

INDEPENDENT AUDITOR'S REPORT

To members of *Insert Name of the Company*

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Opinion

We have audited the annexed financial statements of *Insert Name of the Company*, which comprises of balance sheet of as at June 30, 2017 and related profit and loss account, cash flow statement and statement of changes in equity for the year then ended and notes to the financial statements, including 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 our audit.

in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 the Companies Act, 2017, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2017 and of the profit, its cash flows and changes in equity for the period then ended.

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further disclosed in Auditor's Responsibilities for the audit of the Financial Statements section of our report. We were independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the relevant institute (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 audit opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs)' issued by IASB and the requirements of the Companies Act, 2017, and for such internal control as the management determine 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 going concern, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Boards of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility 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 misstatements, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable level of assurance is a high level of assurance, but is not guaranteed that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatement 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, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 our 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 up to the dates of our auditor's report. However, future events or conditions may cause the company to cease to continue as 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 presentations.

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.

We also provide board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

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

- a) Proper books of accounts have been kept by the company as required by the companies Act, 2017(XIX of 2017);
- b) The balance sheet, profit and loss account, Cash flow statement and statement of changes in equity 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 and are further in accordance with the accounting policies consistently applied;
- c) Investment made, expenditure incurred and guarantees extended during the year were for the purpose of the company business; and
- d) No zakat was deductible under the Zakat and Ushr Ordinance, 1980(XVIII of 1980).

Date:

Name of Auditors

Place:

Name of Engagement Partner

Illustrative Financial Statements

MSE Pakistan Limited
Statement of Financial Position
As at December 31, 20X8

	Note	20X8 (Rupees)	Restated 20X7 (Rupees)
Assets			
Non-current assets			
Property, plant and equipment	4	xxx	xxx
Investment property - at cost	5	xxx	xxx
Investment property - at fair value	6	xxx	xxx
Intangible assets	7	xxx	xxx
Investment in associates	8	xxx	xxx
Investment in jointly controlled entity	9	xxx	xxx
Other long-term investments	10	xxx	xxx
Long-term loans and advances	11	xxx	xxx
Long-term deposits and prepayments	12	xxx	xxx
		xxx	xxx
Current assets			
Inventories	13	xxx	xxx
Trade and other receivables	14	xxx	xxx
Prepayments and advances	15	xxx	xxx
Other financial assets	16	xxx	xxx
Cash and bank balances	17	xxx	xxx
		xxx	xxx
		xxx	xxx
Share capital and reserves			
Share capital			
Issued, subscribed and paid up capital	18	xxx	xxx
Discount on issue of shares		(xxx)	(xxx)
		xxx	xxx
Capital reserve			
Revaluation surplus on property, plant and equipment	19	xxx	xxx
Revenue reserve			
Un-appropriated profit		xxx	xxx
		xxx	xxx
Non-current liabilities			
Long-term financing	20	xxx	xxx
Deferred tax liability	21	xxx	xxx
Employee benefit obligations	22	xxx	xxx
Provisions	23	xxx	xxx
		xxx	xxx
Current liabilities			
Trade and other payables	24	xxx	xxx
Short-term financing	25	xxx	xxx
Provisions	23	xxx	xxx
Unpaid dividend		xxx	xxx
Unclaimed dividend		xxx	xxx
Current tax liability	26	xxx	xxx
		xxx	xxx
Contingencies and commitments			
	27	xxx	xxx
		xxx	xxx

The annexed notes, from 1 to 43, form an integral part of these financial statements.

Chief Executive

Director

MSE Pakistan Limited
Statement of Profit or Loss
For the year ended December 31, 20X8

	<u>Note</u>	<u>20X8 Rupees</u>	<u>Restated 20X7 Rupees</u>
Revenue	28	xxx	xxx
Cost of sales	29	(xxx)	(xxx)
Gross profit		<u>xxx</u>	<u>xxx</u>
Other income	30	xxx	xxx
Marketing and distribution expenses	31	(xxx)	(xxx)
Administrative and general expenses	32	(xxx)	(xxx)
Other operating expenses	33	(xxx)	(xxx)
Finance costs	34	(xxx)	(xxx)
Profit before income tax		<u>xxx</u>	<u>xxx</u>
Income tax expense	35	(xxx)	(xxx)
Profit for the year		<u><u>xxx</u></u>	<u><u>xxx</u></u>

The annexed notes, from 1 to 43, form an integral part of these financial statements.

Chief Executive

Director

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

	Note	20X8 (Rupees)
5 Investment property - at cost		
Cost		xxx
Accumulated depreciation and impairment		xxx
		xxx
Additions		
Disposals - carrying amount		xxx
Depreciation charge for the year	32	xxx
Transfer (to)/from property, plant and equipment		xxx
Transfer (to)/from investment property at fair value		xxx
(Impairment)/Reversal of impairment		xxx
Carrying amount as at December 31, 20X8		xxx
The carrying amount as at December 31, 20x8 is aggregate of:		
Cost / Revalued amount		xxx
Accumulated depreciation and impairment		xxx
		xxx
Rate of depreciation (%)		x
5.1 This represents freehold land owned by		
5.2 Depreciation on this property is calculated using straight line method to allocate the cost less its residual value over its estimated useful life of xx years.		
5.3 Forced sale value of the investment property is assessed at Rs. xxx (20X7: Rx. xxx)		
5.4 The depreciation on investment property measured at cost is charged to administrative and general expenses.		

	Note	20X8 (Rupees)
6 Investment property - at fair value		
Carrying amount as at January 1, 20X8		xxx
Additions - Subsequent expenditure		xxx
Transfers to and from investment property carried at cost less accumulated amortisation and impairment		-
Transfers to and from inventories and owner-occupied property		-
Net gain/(loss) from fair value adjustment	30	xxx
Other changes		-
Carrying amount as at December 31, 20X8		xxx
6.1 The fair value of investment property is determined at the end of each year by independent suitably qualified with recent valuation experience in the concerned valuer using current market prices for comparable real estate, adjusted for any differences in nature, location and condition.		
6.2 Investment property with a carrying amount of Rs. xxx are subject to first charge against loan of Rs. xxxx (20X7: Rs. xxxx) from ABC Bank. This charge existed as at December 31, 20X7.		
6.3 During the year, the Company planned expansion of property A. On December 20, 20X8 the Company had contracted Entity D to construct an office block on vacant land owned by the Company. The Rs. xxxx fixed price contract requires construction to commence by March 31, 20X9 and to be completed by September 30, 20XX. There were no contractual commitments at 31 December 20X7.		
There is no restriction on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.		
6.4 Forced sale value of the investment property is assessed at Rs. xxx (20X7: Rx. xxx).		
6.5 The non-cancellable fixed rate operating leases over the Company's investment property, land and buildings were entered into at market rates with independent third parties.		

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

	20X9	2X10-2X13	after 2X13
The minimum lease payments receivable under non-cancellable operating leases	xxx	xxx	xxx

7 Intangible assets

	Computer Softwares	Trademarks	Total
 (Rupees)		
Cost	xxx	xxx	xxx
Accumulated amortization	xxx	xxx	xxx
Carrying amount as at January 1, 20X8	xxx	xxx	xxx
Additions	xxx	xxx	xxx
Disposals - carrying amount	-	(xxx)	-
Amortization charge for the year	xxx	xxx	xxx
Impairment	-	-	-
Carrying amount as at December 31, 20X8	xxx	xxx	xxx
Amortization rate per annum (%)	x	x	

7.1 Computer softwares relate to the inventory system purchased in 20X6 and has a remaining useful life of x years.

7.2 At December 31, 20X8, the Company's software was pledged as security for a Rs. xxx loan from entity B. This pledge also existed at December 31, 20X7.

7.3 In December 20X8, the Company signed an agreement to acquire a patent from entity A on May 15, 20X9 for Rs. xxx. The Company had no contractual commitments for the acquisition of intangible assets at December 31, 20X7.

7.4 Amortization for the year has been allocated as follows:

	Note	20X8 (Rupees)
Cost of sales	29	xxx
Administrative and general expenses	32	xxx
		xxx

7.5 Detail of disposals of intangible assets

Asset	Cost	Carrying amount	Sale price	Gain / (loss) on disposal	Particulars of the purchaser	Mode of disposal	Relationship with the purchaser
Trademark SAM	xxx	xxx	xxx	xxx	Old Engineering Co. Ltd	Negotiation	None
Trademark AMY	xxx	xxx	xxx	xxx	New Electric Traders Co. Ltd	Negotiation	Competitor
	xxx	xxx	xxx	xxx			

8 Investment in associates

	20X8 (Rupees)	20X7 (Rupees)
Carrying amount at the beginning of the year	xxx	xxx
Investment made during the year	xxx	xxx
Carrying amount at the end of the year	xxx	xxx

8.1 The Company owns 25% shares of Foreign Land Company which is incorporated in Foreign Land and listed on Bullish Stock Exchange. Its registered office is situated at 123, ABC Road, Foreign Land.

The short term running finance facility of Rs. xxx (20X7: Rs. xxx) obtained from Bank B is secured against the shares of Foreign Land Company Limited.

8.2 The investments in associated companies have been made in accordance with the requirements of the Companies Act, 2017.

9 Investment in jointly controlled entity

Note	20X8 (Rupees)	20X7 (Rupees)
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MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

Carrying amount 9.1 xxx xxx

9.1 This represents investment JCE (Private) Limited, which was formed under the Joint Venture Agreement between the Company and the Strong Limited. The Company and the Strong Limited each own 50% of its share capital and have joint control under the terms of the Joint Venture Agreement.

	<u>Note</u>	<u>20X8 (Rupees)</u>	<u>20X7 (Rupees)</u>
10 Other long-term investments			
Equity investment	10.1	xxx	xxx
Term deposit receipts (TDRs)	10.2	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

10.1 This represents 15% ordinary shares of Loyal Company Limited, held by the Company.

10.2 These represent investments in local currency TDRs. Rs. xxx of the investments are due to mature within next 12 months. The TDRs carry mark up at x% (20X7:x%) per annum payable quarterly in arrears. As stated in note 25, TDRs of Rs. xxx are given as security against running finance facility arranged with Bank A.

