

Pakistan Mercantile Exchange Limited
Financial Statements
For the period ended December 31, 2016

Pakistan Mercantile Exchange Limited
Directors' Review
For the half year ended December 31, 2016

On behalf of the Board of Directors, we are pleased to present the unaudited financial statements for the half year ended December 31, 2016.

Global Environment

The world economy has moved further away from the global financial crisis of 2008. Against this backdrop, many central banks globally maintained loose monetary policy in an effort to support household consumption and stimulate business investment. Throughout developed economies, interest rates were at, or close to, record lows.

In October 2016, the election of Donald Trump as the president of the United States of America (USA) brought with it a surge in optimism on recovery of the economy. At the last monetary policy meeting in December 2016, the Fed announced its decision to raise interest rates for the first time in the year. Going forward, the scenario of higher interest rates is expected to gain strength.

Europe struggled to break out of its post-euro-crisis stagnation. Political uncertainty, slower economic performance outside the EU and weak global trade continue to weigh on its growth. The European Central Bank extended quantitative easing (QE) until 2017.

It was widely feared that the immediate aftermath of Brexit would play out on the financial markets. However, the direct economic effects were limited by the end of December, as financial markets, helped by central banks' decisions, remained relatively calm. The long-term consequences of Brexit will depend on the outcome of the EU-UK negotiations that are likely to start at some point in 2017.

In terms of commodity prices, crude oil prices jumped above USD 50 per barrel in November for the first time since October after OPEC sealed a deal to reduce production for six months from the start of January. The markets reacted positively to the agreement, which includes an option to extend it until the end of 2017. In the first two weeks of December, crude oil prices surged to over USD 57 per barrel as the oil cartel also clinched a deal with non-OPEC countries, mainly Russia and other big crude exporters, to reduce their supply. The deals amount to the first global supply pact since 2001, with producers battling to reverse a price crash that began in mid-2014 and caused oil prices to remain at record lows for two years.

Gold had a very strong start to the calendar year 2016 and was up almost 28% at the half-way point although headwinds in the second half of the year pushed the yellow metal to end the year up just 7.3%.

Pakistan Overview

During HFY17, the World Bank and Asian Development Bank showed satisfaction over Pakistan's ongoing reforms and stability in macroeconomic achievements, thereby revising GDP growth target in upward trajectory in the range of 5% and 5.2% respectively.

Despite external pressures and fear of widening trade deficit for FY17, local currency remained calm and remained in the range of PKR 104.72-104.75 during last 52 weeks. Furthermore, the subdued local commodity prices kept inflation in check and in turn restricted the State Bank of Pakistan to reverse its monetary stance.

During the period under review, China-Pakistan Economic Corridor (CPEC), China's "One Belt, One Road" initiative, accomplished a series of achievements in many fields, implementing several landmark projects, creating many new jobs. CPEC has not only laid the foundation of enhanced Chinese investment, it has also attracted regional players to step in the countries like Iran, Russia & Turkey. The total funding offered by China to Pakistan under CPEC reached around USD 56 billion of which over USD 34 billion has been allocated for the energy sector to add over 17,000 MW to the national grid, while the remaining USD 22 billion will be made available for infrastructure and transport related projects.

Pakistan Stock Exchange continued its upward trend. The benchmark KSE-100 index notched up at 47,806.97 on December 30, 2016, posting a return of 46pc for the calendar year 2016. This put Pakistan in the spotlight as the best performing market in Asia and the fifth best among the world markets after Brazil, Peru, Kazakhstan & Russia.

Business Review

Introducing New Products

PMEX is relentlessly striving to link the Exchange with the real economy by bringing agricultural commodities trade on its platform. In line with this objective and capitalizing on the success achieved in previous season, PMEX launched Hybrid Red Chilli Weekly Futures Contracts and longer dated Futures Contracts of all the varieties of red chilli i.e. Dandicut/Longi and Hybrid.

With the commencement of trading of new chilli crop in October, 1,952 tons of Red Chilli was traded at the Exchange during HFY17 as compared to 432 tons in HFY16. The increase in trading volume can be attributed to Exchange's concerted efforts to create awareness about the benefits of trading red chilli at the Exchange and the success achieved in bringing onboard Sindh Enterprise Development Fund (SEDF), Government of Sindh, to provide subsidy on trading fee to the farmers.

PMEX also launched cash settled futures contracts of Copper, Brent Crude Oil and deliverable contracts of Paddy Super Basmati Rice. The listing of new products at the Exchange will not only help the brokers to attract new business but will also provide portfolio diversification opportunities to the market participants.

