

The Art of Creation

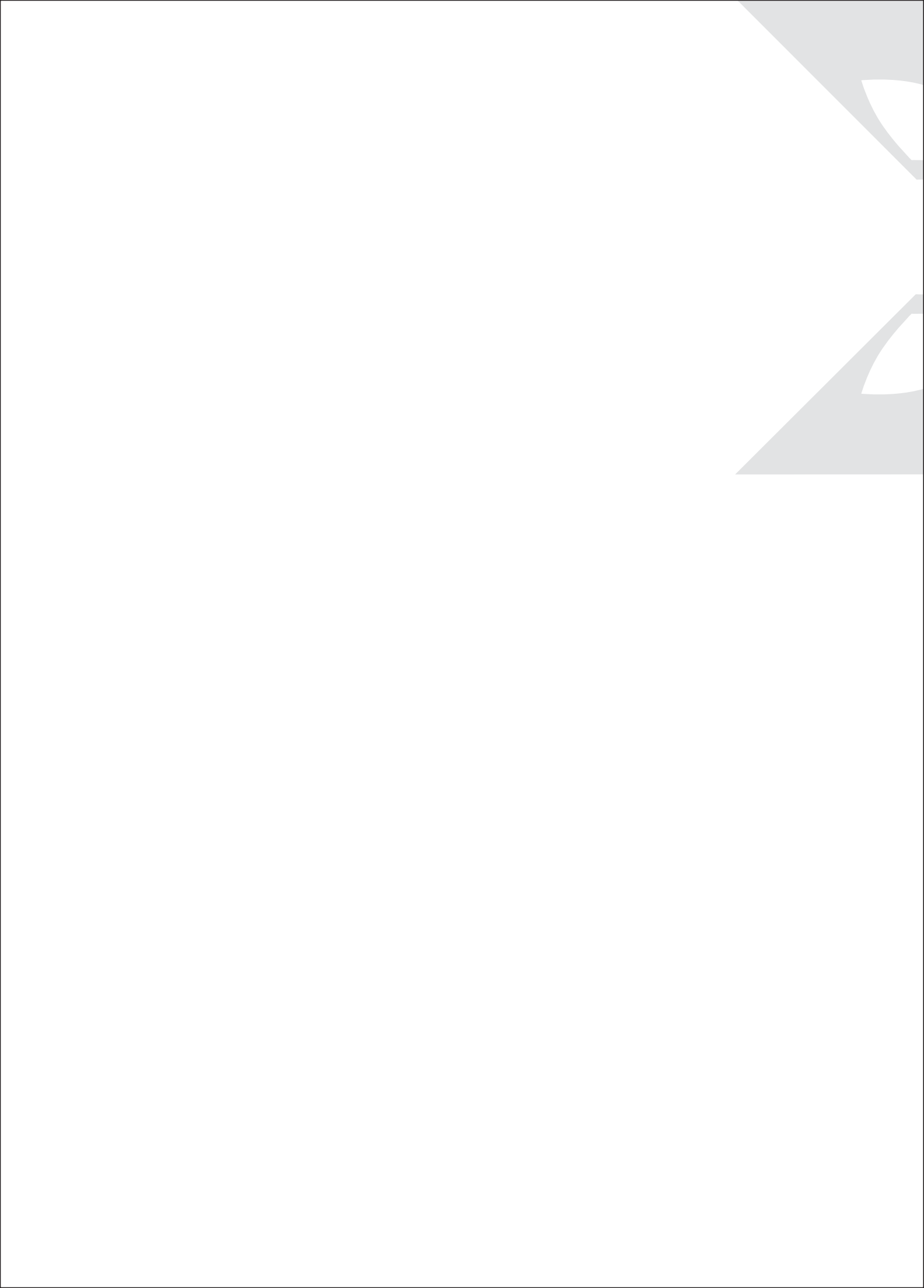


Annual Report 2015



PAKISTAN
MERCANTILE
EXCHANGE

P M E X





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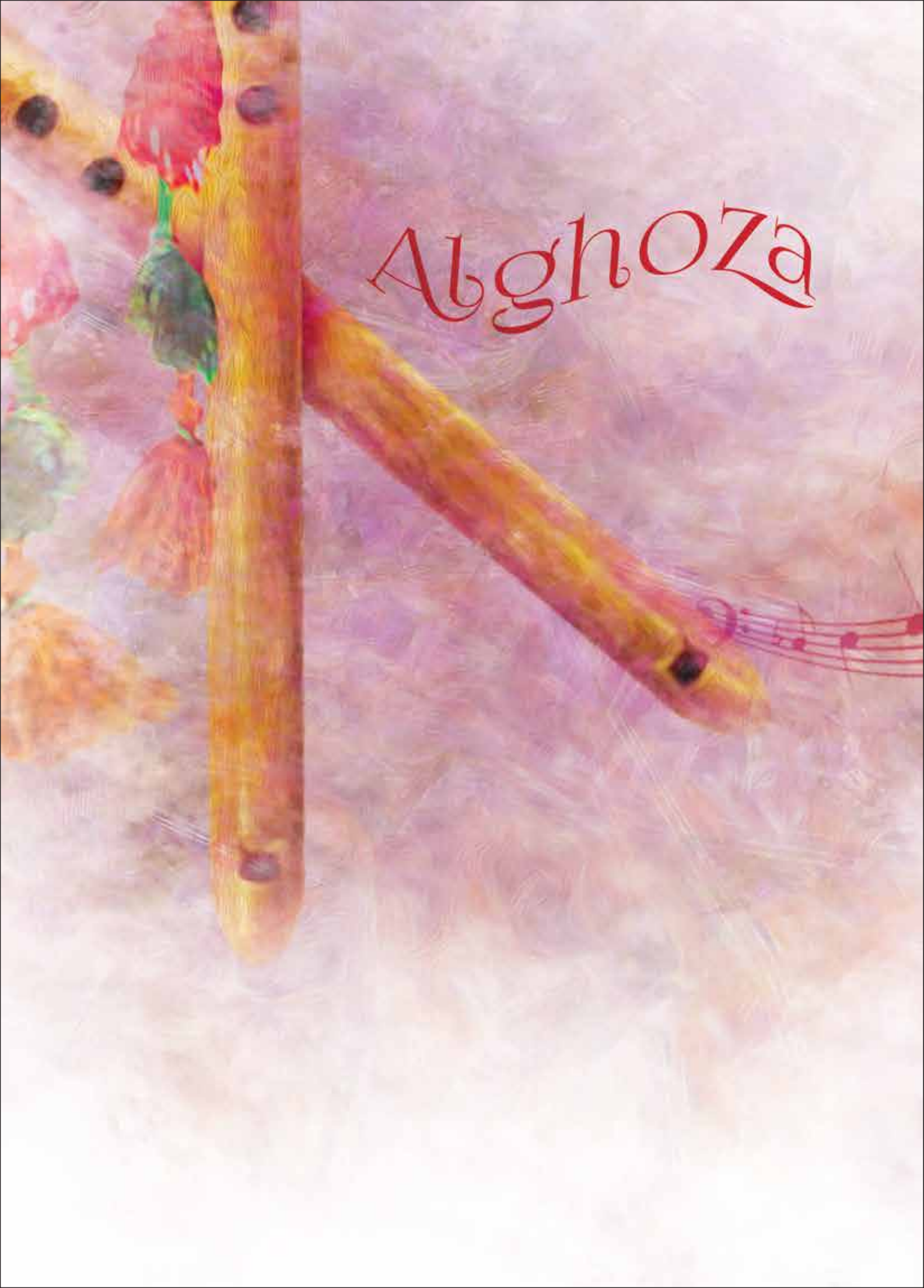
The Art of Creation

The universe is a masterpiece creation. Everything we see around us has been bound together by cosmic harmony and symmetry, depicting beautiful artistry of creation.

'Music' can be defined as vocal or instrumental sounds, individually or collectively, put together in such a way as to produce beauty of form, harmony, and expression of emotions. The challenge is to choose the right mix of vocals and instruments in the right order leading to a cohesive relationship between beat, rhythm and melody. Infinite number of compositions can be created by changing these basic elements and there is always room for improving and creating music which is a masterpiece in its own right. The expertise and variety also plays a vital role in terms of vocals and the instruments used to create a particular composition.

Similarly, PMEX imbues its core values i.e. candor, merit, respect, integrity, transparency and imagination in the right mix to create a winning team and culture. The variety of talent and the expertise of our team members are the stimulus to drive growth and achievements. Every department and the team members within the department contribute and create the right mix of talent and expertise for our success. It is this right mix that provides a vibrant, efficient and convenient trading experience to our clientele.

Alghoza





The alghoza originated in Sindh, but its popularity has spread all over Pakistan. This instrument consists of a pair of flutes of nearly the same length & width. One flute is used for a continuous drone, while the other is played to produce a melody.





This ancient instrument consists of one (ik) wire (tar). It is played in a vertical position, by plucking the solitary string with a to and fro movement of the forefinger. The same hand also holds the instrument.



Kbara



Tabla





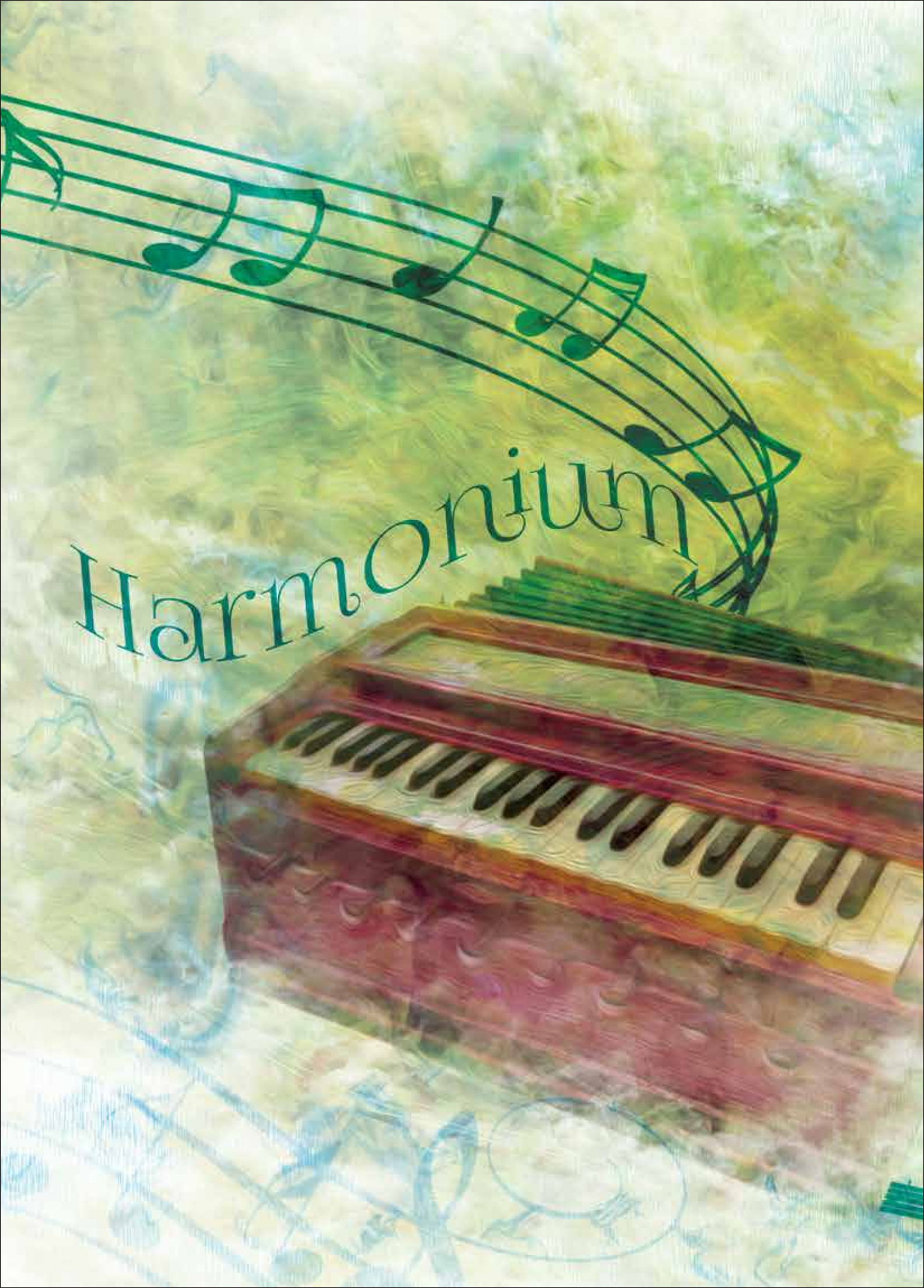
The tabla is a set of twin drums. While occasionally played solo, it is an indispensable accompaniment for all types of music. The drum played with the right hand is the main drum, called dayan, while the one played with the left hand is bayan.





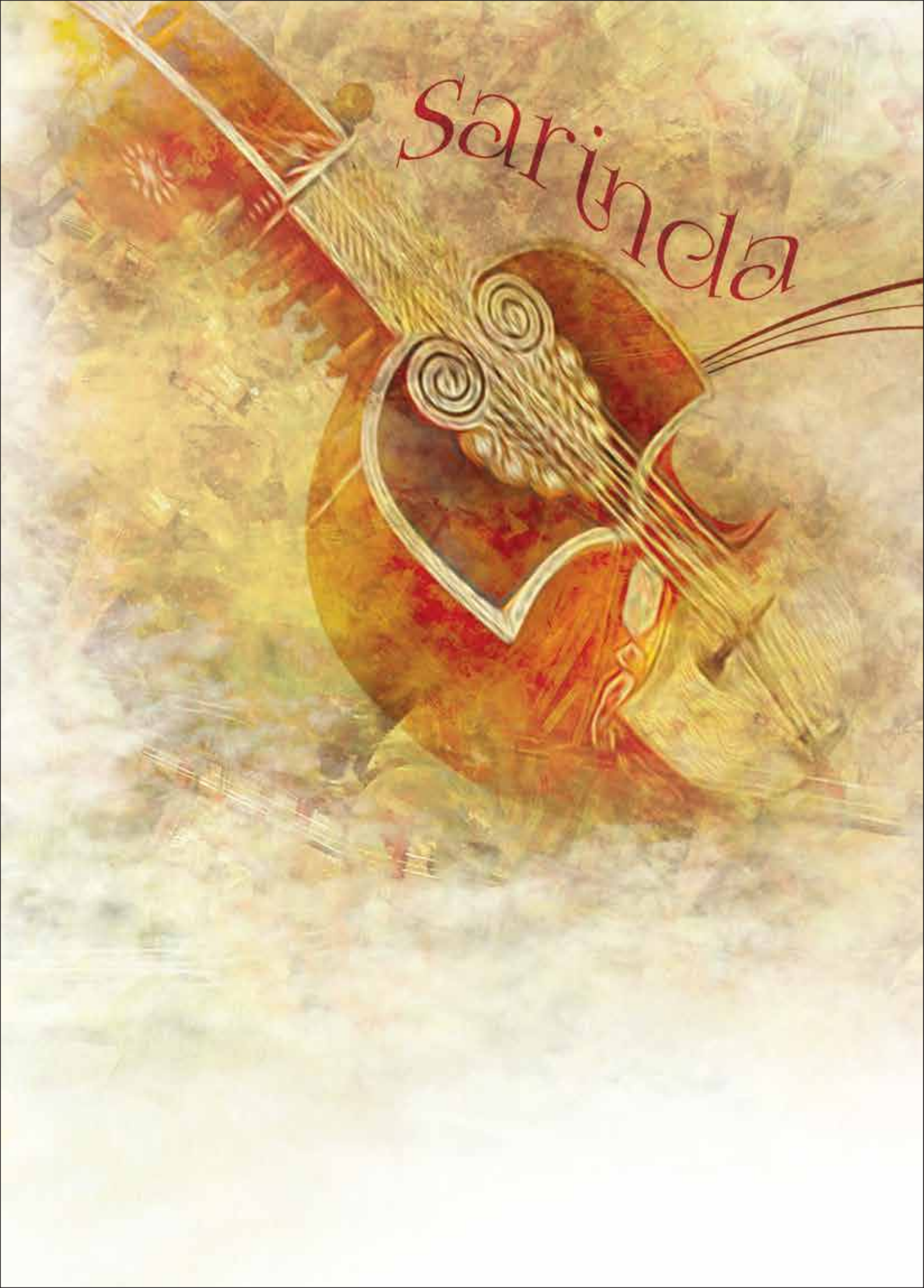
The Harmonium is a keyboard instrument. Thin metal tongues vibrate to a steady current of air produced by pumping the bellows. This compact organ was introduced in the early 19th century by Europeans but later it became part of the music of the subcontinent.





Harmonium

Sarinela





Sarinda is the name given to a stringed instrument with a hollow wooden body made from one piece of wood. The lower part is covered with a thin wooden strip which extends into a fingerboard, upon which seven to nine strings are tensioned.





Jal Tarang is an Indian melodic percussion instrument. It consists of a set of ceramic or metal bowls tuned with water. The bowls are played by striking the edge with beaters, one in each hand. Literally, jal tarang means "waves in water" but indicates motion of sound created or modified with the aid of water.



Jalbarang



RED CHILLI WEEKLY FUTURES CONTRACTS

Red Chilli is a potent ingredient in various cuisines around the world. It is produced seasonally but consumed throughout the year. Pakistan is among the top five producers of red chilli in the world. The varieties grown in Pakistan are of high quality and superior to other varieties grown in the region. In Pakistan, Sindh is the largest producer of red chilli with annual production at 85,000 tons which amounts to approximately 85% of the country's produce. The production of red chilli is concentrated in the small town of Kunri, also known as the 'Chilli Capital of Asia', located in Umarkot, a district of Sindh province. Other cultivation hubs in Sindh are Mirpur Khas, Sanghar, Badin, Tando Muhammad Khan, Khairpur, Shikarpur, and Ghotki.

Historically in Pakistan, Red Chilli production and its prices have remained highly volatile due to the lack of dependable storage facilities and inefficiencies in trading leading growers to sell their produce at lower prices.

Keeping in view the prevailing circumstances, PMEX along with Pakistan Agriculture Coalition (PAC), Agility Pakistan (Pvt.) Limited and SGS Pakistan (Pvt.) Limited envisioned to bring the red chilli trade on the Exchange. Accordingly, PMEX listed the following three quality variants of Red Chilli Weekly Futures Contract. It is the first spice to be traded at the Exchange's sophisticated infrastructure and state-of-the-art technology based trading platform.