	<u>Note</u>	<u>20X8 (Rupees)</u>	<u>20X7 (Rupees)</u>
11 Long-term loans and advances			
Related parties	11.1	xxx	xxx
Employees	11.2	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

11.1 Long-term loans to related parties

Directors	11.1.1	xxx	xxx
Holding company	11.1.2	xxx	xxx
Associated companies	11.1.3	xxx	xxx
Less: Due within 12 months, shown under current loans and advances	15	(xxx)	(xxx)
		<u>xxx</u>	<u>xxx</u>

11.1.1 Long-term loans to directors

The Company's Board of Directors has adopted a policy that there should be no loans to Directors, except for loans to fund expenditure to defend Directors in legal or regulatory proceedings. The loans provided are unsecured and bear interest at six month KIBOR + 1.5% (20X7: six month KIBOR + 1.5%) per annum. The effective interest rate was 6% (20X7: 6.5%) per annum. All the related requirements of the Companies Act, 2017 have been complied with. The reconciliation of the carrying amount at the beginning and end of the period is as under:

	<u>20X8 (Rupees)</u>	<u>20X7 (Rupees)</u>
Balance at the beginning of the year	xxx	xxx
Disbursements	-	xxx
Receipts	(xxx)	(xxx)
Balance at the end of the year	<u>xxx</u>	<u>xxx</u>

The maximum amount due as at the end of any month during the year was Rs. xxx (20X7: Rs. xxx).

11.1.2 Long-term loan to Holding company

The loan to the holding company is unsecured and bears interest at six month KIBOR + 1.5% (20X7: six month KIBOR + 1.5%) per annum. The effective interest rate was 6% (20X7: 6.5%) per annum. The first repayment of Rs. xxxx is due on June 30, 20X9 and the remainder is repayable on December 31, 20X9.

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

The maximum amount due as at the end of any month during the year was Rs. xxx (20X7: Rs. xxx).

	Note	20X8 (Rupees)	20X7 (Rupees)
11.1.3 Due from associated companies			
The loans to associated companies are as per below details:			
Pak Land Company Limited	11.1.4	xxx	xxx
Pak Zameen Company Limited	11.1.5	xxx	xxx
Foreign Land Company Limited	11.1.6	xxx	xxx
		xxx	xxx
Less: Provisions for doubtful loans		-	-
Loans written off		-	-
		xxx	xxx

11.1.4 Loan amounting to Rs. xxxx remains outstanding at December 31, 20X8 (20X7: Rs. xxx) from Pak Land Company Limited. The loan is unsecured and interest on this loan is charged at a fixed rate of 5% per year. The loan is repayable in full on December 31, 20XX. The maximum amount due as at the end of any month during the year was Rs. xxx (20X7: Rs. XXX).

11.1.5 Loan amounting to Rs. xxxx remains outstanding at December 31, 20X8 (20X7: Rs. xxx) from Pak Zameen Company Limited. The loan carries mark-up @ 6% (20X7: 6%) per annum and secured against the land and machinery. The Company has provided the loan to Pak Zameen Limited for the procurement and installation of its new plant, at terms other than arm's length basis as Pak Zameen Limited has no revenue generating stream. In accordance with the terms of the agreement the loan is repayable in two annual installments, due on December 31, 20X9 and 20XX. The maximum amount due as at the end of any month during the year was Rs. xxx (20X7: Rs. xxx).

11.1.6 Loan amounting to Rs. xxxx (equivalent USD XXXX) remains outstanding at December 31, 20X8 (20X7: Rs. xxx) (equivalent USD XXX) from Foreign Land Company Limited.

The loan is unsecured and repayable in full on December 31, 20XX. The interest is charged at a fixed rate of 2% per year, and during the year the Company earned interest of Rs. xxx (20X7: Rs. xxx). The maximum amount due as at the end of any month during the year was Rs. xxx (20X7: Rs. xxx). Interest amount to Rs. xxx was earned during the year, included in finance income.

11.2 Long-term loans to employees

The loans are granted to the employees of the Company in accordance with the Company's employment rules for house building and conveyance loans. These loans are for maximum period of 10 and 3 years, respectively. These loans are secured against the underlying assets. The loans carry an effective interest rate of 5% (20X7: 5.5%) per annum.

	20X8 (Rupees)	20X7 (Rupees)
12 Long-term deposits and prepayments		
Deposits	xxx	xxx
Prepayments	xxx	xxx
	xxx	xxx
13 Inventories		
Raw materials	xxx	xxx
Consumable stores	xxx	xxx
Work in progress	xxx	xxx
Finished goods	xxx	xxx
	xxx	xxx

13.1 The cost of inventories recognised as expense amounted to Rs. xxx (20X7: Rs. xxx).

13.2 The write down of inventories to net realizable value amounted to Rs. xxx (20X7: Rs. xxx).

13.3 The Company reversed Rs. xxx of a previous inventory write-down in July 20X7. The Company has sold all the finished goods that were written down to an independent retailer in Singapore at original cost.

13.4 At December 31, 20X8 Rs. xxx (20X7: Rs. xxx) of the Company's raw material was pledged as security for a Rs. xxx loan from ABC Bank.

	Note	20X8 (Rupees)	Restated 20X7 (Rupees)
14 Trade and other receivables			

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

14.4 Age analysis of other receivables from related parties

Name of related party	Amount not past due	Amount past due					Total gross amount due
		Past due 0-30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-365 days	Past due 365 days	
.....Rupees.....							
Pak Land Company Limited	xxx	xxx	-	-	-	-	xxx
	xxx	xxx	-	-	-	-	xxx

This represents receivable in respect of various expenses incurred for Pak Land Company Limited, a related party, which is repayable on December 31, 20X9. There is no security for this receivable.

	Note	20X8 (Rupees)	20X7 (Rupees)
15 Prepayments and advances			
Advances to suppliers			
A related party	15.1	xxx	xxx
Other parties		xxx	xxx
Short term deposits		xxx	xxx
Prepayments		xxx	xxx
Insurance claim		xxx	xxx
General sales tax - net		xxx	xxx
Current portion of long term loans and advances		xxx	xxx
		xxx	xxx
Less: Allowance for impairment of advances to suppliers		(xxx)	(xxx)
		xxx	xxx

15.1 This represents amount advanced to Jupiter Company Limited, for supply of material. The advance is secured against the plant of the Jupiter Company Limited. The maximum amount of advance month outstanding at the end of any month was Rs. xxx (2007: Rs. xxx). The entire amount of the advance is considered good.

	Note	20X8 (Rupees)	20X7 (Rupees)
16 Other financial assets			
La Liga Fund xxx shares (2007: xxx shares)	16.1	xxx	xxx
Premier League Company Limited xxx units (2007: xxx units)	16.1	xxx	xxx
Current portion of TDRs		xxx	xxx
		xxx	xxx

16.1 These investments are stated at fair value at the year end, using the year end share and redemption prices.

	Note	20X8 (Rupees)	20X7 (Rupees)
17 Cash and bank balances			
Cash and bank balances			
Current accounts		xxx	xxx
Short-term bank deposits		xxx	xxx
Cash on hand		xxx	xxx
		xxx	xxx

	Note	20X8 (Rupees)	20X7 (Rupees)
17.1 Cash and cash equivalents			
Cash, cash equivalents and short-term borrowings (used for cash management purposes) include the following for the purposes of the cash flow statement:			
Cash and bank balances		xxx	xxx
Short-term running finance	23.3	(xxx)	(xxx)
		xxx	xxx

18 Share capital

18.1 Authorised share capital

Authorised share capital comprises of xxxxxx (20X7: xxxxx) Ordinary shares of Rs. 10 each, and xxx (20X7: xxx) Preference shares of Rs. 10 each.

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

18.1.1 In pursuance of the agreement between the Heavenly Company Limited and shareholder B, xxxx ordinary shares of Rs. 10 each were transferred to Shareholder B on June 30, 20X7. Consequent to this, Shareholder B has 25% shareholding of the Company. The share transfer agreement also entitles shareholder B with first refusal right in which any shares to be sold in future by the Heavenly Company Limited have to be first offered to shareholder B.

18.2 Issued, subscribed and paid up capital

	20X8 Rupees	20X7 Rupees
Issued, subscribed and paid up capital comprises of:		
Ordinary share capital	xxx	xxx
Preference share capital	xxx	xxx
	<u>xxx</u>	<u>xxx</u>

18.2.1 The breakup of ordinary and preference share capital is as follows:

20X8 Numbers	20X7 Numbers		20X8 Rupees	20X7 Rupees
		Ordinary shares		
xxx	xxx	Ordinary shares of Rs. 10 each paid in cash	xxx	xxx
xxx	xxx	Ordinary shares of Rs. 10 each issued at premium of Rs. 2 per share, paid in cash	xxx	xxx
xxx	xxx	Ordinary shares of Rs. 10 each issued at discount of Rs. 4 per share, paid in cash	xxx	xxx
xxx	xxx	Ordinary shares issued as fully paid for consideration other than cash (against property)	xxx	xxx
xxx	xxx	Ordinary shares allotted as bonus shares	xxx	xxx
<u>xxx</u>	<u>xxx</u>		<u>xxx</u>	<u>xxx</u>
		Preference shares		
<u>xxx</u>	<u>xxx</u>	Ordinary shares of Rs. 10 each paid in cash	<u>xxx</u>	<u>xxx</u>

18.2.2 Reconciliation of number of shares outstanding

	20X8 Numbers	20X7 Numbers
Ordinary shares		
Number of shares outstanding at the beginning of the year	xxx	xxx
Issued for cash	xxx	xxx
Issued for consideration other than cash	xxx	xxx
Number of shares outstanding at the end of the year	<u>xxx</u>	<u>xxx</u>
Preference shares		
Number of shares outstanding at the beginning of the year	xxx	xxx
Issued for cash	-	-
Issued for consideration other than cash	-	-
Number of shares outstanding at the end of the year	<u>xxx</u>	<u>xxx</u>

18.2.3 Pursuant, to a covenant contained in the long-term loan agreement with ABC Bank Limited, the Company is prevented from the distribution of dividends when the Company's current ratio (current assets ÷ current liabilities) is less than 3:1.