Extending Outreach

The Exchange remained focused on growing its network by inducting new members and activating dormant member across the country to offer trading opportunity to wide spectrum of investors in both small as well as large cities. Furthermore, to efficiently serve the clientele nationwide and to further expand the business, the Exchange opened two new branch offices in Islamabad and Lahore. PMEX is confident that the newly established branches are a step forward towards increasing its footprint and developing mutually beneficial relationship with the stakeholders in these cities as well.

Awareness, Education & Engagement

The Exchange continued its efforts to create awareness about futures trading in Pakistan. In this regard, PMEX organized awareness, education and engagement programs at its premises and also conducted such programs at Business Institutes and Universities. These interactive sessions were aimed at equipping existing/potential market participants and investors with the knowledge of the commodity trading fundamentals and providing hands-on experience of the trading system at PMEX.

Settlement Guarantee Fund

In accordance of SECP directives, the Exchange has established separate trust of Settlement Guarantee Fund (SGF) during the period. Amount allocated to SGF trust (note 5) of Rs. 57 million has been accordingly transferred to respective trust's bank account subsequent to the period end.

Financial Results

Following is the summary of results for the current and last period:

	Half year ended	
	31-Dec-16	31-Dec-15
	(Rs.in million)	
Operating Income	102.04	103.35
Administrative expenses	110.52	89.34
Net (loss) / profit after taxation	(7.63)	12.15
	Rupees	
Earnings per share – basic	(0.24)	0.44

The primary reason for decline in profitability is decreased income from new membership as a big population of existing members are selling their membership in the secondary market at a great discount. Moreover, the delay in approval of Murabaha Contract has also impacted negatively in terms of achieving revenue targets. On the expense side, the increase is primarily related to annual increase in salaries and additional expenses of newly established branches in Lahore & Islamabad. Moreover, a significant portion of the loss of Rs. 3.7 million is related to revaluation of PIBs which are nearing maturity.

Future Outlook

Going forward, PMEX is working towards enhancing its technology infrastructure and electronic trading system to provide its brokers and their client a reliable and efficient trading experience. The Exchange is also working to expand and diversify its product range and attract new market participants. Moreover, the Exchange is actively working to bring agricultural commodities on its trading platform and a wide variety of products are being considered in this regard. Going a step further, PMEX is working on a model to cross list commodities with other mercantile exchanges of the neighboring countries especially China considering the CPEC development. In addition, PMEX remains committed to developing strategic ties with international exchanges for exploring new business opportunities and adopting best practices.



Chairman



Managing Director

Karachi: February 16, 2017

PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT DECEMBER 31, 2016

	(Unaudited) December 31, 2016	(Audited) June 30, 2016		(Unaudited) December 31, 2016	(Audited) June 30, 2016
Note	Rupees	Rupees	Note	Rupees	Rupees
EQUITY AND LIABILITIES			ASSETS		
Share capital and reserves			Non-current assets		
Authorised capital 50,000,000 (June 30, 2016: 47,200,000) ordinary shares of Rs. 10 each	<u>500,000,000</u>	<u>472,000,000</u>	Property and equipment	7 25,442,064	21,570,858
Nil (June 30, 2016: 2,800,000) preference shares of Rs. 10 each	<u>-</u>	<u>28,000,000</u>	Intangible assets	13,426,672	16,838,145
Issued, subscribed and paid-up capital 31,355,162 (June 30, 2016: 31,355,162) ordinary shares of Rs 10 each.	313,551,620	313,551,620	Investment in associates	20	20
Capital reserve - premium on issue of ordinary shares	22,250,000	22,250,000			
Accumulated loss	<u>(407,694,994)</u>	<u>(400,055,672)</u>			
	(71,893,374)	(64,254,052)			
Non-current liabilities			Current assets		
Long-term deposits	196,150,000	196,150,000	Supplies and consumables	758,368	243,620
Current liabilities			Annual subscription receivable - considered good	23,250,000	24,425,000
Staff gratuity payable to fund	39,285,569	38,835,735	Advances, deposits and short-term prepayments	9,869,899	11,637,753
Margins and deposits	4 1,500,166,421	1,236,074,981	Other receivables	41,720,846	34,601,613
Payable to SGF trust	5 57,678,055	46,340,919	Short term investments	8 1,571,547,545	1,229,873,219
Gold held on behalf of brokers/clients	483,895,690	385,128,662	Gold held on behalf of brokers/clients	483,895,690	385,128,662
Advance annual subscription fee and other fees	5,481,776	10,216,779	Taxation - net	42,209,424	42,156,022
Advance members admission fee	-	2,500,000	Cash and bank balances	39,068,591	125,167,745
Accrued finance cost	6,807,525	5,734,161		2,212,320,363	1,853,233,634
Creditors, accrued and other liabilities	33,617,457	34,915,472			
	2,126,932,493	1,759,746,709			
Contingencies and commitments					
	6 2,251,189,119	1,891,642,657			
	<u>2,251,189,119</u>	<u>1,891,642,657</u>			

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.


