IFRS 15 supersedes IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 18 Transfer of assets from customers and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Company has elected to apply the standard on a modified retrospective basis as permitted by IFRS 15 whereby the cumulative effect of initially applying IFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

Below are the details of key impacts arising from the adoption of the standard:

##### Statement of financial position

In statement of financial position, the corresponding figure of trade and other payables amounting to Rs. 476,303 thousand has been reclassified to contract liabilities. Contract liabilities are recognized in respect of Company's obligation to transfer services to a customer for which the Company has received consideration. Amounts as at 01 July 2018 have also been reclassified as follows for the purpose of comparability:

Description	As at 1 July 2018		
	Carrying amount as stated	Reclassification	IFRS 15 carrying Amount
	----- (Rupees in thousand) -----		
Trade and other payables	3,446,353	(476,303)	2,970,050
Contract liabilities	-	476,303	476,303
	<u>3,446,353</u>	<u>-</u>	<u>3,446,353</u>

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended 30 June 2019 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have a material impact on OCI or the Company's operating, investing and financing cash flows. The first column shows what the amounts would have been had IFRS 15 not been adopted and the second column shows amounts prepared under IFRS 15:

Description	As at 30 June 2019		
	Previous IFRS carrying amount	Increase / decrease	IFRS 15 carrying Amount
	----- (Rupees in thousand) -----		
Trade and other payables	3,967,880	(288,955)	3,678,925
Contract liabilities	-	288,955	288,955
	<u>3,967,880</u>	<u>-</u>	<u>3,967,880</u>

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**Statement of profit or loss**

In statement of profit and loss, the corresponding figures have not been changed as modified retrospective approach has been opted by the management. The adoption of IFRS 15 did not have a material impact on amounts reported in the statement of profit or loss, the statement of comprehensive income and the statement of cash flows for the prior period as there is no significant change in the Company's revenue recognition criteria as compared to those under the previous standards or related interpretations, however, IFRS 15 requires additional disclosures of disaggregated revenue information.

**ii) IFRS 9 - Financial instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 July 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The application of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of profit or loss.

For contract fee receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The accounting for the Company's financial liabilities remains substantially the same as it was under IAS 39. The Company applied IFRS 9 using modified retrospective approach and hence has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognized directly in opening balance of retained earnings as follows:

Description	Carrying amount reported under IAS 39	Adjustment for ECL due to adoption of IFRS 9	Carrying amount reported under IFRS 9
	01 July 2018		
	----- (Rupees in thousand) -----		
Contract fee receivables	9,766,365	(837,739)	8,928,626
Deferred taxation	632,874	242,944	875,818
Accumulated losses	(20,273)	(594,795)	(615,068)
	Carrying amount reported under IAS 39	Adjustment for ECL due to adoption of IFRS 9	Carrying amount reported under IFRS 9
	30 June 2019		
	----- (Rupees in thousand) -----		
Contract fee receivables	10,645,039	(878,674)	9,766,365
Deferred taxation	932,854	254,815	1,187,669
Accumulated losses	(226,995)	(623,859)	(850,854)

**Classification and measurement**

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company. The following are the changes in the classification of the Company's financial assets:

*Contract fee receivables, deposits, loans and advances and other receivables*

These balances classified as 'Loans and receivables' as at 30 June 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortized cost beginning 1 July 2018.

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

In summary, upon the adoption of IFRS 9, the Company had the following reclassifications as at 1 July 2018:

	IAS 39 measurement category Loans and receivables	IFRS 9 measurement category Amortized Cost
	----- (Rupees in thousand) -----	
Long term advance	75	75
Long term security deposits	6,713	6,713
Contract fee receivables	9,766,365	9,766,365
Deposits	330,162	330,162
Interest accrued	16,132	16,132
Other receivables	1,795	1,795
Short term investments	813,563	813,563
Bank balances	986,732	986,732

**Impairment**

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach as mentioned in Note 4.12. IFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of IFRS 9, the Company recognized additional impairment on the Company's contract fee receivables amounting to Rs. 837,739 thousand which resulted a decrease in retained earnings of Rs. 594,795 thousand as at 01 July 2018 after taking into account the respective taxation impact as shown above.

**Hedge accounting**

As at year end, the Company does not have hedge relationship. Accordingly, IFRS 9 will not have an impact on the Company's financial statements.

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

The following standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan, would be effective from the dates mentioned below and have not been adopted early by the Company:

Standards, amendments and IFRIC	Effective date (annual periods beginning on or after)
IFRS 3 Definition of a Business (Amendments)	01 January 2020
IFRS 3 Business Combinations: Previously held interests in a joint operation	01 January 2019
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)	01 July 2019
IFRS 9 Prepayment Features with Negative Compensation (Amendments)	01 January 2019
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: Previously Held Interests in a Joint Operation	01 January 2019
IFRS 14 Regulatory Deferral Accounts	01 July 2019
IFRS 16 Leases	01 January 2019
IAS 1 & IAS 8 Definition of Material (Amendments)	01 January 2020
IFRS 7, IFRS 9 & IAS 39 Interest Rate Benchmark Reforms (Amendments)	01 January 2020
IFRS 3 Reference to Conceptual Framework (Amendments)	01 January 2022
IFRS 16 Covid-19 related Rent Concessions	01 June 2020
IAS 37 Onerous Contracts - Costs of Fulfilling a Contract (Amendments)	01 January 2022
IAS 41 Agriculture - Taxation in Fair Value Measurements	01 January 2022
IAS 1 Classification of Liabilities as Current and Non-Current	01 January 2023
IFRS 9 Financial Instruments - Fees in the "10 percent" Test of Derecognition of Financial Liabilities	01 January 2022

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<b>Standards, amendments and IFRIC</b>		<b>Effective date (annual periods beginning on or after)</b>
IFRS 1	First- Time Adoption of International Financial Reporting Standards - Subsidiary as First Time Adopter	01 January 2022
IAS 16	Property, Plant and Equipment: Proceeds Before Intended Use	01 January 2022
IFRS 4, IFRS 7, IFRS 9, IFRS 16 & IAS 39	The Changes in Interest Rate Benchmark Reform	01 January 2021
IAS 8	Accounting Policies, Changing in Accounting Estimates and Errors	01 January 2020
IAS 12	Income Taxes: Income Tax Consequences of Payments on Financial Instruments Classified as Equity	01 January 2019
IAS 19	Plan Amendment, Curtailment or Settlement (Amendments)	01 January 2019
IAS 23	Borrowing Costs - Borrowing Costs Eligible for Capitalization	01 January 2019
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments)	01 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	01 January 2019

The above standards and amendments are not expected to have any material impact on the Company's financial statements in the period of initial application except for IFRS 16 "Leases". The Company is currently in the process of analyzing the potential impact of its lease arrangements that will result in recognition of right to use assets and liabilities on adoption of this standard.

In addition to the above standards and amendments, improvements to various accounting standards and conceptual framework have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2019. 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.

Further, 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.

<b>Standard or Interpretation</b>		<b>IASB Effective date (annual periods beginning on or after)</b>
IFRS 1	First-time Adoption of International Financial Reporting Standards	01 July 2004
IFRS 17	Insurance Contracts	01 January 2023

The Company expects that above new standards will not have any material impact on the Company's financial statements in the period of initial application.

## 2.5 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to use 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 the historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

### a) Taxation (Note 11 & 27)

In making the estimate for income tax payable, the Company takes into account the applicable tax laws and the decision by appellate authorities on certain issues in the past. The Company consults its tax advisors and takes into account factors including industry practice and recent judgments by tax authorities and/or courts of law.

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