TRADING CORPORATION OF PAKISTAN (PRIVATE) LIMITED

Financial Statements

For the year ended June 30, 2015

Deloitte.

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Trading Corporation of Pakistan (Private) Limited** (the Company) as at June 30, 2015 and the related profit and loss account, cash flow statement, and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that except for the matters referred to in paragraphs (a) to (h) below, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements.

Except for matters disclosed in paragraphs (a) to (h) below, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion and after due verification, we report that:

a) As disclosed in note 8.1 to the financial statements, stock in trade includes 28,176 metric tonnes of sugar costing Rs.1,408.94 million which has not been supplied by certain sugar mills under contractual terms and the Company has initiated legal proceedings there-against. In the absence of an evaluation by the Company regarding the quantity of stocks expected to be received from the sugar mills, we were unable to determine whether any adjustments to the amount of stock-in-trade was necessary;

b) As stated in note 10.2 to the financial statements, Rs. 58,709.07 million were receivable from various government institutions as at June 30, 2015 of which Rs. 10,692.39 million have been outstanding for over three years and no recoveries have been made. Further, advance tax deducted on sale proceeds received from customers were not recorded separately rather receipts net of tax were recorded resulted in overstatement of debtors. In the absence of replies to our confirmation requests relating to these debtors and sufficient appropriate audit evidence from alternative procedures as to the recoverability and accuracy of these long outstanding balances, we were unable to determine whether any adjustment to the amount of these receivables was necessary;

c) As stated in note 12.1 to the financial statements, amounts aggregating to Rs. 2,051.59 million were receivable from six sugar mills as at June 30, 2015 which have been outstanding for over three years. The Company has filed legal cases for recovery of the outstanding amounts in the High Court of Sindh. We were unable to obtain sufficient appropriate evidence as to recoverability of these receivables and hence were unable to determine whether any adjustment to the amount of receivables was necessary;

d) As at June 30, 2015, sales tax refundable balance as per books of account of the Company was Rs. 4,813.61 million, whereas according to the sales tax records of the Company i.e. invoices, goods declarations (GDs) etc. provided to us by the management, this amount worked out to be Rs. 4,614.50 million. The management of the Company is in the process of reconciling the difference of Rs. 199.10 million between the books of account and sales tax records but without success. Further, as stated in note 20.1.2 read with note 12 to the enclosed financial statements, the Company received an Assessment Order from the Deputy Commissioner Inland Revenue (DCIR) in April 2015 in which a demand of Rs 1,945.43 million along-with penalty of Rs 97.27 million have been raised on account of excess input tax claimed by the Company in its sales tax returns for the period from April 2012 to December 2012. Further a demand of Rs 399.54 million along with the penalty of Rs. 19.98 million have also been raised in the same Order on account of non-payment of output tax on sale / supply of sugar to Utility Stores Corporation of Pakistan from January 2013 to June 2013. The Company has paid the amount involved in the said demands under protest. As the management is unable to reconcile the difference as stated above after lapse of more than 3 years and receipts of demands from the taxation authorities in the current year, we were unable to determine whether any adjustment to the amount of sales tax receivable / adjustable was necessary;

e) As at June 30, 2015, the books of account of the Company show a net income tax liability of Rs. 2,206.30 million for which a year-wise break up is not available with the management. Further, we have not received replies to our confirmation requests sent to the tax advisors of the Company. Management is also in the process of reviewing written down values of fixed assets stated in tax depreciation schedule (tax base) which exceed the accounting carrying value of fixed assets (accounting base) by Rs. 185.97 million as at June 30, 2015 despite the fact that depreciation rates allowed under tax laws are higher than the accounting depreciation rates. As such we were unable to determine whether any adjustment to the amount of income tax payable as disclosed in the financial statements was necessary and whether any deferred tax asset or liability is required to be recorded on timing difference between accounting base and tax base of operating fixed assets;

f) The Company has not segregated its godowns into owner occupied property and investment property as per the requirements of International Accounting Standard (IAS-40) "Investment Property" since separate details of cost of land and construction of godowns are not available due to reasons fully explained in note 4.1.3 to the financial statements. Further the depreciation on all godowns is being charged to "Cost to be reimbursed by the Government" which is not in accordance with the matching principle as the rent on godowns being used as investment property is being recognized in the profit and loss account of the Company. In the absence of this information, we were unable to determine the value of godowns that should be reclassified as Investment Property as per the requirements of IAS-40, the fair market values to be disclosed and the depreciation that should be recognized in the profit and loss account in the financial statements;

g) As disclosed in note 20.1.6 to the financial statements, income tax returns of the Company for tax years from 2008 to 2013 were amended by the Additional Commissioner Inland Revenue under section 122 (5A) of the Income Tax Ordinance, 2001 by disallowing expenses apportioned/allocated by the Company against 'other income' and disallowing set-off of prior year refunds against tax liabilities, and raised demands aggregating to Rs. 1,955.50 million. The Company made payment against said demands and filed appeals against said orders before Commissioner Inland Revenue (Appeals) who decided these appeals against the Company which in turn filed an appeal in the Appellant Tribunal Inland Revenue which is pending adjudication. The Company has recorded provision of Rs. 378.74 million in the year ended June 30, 2014 against the said amount. In the absence of replies to our confirmation requests sent to the tax advisors of the Company on the merit of these cases, we are unable to determine whether the provision already booked was sufficient or whether any adjustment in the tax charge of the Company was necessary;

h) As disclosed in note 20.1.3.1, 20.1.3.2, 20.1.3.3 and 20.1.3.4 to the financial statements, the Company is defendant in litigations having aggregate financial impact of US $ 15.39 million (equivalent to Rs. 1,566.12 million). These cases have been decided / confirmed against the Company by Single Bench of High Court of Sindh and are currently subjudice and pending with the Divisional Bench in the High Court of Sindh. In the absence of replies to our confirmation requests sent to the legal advisors of the Company on the merit of these cases, we are unable to determine whether any provision/ liability should be recorded by the Company in respect of these cases;

Except for the effects of the matters described in the paragraphs (a) to (h) above;

i) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

j) in our opinion:

 (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

 (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

k) in our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matters described in paragraphs (a) to (h) above, the balance sheet, profit and loss account, cash flow statement, and statement of changes in equity together with the notes forming part thereof confirm with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2015 and of the profit, its cash flows, and changes in equity for the year then ended; and

l) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to the following matter:

As stated in notes 20.1.3 to the financial statements, several matters/ litigations against the Company aggregating to Rs. 5,603.85 million were pending adjudication. The ultimate outcome of these matters/litigations cannot presently be determined, and no provision for any liability that may result has been made in these financial statements;

Our opinion is not qualified in respect of this matter.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner
Mushtaq Ali Hirani

Dated: February 29, 2016
Karachi

TRADING CORPORATION OF PAKISTAN (PRIVATE) LIMITED
BALANCE SHEET
AS AT JUNE 30, 2015

	Note	June 30, 2015	June 30, 2014
		(Rupees in '000)	
ASSETS			
NON CURRENT ASSETS			
Property and equipment	4	502,404	522,313
Long term investments	5	114,092	102,746
Long term loans and advances	6	130,785	113,284
Long term deposits		12,286	12,286
		759,567	750,629
CURRENT ASSETS			
Stores	7	-	-
Stock-in-trade held on behalf of Government of Pakistan	8	6,439,547	6,279,100
Due from Government of Pakistan	9	23,143,483	39,799,241
Trade debtors	10	58,683,822	63,460,212
Loans and advances	11	31,568	25,412
Interest / mark-up accrued		32,919	97,692
Prepayments and other receivables	12	6,102,100	3,636,940
Sales tax refundable	13	4,813,606	4,382,145
Short term investments	14	18,451,568	17,103,574
Bank balances	15	1,082,260	2,112,088
		118,780,873	136,896,404
TOTAL ASSETS		119,540,440	137,647,033
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	16	1,000,000	1,000,000
Reserves		12,422,334	11,391,985
		13,422,334	12,391,985
NON-CURRENT LIABILITIES			
Long term loan	17	16,649	16,649
Deferred liabilities - staff compensated absences		39,921	31,797
		56,570	48,446
CURRENT LIABILITIES			
Trade and other payables	18	3,126,963	1,873,488
Commodity finance under markup arrangements	19	98,392,985	117,777,829
Interest / mark-up accrued		2,335,287	3,465,569
Taxation - net		2,206,301	2,089,716
		106,061,536	125,206,602
TOTAL EQUITY AND LIABILITIES		119,540,440	137,647,033
CONTINGENCIES AND COMMITMENTS	20		

The annexed notes from 1 to 38 form an integral part of these financial statements.

Rizwan Ahmad

CHIEF EXECUTIVE OFFICER

DIRECTOR

TRADING CORPORATION OF PAKISTAN (PRIVATE) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015	2014
		(Rupees in '000)	
Commission income	21	529,645	1,349,089
Administrative expenses	23	(900,433)	(941,387)
		(370,788)	407,702
Other income	24	2,037,026	1,583,556
Profit before taxation		1,666,238	1,991,258
Taxation	25	(535,889)	(1,042,634)
Profit after taxation		1,130,349	948,624
Other comprehensive income for the year		-	-
Total comprehensive income for the year		1,130,349	948,624

The annexed notes from 1 to 38 form an integral part of these financial statements.