19 Revaluation surplus on property, plant and equipment

The revaluation surplus on property, plant and equipment is restated and now presented as a separate capital reserve in the financial statements (note 3.25.2).

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

	20X8 Rupees	Restated 20X7 Rupees
Balance as at January, 1	xxx	xxx
Surplus/(deficit) arising on revaluation:		
Land	xxx	xxx
Buildings	xxx	xxx
Leasehold improvements	(xxx)	xxx
	xxx	xxx
Deferred tax on surplus/(deficit) arising on revaluation	xxx	xxx
Surplus on revaluation transferred to unappropriated profit on account of incremental depreciation (net of tax)	(xxx)	(xxx)
	xxx	xxx

19.1 The revaluation surplus on property, plant and equipment is a capital reserve, and is not available for distribution to the shareholders in accordance with section 241 of the Companies Act, 2017.

	Note	20X8 Rupees	20X7 Rupees
20 Long-term financing			
Secured			
Loan from bank - ABC Bank Limited	20.1	xxx	xxx
Finance lease liabilities	20.4	xxx	xxx
		xxx	xxx
Unsecured			
Loans from related parties			
Holding company	20.3	xxx	-
Associated company	20.3	xxx	-
		xxx	xxx
		xxx	xxx
Less: Current portion of long term financing shown under current liabilities	25	xxx	xxx
		xxx	xxx

20.1 Loan from bank - ABC Bank Limited

The Company has obtained a loan from ABC Bank Limited. The loan is secured against first charge on freehold land and buildings(note 4.6), and pledge against inventory of the Company. It is repayable in 40 installments on quarterly basis starting from January 21 20X7 and then on each mark-up payment date at a mark-up rate of three month KIBOR plus 2% per annum. The mark-up is payable on quarterly basis in arrear. The Company may not pay dividend until certain financial requirements under these facilities are satisfied.

20.2 Loan from a related party - Holding company

During the year, the Company has obtained a loan from the holding company. This loan is unsecured and repayable in 4 equal installments commencing from June 26, 20X9. The mark-up payable on quarterly basis in arrear is fixed at 7% per annum.

20.3 Loan from a related party -Associated company

	Note	20X8 Rupees	20X7 Rupees
Undiscounted amount received		xxx	xxx
Less: Effect of discounting	30	-	(xxx)
Present value of interest free loan		xxx	xxx
Add: Unwinding of discount	33	xxx	xxx
Balance as at December 31		xxx	xxx

This represents interest-free loan from Blue Land Company Limited, an associated company (due to common directorship), on March 22, 20x7. This loan is unsecured and repayable in full on June 22, 2x22. Pursuant to the company's accounting policy, this interest-free loan has been recognised at present of the future outflow as per the agreed-upon loan repayment schedule (entire disbursed amount is due on June 22, 2x22). The present value is calculated by applying the discount rate of xx% per annum, being the market interest rate prevalent for similar instruments as at date of receipt of loan. The difference between the present value of the loan and actual receipt has been recognised as finance income (refer to note 30). During the year, the unwinding of discount of Rs. xxx (20X7: Rs.xxx) has been recognised as part of finance costs.

20X8 20X7

	Note	(Rupees)	(Rupees)
20.4 Finance lease liabilities			
The minimum lease payments under finance leases fall due as follows:			
within one year		xxx	xxx
later than one year but within five years		xxx	xxx
later than five years		xxx	xxx
		<u>xxx</u>	<u>xxx</u>

20.4.1 The Company entered into a finance lease agreement with Bank B in respect of motor vehicles. The rate of return used as the discounting factor is 5% (20X7: 4.8%) per annum. The lease rentals are payable in 60 monthly installments. Any delay in payments by the Company is subject to an additional payment of 2% per annum above normal return rate. The lease finance facility is secured over the assets to which they relate (note 4.5).

21 Deferred tax liability

The deferred tax assets and the deferred tax liabilities relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

	20X8 Rupees	Restated 20X7 Rupees
Deferred tax liability	xxx	xxx
Deferred tax asset	xxx	xxx
	<u>xxx</u>	<u>xxx</u>

21.1 Analysis of change in deferred tax

	Property, plant and equipment	Long term employee benefits	Provision for doubtful debts and receivables	Unused tax losses	Surplus on revaluation of property, plant and equipment
	Rupees				
January 01, 20X7 - Restated	xxx	(xxx)	(xxx)	(xxx)	xxx
Charge (credit) to profit or loss for the year	xxx	(xxx)	(xxx)	(xxx)	xxx
Charge (credit) to other comprehensive income for the year	-	(xxx)	-	-	xxx
January 01, 20X8 - Restated	xxx	(xxx)	(xxx)	(xxx)	xxx
Charge (credit) to profit or loss for the year	xxx	(xxx)	(xxx)	(xxx)	xxx
Charge (credit) to other comprehensive income for the year	xxx	xxx			xxx
	<u>xxx</u>	<u>(xxx)</u>	<u>(xxx)</u>	<u>(xxx)</u>	<u>xxx</u>

21.2 The total deferred tax asset for unused tax credits on December 31, 20X8 is Rs. xxx (20X7: Nil). Any unused tax credits will expire on December 31, 2X10.

21.3 A change in the corporation income tax rate from 33 % to 30% per cent was enacted on July 01, 20X8, effective from the same date. Deferred tax assets and liabilities on temporary differences are measured at 30%.

	20X8 Rupees	20X7 Rupees
22 Employee benefit obligations		
22.1 The amounts recognised in the statement of financial position are determined as follows:		
Present value of the defined benefit obligation	xxx	xxx
Fair value of plan assets	(xxx)	(xxx)
	<u>xxx</u>	<u>xxx</u>
22.2 The amounts recognised in the statement of profit or loss:		
Current service costs	xxx	xxx
Interest cost	xxx	xxx
	<u>(xxx)</u>	<u>(xxx)</u>
22.3 Changes in the present value of the defined benefit obligation are as follows:		

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

Opening defined benefit obligation	xxx
Service cost	xxx
Interest cost	xxx
Actuarial losses (gains)	xxx
Losses (gains) on curtailments	xxx
Benefits paid	(xxx)
	<u>xxx</u>

22.4 Changes in the fair value of plan assets of the defined benefit pension plans are as follows:

Opening fair value of plan assets	xxx
Actual return on plan assets	xxx
Assets distributed on settlements	(xxx)
Contributions by employer	xxx
Benefits paid	(xxx)
Closing fair value of plan assets	<u>xxx</u>

22.5 Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) are as follows:

Discount rate as at December 31, 20X8	xxx
Future salary increases	xxx
Proportion of employees opting for early retirement	xxx
Inflation rate	xxx

22.6 The major categories of plan assets as a percentage of total plan assets are as follows:

	<u>20X8</u>	<u>20X7</u>
Equity instruments	40%	36%
Property	50%	50%
Bank balance	10%	14%

22.7 Pension plan assets do not include any financial instruments issued by the Company or buildings owned by the Company.

22.8 The actual return on plan assets was Rs. xxxx.

22.9 All investments in collective investment schemes, listed equity and listed debt securities out of aforementioned funds have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the conditions specified thereunder.

23 Provisions

	Warranties (Note 23.2)	Legal claims (Note 23.3)	Total
Note Rupees		
Provisions at the beginning of the year	xxx	xxx	xxx
Additions during the year	xxx	xxx	xxx
Amount charged against provision during year	(xxx)	-	(xxx)
Unused amounts reversed	(xxx)	-	(xxx)
Net provision recognized in profit or loss	29 & 32 xxx	xxx	xxx
Provisions at the end of the year	23.1 <u>xxx</u>	<u>xxx</u>	<u>xxx</u>

23.1 Classification of provisions is as under:

Non-current	xxx	xxx	xxx
Current	xxx	-	xxx
	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>

23.2 Warranties

The provision for warranties relates mainly to paper sold during 20x7 and 20x8. A provision is recognised for expected warranty claims on products sold based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next year. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the two-year warranty period for all products sold. The Company expects of incur majority of this liability over the next year.

23.3 Legal claims

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For the year ended December 31, 20X8

23.3.1 As previously reported, the Company is one of many co-defendants in litigation relating to products previously manufactured which contained red clay. Provision was assessed by management by reviewing individual claims and discussing the Company's position with their legal advisers. The provision at the reporting date reflects the expected costs of potential future judgments against the Company. The liability is inherently uncertain due to the existence or amount of individual claims being in dispute. The actual future costs could be materially higher or lower than this estimate, depending on the progress of the claims that are ongoing.

23.3.2 During the construction work on office building of the Company, the surrounding walls and car park of adjacent property owned by M/s Glass Property Company Limited were damaged. Based on the negotiations with M/s Glass Property Company Limited, the Company has agreed to repair the surrounding walls and car park. In this regard the Company has recognised a provision of Rs. xxx based on the estimated cost to be incurred on repairs. The work for repairs will be completed by June 20X9 and accordingly the liability against the provision will be paid off. The Company's construction contractor responsible for the damage has agreed to reimburse Rs. xxx to the Company for the costs of repairing surrounding walls, however, the Company has not yet recognized any asset in this respect.

	Note	20X8 Rupees	20X7 Rupees
24 Trade and other payables			
Trade creditors		xxx	xxx
Deposits, accrued liabilities and advances		xxx	xxx
Accrued markup		xxx	xxx
Advances from customers - unsecured		xxx	xxx
Deferred income - government grants	24.3	xxx	xxx
Payable to employees' provident fund	24.4	xxx	xxx
Workers' profit participation Fund		xxx	xxx
Worker's welfare fund		xxx	xxx
General sales tax payable		xxx	xxx
Withholding tax		xxx	xxx
Other liabilities		xxx	xxx
		<u>xxx</u>	<u>xxx</u>

	Note	20X8 Rupees	20X7 Rupees
24.1 Trade and other payables due to the related parties			
Trade creditors		xxx	xxx
Advances	24.1.1	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

24.1.1 Advances represent, Rs. xxx and Rs. xxx payable to a director and the Holding company, respectively. These amounts relate to the expenditure incurred by the director and the holding company on the Company's behalf.