 CHAIRMAN


 CHIEF FINANCIAL OFFICER


 MANAGING DIRECTOR


 MANAGING DIRECTOR

PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2016

	Note	Six month period ended		Three month period ended	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
----- Rupees -----					
Operating income	9	102,041,908	103,347,587	48,874,306	49,051,646
Administrative and operating expenses	10	<u>(110,517,926)</u> (8,476,018)	<u>(89,343,963)</u> 14,003,624	<u>(57,217,547)</u> (8,343,241)	<u>(45,264,758)</u> 3,786,888
Other income	11	3,471,270	3,235,378	1,957,063	1,745,797
Finance costs	12	(1,073,364)	(2,305,478)	(533,918)	(1,439,228)
Other charges		<u>(82,465)</u>	<u>(173,779)</u>	<u>(60,641)</u>	<u>(27,442)</u>
(Loss) / profit before taxation		<u>(6,160,577)</u>	14,759,745	<u>(6,980,737)</u>	4,066,015
Taxation	13	<u>(1,478,745)</u>	<u>(2,602,405)</u>	<u>(947,069)</u>	<u>(784,471)</u>
Net (loss) / profit after taxation		<u>(7,639,322)</u>	12,157,340	<u>(7,927,806)</u>	3,281,544
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		<u><u>(7,639,322)</u></u>	<u><u>12,157,340</u></u>	<u><u>(7,927,806)</u></u>	<u><u>3,281,544</u></u>
Earnings per share - basic	14	<u>(0.24)</u>	0.44	<u>(0.25)</u>	<u>(0.12)</u>
Earnings per share - diluted		<u>(0.24)</u>	0.40	<u>(0.25)</u>	<u>(0.11)</u>

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.



CHAIRMAN



MANAGING DIRECTOR



CHIEF FINANCIAL OFFICER



MANAGING DIRECTOR

PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016

	Note	Six months period ended	
		December 31, 2016 Rupees	December 31, 2015 Rupees
A: CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	15	(8,571,565)	21,099,147
Taxes paid - net		(1,532,147)	(1,497,119)
Gratuity paid		(2,752,315)	(8,636,433)
Prepayments		-	63,883
Finance cost paid		-	(6,429,499)
Net cash generated generated from operating activities		<u>(12,856,027)</u>	<u>4,599,979</u>
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	7	(8,746,208)	(1,045,926)
Purchase of intangible assets		-	(299,289)
Proceeds from disposal of property and equipment		-	153,657
Payments against investment in government securities		(118,393,400)	(167,574,212)
Proceeds from sale of government securities		126,671,119	170,723,196
Mark-up received on bank deposits		277,099	138,962
Net cash (used in) / generated from investing activities		<u>(191,390)</u>	<u>2,096,388</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		-	6,331,150
Dividend paid		-	(4,083,000)
Net cash generated from financing activities		-	<u>2,248,150</u>
Net (decrease) / increase in cash and cash equivalents (A+B+C)		<u>(13,047,417)</u>	8,944,517
Cash and cash equivalents at beginning of the period		<u>15,999,043</u>	<u>6,206,225</u>
Cash and cash equivalents at end of the period		2,951,626	15,150,742
Cash and cash equivalents relating to margins & deposits		<u>36,116,965</u>	<u>24,301,370</u>
Cash and cash equivalents at end of the period including relating to margins & deposits		<u>39,068,591</u>	<u>39,452,112</u>

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.



