

**LAFCO (Private) Limited  
Independent Auditors' Report and  
Audited Annual Financial Statements  
For the Year Ended June 30, 2020**



**RSM Avas Hyder Liaquat Nauman**  
**Chartered Accountants**

Avas Chambers, 1/C-5  
Sikander Malhi Road, Canal Park  
Gulberg II, Lahore, Pakistan

T: +92 (42) 3587 2731-3  
F: +92 (42) 3587 2734

lahore@rsm-pakistan.pk  
www.rsm-global/pakistan

## **INDEPENDENT AUDITORS' REPORT**

**To the members of LAFCO (Private) Limited**

**Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the annexed financial statements of LAFCO (Private) Limited (the Company), which comprise the statement of financial position as at June 30, 2020 and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2020 and of the loss, total comprehensive loss, the changes in equity and its cash flows for the year then ended.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the *Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Relating to Going Concern**

Note 1.4 to the financial statements indicates that the Company has incurred loss of Rs. 566.58 million (2019: Rs. 334.96 million) during the year and, as on the reporting date, its equity is negative by Rs. 2,494.43 million (2019: Rs. 1,927.85 million). These events and conditions indicate the existence of material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified with respect to this matter.

**THE POWER OF BEING UNDERSTOOD**  
**AUDIT | TAX | CONSULTING**

Other Offices at:  
Karachi : 92 (21) 3565 5975-6  
Faisalabad : 92 (41) 854 1165/854 1965  
Islamabad : 92 (51) 235 6041-2  
Quetta : 92 (80) 282 9809  
Peshawar : 92 (91) 527 8310/5277205  
Kabul : 93 (799) 058155

### **Information Other than the Financial Statements and Auditors' Report Thereon**

Management is responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements of the company and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017(XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) no Zakat was deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditors' report is Inam ul Haque.

A handwritten signature in black ink, appearing to read 'RSM Awaiz Hyder Liaquat Nauman'.

**RSM AWAIZ HYDER LIAQUAT NAUMAN**

**CHARTERED ACCOUNTANTS**

Place: Lahore

Date: **02 OCT 2020**



## LAFCO (PRIVATE) LIMITED

### Director's Report with Annual Account as on 30<sup>th</sup> June - 2020.

On the behalf of board of Directors, I am pleased to present the 18<sup>th</sup> Annual Report of LAFCO (Private) Limited along with the Audited Financial Statements and Auditor's Report thereon for the year ended June 30, 2020.

#### The ECONOMY

Pakistan's economy faced unprecedented challenges during fiscal year 2020:-

- Severe macroeconomic crisis
- Sharp deterioration in Pakistan's net external terms of trade as a result of spike in recent years in world commodity prices of which Pakistan is a net importer.
- The intensification of an unprecedented domestic security challenge which has exacted a high cost from the economy, both in terms of direct costs, and as well as in terms of significant knock-on effect on investment inflows and market confidence.

#### Appropriations

The company is running in losses as there is unappropriated loss of Rs 3,694,426,818 as on June 30, 2020, but there is no appropriation made.

### Technology

The Company has already installed ETTM System (Electronic Traffic and Toll Management) which eliminates the significant risk in the toll collection as compared manually toll collection. There are 46-lanes which are being controlled through ETTM system. Management has now installed Closed Circuit Cameras to observe the traffic.

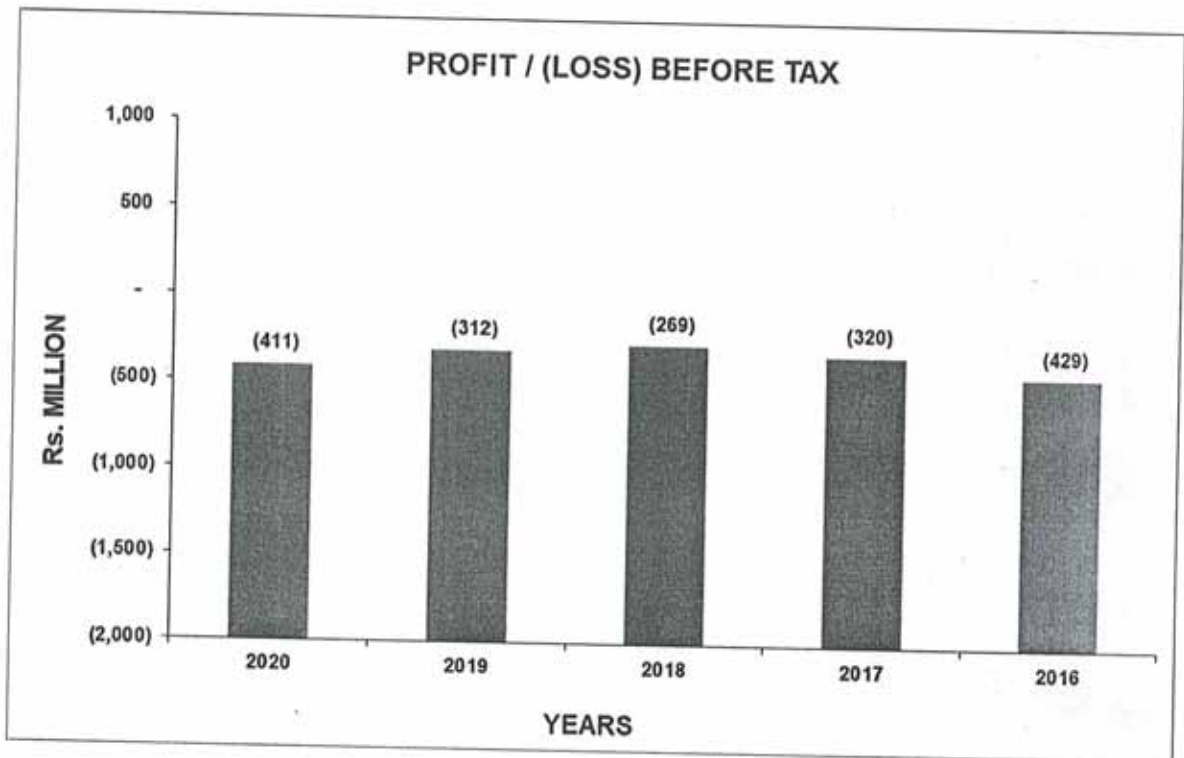
### Operating Results of the Company

Operating results are as follows;

| Particulars               | June 30, 2020<br><Rupees> | June 30, 2019<br><Rupees> |
|---------------------------|---------------------------|---------------------------|
| Gross Revenue             | 1,938,202,682             | 1,894,203,370             |
| Operating Cost            | 2,211,293,253             | 2,031,451,731             |
| Gross Profit / (Loss)     | (273,090,571)             | (137,248,361)             |
| Administrative expenses   | 46,087,043                | 58,334,989                |
| Finance Cost              | 91,708,306                | 116,510,645               |
| Operating Profit / (Loss) | (410,885,920)             | (312,093,995)             |



The following graph describes the five years summary of profit/ (Losses) before tax.



#### **Human Resource Management**

Human resource of the company is given the highest value. Accordingly, the company's focus remains on employee's development coupled with improving the ambience through regular reviews and refinements of processes and the work environment, thereby ensuring its dynamism and robustness and keeping the spirit of its key guiding principles and policies.

#### **Statement of Internal Control**

Internal Controls contribute to the effective management by the Both Company's Board of Directors and management. While the Board recognizes its responsibility as envisaged in the relevant regulations, the management of company ensures the establishment and maintenance of adequate and effective systems of internal

ger

controls in compliance with external laws and regulations and consistent with the Company's own internal policies. It is also responsible to assess the effectiveness of internal controls and report on them to the Board.

The management ensures the effectiveness and efficiency of the internal control system by identifying control objectives, devising and reviewing appropriate policies and procedures and establishing relevant control procedures. Significant policies and procedural manuals are already in place. Policies and procedures are periodically reviewed and revised and necessary amendments and updates introduced. The management is also cognizant of its responsibility of putting a system in place for the authentication of transactions, strengthening of control environment, and identifying the areas requiring improvements and devising appropriate remedial actions on a timely basis.

#### **Acknowledgements**

The Board of Directors would like to take this opportunity to express their deep appreciation of the commitment, loyalty and dedication of the employees.



