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**AVANCEON LIMITED**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2015**

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
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## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Avanceon Limited** (the Company) as at **31 December 2015** and the related profit and loss account, statement of comprehensive income, 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 we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) 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 business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, 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 31 December 2015 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

*Ernst & Young Ford Rhodes Sidat Hyder*

Chartered Accountants  
Audit Engagement Partner: Farooq Hameed  
Lahore: 24 March 2016

AVANCEON LIMITED  
BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	2015 (Rupees in thousand)	2014 (Rupees in thousand)		2015 (Rupees in thousand)	2014 (Rupees in thousand)	
<b>EQUITY AND LIABILITIES</b>				<b>ASSETS</b>			
<b>SHARE CAPITAL AND RESERVES</b>				<b>NON CURRENT ASSETS</b>			
Authorised capital 150,000,000 (2014: 150,000,000) ordinary shares of Rs 10 each		<u>1,500,000</u>	<u>1,500,000</u>	Property, plant and equipment	14	225,280	197,571
Issued, subscribed and paid up capital 105,696,804 (2014: 105,696,534) ordinary shares of Rs 10 each	5	1,056,969	1,056,969	Long term investments	15	473,671	473,671
Share premium	6	61,894	61,893	Long term deposits	16	<u>15,297</u>	<u>11,038</u>
Employees' share compensation reserve	7	45,000	45,000			<u>714,248</u>	<u>682,280</u>
Un-appropriated profit		<u>725,670</u>	<u>681,661</u>				
		1,889,533	1,845,520				
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>	8	110,384	90,295				
<b>NON CURRENT LIABILITIES</b>							
Deferred tax	9	20,762	18,160	<b>CURRENT ASSETS</b>			
Liabilities against assets subject to finance lease	10	34,015	29,316	Stock in trade	17	55,454	48,465
		54,777	47,476	Trade debts	18	924,407	794,960
<b>CURRENT LIABILITIES</b>				Short term investments	19	5,000	94,566
Current portion of liabilities against assets subject to finance lease	10	15,416	16,052	Advances, deposits, prepayments and other receivables	20	971,170	835,080
Finances under mark up arrangements and other credit facilities - secured	11	110,772	-	Cash and bank balances	21	<u>44,076</u>	<u>11,851</u>
Creditors, accrued and other liabilities	12	533,473	467,859			<u>2,000,107</u>	<u>1,784,922</u>
		659,661	483,911			<u>2,714,355</u>	<u>2,467,202</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	13						
		<u>2,714,355</u>	<u>2,467,202</u>				

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



Chief Executive



Director

**AVANCEON LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		(Rupees in thousand)	
Sales	22	836,456	1,079,109
Cost of sales	23	(494,823)	(578,138)
<b>Gross profit</b>		<b>341,633</b>	<b>500,971</b>
Administrative and selling expenses	24	(152,669)	(121,620)
Other operating expenses	25	(2,475)	(23,190)
Other operating income	26	135,543	146,765
		(19,601)	1,955
<b>Profit from operations</b>		<b>322,032</b>	<b>502,926</b>
Finance costs	27	(10,381)	(8,871)
<b>Profit before tax</b>		<b>311,651</b>	<b>494,055</b>
Taxation	28	(30,713)	(16,069)
<b>Profit for the year</b>		<b>280,938</b>	<b>477,986</b>
			<b>Restated</b>
Earnings per share - basic	29	2.66	4.57
Earnings per share - diluted		2.55	4.39

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



Chief Executive



Director

**AVANCEON LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<u>2015</u>	<u>2014</u>
	(Rupees in thousand)	
Profit for the year	280,938	477,986
<b>Other comprehensive income</b>		
<i>Items not to be reclassified to profit or loss in subsequent periods</i>		
Transfer from revaluation surplus on account of incremental depreciation net of tax	894	1,356
<i>Items to be reclassified to profit or loss in subsequent periods</i>	-	-
<b>Total comprehensive income for the period</b>	<u><u>281,832</u></u>	<u><u>479,342</u></u>

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



Chief Executive



Director

AVANCEON LIMITED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital	Share premium	Employees' share		Total
			compensation reserve	appropriated profit	
(Rupees in thousand)					
Balance as on 1 January 2014	755,000		45,000	453,974	1,253,974
Profit for the year	-	-	-	477,986	477,986
Other comprehensive Income	-	-	-	1,356	1,356
				479,342	479,342
Issue of 25,163,484 shares of Rs. 10 each fully paid in cash @ premium of Rs. 4 each	251,635	100,654	-	-	352,289
Expenses incurred against Initial Public Offering	-	(38,761)	-	-	(38,761)
Cash dividend paid @ Rs. 2 per share	-	-	-	(201,324)	(201,324)
Bonus shares issued @ 5%	50,331	-	-	(50,331)	-
	301,966	61,893	-	(251,655)	112,204
Balance as on 31 December 2014	1,056,966	61,893	45,000	681,661	1,845,520
Profit for the year	-	-	-	280,938	280,938
Other comprehensive income	-	-	-	894	894
				281,832	281,832
Cash dividend paid at Rs. 2.25 per share	-	-	-	(237,823)	(237,823)
Issue of 270 shares of Rs. 10 each fully paid in cash @ premium of Rs. 4 each	3	1	-	-	4
	3	1	-	(237,823)	(237,819)
Balance as on 31 December 2015	1,056,969	61,894	45,000	725,670	1,889,533

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

  
Chief Executive

  
Director

AVANCEON LIMITED  
 CASH FLOW STATEMENT  
 FOR THE YEAR ENDED 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u>	<u>2014</u>
(Rupees in thousand)			
<b>Cash flows from operating activities</b>			
Cash generated from / (used in) operations	30	125,466	(10,525)
Finance cost paid		(6,136)	(9,344)
Taxes paid		(26,133)	(35,897)
<b>Net cash generated from / (used in) operating activities</b>		<b>93,197</b>	<b>(55,766)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(11,113)	(4,258)
Proceeds from sale of property, plant and equipment		9,063	5,179
Income on bank deposit received		3,889	13,247
Short term investment		90,457	(60,825)
Net increase in long term deposits		(4,259)	(1,883)
<b>Net cash generated from / (used in) investing activities</b>		<b>88,037</b>	<b>(48,540)</b>
<b>Cash flows from financing activities</b>			
Repayment of long term finances		-	(10,000)
Net cash received against share issued		4	88,046
Dividend paid		(236,801)	(201,324)
Repayment of director's loan		-	(24,108)
Finances under mark up arrangements and other credit facilities		110,772	-
Repayment of finance lease liabilities		(22,984)	(16,905)
<b>Net cash used in financing activities</b>		<b>(149,009)</b>	<b>(164,291)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>32,225</b>	<b>(268,597)</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>11,851</b>	<b>280,448</b>
<b>Cash and cash equivalents at the end of year</b>	21	<b>44,076</b>	<b>11,851</b>

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



Chief Executive



Director

**AVANCEON LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

The Company was incorporated in Pakistan on March 26, 2003 as a private limited company which was changed to a public company on March 31, 2008 under the Companies Ordinance, 1984. The principal activity of the Company is to trade in products of automation and control equipments and to provide related technical services. The registered office of the Company is situated at 19 km, Multan Road, Lahore. The company is listed on Karachi and Lahore Stock Exchanges (now Pakistan Stock Exchange Limited).