	Note	20X8 Rupees	20X7 Rupees
24.2 Bifurcation of security deposits			
Utilizable security deposits	24.2.1	xxx	xxx
Others	24.2.2	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

24.2.1 During the year, the Company utilized Rs. xxx for the purpose of the business from the security deposit in accordance with requirements of written agreements, in terms of section 217 of the Companies Act, 2017.

24.2.2 This includes security deposit of Rs. xxx received from a contractor against construction of building, kept in separate bank account maintained for that purpose as required under Section 217(2) of the Companies Act, 2017. It has not been utilized and kept intact.

24.3 Government grants

During the year, the Company received a grant of Rs. xxx from Mercury Grant Fund to acquire specialized robotic machine and prepare a feasibility study for the development of advanced ceramics manufacturing zone in the country.

The Company has acquired the specialized robotic machine in accordance with the terms of the grant agreement. With the fulfilment of this specified condition the Company has recognised grant income of Rs. xxx during the year, included in 'Other income'.

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

However, the Company deferred the remaining grant of Rs. xxxx as it had not completed the required research on the development of advanced ceramics manufacturing zone, at the reporting date. Subsequent to the year end, the Company completed this work and recognised the amount of Rs. xx as income in March 20X9.

In November 20X8 management of the Company attended the exhibition in ME Land to promote the Company's latest developed products. In order to promote overseas interest in the company's products, the local government provided free support to the management which involved helping the Company to promote its products to the attendees. No amount was recognised for this government assistance, as this form of assistance cannot reasonably have a value placed on it.

24.4 Payable to Employee's provident fund

All investments in collective investment schemes, listed equity and listed debt securities out of provident fund has been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the conditions specified thereunder.

	Note	20X8 Rupees	20X7 Rupees
25 Short-term financing			
Current portion of long-term financing	20	xxx	xxx
Short-term running finance facilities from:			
Bank A	25.1	xxx	xxx
Bank B	25.2	xxx	xxx
	25.3	xxx	xxx
		xxx	xxx

25.1 This represents utilized amount of running finance facility with a sanctioned limit of Rs. xxx (20X7: Rs. xxx). The facility carries mark up at the rate of 3 months KIBOR + 1% per annum of the utilized amount, payable on quarterly basis. The facility is secured against investment of the Company in Term Deposit Receipts (TDRs).

25.2 This represents utilized amount of running finance facility with a sanctioned limit of Rs. xxx arranged during the year by the Company. The facility carries mark up at the rate of 3 months KIBOR + 1% per annum of the utilized amount, payable on quarterly basis. The facility is secured against the Company's investment in Foreign Land Company Limited.

25.3 The short-term running finance facilities have been availed for the working capital purposes, and the year end outstanding balance of Rs. xxx (2007: Rs. xxx) is included in cash and cash equivalents.

	Note	20X8 Rupees	Restated 20X7 Rupees
26 Current tax liability			
The current tax liability at the year represents net balance of:			
Provision for current income tax		xxx	xxx
Advance income tax		(xxx)	(xxx)
		xxx	xxx

27 Contingencies and commitments

27.1 Contingencies

27.1.1 Customers claims against the Company not acknowledged as debts amounted to Rs. xxx at year end (20X7: Rs xxx)

27.1.2 Description of legal proceedings

Name of the court, agency or authority	Description of the factual basis of the proceeding and relief sought	Principal parties	Date instituted

MSE Pakistan Limited
Notes to the Financial Statements

For the year ended December 31, 20X8

High Court	Disputed demands aggregating to Rs. xxx for income tax decided in favor of the Company by the Income Tax Appellate authorities are currently in appeal by the department. The management, based on opinion of its tax consultant believes that there is reasonable probability that the matter will be decided in favor of the Company. Pending the outcome of the matter, no provision has been made in these financial statements.	Company and Federal Board of Revenue	September 30, 20X7
Civil Court	YaYa Limited has filed a petition against the company with the Civil Court, City Green on the plea that the Company has not provided the goods in accordance with the terms of the agreement resulting in business interruption. YaYa Limited has claimed damages amounting to Rs. xxx which have not been acknowledged by the Company. The management, based on opinion of its tax consultant believes that there is reasonable probability that the matter will be decided in favor of the Company. Pending the resolution of the matter stated above, no provision has been made in these financial statements.	Company and YaYa Limited (customer)	August 5, 20X6
High Court	The tax authorities issued a show cause notice to recover sales tax amounting to Rs. xxx relating to years ended 20X2 & 20X3. In tax authorities view, the Company had claimed input tax in excess of what was allowed under the law. After dismissal of the Company's appeal at the CIR-A level, the Company filed appeal with the ATIR which also decided the case against the Company. Against the decision of ATIR, the Company filed appeal with IHC which is pending adjudication. The maximum exposure as at December 31, 20X8 including the principal amount, penalty and default surcharge is approximately Rs. xxx. However, the management and their tax advisor are of the opinion that the position of the Company is sound on technical basis and eventual outcome ought to be in favour of the Company. Pending the resolution of the matters stated above, no provision has been made in these financial statements.	Company and Federal Board of Revenue	June 26, 20X4

	20X8 Rupees	20X7 Rupees
27.2 Commitments		
27.2.1 Commitments in respect of capital and revenue expenditures		
Property, plant and equipment	xxx	xxx
Intangible assets	xxx	xxx
Investment property - contractual obligations for future repairs and maintenance	xxx	xxx
	xxx	xxx
27.2.2 Guarantees issued by banks on behalf of the Company	xxx	xxx
27.2.3 Letters of credit issued by various banks on behalf of the Company in ordinary course of the business(outstanding at year end)	xxx	xxx
27.2.4 Operating lease commitments - Company as lessee		

The Company leases various outlets and warehouses under non-cancellable operating lease agreements. The lease terms are between five and 10 years. The majority of lease agreements are renewable at the end of the lease period at market rate.

The future minimum lease payments under non-cancellable operating leases are as follows:

	20X8 Rupees	20X7 Rupees
No later than 1 year	xxx	xxx
Later than 1 year and no later than 5 years	xxx	xxx
Later than 5 years	xxx	xxx
	xxx	xxx

MSE Pakistan Limited
Statement of Comprehensive Income
For the year ended December 31, 20X8

	<u>20X8</u> Rupees	<u>Restated</u> 20X7 Rupees
Profit for the year	xxx	xxx
Other comprehensive income:		
Items that will not be subsequently reclassified in profit or loss:		
Revaluation surplus on property, plant and equipment (net of tax)	xxx	xxx
Actuarial loss or gains on employee benefit obligations (net of tax)	xxx	xxx
	xxx	xxx
Total comprehensive income for the year	<u>xxx</u>	<u>xxx</u>

The annexed notes, from 1 to 43, form an integral part of these financial statements.

Chief Executive

Director

MSE Pakistan Limited
Statement of Changes in Equity
For the year ended December 31, 20X8

Note	Share capital		Discount on issue of shares	Capital Reserve	Revenue reserve	Total equity
	Issued, subscribed and paid up capital	Preference shares		Revaluation surplus on property, plant and equipment	Unappropriated profit	
	Ordinary shares					
	Rupees					
Balance at January 01, 20X7 - as previously reported	xxx	xxx	(xxx)	-	xxx	xxx
Adjustment on correction of error (net of tax)	3.26	-	-	-	(xxx)	(xxx)
Impact of changes in accounting policies (net of tax)	3.25	-	-	xxx	(xxx)	(xxx)
	xxx	xxx	(xxx)	xxx	xxx	xxx
Profit for the year - Restated	-	-	-	-	xxx	xxx
Other comprehensive income	-	-	-	xxx	-	xxx
Total comprehensive income for the year	-	-	-	xxx	xxx	xxx
Transfer to unappropriated profit on account of incremental depreciation (net of tax)	19			(xxx)	xxx	-
Balance at December 31, 20X7	xxx	xxx	xxx	xxx	xxx	xxx
Balance at January 1, 20X8	xxx	xxx	xxx	xxx	xxx	xxx
Profit for the year	-	-	-	-	xxx	xxx
Other comprehensive income	-	-	-	xxx	-	xxx
Total comprehensive income for the year	-	-	-	xxx	xxx	xxx
Transfer to unappropriated profit on account of incremental depreciation (net of tax)	19			(xxx)	xxx	-
Transactions with owners			-			
Issue of Ordinary shares	18	xxx	-	-	-	xxx
Dividends paid		-	-	-	(xxx)	(xxx)
		xxx	-	-	(xxx)	xxx
Balance at December 31, 20X8	xxx	xxx	xxx	xxx	xxx	xxx

The annexed notes, from 1 to 43, form an integral part of these financial statements.

