

Pakistan Mercantile Exchange Limited
Financial Statements
For the three months period ended September 30, 2018

Pakistan Mercantile Exchange Limited
Directors' Review
For the three months period ended September 30, 2018

Global Environment

Performance of global economy during the period ended September 30, 2018 remained uneven and faced various threats. Growing fears of trade war between United States and China not only affected their economies, but also cast shadows on other economies. Growth projections of the euro zone, Japan, and the UK were revised downwards. Among emerging market and developing economies, growth prospects got gloomier amid rising oil prices, higher treasury yields in United States and market pressures on the currencies of some economies with weaker fundamentals.

Crude oil prices remained on upward trajectory due to re-imposition of sanctions on Iran by the US and inability of OPEC members to meet the shortage. Gold prices declined due to the robust US economy which continued to offer attraction for US equity markets.

Pakistan Overview

Following a healthy growth of 5.8 percent in FY18, during July-September 2018 quarter country's economic activity witnessed a slowdown due to policy rate hikes by 175 bps since January 2018, fiscal consolidation program and pressures on the external front. Headline CPI inflation remained high due to increase in international oil prices, upward revision in domestic gas prices and further increase in regulatory duties on imports.

Despite increase in remittances and export proceeds, current account deficit increased due to imports growing at a much faster pace. The liquid foreign exchange reserves held by State Bank of Pakistan witnessed persistent decline, which depreciated rupee value against major currencies.

The performance of agricultural sector remained subdued due to shortage of irrigation water which also affected production of two large scale manufacturing industries i.e. textile & clothing and sugar.

Business Review

Trading Volume

The trading volume of the Exchange grew to PKR 412.613 Billion for the period ended September 30, 2018 from PKR 310.090 Billion for the corresponding period in 2017, posting an increase of 30.09 percent.

Technology

PMEX is actively working for introducing new back end trading system. In this regard, the Exchange finalized and shared the functional specifications with the vendor and the work is in progress.

Direct Collection and Payment Model for Traders

To mitigate custody risks and increase clients' confidence in futures market, the Exchange is working on the development of a new mechanism for funds collection and withdrawal. According to this mechanism, the Clients' funds will be directly collected by PMEX and withdrawals will be directly credited into clients' bank accounts. During the period under review, the Exchange initiated the developmental work and the model is expected to be implemented during second quarter.

New Market Maker Model

At present, there are multiple liquidity providers that act as Universal Market Makers at the Exchange. The trades are distributed by the PMEX System on round robin basis to each Market Maker.

In order to strengthen the risk management regime at the Exchange and incentivize the existing Market Makers to increase their investor base, PMEX plans to introduce a new model for market making. In this regard, during the period under review, a module has been developed and is currently in testing

phase, which will allow market makers to avail any of the three options: to act as Market Makers only for their in-house clients, to act as Market Makers for their in-house clients as well as other clients, or to act as universal Market Makers for all clients without any distinction between in-house and other clients.

Business Continuity Planning

The first BCP drill of FY18-19 was successfully held on September 15, 2018.

Awareness, Education & Engagement

The Exchange continued its efforts for creating awareness about futures trading in Pakistan. In this regard, during the period under review, PMEX organized awareness, education and engagement programs at its premises and also conducted such programs at Organizations and Educational Institutes. 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.

Financial Results

Following is the summary of results:

	Three months period ended	
	30-Sep-18	30-Sep-17
	(Rs.in million)	
Operating Income	66.73	49.43
Administrative and operating expenses	(65.67)	(53.59)
Net profit / (loss) after taxation	3.24	(4.09)
	Rupees	
Earnings per share – basic and diluted	0.10	(0.13)

First quarter of FY2018-19 have been closed with Rs. 3.24 million Profit after Tax. The primary reasons of increase in operating income is increase in trading fee from Rs. 28.50 million to Rs. 38.46 million due to wide range of international contracts available for trade and revision of trading fee. However, no new membership could be fetched due to various reasons including new broker licensing regulations which have been promulgated during the quarter. The cost side is generally kept under control.

Future Outlook

Going forward, under the able guidance of SECP and Board of Directors, the focus of the Exchange will remain on expanding and diversifying its product mix in order to attract new market participants. Moreover, to provide its brokers and their clients a reliable and efficient trading experience, PMEX is in the process of developing a new back end electronic trading system.