**2. BASIS OF PREPARATION**

**2.1** These financial statements have been prepared in accordance with 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 and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives prevail.

**2.2 Standards, Interpretations and amendments to published approved accounting standards effective in 2015:**

**New and amended standards and interpretations**

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

The Company has adopted the following amendments to IFRSs which became effective for the current year:

- IAS 16,38- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets- Revaluation method- proportionate restatement of accumulated depreciation/amortization.
- IAS 19 - Defined Benefit Plans: Employee Contribution - (Amendments)
- IAS 24 - Related Party Disclosures - Key management personnel
- IAS 40 - Investment Property – Interrelationship between IFRS 3 Business Combinations and IAS 40 (ancillary services)
- IFRS 2 - Share-based Payment - Definitions of vesting conditions
- IFRS 3 - Business Combinations - Accounting for contingent consideration in a business combination and Scope exceptions for joint ventures
- IFRS 8 - Operating Segments - Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets

IFRS 13 - Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

The adoption of the above amendments did not have any significant impact on the financial statements.

**2.3 Standards, Interpretations and amendments to published approved accounting standards that are not yet effective:**

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

<b>Standard or Interpretation</b>	<b>Effective date (annual periods Beginning on or after)</b>
IFRS 10 - Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)	01-Jan-16
IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01-Jan-16
IFRS 11 - Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)	01-Jan-16
IAS 1 - Presentation of Financial Statements - Disclosure Initiative (Amendment)	01-Jan-16
IAS 16 - Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01-Jan-16
IAS 16 - Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)	01-Jan-16
IAS 27 - Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)	01-Jan-16

The Company expects that the adoption of the above revision, amendments and interpretation of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2016. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 14 – Regulatory Deferred Accounts	01 January 2016
IFRS 15 – Revenue from contracts with costumers	01 January 2018
IFRS 16 – Leases	01 January 2019

**3. BASIS OF MEASUREMENT**

**3.1** These financial statements have been prepared under the historical cost convention, except for revaluation of certain items of property, plant and equipment at revalued amounts as referred to in note 14.

**3.2 Functional and presentation currency**

These financial statements have been prepared in Pak Rupee, which is the functional currency of the company. Figures have been rounded off to the nearest thousand of Pak Rupee.

**3.3 Significant accounting judgments and critical accounting estimates / assumptions**

The Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

**a) Provision for taxation**

Provision for taxation is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income and the decisions taken by appellate authorities. The charge for tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

**b) Recoverable amount of property, plant and equipment**

The company bases its valuation of operating assets suspect to impairment upon valuation performed by an independent valuation expert. The valuation is based on fair value less costs to sell as mentioned in note 14.

**c) Cost to complete the projects**

As part of application of percentage of completion method on contract accounting, the Company estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognized. These estimates are based on the prices of materials and services applicable at that time, forecasted increases and expected completion date at the time of such estimation. Such estimates are reviewed at regular intervals. Any subsequent changes in the prices of materials and services compared to forecasted prices and changes in the time of completion affect the results of the subsequent periods.

**d) Stock in trade**

Stock-in-trade is carried at the lower of cost and net realizable value. The net realizable value is assessed by the Company having regard to the budgeted cost of completion, estimated selling price and knowledge of recent comparable transactions.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

**4.1 Staff retirement benefits**

The Company operates a defined contribution provident fund for its employees. Monthly contributions are made both by the Company and the employees to the fund at the rate of 10% (2014:10%) of the basic salary.

**Current**

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.


**Deferred**

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits 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 in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

**4.3 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss except for freehold land and building which are stated at revalued amount less accumulated depreciation and any identified impairment loss, however, freehold land is stated at revalued amount.



Increase in the carrying amount arising on revaluation of property, plant and equipment are credited to surplus on revaluation of property, plant and equipment. Decreases that offset previous increases of the same assets are charged against this surplus, all other decreases are charged to income. Each year the difference between depreciation based on revalued carrying amount of the asset (the depreciation charged to the income) and depreciation based on the assets' original cost is transferred from surplus on revaluation of property, plant and equipment to other comprehensive income.

Depreciation is charged to income using the straight line method whereby the cost less residual value of an operating asset is written off over its estimated useful life. Depreciation is charged on additions from the month of its acquisition whereas no depreciation is charged on assets disposed off during the month. The rates of depreciation are stated in note 14 to the financial statements. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized 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. All other repair and maintenance costs are charged to income during the period in which they are 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 recognized as an income or expense in the period in which it is incurred.

#### **4.4 Capital work in progress**

Capital work in progress is stated at cost less any identified impairment loss.

#### **4.5 Investments**

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

##### **Investments in equity instruments of subsidiaries**

Investments in equity instruments of subsidiaries are measured at cost in the Company's financial statements. Cost in relation to investments made in foreign currency is determined by translating the consideration paid in foreign currency into rupees at exchange rates prevailing on the date of transactions.

The Company is required to issue consolidated financial statements along with its separate financial statements, in accordance with the requirements of IAS 27 "Consolidated and Separate Financial Statements".

**4.6 Leases**

The Company is the lessee.

**4.6.1 Finance leases**

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. At inception assets subject to finance lease are capitalized at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment losses.

The related rental obligations, net of finance charge, are included in liabilities against assets subject to finance lease as referred to in note 10. The liabilities are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charge so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit and loss account over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset on straight line method so as to write off the cost of an asset over its estimated useful life at the annual rates given in note 14. Depreciation of leased assets is charged to profit and loss account.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

**4.6.2 Operating leases**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight line basis over the lease term.

**4.7 Stores and spares**

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon. Provision is made in the financial statements for obsolete and slow moving stores and spares based on management's estimate.

**4.8 Stock in trade**

Stock of raw materials and finished goods, except for those in transit are valued principally at the lower of weighted average cost and net realizable value. Cost of finished goods comprises cost of direct materials, labour and appropriate overheads.

Materials in transit are stated at cost comprising invoice value plus other charges incurred thereon.

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

4.9 Financial instruments

4.9.1 Financial assets

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

a) **Financial assets at fair value through profit or 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.

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 loans, advances, deposits and other receivables and cash and cash equivalents in the balance sheet.

c) **Available-for-sale financial assets**

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.

d) **Held to maturity**

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

All financial assets are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized 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 amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account. Dividends on available-for-sale equity instruments are recognized in the profit and loss account when the Company's right to receive payments is established.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Company measures the investments 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 is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts and other receivables is described in note 4.11.