CHAIRMAN



CHIEF FINANCIAL OFFICER



MANAGING DIRECTOR



MANAGING DIRECTOR


PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016

	Issued, subscribed and paid-up share capital	Preference share capital	Capital reserve premium on issue of ordinary shares	Accumulated loss	Total
	----- Rupees -----				
Balance as at June 30, 2015 (Audited)	275,681,870	28,000,000	22,250,000	(431,724,191)	(105,792,321)
Total comprehensive income for the period					
Profit for the period	-	-	-	12,157,340	12,157,340
Other comprehensive income	-	-	-	-	-
	-	-	-	12,157,340	12,157,340
Conversion of preference shares into ordinary shares	15,000,000	(15,000,000)	-	-	-
Issue of further shares	6,331,150	-	-	-	6,331,150
Balance as at December 31, 2015	297,013,020	13,000,000	22,250,000	(419,566,851)	(87,303,831)
Balance as at June 30, 2016 (Audited)	313,551,620	-	22,250,000	(400,055,672)	(64,254,052)
Total comprehensive income for the period					
Loss for the period	-	-	-	(7,639,322)	(7,639,322)
Other comprehensive income	-	-	-	-	-
	-	-	-	(7,639,322)	(7,639,322)
Balance as at December 31, 2016	313,551,620	-	22,250,000	(407,694,994)	(71,893,374)

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.




 CHAIRMAN



 MANAGING DIRECTOR



 CHIEF FINANCIAL OFFICER



 MANAGING DIRECTOR

PAKISTAN MERCANTILE EXCHANGE LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2016

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Pakistan Mercantile Exchange Limited ("the Exchange") was incorporated in Pakistan as a public limited company on April 20, 2002 under the Companies Ordinance, 1984. The Certificate of Commencement under the Companies Ordinance, 1984 was granted to the Exchange by the Securities and Exchange Commission of Pakistan (SECP) on May 20, 2002. The Certificate of Registration under Securities and Exchange Ordinance, 1969 to start operations as commodity exchange was granted by SECP on May 10, 2007 when the Exchange commenced its operations. Its registered office is situated at 3B, 3rd Floor, Bahria Complex IV, Chaudhry Khaliq-uz-Zaman Road, Gizri, Karachi, Pakistan.
- 1.2 The Exchange has been set-up principally to establish, regulate, control and provide physical facilities and market place necessary for trading in Commodity Futures Contracts and to perform all allied and incidental functions. This is the first technology driven, demutualized, on-line commodity futures Exchange in Pakistan, regulated by SECP. The operations of the Exchange are governed by the Pakistan Mercantile Exchange Limited (PMEX) General Regulations, which were approved by the SECP on May 10, 2007 as amended from time to time.
- 1.3 The Exchange is an institution of national importance and is receiving cooperation and support from all the stakeholders. Moreover, new products are in the process of being designed, approval or launched for trading on the Exchange, which include Murahaba, Milli-tola through Telecom Companies, Mill-specific sugar etc. Further, the Exchange is in process of raising fresh equity for which various parties have submitted their expression of interest which are being evaluated by the Exchange with the help of appointed financial advisor.
- 1.4 This condensed interim financial information is presented in pak rupees, which is the functional and presentation currency of the Exchange.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

- 2.1 This condensed interim financial information has been prepared in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 have been followed. The condensed interim financial information do not include all the information and disclosures reported in annual financial statements of the Exchange and should therefore be read in conjunction with its annual financial statements for the year ended June 30, 2016.
- 2.2 Although the provisions pertaining to the Code of Corporate Governance in the rule book of Pakistan Stock Exchange are mandatory for listed companies only, the Exchange has voluntarily adopted the Code. Consequently, this condensed interim financial information is being submitted to the members to comply with the requirements of the Code.
- 2.3 This condensed interim financial information is unaudited. However, a limited scope review has been carried out by the external auditors of the Exchange as required by the Code.
- 2.4 **New standards, amendments to approved accounting standards and new interpretations which became effective during the six months period ended December 31, 2016**
- There were certain new standards and amendments to the approved accounting standards issued by the International Accounting Standards Board (IASB) which became effective during the period but are considered not to be relevant or have any significant effect on the Exchange's operations and are, therefore, not disclosed in this condensed interim financial information.
- 2.5 **New standards, amendments to approved accounting standards and new interpretations that are not yet effective and have not been early adopted by the Exchange**
- There are certain new amendments to the approved accounting standards that are mandatory for accounting periods beginning after July 1, 2016, but are considered not to be relevant or have any significant effect on the Exchange's operations and are, therefore, not disclosed in this condensed interim financial information.
- 2.6 The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in preparation of the financial statements of the Exchange for the year ended June 30, 2016.

3. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

- 3.1 The preparation of this condensed interim financial information in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

In preparing this condensed interim financial information, the significant judgements made by management in applying the Exchange's accounting policies and the key resources of estimation and uncertainty were the same as those that applied to the financial statements as at and for the year ended June 30, 2016.

- 3.2 The financial risk management objectives and policies of the Exchange are consistent with those disclosed in the financial statements as at and for the year ended June 30, 2016.

