

Karachi Stock Exchange Limited

Annual Report 2013




**ENABLING INVESTORS
DISCOVER NEW
GROWTH OPPORTUNITIES**

"If finance is the science of goal architecture, those who work in the field are the architects who structure these goals and manage the risks of small businesses, families, school systems, cities, corporations, and all the other vital institutions throughout society. If finance is the stewardship of society's assets, it is these same people who are entrusted with the management and cultivation of those assets".

Robert J. Shiller

2013 Nobel Prize in Economics

Professor of Economics at Yale University



"Leverage has the effect of a magnifying glass, expanding small profit opportunities into larger ones but also expanding small losses into larger losses. And when adverse changes in the market prices reduce the market value of collateral, credit is withdrawn quickly, and the subsequent forced liquidation of large positions over short periods of time can lead to widespread financial panic This is systemic risk."

Nicholas Chan, et al.
The Risks of Financial Institutions



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VISION & MISSION

VISION

To be a leading financial institution, offering efficient, fair and transparent securities market in the region and enjoying full confidence of investors and listed securities issuers.

MISSION

To strive to provide quality and value-added services to the capital market in an efficient, transparent and orderly manner, compatible with international standards and best practices.

To provide state-of-the-art technology and automated trading operations, driven by a team of professionals in accordance with good corporate governance.

To protect and safeguard the interests of all its stakeholders, i.e. members, listed companies, employees and investors at large.

To reflect the country's economic health and behavior and play its role for the growth, development and prosperity of Pakistan.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Muneer Kamal (Chairman)	<i>Non-Executive</i>
Mr. Nadeem Naqvi (Managing Director)	<i>Executive</i>
Mr. Abdul Majeed Adam	<i>Non-Executive</i>
Mr. Kamal Afsar	<i>Non-Executive</i>
Mr. Shazad G. Dada	<i>Non-Executive</i>
Mr. Abid Ali Habib	<i>Non-Executive</i>
Mr. Muhammad Yasin Lakhani	<i>Non-Executive</i>
Mr. Abdul Qadir Memon	<i>Non-Executive</i>
Mr. Asif Qadir	<i>Non-Executive</i>
Mr. Mohammed Sohail	<i>Non-Executive</i>
Syed Muhammad Shabbar Zaidi	<i>Non-Executive</i>

COMPANY SECRETARY

Mr. Muhammad Rafique Umer

CHIEF REGULATORY OFFICER

Mr. Shafqat Ali

CHIEF FINANCIAL OFFICER

Mr. Ahmed Ali Mitha

NOMINATION COMMITTEE

Mr. Muneer Kamal (Chairman)
Mr. Shazad G. Dada
Mr. Asif Qadir
Mr. Muhammad Rafique Umer (Secretary)

REGULATORY AFFAIRS COMMITTEE

Syed Muhammad Shabbar Zaidi (Chairman)
Mr. Kamal Afsar
Mr. Abdul Qadir Memon
Mr. Asif Qadir
Mr. Muhammad Rafique Umer (Secretary)

AUDIT COMMITTEE

Mr. Abdul Qadir Memon (Chairman)
Mr. Abdul Majeed Adam
Mr. Shazad G. Dada
Mr. Muhammad Yasin Lakhani
Mr. Asif Qadir
Mr. Mohammed Sohail
Mr. Muhammad Rafique Umer (Secretary)

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Muneer Kamal (Chairman)
Mr. Abdul Majeed Adam
Mr. Kamal Afsar
Mr. Shazad G. Dada
Mr. Abid Ali Habib
Mr. Muhammad Yasin Lakhani
Syed Muhammad Shabbar Zaidi
Mr. Muhammad Rafique Umer (Secretary)

AUDITORS

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

LEGAL ADVISORS

Ghani Law Associates
Industrial Relations Advisors

Ijaz Ahmed & Associates
Advocates & Legal Consultants

Mansoor Ahmed Khan & Co.
Advocates & Legal Consultants

Sayeed & Sayeed
Advocates & Legal Consultants

BANKERS

Allied Bank of Pakistan Limited
Askari Bank Limited
Bank Al Falah Limited
Bank Al Habib Limited
Bank Islami Pakistan Limited
Bank of Khyber
Barclays Bank PLC Pakistan
Habib Bank Limited
Habib Metropolitan Bank Limited
JS Bank Limited
KASB Bank Limited
MCB Bank Limited
National Bank of Pakistan
NIB Bank Limited
Soneri Bank Limited
Summit Bank Limited
United Bank Limited

SHARE REGISTRAR

Central Depository Company of Pakistan Limited
CDC House
99-B, Block "B", S.M.C.H.S.
Main Shahra-e-Faisal
Karachi 74400

Registered Address:

Stock Exchange Building, Stock Exchange Road
Karachi 74000
Phone: (92 21) 35205528-29
UAN: (92-21) 111 00 11 22
Fax: (92-21) 32410825
E-mail: info@kse.com.pk
Web: www.kse.com.pk



BOARD OF DIRECTORS



SITTING (FROM LEFT TO RIGHT)

Mr. Abdul Qadir Memon	<i>Director</i>
Mr. Muhammad Yasin Lakhani	<i>Director</i>
Mr. Muneer Kamal	<i>Chairman</i>
Mr. Kamal Afsar	<i>Director</i>
Mr. Abid Ali Habib	<i>Director</i>





STANDING (FROM LEFT TO RIGHT)

Mr. Muhammad Rafique Umer	<i>Company Secretary</i>
Mr. Abdul Majeed Adam	<i>Director</i>
Mr. Shazad G. Dada	<i>Director</i>
Mr. Mohammed Sohail	<i>Director</i>
Syed Muhammad Shabbar Zaidi	<i>Director</i>
Mr. Nadeem Naqvi	<i>Managing Director</i>
Mr. Asif Qadir	<i>Director</i>

DIRECTORS' PROFILE



Mr. Muneer Kamal
Chairman

Mr. Muneer Kamal, the Chairman of Karachi Stock Exchange, has over 33 years of extensive experience in banking and financial sector. His career started with Citibank where, between November 1979 and July 1994, he served locally and internationally on various senior positions including his term as Director, Head of Country Public Sector and Financial Institutions. During this association, he also attended a number of training courses / programs in Far East, Middle East and Africa.