#### **4.9.2 Financial liabilities**

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

A financial liability is derecognized 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 recognized in the profit and loss account.

#### **4.10 Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

#### **4.11 Trade debts**

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the period end. Bad debts are written off when identified.

Due against construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billing and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred.

**4.12 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark-up arrangements. In the balance sheet, finances under mark-up arrangements are included in current liabilities.

**4.13 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method. Finance costs are accounted for on an accrual basis and are reported under accrued finance costs to the extent of the amount remaining unpaid.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

**4.14 Creditors, accruals and provisions**

Liabilities for creditors and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in future for the goods and/or services received, whether or not billed to the Company.

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at year end and adjusted to reflect the current best estimate.

**4.15 Foreign currencies**

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

**4.16 Borrowing costs**

Mark up, interest and other charges on long term borrowings are capitalized upto the date of commissioning of the respective plant and machinery, acquired out of the proceeds of such long term borrowings. All other mark-up, interest and other charges are charged to income.

**4.17 Revenue recognition**

Revenue from sale of goods are recognized when significant risks and rewards of ownership are transferred to the buyer.

Service revenue is recognized over the contractual period or as and when services are rendered to customers.

Financial income is recognized as it accrues on a time proportion basis by reference to the principal outstanding, using the effective mark-up rates.

Contract revenue and contract costs relating to long-term construction contracts are recognized as revenue and expenses respectively by reference to stage of completion of contract activity at the balance sheet date. Stage of completion of a contract is determined by applying 'cost-to-cost method'. Under cost-to-cost method, stage of completion of a contract is determined by reference to the proportion that contract cost incurred to date bears to the total estimated contract cost. When it is probable that contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract can not be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be

**4.18 Dividend income**

Dividend on equity investments is recognized as income when the right of receipt is established.

**4.19 Share based payment transactions**

The grant date fair value of equity settled share based payment to employees is initially recognized in the balance sheet as deferred employee compensation with a corresponding credit to equity as employees' share compensation reserve.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit and loss account, employee compensation expense in profit and loss account and deferred employee compensation in balance sheet will be reversed equal to the amortized and unamortized portion respectively, with a corresponding effect to the employees' share compensation reserve.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit and loss account is reduced with a corresponding reduction to employee compensation reserve in the balance sheet.

When the options are exercised, employees' compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium account.

**4.20 Operating segments disclosure**

Disclosure of operating segments has been made in consolidated financial statements of the Company.

**4.21 Related Parties**

All transaction with related parties and associated undertakings are entered into at normal commercial terms as maturity agreed between the parties.

Parties are said to be related if they are able to influence the operating and financial decisions of the Company and vice versa.

## 5 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2015		2014		
(Number of shares)		(Rupees in thousand)		
57,163,754	57,163,484	Ordinary shares of Rs. 10 each fully paid in cash at beginning of the year	571,638	571,635
48,533,050	48,533,050	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	485,331	485,331
<u>105,696,804</u>	<u>105,696,534</u>		<u>1,056,969</u>	<u>1,056,966</u>

## 5.1 Movement during the year is as follows:

2015		2014	
(Number of shares)			
Balance as at 01 January	105,696,534	75,500,000	
Ordinary shares issued during the year	270	25,163,484	
Bonus shares issued during the year	-	5,033,050	
Balance as at 31 December	<u>105,696,804</u>	<u>105,696,534</u>	

5.2 Wain Family holds 75% (2014: 75%) share capital of the Company.

## 6 SHARE PREMIUM

This represents premium on 25,163,754 (2014: 25,163,484) shares at the rate of Rs. 4 each. Costs incurred on Initial Public Offering amounting to Rs. 38,761,352 have been written off against this.

## 7 EMPLOYEES' SHARE COMPENSATION RESERVE

This reserve was created by the Board of Directors on 26 September 2013 in order to set aside amount for issuance of shares under employees' share option scheme out of un-appropriated profit of the Company.

## 7.1 Movement in the amount of options granted against the reserve is as follows:

2015		2014	
(Rupees in thousand)			
Balance as at January 1	16,753	7,560	
Options issued during the year recognized at offer value	11,817	9,193	
Adjustment of reserve for option holders resigning during the year	-	-	
Balance as at December 31	<u>28,570</u>	<u>16,753</u>	

## 7.2 Movement in share options outstanding at end of the year is as follows:

2015		2014	
(Number of options)			
Balance as at January 1	4,400,000	4,200,000	
Options issued during the year	200,000	200,000	
Balance as at December 31	<u>4,600,000</u>	<u>4,400,000</u>	

All options have been issued at Rs. 1 in 2013, Rs. 1.20 in 2014 and Rs. 1.44 in 2015 with five year vesting period and can be exercised after 2018, 2019 and 2020 respectively

## 8 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

This represents the surplus over book values resulting from revaluation of land and building adjusted by incremental depreciation arising out of revaluation of building. Freehold land and buildings are revalued at each year end by an independent valuer based on fair market value. The revaluation surplus is net of applicable deferred income taxes. Incremental depreciation represents the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

2015		2014	
(Rupees in thousand)			
Opening balance of surplus on revaluation of property, plant and equipment	90,295	84,266	
Revaluation surplus arising during the year - net of tax	20,983	7,385	
Surplus transferred to other comprehensive income for the year on account of incremental depreciation	(894)	(1,356)	
Closing balance of surplus on revaluation of property, plant and equipment - net of tax	<u>110,384</u>	<u>90,295</u>	

## 9 DEFERRED TAXATION

The (asset) / liability for deferred taxation comprises temporary differences relating to:

	2015	2014
	(Rupees in thousand)	
Accelerated tax depreciation/ amortization	(1,643)	(2,150)
Unused tax losses	(45,000)	(49,500)
Surplus on revaluation of property, plant and equipment	2,013	2,235
Income taxable on receipt basis	65,392	67,575
9.1	<u>20,762</u>	<u>18,160</u>

- 9.1 The aggregate tax losses available to the Company for set off against future taxable profit as at 31 December 2015 amount to Rs. 317 million (2014: Rs. 217 million). Of these, losses aggregating to Rs. 150 million (2014: Rs. 150 million) have been recognized resulting in recognition of deferred tax asset amounting to Rs. 45 million (2014: Rs. 49.5 million) in the financial statements as at 31 December 2015. The recognition of deferred tax asset is based upon whether it is more likely than not that sufficient taxable profits will be available against which the unutilized losses can be deducted.

