

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</u> <u>Rupees</u> | <u>Restated</u> <u>20X7</u> <u>Rupees</u> |
|-------------------------------------|-------------|------------------------------|---|
| Revenue | 28 | xxx | xxx |
| Cost of sales | 29 | <u>(xxx)</u> | <u>(xxx)</u> |
| Gross profit | | xxx | xxx |
| 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 | <u>(xxx)</u> | <u>(xxx)</u> |
| Profit before income tax | | xxx | xxx |
| Income tax expense | 35 | <u>(xxx)</u> | <u>(xxx)</u> |
| 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

| | <u>Note</u> |
|--|---------------------|
| 5 Investment property - at cost | |
| Cost | |
| Accumulated depreciation and impairment | |
| Additions | |
| Disposals - carrying amount | |
| Depreciation charge for the year | 32 |
| Transfer (to)/from property, plant and equipment | |
| Transfer (to)/from investment property at fair value (Impairment)/Reversal of impairment | |
| Carrying amount as at December 31, 20X8 | |
| The carrying amount as at December 31, 20x8 is aggregate of: | |
| Cost / Revalued amount | |
| Accumulated depreciation and impairment | |
| Rate of depreciation (%) | |
| 5.1 This represents freehold land owned by the Company. The land is not occupied by the Company and is held for appreciation. The Company carries this investment property under cost model as its fair value cannot be reliably measured without undue cost or effort as there is no active market for this property and a recent comparable transaction for this property is also not available. | |
| 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. | |
| | <u>Note</u> |
| 6 Investment property - at fair value | |
| Carrying amount as at January 1, 20X8 | |
| Additions - Subsequent expenditure | |
| 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 |
| Other changes | |
| Carrying amount as at December 31, 20X8 | |
| 6.1 The fair value of investment property is determined at the end of each year by independent suitably qualified valuation experience in the concerned valuer using current market prices for comparable real estate, adjusting for 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. xxx (20X7: Rs. 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 to construct an office block on vacant land owned by the Company. The Rs. xxx fixed price contract requires commencement by March 31, 20X9 and to be completed by September 30, 20XX. There were no contractual commitments as at December 20X7. | |
| There is no restriction on the realisability of its investment properties and no contractual obligations to purchase, 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. | |
| | 20X9 2X10-2X13 |
| The minimum lease payments receivable under non-cancellable operating leases | xxx xxx |

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

| | Computer Softwares | Trademarks |
|---|----------------------|------------|
| | (Rupees) | |
| Cost | xxx | xxx |
| Accumulated amortization | xxx | xxx |
| Carrying amount as at January 1, 20X8 | xxx | xxx |
| Additions | xxx | xxx |
| Disposals - carrying amount | - | (xxx) |
| Amortization charge for the year | xxx | xxx |
| Impairment | - | - |
| Carrying amount as at December 31, 20X8 | 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 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 F 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 |
|-------------------------------------|------|
| Cost of sales | 29 |
| Administrative and general expenses | 32 |

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 purchaser |
|---------------|------|-----------------|------------|---------------------------|------------------------------|------------------|------------------------|
| Trademark SAM | xxx | xxx | xxx | xxx | Old Engineering Co. Ltd | Negotiation | Noni |
| Trademark AMY | xxx | xxx | xxx | xxx | New Electric Traders Co. Ltd | Negotiation | Compet |
| | xxx | xxx | xxx | xxx | | | |

| | 20X8 (Rupees) |
|--|------------------|
| 8 Investment in associates | |
| Carrying amount at the beginning of the year | xxx |
| Investment made during the year | xxx |
| Carrying amount at the end of the year | xxx |

- 8.1 The Company owns 25% shares of Foreign Land Company which is incorporated in Foreign Land and listed on E 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 share Land Company Limited.