	Note	(Unaudited) December 31, 2016 Rupees	(Audited) June 30, 2016 Rupees
4. MARGINS AND DEPOSITS			
Clearing house deposits relating to brokers		145,105,886	136,032,267
Initial margins relating to brokers and clients		<u>1,355,060,535</u>	<u>1,100,042,714</u>
	4.1	<u>1,500,166,421</u>	<u>1,236,074,981</u>

- 4.1 The margin and deposits have been applied as follows:

Clearing house deposits

Saving / current accounts		2,606,785	17,278,049
Investment in Treasury bills	4.1.1	148,587,124	123,663,922
Less: amount allocated for transfer to SGF Trust		(6,088,023)	(4,909,704)
		<u>145,105,886</u>	<u>136,032,267</u>

Initial margins

Saving/current accounts		33,510,180	91,890,653
Investment in Treasury bills	4.1.1	1,204,550,661	876,621,030
Investment in Pakistan Investment Bonds (PIBs)	4.1.2	160,934,034	165,376,674
Accrued markup on PIBs and saving accounts		7,619,692	7,549,572
Security deposit/prepayments - Locker (Gold)		36,000	36,000
Less: amount allocated for transfer to SGF Trust		(51,590,032)	(41,431,215)
		<u>1,355,060,535</u>	<u>1,100,042,714</u>
Total Margins and Deposits		<u>1,500,166,421</u>	<u>1,236,074,981</u>

- 4.1.1 The aggregate cost of these treasury bills is Rs. 1,308.851 million (June 2016: Rs. 988.605 million). These treasury bills carry markup ranging from 5.82% to 5.95% (June 2016: 5.9% to 6.2%) per annum and will mature on various dates till April 13, 2017.

- 4.1.2 The aggregate cost of investment in PIBs is Rs. 156.544 million (June 2016: Rs. 156.544 million). These PIBs carry markup rates ranging from 11.25% to 11.5% (June 2016: 11.25% to 11.5%) and will mature on various dates upto July 17, 2019.

- 4.2 As per the SECP's direction the Exchange submitted its detailed proposal on the mechanism to utilise SGF income under Regulations 12.6.1 (v) for the approval of the SECP. During 2015-16, SECP, through its letter dated August 17, 2015, approved the structure of SGF with certain amendments and advised the Exchange to establish a SGF trust through a trust deed registered with Registrar of Trusts. During the period, the Exchange established the trust and opened a separate bank account for it where the balance allocated to the SFG trust, as mentioned in note 5 below, has been transferred subsequent to the period end. Further, margins and deposits that were part of SGF previously are presented separately in these condensed interim financial information.

The income/ profit/ gain resulting from investment of initial margin/clearing house deposits is distributed monthly among the brokers and clients upto the rate of 50 basis points below the minimum bank profit rate on their average monthly balance in the 'Settlement Guarantee Fund'. From September 2015, as per above SECP letter, 50% of the income/profit/gain on the above basis is distributed to brokers/clients and the remaining 50% is allocated to SGF Trust. After allocating the abovementioned portion, residual amount of the above said income/profits is charged as a share of the Exchange from the income of margins and deposits.

	Note	(Unaudited) December 31, 2016 Rupees	(Audited) June 30, 2016 Rupees
5. PAYABLE TO SETTLEMENT GUARANTEE FUND (SGF) TRUST			
Payable to SGF trust as allocated from income earned on			
- clearing house deposits	4.2	6,088,023	4,909,704
- initial margins	4.2	51,590,032	41,431,215
		<u>57,678,055</u>	<u>46,340,919</u>

6. CONTINGENCIES AND COMMITMENTS

6.1 Income tax

The assessments for the tax years 2003 to 2010 have been amended by the tax authorities, details of which are as follows:

6.1.1 Taxation year 2003

The tax authorities have treated advance membership fee of Rs. 65 million (tax impact of Rs. 27.95 million) as income in the year of receipt, however, the Exchange offered the said membership fee for tax in 2007 upon receiving of Certificate of Registration. The appeal of the Exchange is pending before High Court.

The tax authorities have also treated the security deposit of members amounting to Rs. 193.75 million (tax impact of Rs. 83.30 million) as income of the Exchange while assuming it to be non-refundable and non-adjustable. The Exchange filed an appeal in the High Court and has obtained stay order for recovery of entire demand upto the next hearing date.

Based on the opinion of tax/ legal advisors, the management is confident that the ultimate outcome of above matters will be in favour of the Exchange. Accordingly, no provision is made in this condensed interim financial information.