Expiry of aggregate tax losses is as follows:

Tax Year	Nature	2015	2014
Rupees in thousand			
2017	Business Loss	14,489	14,489
2018	Business Loss	45,669	45,669
2019	Business Loss	125,281	125,281
2020	Business Loss	8,178	8,178
2021	Business Loss	99,281	-
		292,898	193,617
No Expiry	Depreciation Loss	24,236	23,156
		<u>317,134</u>	<u>216,773</u>

## 10 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The interest rates used as the discounting factor (i.e. implicit in the lease) ranges from 9.44% to 15.18% (2014: 11.78% to 12.98%) per annum. The amount of future payments and the period during which they will become due are:

	2015	2014
	(Rupees in thousand)	
Year ended 31 December		
Due not later than 1 year	18,929	20,020
Due later than 1 year but not later than 5 years	36,802	32,497
Minimum lease payments	55,731	52,517
Less: Future finance charges	(6,300)	(7,149)
Current portion	49,431	45,368
	<u>(15,416)</u>	<u>(16,052)</u>
	<u>34,015</u>	<u>29,316</u>

- 10.1 Minimum lease payments (MLP) and their present value (PV) are regrouped as below:

	2015		2014	
	MLP	PV of MLP	MLP	PV of MLP
	(Rupees in thousand)			
Due not later than 1 year	18,929	15,416	20,020	16,052
Due later than 1 year but not later than 5 years	36,802	34,015	32,497	29,316
	<u>55,731</u>	<u>49,431</u>	<u>52,517</u>	<u>45,368</u>

## 11 FINANCES UNDER MARKUP ARRANGEMENTS AND OTHER CREDIT FACILITIES-SECURED

	Note	2015	2014
Running finance	11.1	99,828	-
Inland bill purchase	11.2	10,944	-
		<u>110,772</u>	<u>-</u>

11.1 The Company has obtained running finance facility from a commercial bank with a limit of Rs.100 million (2014: Rs.Nil) bearing mark-up at the rate of 3 months KIBOR plus 2.75% (2014: Nil). The facility is secured against first mortgage charge of Rs.126.19 million created through equitable mortgage with legal mortgage of notional value of Rs. 0.1 million over fixed asset ( land & building ) of the Company , ranking hypothecation charge of Rs. 215 million over all present and future current assets of the Company registered with Securities and Exchange Commission of Pakistan and personal guarantees of sponsor directors of the Company.

11.2 This facility has a limit of Rs. 50 million (2014: Rs.Nil) and carries mark-up at the rate of 3 months KIBOR plus 2% (2014: Nil) per annum.The facility is secured against parri passu charge of Rs.334 million on present and future current assets of the company, assignment of project specific receivables in favor of the bank and personal guarantees of sponsor directors of the Company.

	Note	2015 (Rupees in thousand)	2014
<b>12 CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Trade creditors		84,100	87,191
Accrued expenses		23,662	29,919
Advances from customers		39,573	17,461
Payable to related parties	12.1	353,676	312,397
Sales tax payable		-	4,921
Social security payable		21	15
Mark up accrued on:			
- finance lease liability		-	-
- Finances under mark up arrangements and other credit facilities - secured		2,442	-
Other liabilities	12.2	26,860	12,816
Withholding tax surcharge		3,139	3,139
		<u>533,473</u>	<u>467,859</u>

12.1 This represents amount due to Avanceon FZE (a wholly owned subsidiary) which is non-interest bearing.

12.2 This includes Rs. 8,789,118 (2014: 1,851,567) and Rs. 6,699,262 (2014: Rs.995,528) relating to provident fund payable and withholding tax deducted at source, respectively.

## 13 CONTINGENCIES AND COMMITMENTS

### 13.1 Contingencies

(i) Bank guarantees issued amounting to Rs 31.350 million (2014: Rs 3.6 million) against the performance of various contracts.

(ii) Post dated cheques issued to IGI Insurance Company Limited amounting to Rs.1.8 million for United Energy Pak Limited and Orix Leasing Company amounting to Rs.1.2 million as security against vehicles obtained on lease.

(iii) The Honorable Lahore High Court, Lahore in its order dated 03 June 2011 declared the amendments made in Workers' Welfare Fund Ordinance, 1971 brought through Finance Acts, 2006 and 2008 as unconstitutional. Therefore, the Company has not made any provision for Workers' Welfare Fund (WWF) in the financial statements in the light of the order of the Honorable Lahore High Court. The said order has been challenged in the Honorable Supreme Court. The Company may be liable to pay WWF amounting to Rs. 22,978,426 (2014: Rs. 18,445,062) if the Supreme Court's decision is unfavorable. This amount has been calculated based on accounting profits excluding dividend income. The amount of WWF on dividend is Rs. 11,533,250 (2014: Rs. 9,927,731).

## 14 PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets

Note	2015	2014
	(Rupees in thousand)	

14.1	225,280	197,571
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## 14.1 Operating fixed assets

	Cost/ Revalued Amount as at 01 January 2015	Additions/ Transfers	Deletions	Effect of Revaluation as at 31 December 2015	Cost/revalued amount as at 31 December 2015	2015		Effect of revaluation / transfers	Accumulated depreciation as at 31 December 2015	Net book value as at 31 December 2015	Rate %
						Accumulated depreciation as at 01 January 2015	Depreciation charge for the year/ (Deletions)				
	(Rupees in thousand)				(Rupees in thousand)						
<b>OWNED ASSETS</b>											
Freehold land	74,500	-	-	22,350	96,850	-	-	-	-	96,850	-
Buildings on freehold land	68,941	5,459	(455)	(1,019)	72,926	904	5,614 (123)	991	7,386	65,540	5
Furniture and fixture	10,995	925	(246)	-	11,674	10,206	403 (245)	-	10,364	1,310	20
Vehicles	6,783	67 32,608	(13,627)	-	25,831	6,480	1,292 (8,530)	- 17,888	17,130	8,701	20
Office equipment and appliances	22,569	3,651	(2,365)	-	23,855	20,408	1,240 (2,365)	-	19,283	4,572	20
Computers	12,178	1,011	(668)	-	12,521	9,787	1,573 (667)	-	10,693	1,828	33.33
	195,966	11,113 32,608	(17,361)	21,331	243,657	47,785	10,122 (11,930)	991 17,888	64,856	178,801	
<b>ASSETS SUBJECT TO FINANCE LEASE</b>											
Vehicles	63,504	27,047 (32,608)	(1,303)	-	56,640	18,897	13,095 (348)	- (17,888)	13,756	42,884	20
Office equipment and appliances	5,940	-	-	-	5,940	1,157	1,188	-	2,345	3,595	20
	69,444	27,047 (32,608)	(1,303)	-	62,580	20,054	14,283 (348)	- (17,888)	16,101	46,479	
	265,410	38,160	(18,664)	21,331	306,237	67,839	24,405 (12,278)	991	80,957	225,280	