The Exchange is also working towards creating a mechanism through Global Trading Platform for showcasing local commodities to international buyers, which would enable interested international buyers to purchase and have the commodity delivered at their doorstep with utmost convenience.



Director



Director

Karachi: October 30, 2018

PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2018

		(Unaudited) September 30, 2018 Rupees	Audited June 30, 2018 Rupees			(Unaudited) September 30, 2018 Rupees	Audited June 30, 2018 Rupees
	Note				Note		
EQUITY AND LIABILITIES				ASSETS			
Share capital and reserves				Non-current assets			
Authorised capital 50,000,000 (June 30, 2018: 50,000,000) ordinary shares of Rs. 10 each		<u>500,000,000</u>	<u>500,000,000</u>	Property and equipment	7	22,776,917	15,824,374
Issued, subscribed and paid-up capital 31,355,162 (June 30, 2018: 31,355,162) ordinary shares of Rs. 10 each		313,551,620	313,551,620	Intangible assets	8	12,112,086	13,458,674
Capital reserve - premium on issue of ordinary shares		22,250,000	22,250,000	Investment in associates		20	20
Accumulated loss		<u>(370,269,486)</u>	<u>(373,516,543)</u>				
		(34,467,866)	(37,714,923)				
Non-current liabilities				Current assets			
Long-term deposits		197,650,000	197,650,000	Supplies and consumables		535,706	568,988
Current liabilities				Annual subscription receivable - considered good		41,152,653	44,606,320
Staff gratuity		27,786,325	44,674,627	Deposits and short-term prepayments		9,338,208	9,873,846
Staff provident fund		1,338,376	1,081,988	Other receivables		46,539,185	40,077,361
Margins & deposits	4	1,418,299,655	1,350,773,957	Short term investments	9	1,416,930,093	1,364,835,692
Payable to SGF Trust	5	2,801,251	2,091,202	Gold held on behalf of brokers / clients		755,962,575	732,800,230
Gold held on behalf of brokers / clients		755,962,575	732,800,230	Advance membership fee		-	750,000
Advance annual subscription and other fee		12,186,241	16,553,657	Creditors, accrued expenses and other liabilities		34,422,163	34,731,429
Creditors, accrued expenses and other liabilities		34,422,163	34,731,429			2,252,796,586	2,183,457,090
Contingencies and commitments	6	2,252,796,586	2,183,457,090			2,381,089,697	2,314,109,099
		<u>2,415,978,720</u>	<u>2,343,392,167</u>			<u>2,415,978,720</u>	<u>2,343,392,167</u>

The annexed notes from 1 to 18 form an integral part of these financial statements.



 DIRECTOR



 DIRECTOR



 CHIEF FINANCIAL OFFICER



 MANAGING DIRECTOR

PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE THREE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

	Note	For the three months period ended	
		September 30, 2018 Rupees	September 30, 2017 Rupees
Operating income	10	66,736,999	49,425,209
Administrative and operating expenses	11	<u>(65,675,213)</u>	<u>(53,595,965)</u>
		1,061,786	(4,170,756)
Other income	12	3,474,388	1,258,107
Other charges	13	(48,870)	(22,758)
Finance costs		(362,605)	(525,876)
Profit / (Loss) before taxation		<u>4,124,699</u>	<u>(3,461,283)</u>
Taxation - net	14	<u>(877,642)</u>	<u>(633,541)</u>
Net profit / (loss) after tax		3,247,057	(4,094,824)
Other comprehensive income for the period		-	
Total comprehensive income for the period		<u><u>3,247,057</u></u>	<u><u>(4,094,824)</u></u>
Earnings per share - basic and diluted	15	<u>0.10</u>	<u>(0.13)</u>

The annexed notes from 1 to 18 form an integral part of these financial statements.



