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Karachi

October 1, 2015
ASR 0457

Dear Sir

ACCOUNTING FOR AMALGAMATION

This is with reference to your letter dated April 03, 2015 in which our advice / views have been sought in respect of the captioned subject.

1. BACKGROUND

Burshane LPG (Pakistan) Limited (BLPL) is a limited liability company incorporated in Pakistan and is listed on the Karachi and Lahore stock exchanges. The principal activity of BLPL is storing and marketing of Liquefied Petroleum Gas (LPG) throughout Pakistan. BLPL is a subsidiary of H.A.K.S. Trading (Private) Limited (HTPL).

HTPL was incorporated in Pakistan on July 26, 2012 as a private limited company and is wholly owned by four individuals from two families. The company acquired BLPL through Share Purchase Agreement dated September 3, 2012. The acquisition was completed on April 22, 2013. While, the objective of HTPL was also to engage in trading activities of products and commodities, till the date of amalgamation, HTPL had no business operations and was only managing/holding its equity investment of 74.36% in BLPL. Other assets and liabilities in HTPL's balance sheet primarily included land and borrowings.

During the year 2014, the shareholders of the companies decided to enter into a scheme of arrangement for amalgamation (the Scheme) of HTPL with BLPL. Under the Scheme, 0.31 ordinary shares of the BLPL with a face value of Rs. 10 each were offered to the shareholders of HTPL for every one share of HTPL, with a face value of Rs. 10 each. The Scheme was approved and adopted, subject to sanction by the Honorable High Court of Sindh (the Court), in the Extra Ordinary General Meeting of the shareholders of the BLPL on September 3, 2014. The Court granted approval of the Scheme on February 20, 2015 which is the effective date of amalgamation and transfer of control as per the Scheme. The certified copy of the Court's order was submitted with the Securities and Exchange Commission of Pakistan (SECP) on February 27, 2015.

Under the Scheme, shareholders of HTPL will surrender their shares in HTPL and as per the swap ratio new shares of BLPL will be allotted to them. Upon allotment of new shares, the old shares of BLPL held by HTPL shall stand cancelled and simultaneously HTPL stand dissolved without being wound up. We understand from the management that this process is yet to be completed. As a result of the transaction, there will be a net reduction by 151,154 shares and the share capital of BLPL will be reduced by Rs. 1,511,540 as detailed in paragraph 10.1 of the Scheme.

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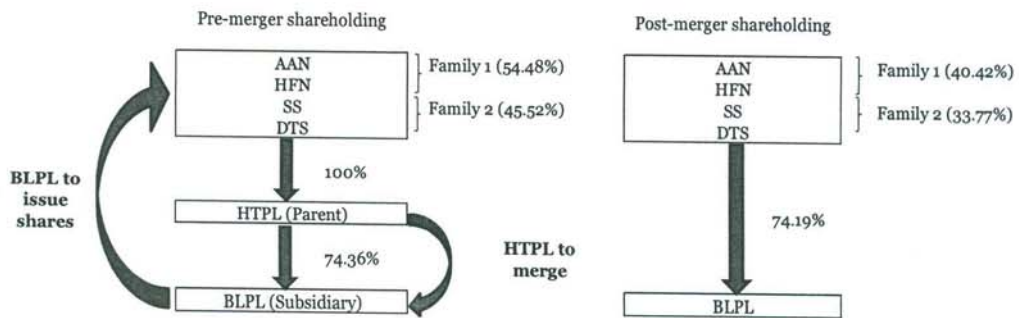
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Prior to amalgamation, HTPL held 16,835,783 (74.36%) ordinary shares of Rs. 10 each in BLPL. The holding structure of HTPL as at December 31, 2013, as reflected in Annexure D of the Scheme, was as follows:

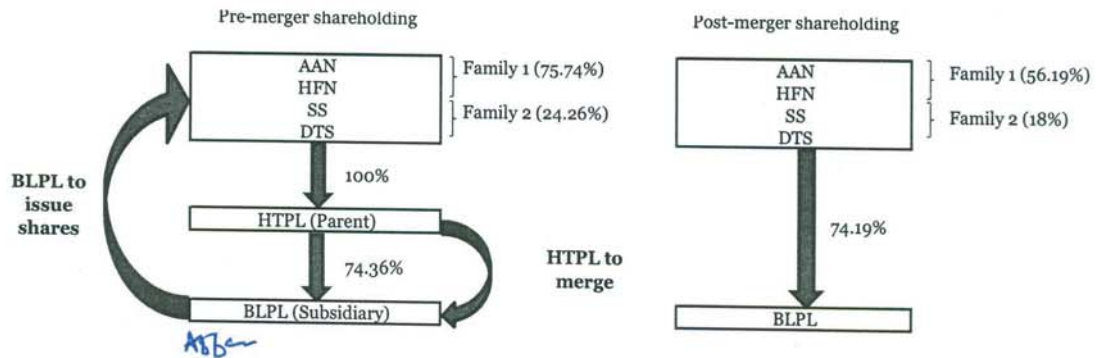
Name	No. of shares held	Paid-up value (Rupees.)	Holding percentage
Asad Alam Niazi (AAN)	28,323,877	283,238,772	52.62
Hamdia Fatin Niazi(HFN)	1,000,000	10,000,000	1.86
Shahriar Sethna (SS)	23,497,507	234,975,070	43.66
Darayus T. Sethna (DTS)	1,000,000	10,000,000	1.86
	53,821,384	538,213,842	100

Transaction snapshot



However, we have been given to understand by the management that effective from February 16, 2015, the shareholders of HTPL have executed an agreement for transfer of shares amongst them before the surrender of shares pursuant to the Scheme whereby 11,439,442 shares have been transferred from Mr. Shahriar Sethna to Mr. Asad Alam Niazi. After the agreement, the shareholding structure of transaction becomes as follows:

Transaction snapshot





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2. ACCOUNTING ISSUE/YOUR REQUIREMENTS

Considering the above scenario, our advice / views have been sought on accounting in books of BLPL for the aforementioned transaction.

The requirements of the Company have been addressed in Section 3 to this document keeping in view the background facts and circumstances mentioned in Section 1 and as given to understand by the management.

3. ACCOUNTING REQUIREMENTS AND OUR VIEWS

The accounting for business combination is governed by IFRS 3 – ‘Business Combination’. Paragraph 2 of IFRS 3 defines the scope of this IFRS and states that the IFRS applies to all business combinations with the following exceptions:

- Acquisition of an asset or group of assets that does not constitute a business;
- Formation of a joint venture; and
- Combination of entities or businesses under common control.

3.1 Does asset or group of assets acquired constitute a business?

Under IFRS 3, business combination is defined as:

“a transaction or other event in which an acquirer obtains control of one or more businesses”.

Under IFRS 3, business is defined as:

“an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members, or participants”.

It is relatively easy in most cases to determine whether a group of acquired assets and assumed liabilities (i.e. an integrated set of activities and assets) constitute a business. However, in a few cases, this determination can be complicated – for instance, if the fair value of the acquired group is concentrated in just one or a few assets, or if there are little or no revenues.

A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. Inputs and processes that are not used to create outputs are generally not considered significant to the determination of whether the acquired group is a business. For example, whether the acquired group includes or excludes certain administrative or support processes, such as accounting, payroll, and other administrative systems, generally will not impact the determination of whether a business exists.

Further, the acquirer’s intended use of an acquired group of activities and assets is not a factor in the determination of whether an acquired group constitutes a business.

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Keeping above in view and from our discussions with you, the definition of three elements of a business along with analysis of HTPL's activities there against, is given below:

Component	Definition	Analysis of HTPL
Input	Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include long-lived assets [non-current assets] (including intangible assets or rights to use long-lived assets [non-current assets]), intellectual property, the ability to obtain access to necessary materials or rights, and employees.	HTPL has investment in property, plant and equipment which includes leasehold land (multiple plots), office equipment and furniture. The property is not being used currently. However land itself does not have the ability to create outputs when processes are applied in absence of other inputs such as machinery and working capital which HTPL lacks, while future use of land in BLPL is not a determining factor.
Process	Any system, standard, protocol, convention, or rule that when applied to an input, or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes, and resource management processes. These processes typically are documented, but an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. Accounting, billing, payroll, and other administrative systems typically are not processes used to create outputs.	HTPL is currently not engaged in any business operations other than managing investment in subsidiary. It currently does not have the processes including strategic management, operational and resource management processes to be applied to the inputs to create outputs.
Output	The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.	No outputs are being generated at the moment as HTPL is currently managing investment in BLPL only. Its income comprises of only dividend received from BLPL. Further in absence of adequate inputs and necessary processes, the ability to create output does not seem to exist.

Based on the above analysis we are of the view that HTPL does not constitute a business as it does not have the adequate inputs and necessary processes to be applied to inputs and as such no outputs are being created. Therefore, in our view this transaction is not a business combination under IFRS 3.