1. PMEX Red Chilli Weekly (Grade A+) Futures Contract
2. PMEX Red Chilli Weekly (Grade A) Futures Contract
3. PMEX Red Chilli Weekly (Grade B) Futures Contract

The listing of these contracts at a regulated trading platform ensures better price to growers, offers superior quality product to the buyers at a competitive price and provides ease of buying and selling of the commodity. Furthermore, these contracts will pave the way for the listing of similar contracts of other agricultural products at the Exchange such as onions, potatoes and tomatoes.

PMEX is constantly striving to list new agricultural products at the Exchange to develop an active futures market that provides a neutral platform for farmers and traders and help make Pakistan's agricultural sector more competitive.

| RED CHILLI WEEKLY FUTURES CONTRACTS SPECIFICATIONS | | | |
|--|--|--|--|
| Grade | A+ | A | B |
| Trading Days | Monday to Saturday | | |
| Trading Hours | 9:30 am to 6:00 pm | | |
| Unit of Trading | 1 Metric Ton | | |
| Price Quotation | Price quoted shall be in rupees per Maund (Where 1 Maund = 40 Kg), Ex Kunri excluding all taxes. | | |
| Delivery Unit | 1 MT | | |
| Quality Specifications | | | |
| Variety | Maxi – Commonly known as Dandi Cut | | |
| Shape | Round, tipped | | |
| Appearance/ Color/Size | Bright shiny red to orange (orangish red), visually homogenous in size | Red to orange (orangish red), visually partially equal in size | Red to orange but slightly orange content should be slight, uneven in size |
| Moisture | 5-8 % Max | 5-10 % Max | 5-12 % Max |
| Aflatoxin | 10 (B1, 5 ppb) Max (parts per billion) | 30 ppb (parts per billion) Max | |
| Extraneous Matter | 1% Max | 2% Max | 2.5% Max |
| Damage/Discolor | 2% Max | 3% Max | 5% Max |
| Visual Mold | 3% Max | 5% Max | 8% Max |



NEW MEMBERSHIPS OPEN AT PAKISTAN MERCANTILE EXCHANGE

PMEX announced the re-opening of new membership rights as the issuance of new memberships, which were temporarily suspended by Securities & Exchange Commission of Pakistan (SECP) in 2012, has commenced again. PMEX plans to spread its broker network across the country in order to provide opportunity to all citizens of Pakistan to participate on PMEX platform to buy and sell commodities.

To achieve the above goal, PMEX plans to conduct a nationwide drive which will include cities like Lahore, Rahim Yar Khan, Multan, Faisalabad, Sahiwal, Sargodha, Chakwal, Rawalpindi, Gujranwala, Karachi, Hyderabad, Sukkur, Larkana, Quetta and Peshawar to ensure participation from across the country. Moreover, the Exchange is also planning to organize a national level conference in the first half of 2016 on commodities trading to increase awareness of commodities business in the country.

Commenting on the new development, Mr. Ejaz Ali Shah, Managing Director of PMEX said: "The re-opening of membership rights provides a great opportunity to the market players to participate on a global platform of a young and growing Exchange. New members will be able to build on the success of existing PMEX members, which have seen significant growth in trading and their business over the past 7 years. Our focus will be to provide membership opportunities in relatively smaller cities also so that our member brokers network can be widespread covering the entire country, thereby, providing trading opportunities to a broader investor base."

MILLI OUNCE GOLD FUTURES CONTRACTS

PMEX is in a continuous pursuit to add new products to broaden its product suite in order to cater to the needs of a diversified group of investors. Previously, the Exchange has listed various gold contracts in different denominations.

However, keeping in view the demand of the market participants, the Exchange has come up with “Milli Ounce Gold” futures contract, which has been duly approved by Securities and Exchange Commission of Pakistan (SECP).

The Exchange has listed the following four futures contracts under Milli Ounce Gold and made them available for trading from June 17, 2015:

1. PMEX USD Gold
2. PMEX EUR Gold
3. PMEX GBP Gold
4. PMEX JPY Gold

The Exchange has also introduced a special trading functionality namely “Composite Order Trading System” (COTS) to trade Milli Ounce contracts. Using this new functionality, a trader can take two positions simultaneously in Milli Ounce contracts with a single click. In other words, if a trader wants to simultaneously take a long position in the PMEX USD Gold and a short position in the PMEX EUR Gold, he/she can place a single order through COTS. The long gold in the first trade and the short gold in the second trade will ‘cancel’ each other, leaving the trader with an open EUR-USD position only.

Talking on the auspicious occasion of launching of these contracts, Mr. Ejaz Ali Shah, Managing Director of PMEX said, “Over the years, PMEX has been trying to augment its product portfolio to cater to the needs of a wider range of investors. Addition of Milli Ounce futures contracts will not only diversify the product portfolio of PMEX but will also offer an opportunity to its brokers to attract new clientele and enhance their income”.

| MILLI OUNCE FUTURES CONTRACTS SPECIFICATIONS | | | | |
|--|---|---|--|--|
| | PMEX USD Gold | PMEX EUR Gold | PMEX GBP Gold | PMEX JPY Gold |
| Trading Days | Monday to Friday | | | |
| Trading Hours | 05:00 am to 02:00 am PST | | | |
| Unit of Trading | Milli (0.001) Troy Ounces | | | |
| Price Quotation | US Dollar per troy ounce, upto two decimal places | Euro per troy ounce, upto four decimal places | British Pound per troy ounce, upto four decimal places | Japanese Yen per troy ounce, upto two decimal places |
| Tick Size | USD 0.1 per troy ounce | EUR 0.0001 per troy ounce | GBP 0.0001 per troy ounce | JPY 0.01 per troy ounce |



YEAR 2014-15 AT A GLANCE

1. Changes in PMEX Board of Directors

Securities and Exchange Commission of Pakistan (SECP) appointed Dr. Salman Shah and Syed Talat Mahmood as Directors on the Board of Directors of PMEX. Subsequently, the Board of Directors elected Dr. Salman Shah as the new Chairman of the Board.



With a diversified experience spanning on decades, Dr. Shah served as Pakistan's Finance Minister from 2004-2008 and currently consults for and provides strategic counsel to corporations, financial institutions and several Central Asian

countries on financial management and the establishment of controls. He holds a Ph.D. in Finance from Indiana University and has also taught at University of Toronto, Indiana University and the University of Michigan.

Syed Talat Mahmood is a professional banker with more than 37 years of domestic and international banking experience. He has served as President of Punjab Provincial Cooperative Bank (PPCBL) and is currently serving as President of Zarai Taraqati Bank Limited (ZTBL). He holds a graduate degree with distinction from Government College, Lahore.

2. PMEX Integrates MetaTrader 5 Trading Platform

PMEX announced the successful integration of MetaTrader 5 (MT5) with its existing trading platform. MetaTrader 5 is the latest version of the acclaimed and popular MetaTrader trading software.

PMEX is on a continuous quest to bring improvements by providing innovative products, superior quality services and leading edge technology driven trading platforms to its brokers and clients. In line with this spirit, integration of MetaTrader 5 is a step towards providing an advanced trading experience to brokers and their clients.

It is yet another milestone achieved by the Exchange in its brief but eventful history. With the successful integration of MetaTrader 5 with PMEX's existing trading platform, market participants now have a choice of 3 front end platforms; namely, NEXT- PMEX's in-house trade portal, Tradecast by Catalyst IT Solutions and now MetaTrader 5 by MetaQuotes Software.



MetaTrader 5

3. PMEX at FIA Asia Conference

As an active member of the Futures Industry Association (FIA) Asia, PMEX participated in the second FIA Asia Derivatives Conference in Dubai, this March. The event brought together global players from the derivatives industry to participate in interactive sessions and discussions on the future of derivative exchanges amidst the current macro-environmental trends and the changing regulatory landscape.

Mr. Nauman Lakhani, Head of Marketing, Business Development and Customer Support Services represented PMEX at the event. On the sidelines of the conference, Mr. Lakhani initiated a dialogue with the Dubai Gold & Commodities Exchange (DGEX) to sign a Memorandum of Understanding (MoU) for knowledge sharing and cross training between the Exchanges.



4. PMEX at 9th CEO Summit Asia

PMEX sponsored and participated in the 9th CEO Summit Asia along with the book launch of "100 CEOs, Leaders & Companies of Pakistan - International Edition". The event, which was held at PC Hotel, Lahore was jointly organized by CEO Club Pakistan and Manager Today magazine. The theme for the event was "Pakistan – A destination for Investment".

Mr. Ejaz Ali Shah, MD, PMEX was honored by being nominated as one of the top 100 CEOs of Pakistan.

The event provided an opportunity to the management of PMEX to interact with industry professionals as well as other high profile individuals and to project the products and services being offered by PMEX on a larger canvas.





5. PMEX Attends 18th International AFM Annual Conference

PMEX participated in the 18th Annual Conference of Association of Futures Market (AFM) held in April 2015 at Krakow, Poland. The conference is held every year in a different country and is organized by AFM. This year, it was hosted and co-organized by the Polish Power Exchange.

The conference brought together senior executives from various leading international commodity exchanges, clearing houses, financial institutions and the business community, in general.

The two-day event covered topics such as European futures markets experiences-emerging markets vs well developed markets, energy exchanges and energy security, product design in agriculture market – physical delivery or cash settled, cross exchange partnerships and currency futures.

Being a full member of AFM, PMEX was represented at the conference by Dr. Salman Shah, Chairman PMEX and Mr. Ejaz Ali Shah, Managing Director, PMEX. The AFM conference provides an opportunity every year to become up to date with regards to recent developments in the industry, learn from the experiences of other exchanges, learn best practices while moving toward next practices and consolidate existing relationships.



6. Delegations at PMEX

1. A delegation of Japanese trading house, Mitsubishi Corporation, visited PMEX on June 17, 2015 to get acquainted with the operations of the Exchange and to gain a better understanding of commodities trading in Pakistan. Mitsubishi Corporation Resource to Market International (MC RtMI) is a subsidiary of the Metals Group of Mitsubishi Corporation being the group's trading arm. It is currently surveying the potential of Pakistan as a market for their metals and resources business.



The delegation was led by Hisashi Ikeda, General Manager / Senior Business Development Officer, Mitsubishi Corporation (Singapore). The other dignitaries of the delegation included senior officials of Mitsubishi Corporation Karachi Branch, Mr. Tomoyuki Hashizume, Deputy General Manager, Mr. Taichi Arioka, Senior Business Manager, Mr. Shahzad Shabbir, Manager (Metals Department) and Mr. Asim Gul, Management Trainee (Metals Department).

Speaking on the occasion, Mr. Ejaz Ali Shah, Managing Director of PMEX said, "It is an honor to receive the delegation of one of the largest trading houses of Japan and their keen interest in the operations of Pakistan's only multi-commodities futures exchange. We are always open to new ideas and projects which can bring both process & cost efficiency across the value chain. I look forward to explore opportunities where Mitsubishi Corporation and PMEX can work together."

2. A delegation from Asian Development Bank (ADB) visited PMEX on June 29, 2015. The purpose of the visit was to gain better understanding of operations of Pakistan's only multi commodity exchange and its existing and upcoming products, with special focus on agricultural commodities.

The delegation was led by Mr. Salim Raza, former Governor, State Bank of Pakistan. The other dignitaries of the delegation were Mr. Shauzab Ali, Unit Head, Financial Sector, Pakistan Resident Mission, ADB, Mr. Risha Mohyeddin, CEO and Managing Partner, Ecqua Associates (UAE) and Mr. Saulat Agha, Consultant, Hikmah Consulting.



PMEX officials welcomed the members of all the delegations and briefed them about the Exchange's integrated business model, technology infrastructure, legal & regulatory framework and existing and upcoming products. The briefings were followed by a tour of PMEX office.



7. Awareness Programs

Following its vision to develop the commodity futures market in Pakistan, PMEX actively conducted awareness programs during 2014 and 2015. These awareness sessions included training workshops, seminars, presentations, roadshows and participation in events.

Futures Trading 101

PMEX conducts bi-weekly, free of cost training workshops at its premises under the banner of 'Futures Trading 101'. 70 workshops were conducted in the FY 2014 - 15. These sessions were attended by employees of brokerage houses, high net worth individuals, employees of corporate sector, clients and professionals from various industries.

Capital Market Event in Multan

In line with the objective to create awareness about the benefits of investing in commodities among the masses of Pakistan, PMEX partnered with JS Global Capital, Karachi Stock Exchange (KSE), Central Depository Company (CDC) and National Clearing Company of Pakistan (NCCPL) in organizing a roadshow "Capital Market Event" in Multan.



Mr. Nauman Lakhani, Head of Marketing, Business Development and Customer Support Services represented PMEX at the event. Mr. Lakhani informed the participants about the benefits of trading at a regulated exchange and the existing as well as upcoming products at the Exchange.

The event was attended by a large number of participants from Multan and adjoining areas who showed keen interest in knowing more about commodities trading, listed contracts and the role being played by PMEX.

Road Show at Faisalabad and Daharki

PMEX also participated in road shows, along with Karachi Stock Exchange and JS Global, in Faisalabad and Daharki where the Exchange briefed the audience about the workings of the Exchange and the investment opportunities in the Commodity Futures Market.



8. PMEX Relocates BC & DR Site

In December 2014, PMEX signed an agreement with National Clearing Company of Pakistan Limited (NCCPL) to relocate both its Business Continuity (BC) as well as Disaster Recovery (DR) site to NCCPL's premises.

Working with a business model that requires round the clock operations, PMEX is constantly upgrading its systems and processes in order to provide seamless services to market participants. The Exchange has a comprehensive Business Continuity Program which comprises of a resilient IT Infrastructure, Crisis Management and Recovery of Processes.

Considering the sensitive nature of the business at PMEX having 24 hour operations, it is necessary to have a robust and resilient BC & DR setup. Accordingly, this initiative to consolidate BC & DR at one site will provide a durable and flexible structure to resume all critical operations in the minimum possible time without compromising on the quality of services in the event of a disaster.

The Exchange is looking to get the ISO certification of BCP BS 25999 certification for its Business Continuity Program soon.



9. PMEX Re-launches International Cotton Contract

PMEX has re-launched International Cotton (ICotton) contract which is duly approved by Securities & Exchange Commission of Pakistan (SECP). The contract offers opportunity to the entire value chain of the textile sector to hedge the risk of price variation of its basic raw material, cotton.

PMEX has re-launched the contract based on the response of the market participants and the growing interest of investors in ICotton futures contract. PMEX, in this respect, inducted a new market maker to ensure ample liquidity in the market to facilitate entry and exit of investors.

Cotton is a global agricultural commodity and investors have been trading in cotton derivatives since almost the inception of modern futures trading. Pakistan is ranked amongst the top five cotton producing countries of the world and nearly two-thirds of its export proceeds come from textiles and clothing.



10. PMEX Inks MoUs with International Exchanges

With the convergence of IT and telecommunication, geographical boundaries are losing relevance when it comes to foreign trade and investment. As the world is becoming a global village, the business landscape has radically changed from competing with to complementing each other and exploiting the comparative advantage. This requires greater interaction with business players both regionally and globally through trade associations.



Fully cognizant of this fact, Pakistan Mercantile Exchange (PMEX) is committed to develop strategic ties with international exchanges to explore new business opportunities and adapting best practices. In line with this objective, recently PMEX signed Memorandum of Understanding (MoUs) with three international exchanges, Borsa Istanbul, Izmir Commodity Exchange and Dubai Gold & Commodities Exchange (DGCX).

These pacts will enable all four exchanges to share information, cross list products, develop trained human resources and expertise to establish a long-term mutually beneficial relationship. These relationships will also establish opportunities to host joint events (such as conferences and workshops).

In future, PMEX plans to sign similar accords with other international exchanges.





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Vision

To be amongst the leading mercantile exchanges of the region extending from Istanbul to Jakarta in terms of knowledge, efficiency, innovation, value traded, credibility and standing.





Mission

To build and develop PMEX capacity to satisfy the diverse needs of our customers, contribute towards shareholders equity and constantly endeavor to integrate national supply chains with domestic and international Product, Commodity and Financial markets through innovative financial products and instruments creating state of the art trading and settlement platforms and infrastructure that engenders confidence, brings the domestic economic players to the Exchange platform thereby creating maximum economic value for our stakeholders and the country.



Core Values

Merit

We value a culture of merit, inclusion and equality where everyone is offered a level playing field to flourish regardless of their gender, family background, ethnicity, religion or any other prejudice.

Candor

Speaking up for the betterment of the organization is encouraged at all levels as it leads to transparency and fosters participation and a sense of ownership among all the team members. At PMEX, we firmly believe that a collective decision is a better decision.

Respect

Respect for all signifies PMEX; it's an all-encompassing attitude covering colleagues, regulators, shareholders, clients and all other elements of the environment we operate in. It is true that position in the hierarchy or an employee's status may vary, but respect is constant for everyone.

Integrity

Trust is the foundation of any relationship. Integrity to us is strengthening the trust of our stakeholders by ensuring that all stakeholders are treated equally and fairly. We therefore abide by the highest standards of ethics and veracity. We strictly believe in adhering to rules and procedures, religiously fulfilling our commitments and protecting the confidentiality of our clients' information.

Transparency

We believe that we are accountable to our stakeholders and therefore must remain transparent at all times. Our commitment to transparency and openness is vital for our success. Therefore, when it comes to doing business, we go the extra mile to be eminent. We welcome feedback, not only from our team members, but also from our business partners.

Imagination

Imagination is the essence of human spirit and is perhaps the most precious gift of nature to mankind. We believe that imagination is the foundation of creativity therefore there should be no bounds when it comes to broadening the horizon. In line with this perspective, we encourage and appreciate out-of-the-box thinking and unconventional solutions making the impossible possible.



Board of Directors

Dr. Salman Shah
Chairman

Ejaz Ali Shah
Managing Director

Asif Baig Mirza
Director

Abdul Majeed Adam
Director

Muhammad Hanif Jakhura
Director

Ehtesham Rashid
Director

Syed Talat Mahmood
Director

Remat Ali Hasnie
Director

Syed Hasan Iriza Kazmi
Director

Zahid Latif Khan
Director

Directors' Profile



Dr. Salman Shah

Chairman

Dr. Salman Shah is a former Finance Minister of Pakistan. He has also served as an Advisor to the Prime Minister on Finance, Economic Affairs, Statistics and Revenues.

Dr. Shah is an Economist who holds a PhD in Finance and Economics from Indiana University, Bloomington's Kelley School of Business, USA. He has 16 years of teaching experience at prestigious institutions such as University of Michigan, Indiana University, University of Toronto, and Lahore University of Management Sciences.

During his time as in-charge of Pakistan's finance ministry (2004–2008), Pakistan's economy registered an average of 7 percent GDP growth per annum, one of the highest in the world.