 DIRECTOR



 DIRECTOR



 CHIEF FINANCIAL OFFICER




 MANAGING DIRECTOR

PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM STATEMENT OF CASH FLOW (UN-AUDITED)
FOR THE THREE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

	Note	September 30, 2018 Rupees	September 30, 2017 Rupees
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used) in operations	16	14,866	(15,736,368)
Long-term deposits		-	-
Taxes paid - net		(1,708,988)	(1,032,741)
Gratuity paid		(18,860,168)	(1,841,441)
Net cash used in operating activities		<u>(20,554,290)</u>	<u>(18,610,550)</u>
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of tangible assets		(8,796,715)	(423,600)
Proceeds from disposal of property and equipment		-	-
Proceeds from sale of investment in government securities		93,876,075	74,867,318
Purchase of investment in government securities		(71,723,678)	(55,235,938)
Mark-up received on bank deposits		472,404	116,669
Net cash generated from investing activities		<u>13,828,086</u>	<u>19,324,449</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash generated from financing activities		<u>-</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents (A+B+C)		(6,726,204)	713,899
Cash and cash equivalents at the beginning of the period		12,420,281	3,439,491
Cash and cash equivalents at the end of the period		<u>5,694,077</u>	<u>4,153,390</u>
Cash and cash equivalents relating to margins and deposits at the end of the period		<u>61,914,160</u>	<u>19,975,887</u>
Cash and cash equivalents at end of the period including cash relating to margins and deposits		<u><u>67,608,237</u></u>	<u><u>24,129,277</u></u>

The annexed notes from 1 to 18 form an integral part of these financial statements.



 DIRECTOR



 DIRECTOR



 CHIEF FINANCIAL OFFICER



 MANAGING DIRECTOR

PAKISTAN MERCANTILE EXCHANGE LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE THREE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

	Issued, subscribed and paid-up capital	Capital reserve issue of premium on ordinary shares	Accumulated loss	Total
	----- Rupees -----			
Balance at July 01, 2017	313,551,620	22,250,000	(414,629,571)	(78,827,951)
Loss for the three months period ended September 30, 2017	-	-	(4,094,824)	(4,094,824)
Balance at September 30, 2017	313,551,620	22,250,000	(418,724,395)	(82,922,775)
Balance at July 01, 2018	313,551,620	22,250,000	(373,516,543)	(37,714,923)
Profit for the three months period ended September 30, 2018	-	-	3,247,057	3,247,057
Balance at September 30, 2018	313,551,620	22,250,000	(370,269,486)	(34,467,866)

The annexed notes from 1 to 18 form an integral part of these financial statements.



 DIRECTOR



 DIRECTOR



 CHIEF FINANCIAL OFFICER



 MANAGING DIRECTOR

PAKISTAN MERCANTILE EXCHANGE LIMITED
NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL
INFORMATION (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

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 repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The Certificate of Commencement of Business under the repealed 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. After promulgation of The Futures Market Act (FMA), 2016, the Exchange has been granted license of Futures Commodity Exchange effective from June 15, 2017. Its registered office is situated at 3B, 3rd Floor, Bahria Complex IV, Chaudhry Khaliq-uz-Zaman Road, Gizri, Karachi, Pakistan. The Exchange has also two branch offices situated at Islamabad and Lahore.
- 1.2 The Exchange has been set-up principally to establish, regulate, control and provide physical facilities and marketplace necessary for trading in Commodity Future Contracts and to perform all allied and incidental functions. This is a technology driven, de-mutualized, 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. Board of directors in its meeting dated August 29, 2017, approved and submitted the revised Pakistan Mercantile Exchange Limited (PMEX) General Regulations to SECP which are presently pending before SECP for approval.
- 1.3 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 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and

- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under Companies Act, 2017 have been followed.

- 2.2 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, 2018.

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, 2018.

- 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, 2018.