Chief Executive

Director

MSE Pakistan Limited
Statement of cash flows
For the year ended December 31, 20X8

	Note	20X8 Rupees	Restated 20X7 Rupees
Cash flows from operating activities			
Profit for the year		xxx	xxx
Adjustments for non-cash income and expenses:			
Depreciation of property, plant and equipment		xxx	xxx
Amortization of intangible assets		xxx	xxx
Depreciation of investment property - at cost		xxx	xxx
Change in fair value of investment property - at fair value		(xxx)	(xxx)
Loss/(gain) on disposal of property, plant and equipment		(xxx)	(xxx)
Loss/(gain) on disposal of intangible assets		(xxx)	(xxx)
(Reversal) impairment losses on property, plant and equipment		(xxx)	xxx
Allowance for inventory obsolescence		xxx	xxx
Fair value loss/(gain) on investments carried at fair value		(xxx)	(xxx)
Impairment of trade receivables, advances and deposits		xxx	xxx
Changes in provisions		xxx	xxx
Movement in government grant		xxx	xxx
Finance costs		(xxx)	(xxx)
Unrealized foreign exchange losses/(gains)		(xxx)	(xxx)
Interest income		(xxx)	xxx
Dividend income		(xxx)	xxx
Non-cash employee benefits expense		xxx	xxx
Charge for Workers' profit participation fund and Worker's welfare fund		xxx	xxx
Unpaid current income tax expense		xxx	xxx
Deferred tax expense		xxx	xxx
		<u>xxx</u>	<u>xxx</u>
Changes in working capital:			
Inventories		xxx	xxx
Trade and other receivables		xxx	xxx
Trade and other payables		(xxx)	(xxx)
Provisions		(xxx)	(xxx)
Employee benefits (including workers' profit participation fund and worker's welfare fund)		(xxx)	xxx
Cash generated from operations		<u>xxx</u>	<u>xxx</u>
Income taxes paid		(xxx)	(xxx)
Net cash inflow from operating activities		<u>xxx</u>	<u>xxx</u>
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		(xxx)	(xxx)
Payments for acquisition of investment property		(xxx)	(xxx)
Payments for acquisition of intangible assets		(xxx)	(xxx)
Proceeds from disposal of property, plant and equipment and intangible assets		xxx	xxx
Increase in long-term deposits and prepayments		(xxx)	(xxx)
Payments against loans and advances		xxx	xxx
Receipts against repayment of loans and advances		xxx	xxx
Payments for acquisition of investments		(xxx)	(xxx)
Interest received		xxx	xxx
Dividends received		xxx	xxx
Receipt of government grants		xxx	xxx
Net cash (outflow) from investing activities		<u>(xxx)</u>	<u>(xxx)</u>
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		xxx	xxx
Proceeds from borrowings		xxx	xxx
Repayments of borrowings		(xxx)	(xxx)
Payments against finance lease obligation		(xxx)	(xxx)
Interest paid		(xxx)	(xxx)
Dividends paid		(xxx)	(xxx)
Net cash (outflow)/inflow from financing activities		<u>(xxx)</u>	<u>xxx</u>
Net increase/(decrease) in cash and cash equivalents		xxx	(xxx)
Cash and cash equivalents at the beginning of the year		<u>xxx</u>	<u>xxx</u>
Cash and cash equivalents at the end of the year	17.1	<u>xxx</u>	<u>xxx</u>

The annexed notes, from 1 to 43, form an integral part of these financial statements.

Chief Executive

Director

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

1 Corporate and general information

1.1 Legal status and operations

Bit brief about the registration of the organization, registration authority, nature of the buisness being involved by the organization.

1.2 Summary of significant events and transactions in the current reporting period

The section will elaborate the Company's financial position and performance was particularly affected by the which events and transactions during the reporting period.

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 applicable in Pakistan comprise of:

- International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS for SMEs, the provisions of and directives issued under the Companies Act, 2017 have been followed.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for certain items as disclosed in the relevant accounting policies below.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupee (Rs. / Rupees) which is the Company's functional currency. Amounts presented in the financial statements have been rounded off to the nearest of Rs. / Rupees, unless otherwise stated.

2.4 Key judgements and estimates

The preparation of financial statements in conformity with the accounting and reporting standards as applicable in Pakistan requires the use of certain critical accounting estimates. In addition, it requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are documented in the following accounting policies and notes, and relate primarily to:

- Useful lives, residual values and depreciation method of property, plant and equipment - Note 3.1 & 4
- Useful lives, residual values and depreciation method of investment property measured at cost - Note 3.2 & 5
- Fair value of investment property - Note 3.2 & 6
- Useful lives, residual values and amortization method of intangible assets - Note 3.3 & 7
- Provision for impairment of inventories - Note 3.8 & 13
- Impairment loss of non-financial assets other than inventories - Note 3.9 & 4
- Provision for doubtful trade receivables - Note 3.10 & 14
- Obligation of defined benefit obligation - Note 3.17 & 22
- Estimation of provisions - Note 3.18 & 23
- Estimation of contingent liabilities - Note 3.19 & 27
- Current income tax expense, provision for current tax and recognition of deferred tax asset (for carried forward tax losses) - Note 3.16, 21 & 35

The revisions to accounting estimates (if any) are recognised 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.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes as explained in note 3.25.

3.1 Property, plant and equipment

Initial recognition

All items of property, plant and equipment are initially recorded at cost.

Subsequent measurement

Items of property, plant and equipment other than land, buildings, leasehold improvements and capital work in progress are measured at cost less accumulated depreciation and impairment loss (if any).

Land, buildings and leasehold improvements are measured at the revalued amount less accumulated depreciation and impairment loss (if any).

Capital work in progress is stated at cost less impairment loss (if any).

Revaluation

Any revaluation increase arising on the revaluation of land, buildings and leasehold improvements is recognised in other comprehensive income and presented as a separate component of equity as "Revaluation surplus on property, plant and equipment", except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Any decrease in carrying amount arising on the revaluation of land, buildings and leasehold improvements is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation surplus on property, plant and equipment relating to a previous revaluation of that asset. The revaluation reserve is not available for distribution to the Company's shareholders. The surplus on revaluation buildings and leasehold improvements to the extent of incremental depreciation charged (net of deferred tax) is transferred to unappropriated profit.

During the year the Company changed its accounting policy in respect of the accounting and presentation of revaluation surplus on property, plant and equipment. Previously, the Company's accounting policy was in accordance with the provisions of repealed Companies Ordinance, 1984. Those provisions and resultant previous policy of the company was not in alignment with the accounting treatment and presentation of revaluation surplus as prescribed in the IFRS for SMEs. However, the Companies Act, 2017 has not specified any accounting treatment for revaluation surplus, accordingly the Company has changed the accounting policy and is now following the IFRS for SMEs prescribed accounting treatment and presentation of revaluation surplus. The detailed information and impact of this change in policy is provided in note 3.25.2 below.

Depreciation

Depreciation is charged so as to write off the cost or revalued amount of assets (other than land and capital work in progress) over their estimated useful lives, using the straight-line method at rates specified in note 4 to the financial statements.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Disposal

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised as other income in the statement of profit or loss. In case of the sale or retirement of a revalued items, the attributable revaluation surplus remaining in the surplus on revaluation of such item is transferred directly to the unappropriated profit.

Judgment and estimates

The useful lives, residual values and depreciation method are reviewed on a regular basis. The effect of any changes in estimate is accounted for on a prospective basis.

Change in estimate

During the year, the Company after review of useful lives and residual values of property, plant and equipment, increased the useful life of office equipment from four to six years. The revision was accounted for prospectively as a change in accounting estimate and as a result, the depreciation charge of the Company for 20X8 decreased by Rs. xxx and carrying amount of office equipment increased by Rs. xxx as compared to the amounts had there been no change in estimate. Accordingly, the current and deferred tax liabilities have increased by Rs. xxx. The resultant after-tax effect is an increase in profit for the year of Rs. xxx.

3.2 Investment property

Recognition and measurement

Investment property, which is property held to earn rentals and/or for capital appreciation, including property under construction for such purposes, is measured initially at its cost, including transaction costs.

Subsequent to initial recognition, investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis after initial recognition are measured at fair value, at each reporting date. The changes in fair value recognised in the statement of profit or loss. Any other investment property (whose fair value cannot be measured reliably without undue cost or effort) is measured at cost less accumulated depreciation and any impairment loss.

The fair value of investment property is determined at the end of each year using current market prices for comparable real estate, adjusted for any differences in nature, location and condition.

Judgment and estimates

The useful lives, residual values and depreciation method are reviewed on a regular basis. The effect of any changes in estimate accounted for on a prospective basis. Further, determining adjustments for any differences in nature, location and condition of the investment property involves significant judgment.

Rental income

Rental income from investment property that is leased to a third party under an operating lease is recognised in the statement of profit or loss on a straight-line basis over the lease term and is included in 'other income'.

3.3 Intangible assets

Measurement

Intangible assets, other than goodwill, are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is charged so as to allocate the cost of assets over their estimated useful lives, using the straight-line method at the rates specified in note 7 to the financial statements.

Research and development expenditure is charged to 'administrative expenses' in the statement of profit or loss, as and when incurred.

Judgment and estimates

The useful lives, residual values and amortization method are reviewed on a regular basis. The effect of any changes in estimate accounted for on a prospective basis.

3.5 Investment in associates

Investment in associates is accounted for at cost less any accumulated impairment losses. Dividend income from investments in associates is recognised in profit or loss and included in other income when the company's right to receive payment has been established.

3.6 Investment in jointly controlled entity

Investment in jointly controlled entity is accounted for at cost less any accumulated impairment losses. Dividend income from investment in jointly controlled entity is recognised in profit or loss and included in other income when the company's right to receive payment has been established.

3.7 Dividend income

Dividend income is recognised when the Company's right to receive payment has been established and is recognised in profit or loss and included in other income.

3.8 Inventories

Measurement

Inventories are stated at the lower of cost and net realizable value.

Cost is calculated using the weighted average method and comprises direct materials, direct labour costs and direct overheads that have been incurred in bringing the inventories to their present location and condition.

Net realizable value represents the estimated selling price in the ordinary course of the business less all estimated costs of completion and estimated costs necessary to be incurred in order to make the sale.

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

Impairment

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the cost of sales in the statement of profit or loss.

Judgments and estimates

Inventory write-down is made based on the current market conditions, historical experience and selling goods of similar nature. It could change significantly as a result of changes in market conditions. A review is made periodically on inventories for excess inventories, obsolescence and decline in net realisable value and an allowance is recorded against the inventory balances for any such decline.

3.9 Impairment of non-financial assets other than inventories

The assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. If there is an indication of possible impairment, the recoverable amount of the asset is estimated and compared with its carrying amount.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. The impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An impairment loss is reversed only to the extent that the asset carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The Company recognises the reversal immediately in the statement of profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

3.10 Trade and other receivables

Measurement

Trade receivables and other receivables are recognised at transaction price less an allowance for impairment.

Impairment

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the statement of profit or loss. Bad debts are written-off in the statement of profit or loss on identification.

Judgments and estimates

The allowance for doubtful debts of the Company is based on the ageing analysis and management's continuous evaluation of the recoverability of the outstanding receivables. In assessing the ultimate realisation of these receivables, management considers, among other factors, the creditworthiness and the past collection history of each customer.