Dr. Shah has also served on following positions:

- Chairman of Lahore Stock Exchange Limited
- Chairman of Privatization Commission, Government of Pakistan
- Associate Dean - Lahore University of Management Sciences
- Member, Board of Directors - Pakistan International Airlines
- Member, Central Board of Directors - State Bank of Pakistan
- Chairman of Dairy and Rural Development Foundation
- Chairman of ECO Bank
- Chairman of Pak China Investment Company Limited
- Chairman of Infrastructure Project Development Facility

Dr. Shah is Chairman of Bridge Asia Financial Services, a financial advisory firm for Pakistan and South Asian Region



Ejaz Ali Shah

Managing Director

Ejaz Ali Shah is the Managing Director of PMEX. He has over two decades of diversified experience in domestic and international financial markets.

Previously, he served for 16 years as General Manager at Central Depository Company of Pakistan Limited (CDC). As a part of CDC's founding team, Mr. Shah played a vital role in developing, positioning and nurturing CDC as a diversified service provider in Pakistan.

Before CDC, Mr. Shah has served in Cordoba Corporation, USA and Fidelity Investment Bank Limited, Pakistan. He also served as the National Chair for International Public Relations Association (IPRA) for the years 2010-11.

Mr. Shah graduated from the University of Oklahoma with Bachelor of Business Administration (MIS).





Asif Baig Mirza

Director

Mr. Asif Baig Mirza is the Nominee Director of Lahore Stock Exchange Limited (LSE) at PMEX. He is the Chief Executive Officer of ABM Securities (Pvt.) Ltd., a corporate member of LSE.

To augment his professional skills, Mr. Mirza has passed Part-I examination from Institute of Bankers of Pakistan. He has successfully completed "Wealth Management" training from Marcus Evans of Malaysia held in India in 2008. He has also completed Certification Program for Directors offered by Institute of Chartered Accounts of Pakistan (ICAP). He has also successfully completed training program on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) compliance for Brokers/Dealers.

Mr. Mirza is also a member of Audit Committee and Regulatory Affairs Committee of PMEX and has held various other Director positions such as Pakistan Institute of Corporate Governance, Lahore Stock Exchange Limited and Member of SECP's Task Force for the Protection of Minority Shareholders. In addition, he has been a member of different statutory committees of LSE and PMEX.

Mr. Mirza holds B. Com. (Hons) degree.



Abdul Majeed Adam

Director

Mr. Abdul Majeed Adam is the Nominee Director of Karachi Stock Exchange at Pakistan Mercantile Exchange Limited. He has an extensive experience of over 20 years in capital and forex markets. Presently, he is the Chief Executive of Adam Securities (Private) Limited. The brokerage house is a TREC holder at Karachi and Lahore Stock Exchanges and also a corporate member of Pakistan Mercantile Exchange Limited (PMEX).

Mr. Adam is a founding member of PMEX and actively participates in commodities trading at PMEX through Adam Securities (Private) Limited. At present, he is member of Human Resources & Remuneration Committee and Regulatory Affairs Committee of the Exchange.

Mr. Adam is a graduate from University of Karachi.





Muhammad Hanif Jakhura

Director

Mr. Muhammad Hanif Jakhura joined CDC in 1994 and was elevated to the position of CEO in March 2002. He was also appointed as the first Chief Executive Officer of National Clearing Company of Pakistan Limited (NCCPL) in January 2002 and served in that position as well up to September 2005.

Mr. Jakhura's initiative in adopting diversification as one of CDC's major strategic objectives has resulted in the establishment of CDC's Trustee & Custodial Services, Registrar & Transfer Agent services and IT Minds Limited (a wholly owned subsidiary of CDC). Mr. Jakhura has also been elected as the Chairman of Executive Committee of Asia-Pacific Central Securities Depositories Group for 2014-16. With this appointment, he represents the Asia-Pacific Region on the Executive Board of World Forum of CSDs (WFC), the global body of five regional CSD associations. Mr. Jakhura has represented both CDC and the Pakistan Capital Market on several national, regional and international platforms like the Association of National Numbering Agencies (ANNA) based in Brussels and International Securities Services Association (ISSA).

In January 2015, he has been chosen by SECP as the head of a committee which will help set up 'Capital Market Hubs' in small cities of Pakistan to attract savings for investments in capital markets. He is serving as a Director in PMEX (as an independent director), Institute of Capital Markets, and ITMinds Limited.

Mr. Jakhura is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP) and a Certified Director from the Pakistan Institute of Corporate Governance (PICG) since 2007.



Ehtesham Rashid

Director

Mr. Ehtesham Rashid is the Nominee of National Bank of Pakistan (NBP) at PMEX. He is a senior banker with over 20 years of treasury and banking experience. Presently, he is serving in the Ministry of Finance as Director General, Debt Policy Coordination Office. He had also served as an Executive Vice President & Head of Corporate Sales at Treasury Management Group of NBP and as Director and General Secretary of Financial Market Association of Pakistan (FMAP).

His experience at State Bank of Pakistan makes him a versatile professional with regard to Regulatory Environment, Treasury, Audit / Inspection and Risk Management. His other involvements include attachments / trainings at World Bank D.C., International Monetary Fund, Deutsche Bundesbank and BIS Hong Kong.

Mr. Rashid is an MBA from the Institute of Business Administration (IBA), Karachi and also a position holder in M.Sc. (Mathematics) from University of Karachi. He also holds a banking Diploma from Institute of Bankers in Pakistan.





Syed Talat Mahmood

Director

Syed Talat Mahmood is a professional career banker and has more than 40 years of local and international banking experience. He started his career with United Bank Limited in the year 1972 and after 20 years of service at various positions in Pakistan, he was posted as General Manager Operations UBL United Arab Emirates in 1992.

After his pre-mature retirement from UBL in 2002, he joined ABN Amro/Royal Bank of Scotland. On his return to Pakistan, Government of Punjab appointed Syed Talat Mahmood as President/CEO Punjab Provincial Cooperative Bank Ltd in 2012. The automation of the operations of PPCBL, establishment of model branches and the implementation of sound internal controls stands to his credit as President/CEO PPCBL.

Syed Talat Mahmood was appointed as President/CEO, Zarai Taraqati Bank Limited in April 2014. He has taken various initiatives in the areas of IT, Operations, HR, Credit, etc. In recognition of the development impact of "Financial Inclusion Initiatives", at Zarai Taraqati Bank Limited has been awarded a special "Plaque of Merit" by the Association of Development Financial Institutions in Asia & Pacific (ADFIAP).



Rehmat Ali Hasnie

Director

Mr. Rehmat Ali Hasnie is the Nominee Director of National Bank of Pakistan at PMEX. He brings with him over 20 years of diversified experience in the financial sector and capital markets. At present, he is Executive Vice President (Corporate & Investment Banking Group) at National Bank of Pakistan.

During his career, he has worked in various capacities at Taurus Securities Limited, Fidelity Investment Bank Limited, Lahore Stock Exchange (Guarantee) Limited, IGI Investment Bank Limited and Pair Investments Limited.

In addition to PMEX, Mr. Hasnie represents National Bank of Pakistan in the capacity of a Non-Executive Director on the boards of Fauji Akbar Portia Terminals Ltd., Pakistan Mortgage Refinance Company Limited and Agritech Limited.





Syed Hasan Irtiza Kazmi

Director

Syed Hasan Irtiza Kazmi is the Nominee Director of National Bank of Pakistan at PMEX. He is a banker by profession and brings with him over 21 years of rich and diversified experience of the local financial sector. Presently he is serving as an Executive Vice President (Commercial & Retail Banking Group) at NBP.

During his career, he has worked in various capacities at Pakistan Kuwait Investment Company (Pvt.) Limited, Dubai Islamic Bank Pakistan Limited, Bank Alfalah Limited, ORIX Investment Bank Limited and MCB Bank Limited.

Apart from being on the Board of Directors of PMEX, Mr. Kazmi is a member of Sindh Board of Investment as an Independent Director. Previously, he has also served as a Nominee Director on the Boards of various listed and non-listed public companies.



Zahid Latif Khan

Director

Mr. Zahid Latif Khan is the nominee director of Islamabad Stock Exchange Limited (ISE) at PMEX. Presently, he is the Chairman and Chief Executive Officer of M/s Zahid Latif Khan Securities (Pvt.) Limited, one of the leading corporate brokers of PMEX as well as ISE. Besides running an independent corporate brokerage entity, Mr. Khan also has the distinction of serving as Board member of other capital market institutions such as NCEL Building Management Limited and Metropolitan Solutions (Pvt.) Limited. In addition, he is the Chairman of the Banking and Capital Markets Committee of the Rawalpindi Chamber of Commerce & Industries (RCCI).

During his involvement at the leadership level on the Boards of these capital market institutions, Mr. Khan has been instrumental in advancing the idea of corporate social responsibility and in the implementation of modern governance standards. In addition to his regular contributions at the Board level, Mr. Khan has the distinction of playing key role in the establishment of Unified Trading Platform between Lahore and Islamabad Stock Exchanges, and the operationalization of the PMEX, both of which are considered to be the landmark initiatives at the capital market landscape of the country.

As the Chairman and CEO of his securities firm, Mr. Khan is credited for expanding the network of retail brokerage outlets which has been a remarkable growth in the business of his firm besides promoting the culture of stock investments amongst the smaller investors.

Mr. Khan holds a Bachelor degree and has also participated in various other domestic and international training programs, seminars and conferences.





Management



Standing from left to right

- 1 **Rizwan Siddiqui**
Chief Internal Auditor

- 2 **Aamir Mahmood Abbasi**
Head of Human Resources
& Administration

- 3 **Syed Muntaz Ali**
Chief Compliance Officer

- 4 **Farhan Tahir**
Chief Financial Officer & Company
Secretary

- 5 **Nauman Lakhani**
Head of Marketing, Business Development &
Customer Support Services

- 6 **Ejaz Ali Shah**
Managing Director

- 7 **Anjad Khan**
Chief Operating Officer

- 8 **Hasan Mahmood**
Head of Research, Product Development
& Risk

- 9 **Shehzad Hussain Makhani**
Head of Operations

- 10 **Umair Ahmed Hassan**
Head of Information
Technology

- 11 **Asif Ahmad**
Head of Systems & Process Assurance

COMPANY INFORMATION

Board of Directors

| | |
|----------------------------|-------------------|
| Dr. Salman Shah | Chairman |
| Mr. Ejaz Ali Shah | Managing Director |
| Mr. Abdul Majeed Adam | Director |
| Mr. Asif Baig Mirza | Director |
| Mr. Ehtesham Rashid | Director |
| Mr. Muhammad Hanif Jakhura | Director |
| Mr. Rehmat Ali Hasnie | Director |
| Syed Hasan Irtiza Kazmi | Director |
| Syed Talat Mahmood | Director |
| Mr. Zahid Latif Khan | Director |

CFO & Company Secretary

Mr. Farhan Tahir

Auditors

Deloitte Yousuf Adil
Chartered Accountants

Bankers

MCB Bank Limited
Standard Chartered Bank Pakistan Limited
Bank Alfalah Limited
Meezan Bank Limited

Legal Advisors

MCAS&W Law Associates

Committees

Audit Committee

1. Mr. Muhammad Hanif Jakhura - Chairman
2. Mr. Asif Baig Mirza
3. Syed Hasan Irtiza Kazmi
4. Mr. Zahid Latif Khan



Regulatory Affairs Committee

1. Syed Talat Mahmood – Chairman
2. Mr. Ejaz Ali Shah – Managing Director
3. Mr. Abdul Majeed Adam
4. Mr. Asif Baig Mirza
5. Mr. Rehmat Ali Hasnie
6. Mr. Zahid Latif Khan

Human Resource and Remuneration Committee

1. Syed Hasan Irtiza Kazmi – Chairman
2. Mr. Ejaz Ali Shah – Managing Director
3. Mr. Abdul Majeed Adam
4. Mr. Muhammad Hanif Jakhura
5. Mr. Zahid Latif Khan

Investment Committee

1. Mr. Ehtesham Rashid - Chairman
2. Mr. Ejaz Ali Shah – Managing Director
3. Mr. Abdul Majeed Adam
4. Mr. Asif Baig Mirza

Management Committee

1. Mr. Ejaz Ali Shah – Managing Director
2. Mr. Amjad Khan – Chief Operating Officer
3. Mr. Farhan Tahir – Chief Financial Officer and Company Secretary
4. Mr. Hasan Mahmood – Head of Product Development, Research and Risk
5. Mr. Nauman Lakhani – Head of Marketing, Business Development and Customer Support Services
6. Syed Mumtaz Ali – Chief Compliance Officer

Regulator: Securities and Exchange Commission of Pakistan

Registered Office: 3B, 3rd Floor, Bahria Complex IV, Ch. Khaliq-uz-Zaman Road, Gizri, Karachi

OPERATIONAL HIGHLIGHTS

Key figures for the year 2014-15

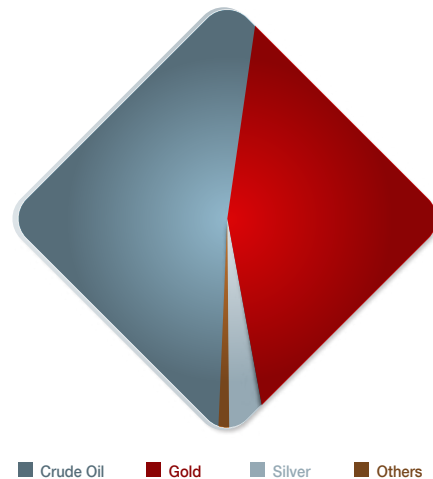
Total traded volume **710.54**
(PKR in billion)

Crude Oil **441.10**
(PKR in billion)

Gold **245.63**
(PKR in billion)

Silver **23.59**
(PKR in billion)

Others **22.00**
(PKR in million)



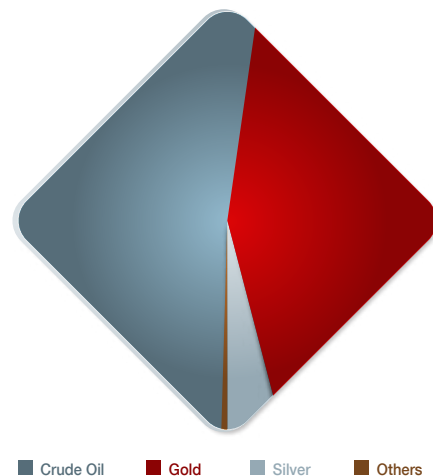
Total traded lots **167,875,192**

Crude Oil **2,752,209**

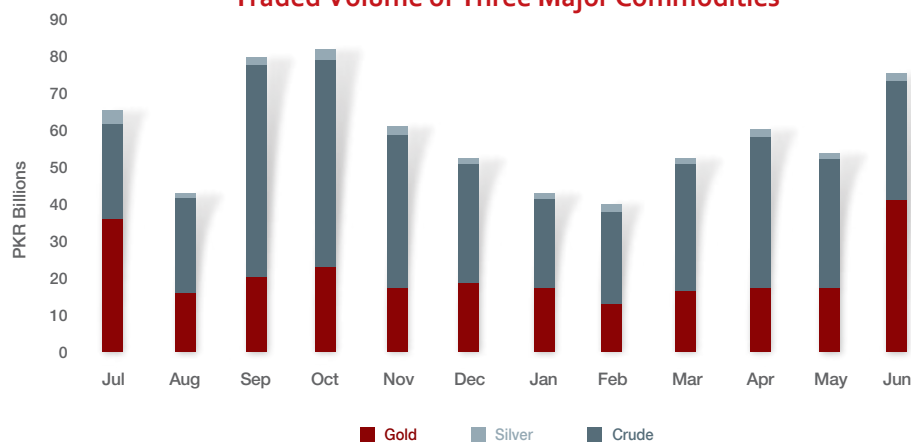
Gold **164,847,179**

Silver **275,142**

Others **662**

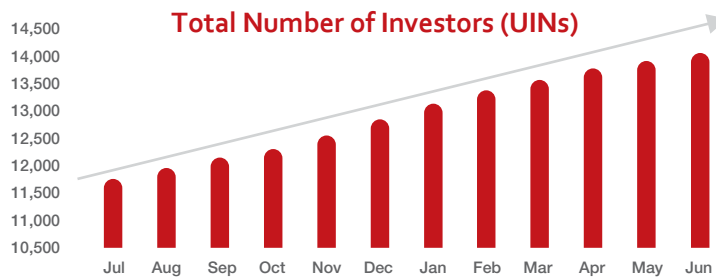
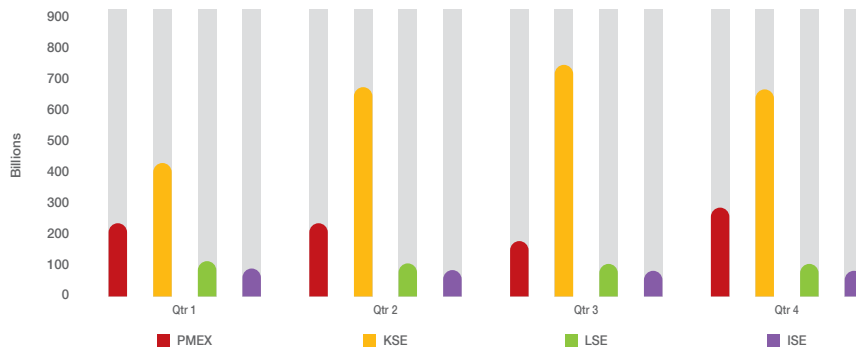


Traded Volume of Three Major Commodities





Volume Comparison with Stock Exchanges



TOP TEN BROKERS

| Ranking | Based on Traded Contracts | Based on Traded Value |
|---------|---|---------------------------------------|
| 1 | Enrichers (Pvt.) Limited | Mohammad Ashraf Hussain Adhi |
| 2 | H.G. Markets (Pvt.) Limited | Enrichers (Pvt.) Limited |
| 3 | Khadija Commodities (Pvt.) Limited | KASB Securities Limited |
| 4 | JS Global Capital Limited | Arif Habib Commodities (Pvt.) Limited |
| 5 | Riaz Ahmed | JS Global Capital Limited |
| 6 | We Commodities (Pvt.) Limited | H.G. Markets (Pvt.) Limited |
| 7 | KASB Securities Limited | Arsh Commodities (Pvt.) Limited |
| 8 | Blink Capital Management (Pvt.) Limited | Abbasi & Co. (Pvt.) Limited |
| 9 | Arif Habib Commodities (Pvt.) Limited | Riaz Ahmed |
| 10 | Absolute Commodities (Pvt.) Limited | IGI Finex Securities Limited |

CHAIRMAN REVIEW

This has been a very encouraging year for the Pakistan Mercantile Exchange (PMEX) in terms of recognition of its importance and focus of the government in supporting and nurturing this important national institution. The support of the regulators have enabled the Exchange to work towards increasing its reach across the country and to add new innovative products in its portfolio thereby providing an enriched product suite to the investors. The business developmental activities of the management has started to bear fruit as well and the Exchange has significantly improved awareness of its products and image. Having said that, there is still a long journey ahead as the potential of the Exchange is enormous considering the market it represents and Pakistan being among the top producing countries of the world in the agricultural sector.