	Note	(Unaudited) September 2018 Rupees	(Audited) June 2018 Rupees
4. MARGINS AND DEPOSITS			
Clearing house deposits relating to brokers	4.1	132,957,903	135,502,496
Initial margins - relating to brokers and clients	4.1	1,285,341,752	1,215,271,461
		<u>1,418,299,655</u>	<u>1,350,773,957</u>
4.1 The margins and deposits have been applied as follows:			
Clearing house deposits			
Saving / current account		3,503,964	175,403
Investment in Treasury Bills	9	129,729,794	135,549,669
Less: amount to be transferred to SGF trust		(275,855)	(222,576)
		132,957,903	135,502,496
Initial margins			
Saving / current account		58,410,195	66,559,283
Investment in Treasury Bills	9	1,229,420,952	1,150,544,804
Security deposit / prepayments - Locker (Gold)		36,000	36,000
Less: amount to be transferred to SGF trust		(2,525,395)	(1,868,626)
		1,285,341,752	1,215,271,461
		<u>1,418,299,655</u>	<u>1,350,773,957</u>
5. PAYABLE TO SETTLEMENT GUARANTEE FUND (SGF) TRUST			
Movement for the period is as follows:			
Opening balance as at July 01		2,091,202	1,667,326
Amount allocated from income earned on:			
- clearing house deposits		825,572	2,213,963
- initial margins		7,503,971	18,916,673
		8,329,544	21,130,636
		(7,619,495)	(20,706,760)
Amount transferred during the period		<u>2,801,251</u>	<u>2,091,202</u>
6. CONTINGENCIES AND COMMITMENTS			
There is no change in contingencies and commitments as those reported in the annual financial statements for the year ended June 30, 2018.			

		(Unaudited)	
		Three months period ended	
		September 30 2018	September 30 2017
7.	PROPERTY AND EQUIPMENT		
	Following additions and deletions, at cost, were made during the period:		
	<u>Additions - Cost</u>		
	Office equipment	898,200	-
	Electrical equipment	186,325	-
	Computer equipment	610,190	423,600
	Capital work in progress	7,102,000	-
		<u>8,796,715</u>	<u>423,600</u>
	<u>Deletions - Cost</u>		
		<u>-</u>	<u>-</u>

8. INTANGIBLE ASSETS

No additions in intangible assets were made during the period (September 30, 2017: Nil).

		(Unaudited)	(Audited)
		September	June
		2018	2018
		Rupees	Rupees
Note			
9.	SHORT TERM INVESTMENTS		
	- at fair value through profit or loss		
	Investment in Treasury bills - margins	1,229,420,952	1,150,544,804
	Investment in Treasury bills - deposits	129,729,794	135,549,669
	Investment in Treasury bills - others	57,779,347	48,592,973
9.1		<u>1,416,930,093</u>	<u>1,334,687,446</u>

9.1 These Treasury Bills carry markup ranging from 6.76% to 7.80% (June 2018: 6.22% to 6.76%) per annum and will mature on various dates till December 20, 2018.

	(Unaudited)	
	Three months period ended	
	September 30 2018	September 30 2017
10. OPERATING INCOME		
Trading fee	38,466,187	28,506,230
Share of PMEX from the income on margins and deposits	17,294,691	9,288,361
Annual membership fee	5,968,746	5,799,583
Income from IT related services	1,471,611	2,353,400
Infrastructure fee	1,818,000	1,767,000
Advertisement income	282,581	360,000
Fee for membership transfer and issuance of certificates	200,000	200,000
Auto liquidation charges	157,900	77,400
Front end charges	18,695	23,335
Gain on sale of USB keys	56,718	106,150
Recovery of gold custody charges	1,001,870	943,750
	<u>66,736,999</u>	<u>49,425,209</u>
11. ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries and benefits	34,721,142	31,869,340
Gratuity	1,609,261	1,455,415
Provident fund	1,611,891	1,461,799
Directors' fee	600,000	345,000
Depreciation	1,844,172	2,448,605
Amortisation	1,346,587	1,572,307
Communication	1,228,805	1,717,389
Cloud hosting	3,758,706	-
Utilities	576,724	564,930
Legal and professional	2,513,165	726,500
Rent	3,099,591	3,503,496
Repairs and maintenance	2,083,783	2,024,558
Market making / Liquidity expenses	-	1,755,587
Travelling and conveyance		
- Employees and others	257,847	513,251
- Directors (incl. Managing Director)	695,430	877,182
	953,277	1,390,433
Fees and subscription	6,847,895	289,626
Security services	219,842	157,080
Insurance	95,034	120,385
SECP supervision fee	519,953	506,833
Auditors' remuneration	195,000	150,000
Marketing expenses	1,491,978	1,289,338
Printing and stationery	53,775	39,389
Entertainment	304,632	207,955
	<u>65,675,213</u>	<u>53,595,965</u>