	2014										
	Cost/ Revalued Amount as at 01 January 2014	Additions/ Transfers	Deletions	Effect of Revaluation as at 31 December 2014	Cost/revalued amount as at 31 December 2014	Accumulated depreciation as at 01 January 2014	Depreciation charge for the year/ (Deletions)	Effect of revaluation / transfers	Accumulated depreciation as at 31 December 2014	Net book value as at 31 December 2014	Rate %
<b>OWNED ASSETS</b>											
Freehold land	70,775	-	-	3,725	74,500	-	-	-	-	74,500	-
Buildings on freehold land	66,531	1,391	-	1,019	68,941	-	5,347	(4,443)	904	68,037	5
Furniture and fixture	10,584	87 324	-	-	10,995	10,584	380	-	10,206	789	20
Vehicles	8,405	- 6,966	(8,588)	-	6,783	8,255	897 (7,653)	4,981	6,480	303	20
Office equipment and appliances	26,554	1,179 (4,739)	(425)	-	22,569	19,354	1,459 (303)	758 (860)	20,408	2,161	20
Computers	11,714	1,600	(1,136)	-	12,178	9,179	1,689 (1,081)	-	9,787	2,391	33.33
	194,563	4,257 2,551	(10,149)	4,744	195,966	47,372	9,772 (9,037)	(3,685) 3,363	47,785	148,181	
<b>ASSETS SUBJECT TO FINANCE LEASE</b>											
Vehicles	51,071	19,399 (6,966)	-	-	63,504	12,788	11,090	- (4,981)	18,897	44,607	20
Office equipment and Appliances	-	1,525 4,415	-	-	5,940	-	297	- 860	1,157	4,783	20
	51,071	20,924 (2,551)	-	-	69,444	12,788	11,387	- (4,121)	20,054	49,390	
	245,634	25,181	(10,149)	4,744	265,410	60,160	21,159 (9,037)	(3,685) (758)	67,839	197,571	

14.1.1 The depreciation charge has been allocated as follows:

	Note	2015	2014
		(Rupees in thousand)	
Cost of goods sold	23	12,202	10,580
Administrative and selling expenses	24	12,203	10,579
		<u>24,405</u>	<u>21,159</u>

14.1.2 Freehold land and building thereon have been valued by an independent valuer 'Harvester' based on fair market value as on 31 December 2015. This revaluation resulted in surplus of Rs.22,350,000 on land and loss of Rs. 2,010,071 in respect of building. Detailed particulars are as follows:

	Depreciated cost	Revalued amount
	(Rupees in thousand)	
Freehold land	74,500	96,850
Buildings on freehold land	70,226	65,540

14.1.3 Had the freehold land and building on freehold land not been revalued, their carrying amount would have been as follows:

	2015	2014
	(Rupees in thousand)	
Freehold land	8,647	8,647
Buildings on freehold land	38,927	38,099

14.1.4 Disposal of property, plant and equipment

Detail of property, plant and equipment disposed off during the year is as follows:

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale Proceeds	Gain	Mode of Disposal
		Rupees in thousand					
<b>Vehicles</b>	<b>Employees</b>						
Honda Civic-LE-13-9042	Armaghan Yousaf	2,225	889	1,336	1,431	95	Company Policy
Honda Civic-LEC-13-8329	Tanveer Karamat	2,504	960	1,544	1,594	50	Company Policy
Honda Civic-ATE-069	Muhammad Akmal	1,765	1,765	-	463	463	Company Policy
Toyota Corolla-LE-10-3861	Saqib Rauf	1,368	1,207	161	506	345	Company Policy
Toyota Corolla-LEC-12-7589	Syed Adeel Haider	1,607	964	643	763	120	Company Policy
Suzuki Swift-LE-14-8116	Sajjad Haider	1,300	477	823	847	24	Company Policy
		10,769	6,262	4,507	5,604	1,097	
	<b>Outsiders</b>						
Suzuki Cultus-ANP-951	Tanveer Malik	671	671	-	478	478	Bidding
Suzuki Cultus-ASE-028	Tanveer Malik	927	927	-	575	575	Bidding
Suzuki Swift-DLX AYH-673	IGI Insurance Company	1,260	671	589	950	361	Insurance claim
Suzuki Swift -LEF-14-914	IGI Insurance Company	1,303	347	956	1,050	94	Insurance claim
		4,161	2,616	1,545	3,053	1,508	
<b>Others (scrapped)</b>		3,734	3,400	334	406	72	
		18,664	12,278	6,386	9,063	2,677	

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## 15 LONG TERM INVESTMENTS

	2015		2014	
	Equity % held	Investment at cost (Rupees in thousand)	Equity % held	Investment at cost (Rupees in thousand)
Wholly owned subsidiaries - unquoted				
- Avanceon FZE				
26 (2014 : 26) fully paid ordinary shares of AED 1 million each	100	<u>473,671</u>	100	<u>473,671</u>

## 16 LONG TERM DEPOSITS

These are interest free deposits against utilities and lease facilities, in the normal course of business.

	Note	2015		2014	
		(Rupees in thousand)		(Rupees in thousand)	
17 STOCK IN TRADE					
Finished goods			55,454		48,465
Less: Provision for slow moving inventory	17.1		-		-
			<u>55,454</u>		<u>48,465</u>

## 17.1 Provision for slow moving inventory

Opening balance		-	5,884
Less: Write-off during the year		-	(5,884)
Closing balance		<u>-</u>	<u>-</u>

## 18 TRADE DEBTS

Considered good - due from related parties	18.1	634,403	466,640
Considered good - due from others	18.2	174,667	250,919
Due against construction work in progress and accrued revenue	18.3	<u>115,337</u>	<u>77,401</u>
		924,407	794,960
Considered doubtful - due from others		4,308	1,358
		<u>928,715</u>	<u>796,318</u>
Less: Provision for doubtful debts - specific	18.4	(4,308)	(1,358)
		<u>924,407</u>	<u>794,960</u>

These are in the normal course of business and are interest free.

## 18.1 This represents amount due from Avanceon FZE (wholly owned subsidiary). Ageing of this balance is as follows:

	2015	2014
	(Rupees in thousand)	
Upto 3 months	13,543	180,604
3 to 6 months	71,535	17,924
More than 6 months	<u>549,325</u>	<u>268,112</u>
	<u>634,403</u>	<u>466,640</u>

## 18.2 Ageing of due from others

The ageing analysis of these trade debts is as follows:

Upto 3 months	130,141	177,480
3 to 6 months	20,440	18,682
More than 6 months	<u>24,086</u>	<u>54,757</u>
	<u>174,667</u>	<u>250,919</u>

## 18.3 Ageing of construction work in progress and accrued revenue

The ageing analysis of these construction work in progress and accrued revenue is as follows:

Upto 3 months	115,337	77,401
3 to 6 months	-	-
More than 6 months	<u>-</u>	<u>-</u>
	<u>115,337</u>	<u>77,401</u>

## 18.4 Provision for doubtful debts and doubtful earnings

Opening balance	1,358	3,610
Add: Provision for the year	21,550	1,358
Less: Write off during the year	(18,600)	(3,610)
Closing balance	<u>4,308</u>	<u>1,358</u>

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## 19 SHORT TERM INVESTMENTS

This represents investments in TDRs carrying interest at the rate of 7% (2014: 7.67%) per annum.