CHIEF EXECUTIVE

*Seher Rana*  
DIRECTOR

**LAFCO (PRIVATE) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2020**

|                                              | Note | 2020                   | 2019                   |
|----------------------------------------------|------|------------------------|------------------------|
|                                              |      | Rupees                 | Rupees                 |
| <b>ASSETS</b>                                |      |                        |                        |
| <b>NON CURRENT ASSETS</b>                    |      |                        |                        |
| Property and equipment                       | 5    | 34,909,065             | 37,864,231             |
| Concession intangible assets                 | 6    | 437,934,462            | 484,955,675            |
| Other intangible asset                       | 7    | 119,914                | 149,892                |
| Right of use assets                          | 8    | 47,222,733             | -                      |
| Long term deposits                           | 9    | 1,562,756              | 1,562,756              |
|                                              |      | <u>521,748,930</u>     | <u>524,532,554</u>     |
| <b>CURRENT ASSETS</b>                        |      |                        |                        |
| Loans and advances                           | 10   | 670,412,067            | 592,631,461            |
| Short term prepayments                       |      | 1,222,975              | 1,573,568              |
| Short term investment                        | 11   | 335,000,000            | 335,000,000            |
| Profit on short term investment              |      | 8,358,250              | 8,793,750              |
| Income tax refunds due from Government       |      | 58,388,569             | 57,642,713             |
| Cash and bank balances                       | 12   | 744,846,063            | 505,290,216            |
|                                              |      | <u>1,818,227,924</u>   | <u>1,500,931,708</u>   |
|                                              |      | <u>2,339,976,854</u>   | <u>2,025,464,262</u>   |
| <b>EQUITY AND LIABILITIES</b>                |      |                        |                        |
| <b>SHARE CAPITAL AND RESERVE</b>             |      |                        |                        |
| Authorized share capital                     | 13   | 1,200,000,000          | 1,200,000,000          |
| Issued, subscribed and paid up capital       | 13   | 1,200,000,000          | 1,200,000,000          |
| Accumulated loss                             |      | (3,694,426,818)        | (3,127,849,462)        |
|                                              |      | <u>(2,494,426,818)</u> | <u>(1,927,849,462)</u> |
| <b>NON CURRENT LIABILITIES</b>               |      |                        |                        |
| Long term financing                          | 14   | -                      | 271,000,000            |
| Lease liability                              | 15   | 44,908,860             | -                      |
| Provision for restoration of the carriageway | 16   | 4,287,657,601          | 3,033,720,001          |
|                                              |      | <u>4,332,566,461</u>   | <u>3,304,720,001</u>   |
| <b>CURRENT LIABILITIES</b>                   |      |                        |                        |
| Trade and other payables                     | 17   | 11,705,084             | 12,441,929             |
| Current portion of long term financing       | 14   | 271,000,000            | 556,000,000            |
| Current portion of lease liabilities         | 15   | 6,152,470              | -                      |
| Provision for taxation - Income tax          |      | 212,979,657            | 80,151,794             |
|                                              |      | <u>501,837,211</u>     | <u>648,593,723</u>     |
| <b>CONTINGENCIES</b>                         |      |                        |                        |
|                                              | 18   | -                      | -                      |
|                                              |      | <u>2,339,976,854</u>   | <u>2,025,464,262</u>   |

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

  
**CHIEF EXECUTIVE OFFICER**

  
**DIRECTOR**

**LAFCO (PRIVATE) LIMITED**  
**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                        | Note | 2020<br>Rupees | 2019<br>Rupees |
|----------------------------------------|------|----------------|----------------|
| Income from operations - Toll receipts |      | 1,769,178,833  | 1,804,172,353  |
| Other Income                           | 19   | 169,023,849    | 90,031,017     |
|                                        |      | 1,938,202,682  | 1,894,203,370  |
| Operating expenses                     | 20   | 2,211,293,253  | 2,031,451,731  |
| Administrative and general expenses    | 21   | 46,087,043     | 58,334,989     |
| Finance cost                           | 22   | 91,708,306     | 116,510,645    |
|                                        |      | 2,349,088,602  | 2,206,297,365  |
| (Loss) for the year before taxation    |      | (410,885,920)  | (312,093,995)  |
| Provision for taxation                 | 23   | 155,691,436    | 22,863,574     |
| (Loss) for the year                    |      | (566,577,356)  | (334,957,569)  |

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

**CHIEF EXECUTIVE OFFICER**

*Jeal Ruff*  
**DIRECTOR**

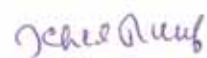
**LAFCO (PRIVATE) LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                         | 2020                 | 2019                 |
|-----------------------------------------|----------------------|----------------------|
|                                         | Rupees               | Rupees               |
| (Loss) for the year                     | (566,577,356)        | (334,957,569)        |
| Other comprehensive income for the year | -                    | -                    |
| Total comprehensive (loss) for the year | <u>(566,577,356)</u> | <u>(334,957,569)</u> |

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



**CHIEF EXECUTIVE OFFICER**



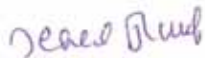
**DIRECTOR**

**LAFCO (PRIVATE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                         | Issued, subscribed<br>and paid up capital | Accumulated loss | Total           |
|-----------------------------------------|-------------------------------------------|------------------|-----------------|
|                                         | -----Rupees-----                          |                  |                 |
| Balance as at July 01, 2018             | 1,200,000,000                             | (2,792,891,893)  | (1,592,891,893) |
| Total comprehensive (loss) for the year |                                           |                  |                 |
| (Loss) for the year                     | -                                         | (334,957,569)    | (334,957,569)   |
| Other comprehensive income for the year | -                                         | -                | -               |
|                                         | -                                         | (334,957,569)    | (334,957,569)   |
| Balance as at June 30, 2019             | 1,200,000,000                             | (3,127,849,462)  | (1,927,849,462) |
| Total comprehensive (loss) for the year |                                           |                  |                 |
| (Loss) for the year                     | -                                         | (566,577,356)    | (566,577,356)   |
| Other comprehensive income for the year | -                                         | -                | -               |
|                                         | -                                         | (566,577,356)    | (566,577,356)   |
| Balance as at June 30, 2020             | 1,200,000,000                             | (3,694,426,818)  | (2,494,426,818) |

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

  
**CHIEF EXECUTIVE OFFICER**

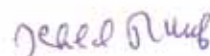
  
**DIRECTOR**

**LAFCO (PRIVATE) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                                         | 2020          | 2019          |
|-------------------------------------------------------------------------|---------------|---------------|
|                                                                         | Rupees        | Rupees        |
| <b>Cash flows from operating activities</b>                             |               |               |
| (Loss) for the year before taxation                                     | (410,885,920) | (312,093,995) |
| Adjustments for non cash / non operating items:                         |               |               |
| Depreciation                                                            | 56,623,974    | 51,491,099    |
| Amortization                                                            | 29,978        | 37,473        |
| Provision for restoration of the carriageway                            | 1,253,937,600 | 1,125,720,000 |
| Gain on disposal of property and equipment                              | -             | (1,092,564)   |
| Finance costs                                                           | 91,708,306    | 116,510,645   |
| Provision for gratuity                                                  | 4,429,134     | -             |
| Profit on bank deposits                                                 | (113,625,094) | (64,024,910)  |
|                                                                         | 1,293,103,898 | 1,228,641,743 |
| Operating cash flows before working capital changes                     | 882,217,978   | 916,547,748   |
| Working capital changes:                                                |               |               |
| (Increase)/ decrease in current assets:                                 |               |               |
| Loans and advances                                                      | 26,286,456    | 828,763,821   |
| Short term prepayments                                                  | 350,593       | 989,499       |
| Increase/ (decrease) in current liabilities:                            |               |               |
| Trade and other payables                                                | (3,493,308)   | (88,254,154)  |
|                                                                         | 23,143,741    | 741,499,166   |
| Net cash generated from operations                                      | 905,361,719   | 1,658,046,914 |
| Income tax paid                                                         | (127,676,489) | (23,612,583)  |
| Gratuity paid                                                           | (1,672,671)   | -             |
| Payment for structural overlay                                          | -             | (587,311,171) |
| Finance cost paid                                                       | (87,785,677)  | (116,510,645) |
| Net cash generated from operating activities ( A )                      | 688,226,882   | 930,612,515   |
| <b>Cash flows from investing activities</b>                             |               |               |
| Capital expenditure paid                                                | (923,626)     | (2,179,370)   |
| Profit on bank deposits                                                 | 114,060,594   | 60,549,285    |
| Proceeds from disposal of property and equipment                        | -             | 4,157,548     |
| Net cash generated from investing activities ( B )                      | 113,136,968   | 62,527,463    |
| <b>Cash flows from financing activities</b>                             |               |               |
| Lease liabilities paid                                                  | (5,808,000)   | -             |
| Repayment of long term financing                                        | (556,000,000) | (556,000,000) |
| Net cash (used in) financing activities ( C )                           | (556,000,000) | (556,000,000) |
| Net increase in cash and cash equivalents during the year ( A + B + C ) | 239,555,850   | 437,139,978   |
| Cash and cash equivalents at the beginning of the year                  | 505,290,216   | 68,150,238    |
| Cash and cash equivalents at the end of the year                        | 744,846,063   | 505,290,216   |