The steps taken by the Exchange throughout the year have produced very encouraging results despite the fact that the commodity prices are continuously showing downward trend. Our focus this year will remain on introducing new products, increasing the outreach by inducting new members & activating dormant memberships, increasing awareness of the Exchange and its services, and improving our internal systems to ensure smooth and efficient services to our clients.

Nevertheless, it is important to understand that the Exchange still has to overcome some serious challenges which include; a setup to allow market makers to cover their positions in international markets which in turn will enable the Exchange to provide better liquidity to the market, a campaign to create awareness of the Exchange and its product suite and to remove misconceptions with regards to commodity future trading and development of warehousing & quality certification infrastructure in the country, to name a few.

Having said the above, the current economic conditions are propitious for PMEX to achieve its renewed vision which is to be amongst the leading mercantile exchanges of the region, extending from Istanbul to Jakarta, in terms of knowledge, efficiency, innovation, value traded, credibility and standing.

I wish the Exchange a prosperous future ahead.



Dr. Salman Shah
Chairman

Karachi: September 29, 2015





DIRECTORS' REPORT TO THE SHAREHOLDERS OF

Pakistan Mercantile Exchange Limited

For the year ended June 30, 2015

On behalf of the Board of Directors of Pakistan Mercantile Exchange Limited (PMEX), we are pleased to present the Annual Report for the financial year ended June 30, 2015 (FY2014-15) together with the Audited Financial Statements and Auditor's Report thereon.

Business Environment

Global Impact

The global economy continued to expand during the financial year 2014-15 at a moderate pace, still trying to recover from the financial crisis of 2008. The growth can be attributed to modest revival in the Eurozone and a pickup in India that helped in offsetting slowdowns in China and Japan. The combined gross domestic output of the G-20 economies has expanded this financial year.

Following suit of last year, global prices of key commodities witnessed a downward trend. Gold prices were on a losing streak. After touching a high of around US\$ 1,300 per ounce, prices slipped to a low of about US\$ 1,100. Prices were greatly influenced by the performance of the US and Chinese economies as well as decrease in the physical demand of the metal in two of the largest economies i.e. China and India. The on-going debate about the likely decision of the US Fed to increase interest rate continued to drive the price of the safe haven downwards.

Crude oil price touched a high of slightly more than US\$ 104 a barrel and a low of US\$ 43.46 a barrel. The US attained the status of being the largest oil producing country, reducing its dependence on imports from OPEC. Successful conclusion of an accord between P5+1 and Iran may cause further decline in prices. However, both the US and OPEC remained adamant at producing oil at the highest level.

Pakistan Overview

Pakistan economy recorded higher growth in the FY 2014-15, despite facing a number of challenges. The economy achieved broad based recovery which is evident from significant improvements in the key economic indicators.

The major economic achievements during the year included; GDP growth of 4.24 percent against a growth of 4.03 percent last year, consumer price inflation averaged around 4.56 percent, increase in remittances and foreign exchange reserves, launch of Ijara Sukuk and Euro bond after 9 years, improvement in tax collection, containment of fiscal deficit and the signing of game-changing agreements between Pakistan and China of US\$45 billion to build China Pak Economic Corridor (CPEC).

Lower oil prices have benefited the country by significantly reducing the import bill, curtailing inflation, improving foreign exchange reserves, narrowing the current account deficit and increasing the GDP.

The Central Bank also announced cuts in the discount rate in November, January, March and May, bringing the discount rate from 10 percent to 7 percent.

The total investments in the country witnessed a growth of 10.21 percent as compared to 8.4 percent last year. Communications, oil & gas exploration, financial business, power and chemical sectors emerged as the main recipients of foreign investment. The major inflows were from China, US, UAE, UK and Italy.

Pakistan stock market continued its upward trend. The benchmark KSE-100 index touched the historical high level of 34,826.57 points.

Review of Business

The financial year 2014-15 has been a good year for PMEX despite facing numerous challenges. During the period under review, due to business development efforts, eligible to trade brokers increased by 5 percent and Traders/Unique Identification Numbers (UINs) grew encouragingly at the rate of 21 percent. PMEX also made concerted efforts to educate existing as well as potential clients about the fundamentals of commodity trading and to provide hands-on experience of the trading system. In this regard, PMEX organized 70 training sessions and participated in various workshops and seminars in Karachi, Multan, Faisalabad and Daharki. Moreover, the Exchange published 4 newsletters, over 250 commodity research reports and created an online research portal which briefed the members along with the existing as well as the potential investors about PMEX's systems, products, latest developments and trading highlights throughout the year.

During the year, the Exchange diversified its product portfolio and offered an opportunity to its brokers to attract new clientele with the launch of four "Milli Ounce Gold" futures contracts: PMEX USD Gold, PMEX EUR Gold, PMEX GBP Gold, PMEX JPY Gold. The Exchange also introduced a special trading functionality named "Composite Order Trading System" (COTS) to trade Milli Ounce contracts. Using this new functionality, a trader is now able to take two opposing positions in different currencies simultaneously with a single click. Moreover, other contracts namely, Mill Specific Sugar and Brent Crude Oil were also approved by SECP in May 2015. Our focus in FY2015-16 will be to activate these contracts and get maximum participation.

Another area where the Exchange experienced growth was new memberships. PMEX announced the re-opening of new membership rights in February 2015, which was temporarily suspended by Securities & Exchange Commission of Pakistan (SECP). After the re-opening of new membership rights, three new brokerage houses joined PMEX as members. In addition, over a dozen other clients are actively working to complete the membership documentation requirements to become members of the Exchange. Besides, SECP has also directed PMEX to issue/transfer its memberships to only corporatized entities, and also fixed December 31, 2015 as the deadline for individual brokers to corporatize and continue their brokerage business on PMEX.

The focus of the Exchange throughout the year remained on expanding its broker network in large as well as small cities to ensure nationwide coverage in terms of providing trading opportunities to a broader investor base. In FY2015-16 our emphasis will be to extend our reach north from Sindh, as these areas/provinces are densely populated, have a better education level and are more receptive to futures trading. To supplement this business growth, PMEX is looking to establish offices in Lahore and Islamabad in FY 2015-16. These branch offices will work with the mandate to facilitate the new clients in on-boarding, training and handling day-to-day operational issues amongst various functions.



The Exchange continued to enhance the efficiency of its trading platform to fit the rapidly growing customers' demand during the year. PMEX also announced the successful integration of Meta Trader 5, one of the world's most popular trading system, with its existing trading platform. This technological integration provided market participants the added comfort of reliability and enhanced performance, encouraging them to trade in commodity futures more actively at the Exchange.

Considering the sensitive nature of PMEX business, the Exchange revamped and consolidated its Business Continuity as well as Disaster Recovery setup. This step was taken to provide a durable and flexible structure to resume all critical operations in the minimum possible time without compromising on the quality of services in the event of a disaster.

Financial Results

Following is the summary of results for the two years:

| | 30-Jun-15 | 30-Jun-14 |
|--|------------------|----------------|
| | (Rs. in million) | |
| Operating income | <u>160.32</u> | <u>161.67</u> |
| (Loss) before taxation | <u>(12.99)</u> | <u>(11.46)</u> |
| (Loss) after taxation | <u>(14.63)</u> | <u>(13.19)</u> |
| Total comprehensive (loss) | <u>(14.63)</u> | <u>(9.30)</u> |
| | (Rupees) | |
| Earnings per share - basic and diluted | <u>(0.69)</u> | <u>(0.83)</u> |

On an overall basis, the total comprehensive loss for the year 2014-15 is Rs 14.63 million as compared to total comprehensive loss of Rs 9.3 million in 2013-14. Earnings per share in 2014-15 improved to negative Rs. 0.69 as compared to negative Rs. 0.83 in 2013-14 due to issue of right shares during the year.

The positive reflections of deferred tax of Rs. 109.12 million (Note 27.2) and unascertained value of 20 Offices in Old Hyatt Regency Hotel Building (Note 16.1) have not been recorded due to uncertainties attached with respect to timings, etc.

On the taxation contingencies side, as detailed in note 13.1 to the financial statements, there are two major cases where PMEX is in dispute with the tax authorities. Although, the monetary impact of the tax disputes will be significant in case of unfavourable decision, we expect a favourable resolution of these cases and therefore, based on legal opinion, have not made any provision for these contingencies in the financial statements. Due to the significance of the amount, the auditors have also emphasised the issue in their report.

Right Shares

Last year, 18.93 million shares out of a total right offer of 27.5 million shares remained unsubscribed. These shares would reduce to 15.66 million after resolution of preference shares matter as described in following section. There are various parties who have shown interest in these shares and the Board is in the process of finding the best investor with the required expertise. This would require SECP's consent after Board's approval. This matter is expected to be closed during the financial year 2015-16.

Preference Shares

The two-year term of 2.8 million redeemable & convertible preference shares issued to Pak Brunei Investment Company (PBIC) and National Bank of Pakistan (NBP) was matured in April 2014. The Exchange had decided not to exercise redemption or call option, and accordingly, the conversion option became available to the preference shareholders. Earlier, one of the preference shareholders, PBIC did not agree for the conversion of preference shares.

However, subsequent to the year end, Board approved a proposal in agreement with PBIC under which principal of preference shares were to be converted, whereas, preference dividend along with compensation for the period from expiry of contract on April 04, 2014 till June 30, 2015 will be paid by PMEX to them. Simultaneously, PBIC will be offered further 2.175 million shares from the unsubscribed rights shares, from which, PBIC will subscribe at least 633,115 shares in cash. The matter is pending with SECP for approval.

Retirement/Separation Benefits Scheme

During the year, separate trusts of gratuity and provident funds were constituted and their limited recognition was also granted by income tax authorities up to June 30, 2015. The management is under process to arrange full recognition of these trust funds without any expiry under the income tax law, along with approval of special contribution into the gratuity fund for transfer of the gratuity liability.

Settlement Guarantee Fund (SGF)

During the year, the investments of Settlement Guarantee Fund (SGF) in Pakistan Investment Bonds were appreciated due to declining yields and a gain of Rs. 30.11 million was realised in November 2014. As per the methodology of sharing of profit on investments of SGF approved by the Board and disclosed in note 9.3, this gain was recorded as PMEX income. However, SECP has directed to constitute a separate trust of SGF and transfer the above gain into that fund as seed capital. Accordingly, the income has been reversed and the Exchange is in the process to constitute the separate trust of SGF.

Future Outlook

In the coming years, PMEX plans to continue to expand its reach across the country and organize events in various cities to bring more focus on the commodity trading business in the country. In this regard, the company plans to open offices in Lahore and Islamabad to keep close liaison with brokers / investors based in these and surrounding cities. The company also plans to expand its product portfolio thereby enabling its brokers to serve a larger portion of investors. Our focus would remain to bring as many businesses as possible to hedge their risk at the Exchange. As a large population of PMEX brokers are still dormant, efforts will also be made to convert the dormant brokers into active brokers by highlighting the opportunities being offered at the Exchange.



Our product development strategy will be in three (3) phases. In the first phase, we will induct products that can be listed with minimal effort. Although most of these products would be international products and therefore will serve the hedgers and speculators, some local agricultural products are also planned. In the second phase, we plan to induct all those products that have good revenue potential but require some work before we could list them on the Exchange and lastly in the third phase, products that require extensive efforts, both in terms of required infrastructure as well as convincing / preparing the stakeholders, to trade on the Exchange platform.

Board of Directors

The current Board comprises of nine directors excluding the Managing Director, in which six directors represent shareholders and remaining three are independent directors appointed by SECP. Their status is as follows:

| S. No. | Name | Designation | Status |
|--------|-----------------------------|-------------------|----------------------------|
| 1. | Dr. Salman Shah* | Chairman | Independent -Non-executive |
| 2. | Mr. Ejaz Ali Shah | Managing Director | Executive |
| 3. | Mr. Abdul Majeed Adam | Director | Non-executive |
| 4. | Mr. Asif Baig Mirza | Director | Non-executive |
| 5. | Mr. Ehtesham Rashid | Director | Non-executive |
| 6. | Mr. Muhammad Hanif Jakhura* | Director | Independent -Non-executive |
| 7. | Mr. Rehmat Ali Hasnie | Director | Non-executive |
| 8. | Syed Hasan Irtiza Kazmi | Director | Non-executive |
| 9. | Syed Talat Mahmood* | Director | Independent -Non-executive |
| 10. | Mr. Zahid Latif Khan | Director | Non-executive |

*Nominated by SECP

During the year, Mr. Shazad G. Dada and Syed Ali Sultan resigned from the Board of Directors. The Board appreciated their valued contribution towards the development and growth of the Exchange.

Attendance of Board meeting during 2014-15 is annexed at "A"

The details of Board Committees are annexed at "B".

Corporate Governance

The Exchange is subject to limited application of Code of Corporate Governance applicable for listed companies by virtue of voluntary adoption to ensure compliance with best corporate governance practices.

Directors' declaration on corporate and financial reporting framework:

- The financial statements present fairly Exchange's state of affairs, the result of its operations, cash flow and changes in equity.
- Proper books of account of the Exchange have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment. Changes, if any, have been appropriately applied and disclosed.

- d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e) There has been no material departure from the best practices of corporate governance.
- f) The system of internal control is sound in design and has been effectively implemented and monitored.
- g) No overdue statutory payments on account of taxes, duties, levies and charges are outstanding.
- h) Details of Shareholding are annexed at "C".
- i) Four directors of the Exchange have acquired the certification under the Directors Training Program offered by SECP approved professional institutions. The Board of the Exchange is committed to arrange training to the remaining members of the Board to ensure compliance with the requirements of the Code.
- j) Key operating and financial data for last six years is annexed at "D".
- k) There are no significant doubts upon the Exchange's ability to continue as a going concern.

Auditors

The retiring auditors Deloitte Yousuf Adil Chartered Accountants have offered themselves for reappointment. The Board Audit Committee has suggested and the Board of Directors has recommended re-appointing them as statutory auditors for the approval of the shareholders.

Acknowledgement

The Directors convey their appreciation for the continuous support and guidance by the market regulators, the Securities and Exchange Commission of Pakistan and State Bank of Pakistan.

We are also thankful to the employees of the Exchange for their dedication and hard work throughout the year and also our valued brokers without which the equation cannot be complete.

Lastly, we appreciate the confidence of the shareholders in the endeavour to realise the vision of a thriving commodity and futures market in Pakistan.



Managing Director

Karachi: September 29, 2015



ANNEXURE “A”

Board Meeting Attendance

Total eight meetings of Board of Directors were held during 2014-15. Attendance history during the tenure of directorship was as follows:

| Director | Meetings Held during the Tenure | Meetings Attended |
|--|---------------------------------|-------------------|
| Dr. Salman Shah (Joined on February 17, 2015) | 3 | 3 |
| Mr. Ejaz Ali Shah | 8 | 8 |
| Mr. Abdul Majeed Adam | 8 | 8 |
| Mr. Asif Baig Mirza | 8 | 8 |
| Mr. Khurram Saeed Naik (Left on August 18, 2014) | 0 | 0 |
| Mr. Ehtesham Rashid (Joined on August 18, 2014) | 8 | 6 |
| Mr. Muhammad Hanif Jakhura | 8 | 6 |
| Mr. Rehmat Ali Hasnie | 8 | 4 |
| Mr. Shazad G. Dada (Left on February 17, 2015) | 4 | 3 |
| Syed Ali Sultan (Left on February 17, 2015) | 4 | 3 |
| Syed Hasan Irtiza Kazmi | 8 | 3 |
| Syed Talat Mahmood (Joined on February 17, 2015) | 3 | 2 |
| Mr. Zahid Latif Khan | 8 | 6 |

ANNEXURE “B”

Committees of Board of Directors

The Board constituted following committees comprising of members of the Board. The composition of the Committees as on June 30, 2015 and attendance during the year was as under:

| Audit Committee | Held | Attended |
|--|------|----------|
| Mr. Muhammad Hanif Jakhura - Chairman | 4 | 2 |
| Mr. Asif Baig Mirza | 4 | 4 |
| Mr. Ehtesham Rashid (Member till 18-Apr-15) | 4 | 3 |
| Syed Hasan Irtiza Kazmi (Member since 18-Apr-15) | 0 | 0 |
| Mr. Zahid Latif Khan | 4 | 3 |

| Human Resource & Remuneration Committee | Held | Attended |
|---|------|----------|
| Syed Hasan Irtiza Kazmi - Chairman | 2 | 1 |
| Mr. Ejaz Ali Shah – MD | 2 | 2 |
| Mr. Abdul Majeed Adam | 2 | 1 |
| Mr. Muhammad Hanif Jakhura | 2 | 2 |
| Mr. Shazad G. Dada (Member till 17-Feb-15) | 1 | 1 |
| Mr. Zahid Latif Khan (Member since 26-Feb-15) | 0 | 0 |

| Regulatory Affairs Committee | Held | Attended |
|--|------|----------|
| Syed Talat Mahmood (Member since 26-Feb-15) – Chairman | 1 | 0 |
| Mr. Ejaz Ali Shah – MD | 3 | 3 |
| Mr. Abdul Majeed Adam | 3 | 3 |
| Mr. Asif Baig Mirza | 3 | 3 |
| Mr. Rehmat Ali Hasnie | 3 | 1 |
| Syed Ali Sultan (Member till 17-Feb-15) | 1 | 0 |
| Mr. Zahid Latif Khan | 3 | 2 |

| Investment Committee | Held | Attended |
|---|------|----------|
| Ehtesham Rashid (Member since 26-Feb-15) - Chairman | 0 | 0 |
| Mr. Ejaz Ali Shah – MD | 1 | 1 |
| Mr. Abdul Majeed Adam | 1 | 1 |
| Syed Ali Sultan (Member till 17-Feb-15) | 1 | 1 |
| Mr. Asif Baig Mirza | 1 | 1 |



ANNEXURE “C”

