

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

**1. STATUS AND NATURE OF BUSINESS**

First Capital Securities Corporation Limited (FCSC) (“the parent company”) was incorporated in Pakistan on 11 April 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 parent company is situated in Gulberg, Lahore. The parent company has investments in subsidiaries and associates engaged in brokerage, telecommunication and real state. In addition the parent company acts as a broker in the money market.

FCSC’s subsidiaries comprise the following companies:

Company	Country of incorporation	Nature of business	2003	2002
			Holding %	Holding %
First Capital Associates (Private) Limited (FCAL)	Pakistan	Consultancy/advisory services.	100	100
First Capital Investments (Private) Limited (FCIL)	Pakistan	Providing investment advisory services under the Investment Companies and Investment Advisor’s Rules, 1971, now repealed and replaced by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.	65.79	65.79
Lanka Securities (Private) Limited (LSL)	Sri Lanka	Sale/purchase of shares, consultancy services, money market operations, underwriting, placements and equity research, etc.	51	51
First Capital Equities Limited (FCEL)	Pakistan	Sale/purchase of shares, consultancy services, money market operations, underwriting, placements and equity research, etc.	67.39	77.39
Media Times (Private) Limited	Pakistan	Printing and publishing daily newspaper in the name of “Daily Times”.	72.17	Nil

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**2. BASIS OF CONSOLIDATION**

- 2.1** The consolidated financial statements include the financial statements of the First Capital Group (First Capital Securities Corporation Limited and its subsidiaries).

Subsidiaries are those enterprises in which parent company directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has power to elect and appoint more than 50 percent of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date the control commences, until the date when that control ceases. The financial statements of each subsidiary company have been consolidated on a line-by-line basis. Details of subsidiaries are given in note 1.

All material inter-company balances, transactions and resulting unrealised profits/losses have been eliminated.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Accounting convention**

These consolidated financial statements 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.

**Statement of compliance**

These consolidated financial statements have been prepared in accordance with the approved International Accounting Standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved International Accounting Standards comprise 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 of the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of the Standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

**3.2 Fixed Assets and depreciation**

**Owned assets**

Fixed assets are stated at cost less accumulated depreciation except for capital work in progress, which is stated at cost.

Depreciation is charged on the assets of parent company, First Capital Associates (Private) Limited and First Capital Equities Limited on reducing balance method, whereas it is charged using the straight line method on the assets of First Capital Investments (Private) Limited, Media Times (Private) Limited, Lanka Securities (Private) Limited at the rates specified in note 4, which are considered appropriate to write-off the cost of assets over their useful lives.

Full year's depreciation is charged on the assets acquired during the year, on which depreciation is charged from month of installation. No depreciation is charged in the year of disposal.

In case of Lanka Securities (Private) Limited, no depreciation is charged on assets acquired during the year, whereas full year's depreciation is charge on disposals.

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Gains or losses on disposal of fixed assets are included in profit and loss account.

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

**Leased assets**

Assets subject to finance lease are stated at lower of present value of minimum lease payments under the lease agreement and the fair value of assets less accumulated depreciation. Related obligations, under the leases are accounted for as liabilities. Depreciation is charged at the rates specified in note 4. Finance charge is calculated at the interest rate implicit in the lease and charged to income.

**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 the cost of such asset can also be measured reliably.

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

Investment in associates where significant influence can be established is 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 parent company's share of losses exceeds the carrying amount of the associates, the carrying amount is reduced to nil and the recognition of further losses is discontinued except to the extent that the parent company has incurred obligations in respect of the associates.

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b) Investments held for trading

Investments, which are acquired principally for the purposes of generating a profit from short term fluctuations in price of 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 held for trading or held to maturity categories. These represent investments in equity instruments (including listed and un-listed securities) and except for investments 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 is determined on the basis of year end mid market prices. The investments 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.

**3.6 Investment property**

The International Accounting Standard 40 "Investment Property" became applicable for period beginning on or after January 01, 2001. The parent company has adopted this standard and carried 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 3.7.

If any item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and 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 recognised 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 Revenue recognition**

Capital gains or losses on sale of investments and money market operations are taken to income in the year in which they arise.

Brokerage, consultancy and advisory fees are recognised as and when services are provided.

Underwriting Commission is recognized as and when the contract is executed. Take up commission is recognized at the time of actual take-up.

Income from bank deposits, loans and advances is recognized on an accrual basis .

Dividend income is recognised at the time of book closure of company declaring dividend.

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Return on securities other than shares is recognised as and when it is due on a time proportion basis.

Rental income is recognized on accrual basis.

Investment advisory fee is charged to the Mutual Fund at the prescribed rates.

Media Times (Private) Limited recognizes the revenue from sale of newspaper at the time of billing to agents, while revenue from advertisement is recorded at the time of publication of advertisement.

**3.8 Trade and other receivables**

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

**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 whichever is higher.

**Deferred Tax**

Deferred tax is provided using balance sheet liability method, providing for temporary differences between 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 assets can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The group companies adopted IAS-12 "Income Taxes" during the year and accounted for net deferred tax asset of Rs. 991,487.

**3.10 Foreign currency transactions**

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the year-end. Foreign currency transactions during the year are recorded at the rate of exchange ruling on the transaction date. Exchange differences are taken to the profit and loss account.

For the purpose of consolidation, income and expense items of the foreign subsidiary are translated at annual average exchange rates, items of balance sheet of the foreign subsidiary company are translated at the closing rates. Exchange differences arising on consolidation are taken to equity.

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**3.11 Staff retirement benefits**

a) Defined benefit plan

The group companies operate un-funded gratuity plans for their eligible staff under which benefits are paid on cessation of employment subject to a minimum qualifying period of service i.e. one year. Except for Lanka Securities (Private) Limited the liability under the plans is determined on the basis of actuarial valuations carried out by using the Projected Unit Credit Method and is charged to income. Latest valuation was conducted as of 30 June 2003.

Significant actuarial assumptions are as follows:

Discount rate	8% to 11%
Expected rate of salary increase in future years	7 % to 10%
Average expected remaining working lifetime of employees	11-12 years
Mortality rate	EFU(61-66)

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

Lanka Securities (Private) Limited provides for gratuity annually on the basis of terminal values.

b) Compensated absences

The parent company and its subsidiaries also provide for compensated absences of its employees on un-availed leaves.

**3.12 Financial instruments**

All the financial assets and financial liabilities are recognized at the time when the group companies become a party to the contractual provisions of the instruments. The group companies de-recognize a financial asset or a portion of financial asset when, and only when, the group 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 is 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, murabaha finance

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utilized under mark up arrangements, long term loan, creditors, accrued and other liabilities and long term deposits. Mark-up bearing finances are recorded at the gross proceeds recovered. Other liabilities are stated at their nominal values.

**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 a 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 Cost of cards and rooms**

These are stated at acquisition cost. Provision, if any, is made for permanent impairment in value of these assets.

**3.16 Negative goodwill**

Negative goodwill arising on acquisition represents the excess of the fair value of the interest in subsidiary's net assets acquired over its cost of acquisition. To the extent that negative goodwill relates to the proportionate fair values of the depreciable/amortizable non-monetary assets of the subsidiary, it is recognised in the profit and loss account over the weighted average useful life of such non-monetary assets, which is five years. The balance of the negative goodwill to the extent of the interest in fair value of non-monetary assets of the subsidiary is recognized immediately in the profit and loss account.

**3.17 Cash and cash equivalents**

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

**3.18 Borrowing costs**

Borrowing costs are charged to profit and loss account.