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

  
**CHIEF EXECUTIVE OFFICER**

  
**DIRECTOR**

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**1 COMPANY AND ITS OPERATIONS**

- 1.1** LAFCO (Private) Limited (the Company) was incorporated in Pakistan on 8th July, 2002 as a Private Limited Company under the repealed Companies Ordinance 1984. The registered Office of the Company is located at Old Toll Plaza Building, 11-KM Sheikhupura Road, Sharif Park, Kot Abdul Malik, Lahore in the province of Punjab. The Company is currently engaged in only one project comprising the construction and maintenance of Lahore, Sheikhupura and Faisalabad dual carriage way for the concession period of 25 years on Build Operate Transfer (BOT) basis under Concession Agreement with Government of Punjab (the Government) signed on September 30, 2003. The Company cannot engage itself into any activities other than those agreed upon in the concession agreement. Significant terms of the concession agreement are as under:

The Company can levy tolls in accordance with the agreement. The Company shall maintain the road in excellent condition, in accordance with sound engineering practice, including periodic maintenance, heavy repairs, structural overlay, refurbishment and replacement of equipment. The Concession period may be extended by mutual written agreement. The Concession can be terminated on various grounds including default to lenders, failure to carry out periodic maintenance and structural overlays and charge of tolls in excess of agreement. If the Company defaults on its loans and is unable to rectify the same, then the Government may terminate the Concession and give possession of the Project to the lenders. At the end of the expiry period, the Company shall transfer to the Government, all immovable and moveable assets. Lenders rights & security will remain unaffected by the transfer to the Government. The Company must insure highway, toll plaza, signs, guard rails etc. against loss from breakdown, damage or destruction from such risks as shall be prudent in accordance with industry practice.

- 1.2** The Company is a subsidiary of M/s Frontier Works Organization (FWO) ('the Parent').

**1.3 Impact of COVID-19 on the financial statements**

Lockdown in the country towards the end of March 2020 due to Covid-19 pandemic resulted in less traffic on the Lahore, Sheikhupura and Faisalabad dual carriage way thus resulting in decrease in toll receipts during the months of April 2020 and May 2020. Monthwise comparison of total receipts from February to June 2020 is as under:

| Month                      | Toll receipts | Change with respect to base month |
|----------------------------|---------------|-----------------------------------|
|                            | ...Rupees...  | (%age)                            |
| February 2020 (Base month) | 161,996,574   | -                                 |
| March 2020                 | 141,613,980   | -12.58                            |
| April 2020                 | 86,626,192    | -38.83                            |
| May 2020                   | 124,212,284   | 43.39                             |
| June 2020                  | 151,468,715   | 21.94                             |

**1.4 Going Concern Assumption**

The Company has incurred loss of Rs. 566.58 million (2019: Rs. 334.96 million) during the year and, as on the reporting date, its equity is negative by Rs. 2,494.43 million (2019: Rs. 1,927.85 million). These events and conditions indicate the existence of material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern, therefore, it may not be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is meeting all its liabilities on their due dates. The loss is mainly due to the provision for restoration of the carriage way which is to be undertaken during the financial year 2024 and 2025 (Refer Note 16) as per terms of the concession agreement.

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Profit for the period before provision for restoration comes to Rs. 687.36 million (2019: Rs. 790.762 million). The Company is not facing any financial and operational issues. The Company will be able to generate enough profitability and funds to meet its obligation of restoration of the carriage way. The Parent has also undertaken to inject funds in the coming years if needed. Considering all these factors, the management is confident that the Company will be able to continue as a going concern.

**2 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017 have been followed.

**2.1 Basis of measurement**

These financial statements have been prepared under the historical cost convention.

**2.2 Functional and presentation currency**

These financial statements have been presented in Pakistani Rupees which is the Company's functional and presentation currency.

**2.3 Use of estimate and judgement**

The preparation of financial statements in conformity with approved accounting standards requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies, other than those specifically discussed in the accounting policies, are as follows:

- Useful life and depreciation of property, plant and equipment.
- Useful life and amortization of intangibles.
- Leases
- Employees retirement benefits.
- Provision for taxation.
- Provision for restoration of carriageway.

**3 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS**

**3.1 Standards, amendments to standards and interpretations becoming effective in current period**

The following standards, amendments to standards and interpretations have become effective and are mandatory for financial statements of the Company for the periods beginning on or after July 01, 2019 and therefore, have been applied in preparing these financial statements.

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

• **IFRS 16 Leases**

The Company has adopted IFRS 16 from July 01, 2019. The standard replaces IAS 17 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in management expenses) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The accounting policy of the company with respect to leases has been changed in line with the requirements of IFRS 16.

When adopting IFRS 16 from July 01, 2019, the Company has applied the following practical expedients:

- excluding any initial direct costs from the measurement of right-of-use assets; and
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

The Company has applied the modified retrospective method upon adoption of IFRS 16 as allowed under the Standard. This method requires the recognition of the cumulative effect (without practical expedients) of initially applying IFRS 16 to opening retained earnings. Under this transition method, comparative information for prior periods are not required to be restated and continues to be reported in accordance with the previous standards and related interpretations.

|                                                                                                                          | Rupees            |
|--------------------------------------------------------------------------------------------------------------------------|-------------------|
| The impact of adoption as at July 01, 2019 was as follows:                                                               |                   |
| Operating lease commitments as at July 01, 2019 (IAS 17)                                                                 | 75,757,111        |
| Operating lease commitments discounted based on<br>the weighted average incremental borrowing rate of<br>7.83% (IFRS 16) | (22,810,410)      |
| Right-of-use assets (IFRS 16)                                                                                            | <u>52,946,701</u> |
| Lease liabilities - non-current (IFRS 16)                                                                                | 47,353,547        |
| Lease liabilities - current (IFRS 16)                                                                                    | 5,593,154         |
| As at June 30, 2020                                                                                                      |                   |
| Impact on Statement of financial position                                                                                |                   |
| Lease liabilities - non-current (IFRS 16)                                                                                | 44,908,860        |
| Lease liabilities - current (IFRS 16)                                                                                    | 6,152,470         |
| Impact on Statement of Profit or loss                                                                                    |                   |
| Increase in finance cost                                                                                                 | 3,922,629         |
| Increase in depreciation expense                                                                                         | 5,723,968         |
| Decrease in rent, rates and taxes                                                                                        | (5,808,000)       |
| Increase in deferred tax expense                                                                                         | (1,113,193)       |
| Increase in loss for the year                                                                                            | (9,646,597)       |
| Tax effect of the above adjustments                                                                                      | -                 |
| Impact on opening retained earnings as at July 01, 2019                                                                  | -                 |

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

- **Annual Improvements to IFRS Standards 2015–2017 Cycle, applicable for annual reporting periods beginning on or after January 01, 2019.**

In December 2017, the IASB published Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- **IFRS 3 – Business Combinations and IFRS 11 - Joint Arrangements—** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 - Income Taxes —** The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- **IAS 23 - Borrowing Costs —** The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The application of these amendments is not expected to have any effect on the Company's financial statements.

- **IAS 19 – Employee Benefits**

Amendments, applicable for annual reporting periods beginning on or after January 01, 2019, relate to plan amendment, curtailment or settlement detailed as below:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The application of these amendments is not expected to have any effect on the Company's financial statements.

- **IAS 28 – Investments in Associates and Joint Ventures**

Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying certain fair value measurements), applicable for periods beginning on or after January 01, 2018, clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Further, amendments applicable for periods beginning on or after January 01, 2019 have been added to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The application of these amendments is not expected to have any effect on the Company's financial statements.

- **IFRIC 23 – Uncertainty over Income Tax Treatments**

IFRIC 23, effective for annual reporting periods beginning on or after January 01, 2019, clarifies the accounting for uncertainties in income taxes.

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The application of these amendments is not expected to have any effect on the Company's financial statements.

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**3.2 Standards, amendments to standards and interpretations becoming effective in current period but not relevant**

There are certain new standards, amendments to standards and interpretations which became effective during the year but are considered not to be relevant to the Company's operations and, therefore, not disclosed in these financial statements.