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Rizwan Ahmed

CHIEF EXECUTIVE OFFICER

DIRECTOR

TRADING CORPORATION OF PAKISTAN (PRIVATE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2015

	Issued, subscribed and paid-up capital	General reserve	Building reserve	Reserve for contingencies	Revenue reserves	Unappropriated profit	Surplus on remeasurement of available-for-sale investments	Total
	(Rupees in '000)							
Balance at July 01, 2013	1,000,000	6,771,500	1,680,000	100,000	239,000	1,652,861	175	11,443,536
Transfer to general reserve	-	1,500,000	-	-	-	(1,500,000)	-	-
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	948,624	-	948,624
Other comprehensive income for the year	-	-	-	-	-	-	-	-
Surplus on re-measurement of available-for-sale investment	-	-	-	-	-	-	(175)	(175)
Balance at June 30, 2014	1,000,000	8,271,500	1,680,000	100,000	239,000	1,101,485	-	12,391,985
Transfer to general reserve	-	1,500,000	-	-	-	(1,500,000)	-	-
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	1,130,349	-	1,130,349
Other comprehensive income for the year	-	-	-	-	-	-	-	-
Transaction with the owners								
Final dividend for the year ended June 30, 2014 @ Re. 1 per share	-	-	-	-	-	(100,000)	-	(100,000)
Balance at June 30, 2015	1,000,000	9,771,500	1,680,000	100,000	239,000	631,834	-	13,422,334

The annexed notes from 1 to 38 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

TRADING CORPORATION OF PAKISTAN (PRIVATE) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015	2014
		--(Rupees in '000)--	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,666,238	1,991,258
Adjustments of non cash and other items			
Depreciation on fixed assets		22,146	24,385
Profit on investments		(1,851,067)	(1,325,657)
Provision for staff retirement gratuity and compensated absences		133,355	148,529
Stock of cotton written off		7,085	-
Provision against doubtful receivables		22,562	34,563
Gain on disposal of fixed assets		(76)	(230)
		(1,665,995)	(1,118,410)
		243	872,848
Changes in working capital	26	18,464,053	7,309,783
Cash generated from operations		18,464,296	8,182,631
Income tax paid		(419,305)	(595,484)
Staff retirement gratuity paid		(90,687)	(15,882)
Compensated absences paid		(36,127)	(43,728)
		(546,119)	(655,094)
Net cash generated from operating activities		17,918,177	7,527,537
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(2,746)	(20,300)
Sale proceeds from disposal of fixed assets		585	1,962
Investments made in term deposit receipts - net		(1,347,994)	(8,661,540)
Encashment of long term investments		-	416,956
Interest / mark-up received on investments		1,904,495	1,854,151
Long term loans disbursed - net		(17,501)	(23,377)
Net cash generated from / (used in) investing activities		536,839	(6,432,148)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(100,000)	-
Net cash used in financing activities		(100,000)	-
Net increase in cash and cash equivalents		18,355,016	1,095,389
Cash and cash equivalents at beginning of the year		(115,665,741)	(116,761,130)
Cash and cash equivalents at end of the year	27	(97,310,725)	(115,665,741)

The annexed notes from 1 to 38 form an integral part of these financial statements.

Rizwan Ahmed

CHIEF EXECUTIVE OFFICER

DIRECTOR

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Trading Corporation of Pakistan (Private) Limited (the "Company") was incorporated in Pakistan on July 28, 1967 as a private limited company under the repealed Companies Act, 1913 (now Companies Ordinance, 1984). It is wholly owned by the Federal Government and operates under the administrative control of the Ministry of Commerce, Government of Pakistan (GoP). The registered office of the Company is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi. The principal activity of the Company is to carryout imports and trading of different commodities on behalf of the Government of Pakistan. The Company acts as an agent in those transactions and is entitled to commission only and does not carry risks and rewards related to those transactions as such and therefore, the sales and cost of sales relating to those transactions are not presented in the profit and loss account of the Company.

1.2 Cotton Export Corporation of Pakistan (Private) Limited (CEC) and Rice Export Corporation of Pakistan (Private) Limited (RECP) were merged with and into the Company in 2001 under an order of Sindh High Court dated January 19, 2001. Further, Cotton Trading Corporation of Pakistan (Private) Limited (CTC) was merged with and into the Company in 2008 by another Order of the Sindh High Court. As a result of these orders, the assets and liabilities of these defunct companies were transferred to the Company.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provision or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is also the Company's functional currency.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make estimates, assumptions and use judgment that affect the application of policies and the reported amount of assets, liabilities, income and expenses.

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision. Areas where judgments and estimates made by the management that may have a significant risk of material adjustments to the financial statements in the subsequent year are as follows:

- Residual values and useful lives of property and equipment (note 3.1 and 4.1).

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- Bifurcation and reclassification of fixed assets into investment properties and allocation of depreciation to investment properties (note 3.2 and 5).
- Valuation of stores and stock in trade (note 3.3 and 3.4).
- Provision for impairment of trade debtors and other receivables (note 3.5).
- Provision for impairment of financial and non-financial assets (note 3.8).
- Disclosure and assessment of provision for contingencies (note 3.10 and 21).
- Taxation (note 3.13).

2.5 New standards, amendments to approved accounting standards and new interpretations

2.5.1 Amendments to approved accounting standards and an interpretation which became effective during the year ended June 30, 2015

There were certain amendments to the approved accounting standards and a new interpretation issue by International Financial Reporting Interpretations Committee (IFRIC) which became effective during the year but are considered not to be relevant or have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

2.5.2 New standards and amendments to approved accounting standards that are not yet effective and have not been early adopted by the Company

There are certain new standards and amendments to the approved accounting standards which will be effective for the Company for annual periods beginning on or after July 1, 2015 but are considered not to be relevant or are expected to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

The International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except leasehold land and capital work-in-progress, which are stated at cost less impairment losses, if any. Capital work-in-progress consists of expenditure incurred in respect of assets in the course of their construction and installation.

Depreciation is charged to the profit and loss account using reducing balance method at the rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is available for use and on disposals up to the preceding month of disposal. Assets' residual values, useful lives and depreciation rates are reviewed, and adjusted, if appropriate at each balance sheet date. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

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

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3.2 **Stores**

These are valued at weighted average cost less impairment loss except for stores in transit which are valued at cost (invoice value) plus other charges accumulated up to the reporting date. Cost comprises invoice value and other direct costs but excludes borrowing costs. Provision is made for slow moving/obsolete items where necessary and is recognised in the profit and loss account. Provision for slow moving/obsolete stores relating to transactions carried out on behalf of the government is included in the related cost and expenses to be reimbursable by the government.

3.3 **Stock in trade held on behalf on government of Pakistan**

Stock in trade except stock of urea is valued at the lower of weighted average cost and net realizable value. Urea is valued at weighted average cost less impairment, if any as it is sold at subsidized rates under the directives of the government. Cost comprises invoice value, charges like excise, custom duties and other similar levies and other direct costs.

Provision is made for obsolete / slow moving stocks where necessary and recognised in the profit and loss account. Provision for slow moving stock relating to transactions carried out on behalf of the government is included in the related cost and expenses to be reimbursable by the government.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to be incurred in order to make a sale.

3.4 **Trade debtors and other receivables**

Trade debtors and other receivables are stated initially at fair value and subsequently measured at amortised cost. A provision for doubtful debts and other receivable is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Trade debtors and other receivable are written off when considered irrecoverable. In case of default by the counter parties in transactions executed on behalf of the government, the same is recoverable/claimed from the Federal Government.

3.5 **Financial instruments**

Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) **Financial assets at fair value through profit and loss**

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets. There were no financial assets at fair value through profit and loss at the balance sheet date.

b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise due from Government of Pakistan, trade debtors, loans, advances, deposits, other receivable, interest / mark up accrued and bank balances in the balance sheet.

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c) **Held to maturity**

Financial assets with fixed or determinable payments and fixed maturity, where management has intention and ability to hold till maturity are classified as held to maturity.

d) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

All financial assets are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of investments are recognised on trade-date (the date on which the Company commits to purchase or sell the asset). Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss which are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of securities classified as available-for-sale and at fair value through profit or loss are recognised in other comprehensive income and profit and loss account respectively.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the profit and loss account as a reclassification adjustment.

The fair values of quoted equity investments are based on current market prices. Subsequent to initial measurement equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment in value, if any.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit and loss account as a reclassification adjustment. Impairment losses recognised in the profit and loss account on equity instruments classified as available-for-sale are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in note 3.4.

Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit and loss account.

3.6 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include bank balances and commodity finance under mark-up arrangements.

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3.7 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence which indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the profit and loss account. An impairment loss is reversed if the reversal can be related objectively to an event accruing after the impairment loss was recognised. For financial assets carried at cost, the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at current market rate of return for a similar financial asset. Such impairment loss is not reversed in subsequent periods. For financial assets - carried at amortised cost, the amount of impairment loss recognised is the difference between carrying amount and present value of estimated cash flows, discounted at effective interest rate.

Non-financial assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Impairment losses are charged to profit and loss account. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a pre tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets for which the estimate of future cash flows have not been adjusted.

3.8 Trade and other payables

Trade and other payables are recognised initially at fair value plus directly attributable cost, if any, and subsequently measured at amortised cost using the effective interest method. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the respective liability.

3.9 Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate. The amount recognised as provision is the best estimate of consideration required to settle the present obligation at the end of reporting period, taking into account the risk and uncertainties surrounding the obligation.