Shareholding pattern as of June 30, 2015

| Shareholding | No. of shareholders | Total shares held |
|------------------------------------|---------------------|-------------------|
| From 1 to 100 shares | 11 | 46 |
| From 101 to 900,000 shares | - | - |
| From 900,001 to 1,000,000 shares | 2 | 1,818,181 |
| From 1,000,001 to 3,000,000 shares | 1 | 2,272,727 |
| From 3,000,001 to 6,500,000 shares | 1 | 5,568,181 |
| From 6,500,001 to 8,950,000 shares | 1 | 8,909,052 |
| From 8,950,001 to 9,000,000 shares | 1 | 9,000,000 |
| Total | 17 | 27,568,187 |

| Categories of shareholders | No. of shareholders | shares held | Percentage |
|--|---------------------|-------------------|-------------|
| Directors, Chief Executive Officer and their spouse and minor children. | 4 | 22 | - |
| Associated Companies, undertakings and related parties (including banks) | 5 | 25,749,961 | 93.4% |
| NIT and ICP | - | - | - |
| Banks Development Financial Institutions, Non-Banking Financial Institutions (excluding related parties) | 2 | 1,818,181 | 6.6% |
| Insurance Companies | - | - | - |
| Modarabas and Mutual Funds | - | - | - |
| Other Shareholders holding 10% or more | - | - | - |
| Others (individual promoters excluding included above) | 6 | 23 | - |
| Total | 17 | 27,568,187 | 100% |

| Preference Shareholders | Shareholding | % |
|---------------------------------------|------------------|---------------|
| National Bank of Pakistan | 1,300,000 | 46.43 |
| Pak Brunei Investment Company Limited | 1,500,000 | 53.57 |
| Total | 2,800,000 | 100.00 |

ANNEXURE “D”

Six Years’ Financial Highlights Financial Years ended on June 30

(Rupees)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Balance Sheet | | | | | | |
| Shareholders’ equity (negative) | (132,085,810) | (191,909,430) | (172,047,002) | (160,304,348) | (86,817,267) | (105,792,321) |
| Advance - preference shares | - | 28,000,000 | - | - | - | - |
| Finance lease liabilities | 2,525,590 | 1,747,445 | 825,925 | - | - | - |
| Long term deposits | 195,200,000 | 195,000,000 | 196,100,000 | 196,250,000 | 195,400,000 | 196,150,000 |
| Deferred Liability - gratuity | 26,753,536 | 37,853,728 | 48,453,368 | 53,966,360 | 45,227,574 | - |
| Staff gratuity payable to fund | - | - | - | - | - | 46,254,609 |
| Dividend on preference shares | - | - | 772,400 | 4,740,398 | 7,638,398 | 7,638,398 |
| Settlement Guarantee Fund | 202,120,386 | 595,024,005 | 1,517,913,878 | 1,649,849,092 | 1,158,960,085 | 1,116,812,206 |
| Fixed assets | 14,154,800 | 7,662,954 | 12,697,171 | 20,101,811 | 36,454,107 | 38,961,365 |
| Investment in associates | 1,000,010 | 20 | 20 | 20 | 20 | 20 |
| Current assets | 296,853,728 | 677,559,082 | 1,615,065,737 | 1,772,367,403 | 1,343,216,648 | 1,282,579,309 |
| Operational Results | | | | | | |
| Total Income | 36,611,095 | 76,002,096 | 158,343,410 | 184,309,849 | 171,925,380 | 174,639,118 |
| Total Expenses | 114,624,400 | 134,987,360 | 166,587,617 | 171,985,967 | 185,110,993 | 187,630,466 |
| Profit / (loss) after taxation | (78,195,180) | (58,803,389) | (9,569,436) | 12,759,264 | (13,185,613) | (14,630,935) |
| Earnings per share (EPS) | (5.51) | (3.09) | (0.54) | 0.46 | (0.83) | (0.69) |



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 14th Annual General Meeting of the shareholders of Pakistan Mercantile Exchange Limited will be held at 10:30 am on Friday, October 30, 2015, in the **Board Room of the Lahore Stock Exchange Limited**, situated at **Lahore Stock Exchange Building, 19, Khayaban-e-Aiwan-e-Iqbal, Lahore** to transact the following business:

1. To confirm the minutes of the Annual General Meeting held on October 27, 2014.
2. To receive and consider the Directors' Report and Audited Annual Financial Statements together with Auditors' Report thereon for the year ended June 30, 2015.
3. To appoint auditors for the year ending June 30, 2016 and fix their remuneration. The retiring auditors Deloitte Yousuf Adil Chartered Accountants have offered themselves for re-appointment. The Board of Directors has proposed their re-appointment with 10% increment in their remuneration i.e. total remuneration of Rs. 550,000 excluding out of pocket expenses.
4. Any other business with the permission of Chairman.

By order of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Farhan Tahir', located below the text 'By order of the Board of Directors.'

Farhan Tahir
Company Secretary

Karachi: October 09, 2015

REVIEW REPORT

To the Members on the Statement of Compliance with the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended June 30, 2015 prepared by the Board of Directors of **Pakistan Mercantile Exchange Limited** (the Exchange) to voluntarily comply with the Code issued by the Securities and Exchange Commission of Pakistan contained in the rule book issued by the Karachi Stock Exchange.

The responsibility for compliance with the Code is that of the Board of Directors of the Exchange. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Exchange's compliance with the provisions of the Code and report if it does not and to highlight any non compliance with the requirement of the Code. A review is limited primarily to inquiries of the Exchange's personnel and review of various documents prepared by the Exchange to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Exchange's corporate governance procedures and risks.

The Code requires the Exchange to place before the Audit Committee and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Exchange's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Exchange for the year ended June 30, 2015.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner:

Nadeem Yousuf Adil

Karachi: October 06, 2015



STATEMENT OF COMPLIANCE

with the Code of Corporate Governance

Pakistan Mercantile Exchange Limited

For the year ended June 30, 2015

The Code of Corporate Governance (the Code), being part of rule book of stock exchanges in Pakistan, is mandatory for listed companies. However, Pakistan Mercantile Exchange Limited (the Exchange) has voluntarily adopted and implemented the Code for improving the governance and transparency in corporate and financial reporting. Accordingly, this Statement is being presented to comply voluntarily with the requirements of the Code for the purpose of establishing a framework of good governance.

The Exchange has adopted the Code and applied the principles contained in it in the following manner:

1. The Exchange has three independent non-executive directors on its Board of Directors who have been nominated and declared as "Independent" by Securities and Exchange Commission of Pakistan (SECP). At present, the Board comprises of:

| Category | Names |
|-------------------------|---|
| Independent Directors | Dr. Salman Shah Syed Talat Mahmood Mr. Muhammad Hanif Jakhura |
| Executive Director | Mr. Ejaz Ali Shah – Managing Director |
| Non-Executive Directors | Mr. Asif Baig Mirza Mr. Abdul Majeed Adam Mr. Zahid Latif Khan Mr. Rehmat Ali Hasnie Syed Hasan Irtiza Kazmi Mr. Ehtesham Rashid |

2. The directors have confirmed that they are not serving as director in more than seven listed companies.
3. All the directors of the Exchange have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a Development Financial Institution (DFI) or a Non-Banking Finance Institution (NBFI) or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.
4. Three casual vacancies were occurred on the board during the year which were filled immediately.
5. The Exchange has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have

been taken to disseminate it throughout the Exchange along with its supporting policies and procedures.

6. The Board has developed the Vision and Mission statements, overall corporate strategy and significant policies of the Exchange. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained by the Exchange.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, have been taken by the Board.
8. All the meetings of the Board were presided over by the Chairman except two meetings which were chaired by non-executive directors elected by the Board in the absence of the Chairman. The Board met eight times during the year including once in every quarter. Written notices of the board meetings, along with agenda, were circulated at least seven days before the meetings except for two emergent meeting held on November 19, 2014 and February 10, 2015. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Exchange are individuals with vast diversified experience of the financial and corporate affairs. They are also directors in other companies and are well conversant with their duties and responsibilities. Copies of Memorandum of Association, Article of Association and Pakistan Mercantile Exchange Limited (PMEX) General Regulations have been made available to them. Four directors of the Exchange have certification under the directors training program offered by professional institutions that meet the criteria specified by SECP. The Board of the Exchange is committed to provide training to the remaining members of the Board to ensure the compliance with the requirements of the Code.
10. There was no new appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' Report for the year ended June 30, 2015 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Exchange were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Exchange other than that disclosed in the pattern of shareholding.
14. The Exchange has complied with all the material corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee which comprises of four members all of whom are non-executive directors and the Chairman of the Committee is an independent director.
16. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of interim and final results of the Exchange and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.



17. The Board has formed a Human Resource and Remuneration Committee. It comprises of four members, all of whom are non-executive directors and the Chairman of the Committee is a non executive director.
18. The Board has established an effective internal audit function. Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis
19. The statutory auditors of the Exchange have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Exchange and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. Being an un-listed Company, the requirements relating to the 'closed period' are not applicable on the Exchange.
22. Being an un-listed Company, the requirements relating to the dissemination of material or price sensitive information are not applicable on the Exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

Managing Director

Chairman

Karachi: September 29, 2015





Financial
Statements

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **PAKISTAN MERCANTILE EXCHANGE LIMITED** (the Exchange) as at June 30, 2015 and the related profit and loss account, 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 Exchange'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 Exchange 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 Exchange's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Exchange;
- 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, 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 Exchange's affairs as at June 30, 2015 and of the loss, its changes in equity and cash flows for the year then ended; and
- d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.



We draw attention to note 13.1.1 to the financial statements regarding tax implication relating to security deposit of members on the Exchange for the tax year 2003. The ultimate outcome of the matter cannot presently be determined. Our opinion is not qualified in respect of this matter.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner:

Nadeem Yousuf Adil

Karachi: October 06, 2015

PAKISTAN MERCANTILE EXCHANGE LIMITED

Balance Sheet

As at June 30, 2015

| | Note | 2015 Rupees | 2014 Rupees |
|---|------|----------------|----------------|
| EQUITY AND LIABILITIES | | | |
| Share capital and reserves | | | |
| Authorised capital 47,200,000 (2014: 47,200,000) ordinary shares of Rs. 10 each | | 472,000,000 | 472,000,000 |
| 2,800,000 (2014: 2,800,000) preference shares of Rs. 10 each | | 28,000,000 | 28,000,000 |
| Issued, subscribed and paid-up capital 27,568,187 (2014: 27,568,187) ordinary shares of Rs. 10 each | 5 | 275,681,870 | 275,681,870 |
| 2,800,000 (2014: 2,800,000) preference shares of Rs. 10 each | 6 | 28,000,000 | 28,000,000 |
| Capital reserve - premium on issue of ordinary shares | | 22,250,000 | 22,250,000 |
| Accumulated loss | | (431,724,191) | (412,749,137) |
| | | (105,792,321) | (86,817,267) |
| Non-current liabilities | | | |
| Long-term deposits | 7 | 196,150,000 | 195,400,000 |
| Deferred Liability - staff gratuity | 8 | - | 45,227,574 |
| Current liabilities | | | |
| Staff gratuity payable to fund | 8 | 46,254,609 | - |
| Dividend on preference shares | 6 | 7,638,398 | 7,638,398 |
| Settlement guarantee fund (SGF) | 9 | 949,404,466 | 895,086,605 |
| Gold held on behalf of brokers/clients - SGF | | 167,407,740 | 263,873,480 |
| Advance annual subscription and other fee | 10 | 9,866,407 | 5,894,039 |
| Advance members admission fee | 11 | 2,500,000 | 2,500,000 |
| Accrued finance cost | 26 | 7,555,701 | - |
| Creditors, accrued expenses and other liabilities | 12 | 40,619,577 | 51,315,162 |
| Current liabilities | | 1,231,246,898 | 1,226,307,684 |
| Contingencies and commitments | 13 | | |
| | | 1,321,604,577 | 1,380,117,991 |

The annexed notes from 1 to 34 form an integral part of these financial statements.



Managing Director



| | Note | 2015 Rupees | 2014 Rupees |
|---|------|----------------|----------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property and equipment | 14 | 29,092,149 | 23,793,477 |
| Intangible assets | 15 | 9,869,216 | 12,660,630 |
| Investment in associates | 16 | 20 | 20 |
| Long term prepayment | | 63,883 | 447,216 |
| Current Assets | | | |
| Supplies and consumables | 17 | 362,552 | 93,124 |
| Annual subscription receivable - considered good | | 15,750,000 | 7,725,000 |
| Deposits and short-term prepayments | 18 | 4,461,477 | 7,278,164 |
| Other receivables | 19 | 13,430,171 | 8,677,721 |
| Short term investments | 20 | 81,002,844 | 107,513,682 |
| Assets relating to settlement guarantee fund (SGF) | 21 | 949,404,466 | 895,086,605 |
| Gold held on behalf of brokers/clients - SGF | | 167,407,740 | 263,873,480 |
| Taxation - net | | 44,553,834 | 44,514,150 |
| Cash and bank balances | 22 | 6,206,225 | 8,454,722 |
| | | 1,282,579,309 | 1,343,216,648 |
| | | 1,321,604,577 | 1,380,117,991 |

Chairman

PAKISTAN MERCANTILE EXCHANGE LIMITED

Profit and Loss Account

for the year ended June 30, 2015

| | Note | 2015 Rupees | 2014 Rupees |
|---|------|----------------|----------------|
| Operating income | 23 | 160,315,635 | 161,677,620 |
| Administrative and operating expenses | 24 | (184,332,238) | (183,291,508) |
| | | (24,016,603) | (21,613,888) |
| Other income | 25 | 14,323,483 | 10,247,760 |
| Other charges | | (86,646) | (90,897) |
| Finance costs | 26.1 | (3,211,582) | - |
| Loss before taxation | | (12,991,348) | (11,457,025) |
| Taxation - net | 27 | (1,639,587) | (1,728,588) |
| Net loss after taxation | | (14,630,935) | (13,185,613) |
| Other comprehensive income for the year | | | |
| <i>Items that will not be reclassified to profit and loss account</i> | | | |
| Remeasurement of post retirement benefits obligation | | | |
| staff gratuity - net of tax | | - | 3,888,944 |
| Total comprehensive income for the year | | (14,630,935) | (9,296,669) |
| Earnings per share - basic and diluted | 28 | (0.69) | (0.83) |

The annexed notes from 1 to 34 form an integral part of these financial statements.



Managing Director



Chairman



PAKISTAN MERCANTILE EXCHANGE LIMITED

Statement of Change in Equity for the year ended June 30, 2015

| | Issued, subscribed and paid-up capital | Preference share capital | Capital Reserve premium on issue of ordinary shares | Accumulated loss | Total |
|---|---|-----------------------------|--|----------------------|----------------------|
| ----- Rupees ----- | | | | | |
| Balance at June 30, 2013 | 190,000,120 | 28,000,000 | 22,250,000 | (400,554,468) | (160,304,348) |
| Issue of right shares at Rs. 10 per share | 85,681,750 | - | - | - | 85,681,750 |
| Total comprehensive income for the year ended June 30, 2014 | | | | | |
| - Loss for the year | - | - | - | (13,185,613) | (13,185,613) |
| - Other comprehensive income for the year | - | - | - | 3,888,944 | 3,888,944 |
| Dividend on preference shares (note 6.1) | - | - | - | (9,296,669) | (9,296,669) |
| | - | - | - | (2,898,000) | (2,898,000) |
| Balance at June 30, 2014 | <u>275,681,870</u> | <u>28,000,000</u> | <u>22,250,000</u> | <u>(412,749,137)</u> | <u>(86,817,267)</u> |
| Total comprehensive income for the year ended June 30, 2015 | | | | | |
| - Loss for the year | - | - | - | (14,630,935) | (14,630,935) |
| - Other comprehensive income for the year | - | - | - | - | - |
| Finance cost on preference shares (note 26.2) | - | - | - | (14,630,935) | (14,630,935) |
| | - | - | - | (4,344,119) | (4,344,119) |
| Balance at June 30, 2015 | <u>275,681,870</u> | <u>28,000,000</u> | <u>22,250,000</u> | <u>(431,724,191)</u> | <u>(105,792,321)</u> |

The annexed notes from 1 to 34 form an integral part of these financial statements.

Managing Director

Chairman

PAKISTAN MERCANTILE EXCHANGE LIMITED

Statement of Cash Flows

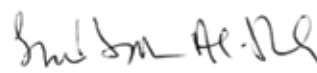
for the year ended June 30, 2015

| | Note | 2015 Rupees | 2014 Rupees |
|---|------|----------------|----------------|
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash used in operations | 29 | (11,387,102) | (1,817,161) |
| Long-term deposits | | 750,000 | (850,000) |
| Taxes paid - net | | (1,679,271) | (1,347,582) |
| Gratuity paid | | (8,821,841) | (11,372,492) |
| Long term prepayment | | 383,333 | (447,216) |
| Net cash used in operating activities | | (20,754,881) | (15,834,451) |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property and equipment | 14 | (16,180,701) | (15,643,409) |
| Purchase of intangible assets | 15 | (2,381,950) | (10,446,515) |
| Proceeds from disposal of property and equipment | | 2,700,000 | 68,800 |
| Proceeds from sale of investment in government securities | | 381,729,593 | 174,400,731 |
| Purchase of investment in government securities | | (348,513,493) | (277,676,807) |
| Mark-up received on bank deposits | | 1,152,935 | 1,571,060 |
| Net cash generated from / (used in) investing activities | | 18,506,384 | (127,726,140) |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issue of right shares | | - | 85,681,750 |
| Net cash generated from financing activities | | - | 85,681,750 |
| Net decrease in cash and cash equivalents (A + B + C) | | (2,248,497) | (57,878,841) |
| Cash and cash equivalents at the beginning of the year | | 8,454,722 | 66,333,563 |
| Cash and cash equivalents at the end of the year | 22 | 6,206,225 | 8,454,722 |

The annexed notes from 1 to 34 form an integral part of these financial statements.



Managing Director



Chairman



PAKISTAN MERCANTILE EXCHANGE LIMITED

Notes to and forming part of the Financial Statements for the year ended June 30, 2015

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 of Business 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, Chaudary 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 marketplace necessary for trading in Commodity Futures Contracts and to perform all allied and incidental functions. This is the first 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.
- 1.3** The Exchange is an institution of national importance and is receiving cooperation and support from all the stakeholders. The base of active brokers and their clients are stable and expected to grow in future. Moreover, new products are in the process of being designed, approval or launched for trading on the Exchange, which include third currency pairs, copper, Brent crude oil, Murabaha, mill specific sugar. Further, restriction on issuance of new membership was also removed by Securities and Exchange Commission of Pakistan during the year. The above factors along with recently listed products have contributed positively resulting in profitable operations of the Exchange for the last quarter of the current year and first two months period subsequent to year end. Moreover, various parties have submitted their expression of interest for the consideration of the Board to subscribe from unsubscribed portion of right shares and the Board shall decide on equity injection after evaluation of these offers in a transparent manner with the help of a financial advisor to be appointed by the Board, after assessing the financing requirements of the Exchange.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments are carried at fair value .

