

ANNUAL REPORT 2009



**LAHORE STOCK EXCHANGE
(GUARANTEE) LIMITED**



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Company Information





Board of Directors

Mr. Arif Saeed	(Chairman)
Mian Shakeel Aslam	(Managing Director/ CEO)
Mr. Sikandar Mustafa Khan	
Mr. Ibrar A. Mumtaz	
Mr. Walid Iqbal	
Mr. Jahanzeb Mirza	
Mr. Omer Khalil	
Dr. Arslan Razaque	
Mr. Naeem Anwar	
Chaudhry Muhammad Afzal	

Audit Committee

Mr. Ibrar A. Mumtaz
Mr. Walid Iqbal
Mr. Omer Khalil

Chief Financial Officer

Mr. Arshad Munir Mirza

Company Secretary

Mr. Wasim Baig

Legal Advisors

M/s. Hassan & Hassan
 M/s. Saleem Baig & Advocates
 M/s. Abid Aziz Sheikh & Advocates
 Mr. S. A. Naeem

Auditors

M/s. Hameed Chaudhri & Co.
 Chartered Accountants

Bankers

Allied Bank Limited
 Arif Habib Bank Limited
 Askari Bank Limited
 Bank Alfalah Limited
 Bank Al-Habib Limited
 Barclay Bank PLC, Pakistan
 Faysal Bank Limited
 Habib Bank Limited
 Habib Metropolitan Bank Limited
 KASB Bank Limited
 MCB Bank Limited
 National Bank of Pakistan
 The Royal Bank of Scotland
 United Bank Limited

Head Office

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 Lahore, 54000, Pakistan
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 Fax: +92 (42) 3636 8484-5

Faisalabad Trading Floor

5th Floor, State Life Building,
 Circular Road, Faisalabad
 PABX: +92 (41) 262 2502, 260 4157-8
 Fax: +92 (41) 260 4156

Website:

www.lahorestock.com



Notice of Annual General Meeting





Notice of Annual General Meeting

Notice is hereby given that the 39th Annual General Meeting of the **Lahore Stock Exchange (Guarantee) Limited**, is scheduled to be held on Friday, October 30, 2009 at 2:45 p.m. in the Auditorium of the Exchange, 19 - Khayaban-e-Aiwan-e-Iqbal, Lahore to transact the following business:

AGENDA

Ordinary Business:

1. To confirm the minutes of the 38th Annual General Meeting held on December 6, 2008 (adjourned meeting), Extraordinary General Meeting held on January 30, 2009 and Extraordinary General Meeting held on June 12, 2009.
2. To receive, consider and adopt the Audited Annual Accounts of the Lahore Stock Exchange for the year ended June 30, 2009, along with the Directors' and Auditors' Reports thereon.
3. To appoint the auditors of the Lahore Stock Exchange for the year 2009-2010 and to fix their remuneration. The retiring auditors, M/s. Hameed Chaudhri & Company, Chartered Accountants, being eligible, have offered themselves for re-appointment.

Dated: October 9, 2009

(WASIM BAIG)
Company Secretary



Chairman's Review





Chairman's Review

I am pleased to present the Annual Review as Chairman of the Lahore Stock Exchange.

The Economy

FY 2008-2009 has been a difficult year for the economy. GDP growth was at a low 2.4% due to prevailing global recession, energy crisis and higher commodity prices,

Capital Markets

The price floor mechanism, which was placed in August 2008 was removed in December, 2008. During FY08-09, the LSE-25 index declined by 44% on a year-on-year basis. The price floor mechanism, continued energy crisis, unstable political conditions, higher inflation and interest rates, exchange-rate instability, outflow of the portfolio investments, globally pervasive bearish markets, worsening law and order situation, depletion of foreign-exchange reserves, etc. are the main factors for continuation of this bearish-spell.

LSE witnessed one of its most volatile trading years; when the index was virtually frozen on August 27, 2008 levels, as the case for the other stock exchanges of Pakistan too. At the time of the freeze, the LSE-25 index was at 2,875 and the index stood effectively frozen for a 110-day period, with virtually no trading activity taking place. This crisis put a severe strain on the liquidity of its members & their businesses.

The stock market saw massive foreign outflows during the year owing to the removal of price floor mechanism. Net foreign investment in equity market was at a negative \$418 million for the period up-to March 2009. The year in review saw no fresh merger or acquisition activity from international investors.

During the year in review, the SECP took many steps towards capital market reforms, one of the major steps being the revival of the Consultative Group on Capital Markets. The CFS MK II product was also discontinued.

Strategy & Initiatives

The Exchange's total revenue was at Rs. 198 million, showing a marginal decrease of 3% over last year. The surplus for the year after tax was Rs. 104 million showing a 13% increase over the last year.

I am happy to note that the restructuring plan, which was approved by the Board of Directors last year, has been functioning satisfactorily with major management milestones being achieved during the year.

The overall economic scenario within the financial year has again, not been conducive for companies to list on the stock exchanges. Out of the total 9 new listings on the LSE, only two of them were companies, while the rest were open-ended funds and term finance issues. LSE's total listed entries at the start of the year was at 514, whereas it has ended the year at 511 companies. I am positive that there are tremendous listing opportunities available in the economy and the Lahore Stock Exchange would continue to engage such entities. This would also require a significant effort on the part of the regulators by providing an enabling environment in addition to the Exchange's efforts to tap this potential.

Significant headway was made by the Exchange in fulfilling its role as a front-line regulator, through its Regulatory Division, which as a direct consequence of the market crisis has been involved in the resolution of numerous investor complaints and arbitration proceedings. It goes without saying that resultant litigation and related expenses against the exchange have as a result increased.

Demutualization and Integration

As I write this review, the National Assembly has passed the Stock Exchanges (Corporatization, Demutualization & Integration) Act 2009. It is a matter of time that the Act would be passed from the Senate and the President. The Exchange, on its part in consultation with M/S. Rothschild, an investment bank from the UK, is well prepared to meet the deadlines and requirements once this Act is approved and handed over for compliance.



Strategic Investments

The Exchange has invested in certain entities that are of immense importance in the development and functioning of the capital markets. The economic crisis during the FY 2008-09 also had a major impact on the profitability of these entities. Our Directors, as members of the Board in these entities fully participated in managing these entities through these difficult periods. .

Future Outlook

At the time of writing this review, the economic situation has somewhat improved as compared to the previous year, but the law and order situation remains very challenging. The LSE-25 index is at 2,863 points, which is 34% higher than the June 30, 2009 level.

As stated above, demutualization is one the major areas which would significantly engage the Exchange and its members. I am sure that due to the quality of its management, the vision of the members of the exchange and the untapped potential to generate value in the long run, it would be able to attract significant valuation and the interest of significant strategic investors.

Thanks are also due to the continued cooperation and support extended by the Chairman, SECP, Mr. Salman Sheikh and to the Commissioners throughout the year.

I would like to place on record the very positive contribution of the Board of Directors and, in particular the Management and the Staff of the LSE in maintaining and upholding the highest standards of professionalism.

ARIF SAEED
Chairman



Governing Board Of Directors





Arif Saeed
Chairman

Mr. Arif Saeed Chairman, Service Industries Limited, Chairman, Lahore Stock Exchange (Guarantee) Limited, Director, Sui Northern Gas Pipelines Limited, Punjab Industrial Estate Development and Management Company, Punjab Social Security and Health Management Company. Former Chairman, All Pakistan Textile Mills Association (APTMA). B.A. (Hons) from Oxford University (UK).



Mian Shakeel Aslam
MD / Chief Executive Officer

Mian Shakeel Aslam is an ACA from The Institute of Chartered Accountants of England and Wales (ICAEW) having also graduated with first class honors from the UK. He has a number of years of multinational international experience in England with the likes of KPMG and Merrill Lynch amongst others, gaining rich and diverse experience of the financial and Capital Markets. He Joined Lahore Stock Exchange in 2006 as the General Manager / Chief Operating Officer and assumed the position of Managing Director and Chief Executive Officer in 2008. He is currently serving on the Boards of National Clearing Company Pakistan (NCCPL), Institute of Capital Markets (ICM) and the Pakistan Credit Rating Agency (PACRA) as well as having served as a Director on the Board of the Central Depository Company of Pakistan (CDCPL). Further he is also the Chairman of the Audit Committee of both NCCPL and PACRA.

Mian Shakeel Aslam has also represented the Lahore Stock Exchange on a number of International Forums including but not limited to the Federation of Euro Asian Exchanges (FEAS), South Asian Federation of Exchanges (SAFE) and Organization of Islamic Countries Stock Exchanges (OIC), actively participating in various working committees / projects of these respective federations.



Chaudhry M. Afzal
Director

Chaudhry Muhammad Afzal is Chief Executive of Rahat Securities Limited, a corporate member of Lahore Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited. He has been on the board of directors of Lahore Stock Exchange several times and serving as convener of Demutualization Committee Lahore Stock Exchange (Guarantee) Limited since 2005. He has also served on Defaulter, IT and steering Committee of Lahore Stock Exchange (Guarantee) Limited. He is a partner in Rahat Bakers and Departmental store and also Managing Partner of Chaudhry & Company, a construction company which is involved in various construction projects with the Housing Directorate of Pakistan Army.



Dr. Arslan Razaque
Director

Dr. Arslan Razaque Chief Executive of his company holds MBBS degree from King Edward Medical College. In addition he has a fellowship degree in Immunology from Austria. He has almost 15 years of experience in the field of capital market. He was elected five times as a director of Lahore Stock Exchange and three times as Director of National Clearing Company of Pakistan. He is also on the Managing Committee of Cadet College Hasanabdal society.

He was also a nominee director of Invest and Finance Securities Lahore. Has a vast experience and served as Convenor on many Committees like Defaulters Committee, Building Committee and presently member of HR Committee of NCCPL.

Dr. Arslan Razaque is an active supporter of charitable organizations.



Jahanzeb Mirza
Director

Mr. Jahanzeb Mirza is a nominee director of S.D. Mirza Securities (Private) Limited. He holds BBA (Finance) degree from the University of Houston (U.S.A). He has several years of experience in the field of capital / stock market. He has been twice elected as a director of Lahore Stock Exchange.



Naeem Anwar
Director

Mr. Naeem Anwar is a Nominee Director /Chief Executive of MAAN Securities (Private) Limited. He has been associated with capital /stock markets for more than two decades, having extensive experience of its mechanism and workings. He also presently represents on Board of Directors of the Lahore Stock Exchange (Guarantee) Limited. He holds a Graduate Degree from Karachi University, Karachi. He is also a member of Membership Committee, Trading Affairs Committee and I.T. Steering Committee of Lahore Stock Exchange (Guarantee) Limited.



Omer Khalil Malik
Director

Mr. Omar Khalil Malik is a Director of Network Securities Limited having more than 10 years experience of the capital markets. He is also a Director on Board of Directors of the Lahore Stock Exchange (Guarantee) Limited (LSE). He also served on various committees including the Audit Companies Affairs, Information Technology, Trading Affairs, Legal Affairs, Human Resource etc for LSE. He holds a Masters Degree in Business Administration and studied in institutions including Cardiff Business School (University of Wales), Institute of Management Sciences and Hailey College (Punjab University).



Walid Iqbal
Director

Walid Iqbal is a practicing corporate lawyer and a Partner at the law firm Lexium - Attorneys at Law. He entered legal practice in Pakistan in 1994, and became an Advocate of the High Courts of Pakistan in 1996. After earning his LL.M. from Harvard Law School (1996-97), he was admitted to practice in the State of New York in 1998 and to the Roll of Solicitors of England and Wales in 2004 (currently maintaining non-practicing status).

Between 1997 and 2004, Walid Iqbal worked for two leading international law firms, and returned to Pakistan to re-start his practice here in January 2005. In addition to serving as a nominee of the Securities and Exchange Commission of Pakistan on the Board of Directors of the Exchange, Walid Iqbal currently also serves as an Adjunct Professor of Business Law at the Suleman Dawood School of Business of the Lahore University of Management Sciences (LUMS). He is also a member of the Association of International Petroleum Negotiators (AIPN).

Apart from Harvard Law School, Walid Iqbal has also been educated at Aitchison College Lahore (O-Levels and A-Levels), the Wharton School, University of Pennsylvania (B.S. Econ.), Pembroke College, Cambridge (M. Phil.), and the Punjab University (LL.B.) (Gold Medalist). He specializes in cross-border mergers and acquisitions, privatizations, corporate and project finance, financial institutions, investment management, joint ventures, energy and petroleum (both upstream and downstream business), asset finance, IT, telecommunications and software development (particularly the associated licensing arrangements), and corporate restructurings.



Ibrar A. Mumtaz
Director

Mr. Ibrar A. Mumtaz is a Businessman. He was born in 1947 and comes from a prominent business family of Lahore. He was educated at Aitchison College, Lahore, F.C. College, Lahore and the Institute of Business Administration, (I.B.A) University of Karachi. After completing his education he joined his family business in 1968, namely the Fazal Din's Group of Companies comprising of Fazal Din & Sons (Pvt) Ltd., Lahore Chemical & Pharmaceutical Works (Pvt) Ltd., Medipharm (Pvt) Ltd., Fazal Din's Pharma Plus (Pvt) Ltd. and Medequips.

Besides his business interests, he is also involved in social work and is a keen horticulturist. He is a founder member of the governing board of the Parks and Horticulture Authority, Lahore and received international recognition in the field of horticulture when he was awarded the International Service Award by the American Hemerocallis Society in 1996. He is also a Trustee of the Businessman Hospital Trust, a charitable Trust running the Shalamar Hospital in Lahore.

In 2004-5 he served as member of the balloting and executive committees of the Punjab Club, Lahore and in 2006, he was elected as the Chairman of the Lahore Stock Exchange. He is a director on the Board of The Lahore Stock Exchange (G) Ltd., and has also served as a Director on the Boards of Pakistan Credit Rating Agency, (PACRA) and The National Commodity Exchange Ltd., Karachi. His business profile has also been published by "International Who's Who of Professionals" and "Marquis Who's Who in the World" in their 1998 publications. He has also qualified as a "Certified Director" from the Pakistan Institute of Corporate Governance.

In 2007 he was appointed on the board of the National Bank of Pakistan and currently serves on the Board's HR Committee, Islamic Banking and Subsidiaries Committee, Agricultural Finance Committee and Sports and Culture Committee besides serving as the Chairman of the Board Audit Committee.

He is the Chairman of Fazal Din's Pharma Plus (Pvt) Ltd. who are the pioneers of retail chain store pharmacy business in Pakistan.



Sikandar M. Khan
Director

Mr. Sikandar M. Khan, Chairman, Millat Group of companies is a Mechanical Engineer from NED Engineering College, Karachi, with specialization in Production Engineering/Technology having Masters' Degree from Imperial College of Science and Technology, London and another from the University of New Castle upon Tyne, U.K. He has attended several management courses locally and abroad, including advanced Management Program at International Management Institute, Geneva, Switzerland and Leadership Development Program at Center for Creative Leadership (Colorado Springs), U.S.A.

He has varied experience in the automotive industry and has been associated with it since 1972. He was the Vice President of Lahore Chamber of Commerce & Industry for the period October 1997 to September 1998.

Mr. Khan was appointed as Managing Director of Millat Tractors Limited in October 1985. In pursuance of the Privatization Policy of the Government, Mr. Khan successfully led his team for the Employee Buy-out of MTL.

Since privatization of Millat Tractors Limited, the group has grown and now consists of four companies. Apart from MTL, the other Companies are Bolan Castings Limited, Millat Equipment Limited manufacturing gears and drive shafts, and Millat Industrial Products Limited - manufacturing automotive batteries.

Mr. Khan has been associated with the foundry industry from the very beginning of his practical career. He developed his commitment to this industry as incharge of foundry at Naya Daur Motors during early seventies. He has been a Director on the Board of the largest Automotive Foundry of the country i.e. Bolan Castings Limited for more than two decades and is currently the Chairman of this company as well as the President of Pakistan Foundry Association.