3.11 Impairment of financial assets other than trade receivables

The financial assets other than those that are carried at fair value are assessed at each reporting date to determine whether there is any objective evidence of their impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

The impairment loss is recognized immediately in the statement of profit or loss and the carrying amount of the related financial asset is reduced accordingly. An impairment loss is reversed only if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

3.12 Borrowings

Measurement

Loans are measured at amortised cost using the effective interest method.

Overdrafts are repayable in full on demand and are initially measured and subsequently stated at face value (the amount of the loan).

Interest

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Interest-free loan

In case the loan is interest-free or carries interest below the prevalent market rate, it is initially recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. The difference between the discounted present value and actual receipt is recognised as finance income. Subsequently, the interest-free loan is measured at amortized cost, using the effective Interest rate method, this involves unwinding of discount, such that at the repayment date, the carrying value of obligation equals the amount to be repaid. The unwinding of discount is included in finance costs in the statement of profit or loss.

3.13 Leases

At its inception, a lease is classified as either a finance lease or an operating lease. Finance leases transfer substantially all the risks and rewards of ownership. All other leases are classified as operating leases.

Finance leases

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of finance charges, are included in borrowings in the statement of financial position.

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Minimum lease payments receivable under operating leases are recognised as revenue on a straight-line basis over the term of the lease.

3.14 Government grants

Recognition and measurement

Government grants are recognised at the fair value of the asset received or receivable.

A grant without specified future performance conditions is recognised in income when the grant proceeds are receivable. A grant that imposes specified future performance conditions is recognised in income when all those conditions are met and there is a reasonable assurance that the grant will be received.

Government grants are presented separately from the assets to which they relate. Government grants received before the income recognition criteria are satisfied are presented as a separate liability in the statement of financial position.

Government grants recognised in income are presented separately in the 'other income'.

Further, the Company does not recognise those forms of government assistance for which a reasonable value cannot be placed on them.

3.15 Trade and other payables

Trade payables are obligations under normal short-term credit terms. These are measured at the undiscounted amount of cash to be paid.

3.16 Income tax

Income tax comprises of current tax and deferred tax.

Income tax expense is recognised in the statement of profit and loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity (if any), in which case the tax amounts are recognized directly in other comprehensive income or equity.

Current tax

Current tax is the expected tax payable on the taxable income for the year; calculated using rates enacted or substantively enacted by the end of the reporting period. The calculation of current tax takes into account tax credit and tax rebates, if any, and is inclusive of any adjustment to income tax payable or recoverable in respect of previous years.

Deferred tax

A deferred tax liability is recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and the carryforward of unused tax losses.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance sheet date.

Judgment and estimates

Significant judgment is required in determining the income tax expenses and corresponding provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Further, the carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. If required, carrying amount of deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits to allow the benefit of part or all of that recognised deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Off-setting

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and they relate to income taxes levied by the same tax authority.

3.17 Employee benefits - retirement benefits

The Company has a defined benefit plan (gratuity) and defined contribution plan (provident fund).

Defined benefit plan

The Company measures defined benefit liabilities (assets) at the present value of its obligation under defined benefit plan at the reporting date minus the fair value at the reporting date of plan assets out of which the obligations are to be settled directly. The obligation under defined benefit plan is determined using the projected unit credit method.

Actuarial gains and losses are recognised in the other comprehensive income in the period in which they occur. Past-service costs are recognised immediately in the statement of profit or loss. The latest actuarial valuation of the plan was carried out as at December 31, 20X8.

In determining the liability for long-service payments management must make an estimate of salary increases over the following five years, the discount rate to calculate present value over next five years, and the number of employees expected to leave before they receive the benefits.

Defined contribution plan

The Company also operates a recognized provident fund scheme for the permanent employees. Contributions to fund are made monthly by the Company and employee at the rate of x% of the basic salary. The Company's contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

3.18 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as finance cost in the statement of profit or loss.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

As the actual outflows can differ from estimates made for provisions due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are reviewed at each reporting date and adjusted to take account of such changes. Any adjustments to the amount of previously recognised provision is recognised in the statement of profit or loss unless the provision was originally recognised as part of cost of an asset.

Provision for warranty obligations

All goods sold by the Company are warranted to be free of manufacturing defects for a period of one year. Provisions for warranty costs are recognised at the date of sale of the relevant products, at the management's best estimate of the expenditure required to settle the Company's obligation.

3.19 Contingent liabilities

A contingent liability is disclosed when the Company has a possible obligation as a result of past events, 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; or the Company has a present legal or constructive 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.

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

3.20 Off-setting of financial assets and liabilities

Financial assets and financial liabilities are off-set and the net amount is reported in the statement of financial position if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.21 Revenue recognition

Revenue is recognised to the extent the Company has delivered goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue is measured at the fair value of the consideration received or receivable, exclusive of sales tax and trade discounts.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. This is usually at the point that the customer has signed for the delivery of the goods.

Rendering of services

Revenue from rendering of services is recognised in proportion to the stage of completion of transaction at the reporting date. The stage of completion is based on the survey of the work performed.

3.22 Borrowing costs

Borrowing costs are recognised on the basis of the effective interest method. During the year, the company changed its accounting policy and now all borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

The change in accounting policy is explained in note 3.25.1.

3.23 Foreign currency transactions and translations

Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into Pakistan Rupees at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged in the statement of profit or loss.

3.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the company's shareholders.

3.25 Change in accounting policies

The Companies Act, 2017 has introduced changes to the accounting and reporting standards applicable to the medium-sized companies, which have been applied for the first time in these financial statements. The changes in the accounting and reporting standards have impacted the Company's accounting policies relating to the borrowings costs and revaluation surplus on property, plant and equipment. Accordingly, the accounting policies of the borrowings costs and revaluation surplus on property, plant and equipment have been changed and applied retrospectively in these financial statements to comply with the accounting and reporting standards applicable to the Company. The changes in accounting policies had a net impact of Rs. xxx and Rs. xxx on unappropriated profit and total equity respectively, as at January 1, 20X8. The resulted impact of change in accounting policy is further explained below:

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

3.25.1 Change in accounting policy of borrowing costs

On January 01, 20X8 the Company changed its accounting policy for the borrowing costs in accordance with requirements of the accounting and reporting standards as applicable in Pakistan under the Companies Act, 2017. Now all borrowing costs of the Company are recognised as an expense in the statement of profit or loss in the period in which these are incurred.

The Company's previous accounting policy for borrowing costs was in accordance with the then applicable approved accounting and reporting standards prescribed under the repealed Companies Ordinance, 1984. Previously, the Company capitalized the borrowing costs related to the qualifying assets, in accordance with the approved accounting and reporting standards (prescribed by SECP through S.R.O 929 of 2015).

This change in accounting policy has been accounted for retrospectively, and the comparative information has been restated:

Statement of financial position

Retrospective Impact of change in accounting policy

	As at January 1, 20X7			As at December 31, 20X7		
	As previously reported on December 31, 20X6	Adjustments Increase/(Decrease)	As restated on January 1, 20X7	As previously reported on December 31, 20X7	Adjustments Increase/(Decrease)	As restated on December 31, 20X7 (Restated)
	Rupees			Rupees		
Property, plant and equipment	xxx	(xxx)	xxx	xxx	(xxx)	xxx
Total assets	xxx	(xxx)	xxx	xxx	(xxx)	xxx
Deferred tax liability	xxx	(xxx)	xxx	xxx	(xxx)	xxx
Income tax payable	xxx	(xxx)	xxx	xxx	xxx	xxx
Total liabilities	xxx	(xxx)	xxx	xxx	xxx	xxx
Un-appropriated profit	xxx	xxx	xxx	xxx	(xxx)	xxx
Total equity	xxx	xxx	xxx	xxx	(xxx)	xxx

Impact of change in accounting policy - December 31, 20x8

Decrease in property, plant and equipment	(xxx)
Increase in deferred tax liabilities	(xxx)
Increase in current tax payable	(xxx)
Decrease in un-appropriated profit	xxx

Statement of profit or loss

Year ended December 31, 20x7

	Impact of change in accounting policy		
	As previously reported	Adjustments Increase/(Decrease)	20X7 (Restated)
	Rupees		
Cost of sales - Depreciation	xxx	(xxx)	xxx
Finance costs	xxx	xxx	xxx
Profit before income tax	xxx	xxx	xxx
Income tax expense - Deferred and current	xxx	(xxx)	xxx
Profit for the year	xxx	xxx	xxx

Year ended December 31, 20x8

	Rupees
Decrease in cost of sales (depreciation)	xxx
Increase in finance costs	(xxx)
Increase in tax expense	(xxx)
Decrease in profit for the year	(xxx)

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

3.25.2 Change in accounting policy of revaluation surplus on property, plant and equipment

On January 01, 20X8 the Company changed its accounting policy for the revaluation surplus on property, plant and equipment, in accordance with requirements of the accounting and reporting standards as applicable in Pakistan under the Companies Act, 2017. Previously, the Company's accounting policy for surplus on revaluation of property, plant and equipment was in accordance with the provisions of section 235 of the repealed Companies Ordinance, 1984. Further, the revaluation surplus on property, plant and equipment was shown as a separate item below equity, in accordance with the presentation requirement of the repealed Companies Ordinance, 1984.

The Companies Act, 2017 has not retained the above mentioned specific accounting and presentation requirements of revaluation surplus on property, plant and equipment. Consequently, this impacted the Company's accounting policy for revaluation surplus on property, plant and equipment, and now the related accounting and presentation requirements set out in section 17 of IFRS for SMEs are being followed by the Company. The new accounting policy is explained under note 3.1, above. Further, the revaluation surplus on property, plant and equipment is now presented in the statement of financial position and statement of changes in equity as a capital reserve i.e. part of equity.

In these financial statements the above explained change in accounting policy has been accounted for retrospectively, with the restatement of the comparative information.

The effect of the change is recognition and presentation of Rs.xxx for revaluation surplus on property, plant and equipment as a capital reserve i.e. separate component of equity and derecognition of surplus on revaluation of property, plant and equipment of Rs. xxx, previously presented below equity in the statement of financial position. Further, there is a reduction in the profit of Rs. xxx and increase in the other comprehensive income of Rs. xxx, with a net increase to total comprehensive income of Rs. xxx for the year ended December 31, 20X8.