	Note	2015 (Rupees in thousand)	2014
<b>20 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Advances - considered good			
- To employees		11,147	10,465
- To suppliers		8,391	15,951
		<u>19,538</u>	<u>26,416</u>
Prepayments		3,036	3,244
Bank guarantee/ LC cash margin		13,178	7,258
Receivable from income tax department - considered good		56,122	57,457
Earnest money-Considered good		943	1,613
Due from subsidiaries - unsecured			
- Dividend receivable	20.1	627,259	637,540
- Others		248,164	94,904
		<u>875,423</u>	<u>732,444</u>
Other receivables - considered good		3,315	5,757
Less: Provision against doubtful receivables	24	385	-
		<u>2,930</u>	<u>5,757</u>
Interest accrued on short term investments		-	891
		<u>971,170</u>	<u>835,080</u>
<b>20.1</b> This represents dividend receivable from Avanceon FZE (a wholly owned subsidiary).			
<b>21 CASH AND BANK BALANCES</b>			
At banks on current accounts		43,933	11,826
Cash in hand		143	25
		<u>44,076</u>	<u>11,851</u>
<b>22 SALES</b>			
Local sales and services	22.1	462,217	507,511
Export sales and services	22.2	374,239	571,598
		<u>836,456</u>	<u>1,079,109</u>
<b>22.1 Local sales and services</b>			
Local sales and services		497,219	536,431
Less: Sales tax		(35,002)	(28,920)
Net sales		<u>462,217</u>	<u>507,511</u>
<b>22.2 Export sales and services</b>			
Agency commission		9,478	13,815
Subcontracted supplies		74,541	123,816
Outsourcing income		1,839	15,002
Project revenue -export		124,560	115,322
Maintenance income-export		2,264	1,891
Management fees		20,000	34,795
Other engineering / support services		93,583	159,896
Back office support		47,974	107,061
		<u>374,239</u>	<u>571,598</u>
<b>23 COST OF SALES</b>			
Opening stock		48,465	49,332
Purchases and direct expenses		501,812	577,271
Closing stock	17	(55,454)	(48,465)
	23.1	<u>494,823</u>	<u>578,138</u>

23.1 Cost of goods sold and services rendered	Note	2015	2014
(Rupees in thousand)			
Materials consumed		295,257	333,094
Salaries, wages, allowances and other benefits	23.2	102,616	100,480
Telephone, postage and telex		4,086	5,005
Utilities		3,020	3,747
Travelling and conveyance		27,022	34,890
Installation charges		27,909	52,324
Entertainment		3,823	3,496
Repairs and maintenance		1,104	550
Printing and stationery		535	882
Import cost		12,811	27,497
Insurance		2,836	3,747
Rent, rates and taxes		1,280	1,156
Fee and subscription control account		320	690
Depreciation on property, plant and equipment	14.1.1	12,202	10,580
Other expenses		2	-
		<u>494,823</u>	<u>578,138</u>

23.2 Salaries, wages and benefits include Rs.4.981million (2014: Rs 4.830 million) and Rs. 0.372 million (2014: Rs.0.247 million) representing provident fund contribution by the Company and accumulating compensated absences respectively.

24 ADMINISTRATIVE AND SELLING EXPENSES	Note	2015	2014
(Rupees in thousand)			
Director's remuneration		6,180	5,837
Salaries, wages, allowances and other benefits	24.1	43,978	43,063
Telephone, postage and telex		3,301	4,338
Utilities		3,020	3,747
Entertainment		3,560	2,870
Repairs and maintenance		3,259	1,651
Advertisement and sales promotion		70	4,680
Bad debts write-off expense		6,331	2,067
Printing, stationery and periodicals		494	879
Vehicle running and maintenance		1,533	1,279
Travelling and conveyance		17,063	18,002
Rent, rates and taxes		1,280	1,156
Training and tuition		679	431
Insurance		2,794	3,666
Legal and professional charges		2,080	3,196
Auditors' remuneration	24.2	1,766	1,318
Fee and subscription		3,014	3,494
Annual meeting expenses		2,615	2,630
Late Delivery Charges		10	858
Depreciation on property, plant and equipment	14.1.1	12,203	10,579
Amortization of intangible assets		-	12
Marketing expense		8,027	697
Other expenses		7,477	3,812
Provision for doubtful receivables and earnings	18.4 & 20	21,935	1,358
		<u>152,669</u>	<u>121,620</u>

24.1 Salaries, wages and benefits include Rs.2.135 million (2014: Rs 2.07 million) and Rs 0.160 million (2014: Rs 0.106 million) representing provident fund contribution by the Company and accumulating compensated absences respectively.

24.2 Auditors' remuneration	Note	2015	2014
(Rupees in thousand)			
Statutory audit		800	750
Half yearly review		350	350
Other advisory services		400	118
Out of pocket expenses		216	100
		<u>1,766</u>	<u>1,318</u>

25 OTHER OPERATING EXPENSES	Note	2015	2014
Social security		251	178
Donations	25.1	2,224	881
Exchange loss		-	22,131
		<u>2,475</u>	<u>23,190</u>

25.1 The Directors or their spouses have no interest in the donees.

26 OTHER OPERATING INCOME		2015	2014
		(Rupees in thousand)	
	Income from financial assets	26.1	42,201
	Income from non-financial assets	26.2	13,844
		<u>93,342</u>	<u>132,921</u>
		<u>135,543</u>	<u>146,765</u>
<b>26.1</b>	<b>Income from financial assets</b>		
	Income on bank deposits		3,889
	Exchange gain		13,844
			<u>38,312</u>
			<u>42,201</u>
<b>26.2</b>	<b>Income from non-financial assets</b>		
	Gain on disposal of property, plant and equipment	14.1.4	2,677
	Dividend income	26.2.1	4,065
	Others		126,797
			<u>6,164</u>
			<u>93,342</u>
			<u>132,921</u>

26.2.1 This represents dividend declared by Avanceon FZE (a wholly owned subsidiary) during the year.

27 FINANCE COSTS		2015	2014
		(Rupees in thousand)	
	Mark-up and interest on:		
	- Long term loan	-	1,292
	- Director loan	-	281
	- Finances under mark up arrangements and other credit facilities - secured	3,537	193
	- Finance lease	4,628	4,643
	- Other financial arrangements	413	160
	Bank charges	951	352
	Late penalty charges	90	40
	Guarantee commission	762	1,910
		<u>10,381</u>	<u>8,871</u>

28 TAXATION			
	For the year		
	- Current	26,873	13,426
	Deferred		
	- for the year	4,896	3,099
	- due to reduction in tax rate	(1,651)	(456)
		3,245	2,643
	Prior year	595	-
		<u>30,713</u>	<u>16,069</u>

In view of the available income tax losses, the provision for current taxation represents tax under 'Final Tax Regime' and minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001. Reconciliation of tax expense and accounting profit is not meaningful in view of presumptive taxation and minimum tax.