6.1.2 Tax years 2005 and 2006

The tax authorities have disallowed expenses of Rs. 4.91 million and Rs. 3.14 million respectively incurred by the Exchange on refurbishment and tax depreciation claimed in these years on the assumption that the Exchange has not started its business in the said years. The appeal of the Exchange has been declined by Commissioner Inland Revenue (Appeals) and Appellate Tribunal Inland Revenue (ATIR). The Exchange has filed rectification application against its order. Based on the advice of tax advisors, the management is confident that the ultimate outcome of the matter would be in favour of the Exchange. Accordingly, no provision is made in this regard in this condensed interim financial information.

6.1.3 Tax year 2010

During the year ended June 30, 2012, the tax authorities passed an order under section 161/205 of the Income Tax Ordinance, 2001 treating the Exchange as 'assessee in default' for non-deduction of tax on certain payments made and created a demand of Rs. 2.70 million including default surcharge of Rs. 0.41 million. A rectification application has been filed against the aforesaid order which is pending. As the Exchange has not defaulted in deduction of any applicable withholding tax, the management is confident that the ultimate outcome of the matter would be in favour of the Exchange. Accordingly, no provision is made in this regard in this condensed interim financial information.

6.1.4 Sindh sales tax on services - Tax year 2012 to 2014

During the year 2015-16, a demand of sales tax of Rs. 14,042,311 along with penalty of Rs. 1,584,230 was raised by Assistant Commissioner SRB, Karachi against the Exchange under various sections of Sales tax on Services Act, 2011 in respect of non collection and submission of Sindh sales tax on various IT and alleged management services rendered by the Exchange to its brokers and clients. The Exchange has filed appeal before Commissioner (Appeals) Sindh Revenue Board, Karachi against the said order. The management is confident that based on merit of the case the ultimate outcome of the matter would be in favor of the Exchange. Accordingly no provision is made in this regard in this condensed interim financial information.

	(Unaudited) December 31, 2016 Rupees	(Audited) June 30, 2016 Rupees
6.2 Commitments		
Commitments in respect of capital expenditure and service	320,000	463,260

	Note	(Unaudited) December 31, 2016 Rupees	(Unaudited) December 31, 2015 Rupees
7. PROPERTY AND EQUIPMENT			
Following additions in assets, at cost were made during the period: -			
Leasehold improvements		411,100	-
Computer equipment		3,214,587	959,636
Furniture and fittings		361,000	-
Office equipment		441,951	86,290
Electrical equipment		1,746,410	-
Capital work in progress		2,571,160	-
		<u>8,746,208</u>	<u>1,045,926</u>

8. SHORT TERM INVESTMENTS
- at fair value through profit or loss

Investment in Treasury bills	8.1 & 8.2	1,410,613,511	1,064,496,545
Investment in Pakistan investment bonds (PIBs)	8.3	160,934,034	165,376,674
		<u>1,571,547,545</u>	<u>1,229,873,219</u>

- 8.1** This includes investments made from the margins and deposits received from brokers and clients amounting to Rs.1,353.211 million (June 30, 2016: Rs.1,000.285 million) as fully detailed in note 4.1.
- 8.2** This includes investment of the Exchange amounting to Rs. 57.478 million (June 30, 2016: Rs. 64.212 million) in three month Treasury bills carrying markup rate ranging from 5.9% to 5.95% (June 30, 2016: 5.9%) that will mature on various dates upto March 2, 2017.
- 8.3** This represents investments made from the margins and deposits received from brokers and clients as fully detailed in note 4.1.

Note	(Unaudited) Six months period ended		(Unaudited) Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	Rupees			

9. OPERATING INCOME

Trading fee	58,658,112	59,334,892	26,957,086	24,117,539
Annual membership fee	8,750,000	8,524,999	4,412,500	4,287,501
Entrance fee	2,500,000	8,250,000	2,500,000	5,750,000
Fee for membership transfer and issuance of certificate	1,200,000	400,000	600,000	200,000
Application fee	-	40,000	-	30,000
Share of PMEX in				
the income of margins and deposits	4.2 19,614,933	22,161,401	8,861,349	12,169,208
PMEX infrastructure fee	3,525,000	-	1,746,000	-
Income from IT related services	4,502,600	2,469,717	2,240,850	1,334,061
Gain on sale of USB keys	82,348	159,900	38,376	31,980
Auto liquidation charges	74,028	-	50,828	-
Front end charges	116,244	-	60,070	-
Gold vault charges	1,593,643	561,678	657,247	336,357
Advertisement income	1,425,000	1,445,000	750,000	795,000
	102,041,908	103,347,587	48,874,306	49,051,646

10. ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits	68,210,732	53,119,331	34,905,573	26,969,544
Gratuity expense	3,202,149	1,504,857	1,629,101	239,402
Directors' fee	1,245,000	855,000	705,000	555,000
Depreciation	4,875,002	5,036,165	2,516,573	2,522,040
Amortization	3,411,473	2,552,779	1,664,716	1,263,050
Communication	2,422,029	4,364,957	1,342,283	2,909,621
Utilities	1,064,526	848,939	509,266	395,213
Legal and professional	1,081,331	2,437,797	925,520	2,024,324
Rent	6,400,049	3,120,000	3,225,437	954,000
Repairs and maintenance	4,039,381	2,355,835	2,169,101	1,289,217
Market making / liquidity expenses	4,471,447	4,312,406	2,117,849	1,621,694
Travelling and conveyance				
- Employees and others	393,343	723,839	148,940	371,364
- Directors	2,000,849	932,841	1,092,618	310,183
	2,394,192	1,656,680	1,241,558	681,547
Fee and subscription	631,109	1,026,995	254,284	552,160
Security services	307,560	259,160	160,380	138,380
Insurance	273,547	622,694	171,077	284,706
SECP supervision fee	711,081	1,010,189	179,405	588,291
Auditors' remuneration	346,000	300,000	196,000	150,000
Marketing expense	4,831,349	3,413,702	2,953,082	1,817,411
Printing and stationery	205,498	187,494	169,312	117,639
Entertainment	394,471	358,983	182,030	191,519
	110,517,926	89,343,963	57,217,547	45,264,758

(Unaudited)		(Unaudited)	
Six months period ended		Quarter ended	
December 31,	December 31,	December 31,	December 31,
2016	2015	2016	2015
..... Rupees			

11. OTHER INCOME - NET

Income from financial assets

Mark-up on bank deposits	327,757	212,057	185,484	148,966
Return on government securities	1,551,529	2,707,190	752,061	1,372,668
Unrealised loss on remeasurement of government securities to fair value	(2,654)	-	(2,654)	-
Realised (loss) / gain on disposal of government securities	(7,023)	8,487	-	2,855

Income from non - financial assets

Penalties recovered	298,757	147,644	298,757	147,644
Others	1,302,904	160,000	723,415	73,664
	3,471,270	3,235,378	1,957,063	1,745,797

12. FINANCE COST

This represents finance cost charged at the average rate of income earned by the Exchange on the accumulated balance of gratuity payable to the staff gratuity fund.

(Unaudited)		(Unaudited)	
Six months period ended		Three months period ended	
December 31,	December 31,	December 31,	December 31,
2016	2015	2016	2015
..... Rupees			

13. TAXATION

		(Unaudited)		(Unaudited)	
		Six months period ended		Three months period ended	
		December 31,	December 31,	December 31,	December 31,
		2016	2015	2016	2015
..... Rupees					
Current - for the period	13.1	1,081,739	2,688,191	550,063	870,257
- prior year		397,006	(85,786)	397,006	(85,786)
		1,478,745	2,602,405	947,069	784,471

13.1 The provision for current income tax is based on minimum tax as per section 113 of the Income Tax Ordinance, 2001 ("the Ordinance").

13.2 The Exchange has not recognised net deferred tax asset amounting to Rs. 79.265 million as at December 31, 2016 (June 30, 2016: Rs. 79.107 million) on net deductible temporary differences aggregating to Rs. 255.694 million (June 30, 2016: Rs. 248.341 million) as at December 31, 2016 as timing of availability of sufficient taxable profits cannot be determined due to the applicability of minimum tax under section 113 of the Ordinance.

		(Unaudited)		(Unaudited) *	
		Six months period ended		Three months period ended	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
14. EARNINGS PER SHARE					
14.1 Basic earnings per share					
(Loss) / profit for the period	Rupees	(7,639,322)	12,157,340	(7,927,806)	3,281,544
Weighted average number of shares	Number	<u>31,355,162</u>	<u>27,904,384</u>	<u>31,355,162</u>	<u>28,240,582</u>
Earnings per share	Rupees	<u>(0.24)</u>	<u>0.44</u>	<u>(0.25)</u>	<u>0.12</u>