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Exchange operates. These financial statements are presented in Pak Rupees which is the Exchange's functional and presentation currency.

2.4 Initial application of standards, amendments or an interpretation to existing standards

a) Standards, amendments and interpretations which became effective during the year

The following amendments and interpretations are effective for the year ended June 30, 2015. These amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

| Standards or Interpretations | Effective date (accounting periods beginning on or after) |
|--|---|
| Amendments to IAS 19 Employee Benefits: Employee contributions | July 01, 2014 |
| Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities | January 01, 2014 |
| IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets | January 01, 2014 |
| IAS 39 Financial Instruments: Recognition and measurement Novation of derivatives and continuation of hedge accounting | January 01, 2014 |
| IFRIC 21 - Levies | January 01, 2014 |

b) Standards and amendments to published standards that are not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.



| Standards or Interpretations | Effective date (accounting periods beginning on or after) |
|--|--|
| Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization | January 01, 2016 |
| Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants | January 01, 2016 |
| IAS 27 (Revised 2011) – Separate Financial Statements | January 01, 2015. IAS 27 (Revised 2011) will concurrently apply with IFRS 10 |
| IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures | January 01, 2015 |
| IFRS 10 – Consolidated Financial Statements | January 01, 2015 |
| IFRS 11 – Joint Arrangements | January 01, 2015 |
| IFRS 12 – Disclosure of Interests in Other Entities | January 01, 2015 |
| IFRS 13 – Fair Value Measurement | January 01, 2015 |

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Settlement Guarantee Fund

The Settlement Guarantee Fund (SGF) has been formed under clause 12.1.1 of the PMEX General Regulations approved by Securities and Exchange Commission of Pakistan (SECP). SGF comprises of initial margins and clearing house deposits received from brokers / clients.

Assets acquired from the funds available in SGF comprise of cash, investments in Government securities, gold holdings, etc.

Assets of SGF are recorded and remeasured at fair value.

3.2 Provisions

Provisions are recognized when the Exchange 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 each balance sheet date and adjusted to reflect the current best estimate.

3.3 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to the items recognized directly in other comprehensive income.

Current

Provision for current taxation is based on taxable income at the current tax rates after taking into account tax credits and rebates available, if any or on turnover at the specified rates or Alternate Corporate Tax as defined in section 113C of the Income Tax Ordinance, 2001, whichever is higher. The charge for current tax also includes adjustments, where necessary, relating to prior years which arise due to assessment framed / finalized during the year.

Deferred

Deferred tax is recognized using the balance sheet liability method for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

3.4 Property and Equipment

Owned

These are stated at cost less accumulated depreciation and impairment losses, if any, except for capital work-in-progress which is stated at cost less impairment losses, if any. All expenditures connected to the specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets are available for use.

Subsequent costs are included in the assets carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Exchange and the cost of the item can be measured reliably.

Depreciation is charged to the profit and loss account using the straight-line method in accordance with the rates specified in note 14 to these financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed, and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month in which assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Gains or losses arising on disposal of property and equipment are included in the profit and loss account in the year of disposal. Repairs and maintenance are charged to profit and loss account in the period in which these are incurred.



Capital work in Progress

All expenditure connected with specific assets incurred during installation and construction period are carried under capital work in progress. These are transferred to specific assets as and when assets are available for use.

3.5 Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Exchange and that the cost of such asset can also be measured reliably. Generally, costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as intangible assets. Direct costs include the purchase cost of software and related overhead costs.

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method with the rates specified in note 15 to these financial statements. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed, and adjusted, if appropriate, at each reporting date.

Intangible assets having an indefinite useful life are stated at cost. Provisions are made for permanent impairment in value of these assets, if any.

Gains and losses on disposal of intangible assets are taken to the profit and loss account in the period in which these arise.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

3.6 Impairment

3.6.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such evidence exists for available-for-sale investments, the cumulative loss is removed from other comprehensive income 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.

3.6.2 Non - Financial assets

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated to determine the extent of impairment loss, if any. An impairment loss is recognized, as an expense in the profit and loss account. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.7 Supplies and consumables

Universal Serial Bus (USB) keys held are valued at the lower of cost determined on the weighted average method and net realizable value.

3.8 Annual subscription receivables

Annual subscription is recognized initially at invoice value, which approximates fair value, and subsequently measured at amortized cost using the effective interest method, less provision for impairment, if any. A provision for impairment is recognised when there is objective evidence that the Exchange will not be able to collect the amount due in accordance with the original terms of the receivable. Significant financial difficulties of the debtors, probability of debtor's bankruptcy, default or delinquency are considered as indicators that the receivable may be impaired. Balances considered bad and irrecoverable are written off when identified.

3.9 Investments

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognized at trade date, which is the date that the Exchange commits to purchase or sell the asset.

Investments are derecognized when the right to receive cash flows from the investments has expired or investments have been realized or transferred, and the Exchange has transferred substantially all the risks and rewards of ownership.

The investment portfolio of the Exchange is categorized below:

Investments at fair value through profit or loss

An investment is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Exchange manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Exchange's investment strategy. All investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates, these investments are measured at fair value, determined on the basis of prevailing market prices, with any resulting gain or loss recognized directly in the profit and loss account.

Available-for-sale

Investments intended to be held for indefinite period, which may be sold in response to the needs for liquidity or change in prices, are classified as 'available-for-sale'.

These investments are initially recognized at fair value plus transaction costs. Premium or discount on acquisition of investments is capitalized and amortized through the profit and loss account over the remaining period till maturity.

Subsequent to initial recognition, 'available-for-sale' investments are marked to market. The surplus / deficit arising on remeasurement of available-for-sale investments to fair value is recognized directly in other comprehensive income. At the time of disposal, the respective surplus or deficit is transferred to the profit and loss account.

The surplus / deficit arising on remeasurement of available-for-sale investments relating to SGF is included in SGF balance.



Held-to-maturity - Investment at amortized cost

These are securities with fixed or determinable payments and fixed maturity acquired by the Exchange with the intention and ability to hold them up to maturity. These securities are initially recognized at fair value plus transaction costs and are subsequently carried at amortized cost using the effective interest rate method. Premium or discount on acquisition of securities are amortized on effective rate basis over the term of respective securities.

Investments in associates

Investments in associates are carried at cost less impairment loss, if any, as these are unquoted companies and the Exchange does not have significant influence over the associated entities as defined in IAS-28 'Investment in Associates'.

Impairment of investments is recognized when there is a permanent diminution in their values.

3.10 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, balances with banks in current, deposit and saving accounts. Cash and cash equivalents are investments readily convertible to known amount of cash and are not subject to significant change in value.

3.11 Staff retirement benefits

Till September 30, 2014 the Exchange was operating an unfunded gratuity scheme covering all eligible employees, the liability of which was calculated by an independent actuary using the "Projected Unit Credit Method" and all actuarial gains and losses were recognized in other comprehensive income as they incur.

From October 1, 2014, the Exchange replaced defined benefit unfunded gratuity scheme with a funded defined contribution gratuity scheme having contribution @ 8% of basic salary from the Exchange only and a provident fund having equal contribution (both by the Exchange and permanent employees) @ 8% of monthly basic salary as fully stated in note 8. Due to the discontinuation of previous defined benefit unfunded gratuity scheme, net curtailment gain of Rs. 6.68 million was recognized in the profit and loss account for the year ended June 30, 2014.

3.12 Foreign currency transactions and translation

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies if any, are translated into Pak Rupees at the rates of exchange approximating those prevailing on the balance sheet date. Exchange differences are taken to the profit and loss account.

3.13 Financial instruments

Financial instruments carried on the balance sheet include receivables, assets relating to Settlement Guarantee Fund, advances and deposits, investments, cash and bank balances, redeemable preference shares, long term deposits, liability of settlement guarantee fund, advance annual subscription and members admission fee, creditors, accrued and other liabilities.

At the time of initial recognition, all financial assets and liabilities are measured at cost, which is the fair value of the consideration given or received for it. The particular recognition method adopted for recognition of financial assets and liabilities subsequent to initial recognition is disclosed in the policy statement associated with each item.

3.14 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when the Exchange has a legally enforceable right to offset the recognized amounts and the Exchange intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.15 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Exchange and the revenue can be reliably measured. Revenue is measured at fair value of consideration received or receivable in the usual course of business. The following specific recognition criteria for different types of revenue are as follows:

- Entrance fee, fee for membership transfer and issuance of certificate are recognized on accrual basis.
- Trading fee from members is recognized on execution of trading transactions.
- Annual membership fee is recognized on a time proportion basis.
- Markup / interest income on investments in government and other debt securities is recognized on time proportionate basis using the effective interest method.
- Return on bank deposits is recognized on an accrual basis.
- Capital gain is recognised at the time of sale of investments.

3.16 Earnings per share

The Exchange presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Exchange by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements in conformity with approved accounting standards as applicable in Pakistan, 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 recognized prospectively commencing from the period of revision.

In preparing these financial statements, the significant judgements made by management in applying the Exchange's accounting policies and the key resources of estimation were the same as those that applied to the financial statements as at and for the year ended June 30, 2014.

Areas where various assumptions and estimates are significant to the Exchange's financial statements or where judgement was exercised in application of accounting policies are as follows:

- Useful lives and residual values of property and equipment (note 14);
- Useful lives and residual values of intangible assets (note 3.5 and 15);
- Classification of short term investments (note 3.9 and 20);
- Recoverable amount of assets relating to 'Settlement Guarantee Fund' (note 21); and
- Taxation (note 3.3 and 27).



5. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

| | 2015 Number of Shares | 2014 Number of Shares | | 2015 Rupees | 2014 Rupees |
|------------|--|--------------------------|--|--------------------------|--------------------------|
| | <u>27,568,187</u> | <u>27,568,187</u> | Ordinary shares of Rs 10 each fully paid in cash | <u>275,681,870</u> | <u>275,681,870</u> |
| | | | | 2015 Number of Shares | 2014 Number of Shares |
| 5.1 | Reconciliation of number of ordinary shares of Rs. 10/- each | | | | |
| | At beginning of the year | | | 27,568,187 | 19,000,012 |
| | Add: Issued during the year as right shares | | | - | 8,568,175 |
| | At end of the year | | | <u>27,568,187</u> | <u>27,568,187</u> |
| 5.2 | Ordinary shares were held as at June 30 by: | | | | |
| | Associates | | | | |
| | National Bank of Pakistan | | | 9,000,000 | 9,000,000 |
| | Karachi Stock Exchange Limited | | | 8,909,052 | 8,909,052 |
| | Islamabad Stock Exchange Limited | | | 5,568,181 | 5,568,181 |
| | Lahore Stock Exchange Limited | | | 2,272,727 | 2,272,727 |
| | Others | | | | |
| | Pakistan Kuwait Investment Company (Private) Limited | | | 909,090 | 909,090 |
| | Zarai Taraqiat Bank Limited | | | 909,091 | 909,091 |
| | Others - individuals | | | 46 | 46 |
| | Total | | | <u>27,568,187</u> | <u>27,568,187</u> |

6. REDEEMABLE PREFERENCE SHARES

| | 2015 Number of Shares | 2014 Number of Shares | | 2015 Rupees | 2014 Rupees |
|--|--------------------------|--------------------------|--|-------------------|-------------------|
| | 1,300,000 | 1,300,000 | National Bank of Pakistan (NBP) - Associate | 13,000,000 | 13,000,000 |
| | 1,500,000 | 1,500,000 | Pak Brunei Investment Company Limited (PBIC) | 15,000,000 | 15,000,000 |
| | <u>2,800,000</u> | <u>2,800,000</u> | | <u>28,000,000</u> | <u>28,000,000</u> |

- 6.1** These represents two-years redeemable, cumulative, callable, convertible and non-participatory preference shares of Rs 10 each issued on April 04, 2012. These carry cumulative dividend at the rate of one year KIBOR (Ask price) plus 250 basis points equivalent payable annually.

In April 2014, above preference shares were matured. The Exchange decided not to exercise redemption or call option. Accordingly, the conversion option became available to the preference shareholders. Previously, one of the preference shareholders, PBIC did not agree for the conversion of preference shares. However, subsequent to the year end, Board approved a proposal under which principal of preference shares will be converted and preference dividend along with compensation for the period from expiry of contract on April 04, 2014 till June 30, 2015 will be paid whereas PBIC will be offered further 2.175 million shares from unsubscribed rights shares from which PBIC will subscribe at least 633,115 shares in cash. PBIC in vide letter dated August 31, 2015 agreed with the proposal subject to approval of Securities and Exchange Commission of Pakistan (SECP) and writing a letter to State Bank of Pakistan (SBP)'s by PMEX for grant of waiver to PBIC from application of Prudential Regulation No. 8. The matter is pending before SECP for approval.

7. Long - Term Deposits

| | Note | 2015 Rupees | 2014 Rupees |
|--------------------------------|------|--------------------|--------------------|
| Security deposits from members | 7.1 | 193,250,000 | 192,500,000 |
| Clearing house deposits | 7.2 | 2,900,000 | 2,900,000 |
| | | <u>196,150,000</u> | <u>195,400,000</u> |

7.1 This represents security deposits of Rs. 750,000 and Rs. 500,000 each for universal and specific memberships, respectively, received from members who were granted memberships before July 04, 2007. These deposits are interest free, adjustable on default, and refundable on transfer of membership.

7.2 This represents interest free, adjustable and refundable clearing house deposits of Rs. 100,000 received from members who have deposited this amount before commencement of operations of the Exchange for futures trading but have not yet commenced trading. These deposits will be transferred to 'Settlement Guarantee Fund' upon commencement of trading by the respective members.

8. STAFF GRATUITY PAYABLE

The Board in its meeting dated May 29, 2014 approved to replace the existing gross salary based defined benefit unfunded gratuity scheme with a funded defined contribution gratuity scheme having contribution @ 8% of basic salary from the Exchange only and a Provident fund having equal contribution (both by the Exchange and permanent employees) @ 8% of monthly basic salary, which is operative from October 01, 2014. However the closing available balance of each employee in the previous gratuity scheme of Rs. 45.544 million will be transferred to the newly formed gratuity fund from time to time based on the availability of the funds.

| | 2015 Rupees | 2014 Rupees |
|--|---------------------|-------------------|
| 8.1 Movement in defined benefit obligation of staff gratuity is as follows: | | |
| Present value of defined benefit obligation as at July 01 | 45,227,574 | 53,966,360 |
| Current service cost | 5,718,020 | 7,914,018 |
| Interest cost on defined benefit obligation | - | 6,246,919 |
| Benefits paid | (5,401,544) | (11,372,492) |
| Negative past service cost - curtailment gain | - | (7,638,287) |
| Remeasurements on obligations | - | (3,888,944) |
| Balance transferred to approved funded gratuity scheme | <u>(45,544,050)</u> | - |
| Present value of defined benefit obligation as at June 30 | <u>-</u> | <u>45,227,574</u> |
| 8.2 Movement of staff gratuity payable to fund is as follows: | | |
| Opening balance | - | - |
| Balance transferred from previous unfunded gratuity scheme | 45,544,050 | - |
| Charge for the period from October 01, 2014 to June 30, 2015 | 4,130,856 | - |
| Payments made to the fund | (3,258,074) | - |
| Payments made to employees on behalf of the fund | (162,223) | - |
| Closing balance | <u>46,254,609</u> | <u>-</u> |



9. SETTLEMENT GUARANTEE FUND

| | Note | 2015 Rupees | 2014 Rupees |
|---|------|--------------------|--------------------|
| Clearing house deposits relating to brokers | 9.1 | 129,450,551 | 119,140,608 |
| Initial margins relating to brokers and clients | 9.1 | 819,953,915 | 775,945,997 |
| | | <u>949,404,466</u> | <u>895,086,605</u> |

9.1 The Settlement Guarantee Fund has been applied as follows:

Clearing house deposits

| | | | |
|--|-------|--------------------|--------------------|
| Saving / current accounts | | 7,943,868 | 188,267 |
| Investment in Treasury Bills | 9.1.1 | 121,506,683 | 23,753,900 |
| Investment in Pakistan Investment Bonds (PIBs) | 9.1.2 | - | 90,534,889 |
| Accrued markup paid on purchase of PIBs | | - | 3,027,068 |
| Accrued markup on PIBs and saving accounts | | - | 1,636,484 |
| | | <u>129,450,551</u> | <u>119,140,608</u> |

Initial margins

| | | | |
|--|-------|--------------------|--------------------|
| Saving / current accounts | | 43,156,203 | 1,392,420 |
| Investment in Treasury Bills | 9.1.1 | 605,167,506 | - |
| Investment in Pakistan Investment Bonds (PIBs) | 9.1.2 | 163,881,021 | 736,630,005 |
| Accrued markup paid on purchase of PIBs | | 280,480 | 25,010,213 |
| Accrued markup on PIBs and saving accounts | | 7,432,705 | 12,877,359 |
| Security deposit / prepayments - Locker (Gold) | | 36,000 | 36,000 |
| | | <u>819,953,915</u> | <u>775,945,997</u> |
| Settlement Guarantee Fund contributed by brokers and clients | | <u>949,404,466</u> | <u>895,086,605</u> |

9.1.1 The aggregate cost of these treasury bills is Rs. 718.231 million (2014: Rs. 23.811 million). These Treasury Bills carry markup rate ranging from 6.84% to 7.38% (2014: 9.99%) per annum and will mature on various dates till April 28, 2016.

9.1.2 The aggregate cost of investment in PIBs is Rs.156.544 million (2014: Rs. 828.629 million). These PIBs carry markup rate ranging from 11.25% to 11.5% (2014: 11.25%) per annum and will mature on various dates till July 17, 2019.

9.2 As required by the PMEX General Regulations (the Regulations), as part of risk management measures to guarantee timely performance of financial obligation entered into on the Exchange being central counter party to each contract and to maintain the integrity of the clearing and settlement system, the Exchange has formed a 'Settlement Guarantee Fund'. All clearing house deposits of trading members and margins are accounted for as part of the 'Settlement Guarantee Fund'. If a broker fails to meet his settlement obligations to the Exchange arising out of a transactions, or if a broker is declared as a defaulter by Exchange, the Exchange will utilize the Settlement Guarantee Fund and other monies of the broker to the extent necessary to fulfill his obligations as specified under the Regulations.