**3.3 Standards, amendments to standards and interpretations becoming effective in future periods**

The following standards, amendments to standards and interpretations have been published and are mandatory for the Company's accounting periods beginning on or after their respective effective dates.

- **IFRS 7 — Financial Instruments: Disclosures, IFRS 9 — Financial Instruments and IAS 39 — Financial Instruments: Recognition and Measurement**

The amendments deal with 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as IASB's first reaction to the potential effects the IBOR reform on financial reporting. It deals with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements. The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The application of these amendments is not expected to have any effect on the Company's financial statements.

- **IFRS 16 - Leases**

The IASB has published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. Concurrently, the IASB also published a proposed Taxonomy Update to reflect this amendment.

The amendments are applicable for annual periods beginning on or after 1 June 2020.

- **Annual Improvements to IFRS Standards 2018–2020 Cycle**

The IASB has issued 'Annual Improvements to IFRS Standards 2018–2020'. The pronouncement contains amendments to the following Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

- IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities. The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- IFRS 16 Leases - The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- IAS 41 Agriculture - The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

The amendments are applicable for annual periods beginning on or after 1 January 2022.

- **IAS 16 – Property, Plant and Equipment**

The IASB has published 'Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.



**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

The standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are applicable for annual periods beginning on or after 1 January 2022. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

**3.4 Standards, amendments to standards and interpretations becoming effective in future period but not relevant**

There are certain new standards, amendments to standards and interpretations that are effective from different future periods but are considered not to be relevant to the Company's operations, therefore, not disclosed in these financial statements.

**3.5 Standards issued by IASB but not applicable in Pakistan**

Following new standards have been issued by IASB which are yet to be notified by the SECP for purpose of applicability in Pakistan:

IFRS 1 - First-time adoption of International Financial Reporting Standards  
 IFRS 17 - Insurance Contracts

**4 SIGNIFICANT ACCOUNTING POLICIES**

**4.1 Property, plant and equipment**

**4.1.1 Operating Fixed Assets**

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for freehold land which is stated at cost less accumulated impairment losses, if any.

Depreciation is charged to profit and loss at rates specified in Note 5 to these financial statement using the reducing balance method.

Depreciation on additions is charged from the month in which the asset is available for use while no depreciation is charged for the month in which an asset is disposed off. Assets residual values, useful lives and depreciation rates are reviewed, and adjusted, if appropriate at each reporting date.

Maintenance and normal repairs are charged to statement of profit or loss as and when incurred, while major renewals and improvements are capitalized. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

**4.1.2 Capital work in progress**

Capital work-in-process represents expenditure on fixed assets in the course of construction. Transfers are made to relevant fixed assets category as and when assets are available for use. Capital work-in-process is stated at cost.

**4.2 Concession intangible assets**

Concession intangible assets correspond to the right of the concession holder to bill users of a public service in return for construction services provided by it to the concession grantor under public service contracts in accordance with IFRS 12 - Service Concession Arrangement.

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

This concession holder right is equal to the fair value of the construction of the concession infrastructure recognized during the construction period. It is amortized over the Concession Agreement term in accordance with an appropriate method reflecting the rate of consumption of the concession asset's economic benefits as from the date the infrastructure is brought in to service.

**4.3 Intangible assets**

Expenditure incurred to acquire computer software are capitalized as intangible assets and stated at cost, which comprises purchase price, non refundable purchase taxes and the directly attributable expenditures in relation to their implementation and customization. These are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangibles with finite useful lives are amortized over useful economic life at rates specified in Note 7 to these financial statement using reducing balance method and assessed for impairment whenever there is indication that the intangible asset may be impaired. In respect of additions and deletions of intangible assets during the year, amortization is charged from the month of acquisition and up to the month preceding the deletion, respectively.

**4.4 Impairment of non-financial assets**

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated to determine the extent of impairment loss, if any. An impairment loss is recognized, as an expense in the statement of profit or loss. The recoverable amount is the higher of an asset's fair value less cost to disposal and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a pre tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets for which the estimate of future cash flows have not been adjusted. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

**4.5 Leases**

**4.5.1 Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.



**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following:

- future lease payments arising from a change in an index or a rate used;
- residual guarantee;
- lease term;
- certainty of a purchase option; and
- termination penalties.

When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**4.5.2 Lease term**

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Company's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Company reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, if there is a significant event or significant change in circumstances.

**4.5.3 Incremental borrowing rate**

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Company estimates it would have to pay to a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

**4.5.4 Right of use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use asset is depreciated over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Company expects to obtain ownership of the Right-of-use asset at the end of the lease term, the depreciation is charged over its estimated useful life. Right-of use asset is subject to impairment or adjusted for any remeasurement of the related lease liability.



**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**4.6 Financial Instruments**

**4.6.1 Measurement of financial asset**

**Initial measurement**

The Company classifies its financial assets into following three categories:

- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL); and
- measured at amortized cost.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition, except FVTPL which is measured at fair value.

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification, as follows:

**Debt Investments at FVOCI**

These assets are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income. Interest / markup income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in the statement of profit or loss. On de-recognition, gains and losses accumulated in other comprehensive income are reclassified to the statement of profit or loss.

**Equity Investments at FVOCI**

These assets are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income and are never reclassified to the statement of profit or loss. Dividends are recognized as income in the statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

**Financial assets at FVTPL**

These assets are subsequently measured at fair value. Net gains and losses, including any interest markup or dividend income, are recognized in the statement of profit or loss.

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest / markup income, foreign exchange gains and losses and impairment are recognized in the statement of profit or loss.

**Non-derivative financial assets**

All non-derivative financial assets are initially recognized on trade date i.e. date on which the Company becomes party to the respective contractual provisions. Non-derivative financial assets comprise loans and receivables that are financial assets with fixed or determinable payments that are not quoted in active markets and includes trade debts, advances, other receivables and cash and cash equivalents.

**Derecognition**

The Company derecognizes the financial assets when the contractual rights to the cash flows from the assets expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial assets are transferred or it neither transfers nor retain substantially all of the risks and rewards of ownership and does not retain control over the transferred assets.



**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**4.6.2 Financial liabilities**

**Initial recognition**

Financial liabilities are classified in the following categories:

- fair value through profit or loss; and
- other financial liabilities.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in case of other financial liabilities also include directly attributable transaction costs.

**Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification, as follows:

**Fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as being at fair value through profit or loss. The Company has not designated any financial liability upon recognition as being at fair value through profit or loss.

**Other financial liabilities**

After initial recognition, other financial liabilities which are interest bearing are subsequently measured at amortized cost using the effective interest rate method. Gain and losses are recognized in statement of profit or loss, when the liabilities are derecognized as well as through effective interest rate amortization process.

**Derecognition**

The Company derecognizes financial liabilities when and only when the Company's obligations are discharged, cancelled or expire.

**4.6.3 Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Company has currently legally enforceable right to set-off the recognized amounts and the Company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in normal course of business and in the event of default, insolvency or winding up of the Company or the counter parties.

**4.6.4 Impairment of financial assets**

The Company recognizes loss allowances for Expected Credit Losses (ECLs) in respect of financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balance for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for receivables are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than past due for a reasonable period of time. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering of a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

**4.6.5 Loans, advances and other receivables**

These are classified at amortized cost and are initially recognized when they are originated and measured at fair value of consideration receivable. These assets are written off when there is no reasonable expectation of recovery. Actual credit loss experience over past years is used to base the calculation of expected credit loss.

**4.7 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of statement of cash flows, cash and cash equivalents comprise cash in hand, cash with banks on current, saving and deposit accounts.

**4.8 Staff retirement benefits**

**Gratuity Scheme**

The Company operates an approved defined contribution funded gratuity scheme for permanent employees. Under the scheme, based on the graduated scale, the contributions are calculated with reference to last drawn salary of the employees and are paid over to the Employees Gratuity Fund Trust.

**4.9 Provisions**

Provisions are recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economics benefits will be required to settle the obligation and a reliable estimate can be made. However, provisions are reviewed at each reporting date and adjusted to reflect current best estimate.

**4.10 Revenue recognition**

Revenue is recognized at an amount that reflects the consideration to which the company is expected to be entitled in exchange for transferring goods or services to a customer. For this purpose, the company:

- identifies the contract with a customer;
- identifies the performance obligations in the contract;
- determines the transaction price which takes into account estimates of variable consideration, if any, and the time value of
- allocates the transaction price to the separate performance obligations, if applicable, on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
- recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer of control of the goods or services promised to the customer.

Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company generates its revenue principally by providing toll collection and related services which generally include a single performance obligation. Revenue is recognized on the following basis:

- Toll collection income is recognized at a point in time on issuance of toll tickets, AVI tags and smart cards.
- Profit on bank deposits is recognized on time proportionate basis.

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**4.11 Taxation**

**4.11.1 Current tax**

Provision of current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits and tax rebates available under the law.

**4.11.2 Deferred tax**

Deferred tax is provided using the liability method for all temporary differences at the reporting date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

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

Deferred tax is charged or credited in the income statement, except in case of items credited or charged to equity in which case it is included in equity.

**4.12 Related party transaction**

Transactions with related parties are carried out on arm's length basis. Prices for these transactions are determined on the basis of comparable uncontrolled price methods which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer un-related to the seller.



**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

| 5                               | PROPERTY AND EQUIPMENT | Freehold land | Building on freehold land | Site equipment | Electric equipment | Furniture and fittings | Office equipment | Vehicles     | Total |
|---------------------------------|------------------------|---------------|---------------------------|----------------|--------------------|------------------------|------------------|--------------|-------|
| Rupees                          |                        |               |                           |                |                    |                        |                  |              |       |
| <b>As at July 01, 2018</b>      |                        |               |                           |                |                    |                        |                  |              |       |
| Cost                            | 5,554,702              | 5,709,780     | 4,747,012                 | 20,857,901     | 4,512,981          | 22,107,621             | 60,474,555       | 123,964,552  |       |
| Accumulated depreciation        | -                      | (3,115,359)   | (3,459,749)               | (10,847,019)   | (2,557,865)        | (10,497,977)           | (50,266,851)     | (80,744,820) |       |
| Net book value                  | 5,554,702              | 2,594,421     | 1,287,263                 | 10,010,882     | 1,955,116          | 11,609,644             | 10,207,704       | 43,219,732   |       |
| <b>Year ended June 30, 2019</b> |                        |               |                           |                |                    |                        |                  |              |       |
| Opening net book value          | 5,554,702              | 2,594,421     | 1,287,263                 | 10,010,882     | 1,955,116          | 11,609,644             | 10,207,704       | 43,219,732   |       |
| Additions                       | -                      | -             | 100,000                   | 979,900        | 396,200            | 697,050                | 6,220            | 2,179,370    |       |
| Disposal                        | -                      | -             | -                         | -              | -                  | -                      | -                | -            |       |
| Cost                            | -                      | -             | -                         | -              | -                  | (140,000)              | (5,336,382)      | (5,476,382)  |       |
| Accumulated depreciation        | -                      | -             | -                         | -              | -                  | 89,350                 | 2,322,049        | 2,411,399    |       |
| Depreciation charged            | -                      | (259,442)     | (160,505)                 | (1,069,736)    | (220,832)          | (1,196,522)            | (1,562,860)      | (4,469,888)  |       |
| Closing net book value          | 5,554,702              | 2,334,979     | 1,226,758                 | 9,921,046      | 2,130,484          | 11,059,522             | 5,636,741        | 37,864,231   |       |
| <b>As at June 30, 2019</b>      |                        |               |                           |                |                    |                        |                  |              |       |
| Cost                            | 5,554,702              | 5,709,780     | 4,847,012                 | 21,837,801     | 4,909,181          | 22,664,671             | 55,144,393       | 120,667,540  |       |
| Accumulated depreciation        | -                      | (3,374,801)   | (3,620,254)               | (11,916,755)   | (2,778,697)        | (11,605,149)           | (49,507,652)     | (82,803,309) |       |
| Net book value                  | 5,554,702              | 2,334,979     | 1,226,758                 | 9,921,046      | 2,130,484          | 11,059,522             | 5,636,741        | 37,864,231   |       |
| <b>Year ended June 30, 2020</b> |                        |               |                           |                |                    |                        |                  |              |       |
| Opening net book value          | 5,554,702              | 2,334,979     | 1,226,758                 | 9,921,046      | 2,130,484          | 11,059,522             | 5,636,741        | 37,864,232   |       |
| Additions                       | -                      | -             | 60,000                    | -              | -                  | 863,626                | -                | 923,626      |       |
| Depreciation charged            | -                      | (233,498)     | (165,599)                 | (992,105)      | (213,046)          | (1,147,195)            | (1,127,348)      | (3,876,793)  |       |
| Closing net book value          | 5,554,702              | 2,101,481     | 1,121,159                 | 8,928,941      | 1,917,436          | 10,775,953             | 4,509,393        | 34,909,065   |       |
| <b>As at June 30, 2020</b>      |                        |               |                           |                |                    |                        |                  |              |       |
| Cost                            | 5,554,702              | 5,709,780     | 4,907,012                 | 21,837,801     | 4,909,181          | 23,528,297             | 55,144,393       | 121,591,166  |       |
| Accumulated depreciation        | -                      | (3,608,299)   | (3,785,853)               | (12,908,860)   | (2,991,745)        | (12,752,344)           | (50,635,000)     | (86,682,101) |       |
| Net book value                  | 5,554,702              | 2,101,481     | 1,121,159                 | 3,928,941      | 1,917,436          | 10,775,953             | 4,509,393        | 34,909,065   |       |
| Annual rate of depreciation     | -                      | 10%           | 10% - 20%                 | 10%            | 10%                | 10%                    | 20%              |              |       |

*[Handwritten signature]*

*Deeds Office*

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

| 6   | CONCESSION INTANGIBLE ASSETS                                                                                                                                         | Note | 2020          | 2019          |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|---------------|---------------|
|     |                                                                                                                                                                      |      | Rupees        | Rupees        |
|     | Cost                                                                                                                                                                 |      | 1,009,526,805 | 1,009,526,805 |
|     | Accumulated amortization                                                                                                                                             |      | (571,592,343) | (524,571,130) |
|     | Written down value                                                                                                                                                   | 6.1  | 437,934,462   | 484,955,675   |
| 6.1 | Reconciliation of written down value                                                                                                                                 |      |               |               |
|     | Opening balance                                                                                                                                                      |      | 484,955,675   | 531,976,886   |
|     | Amortization charge for the year                                                                                                                                     |      | (47,021,213)  | (47,021,211)  |
|     |                                                                                                                                                                      |      | 437,934,462   | 484,955,675   |
| 6.2 | These are amortized over the concession agreement term of 21.5 years. These assets were previously grouped under the head of property and equipment as carriage way. |      |               |               |

| 7 | OTHER INTANGIBLE ASSET                      | Note | 2020      | 2019      |
|---|---------------------------------------------|------|-----------|-----------|
|   |                                             |      | Rupees    | Rupees    |
|   | <b>Computer Software</b>                    |      |           |           |
|   | Cost                                        |      | 915,000   | 915,000   |
|   | Accumulated amortization                    |      | (795,086) | (765,108) |
|   |                                             |      | 119,914   | 149,892   |
|   | <b>Reconciliation of written down value</b> |      |           |           |
|   | Opening balance                             |      | 149,892   | 187,365   |
|   | Amortization charged during the year        |      | (29,978)  | (37,473)  |
|   |                                             |      | 119,914   | 149,892   |
|   | <b>Amortization rate</b>                    |      | 20%       | 20%       |

| 8   | RIGHT OF USE ASSETS                                                                                                                                                                                                                                                                                                           |     |             |   |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-------------|---|
|     | Land and building                                                                                                                                                                                                                                                                                                             |     |             |   |
|     | Cost                                                                                                                                                                                                                                                                                                                          |     | 52,946,701  | - |
|     | Accumulated depreciation                                                                                                                                                                                                                                                                                                      |     | (5,723,968) | - |
|     |                                                                                                                                                                                                                                                                                                                               | 8.1 | 47,222,733  | - |
|     | <b>Reconciliation of written down value</b>                                                                                                                                                                                                                                                                                   |     |             |   |
|     | Opening balance                                                                                                                                                                                                                                                                                                               |     | -           | - |
|     | Right of use assets recognized on initial application of IFRS 16                                                                                                                                                                                                                                                              |     | 52,946,701  | - |
|     | Depreciation charged during the year                                                                                                                                                                                                                                                                                          |     | (5,723,968) | - |
|     |                                                                                                                                                                                                                                                                                                                               |     | 47,222,733  | - |
|     | Lease term                                                                                                                                                                                                                                                                                                                    |     | 9.25 years  | - |
| 8.1 | These represent premises acquired under lease agreement from the Parent for offices. The remaining lease term is 8 years and three months. The right to terminate lease by serving a 3 month notice is available to the Company, however, the Company is reasonably certain not to exercise this right during the lease term. |     |             |   |