3.10 Employees' retirement benefits

Employees' gratuity fund - defined contribution plan

The Company operates a gratuity fund for all its permanent employees who have completed minimum qualified period of service. Contributions in respect thereof are made in accordance with the terms of the scheme. The amount of the gratuity paid to the employees is determined by the amount of contributions made by the Company to the gratuity fund together with the investment returns arising from the fund.

Employees' provident fund - defined contribution plan

The Company operates a recognised provident fund for its employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% of basic salary.

Compensated absences

The Company accounts for these benefits in the period in which the absences are earned. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

3.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of borrowings using the effective interest rate method. Finance cost on borrowings made for executing transactions on behalf of government are included in the cost to be reimbursed by the government.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date. Exchange gains and losses arising in respect of borrowings in foreign currency, if any, are added in the carrying amount of the borrowing.

3.12 Taxation

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax is calculated using prevailing tax rates. The charge for current tax also includes adjustments for prior years or otherwise considered necessary for such years. Tax paid on transactions carried out on behalf of the government is included in cost related to such transactions.

Deferred

Deferred tax is accounted for using the balance sheet liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax asset is generally recognised for all deductible differences to the extent that it is probable that taxable profits and taxable temporary differences will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit and loss account except to the extent it relates to items recognised directly in equity / other comprehensive income in which case it is also recognised in equity / other comprehensive income.

3.13 Foreign currency transactions and translation

Transactions in foreign currencies are accounted for in Pakistan Rupees at daily average rates. Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses from the settlement of foreign currency transactions and translation of monetary assets and liabilities at the balance sheet date rates are included in profit and loss account. Exchange gains / losses on transactions carried out on behalf of government are included in the cost related to such transactions.

3.14 Offsetting financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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3.15 **Revenue**

- Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable and is recognised in the profit and loss account. As the Company acts as an agent on behalf of the government, it earns commission income at 2% of sale value of commodities except urea on which commission is recorded at 2% of its import value (C&F value). 'Commission income is recorded on accrual basis when the transaction has been executed.

- Profits on bank and term deposits is accounted for on time proportion basis using effective interest method.

- Rental income is recorded on accrual basis.

3.16 **Subsidies from the government**

Subsidies from the government are calculated separately for each consignment which represent the difference between the selling price and the cost incurred on transactions executed on behalf of the government.

3.17 **Expenses**

Expenses incurred in relation to import and trading on behalf of the government is charged to cost and expenses incurred on behalf of government whereas payroll and other costs are charged in administrative expenses.

3.18 **Dividend and other appropriations**

Dividend is recognised as a liability in the period in which it is declared. Appropriations of profit including transfer to reserves are reflected in the statement of changes in equity in the period in which such appropriations are approved by the shareholders of the Company.

4. PROPERTY AND EQUIPMENT	*Note*	**2015**	2014
		(Rupees in '000)	
Fixed assets	*4.1*	**362,080**	382,670
Capital work in progress			
- various construction and other work at Pipri godowns		**140,324**	139,643
Advances against purchase of land	*4.2*	**81,428**	81,428
Provision against advances		**(81,428)**	(81,428)
		-	-
		502,404	522,313

4.1 FIXED ASSETS

Particulars	Cost			Accumulated depreciation				
	As at July 01, 2014	Additions / (disposals)	As at June 30, 2015	As at July 01, 2014	Depreciation for the year / (disposals) (note 4.1.1)	As at June 30, 2015	Carrying value as at June 30, 2015	Depreciation rate per annum
	(Rupees in '000)							%
Leasehold land (note 4.1.3)	25,824	-	25,824	-	-	-	25,824	-
Buildings on leasehold land	165,190	-	165,190	138,049	959	139,008	26,182	5
Godowns on lease hold land (note 4.1.3)	627,701	-	627,701	337,248	14,523	351,771	275,930	5
Structural improvements	53,538	-	53,538	49,933	181	50,114	3,424	5-25
Godown equipment	53,709	-	53,709	51,864	197	52,061	1,648	10-25
Office equipment	42,009	846	42,855	36,468	949	37,417	5,438	10-20
Furniture, fixtures and fittings	16,074	182	16,256	10,200	596	10,796	5,460	10
Computer equipment	10,623	1,023	11,646	7,721	687	8,408	3,238	20
Laboratory handling equipment	3,151	-	3,151	3,117	5	3,122	29	15
Electric sub stations	11,559	-	11,559	11,559	-	11,559	-	33
Workshop complex	5,353	-	5,353	5,353	-	5,353	-	5
Vehicles	63,487	14 (1,742)	61,759	44,036	4,049 (1,233)	46,852	14,907	20
	1,078,218	2,065 (1,742)	1,078,541	695,548	22,146 (1,233)	716,461	362,080	

As a result of merger of Rice Export Corporation of Pakistan (Private) Limited (Defunct) and Cotton Export Corporation of Pakistan (Private) Limited (Defunct) as stated in note 1.2, number of properties (leasehold land and godowns) having cost of Rs. 653.53 million had been taken over by the Company but the title of these assets have not yet been transferred in the name of the Company.

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For comparative period

Particulars	Cost			Accumulated depreciation				
	As at July 01, 2013	Additions / (disposals)	As at June 30, 2014	As at July 01, 2013	Depreciation for the year / (disposals) (note 4.1.1)	As at June 30, 2014	Carrying value as at June 30, 2014	Depreciation rate per annum
	(Rupees in '000)							%
Leasehold land	25,824	-	25,824	-	-	-	25,824	-
Buildings on leasehold land	165,190	-	165,190	136,619	1,430	138,049	27,141	5
Godowns on leasehold land	627,701	-	627,701	321,961	15,287	337,248	290,453	5
Structural improvements	53,538	-	53,538	49,743	190	49,933	3,605	5-25
Godown equipment	53,709	-	53,709	51,641	223	51,864	1,845	10-25
Office equipment	40,719	1,290	42,009	35,482	986	36,468	5,541	10-20
Furniture, fixtures and fittings	14,529	1,545	16,074	9,602	598	10,200	5,874	10
Computer equipment	10,034	589	10,623	7,044	677	7,721	2,902	20
Laboratory handling equipment	3,151	-	3,151	3,111	6	3,117	34	15
Electric sub stations	11,559	-	11,559	11,559	-	11,559	-	33
Workshop complex	5,353	-	5,353	5,353	-	5,353	-	5
Vehicles	68,436	69 (5,018)	63,487	42,334	4,988 (3,286)	44,036	19,451	20
	1,079,743	3,493 (5,018)	1,078,218	674,449	24,385 (3,286)	695,548	382,670	

		Note	2015	2014
			--------(Rupees in '000)--------	
4.1.1	**Depreciation for the year has been allocated as follows**			
	Trading and related expenses to be reimbursed by the government	*22.2.1*	14,523	15,516
	Administrative expenses	*23*	7,623	8,869
			22,146	24,385

4.1.2 Included in operating fixed assets are assets which are fully depreciated having cost of Rs. 158.21 million (2014: Rs. 77.82 million).

4.1.3 Included in the property and equipment are certain godowns (land and buildings) which have been given on rent, however, details of cost of these land and construction of godowns thereon is not available separately as these godowns were taken over by the Company as a result of merger as disclosed in note 1.2. Therefore, such godowns have not been classified as investment properties in the financial statements as required in International Accounting Standard - 40 (IAS - 40) - Investment Property. Further, depreciation on all fixed assets (including land and godowns given on rent) were charged to the cost to be reimbursed by the Government.

4.2 In 1991, Rice Export Corporation of Pakistan (Private) Limited (RECP) (defunct) paid advance of Rs. 80.73 million to Port Qasim Authority (PQA) for purchase of two plots of land. Due to some dispute regarding transfer fee, PQA unilaterally cancelled the allotment of the these plots of land. RECP had also given advance of Rs. 0.69 million to Karachi Development Authority for purchase of 100 acres of land. Due to dispute regarding title of land, the land was not allotted to the Company. In view of these, the management has recorded full provision against these advances on prudence basis.

		Note	2015	2014
			--------(Rupees in '000)--------	
5.	**LONG TERM INVESTMENTS**			
	Held to maturity			
	Defense Saving Certificates (DSCs)	*5.1*	106,592	95,246
	Available for sale investments - unquoted stated at cost			
	FTC Management Company (Private) Limited	*5.2*	1,000	1,000
	Lahore Development Authority (LDA)	*5.3*	6,500	6,500
			114,092	102,746

5.1 The effective interest rates on these certificates range from 10.15% to 12.15% (2014: 10.15% to 12.15%) per annum. These certificates will mature on various dates till October 20, 2018 and are held in the name of Cotton Trading Corporation of Pakistan (Private) Limited (defunct) which was merged into the Company as stated in note 1.2.

5.2 This represents investment in 100,000 shares of FTC Management Company (Private) Limited (FMCL), a company formed to oversee the operations, maintenance and up-keep of the Finance and Trade Centre, Karachi where office of the Company is located. The break-up value is Rs. 712.46 per share based on the audited financial statements of FMCL for the year ended June 30, 2015 (2014: Rs. 680.72 per share). Out of 100,000 shares, 49,999 shares of FMCL are held in the name of CEC (defunct).

5.3 This represents investment of Rs. 6.5 million towards equity participation (10.65%) to Lahore Development Authority (LDA) and other sponsors for constructing a multi-story commercial building named LDA Plaza at Edgerton Road, Lahore. The Company is entitled to receive 10.65% of the annual profit earned by the LDA Plaza.