		(Unaudited)	
		Three months period ended	
		September 30 2018	September 30 2017
12. OTHER INCOME - NET			
	<i>Income from financial assets</i>		
	Mark-up on bank deposits	496,255	114,697
	Mark-up on government securities	1,192,449	818,362
	Realized gain / (loss) on sale of investment at fair value through profit and loss	(1,926)	(10,682)
	<i>Income from non - financial assets</i>		
	CGT processing fee	1,535,110	-
	Others	252,500	335,730
		<u>3,474,388</u>	<u>1,258,107</u>
13. OTHER CHARGES			
	Bank charges	46,882	18,788
	Others	1,989	3,970
		<u>48,871</u>	<u>22,758</u>
14. TAXATION			
	Current	<u>877,642</u>	<u>633,541</u>

14.1 The provision for current income tax is based on 1.25% of turnover under section 113 of the Income Tax Ordinance, 2001.

14.2 There is no significant change in deferred tax balance as those reported in the annual financial statements for the year ended June 30, 2018.

		(Unaudited)	
		Three months period ended	
		September 30 2018	September 30 2017
15. EARNINGS PER SHARE			
	Profit / (Loss) for the period	Rupees 3,247,057	(4,094,824)
	Weighted average number of shares	Number 31,355,162	31,355,162
	Earnings per share	Rupees 0.10	(0.13)
16. CASH GENERATED FROM OPERATIONS			
	Profit before taxation	4,124,699	(3,461,283)
	Adjustments for non cash charges and other items:		
	Depreciation	1,844,172	2,448,605
	Amortisation	1,346,587	1,572,307
	Gratuity	1,609,261	1,455,415
	Financial charges	362,605	525,876
	Mark-up on bank deposits	(496,255)	(114,697)
	Mark-up on government securities	(1,192,449)	(818,362)
	Realized gain / (loss) on sale of investment at fair value through profit and loss	1,926	10,682
	Working capital changes	(7,585,680)	(17,354,911)
		<u>14,866</u>	<u>(15,736,368)</u>
16.1 Working capital changes			
	Decrease / (increase) in current assets		
	Supplies and consumables	33,282	63,050
	Annual subscription receivable - considered good	3,453,667	275,000
	Advances, deposits and short-term prepayments	535,638	672,460
	Other receivables	(6,437,973)	(5,814,245)
		<u>(2,415,386)</u>	<u>(4,803,735)</u>
	Increase / (decrease) in current liabilities		
	Staff provident fund	256,388	-
	Advance annual subscription and other fee	(4,367,416)	(189,583)
	Advance for membership admission fee	(750,000)	-
	Creditors, accrued and other liabilities	(309,266)	(12,361,593)
		<u>(7,585,680)</u>	<u>(17,354,911)</u>


17. RELATED PARTY TRANSACTIONS

Related parties comprise of associates, other companies with common directors and key management personnel. Details of transactions with related parties during the period are as follows:

Name & Relationship with Exchange	Nature of transactions	(Unaudited)	
		September 30, 2018	September 30, 2017
Associated undertakings - Zahid Latif Securities (Private) Ltd	Receipt of deposit against initial margin Repayment of deposit against initial margin	2,330,000 1,586,946	1,298,000 1,185,987
Rawalpindi Chamber of Commerce	Sponsorship in FINTECH conference	200,000	-
Associated undertakings - ISE REIT Management Ltd	Payment on account of branch maintenance	47,794	59,975
Associated undertakings - Zarai Taraqiati Bank Ltd	Reimbursement of directors travelling	93,459	73,500
PMEX Investor Protection Fund Trust	Payment to fund	308,430	498,200
PMEX Gratuity Fund Trust	Payment to fund	18,497,563	1,455,415
PMEX Provident Fund Trust	Payment to fund	2,965,212	2,910,830
PMEX Settlement Guarantee Fund Trust	Payment to fund	7,619,495	5,072,826
Directors - non executive	Directors' meeting fee Travelling and conveyance expense	600,000 518,151	345,000 268,583
Managing Director	Salaries and benefits Post employment benefits	7,573,974 1,488,258	5,580,884 508,344
Key management personnel (excluding Managing Director)	Salaries and benefits Post employment benefits	10,617,924 859,056	11,376,357 1,002,106

18. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on October 30, 2018 by the Board of Directors of the Exchange.



DIRECTOR



DIRECTOR



CHIEF FINANCIAL OFFICER



MANAGING DIRECTOR