

FIRST CAPITAL SECURITIES CORPORATION LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2003

1. STATUS AND NATURE OF BUSINESS

First Capital Securities Corporation Limited (“the company”) was incorporated in Pakistan on April 11, 1994 as a public limited company under the Companies Ordinance, 1984 and is listed on the Karachi, Lahore and Islamabad stock exchanges. The registered office of the company is situated at Gulberg, Lahore. The company has investments in subsidiaries and associates engaged in brokerage, telecommunication and real state. In addition the company acts as a broker in the money market.

2. STATEMENT OF COMPLIANCE

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting Convention

These accounts have been prepared under the historical cost convention except for investment property and securities available for sale and held for trading, which are stated at their fair values.

3.2 Fixed Assets and depreciation.

Owned Assets

Fixed assets are stated at cost less accumulated depreciation. Capital work in progress is stated at cost. Depreciation is charged on the reducing balance method at varying rates given in note 4, which are considered appropriate to write off the cost of assets over their useful economic lives.

Full year’s depreciation is charged on the assets acquired during the year, while no depreciation is charged in the year of disposal.

Gain or loss on disposal of fixed assets is included in income currently.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized.

Leased Assets

Assets subject to finance leases are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets less accumulated depreciation. Related obligations, under the lease are accounted for as liabilities. Depreciation is charged on the reducing balance method at the rates given in note 4 to the accounts.

Finance charge is calculated at the rates implicit in the lease and charged to income.

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3.3 Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost such asset can also be measured reliably.

Generally, costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. However, cost that are directly associated with identifiable software and have probable economic benefit exceeding the cost beyond one year, are recognized as intangible asset. Direct costs included the purchase cost of software and related overhead cost.

Intangible asset is amortized from the date such asset is put into use on straight line basis over its useful life.

3.4 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists the assets' recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognized as expense in the profit and loss account.

3.5 Investments

a) Long term investments

Investments in subsidiaries and, associates where significant influence can be established, are accounted for under the equity method.

In case of investments accounted for under the equity method, the method is applied from the date when control/significant influence commences until the date when that control/significant influence ceases. When the company's share of losses exceeds the carrying amount of the subsidiaries /associates, the carrying amount is reduced to nil and the recognition of further losses is discontinued except to the extent that the company has incurred obligations in respect of the subsidiaries /associates.

b) Investments held for trading

Investments, which are acquired principally for the purposes of generating a profit from short term fluctuations in price or dealer's margins, are classified as held for trading. These are stated at fair values with any resulting gains or losses recognized directly in the profit and loss account.

c) Investments available for sale

These are investments, which do not fall under the held for trading or held to maturity categories. These represent investment in equity instruments (including listed and un-listed securities) and except for investment in un-listed securities, are stated at fair values with any gains or losses recognized directly in the profit and loss account. The fair value of those investments representing listed equity securities are determined on the basis of year end mid market prices. The investment representing un-listed shares are stated at cost, as relevant financial information is not available to determine their fair values. Hence, provisions for permanent diminution is made, if any.

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3.6 Investment property

The International Accounting Standard 40 “Investment Property” became applicable for period beginning on or after January 01, 2001. The company has adopted this standard and carries its investment property at fair value determined annually by an independent approved valuer.

Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognized in the profit and loss account. Rental income from investment property is accounted for as described in note 3.8.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in the equity as a revaluation reserve for investment property. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings, the transfer is not made through the income statement.

3.7 Trade and other receivables

These are stated net of provision, if any, for impairment. Full provision is made for impaired receivables.

3.8 Revenue recognition

- 3.8.1 Capital gains or losses on sale of investments are taken to income in the year in which they arise.
- 3.8.2 Money market brokerage, consultancy and advisory fees are recognized as and when services are provided.
- 3.8.3 Underwriting commission is recognized as and when the contract is executed. Take up commission is recognized at the time of actual take-up.
- 3.8.4 Dividend income is recognized at the time of book closure of company declaring dividend.
- 3.8.5 Return on securities other than shares is recognized as and when it is due on time proportion basis.
- 3.8.6 Mark-up/interest income is recognized on accrual basis.
- 3.8.7 Rental income is recognized on accrual basis

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3.9 Taxation

Current

Provision for taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any, or minimum taxation under tax laws which ever is higher.

Deferred

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.10 Foreign currency translation

Foreign currency transactions during the year are recorded at the rate of exchange ruling on the transaction date. All monetary assets and liabilities denominated in foreign currency are translated at exchange rates prevailing at the year end. Exchange differences are taken to income currently.

3.11 Staff retirement benefits

a) Defined benefit plan

The company operates an un-funded gratuity plan for its eligible staff under which benefits are paid on cessation of employment subject to a minimum qualifying period of service i.e., one year. The liability under the plan is determined on the basis of actuarial valuations carried out by using the projected Unit Credit Method and are charged to income. The latest valuation was conducted as of 30 June 2003. Significant actuarial assumptions are as follows;

Discount rate	8%
Increase in salary	7%
Mortality rate	EFU 61-66 mortality rate

The amount recognized in the balance sheet represents the present value of defined benefits as adjusted for unrecognized actuarial gains and losses. The company recognizes actuarial gains/losses above the corridor defined in IAS-19 "Employee Benefits" over the expected future service of employees.

b) Compensated absences

The company also provides for compensated absences according to the company's rules.

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3.12 Financial Instruments

All the financial assets and financial liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instruments. The company de-recognizes a financial asset or a portion of financial asset when, and only when, the enterprise loses control of the contractual rights that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on the recognition, de-recognition of the financial, assets and liabilities are stated in their respective notes.

Financial assets are long term deposits, trade debts, short-term loans, advances, other receivables and cash and bank balances. These are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amount.

Financial liabilities are classified according to the substance of the contractual agreements entered into. Significant financial liabilities are liability under lease finance, short term borrowings, long term loan, creditors, accrued and other liabilities and long term deposits. Markup-up bearing finances are recorded at the gross proceeds recovered. Other liabilities are stated at their nominal value.

3.13 Offsetting of financial assets and financial liabilities.

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the company has a legally enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

3.14 Provisions

A provision is recognized when the company 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.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise of cash, bank balances and bank overdrafts / running finances repayable on demand.

3.16 Borrowing costs

Borrowing costs are charged to the profit and loss account.