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6. LONG TERM LOANS AND ADVANCES

	Note	2015	2014
		----------(Rupees in '000)----------	
Loans - secured and considered good			
Employees	*6.1*	151,374	131,044
Current portion shown under current assets	*11*	(20,589)	(17,760)
		130,785	113,284

6.1 Loan to employees are given for the purchase of motor cars, purchase/construction of residential houses and for meeting various personal needs of employees in accordance with the policy of the Company. Loans given for purchase/construction/renovation of residential houses to the staff of the Company other than officers are interest free while other loans carry interest ranging from 2% to 8% and are re-payable in 6 to 15 years depending upon the type of loan. These loans are secured against provident fund / gratuity entitlement of employees and mortgage of properties. These loans have been carried at cost as the effect of carrying these loans at amortised cost would not be material in the overall content of these financial statements. The age analysis of loans is as under:

	Note	2015	2014
		----------(Rupees in '000)----------	
One year or below		20,589	17,760
2 - 3 years		35,744	27,855
Exceeding 3 years		95,041	85,429
		151,374	131,044

7. STORES

	2015	2014
Gunny bags	49,019	49,019
Jute / polypropylene bags	1,993	1,993
	51,012	51,012
Less: Provision for obsolete stores	(51,012)	(51,012)
	-	-

8. STOCK-IN-TRADE HELD ON BEHALF OF GOVERNMENT OF PAKISTAN

	Note	2015	2014
- In transit - urea		1,631,632	-
- In hand			
Urea		5,266	5,266
Sugar	*8.1*	2,698,031	6,311,808
Rice		2,925,801	2,925,801
Wheat		296,587	296,587
Cotton	*8.2*	2,149,677	-
Black matpe		1,066	1,066
	22.2	8,076,428	9,540,528
		9,708,060	9,540,528
Less: Stock of cotton written off	*22.2.1*	(7,085)	-
Less: Provision for impairment	*8.3*	(3,261,428)	(3,261,428)
		6,439,547	6,279,100

8.1 This includes 28,176 metric tones of sugar costing Rs. 1,408.941 million which has not been supplied by certain sugar mills against which the Company has initiated legal action. The management believes that the Company does not have any exposure in these cases as these purchases were made on behalf of GoP.

8.2 The Net Realizable Value (NRV) of the raw cotton stock held as at June 30, 2015 was lower than its cost, which resulted in write downs of Rs. 935.13 million charged to subsidy to be reimbursed by GoP.

	Note	2015	2014
		(Rupees in '000)	
8.3 Movement of provision of expired / obsolete stock is as follows:			
Balance at beginning of the year		3,261,428	3,252,325
Charged during the year	22.2.1	-	9,103
Balance at end of the year		3,261,428	3,261,428

9. DUE FROM GOVERNMENT OF PAKISTAN

Secured - considered good

	Note	2015	2014
Subsidy receivable		23,143,483	39,799,241
Movement of subsidy receivable during the year is as follows:			
Balance at beginning of the year		39,799,241	55,562,075
Add: Subsidy to be reimbursed	22 & 9.1	7,068,126	17,672,041
Less: Amount wrongly claimed in prior years	9.2	(15,282)	-
Subsidy received/adjusted during the year		(23,708,602)	(33,434,875)
Balance at end of the year		23,143,483	39,799,241

9.1 This amount is net of Rs 6,337.87 million (2014: Rs.5,268.07 million) payable to GoP in respect of proceeds net of incidental expenses from sale of urea imported from Saudi Arabia Basic Industries Corporation (SABIC).

9.2 During the year, the management ascertained that an amount of Rs. 15.28 million claimed as subsidy during the year ended June 30, 2012 actually represented the amount allegedly defalcated by one of the employees of the Company through bank transfers on fake authority letters and forged signatures for payment against various fake expenses. Management believes that the employee managed to execute these transactions due to negligence of the Bank's official and therefore the said embezzled amount is receivable from the bank as disclosed in note 12 to the financial statements.

10. TRADE DEBTORS

- Unsecured

	Note	2015	2014
		(Rupees in '000)	
Considered good		58,683,822	63,460,212
Considered doubtful		25,252	25,252
		58,709,074	63,485,464
Less: Provision for doubtful debts	10.1	(25,252)	(25,252)
		58,683,822	63,460,212

10.1 Movement of provision for doubtful debts is as follows:

	2015	2014
Balance at beginning of the year	25,252	22,674
Charged during the year	-	2,578
Balance at end of the year	25,252	25,252

10.2 As at June 30, 2015 receivables from different government institutions aggregating Rs. 41,121.07 millions (2014: Rs. 23,011.86 millions) were past due but not considered impaired by the management. The ageing of trade debts is as follows:

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	Note	2015	2014
		(Rupees in '000)	
Less than 1 year		17,587,997	40,473,607
1-3 year		30,428,680	12,490,222
More than 3 years		10,692,397	10,521,635
	10.4	58,709,074	63,485,464

10.3 The management is actively pursuing for the recovery of these outstanding amounts and is confident that significant amount out of these overdue receivables will be recovered and remaining amount, if any, will be reimbursed by the government.

10.4 Ageing analysis of the gross amount due from related parties is as follows;

	within 1 years	1-3 year (note 10.5)	More than 3 years	2015	2014
	(Rupees in '000)				
Utility Stores Corporation of Pakistan	6,197,395	30,428,080	251,460	36,876,935	36,682,018
National Fertilizer Marketing Limited	11,390,538	-	-	11,390,538	16,361,909
Sindh Food Department	-	-	2,920,293	2,920,293	2,920,293
Punjab Food Department	-	-	1,617,362	1,617,362	1,617,362
Baluchistan Food Department	-	-	1,814,715	1,814,715	1,814,715
Khyber Pakhtoon Khwa Food Departm	-	-	2,438,895	2,438,895	2,438,895
AJK Food Department	-	-	130,346	130,346	130,346
Government of Gilgit Baltistan	-	-	1,252,029	1,252,029	1,252,029
Directorate General Procurement Army	-	-	185,404	185,404	185,404
Pakistan Navy	-	-	79,075	79,075	79,075
TCP employees	64	-	-	64	-
Others	-	600	2,818	3,418	3,418
	17,587,997	30,428,680	10,692,397	58,709,074	63,485,464

10.5 Subsequent to the year end, Rs. 2,357.14 million have been received from National Fertilizer Marketing Limited against supply of urea in 2014-15 (2014: Rs. 3,362.50 million had been received from Utility Store Corporation of Pakistan against supply of sugar in 2012-13).

11. LOANS AND ADVANCES

	Note	2015	2014
		(Rupees in '000)	
Short-term loan - secured - interest free			
Due from employees	11.1	8,964	6,044
Current portion of long term loans	6	20,589	17,760
Advances - unsecured			
Considered good			
Employees		1,942	1,573
Sundry advances		73	35
		2,015	1,608
Considered doubtful			
Suppliers		9,640	9,640
Contractors		560	560
Employees		364	364
Export agents		41	41
Others		1,373	1,373
		11,978	11,978
		43,546	37,390
Less: Provision against doubtful advances		(11,978)	(11,978)
		31,568	25,412

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11.1 These loans were given to the employees in accordance with the terms of their employment and are secured against gratuity and provident fund balances of respective employees.

	Note	2015	2014
		----------(Rupees in '000)----------	
12. PREPAYMENTS AND OTHER RECEIVABLES			
Prepaid expenses		2,990	2,254
Other receivables			
Considered good			
Income tax	20.1.6	1,576,856	1,576,856
Sales tax receivable	20.1.2	2,462,211	-
Receivable from sugar mills	12.1	2,051,587	2,051,587
Others		8,456	6,243
		6,099,110	3,634,686
Considered doubtful			
Receivable from export agents		437,700	437,700
Insurance claim receivable		120,245	120,245
Due from privatization commission		110,386	110,386
Margin on bank guarantee	12.2	-	25,000
Receivable from a bank	12.3	22,562	-
Refundable from import authorities	20.1.5	9,364	9,364
T.C.P sports club		199	199
Refundable against various receivables		22,804	22,804
Due from custodian and others		14,272	14,272
Receivable from handling agents		8,435	8,435
Demurrage charges		3,331	3,331
Receivable on account of rice procured		2,899	2,899
Export Processing Zone and others		17	17
Others		1,929	1,929
		754,143	756,581
		6,856,243	4,393,521
Less: Provision against doubtful receivables	12.4	(754,143)	(756,581)
		6,102,100	3,636,940

12.1 It represents advances given by the Company to various sugar mills for purchase of sugar in 2008 and 2009. However, the sugar mills defaulted in delivery of the contracted quantity of sugar. Consequently, the Company filed suits in High Court of Sindh for the recovery of the said amounts and is actively pursuing the case. The management is confident that outstanding amount will be fully recovered and hence, no provision is required to be made in the books of accounts of the Company. Further, the management believes that the Company does not have any exposure in these cases as these purchases were made on behalf of GoP.

12.2 During the year, this amount has been received by the Company from the bank and consequently the related provision as stated in note 12.4 has been reversed.

12.3 In addition to the amount disclosed in note 9.2, management also identified embezzlement of Rs. 7.28 million during the current year i.e. aggregated embezzled amount of Rs 22.56 million as of June 30, 2015. The amount defalcated in previous years and current year is recognised as receivable from the bank. However, on prudence basis, the Company has made full provision against this receivable.