Mr. Khan is the Honorary Secretary of the Pakistan Chapter and Member of the Institution of Mechanical Engineers, London. He was the founding Chairman, Technical Education and Vocational Training Authority (TEVTA), and the Chairman of Punjab Vocational Training Council (PVTC) of the Government of Punjab. He was also the elected Member Executive committee and Vice President, Lahore Chamber of Commerce & Industry for the period April 1995 to September 1997 and October 1997 to September 1998 respectively.



Directors' Report





DIRECTORS' REPORT

The Board of Directors of Lahore Stock Exchange (Guarantee) Limited (LSE) is pleased to present the Annual Report for the financial year 2008-09 along with the audited accounts for the year-ended on June 30, 2009 and the Auditors' report thereon.

The Economic Review

Pakistan's real GDP growth rate for FY 08-09 was 2.4% as against 4.1% for FY 07-08 and 6.8% for FY 06-07. The economy's growth in FY 08-09 has decelerated owing to prevailing global recession, higher commodity prices, especially in the 3rd quarter of 2008, massive erosion of Foreign Exchange reserves, bringing it down to around \$5 billion and resulting into over 30% currency depreciation. Service sector growth was only 3.6% against 6.6% and 7% of 2008 and 2007 respectively. In the current fiscal year, manufacturing sector declined by 3.3% (FY 07-08: growth by 4.8%), and the agriculture sector grew by 4.7% (FY08: 1.1%).

The ratings were downgraded and the extremely poor law and order situation and political uncertainty kept the local as well as international investors on the sidelines. Privatization process was almost redundant and FDI'S were markedly low and the market witnessed unprecedented outflow of the portfolio investments. Both exports and imports had declined by 5.9% and 10.5% respectively in FY 08-09. There was historic trade gap, which needed immediate correction. The external current account deficit contracted to \$8.9 billion (5.3% of GDP) and foreign exchange reserve depleted to \$9.1 billion by the end of June '09.

Although the final consolidated fiscal deficit during the first three quarters of FY 08-09 remained within target, higher expenditures related to IDPs and provincial spending in the fourth quarter of FY 08-09 resulted in increase of the deficit. The power outages resulted into massive reduction in productivity levels and

unprecedented job redundancies and lower tax collection, which amounted to over Rs. 1.15 trillion.

Average inflation as measured by CPI reached around 20% as against 11.5% in the previous year. Consumer price index (CPI), Wholesale price index (WPI) and Sensitive price indicator (SPI) touched the peak of 25.3%, 35.7% and 33.9% respectively during the year. Pakistan had entered into Stand By Agreement with IMF in Nov 2008, got the much need inflows of Foreign Exchange, which started showing upward movement, ratings started improving and the macro-economic indicators started stabilizing.

The massive drop in the crude oil and other commodity prices, helped to have lesser pressure on foreign exchange reserves and also reduced the twin-deficits. The inward remittances did increase by around 20%. SBP was vigilant and worked on tighter monetary policy. In March, the discount rate was reduced by 1%, but still the interest-rate structure was high and the environment very challenging.

Stock Market Performance

LSE-25 Index at the start of the year was at 3,830 points with a market capitalization of Rs. 3,498 billion. The LSE-25 closed the year at 2,132 points with a market capitalization of Rs. 2,018 billion, having bottomed at 1,300 points in late January 2009. Listed capital increased by 10% from Rs. 665 billion to Rs. 728 billion during the year.

Turnover of ready section shares on an average for the year was at 11.23 million shares per day (amounting to an average of Rs. 422 million of value traded per day) as against 26.183 million shares during 2008 (amounting to an average of Rs. 2.5 billion of value traded per day).



LSE witnessed one of its most volatile trading years; when the index was frozen on August 27, 2008 levels, as the case for the other stock exchanges of Pakistan too. This market freeze was one of the reasons for the decrease in the trading volumes and also, the value traded. The freeze meant that shares listed on the LSE cannot trade below the price levels as of this date. At the time of the freeze, the LSE-25 index was at 2,875 and the index stood frozen for a 110-day period, with virtually no trading activity taking place. This crisis put a severe strain on the liquidity of its members & their business.

Listing Activity

During the period under review, 9 new securities were listed at LSE, of which 2 were new companies, 4 were open-ended funds, 2 were Term Finance Certificates and 1 was a preference shares issue. The total issue size of these listings was Rs.12 billion. Total issues listed on the LSE were 511 as compared to 514 issues in the previous year.

Operational Activity

Uniformity of rules and regulations has been a central theme and objective related to the regulatory regime set out by the SECP. In the given fiscal year, the LSE conducted 14 meetings of the trading affairs committee to fulfill trading needs and issues of the participants, as well as addressed rules and regulations changes sent by the SECP which required extensive discussion, deliberation and calibration. A number of trading regulations were amended during the year, which encompassed micro and macro structures. Pursuant to the market issue, which was from August 2008 to late 2008, CDC required many changes in its account opening form, which included formalizing and restricting movements in shares. These changes were duly discussed, refined and implemented in order to further protect the wider interests of the investors.

The minimum lot size was changed to 1 from the previously set lot sizes, in order to ensure a more smooth market flow of transactions and to accommodate odd lots at the market price. This is aimed at allowing newer products like ETFs and a general increase in liquidity to be a permanent feature of the market.

The Deliverables Futures Market was restarted at LSE after the approval from the SECP. This restarting of the Deliverable Futures Market was done across all the exchanges thereby maintaining parity of facilities.

The Federal government changed the capital market taxation regime by abolishing the Capital Value Tax and replacing it with the Federal Excise Duty. FED was levied @16% in the Federal Budget 2009 on brokerage income. Correspondingly CVT @0.2% on the purchase and sale of shares was abolished. These fiscal steps were effective from July 1st, 2009.

A 'One Window Operation' was instituted at LSE to facilitate the activity of inactive LSE members. This window is meant to help guide as well as expedite the process for members interested in restarting their brokerage business.

LSE has been able to improve its human capital, exercise cost efficiencies and has introduced performance based culture, which will result in improving the institutional capacity.

IT Developments

- Information Security Management System**
 LSE has embarked on the Information Security Management System program and in order to achieve this goal, LSE has established a security organizational structure in its working environment. The emphasis of this project is to keep pace with the technological advancements of the modern era and to improve the security level in its information system. The idea is to achieve an international standard of Information

security by improving its existing processes and developing SOP's for effective implementation of each process. The International Standards Organization (ISO) refers this standard as ISO27001. LSE will be one of the leading organizations of its type to achieve this level of Information Security in the country.

- Software Process Improvement**
 Being a technology leader in the financial sector of Pakistan, LSE has taken another initiative i.e. to get software development and testing processes standardize by adopting best practices of CMMI. International consultants have been engaged to assist managers of Project development and Quality Assurance divisions to formulate and implement best practices, as being observed by renowned software development firms. LSE has setup a milestone that by end of year 2009, its development and Quality Assurance divisions would be appraised for CMMI level 2.
- Up gradation of Core and Access layer Network**
 The scope of the project includes replacement of old Cisco 1900 L2 switches with the fast Cisco 3760 L3 multilayer switches at Network access layer and up gradation of Core Network layer to high speed 6509 Cisco switches. The idea is to provide highly available and resilient network services to all internal and external clients.
- Customer Care**
 LSE believes that "support services are face of an organization" and any technological innovation or advancement becomes useless without proper customer care services. LSE has recently revamped its support service section with support being available round the clock. The objective is to provide proactive resolution of technical problems to its national and international clients.

Initiatives In hand

Building of a Tier-3 Datacenter within LSE premises.

Construction of Disaster recovery datacenter at an alternative location.

Development and Implementation of Client Level Margining Risk Management System.

Development of LSE's indigenous Surveillance Software (LS3) is underway with plans to launch the facility by the later stage of the upcoming fiscal year.

Development of Stock Lending and Borrowing Trading system, which is to be deployed at National Clearing & Settlement Company of Pakistan.

Technology transformation of Brokers' back office system from windows to JAVA.

Development of SMS enabled transaction alert system.

Sales of the Software

MIS, being a jewel in the Crown of LSE has worked to deliver trading software to Ghana Stock Exchange and has passed through the process successfully. Moreover, LSE has been awarded the mandate to develop Scrip Borrowing & Lending Software for NCCPL.



Corporatization & Demutualization

The Demutualization process has been on halt during the year as the Demutualization Act has yet to be tabled before the Parliament.

The Exchange has already engaged M/s. Hassan and Hassan (Advocates) to deal with all the legal matters. M/s. N.M. Rothschild (UK), a renowned international investment bank has been mandated to deal with the commercial and financial aspects of this project.

M/s A.F. Ferguson, Chartered Accountants have also been assigned to do the re-valuation work of the Exchange's assets and liabilities, as required under the proposed Demutualization Act.

Investor Education

As part of its mission of increasing awareness about the Capital Markets in Pakistan, Lahore Stock Exchange is conducting workshops and seminars for the awareness of general public about the Stock Market.

LSE is also providing full scholarships to Lahore University of Management Sciences (LUMS) for studies of one undergraduate and one MBA.

LSE has put in the seed money in the establishment of Pakistan Capital Market Institute and is being represented on its board and will play due role in this institution building.

Favorable decision of the Competition Commission (CCP)

With regard to complaint filed by the Islamabad Stock Exchange with CCP and with LSE being a party to it, the favorable Order dated May 29, 2009 was obtained as the complaint was found to be valid and Karachi Stock Exchange was advised to follow the Competition Law and was further ordered to work for the establishment of common trading platform in consultation with ISE and LSE with in a stipulated time frame. KSE has subsequently

gone into appeal in the honorable Supreme Court of Pakistan against CCP's order.

Members' Affairs & Other Matters

During the period under review, out of the 152 LSE members, the corporate members have increased from 110 to 113. The arbitration process, which had been over-hauled through induction of independent arbitrators and the Exchange, performed its operations in an efficient manner. Up-to June 2009, 65% of the investor claims received were resolved. Automation of Broker and Agent Registration data and process was initiated and will be implemented in the very near future.

The Rules and Regulations of the Exchange have been updated and processes have been formulated for their amendments as proposed by the SECP, expeditiously.

LSE is being faced with a number of litigations as a consequence of the market crisis, as well as while giving out arbitration awards. In order to better manage such litigations as well as related costs, the Exchange's in-house expertise has been enhanced and a separate Regulatory Division established, enabling such matters to be dealt with in-house in a more effective and streamlined manner.

During the year, LSE has successfully implemented three modules of Oracle Financials. This implementation would greatly help in enhancing internal controls as well enable quality and reliable information for management decisions.

Financial Results

The financial results of the Exchange for the year ended 30 June 2009 are summarized as follows:

The preceding year's figures have been restated, wherever necessary due to the change in accounting policy regarding recognition of listing fees from receipts basis to accrual basis.

Particulars	2009	2008
	(Rupees in thousand)	
		Restated
Income	198,008	204,765
Expenditure	175,754	172,298
	<u>22,254</u>	<u>32,467</u>
Share of after tax profit of Associated companies-Net	35,070	74,258
Surplus for the year - Before taxation	57,324	106,725
Provision for Taxation	(47,045)	14,338
Surplus for the year - After taxation	104,369	92,387
Accumulated Surplus - Brought forward	516,158	420,529
Transfer from Surplus on Revaluation of Operating Fixed Assets on account of Incremental Depreciation for the year	3,080	3,242
Accrual of Fees pertaining to year June 30, 2008 & prior years	-	88,344
Provision made against doubtful fees	-	(88,344)
	<u>623,607</u>	<u>516,158</u>
Accumulated Surplus - Carried to balance sheet		



The surplus for the year under reference before tax was Rs.57.324 million showing a decrease of 46% over the surplus of Rs.106.725 million for the last year. The total income of the Exchange stood at Rs. 198.008 million for the year under review depicting a decrease of 3 % over the previous years' total income.

Fee income fell by Rs. 43.216 million or 35% over last year to Rs. 79.550 million from Rs. 122.766 million (restated). Income from Automated Trading Fee fell by Rs. 22.211 million or 86% from last year, which was direct consequence of the market freeze.

Profit on bank deposits was Rs. 61.994 million compared to last year's profit of Rs. 52.619 million showing an increase of 18% over last year.

Rental income has increased to Rs. 25.674 million from Rs. 21.985 million showing an increase of 17% over last year.

Share of after tax profits from associated companies decreased by Rs. 39.188 million or 53% over last year.

Total expenditure of the Exchange was Rs. 175.754 million as compared Rs. 172.298 million for the last year. A major reason for the increase in expenses was the introduction of the Voluntary Separation Scheme for the employees of the Exchange, which accounted for Rs. 10.060 million.

Auditors' Observations:

The Auditors have expressed an observation in their report on which the Directors wish to make the following comment:

Recoverability of Rs. 181.531 million from the defaulted / suspended Members:

The management is hopeful that it will be able to fully recover all the payments relating to the May-June 2000 market crisis on the following grounds:

- An amount of Rs. 78.088 million has already been realized from the sale of shares and the proceeds are kept in interest bearing accounts. The Exchange is not utilizing this amount at present, pending final resolution of the Court cases.

- The Exchange, during the FY 2002 auctioned the seat of one of the defaulted/suspended member and realized an amount of Rs. 7.075 million. The Exchange has the right to, under its Rules and Regulations, to sell 3 other seats belonging to defaulted/suspended members. At the current market price, these seats may be sold for Rs. 57 million approximately.
- The Exchange also has the right to sell 6 rooms belonging to these defaulted/suspended members. At the current market price, the Exchange may realize Rs. 27 million approximately from these sales. These memberships and rooms are the collateral with the Exchange as the recoverability of the Clearing House dues has a preferential status. The sale of these assets is held due to pending Court cases.
- Additionally, shares worth Rs. 685 million as at June 30, 2009 have been frozen by SECP pending resolution of the Court cases.
- In addition to the aforementioned avenues, subject to Court judgments, the Civil Judge - Lahore, vide his order dated July 7th, 2003 has attached the CDC accounts of a defaulted member and his associates.
- Negotiations are under progress by certain defaulted/suspended members of the Exchange for settlement agreement to pay back the amounts due by them to the Exchange.
- The above amounts are in excess of the amounts receivable, therefore, no adverse effect is expected on the financial condition of the Exchange.

Auditors:

The auditors M/s. Hameed Chaudhri & Co., Chartered Accountants have retired and have offered themselves for re-appointment. The Audit Committee and the Governing Board of Directors of the Exchange have endorsed their re-appointment for the members' consideration at the forthcoming Annual General Meeting. The external auditors have been given satisfactory Quality Control Review Rating of the Institute of Chartered Accountants of Pakistan.



Governing Board of Directors' Meetings:

A total of 6 meetings of the Governing Board of Directors were held in the period from January 1st, 2009 till September 30, 2009. The participation of each Director in the meeting of the Board is as under:

Total Meetings held	Regular	Emergent
6	5	1

Participation of Directors in the aforesaid meetings

Sr. No.	Names of Directors	Regular	Emergent	Total Meetings Attended
1.	Mr. Arif Saeed, Chairman	5	1	6
2.	Mian Shakeel Aslam: M.D. /CEO	5	1	6
3.	Dr. Arslan Razaque	5	1	6
4.	Chaudhry Muhammad Afzal	5	1	6
5.	Mr. Naeem Anwar	5	1	6
6.	Mr. Jahanzeb Mirza	5	1	6
7.	Mr. Omar Khalil	5	1	6
8.	Mr. Ibrar A. Mumtaz	5	1	6
9.	Mr. Sikandar M. Khan	5	1	6
10.	Mr. Walid Iqbal	5	1	6

Future Outlook

LSE would continue with its efforts to increase its trading volumes through increasing its outreach and collaboration with other exchanges in this regard. It would also continue to look after the interest of all its stakeholders including the investors, issuers and intermediaries as well as fulfill its role as the front-line regulator to make LSE as the exchange of choice for all the participants.