All brokers are required to pay and maintain a minimum clearing house deposit of Rs. 500,000, or such other amount, as may be specified by the Exchange from time to time with the Exchange prior to being eligible to trade for their own account as well as on behalf of their clients. Clearing house deposits determine the maximum value of open positions or exposure that a broker can take across all his clients and across all contracts in all commodities. Brokers can increase their exposure with additional clearing house deposits.

Margins, as determined by the Exchange from time to time, are deposited and maintained by brokers on all open positions of their own and clients.

- 9.3** The income/ profit/ gain resulting from investment of initial margin / clearing house deposits is distributed monthly among the brokers and clients at 50 basis points below the minimum bank profit rate on their average monthly balance in the 'Settlement Guarantee Fund'.

10. ADVANCE ANNUAL SUBSCRIPTION AND OTHER FEE

| | 2015 Rupees | 2014 Rupees |
|---------------------------------|------------------------|------------------------|
| Advance annual subscription fee | 8,525,000 | 5,075,000 |
| Advance transfer fee | 750,000 | 750,000 |
| Technology fee | 42,058 | 69,039 |
| Others | 549,349 | - |
| | <u>9,866,407</u> | <u>5,894,039</u> |

11. ADVANCE MEMBERS ADMISSION FEE

This represents admission fee received from the applicants for membership of the Exchange but have not yet been granted membership.

12. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

| | Note | 2015 Rupees | 2014 Rupees |
|---|-------------|------------------------|------------------------|
| Creditors | | 1,109,598 | 1,707,280 |
| Accrued expenses | 12.1 | 9,938,318 | 9,600,305 |
| Withholding tax payable | | 882,748 | 891,947 |
| Payable to market makers | | 14,578,325 | 28,476,165 |
| SECP fee payable | 12.2 | 6,726,599 | 5,042,081 |
| Payable to Investor Protection Fund Trust | | 4,773 | 158,372 |
| Other liabilities | 12.3 | 7,379,216 | 5,439,012 |
| | | <u>40,619,577</u> | <u>51,315,162</u> |

- 12.1** This includes directors' fee amounting to Rs. 40,000 (2014: Rs.80,000).

- 12.2** This includes SECP transaction fee and supervision fee of Rs. 3,470,049 (2014: Rs. 2,837,130) and Rs. 3,256,550 (2014: 2,204,951) respectively.

- 12.3** This includes reimbursement of travelling and conveyance expenses to directors amounting to Rs.198,370 (2014: Rs.321,058).

13. CONTINGENCIES AND COMMITMENTS

13.1 Income tax

The assessment for the tax years 2003 to 2006 have been amended by the tax authorities, details of which are as follows:

13.1.1 Tax 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, which was offered for tax by the Exchange upon receipt of Certificate of Registration as Commodity Exchange from SECP i.e. in 2007. The appeal of 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 these financial statements.

13.1.2 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 advisor, 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 these financial statements.

13.1.3 Tax year 2010

During the year ended June 30, 2012, the tax authorities passed an order under sections 161/205 of the Income Tax Ordinance 2001, treating the Exchange as 'assessee in default' for non-deduction of tax on 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 these financial statements.

13.2 Commitments

| | 2015 Rupees | 2014 Rupees |
|--|----------------|----------------|
| Commitments in respect of capital expenditure and services | - | 17,596,743 |

14. Property and equipment

| | 2015 Rupees | 2014 Rupees |
|--------------------------------------|-------------------|-------------------|
| Operating assets (note 14.1) | 28,692,149 | 20,194,977 |
| Capital work-in-progress (note 14.2) | 400,000 | 3,598,500 |
| | <u>29,092,149</u> | <u>23,793,477</u> |

14.1 Operating assets

| | Owned | | | | | | Total |
|---|------------------------|------------------------|------------------|----------------------|--------------------|------------------|-------------------|
| | Leasehold improvements | Furniture and fittings | Office equipment | Electrical equipment | Computer equipment | Motor vehicles | |
| | Rupees | | | | | | |
| As at July 1, 2013 | | | | | | | |
| Cost | 3,767,502 | 3,376,505 | 2,758,517 | 8,505,146 | 45,802,807 | - | 64,210,477 |
| Accumulated depreciation | (2,998,541) | (3,231,463) | (1,767,053) | (5,693,699) | (36,640,313) | - | (50,331,069) |
| Net book value | <u>768,961</u> | <u>145,042</u> | <u>991,464</u> | <u>2,811,447</u> | <u>9,162,494</u> | <u>-</u> | <u>13,879,408</u> |
| For the year ended June 30, 2014 | | | | | | | |
| Opening net book value | 768,961 | 145,042 | 991,464 | 2,811,447 | 9,162,494 | - | 13,879,408 |
| Additions during the year | - | - | 70,901 | 875,041 | 5,583,439 | 5,977,940 | 12,507,321 |
| Disposals during the year | - | - | - | - | - | - | - |
| Cost | - | - | 245,233 | 35,800 | 1,517,713 | - | 1,798,746 |
| Accumulated depreciation | - | - | (245,233) | (35,800) | (1,503,278) | - | (1,784,311) |
| Depreciation for the year | (160,924) | (42,264) | (219,735) | (1,009,222) | (3,948,113) | (797,059) | (6,177,317) |
| Closing net book value | <u>608,037</u> | <u>102,778</u> | <u>842,630</u> | <u>2,677,266</u> | <u>10,783,385</u> | <u>5,180,881</u> | <u>20,194,977</u> |
| As at June 30, 2014 | | | | | | | |
| Cost | 3,767,502 | 3,376,505 | 2,584,185 | 9,344,387 | 49,868,533 | 5,977,940 | 74,919,052 |
| Accumulated depreciation | (3,159,465) | (3,273,727) | (1,741,555) | (6,667,121) | (39,085,148) | (797,059) | (54,724,075) |
| Net book value | <u>608,037</u> | <u>102,778</u> | <u>842,630</u> | <u>2,677,266</u> | <u>10,783,385</u> | <u>5,180,881</u> | <u>20,194,977</u> |
| For the year ended June 30, 2015 | | | | | | | |
| Opening net book value | 608,037 | 102,778 | 842,630 | 2,677,266 | 10,783,385 | 5,180,881 | 20,194,977 |
| Additions during the year | 11,627,000 | 3,273,814 | 215,090 | 28,800 | 4,234,497 | - | 19,379,201 |
| Disposals during the year | - | - | - | - | - | - | - |
| Cost | 3,767,502 | 2,965,870 | 1,332,124 | 4,153,697 | 23,097,267 | - | 35,316,460 |
| Accumulated depreciation | (3,172,873) | (2,894,912) | (1,276,091) | (3,948,646) | (23,080,171) | - | (34,372,693) |
| Depreciation for the year | (594,629) | (70,958) | (56,033) | (205,051) | (17,096) | - | (943,767) |
| Closing net book value | <u>9,523,377</u> | <u>2,711,001</u> | <u>764,255</u> | <u>1,738,074</u> | <u>9,731,031</u> | <u>4,224,411</u> | <u>28,692,149</u> |
| As at June 30, 2015 | | | | | | | |
| Cost | 11,627,000 | 3,684,449 | 1,467,151 | 5,219,490 | 31,005,763 | 5,977,940 | 58,981,793 |
| Accumulated depreciation | (2,103,623) | (973,448) | (702,896) | (3,481,416) | (21,274,732) | (1,753,529) | (30,289,644) |
| Net book value | <u>9,523,377</u> | <u>2,711,001</u> | <u>764,255</u> | <u>1,738,074</u> | <u>9,731,031</u> | <u>4,224,411</u> | <u>28,692,149</u> |
| Rate of depreciation (%) | <u>20</u> | <u>20</u> | <u>20</u> | <u>20</u> | <u>25</u> | <u>20</u> | |



14.2 Capital work-in-progress

| | 2015 Rupees | 2014 Rupees |
|---------------------------------|----------------|----------------|
| Advance for capital expenditure | 400,000 | 3,598,500 |

14.3 Included in cost of property and equipment are fully depreciated assets still in use aggregating to Rs.12,184,876 (2014: Rs.44,655,896).

15. Intangible assets - computer softwares

| | Note | 2015 Rupees | 2014 Rupees |
|-----------------------------|------|----------------|----------------|
| Gross carrying value | | | |
| Cost | | 32,336,709 | 29,954,759 |
| Accumulated amortization | | (22,467,493) | (17,294,129) |
| Net book value | | 9,869,216 | 12,660,630 |
| Net carrying value | | | |
| Opening net book value | | 12,660,630 | 5,759,991 |
| Additions during the year | | 2,381,950 | 10,446,515 |
| Amortization for the year | | (5,173,364) | (3,545,876) |
| Closing net book value | | 9,869,216 | 12,660,630 |
| Rate of amortization (%) | | 25 | 25 |

16. Investment in associates - at cost

| | | | |
|--|------|-----------|-----------|
| NCEL Building Management Limited (1 share of Rs. 10) | 16.1 | 10 | 10 |
| Pakistan Institute of Capital Markets (200 shares of Rs. 5,000 each) | 16.2 | | |
| Cost | | 1,000,000 | 1,000,000 |
| Less: Impairment | | (999,990) | (999,990) |
| | | 10 | 10 |
| | | 20 | 20 |

These are associated companies due to common directorship without any significant influence.

16.1 The Exchange, during 2003-04, received advances of Rs. 645.2 million from its contributing members (Rs. 2.5 million against each office space) for the acquisition of Old Hyatt Regency Hotel Building (the Building) on Pakistan Railway land in Karachi. The Building, alongwith certain equipment, were offered for sale by the Privatization Commission, Government of Pakistan (PC). In 2003, Aqeel Karim Dhedhi Securities (Private) Limited (AKDS) participated in the bidding on behalf of the Exchange and was declared successful bidder on the bid price of Rs. 530 million which was paid by the Exchange from the advances received from members to the PC directly. PC transferred the leasehold rights and physical possession of the Building to AKDS for Commodity Exchange. The Exchange had simultaneously entered into a Property Sale Agreement with AKDS for acquisition of the Building on behalf of its members to construct building and rooms for contributing members. However, to transfer the lease hold rights of the land from AKDS, a No Objection Certificate (NOC) from Pakistan Railway is still awaited.

On April 26, 2007, the Exchange decided to transfer all the assets and liabilities relating to the Building to a separate entity. Accordingly, a new company NCEL Building Management Limited (NCELBM) was incorporated on June 12, 2007. Presently, the Exchange holds one share and one seat on the Board of Directors of NCELBM under which all the assets and liabilities related to the building were transferred to NCELBM.

According to the novation agreement entered between the Exchange, AKDS, NCELBM and representatives of contributing members on November 27, 2007, in consideration of facilitating the acquisition of rights, titles and interests in the Building and for facilitating the arrangement in relation to ownership, construction, refurbishment, management coordination of all efforts in relation to the project pertaining to the Building up to November 30, 2007, the Exchange will be entitled to the following on completion of project:

- issuance of 20 fully paid ordinary shares of NCEL Building Management Limited representing its ownership of allotment rights in 20 office units without being required to pay any consideration in cash or otherwise;
- allotment of 20,000 square feet on a gross basis of adjoining fully completed and finished floor space representing 20 office units; and
- a permanent seat on the Board of NCEL Building Management Limited.

- 16.2** The Exchange holds 2.63% (2014: 2.63%) ordinary shares of the Institute and a permanent seat on the board of directors of the Pakistan Institute of Capital Markets.

| | Note | 2015 Rupees | 2014 Rupees |
|--|------|-------------------|------------------|
| 17. SUPPLIES AND CONSUMABLES | | | |
| Universal Serial Bus (USB) keys | 17.1 | 362,552 | 93,124 |
| 17.1 | | | |
| To provide secured direct online access, the Exchange issues USB keys with identity recognition software. The staff of the Exchange as well as all market participants require this for direct access to the systems. During the year, USB keys costing Rs. 274,312 (2014: Rs. 236,918) were issued. | | | |
| 18. DEPOSITS AND SHORT-TERM PREPAYMENTS | | | |
| Security deposits | | 1,462,039 | 2,555,502 |
| Prepaid expenses | | 2,999,438 | 4,722,662 |
| | | <u>4,461,477</u> | <u>7,278,164</u> |
| 19. OTHER RECEIVABLES | | | |
| - Considered good | | | |
| Receivable against accounting and other services from NCEL Building Management Limited | | 1,168,925 | 1,168,925 |
| Accrued markup paid on purchase of PIBs | | - | 4,959,863 |
| Technology fee from members | | 1,642,193 | 989,045 |
| Receivable from Settlement Guarantee Fund | 19.1 | 7,339,686 | - |
| Accrued markup on PIBs and saving accounts | | 47,012 | 898,767 |
| Others | | 3,232,355 | 661,121 |
| | | <u>13,430,171</u> | <u>8,677,721</u> |
| 19.1 | | | |
| This represents the impact of mark to market gain on investments of SGF which will be transferred to Exchange upon realization. | | | |



20. This represents investments designated as fair value through profit or loss and held in three month Treasury Bills carrying markup rate of 7.38% that will mature on July 23, 2015, whereas at June 30, 2014, this represents Pakistan Investment Bonds (PIBs) having carrying value of Rs. 107,358,956 that carried markup rate of 11.25%.

| | Note | 2015 Rupees | 2014 Rupees |
|---|------|--------------------|--------------------|
| 21. ASSETS RELATING TO SETTLEMENT GUARANTEE FUND | | | |
| Cash and bank balances | 22 | 51,100,071 | 1,580,687 |
| Investments | 21.1 | 890,555,210 | 850,918,794 |
| Accrued markup paid on purchase of PIBs | 9.1 | 280,480 | 28,037,281 |
| Accrued markup on PIBs and saving accounts | 9.1 | 7,432,705 | 14,513,843 |
| Security deposit - Lockers | 9.1 | 36,000 | 36,000 |
| | | <u>949,404,466</u> | <u>895,086,605</u> |

21.1 Investments

At fair value through profit or loss

| | | | |
|-------------------------------------|-----|--------------------|--------------------|
| Investment in government securities | | | |
| - For clearing house deposits | 9.1 | 121,506,683 | 114,288,789 |
| - For initial margins | 9.1 | 769,048,527 | 736,630,005 |
| | | <u>890,555,210</u> | <u>850,918,794</u> |

22. CASH AND BANK BALANCES

With banks

| | | | |
|-----------------------|------|-------------------|-------------------|
| - in current accounts | | 29,979,964 | 1,548,831 |
| - in saving accounts | 22.1 | 54,302,739 | 8,474,093 |
| | | 57,282,703 | 10,022,924 |
| Cash in hand | | 23,593 | 12,485 |
| | | <u>57,306,296</u> | <u>10,035,409</u> |

less: cash and bank balances relating to Settlement Guarantee Fund with banks

| | | | |
|--------------------------|----|---------------------|--------------------|
| - in current accounts | | 2,564,631 | 1,057,615 |
| - in saving accounts | | 48,535,440 | 523,072 |
| | 21 | <u>(51,100,071)</u> | <u>(1,580,687)</u> |
| Relating to the exchange | | <u>6,206,225</u> | <u>8,454,722</u> |

- 21.1 These accounts carry mark up at the rate of 6.5% to 7% per annum (2014: 7%)

| | Note | 2015 Rupees | 2014 Rupees |
|--|------|--------------------|--------------------|
| 23. OPERATING INCOME | | | |
| Entrance fee | | 7,500,000 | 3,500,000 |
| Annual membership fee | | 17,125,000 | 16,750,000 |
| Trading fee | | 78,571,456 | 103,602,007 |
| Share of PMEX from the income on SGF | 23.1 | 47,125,798 | 28,051,815 |
| Fee for membership transfer and issuance of certificates | | 2,000,000 | 1,410,000 |
| Application fee | | 30,000 | - |
| Income from IT related services | | 4,727,090 | 4,625,379 |
| Gain on sale of USB keys | | 329,447 | 413,082 |
| Advertisement income | | 1,850,000 | 1,515,000 |
| Gold vault charges | | 1,056,844 | 1,810,337 |
| | | <u>160,315,635</u> | <u>161,677,620</u> |

23.1 During the year, the SECP vide its letter dated February 06, 2015 highlighted that the manner in which the income on investment from SGF has been recorded by the Exchange in the form of PMEX share is not in line with the requirements of the General Regulations of 2007 (the regulations) and directed the Exchange to credit the income to SGF. The Exchange responded to the SECP by crediting the amount of gain on disposal of investment of Rs. 30.12 million to the SGF and then submitted its detailed proposal for the approval of the Commission with regard to utilisation of SGF under Regulations 12.6.1 (v). Subsequent to year end, SECP, through its letter dated August 17, 2015, approved the structure of SGF with certain amendments to the PMEX proposed structure and advised the Exchange to establish a SGF trust through a trust deed registered with Registrar of Trusts.

24. ADMINISTRATIVE AND OPERATING EXPENSES

| | | | |
|------------------------------------|-------------|--------------------|--------------------|
| Salaries and benefits | 24.1 & 24.2 | 108,817,508 | 100,858,029 |
| Gratuity expense | 8 & 24.2 | 9,848,876 | 6,522,650 |
| Directors' fee | | 740,000 | 1,090,000 |
| Depreciation | 14 | 9,938,262 | 6,177,317 |
| Amortization | 15 | 5,173,364 | 3,545,876 |
| Communication | | 8,633,238 | 11,252,155 |
| Utilities | | 2,242,486 | 5,589,311 |
| Legal and professional | | 2,674,329 | 3,107,523 |
| Rent | | 7,652,390 | 5,834,820 |
| Repairs and maintenance | | 5,285,815 | 3,943,238 |
| Market making / liquidity expenses | | 7,527,991 | 9,925,611 |
| Travelling and conveyance | | | |
| - Employees and others | | 1,184,186 | 713,881 |
| - Directors | | 1,865,035 | 822,707 |
| | | 3,049,221 | 1,536,588 |
| Fee and subscription | | 1,715,619 | 4,638,263 |
| Security services | | 727,320 | 1,280,510 |
| Insurance | | 1,407,691 | 1,435,027 |
| SECP fee | 24.3 | 1,051,599 | 9,850,548 |
| Auditors' remuneration | 24.4 | 550,000 | 485,000 |
| Marketing expense | | 6,335,387 | 5,093,256 |
| Printing and stationery | | 402,390 | 450,037 |
| Entertainment | | 558,752 | 675,749 |
| | | <u>184,332,238</u> | <u>183,291,508</u> |



24.1 Total number of employees as at June 30, 2015 is 62 (June 30, 2014: 69). Average number of employees during the year ended June 30, 2015 is 66 (June 30, 2014: 62).