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		Note	2015	2014
			(Rupees in '000)	
12.4	Movement in provision against doubtful receivables is as follows:			
	Balance at beginning of the year		756,581	722,018
	Charged during the year	9.2, 12.3 & 23	22,562	34,563
	Reversal during the year	12.2	(25,000)	-
	Balance at end of the year		754,143	756,581

13. SALES TAX REFUNDABLE

This comprise of sales tax paid / adjusted on import / purchase and sale of urea and sugar. These commodities are procured at the instructions of the government.

		Note	2015	2014
			(Rupees in '000)	
14.	**SHORT TERM INVESTMENTS**			
	Held to maturity			
	Term deposit receipts (TDRs)			
	- In local currency	14.1 & 14.2	17,158,500	15,786,457
	- In foreign currency	14.3	1,380,568	1,404,617
			18,539,068	17,191,074
	Provision against term deposit receipts	14.2	(87,500)	(87,500)
			18,451,568	17,103,574

14.1 Except as mentioned in note 15.2, these TDRs carry markup at the rate ranging from 7% to 7.7% (2014: 10% to 10.7%) per annum.

14.2 It includes term deposit receipts of Trust Investment Bank Limited (TIBL) amounting to Rs 87.50 million invested in 2008. Due to default by TIBL on repayment of principal amount, full provision has been made against this amount on prudence basis and no accrual of markup is made. The Company has filed suit in the Sindh High Court for recovery of principal and mark-up which is pending adjudication.

14.3 It carries markup at 3.1% (2014: 4.2%) per annum.

		Note	2015	2014
			(Rupees in '000)	
15.	**BANK BALANCES**			
	Local currency			
	In current accounts		49,229	1,191,608
	In saving accounts	15.1 & 15.2	719,347	792,323
			768,576	1,983,931
	Foreign currency			
	In current accounts		28,502	27,984
	In saving accounts	15.3 & 15.4	285,182	100,173
			313,684	128,157
			1,082,260	2,112,088

15.1 These carry mark-up at rates ranging from 5% to 10% (2014: 7% to 9.57%) per annum.

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15.2 These include bank account having balance of Rs. 0.07 million as of June 30, 2015 which is held in the name of Cotton Trading Corporation of Pakistan (Private) Limited (defunct).

15.3 These carry mark-up rate of 0.1% to 3.5% (2014: 0.1% to 1.9%) per annum.

15.4 This includes balance of US$ 0.99 million (2014: US$ 0.99 million) equivalent to Rs. 100.80 million (2014: Rs. 97.85 million) with National Bank of Pakistan, marked as lien against bank guarantee, given to the High Court of Sindh in connection with a pending litigation as stated in note 20.1.3.4 to the financial statements.

16. SHARE CAPITAL

16.1 Authorized

2015	2014		2015	2014
Number of shares			(Rupees in '000)	
100,000,000	100,000,000	Ordinary shares of Rs. 10 each	1,000,000	1,000,000

16.2 Issued, subscribed and paid-up

This comprise of fully paid-up ordinary shares of Rs. 10 each as follows:

2015	2014		2015	2014
Number of shares			(Rupees in '000)	
59,330,500	59,330,500	Issued for cash	593,305	593,305
40,669,500	40,669,500	Issued as bonus shares	406,695	406,695
100,000,000	100,000,000		1,000,000	1,000,000

16.2.1 There was no movement in share capital during the current year. The Company has one class of ordinary shares which carries no right to fixed income.

16.2.2 As at June 30, 2015, the Ministry of Commerce held 99,999,998 (2014: 99,999,998) shares of the Company. The remaining two shares are in the name of Chairman and Finance Director of the Company.

17. LONG TERM LOAN

A Cotton Development Project, aimed to improve the quality of cotton in Pakistan and to get better price in the international market was started in collaboration with the Asian Development Bank (ADB) and for this purpose a loan agreement dated February 27, 1987 was signed. An amount of Rs. 16.65 million was drawn under the loan agreement for the said purpose by defunct Cotton Export Corporation of Pakistan (Private) Limited.

The principal amount is repayable to the Government of Pakistan in Pakistan Rupees along with interest at the rate of 1% per annum.

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	Note	2015	2014
		(Rupees in '000)	
18. TRADE AND OTHER PAYABLES			
Bills payable		1,659,075	404,742
Trade creditors - local		450,901	195,611
Payable to ministry of finance under JICS	18.1	311,481	532,311
Deposits			
Security deposit		481,397	541,613
Retention money		46,156	46,156
		527,553	587,769
Accrued liabilities			
Payable to staff retirement gratuity fund	18.2	8,979	10,562
Accrued expenses		53,786	24,190
		62,765	34,752
Taxes			
Excise duty		7,201	7,201
Withholding tax		13,422	16,094
		20,623	23,295
Advances			
Advances against sales		55,769	55,689
Advance from Government for payment to growers		17,533	17,533
		73,302	73,222
Other payables			
Karachi Dock Labor Board (KDLB) cess payable		258	258
Others		21,005	21,528
		21,263	21,786
		3,126,963	1,873,488

18.1 On October 03, 2012, a Memorandum Of Understanding (MOU) has been signed between the Company, Ministry of Finance (MOF), Ministry of Industries (MOI) and Japan International Cooperating System (JICS) according to which JICS will provide urea to the Company under "Japan's Non-Project Grant Aid " Program (the Program). The MOU states that the Company is required to deposit proceeds from sale of urea into Government of Pakistan's (GOP) bank account maintained with National Bank of Pakistan after deducting incidental charges i.e. duties, port clearing charges, survey charges, stevedoring etc. The movement of amount payable to GOP on account of sale proceeds of urea received from JICS is as follows:

	Note	2015	2014
		(Rupees in '000)	
Payable to GoP at beginning of the year		532,311	-
Sale proceeds from sale of urea	22.1	56	1,724,629
Less: incidental expenses incurred	22.2	-	(72,287)
Net proceeds from sale of urea		56	1,652,342
Less: payments made to the GOP during the year		(220,886)	(1,120,031)
Payable to GOP at end of the year		311,481	532,311

DMA

		2015	2014
		----------(Rupees in '000)----------	

18.2 Movement in payable to staff retirement gratuity is as follows:

	2015	2014
Balance at beginning of the year - gratuity payable / (receivable)	10,562	(71,541)
Charged during the year	89,104	97,985
Payments made to the fund and employees	(90,687)	(15,882)
Balance at end of the year - gratuity payable	8,979	10,562

The Company has made a provision in respect of staff retirement gratuity in accordance with the requirements of Employees Gratuity Fund Rules. The entire liability as determined above is payable to the Fund at year end.

19. COMMODITY FINANCE UNDER MARK-UP ARRANGEMENTS

	Note	2015	2014
		----------(Rupees in '000)----------	
Secured			
National Bank of Pakistan	*19.1*	23,526,849	24,476,351
Allied Bank Limited		16,705,948	21,781,495
Habib Bank Limited		16,968,475	20,936,153
MCB Bank Limited		14,762,382	19,970,477
United Bank Limited		13,649,524	16,877,673
Standard Chartered Bank (Pakistan) Limited		1,057,387	1,191,328
JS Bank Limited		4,999,999	4,999,999
Askari Bank Limited		6,722,421	6,544,353
Burj Bank Limited		-	1,000,000
		98,392,985	117,777,829

19.1 These include bank account having a balance of Rs. 680.52 million as of June 30, 2015 which is held in the name of Cotton Trading Corporation of Pakistan (Private) Limited.

19.2 The Company has commodity finance facilities aggregating to Rs.161,800.00 million (2014: Rs 163,750.00 million) for its commodity operations under the Government directives. The said arrangements are for a period of three months and are renewable except for the facility of JS Bank Limited which is of 1 year. The rate of mark-up on these arrangements is 3 months KIBOR plus 0.5% to 2.75% (2014: KIBOR plus 0.9% to 2.75%) per annum. These arrangements are secured against hypothecation of stock-in-trade and by continuing guarantee from the Government of Pakistan.

20. CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

The following contingencies / contingent liabilities exist as at June 30, 2015.

The following cases arose out of operations carried out on behalf of Government of Pakistan (GoP), and if these contingent liabilities will become actual / specific liabilities, the same will be recoverable from the Federal Government.

20.1.1 The income tax department finalized assessments for the assessment years 1991 to 2003 by treating subsidies received from the Federal Government as taxable income and has levied taxes amounting to Rs. 2,353.03 million. The Company filed appeals at Appellate Tribunal Inland Revenue (ATIR) for the assessment years 1991 to 2003 except for the assessment year 1994-95, for which a writ has been filed before the High Court of Sindh (SHC) against the order of the taxation authorities.

The Federal Cabinet in its meeting held on April 04, 1998, directed that all unresolved disputes with the Federal Board of Revenue (FBR) against which cases have been filed by the government controlled organization in the appellate forum should be resolved and settled through inter-ministerial consultation and therefore all cases against FBR should be withdrawn and forwarded to the Ministry of Law, Justice and Human Right (the Ministry). In pursuance of the said cabinet directive, the Company withdrew all the appeals filed against FBR and the matter was referred to the Ministry for final decision. The Ministry vide its letter dated May 21, 1998 decided that subsidy income received from the Government of Pakistan (GoP) is exempt from tax. The Ministry further directed FBR to issue necessary orders / SRO regarding non-taxing of subsidy and advised the FBR to waive all tax liabilities of the Company arising out of the inclusion of the said amount. The FBR, in spite of order of the Ministry, has referred the case to Attorney General of Pakistan which is pending.

