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OWNERS AND OPERATORS OF PEARL-CONTINENTAL HOTELS

1452

CA/PSL/18-19/  
December 24, 2018

To,

**Mr. Abid Hussain,**  
Executive Director  
Corporate Supervision Department,  
SECP, NIC Building, 63 Jinnah Avenue,  
Islamabad.

✓ **The General Manager,**  
Pakistan Stock Exchange Limited,  
Stock Exchange Building,  
Stock Exchange Road,  
Karachi.

**Subject: CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED JUNE 30, 2018**

Dear Sirs,

It is submitted that the Company in pursuance of Section 233 of the Companies Act, 2017 has filed its Financial Statements together with Auditors' Report and Directors' Report for year ended June 30, 2018 in Securities and Exchange Commission of Pakistan and Pakistan Stock Exchange.

The said Financial Statements were also sent to all members of the Company and the same were placed at the official website of the Company with in stipulated time.

Subsequent to the dispatch of printed Audited Accounts it transpired that the correct Consolidated Auditors' Report has not been printed. You will kindly observe that there is no change in Audit Opinion, Key Audit Matters and no impact on material or price sensitive information in the correct Auditors' Report


We are sending the Correct Auditors Report on the Consolidated Financial Statements for the year ended June 30,2018 and replacing the same in the official website of the Company.

The misprinting was purely unintentional and inadvertent, and we assure you our full vigilance in future.

Inconvenience caused in this regard is highly regretted.

Thanking you,

Yours sincerely,  
for Pakistan Services Limited,

  
Mansoor Khan  
Company Secretary

Encl: As Above

  
Pearl-Continental  
HOTELS & RESORTS

Karachi Tel: 021-111-505-505 Fax: 021-35681835-35682655	Lahore 042-111-505-505 042-36362760-36364362	Rawalpindi 051-111-505-505 051-5563927-5566008	Peshawar 091-111-505-505 091-5276465-5271095	Bhurban 051-3355700-30 051-3355577-3355574	Muzaffarabad 05822-438000-14 05822-438046
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KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sixth Floor, State Life Building, Blue Area  
Islamabad, Pakistan  
Telephone 92 (51) 282 3558, Fax 92 (51) 282 2671

## **INDEPENDENT AUDITORS' REPORT**

**To the members of Pakistan Services Limited**

**Report on the Audit of the Consolidated Financial Statements**

### **Opinion**

We have audited the annexed consolidated financial statements of Pakistan Services Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

### **Basis for Opinion**

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



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**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the key audit matters:

S. No.	Key audit matter	How the matter was addressed in our audit
1	<p><b>Advance against purchase of land</b></p> <p>We draw attention to note 16 to the consolidated financial statements, wherein it is disclosed that the Group has extended advance against purchase of following land;</p> <p><b>Advance amounting to Rs. 626.82 million</b></p> <ul style="list-style-type: none"> <li>• This was extended to a related party for purchase of two plots of land. According to the agreements, both the land were to be transferred to the Group by 30 June 2012 after completion of development work.</li> </ul>	<p>Our audit procedures to evaluate the appropriateness of the impairment of advance against the purchase of land, amongst others, included the following:</p> <ul style="list-style-type: none"> <li>• Held discussions at appropriate level of management and Audit Committee to assess their views on the settlement and recoverability of advances for land;</li> <li>• Reviewing legal opinion obtained by the Group regarding transfer of land and recoverability of advance where Group is in litigation.</li> <li>• for advances where Group is not in litigation, circularised external confirmations, and evaluating the replies received thereto; and</li> <li>• evaluating the appropriateness of the disclosure in accordance with the accounting and reporting standards as applicable in Pakistan.</li> </ul>



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S. No.	Key audit matter	How the matter was addressed in our audit
	<p><b><i>Advance amounting to Rs. 381.65 million</i></b></p> <ul style="list-style-type: none"> <li>This represents amount paid for purchase of 113.34 acres of land and fee for regularisation of land as per the value assessed by the Land Regularization Committee established by the Government of Sindh under the Sindh Ordinance, 2001. As disclosed in detail in note 16.2, the matter is under litigation. The Group is confident that the case will be decided in its favour and possession of land will be handed over to the Group. Further, the Group has sought legal advice that in case of an adverse outcome, the Group would be entitled to recover the amounts from the purchaser as well as from the relevant Government department.</li> </ul> <p>We identified advance against purchase of land as a key audit matter due to its relative significance and the risk that underlying asset is not eventually transferred to the Group due to litigation and prolonged delay.</p>	