- 8.2 The investments in associated companies have been made in accordance with the requirements of the Companies A

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

The loans to associated companies are as per below details:

| | | |
|-------------------------------------|--------|------------|
| Pak Land Company Limited | 11.1.4 | xxx |
| Pak Zameen Company Limited | 11.1.5 | xxx |
| Foreign Land Company Limited | 11.1.6 | xxx |
| | | xxx |
| Less: Provisions for doubtful loans | | - |
| Loans written off | | - |
| | | <u>xxx</u> |

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 granted the loan to Pak Zameen Limited for the procurement and installation of its new plant, at terms other than arm's length. 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 annum 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 other 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 rule book for 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.

| | <u>20X8</u> <u>(Rupees)</u> |
|--|--------------------------------|
| 12 Long-term deposits and prepayments | |
| Deposits | xxx |
| Prepayments | xxx |
| | <u>xxx</u> |
| 13 Inventories | |
| Raw materials | xxx |
| Consumable stores | xxx |
| Work in progress | xxx |
| Finished goods | xxx |
| | <u>xxx</u> |
| 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. | |

| | |
|-------------|--------------------------------|
| <u>Note</u> | <u>20X8</u> <u>(Rupees)</u> |
|-------------|--------------------------------|

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

14 Trade and other receivables

| | | |
|---|-------------|-------|
| Trade receivables | 14.1 & 14.2 | xxx |
| Other receivables | 14.3 & 14.4 | xxx |
| | | xxx |
| Less: Allowance for impairment of trade receivables | | (xxx) |
| | | xxx |

14.1 Trade receivables from related parties

| Name of related party | Gross amount due | Past due amount | Provision for doubtful receivables | Reversal of provision of doubtful receivables | Amount due written off | Net amount due | Maximum amount outstanding at any time during the year |
|--------------------------|------------------|-----------------|------------------------------------|---|------------------------|----------------|--|
| Rupees..... | | | | | | | |
| Foreign Land Company Ltd | xxx | xxx | - | - | - | xxx | xxx |
| Pak Land Company Ltd | xxx | xxx | xxx | xxx | - | xxx | xxx |
| | xxx | xxx | xxx | xxx | - | xxx | xxx |

14.2 Age analysis of trade 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..... | | | | | | | |
| Foreign Land Company Ltd | xxx | xxx | - | xxx | - | - | xxx |
| Pak Land Company Ltd | xxx | xxx | - | - | xxx | - | xxx |
| | xxx | xxx | - | xxx | xxx | - | xxx |

During the year, provision for doubtful trade receivables due from Pak Land Company Limited, amounting to Rs. x reversed. This provision has been received as the Company received the due amount of Rs. xxx from Pak Land Company Limited on September 30, 20X8.

14.3 Other receivables from related parties

| Name of related party | Gross amount due | Past due amount | Provision for amount | Reversal of provision of doubtful amount | Amount due written off | Net amount due | Maximum amount outstanding at any time during the year |
|--------------------------|------------------|-----------------|----------------------|--|------------------------|----------------|--|
| Rupees..... | | | | | | | |
| Pak Land Company Limited | xxx | xxx | xxx | - | xxx | xxx | xxx |
| | xxx | xxx | xxx | xxx | xxx | xxx | xxx |

14.4 Age analysis of other receivables from related parties

| Name of related party | Amount | Amount past due | Total gross |
|-----------------------|--------|-----------------|-------------|
|-----------------------|--------|-----------------|-------------|

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

| NAME OF RELATED party | not past 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 | تOTAL مبالغ amount due |
|-----------------------|--------------|--------------------|---------------------|---------------------|----------------------|-------------------|------------------------|
|Rupees..... | | | | | | | |
| Pak Land Company | xxx | xxx | - | - | - | - | xxx |
| | xxx | xxx | - | - | - | - | xxx |

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

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

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

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

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

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

17.1 Cash and cash equivalents

Cash, cash equivalents and short-term borrowings (used for cash management purposes) include the following for the cash flow statement:

| | Note | 20X8 (Rupees) |
|----------------------------|------|------------------|
| Cash and bank balances | | xxx |
| Short-term running finance | 23.3 | (xxx) |
| | | xxx |

18 Share capital

18.1 Authorised share capital

MSE Pakistan Limited
Notes to the Financial Statements

For the year ended December 31, 20X8

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

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

18.2 Issued, subscribed and paid up capital

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

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

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

18.2.2 Reconciliation of number of shares outstanding

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

18.2.3 Pursuant, to a covenant contained in the long-term loan agreement with ABC Bank Limited, the Company is pre 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 re financial statements (note 3.25.2).