29 EARNINGS PER SHARE		2015	2014
<b>29.1</b>	<b>Basic earnings per share</b>		
	Net profit for the year	280,938	477,986
	Weighted average number of ordinary shares	105,697	104,538
	Earnings per share	2.66	4.57
<b>29.2</b>	<b>Diluted earnings per share</b>		
	Net profit for the year	280,938	477,986
	Weighted average number of ordinary shares	105,697	104,538
	Adjustment for share options	4,600	4,400
	Weighted average number of ordinary shares for diluted earnings per share	110,297	108,938
	Diluted earnings per share	2.55	4.39

29.2.1 Share options issued by the Company have a dilutive effect on the earnings per share since the fair value of the ordinary shares during the year exceed the exercise price of the options.

## 30 CASH FLOWS FROM OPERATING ACTIVITIES

	2015	2014
	(Rupees in thousand)	
Profit before tax	311,651	494,055
Adjustments for:		
Depreciation on property, plant and equipment	10,122	9,772
Depreciation on asset subject to finance lease	14,283	11,387
Provision for doubtful debts and advances	21,935	1,358
Bad debts write-off expense	6,331	2,067
Amortization of Intangible asset	-	12
Exchange (gain)/loss	(38,312)	22,131
Gain on disposal of property, plant and equipment	(2,677)	(4,065)
Finance cost	8,578	6,569
Dividend income	(84,501)	(126,797)
Income on bank deposits	(3,889)	(13,844)
	(68,130)	(91,410)
Profit before working capital changes	243,521	402,645
Effect on cash flow due to working capital changes:		
(Increase) / decrease in current assets		
- Stock in trade	(6,989)	866
- Trade debts	(119,401)	(313,980)
- Advances, deposits, prepayments and other receivables	(53,815)	(70,869)
Increase / (decrease) in current liabilities		
- Creditors, accrued and other liabilities	62,150	(29,187)
	(118,055)	(413,170)
Cash generated from/(used in) operations	125,466	(10,525)

## 31 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise holding company, associated undertakings, subsidiaries, post employment benefit plans, other related companies, and key management personnel. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 34. Other significant transactions with related parties are as follows:

	2015	2014
	(Rupees in thousand)	
<b>i. Subsidiaries</b>		
Avanceon FZE- UAE		
Agency commission	9,478	13,815
Export sales	74,541	123,816
Outsourcing income	-	4,248
Business process outsourcing	47,974	107,061
Interest receivable from Innovative Automation Inc. transferred to the Company	128,737	-
Fee for technical services	93,583	159,896
Revenue recognised on the project based on the stage of completion	126,824	117,214
Dividend Income	84,501	126,797
Innovative Automation Inc- USA (formerly Engro Innovative Inc.)		
Interest payable to Avanceon FZE transferred to the Company	128,737	-
Management fee charged	20,000	34,795
<b>ii. Associated undertakings</b>		
Innovative Travels -and Innovative Private Limited		
Other charges and reimbursement of expenses	11,078	9,371
Avanceon LP- USA		
Outsourcing income	1,839	10,754
<b>iii. Post employment benefit plans</b>		
Expense charged in respect of retirements benefit plans	7,116	6,900
Payment for provident fund audit	80	80

All transactions with related parties are carried out on commercial terms and conditions.

32 PROVIDENT FUND	2015	2014
	(Rupees in thousand)	
Size of fund	57,322	48,201
Fair value of investments made	43,362	39,423
Cost of investment made	44,050	39,295
Percentage of investments made	76%	82%

32.1 Break-up of investments in terms of amount and percentage of the size of the provident fund are as follows:

	30 June 2015		30 June 2014	
	Investments (Rupees in thousand)	Investment as % of size of the fund	Investments (Rupees in thousand)	Investment as % of size of the fund
Government Securities	22,000	38%	30,798	64%
Scheduled Banks	1,333	3%	2,117	4%
Other Mutual Funds	9,214	16%	3,082	6%
Listed Securities	10,815	19%	3,426	7%
	<u>43,362</u>		<u>39,423</u>	

Investments out of provident fund have been made in accordance with the provisions of the section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose. Financial year of the provident fund trust is 30 June.

### 33. FINANCIAL RISK MANAGEMENT

#### 33.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost efficient funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to shareholders.

Risk management is carried out by the Company's finance and planning department under guidelines approved by the Corporate Center of the Company.

The Company's overall risk management procedures to minimize the potential adverse effects of financial markets on the Company's performance are as follows:

#### (a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to three types of market risk: currency risk, interest rate risk and other price risk.

#### (i) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate in case of changes in foreign exchange rates.

This exists due to the Company's exposure resulting from outstanding import payments or foreign creditors. A foreign exchange risk management guideline has been provided by the Corporate Center. The policy allows the Company to take currency exposure within predefined limits while open exposures are monitored. The Company aims to protect itself against adverse currency movements by either linking the price of its products to foreign currency.

The Company is exposed to currency risk arising primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to foreign currency creditors, debtors and investment in foreign subsidiaries. The Company's exposure to foreign currency changes for all other currencies is not material.

The following significant exchange rates were applied during the year:

	2015	2014
<b>Rupees per USD</b>		
Average rate	102.73	103.00
Reporting date rate	104.60	100.40
<b>Rupees per GBP</b>		
Average rate	156.99	166.00
Reporting date rate	155.04	156.32

	2015	2014
<b>Rupees per Euro</b>		
Average rate	114.02	134.00
Reporting date rate	114.32	122.13
<b>Rupees per AED</b>		
Average rate	27.97	28.00
Reporting date rate	28.48	27.33

At December 31, 2015, if the Pakistan Rupee had weakened/strengthened by 5% against the US Dollar with all other variables held constant, post tax profit/ ( loss) for the year would have been higher/lower as under, mainly as a result of foreign exchange losses/gains on translation of US Dollars-denominated liabilities.

#### Foreign currency sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Company's profit before tax and equity. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in Exchange rate	Effect on profit/(loss) before tax	Effect on equity
(Rupees in thousand)			
2015	5%	2,518	1,712
	-5%	(2,518)	(1,712)
2014	5%	2,359	1,580
	-5%	(2,359)	(1,580)

#### (ii) Interest rate risk

Interest rate risk represents 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's interest rate risk arises from liabilities against finances under mark-up arrangements. These liabilities are benchmarked to variable rates which expose the Company to cash flow interest rate risk.