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S. No.	Key audit matter	How the matter was addressed in our audit
2	<p><b>Related party transactions, balances and disclosures</b></p> <p>Transactions with related parties are disclosed in note 39 of the consolidated financial statements.</p> <p>We identified transactions with related parties and its disclosures as key audit matter due to the nature and number of transactions with related parties, and also due to their significance to the financial statements.</p>	<p>Our audit procedures to evaluate the related party transactions and disclosures, amongst others, included the following:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process that management has established to identify, account for and disclose related party transactions and authorize and approve related party transactions and arrangements;</li> <li>• obtaining the details of related parties and transactions and comparing the same with underlying accounting records to identify transactions that are outside the normal course of business;</li> <li>• inspecting bank and legal confirmations, and minutes of meetings;</li> <li>• obtaining, on a sample basis, confirmations of transactions and balances with related parties;</li> <li>• comparing, on a sample basis, the recording of related party transactions with the related agreements / arrangements and underlying supporting documents; and</li> <li>• evaluating the completeness and appropriateness of the related parties disclosure in accordance with the accounting and reporting standards as applicable in Pakistan.</li> </ul>



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S. No.	Key audit matter	How the matter was addressed in our audit
3	<p><b>Revenue from letting of rooms and food and beverages</b></p> <p>Refer note 28 to the consolidated financial statements.</p> <p>The Group recognized revenue of Rs. 11,716 million from rooms and food and beverages for the year ended 30 June 2018.</p> <p>We identified recognition of revenue from these two streams as a key audit matter because these are key performance indicators of the Group and gives rise to an inherent risk that rooms and food and beverages revenue could be subject to misstatement to meet expectations or targets.</p>	<p>Our audit procedures to evaluate the recognition of rooms and food and beverages revenue, amongst others, included the following:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process relating to recognition of revenue and testing the design, implementation and operating effectiveness of key internal controls over recording of revenue;</li> <li>• Comparing a sample of revenue transactions recorded during the year with reservations, sales invoices and other relevant underlying documents;</li> <li>• Comparing a sample of revenue transactions recorded around the year end with the bookings, sales invoices and other relevant underlying documentation to evaluate if the related revenue was recorded in the appropriate accounting period; and</li> <li>• Comparing the details of journal entries posted to revenue accounts during the year, which met certain specific risk-based criteria, with the relevant underlying documentation.</li> </ul>
4	<p><b>Revaluation of land</b></p> <p>Refer to note 7 to the consolidated financial statements.</p> <p>The Group has a policy of carrying land at revalued amounts.</p>	<p>Our audit procedures to evaluate the revaluation of land, amongst others, included the following:</p> <ul style="list-style-type: none"> <li>• evaluating the completeness and description of the land records provided to the management's valuation expert;</li> </ul>



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S. No.	Key audit matter	How the matter was addressed in our audit
	<p>We identified the revaluation of land as a key audit matter due following factors;</p> <ul style="list-style-type: none"> <li>• Revaluation exercised was conducted during the year which resulted in revaluation surplus of Rs. 3.8 billion.</li> <li>• significance of the revaluation surplus balance to the consolidated financial statements; and</li> <li>• significant judgments and inherent estimation uncertainty associated with determining the revalued amounts.</li> </ul>	<ul style="list-style-type: none"> <li>• engaging an independent, competent and qualified valuation expert to validate the reasonableness of the value determined by the management's valuation expert and the underlying assumption used; and</li> <li>• evaluating the appropriateness of related disclosures in the consolidated financial statements as per applicable accounting and reporting standards as applicable in Pakistan.</li> </ul>
5	<p><b>Capitalization of property, plant and equipment</b></p> <p>Refer to notes 15.1 and 15.2 to the consolidated financial statements.</p> <p>The Group has made significant capital expenditure of Rs. 4,043.03 million for the construction of new hotels, modernization of existing hotel properties and purchase of an aircraft.</p>	<p>Our audit procedures to evaluate the capitalization of property, plant and equipment, amongst others, included the following:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process relating to authorization and capitalization and testing the design, implementation and operating effectiveness of key internal controls;</li> <li>• testing, on sample basis, the costs capitalized with supporting documentation and contracts;</li> </ul>



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S. No.	Key audit matter	How the matter was addressed in our audit
	<p>We identified capitalization of property, plant and equipment as a key audit matter because there is a risk that unauthorised capital expenditure might be incurred and amounts being capitalized may not meet the capitalization criteria with related implications on depreciation charge for the year.</p>	<ul style="list-style-type: none"> <li>• evaluating the nature of costs incurred through testing, on sample basis, of amounts recorded and considering whether the expenditure meets the criteria for capitalization as per the accounting policy and applicable financial reporting framework; and</li> <li>• inspecting supporting documents for the date of capitalization when the assets became available for their intended use to evaluate whether depreciation commenced and further capitalization of costs ceased from that date and evaluating the appropriateness of classification of assets in correct category and testing the calculation of related depreciation.</li> </ul>

**Information Other than the Consolidated Financial Statements and Auditors’ Report Thereon**

Management is responsible for the other information. Other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the consolidated financial statements and our auditors’ report thereon.

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

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



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

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.



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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Riaz Akbar Ali Pesnani.

A handwritten signature in blue ink, appearing to read 'Riaz Akbar Ali Pesnani'.

**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Islamabad**

**28 September 2018**