A major challenge lying ahead for the exchange is its demutualization. This will have a major role to play in the overall reformation of the capital markets of Pakistan and through its successful implementation will enhance governance standards, transparency and ultimately investor's confidence. The Demutualization Committee and Management of the exchange through consultation with the SECP will be working tirelessly in its efforts to ensure a swift and timely transition. With LSE's voluntary adoption of the Code of Corporate Governance, its innovative strength in software development and enhancement of its geographical outreach, the new management team is well positioned to capitalize all the available opportunities with its distinct performance.

For and on behalf of the Board

Sd/-

MANAGING DIRECTOR

Lahore: October 1, 2009

Acknowledgements

The Board of Directors would like to place on record its thanks to the Chairman, Commissioners and other staff at the Securities and Exchange Commission of Pakistan, for their continued support and guidance throughout the year.

The Board also records its thanks to the Chairmen and Managing Directors of the Karachi and Islamabad Stock Exchanges, Central Depository Company, National Clearing Company and the management of PACRA and National Commodity Exchange; for their cooperation and coordination in various matters affecting the capital markets during the year.

The Board also records its appreciation for all the Conveners and Members of various committees for their contribution. As always, the Board also recognizes with gratitude the dedication and hard work put in by all the staff members of the Exchange throughout the year.

Sd/-
DIRECTOR



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Lahore Stock Exchange

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Market Information | Members / Brokers | Listed Companies | LSE & Technology | Investor Education | View Only Terminal (VOT)

Symbol	Bid Vol	Bid Price	Offer Price	Offer Vol	Last Rate	Change	Total Vol
Pak.PTA Ltd.	79,000	6.33	6.34	10,010	6.33	-0.36	24,693,166
Arif Habib Sec.	728,152	53.99	0.00	0	53.92	2.50	15,604,456
Jah.Sidd. Co.	100,000	35.75	35.78	24	35.81	-0.23	13,097,323
Oil and Gas Deve. Co.	7,718	108.00	108.13	9,045	108.00	-0.22	8,509,005
Lucky Cement XD	3,560	68.60	68.65	9,255	68.32	2.44	7,205,114
D.G.K.Cement	17,000	29.20	29.30	30,000	29.27	0.67	6,195,134
Bank Al-Falah	6,715	13.75	13.80	48,125	13.76	-0.40	5,491,570
Fauji Fert Bin Qasim	18,380	25.10	25.13	500	25.05	-0.17	4,949,144
National Bank of Pak	600	82.35	82.37	23,600	82.30	-1.73	4,454,838
Nishat Mills XD	8	61.40	61.44	3,200	60.94	0.29	3,748,238
Adamjee Insur XD	1,210,741	115.56	0.00	0	115.56	5.50	3,463,231
Netsol Technol.	4,200	31.65	31.78	30	31.68	0.01	3,194,056
Nimir Ind.Chemical	206,326	2.30	2.31	12,748	2.29	0.18	3,128,211
United Bank Ltd.	100	58.62	58.65	400	58.71	-0.88	3,024,012
P.T.C.L.A	1,500	19.20	19.34	1,000	19.31	-0.48	3,008,291
Askari Bank Ltd.	213	26.32	26.40	4,572	26.36	-0.49	2,996,925
MCB Bank Limited	90	215.90	216.00	24,335	216.05	-7.23	2,954,625
Engro Chem.Pak	5,000	165.25	165.49	200	165.04	0.39	2,934,375

Market Highlights





Market Highlights

JULY TO JUNE	2008 - 09	2007 - 08	2006 - 07
Total Number of Listed Companies	511	514	520
Total Listed Capital (Rs. in billion)	728.331	664.506	594.592
New Listings during the year:-			
Companies	2	2	10
Open-end Funds	4	10	11
Term Finance Certificates	2	1	4
Preference Shares	1	-	-
Total Market Capitalization (Rs. in billion)	2,018.232	3,514.230	3,859.837
Total Share Volume - Regular Market (in million)	2,719.706	6,467.230	8,243.142
Average Daily Share Volume - Regular Market (in million)	11.100	26.183	33.783
LSE-25 Index:-			
Closing	2132.39	3868.79	4849.88
Highest during the year	3830.03	5091.31	5031.21
Lowest during the year	1300.94	3511.18	4004.00



New Listings During the Year 2008-09

S. NO.	COMPANIES	DATE OF LISTING
1	Media Times Ltd.	02/02/2009
2	Engro Polymer & Chemicals Ltd.	27/03/2009

S. NO.	OPEN-END FUNDS	DATE OF LISTING
1	IGI Stock Fund	05/08/2008
2	Atlas Islamic Income Fund	01/12/2008
3	JS Principal Secure Fund I	07/05/2009
4	NAFA Government Securities Liquid Fund	18/05/2009

S. NO.	TERM FINANCE CERTIFICATES	DATE OF LISTING
1	Trust Investment Bank Ltd. (3rd Issue)	11/08/2008
2	Worldcall Telecom Ltd. (2nd Issue)	19/11/2008

S. NO.	PREFERENCE SHARES	DATE OF LISTING
1	Nishat (Chunian) Ltd. 15 % Non-Voting Cumulative Convertible Preference Shares	19/06/2009



De-listings During the Year 2008-09

S. NO.	COMPANIES	REASON OF DE-LISTING	DATE OF DE-LISTING
1	Kakakhel Pakistan Ltd.	Buy Back of Shares @ Rs. 22.50	06/10/2008
2	Amin Fabrics Ltd.	Buy Back of Shares @ Rs. 8.91	24/10/2008
3	International Multi Leasing Corporation Ltd.	Merged with Al-Zamin Leasing Modaraba (1:1)	19/01/2009
4	Network Leasing Corporation Ltd.	Merged with KASB Bank Ltd. (500:1)	17/02/2009
5	Automotive Battery Company Ltd.	Merged with Exide Pakistan Ltd. (9:1)	04/05/2009

S. NO.	TERM FINANCE CERTIFICATES	REASON OF DE-LISTING	DATE OF DE-LISTING
1	Paramount Spinning Mills Ltd. (1st Tranche)	Call Option and final Redemption	31/07/2008
2	Pacific Leasing Company Ltd.	Final Redemption	08/09/2008
3	Pakistan Services Ltd.	Full Redemption	22/12/2008
4	Bank Alfalah Ltd. (1st Issue)	Full Redemption	29/06/2009

S. NO.	OPEN-END FUNDS	REASON OF DE-LISTING	DATE OF DE-LISTING
1	JS Capital Protected Fund -III	Matured and fully redeemed	26/05/2009

S. NO.	PREFERENCE SHARES	REASON OF DE-LISTING	DATE OF DE-LISTING
1	12 % Preference Shares of Noon Pakistan Ltd.	Converted into Non-voting Ordinary Shares	20/05/2009



Changes in Memberships During the Year 2008-09

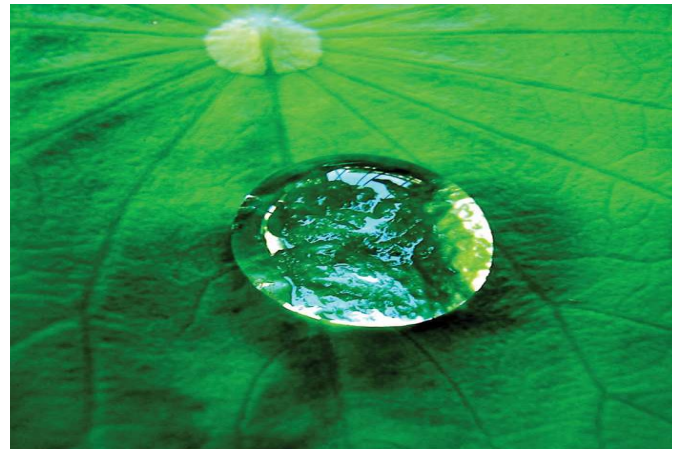
The following Membership rights of the Exchange have been changed by way of nomination/conversion during the financial year July 1, 2008 to June 30, 2009

CONVERSION:

SR. NO.	CODE NO.	INCOMING MEMBER	OUTGOING MEMBER	DATE OF CHANGE
1.	41.	M/s. F.M. Securities (Pvt.) Ltd.	Mrs. Farzana Munir	05-08-2008
2.	22.	M/s. Reliance Capital (Pvt.) Ltd.	Mr. Muhammad Saleem	17-12-2008
3.	59.	M/s. MY Securities (Pvt.) Ltd.	Mr. Muhammad Yousaf Rao	01-04-2009
4.	102.	M/s. Haji Abdul Sattar Securities (Pvt.) Ltd.	Haji Abdul Sattar	19-05-2009

TRANSFER:

SR. NO.	CODE NO.	INCOMING MEMBER	OUTGOING MEMBER	DATE OF CHANGE
1.	17.	M/s. Innovative Brokerage (Pvt.) Ltd.	Innovative Investment Bank Ltd. (formerly Innovative Housing Finance Ltd.)	16-02-2009
2.	151.	M/s. Trust Capital (Pvt.) Ltd.	Trust Investment Bank Ltd.	26-02-2009
3.	46.	M/s. Gazipura Securities & Services (Pvt.) Ltd.	M/s. MSA Securities & Services (SMC- Pvt.) Ltd.	13-03-2009
4.	93.	M/s. Integrated Equities (Pvt.) Ltd.	M/s. MZ Securities (Pvt.) Ltd.	13-03-2009
5.	31.	Ms. Saima Qaiser	M/s. SAT Securities (Pvt.) Ltd.	11-06-2009



Pictorial Coverage of Events 2008-09





Group photo of Chairman, MD / CEO, and Directors of LSE with Mr. Salman Sheikh, Chairman, Securities and Exchange Commission of Pakistan (SECP).



Mr. Arif Saeed, Chairman, LSE and Mr. Salman Sheikh, Chairman, Securities and Exchange Commission of Pakistan (SECP).



Mr. Arif Saeed, Chairman, LSE presenting a memento to Mr. Khalid Mirza, Chairman, Competition Commission of Pakistan (CCP) on his visit to LSE.



Chairman, MD / CEO, Directors and Members of LSE with Mr. Khalid Mirza, Chairman, Competition Commission of Pakistan (CCP) on his visit to LSE.



Mr. Arif Saeed, Chairman, LSE & Mian Shakeel Aslam, MD / CEO, LSE having bilateral discussions with Mr. Sohail Dayala, Commissioner, Securities Market Division, SECP on his visit to LSE.



Mr. Salman Taseer, Governor Punjab, Mr. Arif Saeed, Chairman, LSE and Mian Shakeel Aslam MD / CEO, LSE at the Iftar Dinner hosted by Chairman LSE.



Chaudhry Muhammad Afzal, Director LSE, Mian Shakeel Aslam MD / CEO, LSE Presenting a memento to Mian Muhammad Shahbaz Sharif, Chief Minister, Punjab.



LSE delegation meeting with Mr. Tanveer Ashraf Kaira, Minister, Finance, Planning & Development Punjab.



Mian Shakeel Aslam, MD / CEO, LSE presenting shields at the FEAS meeting.



MD / CEO, Tehran Stock Exchange (Iran) presenting a souvenir to MD / CEO, LSE on his visit to Iran.



MD / CEO, LSE representing LSE at the Conference of Organization of Islamic Countries Stock Exchanges (OIC) held in Tehran, Iran.



Mian Shakeel Aslam, MD / CEO, LSE presenting a memento to Lieutenant General (Retd.) Khalid Maqbool, Ex-Governor, Punjab on his visit to LSE.



Signing of Memorandum of Understanding (MOU) with NIFT.



Ms. Hina Malik, Bureau Chief, CNBC receiving a memento from MD / CEO, LSE on her visit to LSE.



Mr. Arif Masud Mirza, Head of ACCA, Pakistan presenting the ACCA platinum level approved Employer Certificate to MD / CEO, LSE.



MD / CEO, LSE with electronic and print media on their visit to LSE



LSE staff members at the Iftar Dinner (Royal Palm Golf & Country Club).



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2009

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad stock exchanges, which has been voluntarily adopted by the Exchange for the purpose of establishing a framework of good governance. The Exchange has applied the principles contained in the Code in the following manner:

1. At present the Board includes four independent non-executive directors appointed by Securities and Exchange Commission of Pakistan.
2. The directors of the company have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the directors have given declaration that they are aware of their duties and powers under the relevant laws and the company's Memorandum and Articles of Exchange and the listing regulations of the Stock Exchanges of Pakistan.
4. All the Member directors of the Exchange are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
5. No casual vacancy occurred in the Board on during the financial year.
6. The company has issued a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the company.
7. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
8. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board including appointment, determination of remuneration and terms and conditions of employment of CEO/MD.
9. The meetings of the Board were presided over by Chairman and the Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. All material information as required under the relevant rules has been provided to the Securities and Exchange Commission of Pakistan within the prescribed time limit.
11. The Board has approved the appointment of the Head of Internal Audit, including his remuneration and terms and conditions of employment. There was a new appointment of CFO during the year.
12. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
14. The company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of Three members, of whom Two are non-Member directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Exchange 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 set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the Exchange and are involved in the Internal Audit function on a full time basis.
18. 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 Membership 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 Institute of Chartered Accountants of Pakistan.
19. 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.
20. We confirm that all other material principles contained in the code have been complied with.

Sd/-
Managing Director
01 October, 2009.



REVIEW REPORT TO THE MEMBERS

ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of LAHORE STOCK EXCHANGE (GUARANTEE) LIMITED (the Exchange) to comply with the requirements of the Code of Corporate Governance.

The responsibility for compliance with the Code of Corporate Governance 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 of Compliance reflects the status of the Exchange's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Exchange 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 have not carried-out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

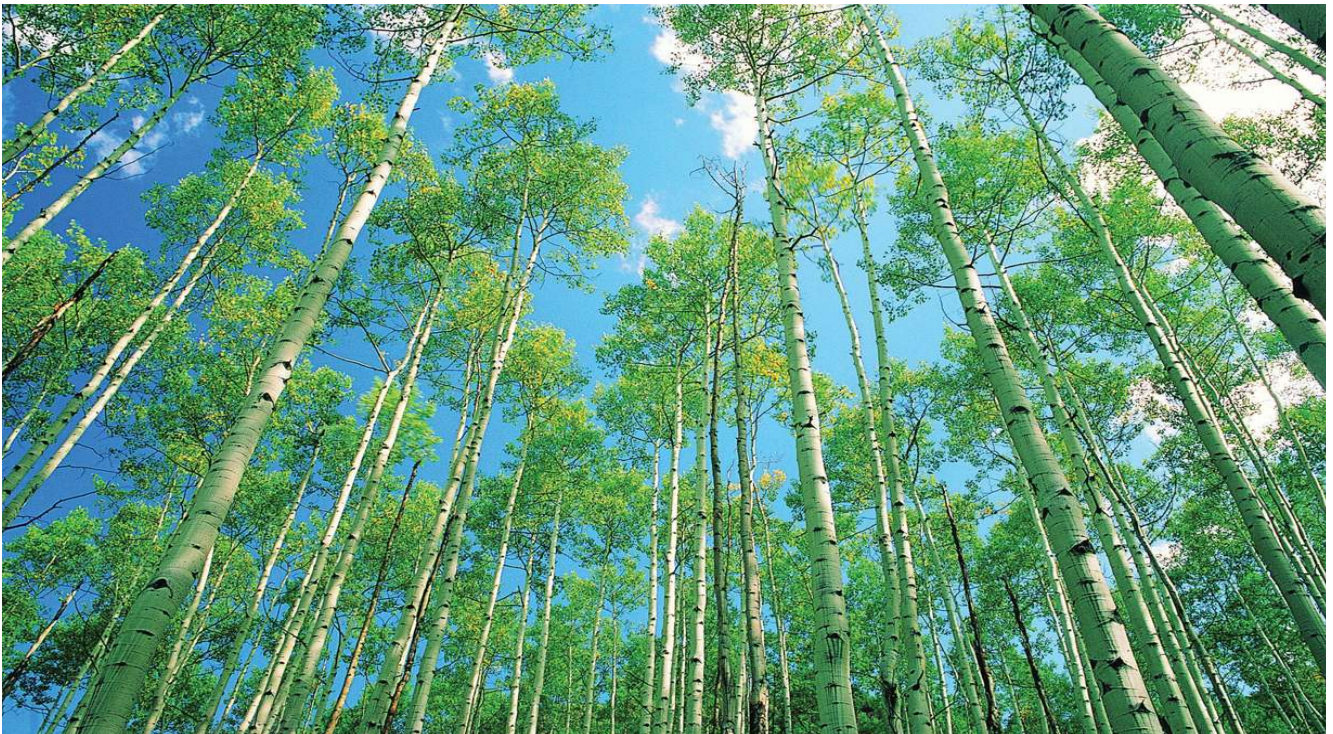
Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Exchange's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Exchange for the year ended 30 June, 2009.