3.2 Common control

It is important in a business combination to assess that whether the combination is between entities under common control or not, as business combinations under common control are also outside the scope of IFRS 3.

Control can be exercised by a group of individuals or a group of entities, rather than a single entity or a single individual. A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities. The existence of a contractual arrangement is critical to the existence of common control. In the absence of a contractual arrangement, a control group is deemed not to exist other than in close family relationships.

In case of HTPL, after execution of share transfer agreement as given to understand by the management and detailed in Section 1, one family ends up owning controlling interest in BLPL before and after the amalgamation and therefore common control could exist depending on terms of the agreement between families. However, irrespective of whether common control exist or not, since HTPL does not constitute a business therefore the transaction is outside the scope of IFRS 3.

3.3 Accounting for amalgamated / combined entity

The transaction in substance is a legal reorganization of the group where the effective shareholding in BLPL of owners of HTPL is substantially the same after the transaction i.e the two families own the surviving entity (BLPL) in almost the same proportion. The shareholders representing non-controlling interest in BLPL have now become the shareholders of the combined entity, however, the holding has not changed substantially. The transaction lacks economic substance as nothing has changed from the perspective of owners of HTPL as they still own the combined entity in almost the same proportion.

As explained above, the transaction is not a business combination and no specific accounting treatment is available in the IFRS for this type of transaction i.e. reorganization of group. The owners of the group and shareholders representing non-controlling interest have now become the owners of the combined entity and the financial statements of the combined entity should reflect the same. Therefore, financial statements of the combined entity would be continuance of the consolidated financial statements of the group prepared in accordance with IFRS. Accordingly, amounts in the financial statements of the combined entity should also include impact of purchase price allocation relating to BLPL recognized at the time of acquisition of BLPL by HTPL in a business combination. Further, non-controlling interest as appearing in the consolidated financial statements should be derecognized in the financial statements of the combined entity with resulting impacts in reserves as the same has been effectively acquired for no consideration. Moreover share capital in the financial statements of the combined entity will reflect the legal equity structure of BLPL after amalgamation. As a result of the aforementioned transaction, a reserve for amalgamation will arise.

4. CONCLUSION

Based on information provided, subsequent discussions and analysis of transaction, in our view:

- the activities of HTPL do not constitute a business under IFRS 3;
- the transaction is a legal reorganization of group and not a business combination; and
- the financial statements of the combined entity should represent a continuation of the consolidated financial statements of the HTPL and should reflect any purchase price allocation recognized in the business combination when BLPL was acquired by HTPL and impact relating to amalgamation as explained in paragraph 3.3.

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5. CAVEAT

Our views/conclusions are based on the facts stated above and on the information provided to us through discussions with your Mr. Saifee Zakiuddin. Any inaccuracy therein could have a material impact on our views/conclusions, and, accordingly, on identification of such inaccuracy, we expect to be advised about it immediately.

Our views are based on the standards and pronouncements applicable in Pakistan as of the date of this document. Standards and pronouncements/regulations are subject to change from time to time and as such any changes in pronouncements/regulations may affect the views expressed in this document. We have no responsibility to update our views/conclusions for events and circumstances occurring after the date of this document, unless specifically requested by you and subject to terms and conditions which we agree.

This document is issued for the use of the management of BLPL in response to their specific queries. We do not, in expressing our views, accept or assume responsibility for any other purpose or to any other person to whom this document is shown or in whose hands it may come, unless expressly agreed by us in writing. Our views / conclusions are matters for consideration of the management which is responsible for forming its own view for accounting decisions and preparation and presentation of financial statements.

6. LIMITATION OF LIABILITY

This advice has been provided based on the understanding that the BLPL will indemnify and hold harmless A. F. Ferguson & Co., (the Firm) its partners, agents and employees from, and against, any and all costs, expenses, losses, claims, demands, actions, suits or proceedings paid, incurred or suffered or made or initiated against them by any third party arising out of or in connection with the contents of this document. In addition, any liability of the BLPL shall not be a liability of the Firm, its partners, directors, employees and agents. However, the liability of the Firm for any loss or damage caused, as a result of willful malfeasance or gross negligence, shall be limited to and not exceed the amount of the fee paid to us in respect of this advice/document.

We trust that we have adequately addressed your requirements and to all of your queries. Should you require any further information/clarification please contact our Mr. Osama Kapadia or Mr. M. Fahim Rao.

Yours truly

A handwritten signature in blue ink, appearing to read 'Atteyana'.