In 2006, subsidy received from the GoP became exempt from tax. FBR claimed that subsidies received by the Company from GoP before tax year 2006 continue to be taxable i.e. tax on subsidy claimed by FBR from assessment years 1991-92, 1994-95, 1996-97, 1997-98, 1998-99, 1999-2000, 2001-02 & 2002-03 and tax years 2003, 2004, 2005 and 2006 should remain claimable. However, the Company obtained stay from SHC through its order dated July 3, 2009 against the above alleged disputed Income Tax demands for the said assessment and tax years.

Further, the Honorable Income Tax Appellate Tribunal vide its order dated November 19, 2009 passed a judgment in favor of the Company for the tax years 2004, 2005 and 2006 that the subsidy received by the Company from the Federal Government is not taxable.

20.1.2 In April 2015, an Assessment Order was issued by the Deputy Commissioner Inland Revenue (DCIR) in which a demand of Rs 1,945.43 million alongwith penalty of Rs 97.27 million have been raised on account of excess input tax alleged to be claimed by the Company in its sales tax returns for the period from April 2012 to December 2012. Further a demand of Rs 399.54 million along with the penalty of Rs. 19.98 million have also been raised in the same Order on account of non-payment of output tax on sale / supply of sugar to Utility Stores Corporation of Pakistan from January 2013 to June 2013. The Company has paid the said demand under protest and filed an appeal before the Commissioner Inland Revenue which is pending adjudication. Based on the opinion of tax advisors of the Company, the management is confident that these matters would ultimately be decided in Company's favour and therefore, no provision is required to be made in these financial statements.

20.1.3 As at June 30, 2015, several cases/litigations aggregating to Rs. 5,603.85 million (June 30, 2014: Rs. 5,416.08 million) were outstanding against the Company. The Company has filed appeals/counter claims against these cases which are pending for adjudication. Based on the advice of the legal department of the Company, the management is confident that these cases will ultimately be decided in Company's favor and hence no provision is required to be made in these financial statements.

20.1.3.1 The Single Bench of SHC passed an order, in a case relating to claim of damages by one of the supplier on account of forfeiture of performance guarantee by the Company, in which SHC directed the Company to pay the performance guarantee forfeited amounting to AED 1.24 million (2014: AED 1.24 million) equivalent to Rs 34.36 million (2014: Rs 33.29 million) to the supplier within 30 days of the decision while the claim for damages by the supplier amounting US$ 3.46 million (2014: US$ 3.46 million) equivalent to Rs 352.15 million (2014: Rs 341.47 million) was set aside by the SHC. In response to this order, both the parties being aggrieved of the decision, filed appeals in the Divisional Bench of SHC which is pending for adjudication.

20.1.3.2 A decision was given by Single Bench of SHC during the year ended June 30, 2014 to maintain the suit filed by a supplier claiming damages and refund of bid bond aggregating to US$ 2.06 million (2014: US$ 2.06 million) equivalent to Rs. 209.66 million (June 30, 2014: Rs. 203.82 million). The matter is at present subjudice and pending with Divisional Bench of the SHC. Based on the discussion with the legal advisors of the Company, the management is confident that this case will ultimately be decided in Company's favor and hence no provision is required to be made in these financial statements.

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20.1.3.3 A foreign award amounting to US$ 8.27 million (2014: US$ 8.27 million) equivalent to Rs. 841.71 million (June 30, 2014: Rs. 816.90 million) has been given by Liverpool Cotton Association (LCA) against Cotton Export Corporation of Pakistan (Private) Limited (CEC now merged with and into the Company). For making the award a rule of the Court, the buyer filed a suit against CEC in 1999 and succeeded in getting a decision in 2004 from Single Bench of High Court of Sindh. The matter is at present subjudice and pending with divisional bench in the High Court of Sindh. Based on discussions with the legal advisors of the Company, the management is confident that this case will ultimately be decided in Company's favor and hence no provision is required to be made in these financial statements.

20.1.3.4 An award amounting to US$ 1.26 million (2014: US$ 1.26 million) equivalent to Rs. 128.24 million (June 30, 2014: Rs. 124.48 million) has been given by the arbitrators unanimously against Rice Export Corporation of Pakistan (Private) Limited (RECP now merged with and into the Company). For making the award a rule of the Court, the buyer filed a suit in the SHC against RECP in 1999 and a decision in 2003 was made in favor of buyer by Single Bench of SHC. The matter is at present subjudice and pending with Divisional Bench in the SHC. Based on the discussion with the legal advisors of the Company, the management is confident that this case will ultimately be decided in Company's favor and hence no provision is required to be made in these financial statements.

20.1.4 The recovery of export duty on export of Basmati rice had been held in abeyance effective July 01, 1981 and these financial statements have been drawn up on the assumption that the liability has not been accrued on exports made thereafter. The Company has also given letters of undertaking aggregating to Rs. 1,328.20 million (June 30, 2014: Rs. 1,328.20 million) to the Collector of Customs against the said export duty on basmati rice.

20.1.5 Guarantees issued by commercial banks against 100% cash margin on behalf of the Company amounted to Rs. 9.36 million to Chief Controller of Imports and Exports (now the matter is being dealt by the Export Promotion Bureau) in lieu of payment of import license fee for the temporary importation of empty jute bags.

Cases if decided against the Company, the ultimate liability would fall on the Company

20.1.6 The returns for the tax years from 2008 to 2013 were amended by the taxation authorities through ex-parte orders under section 122 (5A) of the Income Tax Ordinance, 2001 by disallowing expenses apportioned/allocated against profit on investments and setting-off of prior year refunds against tax liabilities. The tax demand of Rs. 1,955.50 million was raised. The Company has paid the said demand under protest and filed appeals against the said orders before Commissioner Inland Revenue (Appeals) which has decided these appeals against the Company which in turn filed an appeal in the Appellant Tribunal Inland Revenue which is pending adjudication. As a matter of prudence, the Company recorded tax provision of Rs. 378.74 million in the year ended June 30, 2014. However, based on the discussion with the tax advisors of the Company, the management is confident that it has good grounds to defend these matters under appeal and the outcome is expected to be decided in favor of the Company and therefore, no further provision is required to be made in this regard in these financial statements.

	2015	2014
	----------(Rupees in '000)----------	
20.2 Trade-related contingent liabilities		
Letter of credit on behalf of the government	1,449,721	-
Guarantee issued by a bank on behalf of the Company	3,500	-

20.3 Commitments

20.3.1 The Company has capital commitments of Rs. 261.89 million (2014: Rs. 262.49 million) in respect of various construction and other work at Pipri godowns.

20.3.2 The Company has commitment of Rs. 1,983.17 million (2014: Rs. 4,387.30 million) in respect of various unlifted sugar stock against already issued delivery orders.

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		Note	2015	2014
			(Rupees in '000)	
21.	**COMMISSION INCOME**			
	Import of urea		414,878	799,444
	Local sale of sugar		114,767	549,645
			529,645	1,349,089
22.	**TRADING ON BEHALF OF THE GOVERNMENT**			
	Local sales on behalf of government	22.1	22,156,730	55,441,534
	Cost and expenses incurred on behalf of government	22.2	(29,224,800)	(71,461,233)
			(7,068,070)	(16,019,699)
	Net proceeds from sale of urea received from JICS	18.1	(56)	(1,652,342)
	Subsidy for the year to be reimbursed by the government	9	7,068,126	17,672,041
			-	-
22.1	**Local sales on behalf of government**			
	Urea			
	- Tender		9,752,656	20,124,275
	- Saudi Arabia Basic Industries Corporation (SABIC)		6,664,685	5,560,731
	- Japan International Cooperation System (JICS)	18.1	56	1,724,629
			16,417,397	27,409,635
	Sugar		5,739,333	28,031,899
	Total sales on behalf of the Government		22,156,730	55,441,534
22.2	**Cost and expenses incurred on behalf of the government**			
	Opening stock		9,540,528	14,853,567
	Add : Purchases on behalf of government			
	-Urea		12,129,584	30,594,809
	-Cotton		2,972,663	-
	- Sugar		30,515	19,179,142
			15,132,762	49,773,951
	Less: Recovery of claims against late shipments		(58,242)	(105,057)
	Trading and related expenses to be reimbursed by the government	22.2.1	12,359,365	16,114,358
			36,974,413	80,636,819
	Less: closing stock	8	(8,076,428)	(9,540,528)
			28,897,985	71,096,291
	Incidental expenses incurred on import of urea from - SABIC		326,815	292,655
	- JICS	18.1	-	72,287
			326,815	364,942
	Total cost of sales		29,224,800	71,461,233

DMA

	Note	2015	2014
		(Rupees in '000)	
22.2.1 Trading and related expenses to be reimbursed by the government			
Mark up / interest on commodity finance	22.2.1.1	11,451,155	13,735,070
Commission	21	529,645	1,349,089
Income tax collected / deducted on commodities	22.2.1.2	146,433	147,603
Stevedoring and handling charges		266,295	659,476
Insurance		42,087	118,998
Custom duties, wharfage and other port charges		80,913	174,936
Exchange gain		(102,607)	(10,195)
Encashment of bank guarantee		(88,446)	(155,110)
Reversal of provision on bank margin	12.2 & 12.4	(25,000)	-
Letters of credit charges		8,754	25,225
Depreciation on fixed assets	4.1.1	14,523	15,516
Lab testing and inspection charges		2,276	19,005
Godown expenses		26,252	22,981
Provisions for stock in trade	8.3	-	9,103
Cotton written off	22.2.1.3	7,085	-
Provisions for doubtful debt	10.1	-	2,578
Transportation		-	83
		12,359,365	16,114,358

22.2.1.1 Markup on financing facilities obtained from banks for procurement of commodities on behalf of government has been included in trading and related expenses to be reimbursed by the government.