LAHORE: 02 October, 2009

Sd/-
HAMEED CHAUDHRI & CO.,
Chartered Accountants



Financial Statements





AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **LAHORE STOCK EXCHANGE (GUARANTEE) LIMITED** (the Exchange) as at 30 June, 2009 and the related income and expenditure account and cash flow statement 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:

Due to pending court cases, recoverability of Rs. 181.531 million due from the defaulted / suspended Members depends upon favourable judgments by the respective Courts as detailed in note 31.

- (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 income and expenditure 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, except for the change as stated in note 37.1 to the financial statements, with which we concur;
 - (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, income and expenditure account and cash flow statement 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, except for the reservation detailed in aforementioned paragraph and the extent to which this may affect the annexed financial statements, respectively give a true and fair view of the state of the Exchange's affairs as at 30 June, 2009 and of the surplus and its 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 (XVIII of 1980).

LAHORE: 02 October, 2009

Sd/-
HAMEED CHAUDHRI & CO.
Chartered Accountants

Engagement partner:
Abdul Hameed Chaudhri

**BALANCE SHEET**

	Note	2009 (Rupees in thousand)	2008 Restated
FUNDS AND LIABILITIES			
MEMBERS' INITIAL CONTRIBUTION	7	116,102	116,102
RESERVES AND SURPLUS			
Capital reserve	8	1,342	1,342
Fair value reserve	9	609	2,226
Accumulated surplus		623,607	516,158
		625,558	519,726
SURPLUS ON REVALUATION OF FIXED ASSETS	10	461,928	465,008
NON-CURRENT LIABILITIES			
Staff retirement benefits - gratuity	11	12,713	16,510
Liabilities against assets subject to finance lease	12	280	3,296
Provision for earned leaves		5,029	4,553
Employees' welfare fund	13	500	500
Lease deposits	14	32,964	45,577
Members' deposits	15	15,426	15,426
Security deposits	16	56,234	55,784
Deferred income	17	8,823	17,371
Deferred taxation	18	37,730	85,885
		169,699	244,902
CURRENT LIABILITIES			
Current portion of liabilities against assets subject to finance lease	12	3,015	2,534
Members' contribution fund	19	418,167	372,123
Investors' protection fund	20	194,148	172,096
Accruals and other liabilities	21	271,449	269,994
Accrued lease finance charges		71	47
Taxation	22	93,708	92,598
		980,558	909,392
CONTINGENCIES AND COMMITMENTS	23		
		2,353,845	2,255,130

The annexed notes form an integral part of these financial statements.

Sd/-

MANAGING DIRECTOR



AS AT 30 JUNE, 2009

	Note	2009 (Rupees in thousand)	2008 Restated
NON-CURRENT ASSETS			
Operating fixed assets	24	591,438	574,900
Capital work-in-progress	25	26,548	29,962
Intangible assets	26	1,322	2,268
Investments	27	297,212	298,400
Loans to employees	28	2,680	5,466
Deposits and prepayments	29	2,133	2,208
		921,333	913,204
CURRENT ASSETS			
Stores		628	793
Short term investments	30	53,752	46,147
Loans and advances	31	220,754	201,486
Short term prepayments		3,672	4,724
Accrued income and mark-up	32	17,399	15,643
Fees receivable	33	3,482	-
Other receivables	34	3,613	2,137
Tax refunds due from the Government	35	138,225	119,902
Cash and bank balances	36	990,987	951,094
		1,432,512	1,341,926
		2,353,845	2,255,130

Sd/-
CHAIRMAN

Lahore
Stock
Exchange
(Guarantee)
Limited

**INCOME AND EXPENDITURE ACCOUNT**

FOR THE YEAR ENDED 30 JUNE, 2009

	Note	2009 (Rupees in thousand)	2008 Restated
INCOME			
Fees	37	79,550	122,766
Rental	38	25,674	21,985
Profit on bank deposits and investments	39	61,994	52,619
Software revenues	40	21,528	4,106
Other income	41	9,262	3,289
		198,008	204,765
EXPENDITURE			
Administrative expenses	42	156,176	130,285
Finance cost	43	4,492	957
Donations	44	4,370	550
Other charges	45	10,716	40,506
		175,754	172,298
		22,254	32,467
SHARE OF AFTER TAX PROFIT OF ASSOCIATED COMPANIES - Net	27.1	35,070	74,258
SURPLUS FOR THE YEAR - Before taxation		57,324	106,725
TAXATION			
Current	22	1,110	2,623
Deferred	18	(48,155)	11,715
		(47,045)	14,338
SURPLUS FOR THE YEAR - After taxation		104,369	92,387
ACCUMULATED SURPLUS - Brought forward		516,158	420,529
ACCRUAL OF FEES PERTAINING TO YEAR ENDED 30 JUNE, 2008 AND PRIOR YEARS	33	-	88,344
PROVISION MADE AGAINST DOUBTFUL FEES RECEIVABLE	33	-	(88,344)
		-	-
TRANSFER FROM SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS ON ACCOUNT OF INCREMENTAL DEPRECIATION FOR THE YEAR	10	3,080	3,242
ACCUMULATED SURPLUS - Carried to balance sheet		623,607	516,158

The annexed notes form an integral part of these financial statements.

Sd/-

MANAGING DIRECTOR

Sd/-

CHAIRMAN



CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE, 2009

2009
(Rupees in thousand)

2008
Restated

CASH FLOW FROM OPERATING ACTIVITIES

Surplus for the year - before taxation and share of profit of Associated Companies	22,254	32,467
Adjustments for:		
Lease deposits (advance rentals)	(25,509)	(21,821)
Depreciation	21,433	21,529
Amortisation of intangible assets	2,929	2,331
Deferred income	(9,488)	(9,846)
Staff retirement benefits - gratuity	7,533	7,385
Provision for earned leaves	476	768
Profit / interest on bank deposits and investments	(61,994)	(52,619)
Gain on disposal of operating fixed assets - net	(495)	(745)
Finance cost	4,435	925
	(38,426)	(19,626)
Decrease in working capital - (note 'A')	(19,515)	(26,848)
Receipts/(payments):		
Lease deposits (advance rentals)	12,896	33,459
Members' deposits - net	-	(1,691)
Security deposits - net	450	937
Internet trading fees	940	2,470
Loans to employees - net	5,003	(3,865)
Deposits and prepayments - net	75	(19)
Staff retirement benefits paid - gratuity	(11,330)	(5,864)
Taxes	(18,323)	(15,272)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(68,230)	(36,319)
- Carried Forward		

**CASH FLOW STATEMENT**

FOR THE YEAR ENDED 30 JUNE, 2009

	2009 (Rupees in thousand)	2008 Restated
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(68,230)	(36,319)
- Brought Forward		
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(37,188)	(10,781)
Sale proceeds of operating fixed assets	1,143	3,551
Investments - net	31,499	1,000
Profit / interest received on bank deposits	108,515	75,269
Dividends received	11,100	17,325
NET CASH INFLOW FROM INVESTING ACTIVITIES	115,069	86,364
CASH FLOW FROM FINANCING ACTIVITIES		
Lease finances - net	(2,535)	(2,085)
Finance cost paid	(4,411)	(878)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(6,946)	(2,963)
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,893	47,082
CASH AND CASH EQUIVALENTS		
- At the beginning of the year	951,094	904,012
CASH AND CASH EQUIVALENTS		
- At the end of the year	990,987	951,094

The annexed note 'A' forms an integral part of this statement.

Sd/-

MANAGING DIRECTOR

Sd/-

CHAIRMAN



2009 2008
(Rupees in thousand)
Restated

NOTE 'A'

MOVEMENT IN WORKING CAPITAL

Decrease / (increase) in current assets:

Stores	165	(477)
Loans and advances	(21,485)	(3,613)
Short term prepayments	1,052	(2,045)
Lease rentals receivable	646	3,272
Fees receivable	(3,482)	-
Other receivables	(1,476)	54,553
	(24,580)	51,690

Increase / (decrease) in current liabilities:

Members' contribution fund	1,805	12,891
Investors' protection fund - net	1,805	12,890
Accruals and other liabilities	1,455	(104,319)
	5,065	(78,538)
	(19,515)	(26,848)

The annexed notes form an integral part of these financial statements.

Sd/-
MANAGING DIRECTOR

Sd/-
CHAIRMAN
Lahore
Stock
Exchange
(Guarantee)
Limited



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE, 2009

1. THE EXCHANGE AND ITS OPERATIONS

Lahore Stock Exchange (Guarantee) Limited (the Exchange) was incorporated under the Companies Act, 1913 (now the Companies Ordinance, 1984) on 05 October, 1970 as a Company limited by guarantee. The registered office of the Exchange is situated at 19, Khayaban-e-Aiwan-e-Iqbal, Lahore, Pakistan.

The Exchange is engaged in conducting, regulating and controlling the trade or business of buying, selling and dealing in shares, scrips, participation term certificates, modaraba certificates, pre-organisation certificates and securities, stocks, bonds, debentures, debenture stocks, Government papers, loans and any other instruments and securities of like nature including but not limited to special national fund bonds and documents of a similar nature issued by the Government of Pakistan or any institution or agency authorised by it.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the provisions of the Companies Ordinance, 1984 (the Ordinance), the requirements of the Ordinance and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Where the requirements of the Ordinance and the directives issued by SECP differ with the requirements of IFRSs, the requirements of the Ordinance and the directives issued by SECP shall prevail.

3. BASIS OF MEASUREMENT

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except for the following:

- modification of foreign currency translation adjustments;
- recognition of employee retirement benefits at present value;
- measurement of certain operating fixed assets at revalued amounts; and
- measurement at fair value of certain financial assets.

3.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is also the Exchange's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand.

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Exchange's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) staff retirement benefits;
- b) taxation;
- c) useful life of depreciable assets and provision for impairment there against; and
- d) classification of investments.



5. ACCOUNTING STANDARDS, IFRIC INTERPRETATIONS AND AMENDMENTS

5.1 Standards, interpretations and amendments to the published approved accounting standards that are effective in the current accounting year

The following standards, interpretations and amendments to existing standards have been published that are mandatory and relevant for the Exchange's accounting year beginning on 01 July, 2008:

- (a) IFRS 7 'Financial Instruments: Disclosures' - The SECP, vide SRO 411(I)/2008 dated 28 April, 2008 notified the adoption of IFRS 7, which is mandatory for the Exchange's accounting periods beginning on or after the date of notification, i.e. 28 April, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. Adoption of IFRS 7 has only impacted the format and extent of disclosures presented in the financial statements.
- (b) Other new standards, interpretations and amendments to existing standards that are mandatory for accounting periods beginning on or after 01 July, 2008, which are not considered relevant nor have any significant effect on the Exchange's operations are not detailed in these financial statements.

5.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Exchange's accounting periods beginning on or after 01 July, 2009:

- (a) IAS 1 (Revised), 'Presentation of Financial Statements' (effective from 01 January, 2009), was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities may choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The adoption of the above standard will only impact the presentation of the financial statements.
- (b) IAS 19 (Amendment), 'Employee Benefits' (effective from 01 January, 2009).
 - (i) The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
 - (ii) The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
 - (iii) The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
 - (iv) IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The management is in the process of assessing the impact of adoption of IAS 19 on the Exchange's financial statements.

- (c) IAS 23 (Amendment), 'Borrowing Costs' (effective from 01 January, 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately



expensing those borrowing costs will be removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial Instruments: Recognition and Measurement'. The amendments will have impact on the Exchange's financial statements to the extent of borrowing costs, if any, directly attributable to the acquisition of or construction of qualifying assets.

- (d) IAS 32 (Amendment), 'Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective from 01 January, 2009) - Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments and instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. These amendments will have no impact on financial statements of the Exchange.
- (e) IAS 36 (Amendment), 'Impairment of Assets' (effective from 01 January, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. This amendment is not expected to have a significant effect on the Exchange's financial statements.
- (f) IAS 38 (Amendment), 'Intangible Assets' (effective from 01 January, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This amendment is not expected to have a significant effect on the Exchange's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after 01 July, 2009 but are considered not to be relevant or to have any significant effect on the Exchange's operations and are therefore not detailed in these financial statements.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal 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.

6.1 Staff retirement benefits (defined benefit plan)

The Exchange operates an un-funded retirement gratuity scheme for its eligible employees. Provision for gratuity is made annually to cover obligation under the scheme in accordance with the actuarial recommendations. Latest actuarial valuation was conducted on 30 June, 2009 on the basis of projected unit credit method by an independent Actuary.

6.2 Earned leaves

The Exchange, during the financial year ended 30 June, 2005, had introduced new Human Resource Policy under which employees are entitled to accumulation of earned leaves upto maximum of sixty days. The accumulated leaves are encashable on retirement / resignation. Provision for employees' earned leaves is made on the basis of last drawn salaries in the year in which the leaves are earned. Effective from the financial year ended 30 June, 2007, employees drawing gross monthly salary of maximum of Rs.15,000/- may encash upto maximum 10 days earned leaves during the year.

6.3 Taxation

(a) Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes.



Deferred tax asset is recognised for all the deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the asset may be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for all the taxable temporary differences.

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

6.4 Provisions

Provisions are recognised when the Exchange has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

6.5 Operating fixed assets

These, other than freehold land and buildings on freehold land, are stated at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at revalued amount whereas buildings on freehold land are stated at revalued amounts less accumulated depreciation and any accumulated impairment losses. Depreciation, except on leasehold improvements, is charged to income applying reducing balance method to write-off the cost or revalued amount of assets over their estimated remaining useful life; depreciation on leasehold improvements is charged to income applying straight-line method. Current rates of depreciation are stated in note 24.

Depreciation on additions is charged from the month in which the assets are available for use while on disposals, depreciation is charged upto the month of disposal.

The carrying values of tangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Normal repairs and maintenance are taken to income and expenditure account as and when incurred.

Gain / loss on disposal of fixed assets, if any, is taken to income and expenditure account.

6.6 Capital work-in-progress

This is stated at cost. All expenditure 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.

6.7 Intangible assets and amortisation

These are stated at cost less accumulated amortisation except assets-in-progress, which are stated at cost. Amortisation is charged to income applying straight-line method to amortise the cost of intangible assets over their estimated useful life. Rate of amortisation is stated in note 26.

Subsequent expenditure relating to an intangible asset that has already been recognised are added to the carrying amount of the asset to the extent that it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Exchange. All other subsequent expenditure are recognised as expense in the year of incurrence.

Gain / loss on retirement / disposal of intangible assets is taken to income and expenditure account.



6.8 Assets subject to finance lease

Assets held under finance lease arrangements are initially recorded at the lower of present value of minimum lease payments under the lease agreements and the fair value of leased assets. The related obligations under the leases less finance cost allocated to future periods are shown as liability. Depreciation on leased assets is charged to income applying the reducing balance method at the rates used for similar owned assets so as to depreciate the assets over their estimated useful lives in view of certainty of ownership of assets at the end of lease term.

Finance cost is allocated to accounting periods in a manner so as to provide a constant periodic rate of interest on the outstanding liability.