Statement of financial position

Retrospective Impact of change in accounting policy

	As at January 1, 20X7			As at December 31, 20X7		
	As previously reported on December 31, 20X6	Adjustments Increase/(Decrease)	As restated on January 1, 20X7	As previously reported on December 31, 20X7	Adjustments Increase/(Decrease)	As restated on December 31, 20X7 (Restated)
 Rupees Rupees		
Surplus on revaluation of property plant and equipment (within the equity)	xxx	xxx	xxx	xxx	xxx	xxx
Un-appropriated profit	xxx	(xxx)	xxx	xxx	xxx	xxx
Net impact on equity	xxx	xxx	xxx	xxx	xxx	xxx
Surplus on revaluation of property plant and equipment (below equity)	xxx	(xxx)	-	xxx	(xxx)	-
	xxx	(xxx)	-	xxx	(xxx)	-

Impact of change in accounting policy - December 31, 20x8

	Rupees
Surplus on revaluation of property plant and equipment (within equity)	xxx
Un-appropriated profit	xxx
Surplus on revaluation of property plant and equipment (below equity)	(xxx)
	<u>xxx</u>

Statement of profit or loss

For the year ended 20x7

	Impact of change in accounting policy		
	As previously reported	Adjustments Increase/(Decrease) in profit	20X7 (Restated) Rupees
 Rupees		
Administrative and general expenses - Deficit on revaluation of assets	-	xxx	xxx
Profit before income tax	-	xxx	xxx
Income tax expense	xxx	(xxx)	xxx
Profit for the year	xxx	xxx	xxx

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Notes to the Financial Statements
For the year ended December 31, 20X8

Statement of comprehensive income

For the year ended 20X7

	Impact of change in accounting policy		
	As previously reported	Adjustments Increase/ (Decrease)	20X7 (Restated)
	Rupees		
Other comprehensive income (net of tax)	xxx	(xxx)	xxx
Total comprehensive income for the year (net of tax)	xxx	xxx	xxx

Statement of profit or loss

Year ended December 31, 20x8

	Rupees
Increase in administrative and general expenses - Deficit on revaluation of assets	xxx
Decrease in tax expense	(xxx)
Decrease in profit for the year	(xxx)

Statement of comprehensive income

For the year ended 20X8

Increase in other comprehensive income - net of tax	xxx
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3.26 Correction of prior period error

In January 20X8, the Company conducted a detailed review of the terms and conditions of its sales contracts and discovered the error in relation to the revenue recognition. The error related to a contract entered in July 20X5. On July 20, 20x5 the Company entered into a sales contract with a new customer to sell special PVC pipes. As part of the negotiations, in July 20X6 a modification was made to the standard terms and conditions to sell the PVC pipes to this customer on consignment basis. However, the Company continued to recognise revenue at the point of delivery to the customer instead of deferring the revenue recognition until the customer has sold the goods. As a consequence, revenue was overstated.

The correction of the error is accounted for retrospectively, and the comparative information for 20X7 has been restated. The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Statement of financial position

	As at January 1, 20X7			As at December 31, 20X7		
	December 31, 20X6	Increase/ (Decrease)	January 1, 20X7 (Restated)	December 31, 20X7	Increase/ (Decrease)	December 31, 20X7 (Restated)
	Rupees					
Trade receivables	xxx	(xxx)	xxx	xxx	(xxx)	xxx
Income tax payable	-	xxx	xxx	-	xxx	xxx
Net impact on equity	xxx	(xxx)	xxx	xxx	(xxx)	xxx

Statement of profit or loss

For the year ended 20X7

	Impact of change in accounting policy		
	As previously reported	Profit Increase/ (Decrease)	20X7 (Restated)
	Rupees		
Revenue	xxx	xxx	xxx
Profit before income tax	xxx	xxx	xxx
Income tax expense	xxx	(xxx)	xxx
Profit for the year	xxx	xxx	xxx

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

4.1 In November 20X8, the Company purchased freehold land measuring 200 acres in City B. The Company has made the payment for acquisition of land and has also obtained the possession of land. However, it is in the process of transferring the legal title to its name. At the reporting date the legal title is in the name of seller, Mr. xxxxx. Subsequent to the year on January 20X9, the legal title has been transferred to

4.2 Revalued land, building and leasehold improvements

On January 1, 20X5, the Company elected to measure land, buildings and leasehold improvements (classified as property, plant and equipment) using the revaluation model.

The fair value of the Company's land, buildings and leasehold improvements are determined annually by an independent professionally qualified valuer. The valuation is based on an open market value.

The activity in the property markets in which these assets are located provides observable market data on which reliable fair value estimates can be derived. In determining the valuation, the valuer refers to current market conditions and recent sales transactions of similar properties. In estimating the fair value of the property, the highest and best use of the property is their current use.

The carrying values of the land, buildings and leasehold improvements would have been Rs. xxx, Rs. xxx and Rs. xxx under the cost model.

The forced sale value of the revalued land, building and leasehold improvements has been assessed at Rs. xxx, Rs. xxx and Rs. xxx respectively.

4.3 During the year, the carrying amount of certain items of plant and equipment have been reduced to their recoverable amount through recognition of an impairment loss of Rs. xxx. This loss has been included in 'Administrative and general expenses' in the statement of profit and loss.

4.4 During the year, the Company has reversed impairment loss recognised in prior years on welding equipment included in plant and machinery amounting to Rs. xxx. The reversal of impairment loss has been included in 'Administrative and general expenses' in the statement of profit and loss.

4.5 The carrying amount of the Company's vehicles includes an amount of Rs. xxx (20X7: Rs. xxx) in respect of assets held under finance lease. The lease finance facility is secured over the vehicles to which they relate (note 20.4).

4.6 Freehold land and buildings with aggregate carrying amount of Rs. xxx are subject to a first charge against the loan of Rs. xxx obtained from ABC Bank (note 20.1). This charge existed at December 31, 20X7.

4.7 At December 31, 20X8 the Company had contracted Contractor A to construct an office block for the Company. The Rs. xxx fixed price contract requires construction to begin by March 01, 20X9 and to be completed by October 15, 20X9.

4.8 Detail of disposals of property, plant and equipment

Asset	Cost	Carrying amount	Sale price	Gain / (Loss) on disposal	Particulars of the purchaser	Mode of disposal	Relationship with the purchaser
 Rupees						
Laptop	xxx	xxx	xxx	xxx	Khurram Ali	Auction	Employee
Motor vehicle	xxx	xxx	xxx	(xxx)	Mars Insurance company	Insurance claim	None
Motor vehicle	xxx	xxx	xxx	(xxx)	Mr. Adeel Frahan	Auction	Brother of Director
Motor vehicle	xxx	xxx	xxx	(xxx)	Mr. JZB	Company policy	Ex - Employee
Furniture	xxx	xxx	xxx	xxx	Kamyab Brothers	Auction	None
	xxx	xxx	xxx	(xxx)			

4.9 Capital work in progress

	20X8 Rupees	20X7 Rupees
Construction work on head office building	xxx	xxx
Advances for procurement of machinery	xxx	xxx
	<u>xxx</u>	<u>xxx</u>

4.10 Depreciation for the year has been allocated as follows:

	Note	20X8 (Rupees)
Cost of sales	29	xxx
Marketing and distribution expenses	31	xxx
Administrative and general expenses	32	xxx
		<u>xxx</u>

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

		20X8 Rupees	Restated 20X7 Rupees
28 Revenue			
Sale of goods		xxx	xxx
Rendering of services		xxx	xxx
		xxx	xxx
Less: Trade discount		(xxx)	(xxx)
Sales Tax		(xxx)	(xxx)
		xxx	xxx

	Note	20X8 Rupees	20X7 Rupees
29 Cost of sales			
Salaries, wages and benefits	29.1	xxx	xxx
Cost of inventories consumed	13.1	xxx	xxx
Provision for warranties	23	xxx	xxx
Operating lease rentals		xxx	xxx
Repairs and maintenance		xxx	xxx
Allowance for inventory obsolescence	13.2	xxx	xxx
Utilities and communication		xxx	xxx
Depreciation of property, plant and equipment	4.10	xxx	xxx
Amortization on intangible assets	7.4	xxx	xxx
Insurance		xxx	xxx
Miscellaneous		xxx	xxx
Opening work in progress		xxx	xxx
Closing work in progress		(xxx)	(xxx)
Cost of goods manufactured		xxx	xxx
Opening stock of finished goods		xxx	xxx
Closing stock of finished goods		(xxx)	(xxx)
		xxx	xxx

29.1 This includes contributions to defined contribution plan of Rs. xxx (20X7: Rs. xxx) and expense recognized in respect of defined benefit pension fund of Rs. xxx (20X7: Rs. xxx).

	Note	20X8 Rupees	20X7 Rupees
30 Other income			
Dividend income on investments	30.1	xxx	xxx
Effect of discounting of interest free loan	20.3	-	xxx
Interest on Term Deposit Receipts		xxx	xxx
Interest on long term loans and advances		xxx	xxx
Rental income		xxx	xxx
Net unrealised gain on investment property carried at fair value	6	xxx	xxx
Net unrealised gain on investments carried at fair value		xxx	xxx
Net foreign exchange gains/ (losses) - trade related		xxx	xxx
Gain/(loss) on disposal of property, plant and equipment and		xxx	xxx
Government grants	24.3	xxx	xxx
Insurance claim		xxx	-
Bad trade receivables recovered		xxx	xxx
		xxx	xxx

30.1 This includes dividend amounting to Rs. xxx (20X7: xxx) received from Foreign Land Company, an associate.

MSE Pakistan Limited
Notes to the Financial Statements
For the year ended December 31, 20X8

	Note	20X8 Rupees	20X7 Rupees
31 Marketing and distribution expenses			
Salaries, wages and benefits	31.1	xxx	xxx
Depreciation of property, plant and equipment	4.10	xxx	xxx
Sales promotion and advertising		xxx	xxx
Travelling and transportation		xxx	xxx
		<u>xxx</u>	<u>xxx</u>

31.1 This includes contributions to defined contribution plan of Rs. xxx (20X7: Rs. xxx) and expense recognized in respect of defined benefit pension fund of Rs. xxx (20X7: Rs. xxx).