24.2 The aggregate amount charged in the financial statements for remuneration, including all benefits, to Managing Director (MD) of the Exchange are given below:

| | 2015 | 2014 |
|--------------------------------|--------------------------|-------------------|
| | Managing Director | |
| | -----Rupees----- | |
| Managerial remuneration | 9,438,000 | 8,835,800 |
| Bonus | 1,210,000 | 2,000,000 |
| Retirement benefits - Gratuity | 713,041 | 398,460 |
| Others | 240,000 | 336,000 |
| Provident Fund | 514,800 | - |
| | <u>12,115,841</u> | <u>11,570,260</u> |
| Number of Persons | <u>1</u> | <u>2</u> |

In addition to above, the Managing Director has been provided with a fully maintained vehicle.

| | Note | 2015 | 2014 |
|----------------------|-------------|------------------|------------------|
| | | Rupees | Rupees |
| 24.3 SECP fee | | | |
| Transaction fee | 24.3.1 | - | 7,645,597 |
| Supervision fee | 24.3.2 | 1,051,599 | 2,204,951 |
| | | <u>1,051,599</u> | <u>9,850,548</u> |

24.3.1 This represents fee of the Securities and Exchange Commission of Pakistan at the rate of 10% of trading fee of the Exchange. Effective from March 03, 2014, the SECP transaction Fee is charged from traders.

24.3.2 This represents 1% supervision fee on operating income of the Exchange as levied by SECP vide its S.R.O.1351(I)/2012 dated October 25, 2012.

24.4 Auditors' remuneration

| | | |
|-----------------------------------|----------------|----------------|
| Annual audit fee | 335,000 | 302,500 |
| Fee for review of: | | |
| Half yearly financial information | 135,000 | 121,000 |
| Code of Corporate Governance | 30,000 | 24,200 |
| Out of pocket expenses | 50,000 | 37,300 |
| | <u>550,000</u> | <u>485,000</u> |

25. OTHER INCOME - NET

Income from financial assets

| | | |
|---|-----------|-----------|
| Mark-up on bank deposits | 851,043 | 1,919,964 |
| Mark-up on government securities | 7,727,512 | 4,635,779 |
| Unrealized gain on remeasurement of investment at fair value through profit or loss | 27,270 | 154,726 |
| Realized gain / (loss) on sale of investment at fair value through profit or loss | 2,690,411 | (3,036) |

| | Note | 2015 Rupees | 2014 Rupees |
|--|------|-------------------|-------------------|
| <i>Income from non - financial assets</i> | | | |
| Fee for accounting and other services to NCEL Building Management Ltd. | | 600,000 | 1,200,000 |
| Gain on disposal of property and equipment | | 1,756,233 | 54,365 |
| Others | | 671,014 | 2,285,962 |
| | | <u>14,323,483</u> | <u>10,247,760</u> |

26. FINANCE COST

| | | | |
|--|------|------------------|----------|
| In respect of | | | |
| - Accumulated balance of staff gratuity - charged to profit and loss account | 26.1 | 3,211,582 | - |
| - Preference shares - charged to statement of changes in equity | 26.2 | 4,344,119 | - |
| | | <u>7,555,701</u> | <u>-</u> |

26.1 This represents finance costs charged at the average rate of income earned by the Exchange on the accumulated balance of gratuity payable to the staff gratuity fund as further explained in note 8.

26.2 This represents compensation accrued by the Exchange on preference shares for the period from April 04, 2014 to June 30, 2015 due to the reasons explained in note 6.1. The compensation was calculated on the same basis which were applicable for dividend on preference shares and would be payable to the preference shareholders on the conversion of preference shares to ordinary shares of the Exchange.

27. TAXATION

| | | | |
|------------------------|------|------------------|------------------|
| Current - for the year | 27.1 | 1,701,652 | 1,713,701 |
| - prior year | | (62,065) | 14,887 |
| | | <u>1,639,587</u> | <u>1,728,588</u> |

27.1 The provision for current income tax is based on minimum taxation under section 113 of the Income Tax Ordinance, 2001. Accordingly reconciliation of tax expense with the accounting profit is not presented.

27.2 The Exchange has not recognised net deferred tax asset amounting to Rs. 109.117 million as at June 30, 2015 (June 30, 2014: Rs 165.942 million) on net deductible temporary differences aggregating to Rs. 340.989 million as at June 30, 2015 (2014: Rs. 470.937 million) as it is not probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized. These net deductible temporary differences arise on normal business losses, unused tax depreciation and provision for staff gratuity aggregating to Rs. 229.729 million, Rs. 78.826 million and Rs. 46.255 million respectively net of taxable temporary difference of Rs. 13.82 million representing difference between tax base and carrying value of property and equipment.

28. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:



| | Note | 2015 Rupees | 2014 Rupees |
|---|--------|---------------------|---------------------|
| 28.1 Basic earnings per share | | | |
| Loss for the year | | (14,630,935) | (13,185,613) |
| Finance cost / dividend on preference shares | | (4,344,119) | (2,898,000) |
| Loss attributable to ordinary shareholders | | <u>(18,975,054)</u> | <u>(16,083,613)</u> |
| Weighted average number of ordinary shares | Number | <u>27,568,187</u> | <u>19,422,552</u> |
| Earnings per share | | <u>(0.69)</u> | <u>(0.83)</u> |
| 28.2 Diluted earnings per share | | | |
| Loss for the year | | (14,630,935) | (13,185,613) |
| Weighted average number of ordinary shares | Number | <u>27,568,187</u> | <u>19,422,552</u> |
| Weighted average number of notionally convertible preference shares | Number | <u>2,800,000</u> | <u>2,800,000</u> |
| | | <u>30,368,187</u> | <u>22,222,552</u> |
| Diluted earnings per share | | <u>(0.48)</u> | <u>(0.59)</u> |
| Diluted earnings per share restricted to (note 28.2.1) | | <u>(0.69)</u> | <u>(0.83)</u> |

28.2.1 The effect of the conversion of the preference shares into ordinary shares is anti-dilutive, accordingly the diluted EPS is restricted to basic EPS.

| | Note | 2015 Rupees | 2014 Rupees |
|---|------|---------------------|--------------------|
| 29. CASH USED IN OPERATIONS | | | |
| Loss before taxation | | (12,991,348) | (11,457,025) |
| Adjustments for non cash charges and other items: | | | |
| Depreciation | | 9,938,262 | 6,177,317 |
| Amortization | | 5,173,364 | 3,545,876 |
| Provision for gratuity | | 9,848,876 | 6,522,650 |
| Finance cost | | 3,211,582 | - |
| Unrealized gain on remeasurement of investment at fair value through profit or loss | | (27,270) | (154,726) |
| Realized (gain) / loss on investment at fair value through profit or loss | | (2,690,411) | 3,036 |
| Mark-up on government securities | | (7,727,512) | (4,635,779) |
| Mark-up on bank deposits | | (851,043) | (1,919,964) |
| Gain on disposal of property and equipment | | (1,756,233) | (54,365) |
| Working capital changes | 29.1 | <u>(13,515,369)</u> | <u>155,819</u> |
| | | <u>(11,387,102)</u> | <u>(1,817,161)</u> |

| | Note | 2015 Rupees | 2014 Rupees |
|--|------|---------------------|---------------------|
| 29.1 Working capital changes | | | |
| (Increase) / decrease in current assets | | | |
| Supplies and consumables | | (269,428) | 236,918 |
| Annual subscription receivable | | (8,025,000) | (3,675,000) |
| Deposits and short-term prepayments | | 2,816,687 | (2,997,238) |
| Other receivables | | (1,314,411) | (5,150,330) |
| | | <u>(6,792,152)</u> | <u>(11,585,650)</u> |
| Increase / (decrease) in current liabilities | | | |
| Advance annual subscription and other fee | | 3,972,368 | (1,705,098) |
| Advance member admission fee | | - | (4,250,000) |
| Creditors, accrued and other liabilities | | (10,695,585) | 17,696,567 |
| | | <u>(13,515,369)</u> | <u>155,819</u> |

30. PROVIDENT FUND

As stated in note 8, effective from October 01, 2014, the Exchange started an approved funded contributory provident fund (the Fund) for its permanent employees. Contributions towards the fund have been deposited in a separate bank account, the balance of which as at June 30, 2015 is Rs. 5,834,718.

| | 2015 Rupees | 2014 Rupees |
|--|----------------------|----------------------|
| 31. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES | | |
| 31.1 FINANCIAL INSTRUMENTS BY CATEGORY | | |
| Financial assets as per balance sheet | | |
| Fair value through profit or loss | | |
| - Exchange's investment in government securities | 81,002,844 | 107,513,682 |
| - Settlement Guarantee Fund's investments | 890,555,210 | 850,918,794 |
| Loans and receivables | | |
| - Annual subscription receivable -considered good | 15,750,000 | 7,725,000 |
| - Accrued markup in Settlement Guarantee Fund | 7,713,185 | 42,551,124 |
| - Deposits | 1,462,039 | 2,555,502 |
| - Other receivables | 13,430,171 | 8,677,721 |
| - Assets relating to settlement guarantee fund other than investments at fair value through profit or loss | 51,136,071 | 1,616,687 |
| - Cash and bank balances | 6,206,225 | 8,454,722 |
| | <u>1,067,255,745</u> | <u>1,030,013,232</u> |
| Financial liabilities as per balance sheet | | |
| Financial liabilities measured at amortized cost | | |
| - Long-term deposits | 196,150,000 | 195,400,000 |
| - Dividend on preference shares | 7,638,398 | 7,638,398 |
| - Settlement guarantee fund | 949,404,466 | 895,086,605 |
| - Creditors, accrued expenses and other liabilities | 33,010,230 | 45,285,134 |
| | <u>1,186,203,094</u> | <u>1,143,410,137</u> |



31.1.1 Fair values of financial assets and liabilities

(a) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying amount of the financial assets and liabilities reflected in the financial statements approximate their fair values.

(b) Fair Value estimation

The Exchange has measured financial instruments at fair values using following three level fair value hierarchy that reflects the significance of the inputs used in measured fair value of financial instruments.

- 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 (i.e., as prices) or indirectly (i.e., derived from prices). The Exchange has no items to report in this level.

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

The Exchange has investments in Treasury Bills (T-Bills) amounting to Rs. 81.003 million (June 2014: Nil) and in PIBs amounting to Rs. Nil (June 2014: 107.514 million), investments held on account of 'Settlement Guarantee Fund' in PIBs amounting to Rs. 163.881 million (2014: Rs. 827.165 million) and treasury bills of Rs. 726.674 million (2014: Rs. 23.754 million) which are valued under Level 2 valuation method. The Exchange does not have any investment valued under Level 1 or Level 3 category.

31.2 Financial risk factors

The Exchange is exposed to market risk (including price risk and interest rate risk), credit risk and liquidity risk arising from its business activities. The Exchange overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Exchange's financial performance.

The Board of Directors has overall responsibility for the oversight of financial risk management for the Exchange. To assist the Board in discharging its oversight responsibility, the management has been made responsible for identifying, monitoring and managing the Exchange's financial risk exposures.

The main financial risks that the Exchange is exposed to and how they are managed are set out below:

31.2.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include short term investments designated at fair value through profit or loss and investments made out of Settlement Guarantee fund (refer note 20 and 21).

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. As the Exchange has no significant interest-bearing assets and liabilities, the Exchange's income and operating cash flows are substantially independent of changes in market interest rates.

At June 30, 2015, if interest rates on Exchange's net financial assets had been 1% higher / lower with all other variables held constant, profit for the year would have been lower / higher by Rs. 901,009 (2014: Rs. 1,349,036) mainly as a result of higher / lower interest exposure on fixed rate financial instruments.

At the balance sheet date, the interest rate risk profile of the Exchange's interest bearing financial instruments is as follows:

| | Carrying Amount | |
|---|--------------------|--------------------|
| | 2015 Rupees | 2014 Rupees |
| Fixed rate instruments | | |
| Financial assets | | |
| - Exchange's investment in government securities | 81,002,844 | 107,513,682 |
| - Settlement Guarantee Fund's investment in government securities | 890,555,210 | 827,164,894 |
| | <u>971,558,054</u> | <u>934,678,576</u> |

(b) Currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the Exchange is not exposed to any foreign currency risk.

(c) Other price risk

As at June 30, 2015, the Exchange is not exposed to other price risk.

31.2.2 Credit risk

Credit risk and concentration of credit risk

Credit risk represents the risk of loss if the counter parties fail to perform as contracted. The Exchange's credit risk is primarily attributable to its receivables, balances at banks and other financial assets. Total financial assets of the Exchange are subject to credit risk except cash.

Credit risk related to financial instruments and cash deposits

The Exchange limits its exposure to credit risk by investing in liquid securities and only with counterparties that have a good credit rating. The credit quality of Exchange's bank balance can be assessed with reference to external credit rating as follows:

| Name of Bank | Rating Agency | Rating | |
|--|---------------|------------|-----------|
| | | short term | long term |
| Bank Alfalah Limited | PACRA | A1+ | AA |
| Bank Islami Pakistan Limited * | PACRA | A1 | A+ |
| Bank Al-Habib Limited | PACRA | A1+ | AA+ |
| Faysal Bank Limited | PACRA | A1+ | AA |
| Standard Chartered Bank (Pakistan) Limited | PACRA | A1+ | AAA |
| Habib Bank Limited | JCR-VIS | A-1+ | AAA |
| JS Bank Limited * | PACRA | A1+ | A+ |
| MCB Bank Limited | PACRA | A1+ | AAA |
| Summit Bank Limited * | JCR-VIS | A-1 | A |
| Meezan Bank Limited | JCR-VIS | A-1+ | AA |



| Name of Bank | Rating Agency | Rating | |
|---------------------|---------------|------------|-----------|
| | | short term | long term |
| United Bank Limited | JCR-VIS | A-1+ | AA+ |

* These banks are used only for channelizing the funds to clearing house.

31.2.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funds. Currently the Exchange is in consolidation phase of its operations and foresees profitable operations in future. The Exchange has an effective cash management and planning policy in order to maintain flexibility in its funding. In future years the management of the Exchange believes that it will have enough funds through profitable operations to have minimal liquidity risk. Currently, the Exchange has no material external borrowings. Liquidity of the Settlement Guarantee Fund is ensured through placing funds in liquid investments (refer note 21).

The following are the contractual maturities of financial liabilities.

| | 2015 | | |
|---|---|-------------------------|-------------------------|
| | Carrying amount / contractual cash flow | Maturity up to one year | Maturity after one year |
| ----- Rupees ----- | | | |
| Long-term deposits | 196,150,000 | - | 196,150,000 |
| Dividend on preference shares | 7,638,398 | 7,638,398 | - |
| Settlement guarantee fund | 949,404,466 | 949,404,466 | - |
| Creditors, accrued expenses and other liabilities | 33,010,230 | 33,010,230 | - |
| | <u>1,186,203,094</u> | <u>990,053,094</u> | <u>196,150,000</u> |

| | 2014 | | |
|---|---|-------------------------|-------------------------|
| | Carrying amount / contractual cash flow | Maturity up to one year | Maturity after one year |
| ----- Rupees ----- | | | |
| Long-term deposits | 195,400,000 | - | 195,400,000 |
| Dividend on preference shares | 7,638,398 | 7,638,398 | - |
| Settlement guarantee fund | 895,086,605 | 895,086,605 | - |
| Creditors, accrued expenses and other liabilities | 50,327,215 | 50,327,215 | - |
| | <u>1,143,410,137</u> | <u>953,052,218</u> | <u>195,400,000</u> |

31.3 Capital risk management

The Exchange has a policy of active capital management through which it seeks to maintain an optimal structure to reduce its cost of capital and to provide returns to its shareholders, whilst fulfilling its obligations to the relevant regulatory authorities and other stakeholders.

The Exchange's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders in future and to maintain an optimal capital structure to reduce the cost of capital.

Capital is defined as the financial resources that are raised by the Exchange from its shareholders (equity capital) and from its lenders / members (debt capital). Security and clearing house deposits received from the members are treated as debt for the purposes of risk management. Details of the Exchange's capital (both ordinary and preference share capital) are stated in note 5 and note 6 to these financial statements.

32. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated companies, directors, key management personnel and staff retirement benefit. Transactions carried out with related parties during the year are as follows:

| Relationship with Exchange | Nature of transaction | 2015 Rupees | 2014 Rupees |
|---|---|----------------|----------------|
| Associated undertakings | Finance cost/dividend on preference shares | 2,016,913 | 1,345,500 |
| | Receipt of fee for accounting and other services | 600,000 | 1,200,000 |
| | Payment to Investor Protection Fund Trust | 2,972,209 | 3,221,005 |
| | Deposit of annual subscription | 100,000 | 50,000 |
| | Receipt of deposit against initial margin | 10,455,570 | 9,125,285 |
| | Repayment of deposit against initial margin | 20,737,470 | 11,365,265 |
| | Receipt of clearing house deposit | 1,069,416 | 200,000 |
| | Repayment of deposit against clearing house deposit | - | 1,495,249 |
| | Technology fee | 84,000 | 84,000 |
| | Research fee | - | 25,000 |
| | Payment to Gratuity fund | 3,420,297 | |
| | Payment to Provident Fund | 6,516,406 | |
| Directors | Directors' meeting fee | 740,000 | 1,090,000 |
| Key management personnel (excluding Managing Director) | Salaries and benefits | 38,294,920 | 34,879,904 |
| | Post employment benefits | 2,126,497 | 5,301,212 |



- 32.1 Certain key management personnel are also provided with fixed education and medical allowances in accordance with their employment contracts.
- 32.2 The outstanding balances with related parties as at June 30, 2015 are included in the respective notes to the financial statements.
- 32.3 The remuneration to the Managing Director is disclosed in note 24.2 to the financial statements.

33. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on September 29, 2015 by the Board of Directors of the Exchange.

34. GENERAL

Figures have been rounded off to the nearest Rupee.

A handwritten signature in black ink, appearing to be 'S. M. A. D. R.', written over a horizontal line.

Managing Director

A handwritten signature in black ink, appearing to be 'S. M. A. D. R.', written over a horizontal line.

Chairman



PROXY FORM

Pakistan Mercantile Exchange Limited

I/we, _____ son/daughter/wife of _____ being a shareholder of PAKISTAN MERCANTILE EXCHANGE LIMITED hereby appoint _____ son/ daughter/ wife of _____ as my / our Proxy in my/ our absence to attend and vote for me/ us, and on my/ our behalf at the Annual General Meeting of the Company to be held on October 30, 2015 or at any adjournment thereof.

Signed by me on this _____ day of _____ 2015.

 (Revenue stamp of Rs. 5/-)
 Signature of Appointer

 Signature of Proxy

WITNESS 1:

Signature: _____

Name: _____

CNIC No.: _____

WITNESS 2:

Signature: _____

Name: _____

CNIC No.: _____



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