6.9 Foreign currency translations

Transactions in foreign currencies are translated into Pakistan Rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing on the balance sheet date. Translation gains and losses are taken to income and expenditure account.

6.10 Investments

(a) Investments in Associated Companies

Investments in Associated Companies are accounted for by using the equity method of accounting and are initially recognised at cost. The Exchange's share of its Associated Companies' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The accumulated post acquisition movements are adjusted against the carrying amounts of the investments. When the Exchange's share of losses in an Associated Company equals or exceeds its interest in the Associated Company, including any other unsecured receivables, the Exchange does not recognise further losses, unless it has incurred obligations or made payments on behalf of the Associated Company.

(b) Other investments

These are classified, for the purpose of measurement, into the following categories:

Held to maturity

Investments with fixed maturity, where the management has both the intent and the ability to hold the investments to maturity, are classified as held-to-maturity.

Subsequent to initial recognition at cost, these investments are measured at amortised cost less any accumulated impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition by using the effective interest rate method.

Available-for-sale

Investments classified as available-for-sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured. Fair value of the units of mutual funds is determined on the basis of redemption price of the respective units. Gains or losses on available-for-sale investments are recognised directly in reserves until the investments are sold or disposed-off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in reserves is included in the current year's income and expenditure account.

6.11 Stores

These are valued at cost (FIFO). Transfers, if any, from fixed assets are taken at book value.



6.12 Loans and advances

These are stated at cost.

6.13 Fees receivable

These are recognised and carried at original invoice amount less an allowance for any uncollectible fees. An estimate for doubtful fees receivable is made when collection of the full amount is no longer probable. Uncollectible fees receivable are written-off when identified.

6.14 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash-in-hand and balances at banks.

6.15 Revenue recognition

- (a) Income from trading, initial listing and other similar activities are accounted for on 'accrual basis'.
- (b) Profit / interest on bank deposits and investments are accounted for on 'accrual basis'.
- (c) Investments purchased at premium or discount, are amortised through the income and expenditure account using the effective interest rate method.
- (d) Dividend income is accounted for when the right of receipt is established.

6.16 Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Exchange becomes a party to the contractual provisions of the instrument and derecognised when the Exchange loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities are included in the income and expenditure account for the year. All financial assets and financial liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

6.17 Off-setting of financial assets and liabilities

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

7. MEMBERS' INITIAL CONTRIBUTION

	2009 (Rupees in thousand)	2008
Balance as at 30 June,	<u>116,102</u>	<u>116,102</u>
	Number	Number
Number of members	<u>152</u>	<u>152</u>

7.1 The year-end balance includes Rs. 30,000 (2008: Rs. 30,000) representing fees received from four expelled members.

8. CAPITAL RESERVE

This represents gain on land and building of the Exchange disposed-off in the year 1983.

**9. FAIR VALUE RESERVE**

	2009 (Rupees in thousand)	2008 (Rupees in thousand)
Exchange's share of unrealised gain on investments in Associated Companies	<u>609</u>	<u>2,226</u>

10. SURPLUS ON REVALUATION OF FIXED ASSETS

The Exchange had revalued its freehold land and buildings on freehold land on 30 June, 2007. The revaluation exercise was carried-out by the independent Valuers [UNIT - 3 Consultants - Architects, Engineers, Surveyors & Valuation Consultants, Lahore] to replace the carrying amounts of these assets with their replacement costs. The aggregated net appraisal surplus arisen on the revaluation amounting Rs.503.161 million was credited to 'Surplus on Revaluation of Fixed Assets Account' to comply with the requirements of section 235 of the Companies Ordinance, 1984. The year-end balance has been arrived at as follows:

	2009 (Rupees in thousand)	2008 (Rupees in thousand)
Opening balance	465,008	468,250
Less: transferred to accumulated surplus on account of incremental depreciation for the year - net of deferred taxation	3,080	3,242
Closing balance	<u>461,928</u>	<u>465,008</u>

11. STAFF RETIREMENT BENEFITS - Gratuity

Balance at beginning of the year	16,510	14,989
Add: provision for the year	7,533	7,385
	<u>24,043</u>	<u>22,374</u>
Less: payments made during the year	11,330	5,864
	<u>12,713</u>	<u>16,510</u>

The future contribution rates of this scheme include allowance for deficit and surplus. Projected unit credit method, based on the following significant assumptions, is used for valuation:

- discount rate	12%	12%
- expected rate of growth per annum in future salaries	11%	11%
- average expected remaining working life time of employees	14 years	14 years

	2009 (Rupees in thousand)	2008 (Rupees in thousand)
The amount recognised in the balance sheet is as follows:		
Present value of defined benefit obligation	16,738	20,502
Unrecognised actuarial loss	(4,025)	(3,992)
Net liability as at 30 June,	<u>12,713</u>	<u>16,510</u>

The movement in the present value of defined benefit obligation is as follows:

Present value of defined benefit obligation - opening value	20,502	18,202
Current service cost	4,934	5,465
Interest cost	2,460	1,821
Benefits paid	(11,330)	(5,864)
Actuarial loss	172	878
Present value of defined benefit obligation - closing value	<u>16,738</u>	<u>20,502</u>



Comparison of present value of defined benefit obligation and the deficit of gratuity fund for five years is as follows:

	2009	2008	2007	2006	2005
 (Rupees in thousand)				
Present value of defined benefit obligation	16,738	20,502	18,202	13,544	11,398
Experience adjustment on obligation	172	878	925	710	684

The Exchange's policy with regard to actuarial gains / losses is to follow the minimum recommended approach under IAS 19 (Employee Benefits).

12. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

P a r t i c u l a r s	2009			2008		
	Upto one year	From one year to five years	Total	Upto one year	From one year to five years	Total
 (Rupees in thousand)					
Minimum lease payments	3,338	1,161	4,499	3,363	4,525	7,888
Less: finance cost allocated to future periods	323	2	325	829	349	1,178
	3,015	1,159	4,174	2,534	4,176	6,710
Less: security deposits adjustable on expiry of lease term	-	879	879	-	880	880
Present value of minimum lease payments	3,015	280	3,295	2,534	3,296	5,830

The Exchange, during the financial year ended 30 June, 2007, had entered into a lease agreement with The Bank of Punjab (BoP) for lease of computers & accessories and a vehicle. The liabilities under the lease agreement are payable in monthly instalments by July, 2010 and during the current financial year were subject to finance cost at the rates ranging from 17.58% to 19.27% (2008:13.67% to 17.63%) per annum. The Exchange intends to exercise its option to purchase the leased assets upon completion of the lease term. The lease liabilities are secured against demand promissory note, registered charge on leased equipment and registration of vehicle in the name of BoP.

13. EMPLOYEES' WELFARE FUND

This Fund was created during the year 1992 in accordance with the decision of the Board of Directors for welfare of the Exchange's employees. Movement in this account during the year was as follows:

	2009	2008
	(Rupees in thousand)	
Opening balance	500	500
Add: amount allocated during the year	313	409
Less: payments made during the year	(313)	(409)
	500	500

**14. LEASE DEPOSITS (Advance rentals)**

	Members	Tenants	Total	
			2009	2008
..... (Rupees in thousand)				
Opening balance	18,809	26,768	45,577	33,939
Received during the year	-	12,896	12,896	33,459
	<u>18,809</u>	<u>39,664</u>	<u>58,473</u>	<u>67,398</u>
Less: credited to income & expenditure account	218	25,291	25,509	21,821
	<u>18,591</u>	<u>14,373</u>	<u>32,964</u>	<u>45,577</u>
Lease term	99 years	1 to 3 years		

15. MEMBERS' DEPOSITS

These deposits were obtained from the Exchange's Members for construction of the Second Tower. The Exchange's Members, in the extra-ordinary general meeting held on 19 May, 2006, had resolved to scrap the Second Tower project and approved a project of car parking facilities for the Members / Investors in its place.

The policy regarding advances received from Members for construction of Second Tower is still under management's consideration whereby these advances may be fully or partially refunded to the respective Members or treated as advances against construction of car parking facilities.

As authorised by the Board of Directors, Building Committee of the Exchange had decided in its meeting held on 06 February, 2007 to refund the third installment of second tower project along with profit on bank deposits earned thereon. The Exchange, during the financial year ended 30 June, 2007, had made payment to 104 Members at the rate of Rs.300,000/- each plus profit of Rs. 38,079/ each earned on bank deposits.

16. SECURITY DEPOSITS

	Notes	2009 (Rupees in thousand)	2008
Deposits received against:			
- clearing house	16.1	52,622	52,172
- furnished rooms	16.3	3,300	3,300
- others		312	312
		<u>56,234</u>	<u>55,784</u>

16.1 These interest-free deposits have been received from Members of the Exchange for Clearing House Operations and are repayable on demand. However, keeping in view their nature, these have been grouped with non-current liabilities.

16.2 Total value of securities, pledged as margins against the exposures taken by the Members, was Rs. 0.616 billion as at 30 June, 2009 (2008: Rs. 1.693 billion).

16.3 These interest-free deposits have been received from Members of the Exchange as security against furnished rooms provided to them at Faisalabad and Sialkot Trading Floors.



17. DEFERRED INCOME

	Network Connection Fees	Internet Trading Fees	Furnished Rooms Fees	Total	
				2009	2008
..... (Rupees in thousand)					
Opening balance	669	4,869	11,833	17,371	24,747
Received from Members during the year	-	940	-	940	2,470
	669	5,809	11,833	18,311	27,217
Less: credited to income & expenditure account	423	2,117	6,948	9,488	9,846
	246	3,692	4,885	8,823	17,371

Computer networking and internet trading facilities have been provided to the Exchange's Members for automated trading of securities at the Exchange. Furnished rooms fees have been received against rooms provided to the Exchange's Members at Faisalabad and Sialkot Trading Floors. These fees are being credited to income and expenditure account over the period of five years.

18. DEFERRED TAXATION - Net

	2009	2008
	(Rupees in thousand)	
This is composed of the following:		
Taxable temporary differences arising in respect of:		
- accelerated tax depreciation allowances	39,191	35,451
- investments in associated companies	20,883	48,688
- available-for-sale investments	74	-
- liabilities against assets subject to finance lease	644	-
- surplus on revaluation of fixed assets	-	1,746
Deductible temporary differences arising in respect of:		
- accelerated tax amortisation allowance	(1,660)	-
- unused tax losses	(19,155)	-
- surplus on revaluation of fixed assets	(1,658)	-
- minimum tax recoverable against normal tax charge in future years	(589)	-
	37,730	85,885

19. MEMBERS' CONTRIBUTION FUND

Opening balance	372,123	329,601
Add:		
profit / interest accrued on bank deposits	43,499	29,631
fair value gain on measurement of available-for-sale investments	740	-
receipts during the year	1,805	12,891
	46,044	42,522
	418,167	372,123

19.1 (a) This represents Members' contribution towards Clearing House Members' Contribution Fund (MCF) made on the value of transactions routed through the Exchange's Clearing House at various rates approved by Securities & Exchange Commission of Pakistan (SECP) over the years.



As approved by SECP, the following rates have been implemented with effect from 28 September, 2005:

- Service charges (Automated Trading Fee) at the rate of 0.001785% of the turnover value. There is no cap on service charges with effect from 28 September, 2005.
- MCF at the rate of 0.0008925% of the turnover value.
- IPF at the rate of 0.0008925% of the turnover value.
- 1/7th of the aforementioned rates were applicable on Continuous Funding System (CFS) transactions upto 07 April, 2009.

(b) SECP, vide its letter Ref. # SMD/SE/2(142)/2006 dated 07 April, 2009, has directed National Clearing Company of Pakistan Ltd. (NCCPL) to discontinue the CFS MK-II (CFS) Market in the following manner:

- (i)** starting from 08 April, 2009, no fresh take-up in CFS against the purchase in Ready Market shall be allowed; however, roll-over against the existing CFS contracts shall be allowed until the expiry of 66 working days from 08 April, 2009;
- (ii)** NCCPL shall direct its participants to ensure that after every 22 business days, at least one third of the total outstanding position as at 08 April, 2009 is released, failing which the same shall be forced released by NCCPL; and
- (iii)** after expiry of 66 business days from 08 April, 2009, no CFS contract shall be made available by NCCPL to any of its participants and CFS contracts appearing as outstanding on the close of 66th business day shall stand forced released.

19.2 The Board of Directors, in their meeting held on 22 March, 2002, had decided to cap MCF at Rs. 120 million with effect from 31 March, 2002.

19.3 The Exchange, during the financial year ended 30 June, 2000, had made payments aggregating Rs.72.485 million to its Clearing House on behalf of the defaulted Members. These payments were made out of the funds kept in the bank accounts earmarked for MCF. Payments made on behalf of the defaulted Members have been accounted for as due from them (note 31).

The Exchange, during the financial year ended 30 June, 2002, in addition to the aforementioned payments, also withdrew the following amounts:

- amounts aggregating Rs. 11.940 million out of the funds kept in the bank accounts earmarked for MCF for general purpose / Clearing House payments; and
- amounts aggregating Rs. 2.814 million for making transaction fee payments to SECP.

The Exchange, on 21 April, 2001, had deposited amounts aggregating Rs. 34.824 million in the bank account earmarked for MCF; however, the Exchange during the financial year ended 30 June, 2002 had transferred amounts aggregating Rs.22.830 million to deposit accounts out of the amounts deposited in the bank account earmarked for MCF during the financial year ended 30 June, 2001. There have been no utilisations / withdrawals from MCF by the Exchange after 30 June, 2002.

19.4 SECP, with effect from 02 April, 2001, had levied Transactions Fee @ 0.0009% of the value of securities traded on all the Stock Exchanges of Pakistan. These fees aggregated Rs. 3.472 million till 20 February, 2002 and were paid by the Exchange to SECP; the Exchange accounted for these payments as receivable from the relevant Members. The Board of Directors in their meeting held on 28 February, 2002, under Rule 2(1) of the MCF Rules, approved that these fees be adjusted against MCF balance. Accordingly, MCF balance was adjusted to the tune of Rs.2.951 million and IPF to the tune of Rs. 0.521 million during the financial year ended 30 June, 2002.



19.5 Total receipts / payments made out of the funds of MCF are as follows:

	2009	2008
	(Rupees in thousand)	
Balance of MCF as at 01 July,	328,993	292,777
Add:		
- Members' contribution for the year	1,805	12,891
- Profit credited during the year	36,330	23,326
	38,135	36,217
	367,128	328,994
Less: Bank charges	3	1
Balance of MCF as at 30 June,	367,125	328,993
Balance of MCF as at 30 June comprised of:		
Term deposit receipts:		
- Habib Metropolitan Bank Limited	-	39,913
- Faysal Bank Limited	31,689	-
- Habib Bank Limited	71,500	-
- Bank Alfalah Limited	19,290	-
- Askari Bank Limited	31,067	3,000
- Bank Al-Habib Limited	66,286	52,935
- United Bank Limited	82,810	86,843
- MCB Bank Limited	43,200	64,328
	345,842	247,019
Saving / PLS accounts at:		
- Askari Bank Limited	1	1
- Habib Bank Limited	18	17
- NIB Bank Limited	-	1
- MCB Bank Limited	47	12
- Bank Alfalah Limited	1,115	761
	1,181	792
Current accounts at:		
- The Bank of Punjab	-	10
- Habib Bank Limited	85	-
- United Bank Limited	17	81,172
	102	81,182
Mutual Fund - Atlas Income Fund:		
38,732 units of Rs. 516.37 each		
1,648 units received as bonus		
40,380	20,000	-
	367,125	328,993



- 19.6** As per the MCF Procedures, MCF funds should have been utilised only to satisfy the claims of any Member; the payments from MCF in such a case should not have exceeded Rs. 3 million per default. However, the Exchange, during the financial year ended 30 June, 2002, utilised MCF funds aggregating Rs. 37.584 million as stated in note 19.3 in order to protect working Members / Investors.