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

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

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

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

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 buildings (note 4.6), and pledge against inventory of the Company. It is repayable in 40 installments on quarterly basis from January 21 20X7 and then on each mark-up payment date at a mark-up rate of three month KIBOR plus 2%. The mark-up is payable on quarterly basis in arrear. The Company may not pay dividend until certain financial ratios 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 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

| | <u>Note</u> | <u>20X8</u> <u>Rupees</u> |
|-------------------------------------|-------------|------------------------------|
| Undiscounted amount received | | xxx |
| Less: Effect of discounting | 30 | - |
| Present value of interest free loan | | xxx |
| Add: Unwinding of discount | 33 | xxx |
| Balance as at December 31 | | <u>xxx</u> |

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

This represents interest-free loan from Blue Land Company Limited, an associated company (due to common director March 22, 20x7. This loan is unsecured and repayable in full on June 22, 2X22. Pursuant to the company's account this interest-free loan has been recognised at present of the future outflow as per the agreed-upon loan repayment (entire disbursed amount is due on June 22, 2x22). The present value is calculated by applying the discount rate annum, being the market interest rate prevalent for similar instruments as at date of receipt of loan. The difference the present value of the loan and actual receipt has been recognised as finance income (refer to note 30). During the unwinding of discount of Rs. xxx (20X7: Rs.xxx) has been recognised as part of finance costs.

| | Note | 20X8 (Rupees) |
|--|------|------------------|
| 20.4 Finance lease liabilities | | |
| The minimum lease payments under finance leases fall due as follows: | | |
| within one year | | xxx |
| later than one year but within five years | | xxx |
| later than five years | | xxx |
| | | <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 discounting factor is 5% (20X7: 4.8%) per annum. The lease rentals are payable in 60 monthly installments. All payments by the Company is subject to an additional payment of 2% per annum above normal return rate. The lease 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 settlement. Therefore, they have been offset in the statement of financial position as follows:

| | 20X8 Rupees |
|------------------------|----------------|
| Deferred tax liability | xxx |
| Deferred tax asset | xxx |
| | <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 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 date. Deferred tax assets and liabilities on temporary differences are measured at 30%.

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

| | | <u>Rupees</u> |
|-------------|--|--|
| 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 |
| | Fair value of plan assets | <u>(xxx)</u> |
| | | <u>xxx</u> |
| 22.2 | The amounts recognised in the statement of profit or loss: | |
| | Current service costs | xxx |
| | Interest cost | <u>xxx</u> |
| | | <u>(xxx)</u> |
| 22.3 | Changes in the present value of the defined benefit obligation are as follows: | |
| | Opening defined benefit obligation | xxx |
| | Service cost | xxx |
| | Interest cost | xxx |
| | Actuarial losses (gains) | xxx |
| | Losses (gains) on curtailments | xxx |
| | Benefits paid | <u>(xxx)</u> |
| | | <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 | <u>(xxx)</u> |
| | 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> |
| | Equity instruments | 40% |
| | Property | 50% |
| | Bank balance | 10% |
| 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. xxx. | |
| 22.9 | All investments in collective investment schemes, listed equity and listed debt securities out of aforementioned have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the conditions thereunder. | |
| 23 | Provisions | |
| | | Warranties Legal claims Total |

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

| | Note | (Note 23.2) Rupees | (Note 23.3) Rupees | Total |
|--|---------|-----------------------------------|-----------------------------------|-------|
| 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 | xxx | xxx | xxx |