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                                                                                                                                                                                                                                                                                                | Note   | 2020               | 2019               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------------------|--------------------|
|                                                                                                                                                                                                                                                                                                                                |        | Rupees             | Rupees             |
| <b>9 LONG TERM DEPOSITS</b>                                                                                                                                                                                                                                                                                                    |        |                    |                    |
| Considered good                                                                                                                                                                                                                                                                                                                |        |                    |                    |
| Against rented premises                                                                                                                                                                                                                                                                                                        |        | 820,000            | 820,000            |
| For petrol, oil and lubricants                                                                                                                                                                                                                                                                                                 |        | 200,000            | 200,000            |
| Against Utilities                                                                                                                                                                                                                                                                                                              |        | 542,756            | 542,756            |
|                                                                                                                                                                                                                                                                                                                                |        | <u>1,562,756</u>   | <u>1,562,756</u>   |
| <b>10 LOANS AND ADVANCES</b>                                                                                                                                                                                                                                                                                                   |        |                    |                    |
| Considered good                                                                                                                                                                                                                                                                                                                |        |                    |                    |
| Advances                                                                                                                                                                                                                                                                                                                       |        |                    |                    |
| To related parties                                                                                                                                                                                                                                                                                                             | 10.1   | 526,100,628        | 558,002,385        |
| For expenses                                                                                                                                                                                                                                                                                                                   | 10.1   | 9,077,601          | 3,462,300          |
| Income tax                                                                                                                                                                                                                                                                                                                     |        | 135,233,838        | 31,166,776         |
|                                                                                                                                                                                                                                                                                                                                |        | <u>670,412,067</u> | <u>592,631,461</u> |
| <b>10.1 Advances to related parties</b>                                                                                                                                                                                                                                                                                        |        |                    |                    |
| Frontier works organization (FWO) - the Parent                                                                                                                                                                                                                                                                                 | 10.1.1 | 531,724,229        | 558,001,171        |
| IBEX Construction (Private) Limited - Associated undertaking                                                                                                                                                                                                                                                                   |        | -                  | 1,214              |
|                                                                                                                                                                                                                                                                                                                                | 10.1.2 | <u>531,724,229</u> | <u>558,002,385</u> |
| <b>10.1.1</b> The advance is adjustable against the toll management fee.                                                                                                                                                                                                                                                       |        |                    |                    |
|                                                                                                                                                                                                                                                                                                                                |        | <b>2020</b>        | <b>2019</b>        |
|                                                                                                                                                                                                                                                                                                                                |        | <b>Rupees</b>      | <b>Rupees</b>      |
| <b>10.1.2</b> Maximum aggregate outstanding balances due from related parties at the end of any month during the year were as under;                                                                                                                                                                                           |        |                    |                    |
| Frontier Works Organization (FWO)                                                                                                                                                                                                                                                                                              |        | 680,623,601        | 1,387,311,171      |
| IBEX Construction (Private) Limited                                                                                                                                                                                                                                                                                            |        | 1,214              | 108,970            |
| <b>11 SHORT TERM INVESTMENT</b>                                                                                                                                                                                                                                                                                                |        |                    |                    |
| Term deposit - at amortized cost                                                                                                                                                                                                                                                                                               | 11.1   | <u>335,000,000</u> | <u>335,000,000</u> |
| <b>11.1</b> This is held with a Bank carrying return at the average rate of 8.82% per annum (2019: 6.35% per annum) and is due to mature on April 2021. Term deposit has been given as security against performance guarantee in favor of Secretary Communications & Works Department, Government of Punjab (Refer Note 18.1). |        |                    |                    |

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

| 12 | CASH AND BANK BALANCES |      | Note | 2020        | 2019        |
|----|------------------------|------|------|-------------|-------------|
|    |                        |      |      | Rupees      | Rupees      |
|    | Cash in hand           |      |      | 611,068     | 175,261     |
|    | Cash at bank           |      |      |             |             |
|    | in saving accounts     | 12.1 |      | 744,232,455 | 505,112,415 |
|    | in current account     |      |      | 2,540       | 2,540       |
|    |                        |      |      | 744,234,995 | 505,114,955 |
|    |                        |      |      | 744,846,063 | 505,290,216 |

12.1 Average rate of mark-up charged during the year was 10.71% per annum (2019: 9.50% per annum).

**13 ISSUED, SUBSCRIBED AND PAID UP CAPITAL**

**13.1 Authorized share capital**

|                                             |               |               |
|---------------------------------------------|---------------|---------------|
| 120,000,000 ordinary shares of Rs.10/- each | 1,200,000,000 | 1,200,000,000 |
|---------------------------------------------|---------------|---------------|

**13.2 Issued, subscribed and paid-up**

|                                                                 |               |               |
|-----------------------------------------------------------------|---------------|---------------|
| 120,000,000 ordinary shares of Rs. 10/- each fully paid in cash | 1,200,000,000 | 1,200,000,000 |
|-----------------------------------------------------------------|---------------|---------------|

**13.3 Detail of share holdings is as follows:**

|                                                                | Number of shares |             |
|----------------------------------------------------------------|------------------|-------------|
| Frontier Works Organization - (the Parent)                     | 77,999,996       | 77,999,996  |
| Khalid Rauf & Company (Private) Limited - (Associated company) | 23,999,999       | 23,999,999  |
| Habib Rafiq (Private) Ltd.                                     | 11,999,999       | 11,999,999  |
| Sachal Engineering Works (Private) Ltd.                        | 5,999,999        | 5,999,999   |
| Directors                                                      | 7                | 7           |
|                                                                | 120,000,000      | 120,000,000 |

|  | Note | 2020   | 2019   |
|--|------|--------|--------|
|  |      | Rupees | Rupees |

**14 LONG TERM FINANCING**

Secured under markup arrangement

|                       |      |               |               |
|-----------------------|------|---------------|---------------|
| From banking company  | 14.1 | 271,000,000   | 827,000,000   |
| Less: Current portion |      | (271,000,000) | (556,000,000) |
|                       |      | -             | 271,000,000   |

14.1 The financing was obtained for first overlay of dual carriage way from Lahore to Faisalabad via Sheikhpura. The financing is secured against hypothecation charge over present and future current assets of the Company. It is subject to markup at three months KIBOR Plus 80 basis points per annum. The effective markup rate charged during the year ranges from 12.06% to 14.64% per annum (2019: 7.7% to 11.79% per annum). It is repayable in quarterly installments as under:

| Installment amount | No. of installments |           | Commenced from | Ending on  |
|--------------------|---------------------|-----------|----------------|------------|
|                    | Total               | Remaining |                |            |
| Rupees             |                     |           |                |            |
| 139,000,000        | 12                  | 1         | 31-12-2017     | 30-09-2020 |
| 132,000,000        | 1                   | 1         | 31-12-2020     |            |




**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                           | Note | 2020              | 2019     |
|---------------------------|------|-------------------|----------|
|                           |      | Rupees            | Rupees   |
| <b>15 LEASE LIABILITY</b> |      |                   |          |
| Lease liability           | 15.1 | 51,061,330        | -        |
| Less: Current portion     |      | (6,152,470)       | -        |
|                           |      | <u>44,908,860</u> | <u>-</u> |

**15.1** It represents land and building under lease (Refer Note 8.1). Lease liability has been recognized at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate of 7.83% per annum.

|                                                        | Note | 2020                 | 2019                 |
|--------------------------------------------------------|------|----------------------|----------------------|
|                                                        |      | Rupees               | Rupees               |
| <b>16 PROVISION FOR RESTORATION OF THE CARRIAGEWAY</b> |      |                      |                      |
| Opening balance                                        |      | 3,033,720,001        | 2,495,311,172        |
| Payments made during the year                          |      | -                    | (587,311,171)        |
|                                                        |      | <u>3,033,720,001</u> | <u>1,908,000,001</u> |
| Provision for the year                                 |      | 1,253,937,600        | 1,125,720,000        |
| Closing balance                                        | 16.1 | <u>4,287,657,601</u> | <u>3,033,720,001</u> |

**16.1** As per Concession Agreement, the next structural overlay is to be undertaken during the financial years 2024 and 2025. The Company is recognizing provision in accordance with the requirements of IFRIC 12 - Service Concession Arrangements. On the basis of expected cost of the overlay as determined by an independent technical consultant.