The Auditors are of the view that to comply with the relevant procedures of MCF and rules of IPF, the aforementioned fees as detailed in note 19.4 should have been recovered from the relevant Members.

However, the Exchange's management has the following grounds in respect of the aforementioned payments / adjustments:

- the Board of Directors, in the best interest of the investing public and Members of the Exchange vide resolution dated 02 June, 2000, had unanimously resolved to go for internal financing arrangements during a period of severe crisis at the Exchange instead of hurting any market participant at the Exchange;
- the MCF was established by the Exchange on 03 October, 1995 and prior SECP approval was not required regarding MCF contribution till 08 July, 2002;
- SECP, during April, 2001, had levied transaction fee @ 0.0009% on the traded value; the Exchange made these payments to SECP from its own sources from April, 2001 to 20 February, 2002 when it was clarified that these charges were on Members' account. Upon this clarification, the Exchange's Board decided to reduce MCF contribution from 0.005% to 0.0041% with 0.0009% being paid to SECP. The said reduction was made with retrospective effect, i.e. 02 April, 2001. Accordingly, the aforementioned adjustments were effected from MCF balance instead of recovering the same from the relevant Members; and
- these payments were made under the authority of the aforementioned Board of Directors' resolution dated 02 June, 2000 who were fully competent to authorise such type of utilisations / withdrawals during the period of severe crisis at the Exchange.

Further, the Exchange upto 30 June, 2007, had deposited amounts aggregating Rs. 59.002 million in MCF and had also fully funded the MCF during the financial year ended 30 June, 2007 as required by SECP vide its letter references 2(44)SE/97 & 2(23)SE/99 dated 26 February, 2002.

The Exchange, on 14 April, 2006, had made a Deed of Trust to convert its existing MCF into a Trust; the Trust Deed was duly registered on 01 June, 2006 by the Sub-Registrar, Lahore.

20. INVESTORS' PROTECTION FUND

	2009 (Rupees in thousand)	2008
Opening balance	172,096	144,276
Add:		
profit / interest accrued on bank deposits	20,247	14,930
receipts during the year	1,805	12,890
	22,052	27,820
	<u>194,148</u>	<u>172,096</u>

- 20.1** This represents Members' contributions, with effect from 08 October, 1997, towards Investors' Protection Fund (IPF). The contributions have been made at the following rates:

- upto 05 March, 2003 @15% of the amounts collected by the Exchange's Clearing House on account of MCF;
- after 05 March, 2003 to 27 September, 2005 @ 0.001% of the turnover value; and
- after 27 September, 2005 to 30 June, 2009 @ 0.0008925% of the turnover value.

**20.2 Total receipts / payments made out of the funds of IPF are as follows:**

	2009 (Rupees in thousand)	2008
Balance of IPF as at 01 July,	165,889	142,059
Add:		
- Members' contribution for the year	1,805	12,890
- Profit credited during the year	19,380	10,941
	<u>21,185</u>	<u>23,831</u>
	187,074	165,890
Less:		
Bank charges	-	1
Balance of IPF as at 30 June,	<u><u>187,074</u></u>	<u><u>165,889</u></u>
Balance of IPF as at 30 June comprised of:		
Term deposit receipts:		
- Faysal Bank Limited	65,182	-
- Habib Metropolitan Bank Limited	-	41,044
- Innovative Investment Bank Limited	9,716	9,716
- Askari Bank Limited	10,356	15,400
- Bank Alfalah Limited	22,369	7,000
- Bank Al-Habib Limited	12,437	11,958
- Barclays Bank PLC, Pakistan	21,302	-
- MCB Bank Limited	44,400	28,500
- United Bank Limited	-	40,000
	<u>185,762</u>	<u>153,618</u>
PLS bank accounts:		
- MCB Bank Ltd.	126	10,886
- Bank Alfalah Limited	1,186	1,385
	<u>1,312</u>	<u>12,271</u>
	<u><u>187,074</u></u>	<u><u>165,889</u></u>

20.3 The Exchange, during the financial year ended 30 June, 2000, had made payments aggregating Rs. 12.089 million to its Clearing House on behalf of the defaulted Members. These payments were made out of the funds kept in the bank accounts earmarked for IPF. Payments made on behalf of the defaulted Members were accounted for as due from them (note 31).

21. ACCRUALS AND OTHER LIABILITIES

	2009 (Rupees in thousand)	2008
Due to Members	5,893	8,608
Advance payments:		
- Members	21.1 73,081	82,477
- Companies / others	5,388	3,589
Defaulted Members' membership sale proceeds	21.2 44,210	44,210
Due to suspended and defaulted Members	21.3 3,171	3,171
Defaulted Members' securities sale proceeds	21.4 78,088	78,088
Defaulted Member's room sale proceeds retained to settle his claim liabilities - net of expenses	619	619
Accrued expenses	52,545	41,193
Security deposit of ex-Members	1,455	2,965
Retention money	75	75
Registration fee payable	-	109
Income tax deducted at source	236	459
Members' cash deposits for settlement of future trading	150	150
Other payables	6,538	4,281
	<u><u>271,449</u></u>	<u><u>269,994</u></u>



- 21.1** These represent margins received from Members against their exposures.
- 21.2** These represent amounts realised through auctions of the defaulted Members' memberships and have been retained by the Exchange for settlement of claims against these Members.
- 21.3** This represents amount payable to suspended and defaulted Members on account of trading in the Clearing House of the Exchange.
- 21.4** SECP carried-out an investigation of May-June, 2000 crisis at the Exchange, where a number of Members made default in payment to the Exchange's Clearing House. As per the SECP's order dated 09 April, 2001, certain Members and investors were identified as being responsible for the crisis. Two Members were removed from their membership of the Exchange.

Pursuant to the SECP's order, the Exchange had sold the shares pledged by one of the Members and realised amounts aggregating Rs. 78.088 million. The defaulted Members / investors had challenged the SECP's order before the Lahore High Court (the LHC), which remanded the case back to SECP for hearing afresh. SECP had challenged the LHC's order before the Supreme Court of Pakistan, which set aside the LHC's order. The Supreme Court had directed the defaulted Members / investors to approach SECP for filing appeals as per relevant proviso of the Securities and Exchange Commission of Pakistan Act, 1997 being the only appropriate forum as per the Securities and Exchange Ordinance, 1969.

The Appellate Bench of SECP, in its order dated 30 July, 2002, upheld the earlier order of SECP. The Bench further held, inter alia, that the Exchange be allowed to obtain the securities lying in the CDC accounts of Members / investors in satisfaction of their defaulted amounts to the Exchange. However, the proceeds, already realised from the sale of pledged shares, cannot be utilised by the Exchange until the final determination of losses through the Courts.

The Exchange has filed a review petition before the SECP's Bench for rectification of the following areas of the Order:

- (a) sale proceeds from the sale of securities of defaulted Members are lying in the 'Deposit Accounts' of the Exchange and not in the 'Escrow Accounts'; and
- (b) the Exchange, as per its Default Regulations, has already determined quantum of the default obligations.

The Exchange has also filed an appeal before the LHC by partially challenging the SECP Appellate Bench's order to enforce recovery of the defaulted amounts. The Members / investors, who were held responsible by SECP, had also filed appeals against the Appellate Bench's order before the LHC. These cases are pending adjudication.

22. TAXATION

	2009	2008
	(Rupees in thousand)	
Opening balance:		
- income tax	88,870	86,247
- wealth tax	3,728	3,728
	92,598	89,975
Provision for income tax made for:		
- current year	1,110	2,322
- prior year	-	301
	1,110	2,623
	93,708	92,598

Income tax

- 22.1** Income tax assessments of the Exchange have been completed upto the Tax Year 2008.



- 22.2** The Exchange, for the Income Year ended 30 June, 1993 (Assessment Year 1993-94), filed an appeal with the Income Tax Appellate Tribunal (ITAT) against dismissal of its appeal by the Commissioner of Income Tax (Appeals) - CIT (A). Provision for the demands raised by the Tax Department, however, exists in the books of account.
- 22.3** The Assessing Officer, for the Income Year ended 30 June, 1994 (Assessment Year 1994-95), assessed the Exchange's income at Rs. 87.337 million against the returned income of Rs. 0.575 million and raised total tax demands of Rs. 42.842 million. On an appeal filed by the Exchange with the CIT (A) against the said assessment, the CIT (A) dismissed the appeal for want of sufficient merit. The Exchange filed second appeal with the ITAT against dismissal of its appeal by the CIT (A). Provision amounting Rs. 1.757 million exists in the books of account against these demands.
- 22.4** The ITAT, vide its orders dated 13 February, 1998, set-aside the assessments for the Assessment Years 1993-94 and 1994-95 and the cases were remanded back to the Assessing Officer to record his findings on the objections raised by the Exchange against taxability of the receipts under different heads.

The Exchange has filed reference application with the Lahore High Court under section 136 of the repealed Income Tax Ordinance, 1979 against the orders passed by the ITAT for the Assessment Years 1993-94 and 1994-95. The reference application is pending adjudication.

- 22.5** No numeric tax rate reconciliation for the current and preceding financial years has been presented in these financial statements as the Exchange is only liable for tax on dividends under section 150 of the Income Tax Ordinance, 2001.

Wealth tax

- 22.6** Wealth tax assessments of the Exchange have been completed upto the Income Year ended 30 June, 2000 (Assessment Year 2000-01).
- 22.7** The ITAT, vide its order dated 03 June, 2003, for the Assessment Years 1992-93 and 1994-95 to 2000-01 accepted the contention that the Exchange qualifies for exemption under section 5(1)(i)/clause 22 of the Second Schedule to the Wealth Tax Act, 1963 in all the years under consideration. Amounts aggregating Rs. 10.063 million paid under protest have been grouped under 'tax refunds due from the Government' (note 35).
- 22.8** The Department has filed a writ petition before the Lahore High Court, Lahore against the order of the ITAT that the Exchange qualifies for exemption under the aforementioned clause of the repealed Wealth Tax Act, 1963 for the Assessment Years 1992-93, 1994-95 to 2000-01. The petition is pending adjudication.

23. CONTINGENCIES AND COMMITMENTS

- 23.1 (a)** The Excise and Taxation Department, Lahore (the Department), during the financial year ended 30 June, 2003, had raised property tax demand amounting Rs. 1.704 million against which the Exchange had filed a writ petition under article 199 of the Constitution of Pakistan. The Lahore High Court, vide its order dated 08 March, 2004, has dismissed the Exchange's petition and held that section 5-A of the Urban Immovable Property Tax Act of 1958 is intra vires the legislative power of the Provincial Legislature, and neither it offends against any existing provision of the Act nor is violative of any of the fundamental rights of the petitioner as guaranteed by the Constitution. The Exchange has filed a civil petition before the Supreme Court of Pakistan, which has been disposed of with the direction that the Department shall prepare fresh valuation tables / valuation lists after conducting proper survey and following the procedures in accordance with the law.
- (b)** The Department, during April, 2004, had raised property tax demand of Rs. 2.824 million for the period from 01 January, 2002 to 30 June, 2004 after adjusting payment of Rs. 1.682 million made by the Exchange. The Department, during July, 2005, had also raised annual property tax demand of Rs. 1.572 million. The Exchange has filed an appeal before the Collector, Excise & Taxation Department, Lahore, who vide his order dated 30 June, 2005 has held that as the fresh survey in the light of Supreme Court of Pakistan's order is being conducted in respect of the Exchange's property and a new valuation table / valuation list is being prepared by the Department; the Exchange can avail the departmental remedies on finalisation of fresh assessment by way of objection / appeal.



- (c) In pursuance of the Supreme Court of Pakistan's order, the Department assessed annual rental value of the Exchange's property at Rs. 6.987 million and fixed annual tax at Rs. 1.572 million. The Exchange raised objections in respect of the said proposed assessment of the property and after hearing the objections, the Assessing Authority assessed gross annual rental value of the property at Rs. 5.781 million vide order dated 22 November, 2005. The said order was challenged before the Appellate Authority, which is currently sub-judice. During pendency of the appeal, the Department has raised demands aggregating Rs. 5.195 million; the Exchange has deposited the alleged tax liability under protest and has charged this amount to the respective Members.
- 23.2** Frederic J. Whyte Group (Pak) Limited had filed suit for settlement of their claim of Rs. 1.790 million through arbitration. The claim was made on account of 'architectural services' alleged to have been provided by them to the Exchange. The case is pending for arbitration with the Lahore Chamber of Commerce and Industries. However, no provision in this regard has been made in the books of account as the Exchange expects a favourable outcome of the case.
- 23.3** The Lahore High Court, Lahore, vide its judgment and decree dated 18 December, 2006, has decreed the Civil Original Suit against the Exchange and Central Depository Company, jointly and severally, which was filed by Mian Nisar Elahi against disposal of the pledged shares. The said shares, as per the Exchange's point of view, were disposed-off pursuant to the order dated 09 April, 2001 of the Securities and Exchange Commission of Pakistan (SECP), which was subsequently upheld by the Appellate Bench of SECP.
- The Exchange has challenged the said order by filing ICA No.1 of 2007 whereby the Appellate Court has suspended the order dated 18 December, 2006 of the learned single Judge subject to freezing of Rs. 120 million for payment of the awarded amount and furnishing of corporate guarantee. The Intra Court Appeal is still pending.
- 23.4** Mr. Aslam Motiwala (the Appellant) has filed a civil suit in the Court of Senior Civil Judge, Lahore seeking damages in the amount of Rs.109.363 million against the Exchange. The Appellant seeks directions to the Exchange for settling trades, which the Exchange had cancelled. No provision in this regard has been made in the books of account as the Exchange expects a favourable outcome of the case.
- 23.5** Also refer notes of taxation.
- 23.6** Commitments for capital expenditure outstanding as at 30 June, 2009 were for Rs. 2.022 million (2008:Rs. 4.458 million).
- 23.7** No other commitments were outstanding as at 30 June, 2009; (commitments for funding to a Scholarship & Research Fund amounted to Rs. 1.023 million as at 30 June, 2008).