	Note	20X8 Rupees	20X7 Rupees
32 Administrative and general expenses			
Salaries, wages and benefits	32.1	xxx	xxx
Research and development expenditure		xxx	xxx
Depreciation of property, plant and equipment	4.10	xxx	xxx
Depreciation of investment property at cost	5.4	xxx	xxx
Amortization of intangible asset	7.4	xxx	xxx
Utilities and communication		xxx	xxx
Insurance		xxx	xxx
Impairment of trade, other receivables and advances		xxx	xxx
Impairment of property, plant and equipment	4.3	xxx	xxx
Reversal of Impairment of property, plant and equipment	4.4	xxx	xxx
Operating lease rentals		xxx	xxx
Auditors' remuneration	32.2	xxx	xxx
Donations	32.3	xxx	xxx
Provision for legal claims	23	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

32.1 This includes contributions to defined contribution plan of Rs. xxx (20X7: Rs. xxx) and expense recognized in respect of defined benefit pension fund of Rs. xxx (20X7: Rs. xxx).

	20X8 Rupees	20X7 Rupees
32.2 Auditors' remuneration		
Audit services		
Annual audit fee	xxx	xxx
Out of pocket expenses	xxx	xxx
	xxx	xxx
Non-audit services		
Certifications for regulatory purposes	xxx	xxx
Tax advisory services	xxx	xxx
	<u>xxx</u>	<u>xxx</u>

32.3 Donations

32.3.1 Donation of Rs. xxx was given to Hospital H, for its free medical treatment of residents of Soan Valley.

32.3.2 Included in donation is Rs. xxx (20X7: Rs. xxx) donated to Naik NGO (a related party). The following directors interest in the NGO is limited to the extent of their involvement as directors.

Ms. Maryam Saeed
Ms. Amna Hussain

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Notes to the Financial Statements
For the year ended December 31, 20X8

	Note	20X8 Rupees	20X7 Rupees
33 Other operating expenses			
Workers Profit Participation Fund		xxx	xxx
Workers Welfare Fund		xxx	xxx
		<u>xxx</u>	<u>xxx</u>
			Restated
		20X8	20X7
	Note	Rupees	Rupees
34 Finance costs			
Unwinding of discount on interest free loan	20.3	xxx	xxx
Mark-up on long term borrowings		xxx	xxx
Mark-up on short term borrowings		xxx	xxx
Lease finance charges	20.4	xxx	xxx
Bank charges		xxx	xxx
		<u>xxx</u>	<u>xxx</u>
35 Income tax expense			
Current tax		xxx	xxx
Deferred tax		xxx	xxx
		<u>xxx</u>	<u>xxx</u>

35.1 Major components of income tax expense are a under:

Current tax expense for current year		xxx	xxx
Adjustments recognised in period for current tax of prior periods		xxx	-
Amount of deferred tax expense relating to the origination and reversal of temporary differences		xxx	xxx
Amount of deferred tax expense (income) relating to changes in tax rates or imposition of new taxes		xxx	xxx
The amount of the benefit arising from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense		-	-
Adjustments to deferred tax expense arising from a change in the tax status of the entity or its shareholders		-	-
Deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset		xxx	-
Amount of tax expense relating to:			
Changes in accounting policies	3.25	xxx	xxx
Correction of errors	3.26	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

35.2 Income tax of the estimated assessable profit for the year is calculated at the enacted corporation tax rate of 33 % (20X7: 30 %).

35.3 Income tax expense for the year, Rs. xxx in 20X8 (Rs. xxx in 20X7), differs from the amount that would result from applying the tax rate of 30% and (2007: 33%), respectively, to profit before tax because, under the applicable tax laws some employee compensation expenses, provision for doubtful advances, debts and receivables (aggregating to Rs. xxxx in 20X8 and Rs. xxx in 20X7) that are recognised in measuring profit before tax are not tax-deductible.

35.4 The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income:

	Note	20X8 Rupees	20X7 Rupees
Revaluation surplus on property, plant and equipment	19	xxx	xxx
Actuarial loss on employee benefit obligations	21	xxx	xxx
		<u>xxx</u>	<u>xxx</u>

MSE Pakistan Limited
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36 Remuneration of chief executive, directors and executives

	20X8			20X7		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees					
Managerial remuneration	xxx	xxx	xxx	xxx	xxx	xxx
Company's contribution to the Provident fund	xxx	-	xxx	xxx	-	xxx
Fees	-	xxx	-	-	xxx	-
Bonus	xxx	-	xxx	xxx	-	xxx
Housing and utilities	xxx	-	xxx	xxx	-	xxx
	xxx	xxx	xxx	xxx	xxx	xxx
Number of persons (including	1	4	228	1	4	210

Chief Executive, Chief financial officer, General Manager Marketing and General Manager Operations are provided with the Company's maintained cars. The approximate aggregate value of this benefit is Rs. xxx (20X7: Rs. xxx).

37 Financial instruments

	Fair value through profit or loss		Amortized cost		Total	
	20X8	20X7	20X8	20X7	20X8	20X7
	(Rupees)					
Financial assets						
Long term investments	xxx	xxx	xxx	xxx	xxx	xxx
Long term loans and advances	-	-	xxx	xxx	xxx	xxx
Long term deposits	-	-	xxx	xxx	xxx	xxx
Trade and other receivables	-	-	xxx	xxx	xxx	xxx
Cash and bank balances	-	-	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx	xxx	xxx
Financial liabilities						
Long term financing	-	-	xxx	xxx	xxx	xxx
Trade and other payables	-	-	xxx	xxx	xxx	xxx
Short-term financing	-	-	xxx	xxx	xxx	xxx
Provisions	-	-	xxx	xxx	xxx	xxx
Unpaid dividend	-	-	xxx	xxx	xxx	xxx
Unclaimed dividend	-	-	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx	xxx	xxx

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	20X8 Number	20X7 Number
38 Number of employees		
Total employees of the Company at the year end	xxx	xxx
Average employees of the Company during the year	xxx	xxx
Employees working in the Company's factory at the year end	xxx	xxx
Average employees working in Company's factory during the year	xxx	xxx

	20X8 Units	20X7 Units
39 Plant capacity and production		
Installed capacity	xxx	xxx
Actual production	xxx	xxx

39.1 Difference is due to the supply demand situation in the market.

40 Related party transactions

Related parties comprise subsidiary, associated companies, companies where directors also hold directorship, retirement benefits fund and key management personnel. Significant transactions with related parties during the year are as under:

Name of the related party	Relationship and percentage shareholding	Transactions during the year and year end balances	20X8 (Rupees)	20X7 (Rupees)
Heavenly Company Limited	Holding company holds 100% (20X7: 100%) share capital	Loan provided	xxx	xxx
		Loan received	xxx	xxx
		Markup paid	xxx	xxx
		Shares issued	xxx	-
		Dividend paid	xxx	-
		Expenses incurred	xxx	xxx
		Amount due at the year end	xxx	xxx
Ms. Amna Hussain	Director	Loan provided	xxx	xxx
		Markup earned	xxx	xxx
		Amount due at the year end	xxx	xxx
Pak Land Company Limited	Associated company by virtue of common directorship	Loan provided	xxx	xxx
		Expenses incurred on bel	xxx	xxx
		Interest income	xxx	xxx
		Sale of goods	xxx	xxx
		Debts written off	xxx	xxx
		Provision for doubtful de	xxx	xxx
		Amount due at the year end	xxx	xxx

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Pak Zameen Company Limited	Associated company by virtue of common directorship	Loan provided Interest income Amount due at the year end	xxx xxx xxx	xxx xxx xxx
Blue Land Company Limited	Associated company by virtue of common directorship	Loan received Interest expense Interest income Amount due at the year end	xxx xxx xxx xxx	xxx xxx xxx xxx

<u>Name of the related party</u>	<u>Relationship and percentage</u>	<u>Transactions during the year and year</u>	<u>20X8 (Rupees)</u>	<u>20X7 (Rupees)</u>
Foreign Land Company Limited	Associated company by holding 25% (20X7:25%) share capital	Loan provided Dividend income Interest income Sale of goods Amount due at the year end	xxx xxx xxx xxx xxx	xxx xxx xxx xxx xxx
JCE (Private) Limited	Jointly controlled entity	Dividend income	xxx	xxx
NGO	Associated company by virtue of common directorship	Donations	xxx	xxx
Board of Directors (executive and non-executive), all members of the Company's Management Team	Key management	Total compensation	xxx	xxx
Staff retirement benefit plan - Provident fund	Other related party	Contributions by the Company	xxx	xxx

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41 Corresponding figures

The preparation and presentation of these financial statements for the year ended December 31, 20X8 is in accordance with requirements in Companies Act, 2017. The fifth schedule to the Companies Act, 2017 has introduced certain presentation and classification requirements for the elements of financial statements. Accordingly, the corresponding figures have been rearranged and reclassified, wherever considered necessary, to comply with the requirements of Companies Act, 2017. Following major reclassifications have been made during the year:

Description	Reclassified from	Reclassified to	20X7 (Rupees)
Unpaid dividend	Trade and other payables	Unpaid Dividend (presented on face of statement of financial	xxx
Unclaimed dividend	Trade and other payables	Unclaimed dividend (presented on face of statement of financial	xxx

42 Events after the end of the reporting date

- 42.1** On February 5, 20X9 the officer's block was seriously damaged by fire. Insurance claims have been put in hand but the cost of refurbishment is currently expected to exceed these by Rs. xxx.
- 42.2** On March 10, 20X9 the directors voted to declare a dividend of Rs. xx per share. Because the obligation arose in 20X9, a liability is not shown in the statement of financial position at December 31, 20X8.

43 Authorisation for issue

These financial statements were approved by the Company's board of directors and authorised for issue on March 01, 20X9.

Chief Executive Officer

Director