|                                    | Note | 2020              | 2019              |
|------------------------------------|------|-------------------|-------------------|
|                                    |      | Rupees            | Rupees            |
| <b>17 TRADE AND OTHER PAYABLES</b> |      |                   |                   |
| Creditors                          |      | 684,935           | 646,967           |
| Accrued liabilities                |      | 3,019,034         | 8,664,832         |
| Withholding income tax payable     |      | 2,855,669         | 14,705            |
| Retention money payable            | 17.1 | 716,312           | 1,442,754         |
| Payable to gratuity fund           | 17.2 | 4,429,134         | 1,672,671         |
|                                    |      | <u>11,705,084</u> | <u>12,441,929</u> |

**17.1** It includes Nil (2019: Rs. 726,442/-) payable to an associated company.

**17.2 Payable to gratuity fund**

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
| Opening balance                     | 1,672,671        | 7,441,029        |
| Add: provision for the year         | 4,429,134        | 3,749,953        |
| Less: payments made during the year | (1,672,671)      | (9,518,311)      |
| Closing balance                     | <u>4,429,134</u> | <u>1,672,671</u> |

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**18 CONTINGENCIES**

**18.1** Bank guarantee of Rs. 335 million (2019: Rs. 335 million) has been issued in favour of Communication & Works Department, Government of Punjab, for performance as per terms of the Concession Agreement. (Refer Note 1.1)

**18.2** Demand of income of Rs.80.354 million was raised by the tax department under section 122(4) read with section 122(5) of the Income Tax Ordinance, 2001. Tax demand of Rs. 24.360 million was reversed by the Deputy Commissioner and the matter related to tax demand of Rs. 55.994 million under section 113C of the Income Tax Ordinance, 2001 was deferred for the reason that a petition by the Company, challenging the applicability of section 113C of the Income Tax Ordinance, 2001 on the Company, is pending before the Honourable High Court, Lahore. The Management is hopeful of favourable outcome.

**18.3** Demand of alternate corporate tax (ACT) under section 113(c) of the Income Tax Ordinance 2001, amounting to Rs. 68.52 million for the tax year 2014 not acknowledged in view of pending writ petition in the Honorable Lahore High Court. The company is claiming that Act is not applicable on it. The Company deposited a post dated cheque amounting to Rs.55.70 million with the court.

|                                            | Note | 2020<br>Rupees     | 2019<br>Rupees    |
|--------------------------------------------|------|--------------------|-------------------|
| <b>19 OTHER INCOME</b>                     |      |                    |                   |
| Profit on short term investment            |      | 34,835,869         | 24,748,125        |
| Profit on deposit accounts                 |      | 113,625,094        | 39,276,785        |
| Other income-issuance of NOCs              |      | 20,562,886         | 24,913,543        |
| Gain on disposal of property and equipment |      | -                  | 1,092,564         |
|                                            |      | <u>169,023,849</u> | <u>90,031,017</u> |

**20 OPERATING EXPENSES**

|                                              |      |                      |                      |
|----------------------------------------------|------|----------------------|----------------------|
| Toll management fee                          | 20.1 | 734,049,104          | 748,701,601          |
| Cash Management Division (CMD) commission    |      | 2,072,725            | 2,087,052            |
| Insurance                                    |      | 663,565              | 435,617              |
| Vigilance and cleaning                       |      | 6,742,409            | 4,646,308            |
| Depreciation of right of use asset           | 8    | 5,723,968            | -                    |
| Amortization of concession intangible assets | 6    | 47,021,213           | 47,021,211           |
| Maintenance and supervision                  |      | 119,297,190          | 56,085,676           |
| Afforestation                                |      | 9,623,198            | 8,977,596            |
| Other site expenses                          |      | 5,450,856            | 6,012,264            |
| Provision for restoration of the carriageway | 20.2 | 1,253,937,600        | 1,125,720,000        |
| Other toll collection expenses               |      | 26,711,425           | 31,764,406           |
|                                              |      | <u>2,211,293,253</u> | <u>2,031,451,731</u> |

**20.1** This represents Operation and Management (O&M) service charges, as per Operation and Management Agreement (OMA) signed between the Company and its parent, Frontier Works Organization.

**20.2** This is being provided for restoration of the carriage way which is to be undertaken during the financial year 2024 and 2025. (Refer Note 16.1).

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                               | Note | 2020<br>Rupees    | 2019<br>Rupees    |
|-----------------------------------------------|------|-------------------|-------------------|
| <b>21 ADMINISTRATIVE AND GENERAL EXPENSES</b> |      |                   |                   |
| Salaries and allowances                       | 21.1 | 29,772,394        | 31,254,766        |
| Rent, rates and taxes                         |      | 77,090            | 1,008,742         |
| Travelling and conveyance                     |      | 783,400           | 950,927           |
| Printing and stationery                       |      | 628,332           | 503,846           |
| Communication                                 |      | 498,692           | 595,002           |
| Advertisement                                 |      | 170,000           | -                 |
| Auditors' remuneration                        | 21.2 | 699,803           | 649,540           |
| Legal and professional charges                |      | 1,615,000         | 1,565,000         |
| Fee and subscription                          |      | 21,268            | 15,347            |
| Repairs and maintenance                       |      | 359,978           | 9,045,511         |
| Entertainment                                 |      | 1,747,662         | 1,928,234         |
| Vehicle running and maintenance               |      | 2,623,391         | 3,007,008         |
| Utilities                                     |      | 1,125,808         | 1,769,847         |
| Insurance                                     |      | 1,465,334         | 1,216,087         |
| Amortization of the intangible asset          | 7    | 29,978            | 37,473            |
| Depreciation of property and equipment        | 5    | 3,878,793         | 4,469,888         |
| Miscellaneous expenses                        |      | 590,120           | 317,771           |
|                                               |      | <u>46,087,043</u> | <u>58,334,989</u> |

**21.1** This includes staff retirement benefits amounting to Rs. 4,429,134/- (2019: Rs. 3,749,953/-).

|                                    | 2020<br>Rupees | 2019<br>Rupees |
|------------------------------------|----------------|----------------|
| <b>21.2 Auditors' remuneration</b> |                |                |
| Audit fees                         | 553,273        | 530,200        |
| Certification fee                  | 146,530        | 119,340        |
|                                    | <u>699,803</u> | <u>649,540</u> |

|                                 |                   |                    |
|---------------------------------|-------------------|--------------------|
| <b>22 FINANCE COST</b>          |                   |                    |
| Mark-up on long term financing  | 86,060,284        | 114,827,312        |
| Finance cost on lease liability | 3,922,629         | -                  |
| Bank charges and commission     | 1,725,393         | 1,683,333          |
|                                 | <u>91,708,306</u> | <u>116,510,645</u> |

|                                  |                    |                   |
|----------------------------------|--------------------|-------------------|
| <b>23 PROVISION FOR TAXATION</b> |                    |                   |
| Current tax                      |                    |                   |
| For the year                     | 212,979,657        | 22,863,574        |
| For prior years                  | (57,288,221)       | -                 |
|                                  | <u>155,691,436</u> | <u>22,863,574</u> |

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                                    | 2020               | 2019     |
|--------------------------------------------------------------------|--------------------|----------|
|                                                                    | Rupees             | Rupees   |
| <b>23.1 Relationship between accounting profit and tax expense</b> |                    |          |
| Loss before provision for taxation                                 | (410,885,920)      | -        |
| Tax on accounting profit at the applicable tax rate of 29%         | (119,156,917)      | -        |
| Tax effect of :                                                    |                    |          |
| Expenses that are inadmissible in determining taxable profit       | 381,209,112        | -        |
| Expenses that are admissible in determining taxable profit         | (22,034,128)       | -        |
| Unadjusted losses - brought forward                                | (1,804,655)        | -        |
| Minimum tax credits                                                | (25,233,755)       | -        |
| Prior year tax income                                              | (57,288,221)       | -        |
|                                                                    | <u>155,691,436</u> | <u>-</u> |

**23.2** Relationship between accounting loss and tax expense has not been presented in financial year 2019 as the income of the Company is subject to minimum tax under section 113 of the Income Tax Ordinance, 2001.