24. OPERATING FIXED ASSETS

	Owned												Leased				Total
	Land - Freehold	Buildings on freehold land	Generators	Furniture and fixtures	Office equipment	Computers and accessories	Electric fittings and appliances	Elevators	Vehicles and bicycles	Library books	Arms and security equipment	Leasehold improvements	Office equipment	Computers and accessories	Electrical fittings and appliances	Vehicles	
(Rupees in thousand)																	
At June 30, 2007																	
Cost / revaluation	407,000	122,974	4,875	14,598	3,505	51,403	16,544	5,471	7,346	273	3,204	17,656	-	4,260	-	640	659,749
Accumulated depreciation	-	-	1,954	4,151	2,461	32,254	10,851	2,670	3,763	203	1,573	7,207	-	180	-	11	67,278
Book value	407,000	122,974	2,921	10,447	1,044	19,149	5,693	2,801	3,583	70	1,631	10,449	-	4,080	-	629	592,471
Year ended June 30, 2008																	
Additions -	-	96	178	359	163	1,035	770	-	-	9	234	-	2,800	-	1,120	-	6,764
Disposals:																	
- cost	-	-	-	44	-	-	-	-	6,368	-	-	-	-	-	-	-	6,412
- depreciation	-	-	-	(18)	-	-	-	-	(3,588)	-	-	-	-	-	-	-	(3,606)
	-	-	-	26	-	-	-	-	2,780	-	-	-	-	-	-	-	2,806
Depreciation charge	407,000	123,070	3,099	10,780	1,207	20,184	6,463	2,801	803	79	1,865	10,449	2,800	4,080	1,120	629	596,429
Net book value as at																	
June 30, 2008	407,000	116,918	2,799	9,709	988	14,274	5,242	2,241	292	60	1,684	6,918	2,520	2,856	896	503	574,900
Year ended June 30, 2009																	
Additions -	-	3,314	5,510	6,430	473	6,582	4,735	-	10,826	12	737	-	-	-	-	-	38,619
Disposals:																	
- cost	-	-	50	454	74	984	486	-	978	-	-	-	-	-	-	-	3,026
- depreciation	-	-	(46)	(251)	(25)	(910)	(445)	-	(701)	-	-	-	-	-	-	-	(2,378)
	-	-	4	203	49	74	41	-	277	-	-	-	-	-	-	-	648
Depreciation charge	407,000	120,232	8,305	15,936	1,412	20,782	9,936	2,241	10,841	72	2,421	6,918	2,520	2,856	896	503	612,871
Net book value as at																	
June 30, 2009	407,000	114,372	7,979	14,922	1,167	15,368	8,787	1,793	9,265	55	2,209	3,387	2,016	1,999	717	402	591,438
As at June 30, 2008																	
Cost / revaluation	407,000	123,070	5,053	14,913	3,668	52,438	17,314	5,471	978	282	3,438	17,656	2,800	4,260	1,120	640	660,101
Accumulated depreciation	-	6,152	2,254	5,204	2,680	38,164	12,072	3,230	686	222	1,754	10,738	280	1,404	224	137	85,201
Book value	407,000	116,918	2,799	9,709	988	14,274	5,242	2,241	292	60	1,684	6,918	2,520	2,856	896	503	574,900
As at June 30, 2009																	
Cost / revaluation	407,000	126,384	10,513	20,889	4,067	58,036	21,563	5,471	10,826	294	4,175	17,656	2,800	4,260	1,120	640	695,694
Accumulated depreciation	-	12,012	2,534	5,967	2,900	42,668	12,776	3,678	1,561	239	1,966	14,269	784	2,261	403	238	104,256
Book value	407,000	114,372	7,979	14,922	1,167	15,368	8,787	1,793	9,265	55	2,209	3,387	2,016	1,999	717	402	591,438
Depreciation rate (%)	-	5	10	10	20	30	20	20	20	25	10	20	20	30	20	20	

24.1 Disposals of operating fixed assets

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Sold through auction to:
(Rupees in thousand)						
Vehicle						
Honda City	978	701	277	736	459	Muhammad Hanif - Member of the Exchange.
Generator	50	46	4	4	-	Mr. Tariq Majid Chaudhry - Member of the Exchange.
Furniture and fixtures	454	251	203	183	(20)	-----do-----
Office equipment	74	25	49	44	(5)	-----do-----
Computers and accessories	984	910	74	115	41	-----do-----
Electric fittings and appliances	486	445	41	61	20	-----do-----
	3,026	2,378	648	1,143	495	



25. CAPITAL WORK-IN-PROGRESS

	Notes	2009 (Rupees in thousand)	2008
Buildings (Lahore Stock Exchange second tower):			
- mobilisation advance	25.1	7,724	7,724
- materials and other costs	25.2	15,150	14,257
		<u>22,874</u>	<u>21,981</u>
Tubewell installations		301	301
Advance payments for:			
- computer accessories and softwares		1,863	2,557
- vehicles		1,510	2,639
- generators		-	2,484
		<u>3,373</u>	<u>7,680</u>
		<u>26,548</u>	<u>29,962</u>

25.1 This was advanced to Mughals Pakistan (Pvt.) Ltd. (the Contractor) for construction of Lahore Stock Exchange second tower. This advance was secured against an irrevocable bank guarantee arranged by the Contractor, which had expired on 17 September, 2004. The Contractor has submitted an undertaking to furnish a new bank guarantee in place of the expired bank guarantee.

25.2 To prevent the existing structure and provide sufficient parking space, a parking structure consisting of four to five basements will be constructed in place of the scrapped Second Tower site. Accordingly, the Exchange's Members, in the extra-ordinary general meeting held on 19 May, 2006, had resolved to scrap and abolish the construction of Second Tower project.

Construction work undertaken as well as cost incurred so far on the Second Tower site shall become part of the proposed parking structure. An evaluation of existing infrastructure and excavated earth with respect to its validity / usefulness and cost has been carried-out by M/s Premier Consultants (Engineers and Architects, Faisal Town, Lahore), who have confirmed that infrastructure and excavated earth is still valid / useful and value of infrastructure and excavated earth is approximately Rs.25 million in terms of the recent prices. Hence, no provision against the cost incurred so far has been made in the books of account.

The Exchange, during the preceding financial year ended 30 June, 2008, had awarded Car Parking Facility Project consisting of four to five basements in place of the scrapped Second Tower to M/s Zaheer A. Sheikh & Associates (Architects and Engineers).

26. INTANGIBLE ASSETS

Particulars	2009							
	C O S T			Rate %	A M O R T I S A T I O N			Book value as at 30 June, 2009
	As at 30 June, 2008	Additions	As at 30 June, 2009		To 30 June, 2008	For the year	To 30 June, 2009	
 (Rupees in thousand) (Rupees in thousand)			
Computer software licenses	15,164	1,983	17,147	33	12,896	2,929	15,825	1,322

Particulars	2008							
	C O S T			Rate %	A M O R T I S A T I O N			Book value as at 30 June, 2008
	As at 30 June, 2007	Additions	As at 30 June, 2008		To 30 June, 2007	For the year	To 30 June, 2008	
 (Rupees in thousand) (Rupees in thousand)			
Computer software licenses	15,164	-	15,164	33	10,565	2,331	12,896	2,268



27. INVESTMENTS

	Notes	2009 (Rupees in thousand)	2008
These investments comprise of the following:			
Equity instruments of un-quoted Associated Companies	27.1	268,162	244,809
Held-to-maturity	27.3	8,310	53,591
Available-for-sale	27.4	20,740	-
		<u>297,212</u>	<u>298,400</u>

27.1 Equity instruments of un-quoted Associated Companies - equity method

No. of shares		Face value	Name of Company	2009		2008	
2009	2008			2009	2008		
		Rs.	 (Rupees in thousand)			
756,000	540,000	10	The Pakistan Credit Rating Agency Ltd. (PACRA)				
			Equity held 36% (2008:36%)				
			Opening balance	11,179		9,646	
			Share of income for the year - net of tax	5,955		5,313	
			Dividend received	(1,350)		(3,780)	
				15,784		11,179	
5,000,000	3,022,500	10	Central Depository Company of Pakistan Ltd. (CDC)				
			Equity held 10% (2008:10%)				
			Opening balance	140,896		110,908	
			Share of income for the year - net of tax	17,581		39,788	
			Change in fair value reserve on account of available-for-sale investments	(2,057)		(3,755)	
			Dividend received	-		(6,045)	
				156,420		140,896	
1,499,999	1,499,999	10	National Clearing Company of Pakistan Ltd. (NCCPL)				
			Equity held 23.53% (2008:23.53%)				
			Opening balance	92,734		70,317	
			Share of income for the year - net of tax	11,534		30,872	
			Change in fair value reserve on account of available-for-sale investments	440		(955)	
			Dividend received	(9,750)		(7,500)	
				94,958		92,734	
			Balance Carried Forward	267,162		244,809	



No. of shares		Face value	Name of Company	2009	2008
2009	2008				
		Rs. (Rupees in thousand)		
			Balance Brought Forward	267,162	244,809
National Commodity Exchange Ltd. (NCEL)					
2,272,727	2,272,727	10	Ordinary shares - cost	28,932	28,932
			Equity held 22.73% (2008:22.73%)		
			Share of losses (net of tax) recognised in prior years to the extent of carrying value of investments	(28,932)	(28,932)
				-	-
200	-	5,000	Institute of Capital Markets - at cost	1,000	-
				<u>268,162</u>	<u>244,809</u>

27.2 (a) Summarised financial information of the Associated Companies based on the un-audited, except for CDC (2008: un-audited, except for CDC), financial statements are as follows:

Name of the Associated Company	Assets	Liabilities	Operating revenues	Profit / (loss) after tax
	As at 30 June, 2009		From 01 July, 2008 to 30 June, 2009	
..... (Rupees in thousand)				
PACRA	66,080	22,236	94,104	16,541
CDC	1,813,926	249,721	730,068	175,809
NCCPL	925,802	530,042	124,712	49,017
NCEL	169,207	305,986	25,289	(121,207)

Name of the Associated Company	Assets	Liabilities	Operating revenues	Profit / (loss) after tax
	As at 30 June, 2008		From 01 July, 2007 to 30 June, 2008	
..... (Rupees in thousand)				
PACRA	44,757	13,704	86,061	14,758
CDC	1,691,994	283,032	1,008,156	397,875
NCCPL	1,957,164	1,563,054	254,230	131,202
NCEL	254,838	269,348	108,546	(22,059)

- (b) The Exchange holds 10% equity of CDC and has one common director on its Board; hence, the management presumes to have significant influence over CDC.
- (c) The unrecognised share of losses of NCEL till 30 June, 2009 aggregated to Rs. 30.849 million (2008:Rs. 3.299 million).
- (d) To achieve broad basing of the shareholding in NCEL, undertakings have been entered into by the Exchange to keep the equity stakes and associated voting rights of the Exchange in NCEL upto the extent of 10% of NCEL's Paid-up Capital. In the meantime, to divest itself of control over the excess shares held by the Exchange, the Exchange has



entered into an agreement with the proxy holder in respect of 12.73% shares out of total of 22.73% shares held by the Exchange, to cast the said votes and act solely and exclusively in accordance with the directions given to him by the Board of Directors of NCEL.

- (e) The Exchange, during the current year, has subscribed 200 ordinary shares of Institute of Capital Markets - a Company set-up under section 42 of the Companies Ordinance, 1984.

27.3 Held-to-maturity

	Notes	2009 (Rupees in thousand)	2008
Defence Savings Certificates			
Nil certificate (2008:10 certificates of Rs. 1,000,000 each including accrued interest thereon aggregating Rs. 33.192 million)	(a)	-	43,192
Certificates of deposit [including accrued profit thereon aggregating Rs. 1.023 million (2008: Rs. 0.683 million)]			
	(b)	8,310	10,399
		<u>8,310</u>	<u>53,591</u>

- (a) These certificates have been grouped under current assets as at 30 June, 2009.
- (b) Crescent Standard Investment Bank Limited (CSIBL), which was merged into Innovative Investment Bank Limited (IIBL) during the financial year ended 30 June, 2007, vide its letter dated 12 April, 2007, had offered a revised repayment plan of the Exchange IPF deposits amounting Rs.10.716 million lying with CSIBL. As per the revised repayment plan, IIBL had repaid principal Rupees one million during the preceding financial year and had issued three Certificates of Deposit (CoDs). First CoD amounting Rs. 2.429 million will mature on 29 July, 2009, second CoD amounting Rs. 2.429 million will mature on 29 July, 2010 and the third CoD amounting Rs. 4.858 million will mature on 29 July, 2011. The CoDs carry profit at the rate of 7% per annum receivable at maturity of the respective CoDs.

27.4 Available-for-sale

	Notes	2009 (Rupees in thousand)	2008
Atlas Income Fund (an open-end Mutual Fund) 40,379.7368 Units		20,000	-
Adjustment arising from measurement to fair value		740	-
		<u>20,740</u>	<u>-</u>

28. LOANS TO EMPLOYEES - Secured,

considered good

Vehicles' loans	28.1	331	1,036
Other loans	28.2	4,949	9,247
		<u>5,280</u>	<u>10,283</u>
Less: current portion grouped under current assets		2,600	4,817
		<u>2,680</u>	<u>5,466</u>



28.1 These vehicle loans are secured against demand promissory notes and registration of vehicles in the name of Exchange. These loans are recoverable in monthly instalments and during the current and preceding financial years carried mark-up at the rates ranging from 9.60% to 9.76% per annum.

28.2 These interest free loans to employees have been advanced for various purposes and are recoverable in monthly instalments which vary from case to case.

29. DEPOSITS AND PREPAYMENTS

	Notes	2009 (Rupees in thousand)	2008
Security deposits		2,133	2,135
Prepayments		-	73
		<u>2,133</u>	<u>2,208</u>

30. SHORT TERM INVESTMENTS - Held to maturity

Defence Savings Certificates

10 (2008:10) certificates of Rs.1,000,000 each
[including accrued interest aggregating
Rs.40.982 million (2008: Rs.36.147 million)]
- Face value Rs.10.000 million

30.1 **50,982** 46,147

1 Certificate of deposit

(including accrued profit aggregating Rs. 0.341 million)

27.3 (b) **2,770** -

53,752 46,147

30.1 The maturity date of these certificates is 07 September, 2009 (2008: 15 April, 2009).

31. LOANS AND ADVANCES

	Notes	2009 (Rupees in thousand)	2008
Due from defaulted / suspended Members - unsecured	31.1 & 31.2	181,531	181,531
Due from Associated Companies:			
- National Clearing Company of Pakistan Ltd.		141	314
- Central Depository Company of Pakistan Ltd.		113	49
		254	363
Due from:			
Members	31.4	10,385	8,254
Others		3,526	4,441
Members' Support Fund	31.5	22,592	-
Advances to employees - including current portion of loans to employees		2,689	4,939
Advance payments - considered good		25	2,206
		<u>221,002</u>	<u>201,734</u>
Less: provision for doubtful advances and receivables		248	248
		<u>220,754</u>	<u>201,486</u>



- 31.1** These represent amounts due from the defaulted / suspended Members who could not settle their Exchange's Clearing House Liabilities. The Exchange had recovered amounts aggregating Rs. 78.088 million (note 21) from these defaulted Members by sale of their pledged shares. The Appellate Bench of SECP vide its order dated 30 July, 2002, as detailed in note 21.4, had directed the Exchange's management not to utilise these amounts till the determination of final liabilities quantum by the respective Courts.
- 31.2** Amounts realised by the Exchange against sale of memberships of two defaulted members aggregating Rs. 7.795 million were adjusted against 'Due from Defaulted Members' during the financial year ended 30 June, 2002. The Exchange's Legal Advisor, vide his letter dated 25 September, 2002, had also advised that adjustment of amounts realised through sale of Defaulted Members' memberships against 'Due from Defaulted Members' was valid.
- 31.3 (a)** The Exchange, during the financial year 2000-01, recovered Rs. 78.088 million from the sale of shares pledged by the defaulted / suspended Members. This amount is not being utilised by the Exchange, pending final resolution of the Court cases. The Exchange, during the financial year ended 30 June, 2002, auctioned the seat of one of the defaulted / suspended Members and realised an amount of Rs. 7.075 million. The Exchange has the right, under its Rules and Regulations, to sell 3 other seats belonging to the defaulted / suspended Members. At the current market price, these seats may be sold for Rs. 57 million approximately.
- (b)** The Exchange also has the right to sell 6 rooms belonging to these Members. At the current market price, the Exchange may realise Rs. 27 million approximately from these sales. However, auction of these memberships and rooms is also held up due to pending Court cases. Further, sale of shares worth Rs. 684.848 million as at 30 June, 2009 has been frozen by SECP pending resolution of the Court cases.
- (c)** In addition to the aforementioned recovery of amount subject to the judgment of the respective Courts, the Civil Judge - Lahore, vide his order dated 07 July, 2003, had attached the CDC accounts of a defaulted Member and his Associates.
- (d)** Against the sale of pledged shares, Mian Nisar Elahi filed a suit for damages against SECP, CDC and the Exchange under section 11 of the Central Depositories Act, 1997. Refer contents of note 23.3.
- 31.4** The balance includes Rs. 681 thousand (2008: Rs. 681 thousand) on account of provisional trading of Kohat Cement Limited outstanding since the year 1995.
- 31.5** The Board of Directors of the Exchange, vide resolution dated 24 December, 2008 in order to redress the financial crises faced by the Members trading on the CFS MK-II, have decided to grant Rs. 100 million from the Exchange's free reserves as a one-time support package to help bail-out the Members from financial crises of the stock market. All the eligible Members may avail one-time loan facility upto Rs. 2.500 million carrying mark-up at 3-Months KIBOR + 2% and repayable within a period of twelve months through one single bullet payment. The loan amount is credited directly into the account of the Member with National Clearing Company of Pakistan Limited on signing of the agreement.