At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments was as follows:

	2015	2014
(Rupees in thousand)		
<b>Financial liabilities</b>		
<b>Floating rate instruments</b>		
Liabilities against assets subject to finance lease	49,431	45,368
Finances under mark-up arrangements and other credit facilities - secured	110,772	-
Total exposure	<u>160,203</u>	<u>45,368</u>

#### Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on floating rate borrowings and balances, with all other variables held constant, of the Company's profit before tax:

	Increase/decre ase in basis points	Effect of profit/(loss) before tax	Effect on equity
(Rupees in thousand)			
2015	+100	1,602	1,089
	-100	(1,602)	(1,089)
2014	+100	454	304
	-100	(454)	(304)

## (iii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Company is not exposed to equity securities price risk as its entire investment is in wholly owned subsidiary company and is stated at cost.

## (b) Credit risk

Credit risk represents the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss for the other party by failing to discharge an obligation.

Company's credit risk is primarily attributable to its trade and other receivables amounting to Rs. 1,892 million (2014: Rs. 1,670 million). However, this risk is mitigated by a credit control policy and applying individual credit limits.

Credit risk also arises from deposits with banks and financial institutions, long term deposits, advances, deposits and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with Company maintaining finance lease and short term loan facilities. The Company maintains an internal policy to monitor all outstanding receivables.

The maximum exposure to credit risk is equal to the carrying amount of financial assets. The maximum exposure to credit risk at reporting date is as follows:

	2015	2014
	(Rupees in thousand)	
Long term deposits	15,297	11,038
Short term investments	5,000	94,566
Trade debts	924,407	794,960
Advances, deposits, prepayments and other receivables	904,006	757,538
Bank balances	43,933	11,826
	<u>1,892,643</u>	<u>1,669,928</u>

As at 31 December 2015, the Company has 32 (2014: 48) customers owing more than Rs. 1 million (2014:Rs. 1 million) each which account for 86% (2014: 88%) of total debtors.

The credit quality of receivables can be assessed with reference to Company credit control policy and their historical performance with negligible default rate. The credit quality of Company's bank balances can be assessed with reference to external credit ratings as follows:

	Rating Short Term	Rating Long Term	Rating Agency	Balances at banks	
				2015	2014
				(Rupees in thousand)	
Bank Islami Limited	A1	A+	PACRA	10	10
Faysal Bank limited	A1+	AA	PACRA	1,930	3,080
Habib Bank limited	A-1+	AAA	JCR-VIS	417	2,669
KASB Bank	C	B	PACRA	12	12
National Bank of Pakistan	A-1+	AAA	JCR-VIS	143	66
NIB Bank limited	A1+	AA-	PACRA	93	195
United Bank limited	A-1+	AA+	JCR-VIS	24	2,323
Muslim Commercial Bank	A1+	AAA	PACRA	1	125
JS Bank Limited	A1+	A+	PACRA	28,431	512
Deutsche bank AG	P-1	A2	MOODY'S	103	58
Standard chartered	A1+	AAA	PACRA	12,764	2,776
Finca Microfinance Bank	A-2	A-	JCR-VIS	5	-
				<u>43,933</u>	<u>11,826</u>

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk faced by the Company is minimal.

## (c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash due to 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 against internal and external regulatory requirements and maintaining debt financing plans.

The table below analyses how management monitors net liquidity based on details of the remaining contractual maturities of financial assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows:

The following are the contractual maturities of financial liabilities:

	Carrying amount	Less than one year	One to five years
	(Rupees in thousand)		
<b>2015</b>			
Finances under mark up arrangements	110,772	110,772	-
Liabilities against assets subject to finance lease	55,731	18,929	36,802
Creditors, accrued and other liabilities	490,740	490,740	-
	<u>657,243</u>	<u>620,441</u>	<u>36,802</u>
<b>2014</b>			
Liabilities against assets subject to finance lease	45,368	16,052	29,316
Creditors, accrued and other liabilities	445,462	445,462	-
	<u>490,830</u>	<u>461,514</u>	<u>29,316</u>

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

### 33.2 Financial instruments by categories

#### Assets as per balance sheet

	Loans and receivables	
	2015	2014
	(Rupees in thousand)	
Long term deposits	15,297	11,038
Short term investments	5,000	94,566
Trade debts	924,407	794,960
Advances, deposits, prepayments and other receivables		
- Advances to employees	11,147	10,465
- Bank guarantee margin	13,178	7,258
- Earnest money	943	-
- Due from associated companies	875,423	732,444
- Others	3,315	5,757
Cash and bank balances	44,076	11,851
	<u>1,892,786</u>	<u>1,668,339</u>

#### Financial liabilities at amortized cost

#### Liabilities as per balance sheet

	2015	2014
	(Rupees in thousand)	
Liabilities against assets subject to finance lease	55,731	45,368
Finances under mark up arrangements and other credit facilities - secured	110,772	
Creditors, accrued and other liabilities	490,740	445,462
	<u>657,243</u>	<u>490,830</u>

*Eg*

## 33.3 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 provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company manages its capital structure and makes adjustments to in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares or sell assets to reduce debt. The management seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. Consistent with others in the industry and the requirements of the lenders the Company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including current and non-current borrowings less cash and bank balances. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. The Company's strategy, which was unchanged from last year, was to maintain a target gearing ratio of 60% debt and 40% equity. The gearing ratio as at year ended December 31, 2015 and December 31, 2014 are as follows:

	2015	2014
	(Rupees in thousand)	
Borrowings	160,203	45,368
Less: Cash and bank balances	<u>(44,076)</u>	<u>(11,851)</u>
Net debt	116,127	33,517
Total equity	<u>1,889,533</u>	<u>1,845,519</u>
Total capital	<u>2,005,660</u>	<u>1,879,036</u>
Gearing ratio	<u>6%</u>	<u>2%</u>

## 34. REMUNERATION OF DIRECTORS AND OTHER EXECUTIVES

The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the full time working director and executives of the Company is as follows:

	Chief Executive/Director		Other Executives	
	2015	2014	2015	2014
	(Rupees in thousand)			
Managerial remuneration	3,808	3,588	28,107	25,440
House rent	1,523	1,435	11,243	10,176
Utilities	381	359	2,811	2,544
Contribution to provident fund	381	359	2,811	2,544
Others	87	96	807	767
	<u>6,180</u>	<u>5,837</u>	<u>45,779</u>	<u>41,471</u>
Number of persons	1	1	16	14

The Company also provides director and certain executives with company maintained cars.

## 35. NUMBER OF EMPLOYEES

	2015	2014
Average number of employees	132	128
Closing number of employees	141	130

## 36. CORRESPONDING FIGURES

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However no significant re-arrangements have been made.

## 37. EVENTS AFTER THE REPORTING DATE

The Board of Directors of the Company in its meeting held on 24 March 2016 has proposed a cash dividend in respect of the year ended 31 December 2015 of Rupees 2 per share (2014: Cash Dividend of Rs. 2.25 per share). The appropriation will be approved by the members in the forthcoming Annual General Meeting. These financial statements do not include the effect of these appropriations which will be accounted for subsequent to the year end.

## 38. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 24 March 2016 by the Board of Directors of the Company.

  
Chief Executive

  
Director