**23.3** Deferred tax asset of Rs. 1,415 million (2019: Rs. 983 million) has not been recognized in these financial statements in view of uncertain future results. Break up of unrecognized deferred tax asset is as under:

|                                        | 2020                 | 2019               |
|----------------------------------------|----------------------|--------------------|
|                                        | Rupees               | Rupees             |
| Deductible temporary differences - net | 1,415,416,615        | 929,124,515        |
| Unused tax losses                      | -                    | 51,549,544         |
| Unused tax credits                     | -                    | 2,370,181          |
|                                        | <u>1,415,416,615</u> | <u>983,044,240</u> |

| <b>24</b> | <b>NUMBER OF EMPLOYEES</b>               | 2020 | 2019 |
|-----------|------------------------------------------|------|------|
|           | Total number of employees at year end    | 50   | 53   |
|           | Average number of employees for the year | 49   | 53   |

**25 TRANSACTIONS WITH RELATED PARTIES**

The Company in the normal course of business carries out transactions with various related parties which comprise of the Parent, Associated Companies, Chief Executive Officer and Directors. Detail of transactions with related parties, which are not specifically disclosed elsewhere in these financial statements, are as follows:

| Name and relationship                                              | Nature of transactions                                                 | 2020                     | 2019                     |
|--------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                    |                                                                        | Rupees                   | Rupees                   |
| Frontier Works Organization<br>(the Parent - 64.99% shareholding)  | Payment of 41.5% of toll receipts<br>Payment of electricity share      | 734,049,104<br>6,855,287 | 748,701,601<br>4,512,805 |
| Khalid Rauf & Co. (Pvt.) Ltd.<br>(Associate - 19.99% shareholding) | Payment for road repair and maintenance<br>Payment for retention money | 114,404,110<br>742,134   | 63,925,660<br>-          |

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

| Name and relationship                                                                    | Nature of transactions         | 2020<br>Rupees | 2019<br>Rupees |
|------------------------------------------------------------------------------------------|--------------------------------|----------------|----------------|
| IBEX Construction (Pvt.) Ltd.<br>(Associate by virtue of common ownership of the Parent) | Repayment of liability         | 7,841          | 192,930        |
| Prime (Private) Ltd.<br>(Associate by virtue of common ownership of the Parent)          | Receipts for expenditure share | -              | 222,592        |
| Post employment benefits plan                                                            | Contribution for the year      | 8,858,268      | 7,499,906      |

**26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company finances its operations through the mix of equity, debt and working capital management with a view to maintain an appropriate mix between various sources of finance to minimize risk. The overall risk management is carried out by the finance department under oversight of the Board of Directors in line with the policies approved by the Board.

| 26.1 FINANCIAL INSTRUMENTS BY CATEGORY           | Note        | 2020<br>Rupees         | 2019<br>Rupees         |
|--------------------------------------------------|-------------|------------------------|------------------------|
| <b>Financial assets at amortized cost :</b>      |             |                        |                        |
| Long term deposits                               | 9           | 1,562,756              | 1,562,756              |
| Short term investment                            | 11          | 335,000,000            | 335,000,000            |
| Profit on short term investment                  |             | 8,358,250              | 8,793,750              |
| Cash and bank balances                           | 12          | 744,846,063            | 505,290,216            |
|                                                  |             | <u>1,089,767,069</u>   | <u>850,646,722</u>     |
|                                                  | <b>Note</b> | <b>2020<br/>Rupees</b> | <b>2019<br/>Rupees</b> |
| <b>Financial liabilities at amortized cost :</b> |             |                        |                        |
| Long term financing                              | 14          | 271,000,000            | 827,000,000            |
| Lease liability                                  | 15          | 51,061,330             | -                      |
| Provision for restoration of the carriageway     | 16          | 4,287,657,601          | 3,033,720,001          |
| Trade and other payables                         | 17          | 4,420,281              | 10,754,553             |
|                                                  |             | <u>4,614,139,212</u>   | <u>3,871,474,554</u>   |

**26.2 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

The Company's activities expose it to a variety of financial risks (credit risk, liquidity risk and market risk). Risks measured and managed by the Company are explained below :

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**26.2.1 CREDIT RISK AND CONCENTRATION OF CREDIT RISK**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The maximum exposure to credit risk at the reporting date is as follows:

|                                 | Note | 2020                 | 2019               |
|---------------------------------|------|----------------------|--------------------|
|                                 |      | Rupees               | Rupees             |
| Long term deposits              | 9    | 1,562,756            | 1,562,756          |
| Short term investment           | 11   | 335,000,000          | 335,000,000        |
| Profit on short term investment |      | 8,358,250            | 8,793,750          |
| Cash at bank                    | 12   | 744,234,995          | 505,114,955        |
|                                 |      | <u>1,089,156,001</u> | <u>850,471,461</u> |

Due to Company's long standing relations with other counterparties and after giving due consideration to their financial standing, the management does not expect non performance by these counter parties on their obligations to the Company.

The credit risk exposure is limited in respect of short term investment, profit on short term investment and bank balances as these are placed with / receivable from local banks having good credit rating.

**26.2.2 LIQUIDITY RISK**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to manage liquidity risk is to maintain sufficient level of liquidity by holding highly liquid assets and maintaining adequate reserve borrowing facilities. This includes maintenance of statement of financial position liquidity ratios through working capital management. Following are the contractual maturities of financial liabilities.

|                                              | 2020                 |                        |                    |                      |                      |
|----------------------------------------------|----------------------|------------------------|--------------------|----------------------|----------------------|
|                                              | Carrying Amount      | Contractual Cash Flows | Upto one year      | One to five years    | More than five years |
|                                              | -----Rupees-----     |                        |                    |                      |                      |
| <b>Financial Liabilities</b>                 |                      |                        |                    |                      |                      |
| Long term financing                          | 271,000,000          | 271,000,000            | 271,000,000        | -                    | -                    |
| Lease liability                              | 51,061,330           | 51,061,330             | 6,152,470          | 32,670,150           | 12,238,710           |
| Provision for restoration of the carriageway | 4,287,657,601        | 4,287,657,601          | -                  | 4,287,657,601        | -                    |
| Trade and other payables                     | 4,420,281            | 4,420,281              | 4,420,281          | -                    | -                    |
|                                              | <u>4,614,139,212</u> | <u>4,614,139,212</u>   | <u>281,572,751</u> | <u>4,320,327,751</u> | <u>12,238,710</u>    |

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                              | 2019            |                        |               |                   |                      |
|----------------------------------------------|-----------------|------------------------|---------------|-------------------|----------------------|
|                                              | Carrying Amount | Contractual Cash Flows | Upto one year | One to five years | More than five years |
|                                              | Rupees          |                        |               |                   |                      |
| Financial Liabilities                        |                 |                        |               |                   |                      |
| Long term financing                          | 827,000,000     | 827,000,000            | 278,000,000   | 271,000,000       | -                    |
| Provision for restoration of the carriageway | 3,033,720,001   | 3,033,720,001          | -             | -                 | 3,033,720,001        |
| Trade and other payables                     | 10,754,553      | 10,754,553             | 10,754,553    | -                 | -                    |
|                                              | 3,871,474,554   | 3,871,474,554          | 288,754,553   | 271,000,000       | 3,033,720,001        |

The Company has liquid assets of Rs. 1,088.2 million (2019: Rs. 849.08 million) as at the reporting date and financial support from the Parent to manage the liquidity risk.

**26.2.3 MARKET RISK**

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Majority of interest rate risk arises from long term financing. The interest rate profile of the Company's interest bearing financial instruments is presented in relevant notes to the financial statements.

Sensitivity to interest rate risk arises from mismatches of financial assets and financial liabilities that mature or reprice in a given period. The Company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect statement of profit or loss.

**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. Foreign currency risk arises mainly where receivables and payables exist due to foreign currency transactions. The Company is not exposed to currency risk.

**Equity price risk**

Trading and investing in quoted equity securities give rise to equity price risk. The Company is not exposed to equity price risk.

**26.2.4 FAIR VALUES OF FINANCIAL INSTRUMENTS**

The carrying values of all the financial assets and financial liabilities reported in the financial statements approximate their fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**26.3 CAPITAL RISK MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may obtain / repay financing from / to Frontier Works Organization (FWO).

**LAFCO (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

The Company manages its capital by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount by issue of new shares. The Company also monitors capital using a gearing ratio, which is net debt less cash and bank balances. Capital signifies equity as shown in the statement of financial position plus net debt.

The Company is exposed to capital risk as it has negative equity of Rs. 2,494.43 million (2019: Rs. 1,927.85 million), as at the year end.

Due to provision of Rs. 4,287.66 million (2019: Rs. 3,033.72 million) in respect of restoration of the carriage way which is to be undertaken during the financial year 2024 and 2025 as per terms of the concession agreement (Refer Note 15). The Company will manage the capital risk through generation of profits in future and injection of funds as equity on loan from the Parent in the coming years, if needed.

**27 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements have been authorized for issue by the Board of Directors of the Company on

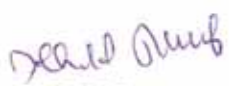
**02 OCT 2020**

**28 GENERAL**

Figures have been rounded off to the nearest Rupees.



**CHIEF EXECUTIVE OFFICER**



**DIRECTOR**