32. ACCRUED INCOME AND MARK-UP

	Notes	2009 (Rupees in thousand)	2008 (Rupees in thousand)
Lease rentals		16	662
Profit / interest accrued on bank deposits	32.1	17,383	14,981
		<u>17,399</u>	<u>15,643</u>

- 32.1** This includes balance amounting Rs. 9.445 million (2008: Rs. 6.304 million) and Rs. 1.339 million (2008: Rs. 3.989 million) pertaining to MCF and IPF respectively.

33. FEES RECEIVABLE - Unsecured

	2009 (Rupees in thousand)	2008 (Rupees in thousand) Restated
Fees receivable from the companies listed on the Exchange:		
considered good	3,482	-
considered doubtful	86,489	88,344
	<u>89,971</u>	<u>88,344</u>
Less: provision made against doubtful fees receivable	86,489	88,344
	<u>3,482</u>	<u>-</u>



33.1 The Exchange, during the current year, has changed its billing period; billings are now being made on financial year basis instead of calendar year basis to comply with the relevant provisions of listing regulations of the Exchange.

34. OTHER RECEIVABLES

	Note	2009 (Rupees in thousand)	2008
Receivable from Karachi and Islamabad Stock Exchanges		2,402	1,080
Others		1,211	1,057
		<u>3,613</u>	<u>2,137</u>

35. TAX REFUNDS DUE FROM THE GOVERNMENT

Wealth tax paid:			
- under protest	22.7	10,063	10,063
- with returns		461	461
		<u>10,524</u>	<u>10,524</u>
Tax deducted at source / advance tax		127,701	109,378
		<u>138,225</u>	<u>119,902</u>

36. CASH AND BANK BALANCES

Cash-in-hand		26	3
Cash at banks on:			
- current accounts		1,829	101,229
- PLS accounts	36.1	107,926	153,098
- deposit accounts [refer contents of note 21.4]		881,022	696,735
- foreign currency accounts	36.2	84	4
		<u>990,861</u>	<u>951,066</u>
Share transfer stamps		100	25
		<u>990,987</u>	<u>951,094</u>

36.1 These include Clearing House balances aggregating Rs. 93.540 million (2008:Rs. 107.696 million).

36.2 This represents balance of U.S.\$1041 (2008:U.S.\$57), which has been translated into Pak Rupees at the exchange rate prevailing on the balance sheet date, i.e. U.S.\$ 1 = Rs. 81.35 (2008: Rs. 68.60).

36.3 PLS accounts include Defaulters' Committee deposits aggregating Rs. 1.070 million (2008: Rs. 1.015 million).

36.4 PLS and deposit accounts, during the current year, carried mark-up at the rates ranging from 2% to 18% (2008:1.00% to 12.50%) per annum.

36.5 Also refer contents of note 23.3.



37. FEES

	Note	2009 (Rupees in thousand)	2008 Restated
Annual listing	37.1	11,073	21,788
Initial listing	37.1	2,902	2,710
Additional listing	37.1	51,493	60,698
Extension - Annual General Meetings	37.1	359	239
Listing service charges		90	130
Accredited agents		19	18
Membership transfers		500	1,200
Automated trading fee - collected from Members	37.2	3,610	25,821
Net-work connection fees	17	423	684
Internet trading fees	17	2,117	2,214
Furnished rooms fees	17	6,948	6,948
De-listing fee		-	300
Members' annual subscription		16	16
		79,550	122,766

37.1 The Exchange, effective from the current year, is recognising income from trading, initial listing and other similar activities on 'accrual basis' to comply with the requirements of IAS 18 (Revenue). The adopted accounting policy has been described in note 6.15 (a). This income upto 30 June, 2008 was recognised on 'receipt basis'.

The change in accounting policy has been adopted for better and accurate presentation and has been accounted for retrospectively in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors); accordingly, the comparative figures have been restated. The change in accounting policy has increased fees income for the year by Rs.3.482 million.

37.2 The Exchange, during the year, has paid Transaction Fees to SECP aggregating Rs. 1.315 million (2008: Rs. 9.387 million).

38. RENTAL INCOME

	2009 (Rupees in thousand)	2008
Building rent from:		
- banks	17,083	17,299
- an Associated Company	1,248	1,248
Members:		
- ground rent	165	164
- lease rentals	218	218
Others	6,960	3,056
	25,674	21,985

39. PROFIT ON BANK DEPOSITS AND INVESTMENTS

Bank deposits	47,851	38,968
Defence Savings Certificates	14,143	13,651
	61,994	52,619

**40. SOFTWARE REVENUES**

	Note	2009 (Rupees in thousand)	2008
Ultra Trade lease rentals from Islamabad Stock Exchange		2,182	2,075
Broker Net software		66	913
Back Office software		858	1,118
Sale of Ultra Trade Stock Trading software and services to Ghana Stock Exchange		16,222	-
Gateway terminal charges		2,200	-
		<u>21,528</u>	<u>4,106</u>

41. OTHER INCOME

Room transfer fees		195	125
Booth charges		201	183
Room maintenance fees		1,440	1,439
Gain on disposal of operating fixed assets - net	24.1	495	745
Anti-virus installation / dial-up connection fees		713	107
Fees from the Training Institute of the Exchange		3	55
Mark-up on:			
- loans advanced to employees		38	30
- Members' Support Fund		1,877	-
Renewal / registration fee of brokers' sub-offices		1,619	-
Fees pertaining to July, 2008 to December, 2008 recovered against which provision was made as per the adopted accounting policy disclosed in note 6.15 (a)		1,855	-
Miscellaneous		826	605
		<u>9,262</u>	<u>3,289</u>

42. ADMINISTRATIVE EXPENSES

Salaries and benefits		77,340	70,458
Voluntary separation scheme		10,060	0
I.T. and other related expenses	42.1	12,425	8,140
Insurance - net		997	1,055
Travelling and conveyance:			
- directors		2,217	1,019
- staff and others		1,780	1,888
Printing and stationery		1,669	1,746
Communication		2,063	1,655
Electricity, gas and water		7,597	5,735
Entertainment and public relations		1,805	1,611
Repair and maintenance		5,370	2,630
Depreciation		21,433	21,529
Amortisation		2,929	2,331
Fees and subscription		1,270	3,108
Rent and taxes		712	895
Security expenses		4,089	1,925
Advertisement		27	408
Auditor's remuneration:			
- statutory audit		360	300
- half-yearly review		75	75
- out-of-pocket expenses		50	40
		485	415
General charges		1,736	1,013
Training and courses		172	2,724
		<u>156,176</u>	<u>130,285</u>



42.1 Reclassification of 2008 expenses:

- (a) Expenses aggregating Rs. 6.064 million grouped under the heads of communication and repair & maintenance have been grouped under the head of I.T. and other related expenses;
- (b) scholarships of staff children amounting Rs. 1.510 million have been grouped under the head of salaries and benefits;
- (c) public relations and receptions expenses amounting Rs. 175 thousand have been grouped under the head of entertainment and public relations; and
- (d) janitorial services expenses amounting Rs. 1.116 million have been grouped under the head of repair and maintenance.

43. FINANCE COST

	2009 (Rupees in thousand)	2008
Lease finance charges	853	925
Bank charges	57	32
Exchange fluctuation loss - net	3,582	-
	4,492	957

44. DONATIONS (without Directors' interest)

Lahore University of Management Sciences	550	550
World Wide Fund for Nature	10	-
Chief Minister of Punjab's Relief Fund for Internally Displaced Persons of NWFP	3,500	-
Shalamar Hospital	155	-
Shoukat Khanum Memorial Hospital	155	-
	4,370	550

45. OTHER CHARGES

	Note	2009 (Rupees in thousand)	2008 Restated
Legal and professional charges (other than Auditors')			
- legal expenses		5,160	3,024
- retainership fees		748	276
		5,908	3,300
Consultancy charges	45.1	2,636	28,158
Provision against doubtful fees receivable due to change in accounting policy as detailed in note 37.1		-	9,048
Zakat deducted on encashment of Defence Savings Certificates		1,072	-
Penalty imposed by Competition Commission of Pakistan due to placing of Floor on prices of securities listed on the Exchange		1,000	-
Penalty imposed by SECP due to listing of preference shares		100	-
		10,716	40,506

45.1 Expense for the current year includes fees aggregating Rs. 1.350 million (2008: Rs. 24.510 million) paid / payable to the legal and financial advisers of the Exchange in relation to its demutualisation.

**46. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES**

Particulars	Managing Director		Executives	
	2009	2008	2009	2008
..... (Rupees in thousand)				
Managerial remuneration	4,200	1,646	15,221	18,531
House rent	1,680	658	6,081	7,413
Utilities	420	165	1,522	1,853
Staff retirement benefits	1,039	1,421	3,765	3,230
Others	1,597	144	4,002	-
	8,936	4,034	30,591	31,027
No. of persons	1	1	24	18

46.1 Nine (2008: one) of the executives have been provided with the Exchange's maintained cars.

46.2 Meeting fees aggregating Rs. 1,070 thousand (2008: Rs. 230 thousand) were paid to four (2008: three) of the directors during the year.

47. TRANSACTIONS WITH ASSOCIATED COMPANIES

Aggregate transactions made during the year with the Associated Companies were as follows:

	2009	2008
	(Rupees in thousand)	
The Bank of Punjab (upto 08 December, 2007)		
- balance at current accounts	-	16
- balance of lease finances	-	7,000
Others		
- dividend income	11,100	17,325
- electricity, ground rent and other expenses debited	3,215	860

1,977,500 (2008: 1,007,500) and 216,000 (2008: Nil) bonus shares were received from Central Depository Company of Pakistan Ltd. and The Pakistan Credit Rating Agency Ltd. respectively.

200 shares of Rs. 5,000 each of Institute of Capital Markets were subscribed during the year.

Transactions with the Associated Companies were in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Exchange's management.

48. FINANCIAL INSTRUMENTS

The Exchange has exposures to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk

The Exchange's Board of Directors has overall responsibility for the establishment and oversight of the Exchange's risk management framework. The Board is also responsible for developing and monitoring the Exchange's risk management policies.

48.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted.



Credit risk mainly arises from investments, loans & advances and deposits with banks. Out of the total financial assets of Rs. 1.324 billion (2008: Rs. 1.275 billion), the financial assets which are subject to credit risks aggregated Rs. 1.318 billion (2008:Rs. 1.265 billion).

The maximum exposure to credit risk as at 30 June, 2009 along with comparative is tabulated below:

	2009 (Rupees in thousand)	2008
Investments	82,802	99,738
Deposits	2,133	2,135
Loans and advances	218,034	194,226
Accrued income and mark-up	17,399	15,643
Fees receivable	3,482	-
Other receivables	3,613	2,137
Bank balances	990,961	951,091
	<u>1,318,424</u>	<u>1,264,970</u>

The management does not anticipate any loss from investments as major investments have been made in Defence Savings Certificates and an open-end Mutual Fund having three star credit rating.

Loans and advances primarily include due from defaulted / suspended members against which the Exchange holds adequate assets of these members. In respect of due from members, the management, based on past experience and long standing relationship with them, does not expect any non-performance by these members.

Total bank balance of Rs. 990.961 million placed with banks have a short term credit rating of at least 'AA'.

The year-wise ageing of fees receivables is as follows:

	2009 (Rupees in thousand)
Fees pertaining to the financial year ended 30 June, 2006 and prior to the said date	72,538
Fees pertaining to the financial year ended 30 June, 2007	6,758
Fees pertaining to the financial year ended 30 June, 2008	7,193
Fees pertaining to the financial year ended 30 June, 2009	3,482
	<u>89,971</u>
Less: provision made against doubtful fees receivable	86,489
	<u>3,482</u>

Based on past experience, the management believes that no additional provision is required against fees receivable considered good as at 30 June, 2009. Further, provision against doubtful fees receivable, to the extent considered necessary, has been recognised in these financial statements.

48.2 Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk mainly comprise of the following:

- currency risk
- interest rate risk
- price risk

Financial instruments affected by market risk include foreign creditors, lease finance liabilities, short term investments and deposits with banks.

**(a) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Exchange's exposure to the risk of changes in foreign exchange rates relates primarily to its US \$ liabilities amounting Rs. 22.251 million (2008:Rs. 18.654 million) and foreign currency bank accounts amounting Rs. 84 thousand (2008: Rs. 4 thousand).

At the reporting date, if Rupee had strengthened by 10% against US Dollar, with all other variables held constant, surplus after taxation would have increased by Rs. 2.217 million (2008: Rs. 1.865 million).

The sensitivity analysis prepared is not necessarily indicative of the effects on surplus for the year and assets / liabilities of the Exchange.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Exchange's exposure to the risk of changes in market interest rates relates primarily to its lease finance liabilities, investments and deposits with banks.

The Exchange manages its interest rate risk by placing its investments in fixed income deposits with financial institutions having credit ratings of 'AA' or above.

Interest rate sensitivity

The following figures demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Exchange's surplus before taxation. Financial instruments subject to interest rate risk are as follows:

Financial assets (fixed rate instruments)

	2009	2008
	(Rupees in thousand)	
Investments	<u>82,802</u>	<u>99,738</u>
Bank balances	<u>988,948</u>	<u>849,833</u>

Financial liability (variable rate instrument)

Liabilities against assets subject to finance lease	<u>3,295</u>	<u>5,830</u>
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The effective interest rates for the monetary financial assets and liability are mentioned in respective notes to the financial statements.

If interest rate moves 100 basis points higher / lower, with all the variables held constant, surplus after taxation for the year would have been Rs. 4.673 million / Rs. 4.646 million (2008: Rs. 5.496 million / Rs. 5.545 million) higher / lower respectively, mainly as a result of higher / lower interest income from these financial instruments.

The sensitivity analysis prepared is not necessarily indicative of the effects on surplus for the year and assets / liabilities of the Exchange.

(c) Price risk

At the year-end, the Exchange is not materially exposed to price risk since there are no such financial instruments whose fair value or future cash flows will fluctuate because of changes in market prices.



48.3 Liquidity risk

Liquidity risk is the risk that the Exchange will encounter difficulties in meeting obligations associated with its financial liabilities. The Exchange's approach to manage liquidity is to ensure, as far as possible, to always have sufficient liquidity to meet its obligations when due. The Exchange is not materially exposed to liquidity risk as substantially all its obligations and commitments are restricted to the extent of available liquidity.

Financial liabilities in accordance with their contractual maturities are presented below:

	Carrying amount	Contractual cash flows	Not over six months	six months to 1 year	Over 1 year
..... (R u p e e s)					
2009					
Liabilities against assets subject to finance lease	3,295	4,499	1,669	1,669	1,161
Security deposits	56,234	56,234	-	-	56,234
Accruals and other liabilities	265,825	265,825	59,083	206,742	-
	<u>325,354</u>	<u>326,558</u>	<u>60,752</u>	<u>208,411</u>	<u>57,395</u>
2008					
Liabilities against assets subject to finance lease	5,830	7,888	1,681	1,682	4,525
Security deposits	55,784	55,784	-	-	55,784
Accruals and other liabilities	265,946	265,946	45,474	220,472	-
	<u>327,560</u>	<u>329,618</u>	<u>47,155</u>	<u>222,154</u>	<u>60,309</u>

48.4 Fair value of financial instruments

Carrying values of the financial assets and financial liabilities reflected in the financial statements approximate their fair values. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

49. DATE OF AUTHORISATION

These financial statements were authorised for issue on 01 October, 2009 by the board of directors of the Exchange.

50. GENERAL

- Figures in the financial statements have been rounded-off to the nearest thousand Rupees except stated otherwise.
- Corresponding year's figures have been reclassified for the purpose of better presentation and comparison; significant changes made during the year are detailed in note 42.1.

Sd/-
MANAGING DIRECTOR

Sd/-
CHAIRMAN

Lahore
Stock
Exchange
(Guarantee)
Limited