		(Unaudited)		(Unaudited)	
		Six months period ended		Three months period ended	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
14.2 Diluted earnings per share					
(Loss) / profit for the period	Rupees	(7,639,322)	12,157,340	(7,927,806)	3,281,544
Weighted average number of shares	Number	<u>31,355,162</u>	<u>30,467,971</u>	<u>31,355,162</u>	<u>30,598,191</u>
Earnings per share	Rupees	<u>(0.24)</u>	<u>0.40</u>	<u>(0.25)</u>	<u>0.11</u>

		(Unaudited)	
		Six months period ended	
		December 31, 2016	December 31, 2015
	Note		
		Rupees	Rupees

15. CASH GENERATED FROM OPERATIONS

(Loss)/ profit before taxation (6,160,577) 14,759,745

Adjustments for non cash charges and other items:

Depreciation		4,875,002	5,036,165
Amortisation		3,411,473	2,552,779
Finance cost		1,073,364	2,305,478
Gratuity expense		3,202,149	1,504,857
Unrealised loss on remeasurement of investment at fair value through profit or loss		2,654	-
Realised loss/(gain) on investment at fair value through profit or loss		7,023	(8,487)
Mark-up on bank deposits		(327,757)	(212,057)
Mark-up on government securities		(1,551,529)	(2,707,190)
Loss on sale of property and equipment		-	172,182
		<u>10,692,379</u>	<u>8,643,727</u>

Working capital changes 15.1 (13,103,367) (2,304,325)

Cash generated from operations (8,571,565) 21,099,147

15.1 Working capital changes

Decrease / (increase) in current assets

	(Unaudited)	
	Six months period ended	
	December 31, 2016 Rupees	December 31, 2015 Rupees
Supplies and consumables	(514,748)	90,100
Annual subscription receivable	1,175,000	850,000
Advances, deposits and short-term prepayments	1,767,854	54,391
Other receivables	(6,998,455)	(3,419,498)
	(4,570,349)	(2,425,007)

Increase/ (decrease) in current liabilities

Advance annual subscription and other fees	(4,735,003)	(6,457,680)
Advance for members admission fee	(2,500,000)	-
Creditors, accrued and other liabilities	(1,298,015)	6,578,362
	(8,533,018)	120,682
	(13,103,367)	(2,304,325)

16. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated companies, directors, key management personnel and staff retirement benefits. Details of transactions with related parties during the period are as follows:

		(Unaudited)	
		Six months period ended	
Relationship with Exchange	Nature of transaction	December 31 2016	December 31 2015
Associated undertakings	Receipt of technology fee	120,000	84,000
	Reimbursement of fees & subscription	-	100,000
	Receipt of deposit against initial margin	31,207,500	5,465,000
	Repayment of deposit against initial margin	26,860,810	5,948,027
	Receipt of clearing house deposit	-	1,000,000
	Payment to Investor Protection Fund Trust	1,029,364	2,040,555
	Payment to gratuity fund	548,758	8,636,433
	Payment to provident fund	6,494,904	935,498
Directors	Directors' meeting fee	1,245,000	855,000
Key management personnel (including Managing Director)	Salaries and benefits	35,101,307	19,460,458
	Post employment benefits	3,502,074	1,021,170

16.1 Certain key management personnel are also provided with fixed education and car allowances in accordance with the policy of the Exchange.

16.2 The outstanding balances with related parties as at December 31, 2016 are included in the respective notes to this condensed interim financial information statements.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 13 "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either 'directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Exchange's financial assets which are carried at fair value:

	As at December 31, 2016			Total
	Level 1	Level 2	Level 3	
	-----Rupees-----			
Assets				
Investments in government securities - at fair value through profit or loss	-	1,571,547,545	-	1,571,547,545
	-----	-----	-----	-----
	As at June 30, 2016			Total
	Level 1	Level 2	Level 3	
	-----Rupees-----			
Investments in government securities - at fair value through profit or loss	-	1,229,873,219	-	1,229,873,219
	-----	-----	-----	-----

The carrying values of other financial assets and liabilities as reflected in this condensed interim financial information approximate their fair values.

18. CORRESPONDING FIGURES

Comparative figures have been re-arranged and re-classified for the purpose of better presentation, major reclassifications pertain to margins and deposits that were part of SGF previously and presented separately now in this condensed interim financial information.

19. GENERAL

Figures have been rounded off to the nearest Rupee.

20. DATE OF AUTHORISATION OF ISSUE

This condensed interim financial information was authorized for issue on February 16, 2017 by the Board of Directors of the Exchange.



CHAIRMAN



CHIEF FINANCIAL OFFICER



MANAGING DIRECTOR



MANAGING DIRECTOR