23.1 Classification of provisions is as under:

| | | | |
|-------------|-----|-----|-----|
| Non-current | xxx | xxx | xxx |
| Current | xxx | - | xxx |
| | xxx | xxx | xxx |

23.2 Warranties

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

23.3 Legal claims

- 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 position with their legal advisers. The provision at the reporting date reflects the expected costs of potential judgments against the Company. The liability is inherently uncertain due to the existence or amount of individual claims in dispute. The actual future costs could be materially higher or lower than this estimate, depending on the provisions 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 provided a provision of Rs. xxx based on the estimated cost to be incurred on repairs. The work for repairs will be completed in 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, and the Company has not yet recognized any asset in this respect.

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

| | Note | 20X8 Rupees |
|--|------|----------------|
| 24.1 Trade and other payables due to the related parties | | |

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

| | | |
|-----------------|--------|-----|
| Trade creditors | | xxx |
| Advances | 24.1.1 | xxx |
| | | xxx |

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

| | Note | 20X8 Rupees |
|--|--------|----------------|
| 24.2 Bifurcation of security deposits | | |
| Utilizable security deposits | 24.2.1 | xxx |
| Others | 24.2.2 | xxx |
| | | xxx |

24.2.1 During the year, the Company utilized Rs. xxx for the purpose of the business from the security deposit in accordance with the 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 a separate account maintained for that purpose as required under Section 217(2) of the Companies Act, 2017. It has not been 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 machinery to 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. In fulfillment of this specified condition the Company has recognised grant income of Rs. xxx during the year, included in 'Income'.

However, the Company deferred the remaining grant of Rs. xxx as it had not completed the required research and 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 developed products. In order to promote overseas interest in the company's products, the local government provided 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 have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the conditions specified thereunder.

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

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

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

- 25.2 This represents utilized amount of running finance facility with a sanctioned limit of Rs. xxx arranged during the Company. The facility carries mark up at the rate of 3 months KIBOR + 1% per annum of the utilized amount, 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 balance of Rs. xxx (2007: Rs. xxx) is included in cash and cash equivalents.

| | Note | 20X8 Rupees |
|--|------|----------------|
| 26 Current tax liability | | |
| The current tax liability at the year represents net balance of: | | |
| Provision for current income tax | | xxx |
| Advance income tax | | (xxx) |
| | | <u>xxx</u> |

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 inst |
|--|--|--------------------------------------|-----------|
| 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 |
| 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, |

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

| | | | |
|------------|--|---|----------|
| 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, |
|------------|--|---|----------|

| | 20X8 |
|--|---------------|
| | Rupees |
| 27.2 Commitments | |
| 27.2.1 Commitments in respect of capital and revenue expenditures | |
| Property, plant and equipment | xxx |
| Intangible assets | xxx |
| Investment property - contractual obligations for future repairs and maintenance | xxx |
| | xxx |
| 27.2.2 Guarantees issued by banks on behalf of the Company | 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 |
| 27.2.4 Operating lease commitments - Company as lessee | |

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

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

| | 20X8 |
|---|---------------|
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| No later than 1 year | xxx |
| Later than 1 year and no later than 5 years | xxx |
| Later than 5 years | xxx |
| | xxx |

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

| | 20X8 | Restated |
|--|--|--|
| | Rupees | 20X7 |
| | <u> </u> | <u> </u> |
| 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 |
| | <u> </u> | <u> </u> |
| Total comprehensive income for the year | <u> </u> <u> </u> | <u> </u> <u> </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.

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.

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) |
| | xxx |

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 |

MSE Pakistan Limited
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 |
|---|-----|

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 |
| | xxx | xxx |

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 |
| | | xxx |

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 intangible | | 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

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

| | 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 |

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

| | | | | |
|----------------------------|---|--|--------------------------|--------------------------|
| 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 |

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

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