22.2.1.2 Tax paid on import and local purchase of commodities under the provisions of the Income Tax Ordinance 2001 has been included in cost of sales due to the fact that it has been paid on behalf of the government.

22.2.1.3 During the year, there were two fire incidents at Pipri godowns that destroyed 226 bales of cotton having cost of Rs. 7.10 million for which the Corporation has made an insurance claim. However, claim will be recognised when the amount is determined and acknowledged by the insurance company.

23. ADMINISTRATIVE EXPENSES

	Note	2015	2014
		(Rupees in '000)	
Salaries, allowances and other benefits	23.1	754,988	780,873
Repairs and maintenance		23,860	23,955
Vehicles running		15,424	17,499
Travelling and conveyance		11,116	10,666
Legal and professional		7,996	7,955
Utilities		10,727	9,484
Advertising and publicity		7,019	5,408
Fees and subscriptions		3,745	13,946
Entertainment		2,616	3,027
Depreciation on fixed assets	4.1.1	7,623	8,869
Office rent		5,724	5,529
Auditors' remuneration	23.2	1,833	1,511
Indirect expenses - godowns		12,430	2,640
Communication		494	1,482
Printing and stationery		1,657	2,362
Insurance		1,340	934
Provision against doubtful receivables	12.4	22,562	34,563
Donations	23.3	4,204	4,060
Bank charges		18	23
Others		5,057	6,601
		900,433	941,387

23.1 This includes Rs. 89.10 million (2014: Rs. 97.98 million) in respect of staff retirement gratuity expense and Rs. 12.25 million (2014: Rs. 10.45 million) in respect of provident fund.

	2015	2014
	(Rupees in '000)	
23.2 Auditors' remuneration		
Annual audit	1,250	1,100
Half yearly review	325	250
Review of Compliance with Public Sector Companies (Corporate Governance) Rules, 2013	100	26
Out of pocket expenses	158	135
	1,833	1,511

23.3 The Directors and their spouse do not have any interest in any donee to which donations were made.

24. OTHER INCOME

	Note	2015	2014
Income from financial assets			
Return on:			
- Term deposit receipts and saving accounts		1,839,721	1,366,299
- Special saving certificates (SSC)	*24.1*	-	(50,753)
- Defense saving certificates		11,346	10,111
Exchange gain		43,633	132,290
Income from non financial assets			
Rental income on investment properties		129,426	110,465
Rice inspection fee		9,866	6,384
Gain on disposal of fixed assets		76	230
Sales of tender and purchase order forms		365	973
Registration fee		-	124
Gain on disposal of available for sale short term investments		-	1,563
Miscellaneous income		2,593	5,870
		2,037,026	1,583,556

24.1 Last year, investments in Special Saving Certificates (SSC) amounted to Rs. 416.96 million had been encashed and Rs.50.75 million had been reversed as it related to the additional markup accrued in the books of accounts of the Company.

	Note	2015	2014
		(Rupees in '000)	
25. TAXATION			
Current - for the year		535,889	663,895
- for prior years	*20.1.6*	-	378,739
		535,889	1,042,634

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	Note	2015	2014
		--(Rupees in '000)--	
Relationship between tax expense and accounting profit			
Accounting profit before taxation		1,666,238	1,991,258
Tax at the applicable tax rate of 33% (2014: 34%)		549,859	677,028
- Effect of lower rate applicable to certain income		(136,217)	(323,781)
- Inadmissible expenses		46,557	310,648
- Super tax		75,690	-
- Adjustment relating to prior years		-	378,739
		535,889	1,042,634

26. CHANGES IN WORKING CAPITAL

26.1 **Decrease / (increase) in current assets**

	2015	2014
Stock-in-trade held on behalf of GoP	(167,532)	5,322,142
Due from Government of Pakistan	16,655,758	15,762,834
Trade debtors	4,776,390	(12,813,550)
Loans and advances	(6,156)	1,971
Prepayments and other receivables	(2,487,722)	(1,566,600)
Sales tax refundable	(431,461)	(148,663)
	18,339,277	6,558,134

26.2 **Increase in current liabilities**

	2015	2014
Trade and other payables	1,255,058	953,270
Interest / mark-up accrued	(1,130,282)	(201,621)
Changes in working capital	18,464,053	7,309,783

27. CASH AND CASH EQUIVALENTS

	Note	2015	2014
Bank balances	*15*	1,082,260	2,112,088
Commodity finance under markup arrangements	*19*	(98,392,985)	(117,777,829)
		(97,310,725)	(115,665,741)

28. RELATED PARTY TRANSACTIONS

Related parties comprise of state controlled entities, retirement benefit funds, common directorship companies, Government of Pakistan and key management personnel.

Transactions with related parties during the period, other than those which have been disclosed elsewhere in these financial statements are as follows:

Related parties by virtue of common directorships and GoP holdings

The Government of Pakistan owns 99.99% shares and is entitled to appoint board of directors for the management of affairs of the Company. The Company, therefore, considers that the GoP is in a position to exercise control over it and therefore regards the GoP and its various bodies as related parties for the purpose of the disclosures in respect of related parties.

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The Company has availed the exemption available to it under its reporting framework, and therefore has not provided detailed disclosures of its transactions with government related entities except for transactions stated below which the Company considers are significant:

Transactions with related parties

Name of related parties	Nature of transaction	2015	2014
		(Rupees in '000)	
State controlled entities			
Government of Pakistan	Subsidy received	23,708,602	33,434,875
	Commission earned	529,645	1,349,089
	Dividend	100,000	-
Utility Store Corporation of Pakistan	Sale of sugar on behalf of Government	5,739,333	28,031,899
National Fertilizer Marketing Limited	Sale of urea on behalf of Government	16,417,397	27,409,635
Central Directorate of National Savings	Income on Defense Saving Certificates	11,346	10,111

The transactions described below are collectively but not individually significant to these financial statements and therefore have been described below:

(i) The Company collects income tax, sales tax and federal excise duty in capacity of withholding agent on behalf of GoP. The Company also pays various taxes and duties to different regulatory authorities including Federal Board of Revenue, Sindh Board of Revenue and Customs authorities.

(ii) The Company incurs inspection charges for testing and quality evaluation of imported urea which are paid to Pakistan Council of Scientific and Industrial Research.

(iii) The Company has investment of Rs. 6.50 million towards equity participation (10.65%) to Lahore Development Authority (LDA) as stated in note 6.3 to these financial statements

(iv) The Company incurs handling charges in respect of urea import at Kemari and other ports which are paid to Karachi Port Trust and Bin Qasim Port, respectively.

(v) The Company has obtained insurance cover for its inventory and motor vehicles from National Insurance Company of Pakistan Limited and staff insurance from State Life Insurance Corporation Limited.

(vi) The Company obtains utility services from K-Electric, Lahore Electric Supply Company Limited and Islamabad Electric Supply Company Limited.

		2015	2014
		(Rupees in '000)	
Key management personnel	Remuneration	13,769	14,550
Retirement benefit funds			
Gratuity fund	Contribution	90,687	15,882
Provident fund	Contribution	11,119	10,452

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The status of outstanding receivables and payables from / to related parties as at June 30, 2015 are included in respective notes to the financial statements.

Contributions to staff retirement benefit funds are in accordance with the terms of the service rules. Other transactions with the related parties are carried out as per agreed terms.

29. FINANCIAL INSTRUMENTS BY CATEGORY

	2015	2014
	--------(Rupees in '000)--------	
Financial assets - gross of provisions		
Held to maturity		
Long term investments	106,592	95,246
Short term investments	18,539,068	17,191,074
	18,645,660	17,286,320
Available for sale investments		
Long term investments	7,500	7,500
Loans and receivables		
Long term loans	130,785	113,284
Long term deposits	12,286	12,286
Due from government of Pakistan	23,143,483	39,799,241
Trade debtors	58,709,074	63,485,464
Loans and advances	43,546	37,390
Interest / mark-up accrued	32,919	97,692
Other receivable	6,853,253	4,391,267
Bank balances	1,082,260	2,112,088
	90,007,606	110,048,712
	108,660,766	127,342,532
Financial liabilities		
Financial liabilities measured at amortised cost		
Long term loan	16,649	16,649
Trade and other payables	3,023,801	1,766,151
Commodity finance under markup arrangements	98,392,985	117,777,829
Interest / mark-up accrued	2,335,287	3,465,569
	103,768,722	123,026,198

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

30.1 Financial risk factors

The activities of the Company expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost effective funding as well as to manage financial risk to an acceptable level. The Board of Directors supervises the overall risk management approach within the Company under the policies issued by Government of Pakistan. However, the following risks do not arise when the Company carries out transactions on behalf of the government in which case credit and other risks are borne by the Government of Pakistan.

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(a) Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates, foreign exchange rates or the prices due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to currency risk, interest rate risk and other price risk.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company imports commodity products and carries trade payable denominated in foreign currencies. However, the Company is not exposed to currency risk in this respect because these payables relate to commodity import on behalf of GOP who bears the risks related to these transactions.

The Company has foreign currency deposits amounting to US$ 16.62 million (2014: US$ 15.50 million) equivalent to Rs. 1,691.55 million (2014: Rs. 1,532.70 million) with various banks. At June 30, 2015, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit for the year would have been lower/higher by Rs. 84.58 million (2014: Rs. 72.19 million), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated bank deposits. The average rates applied during the year is Rs. 101.46 /US$ (2014: Rs. 99 / US$) and the spot rate as at June 30, 2015 was Rs. 101.78 /US$ (2014: Rs. 98.8 / US$).

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has commodity financing facilities under the government directives. The Company does not have any interest rate risk on these borrowings as markup on these borrowings is reimbursable by the government.

Variable rate instruments	2015	2014
	(Rupees in '000)	
Financial assets at variable interest rates		
Profit and loss sharing accounts	1,004,529	892,496

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the year end would have increased or decreased the post-tax profit for the year and shareholder's equity by Rs. 10.90 million (2014: Rs. 5.13 million). This analysis assumes that all other variables remain constant. The analysis has been performed on the same basis as for 2014.

Fixed rate instruments	2015	2014
	(Rupees in '000)	
Term deposit receipts	18,539,068	17,191,074
Long tem investments - Defense Saving Certificates	106,592	95,246
	18,645,660	17,286,320

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets at fair value through profit and loss account. Therefore, a change in interest rates at the reporting date would not affect profit and loss account of the Company.

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(iii) Price risk

Price risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company has no such investments as of the balance sheet date and therefore is not subject to any significant price risk.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

Credit risk arises from loans, deposits, interest accrued with/from banks and financial institutions, advances and other receivables. The Company does not have credit risk on receivables relating to transactions executed on behalf of GOP. The credit risk on liquid fund is limited because the counter parties are banks with reasonably high credit rating. The maximum exposure to credit risk before any credit enhancement is equal to the carrying amount of financial assets as disclosed in note 30. Out of the total financial assets of Rs. 108,499.67 millions (2014: Rs. 127,342.53 million), the financial assets exposed to credit risk amount to Rs. 26,800.71 million (2014: Rs. 23,845.10 million).

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The credit quality of Company's bank balances and term deposit receipts (TDRs) can be assessed with reference to external credit ratings as follows:

Banks and other financial institutions	Date of Rating	Rating agency	Rating	
			Short term	Long term
Al Baraka Bank (Pakistan) Limited	June, 2015	PACRA	A1	A
Allied Bank Limited	June, 2015	PACRA	A1+	AA+
Askari Bank Limited	July, 2015	JCR-VIS	A-1+	AA
Bank Alfalah Limited	June, 2015	PACRA	A1+	AA
Bank Islamic Pakistan Limited	July, 2015	PACRA	A1	A+
Burj Bank Limited	June, 2015	JCR-VIS	A-2	A-
Dubai Islamic Bank (Pakistan) Limited	June, 2015	JCR-VIS	A-1	A+
Faysal Bank Limited	June, 2015	PACRA	A1+	AA
Habib Bank Limited	June, 2015	JCR-VIS	A-1+	AAA
Habib Metropolitan Bank Limited	June, 2015	PACRA	A1+	AA+
JS Bank Limited	June, 2015	PACRA	A1+	A+
MCB Bank Limited	June, 2015	PACRA	A1+	AAA
Meezan Bank Limited	June, 2015	JCR-VIS	A-1+	AAA
National Bank of Pakistan	June, 2015	JCR-VIS	A-1+	AAA
NIB Bank Limited	June, 2015	PACRA	A+1	AA-
Pak Libya Holding Company (Private) Limited	June, 2015	PACRA	A1+	AA-
Pak Oman Investment Company	June, 2015	JCR-VIS	A-1+	AA+
Samba Bank Limited	June, 2015	JCR-VIS	A-1	AA
Silk Bank Limited	June, 2015	JCR-VIS	A-2	A-
Sindh Bank Limited	June, 2015	JCR-VIS	A-1+	AA
Soneri Bank Limited	June, 2015	PACRA	A1+	AA-
Standard Chartered Bank (Pakistan) Limited	June, 2015	PACRA	A1+	AAA
Summit Bank Limited	June, 2015	JCR-VIS	A-1	A
The Bank of Punjab	June, 2015	PACRA	A+1	AA-
United Bank Limited	June, 2015	JCR-VIS	A-1+	AA+

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(c) **Liquidity risk**

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to dynamic nature of the business the Company maintains flexibility in funding by maintaining committed credit lines available.

The Company's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios and maintaining debt financing plans.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date and represents the undiscounted cash flows.

	2015			
	(Rupees in '000)			
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years
Long term loan	-	-	-	16,649
Trade and other payables	-	3,023,801	-	-
Commodity finance under markup arrangements	98,392,985	-	-	-
Interest / mark-up accrued	-	2,335,287	-	-
June 30, 2015	98,392,985	5,359,088	-	16,649

	2014			
	(Rupees in '000)			
	On demand	Less than 3 months	3 to 12 months	1 to 5 years
Long term loan	-	-	-	16,649
Trade and other payables	-	1,766,151	-	-
Commodity finance under markup arrangements	116,777,829	1,000,000	-	-
Interest / mark-up accrued	-	3,465,569	-	-
June 30, 2014	116,777,829	6,231,720	-	16,649

The Commodity finance is backed by the guarantee of Government of Pakistan (GoP) and therefore the risk lies on the GoP. Trade and other payables mainly include payable on account of transactions incurred by the Company on behalf of the GoP and therefore the Company is not exposed to liquidity risks for such transactions. Besides these, the Company has adequate resources in the form of bank balances and short term investments to repay its operational liabilities and therefore does not subject to significant liquidity risk as at June 30, 2015.

30.2 **Fair values of financial assets and financial liabilities**

(a) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investment in defense saving certificates and term deposit certificates which are carried at amortised cost and investment in shares of FTC Management Company Limited and investment in LDA plaza, which is carried at cost.

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(b) **Fair value estimation**

The Company classifies the financial assets measured in the balance sheet at fair value in accordance with the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Company has no items to report in this level.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2015, the Company does not have any financial instrument which has been carried at fair market value.

31. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to carry out functions entrusted to it by Government of Pakistan. The Company is 100% owned by the Government of Pakistan and is not subject to any externally imposed capital requirements. As at June 30, 2015 and 2014, the Company has surplus reserves to meet its requirements / obligations.

32. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on latest un-audited financial statements of the fund:

	2015	2014
Size of the fund - total assets	205,391	185,620
Cost of investments made	148,582	148,582
Percentage of investments made	95%	95%
Fair value of investments	195,637	176,124

Amount in Rs. '000

32.1 The breakup of fair value of investments is:

	2015		2014	
	Amount	%	Amount	%
Bank balances	10,446	5%	7,555	4%
Short-term investments	185,191	95%	168,569	96%
	195,637	100%	176,124	100%

32.2 The investments out of provident fund have been made in accordance with the provisions of section of 227 of Income Tax Ordinance, 2001 and the rules formulated for this purpose.

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33. REMUNERATION OF CHAIRMAN AND DIRECTORS

The aggregate amount for the year in respect of remuneration and benefits to the Chairman and directors are as follows:

	2015		2014	
	Chairman	Directors	Chairman	Directors
	--------(Rupees in '000)--------		----------(Rupees in '000)----------	
Managerial remuneration	871	1,628	832	2,065
Housing and utilities	988	1,736	806	1,815
Other allowances and benefits	1,101	2,075	696	1,585
Disparity allowance	1,200	2,025	1,101	2,514
Retirement benefits	241	459	200	326
Leave encashment	514	931	102	2,508
	4,915	8,854	3,737	10,813
Number of persons	1	3	1	4

34. COMPARATIVE FIGURES

Corresponding figures have been rearranged, wherever necessary, for the purpose of better presentation.

35. NUMBER OF EMPLOYEES

The average and total number of employees during the year and as at June 30, 2015 and 2014 respectively are as follows:

	2015	2014
	No. of employees	
Average number of employees during the year	536	566
Number of employee as at June 30	525	552

36. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 29, 2016, proposed transfer of Rs 228.5 million (2014: Rs 1,500 million) from unappropriated profit to general reserve and a final cash dividend of Re. 1 per share (2014: Re. 1 per share) for the year ended June 30, 2015 amounting to Rs. 100 million (2014: Rs 100 million). These financial statements do not reflect the impact of the said appropriation and proposed dividend payable.

37. DATE OF AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue on 29 FEB 2016 by the Board of Directors of the Company.

38. GENERAL

The figures in the financial statements have been rounded off to the nearest thousand rupees, unless otherwise stated.

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Rizwan Ahmed

CHIEF EXECUTIVE OFFICER

DIRECTOR

33. REMUNERATION OF CHAIRMAN AND DIRECTORS

The aggregate amount for the year in respect of remuneration and benefits to the Chairman and directors are as follows:

	2015		2014	
	Chairman	**Directors**	Chairman	Directors
	(Rupees in '000)		(Rupees in '000)	
Managerial remuneration	871	1,628	832	2,0
Housing and utilities	988	1,736	806	1,8
Other allowances and benefits	1,101	2,075	696	1,5
Disparity allowance	1,200	2,025	1,101	2,5
Retirement benefits	241	459	200	3
Leave encashment	514	931	102	2,5
	4,915	8,854	3,737	10,8
Number of persons	1	3	1	

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