Mr. Kamal then joined Faysal Bank Limited as President/CEO and led to spread out its operations from 3 branches to 11 and also expanded the balance sheet size from Rs.3 billion to Rs.30 billion.

Mr. Kamal also held position of President/CEO, and then as Vice Chairman and Chief Operating Officer (International) of the Union Bank Limited, where he had been instrumental in various acquisitions done by Union Bank Limited i.e. Bank of America, American Express Credit Cards, Emirates Bank International and Mashreq Bank, Sri Lanka. As a result, Union Bank emerged as a success story and was ably acquired by Standard Chartered Bank.

After his stint with Union Bank, Mr. Kamal, an MBA from University of Karachi, began his current association with KASB Group - first as President/CEO of KASB Bank Limited from November 2005 to August 2010 and now as Vice Chairman of KASB Group. For KASB Bank, he again oversaw the manifold expansion of operations coupled with acquisition of other entities and introduction of new and modern products, services, policies, procedures and systems.

Mr. Kamal also holds positions as Chairman of National Bank of Pakistan, as Trustee of Shaukat Khanum Memorial Cancer Hospital & Research Centre and as Director of AsiaCare Health & Life Insurance Company Limited, New Horizon Exploration & Production Limited and Government Holdings (Private) Limited.

Besides holding the position of Chairman of the KSE Board, Mr. Muneer Kamal is also the Chairman of Human Resources & Remuneration Committee and Nomination Committee and as member of Voluntary De-listing Committee of KSE's Board.

Other Directorships & Offices:

- Chairman, National Bank of Pakistan
- Vice Chairman, KASB Group
- Director, AsiaCare Health & Life Insurance Company Limited
- Director, New Horizon Exploration & Production Limited
- Director, Government Holdings (Private) Limited
- Trustee, Shaukat Khanum Memorial Cancer Hospital & Research Centre



Mr. Nadeem Naqvi
Managing Director

Mr. Nadeem Naqvi holds the degrees of M.B.A. in Finance and B.Sc. with Honours in Banking and International Finance from The City University, CASS Business School in London, United Kingdom. He brings with him over 30 years of rich work experience in the global financial services industry, operating in diverse environments of the Middle East, North America and Europe besides that of Pakistan.

Prior to joining Karachi Stock Exchange, Mr. Naqvi was the Chief Executive Officer of a leading asset management company in Pakistan. Earlier, he served as CEO of AKD Securities Limited which he helped transform from a proprietary business into a full-scale investment banking and brokerage firm and in the process, gained company's recognition by the CFA Association of Pakistan as the best domestic brokerage house for two consecutive years in 2006 and 2007. Mr. Naqvi also served as Chairman of the first technology venture capital fund of Pakistan and oversaw the completion of several ventures by successful exits at I.R.R. ranging from 35-40%.

Economic & market analysis and research has been the hallmark of Mr. Naqvi's career. He has led an independent investment research firm in USA/Canada, Investology Inc., which was ranked by 'Business Week' in 2004 as the third best out of 300 independent research firms in North America. Before that, he headed the Merrill Lynch Pakistan research team. He was also the Head of Research of the investment advisory company of Morgan Stanley Asset Management's Pakistan Investment Fund for four years. He commenced his career at the Bank of Credit & Commerce International S. A., in London in 1982 and served there till 1990.

Mr. Naqvi has been involved in landmark investment banking transactions, including the privatization of Kot Addu Power Plant, National Refinery and United Bank. His association with the capital markets is also longstanding where he served in committees of the Karachi Stock Exchange and was a member of the Capital Markets Committee, Economic Advisory Council of the President in the last decade.

Within Karachi Stock Exchange he is a member of Index Experts Committee, Investment Committee, Taxation Committee and the Convener of Voluntary De-listing Committee.

Other Directorships & Positions:

- Chairman, National Clearing Company of Pakistan Limited
- Director, Institute of Capital Markets
- Vice Chairman, South Asian Federation of Exchanges (SAFE)



DIRECTORS' PROFILE



Mr. Abdul Majeed Adam
Director

Mr. Abdul Majeed Adam is the Chief Executive and Nominee Director of Adam Securities (Private) Limited, which is the corporate TREC holder of Karachi and Lahore stock exchanges.

Mr. Adam is a graduate from University of Karachi and has an extensive experience of 20 years in capital as well as forex markets. Previously, he has served as the Director of Karachi Stock Exchange in the years 2002, 2010 & 2012. He also acted as the Chairman of Trading Affairs Committee and Market Development & New Products Committee during the year 2012.

Mr. Adam is the founder member of National Commodity Exchange Limited (now Pakistan Mercantile Exchange Limited or PMEX) and is active in commodities trading at PMEX through Adam Securities (Private) Limited. He also acted as voluntary advisor to activate gold trading at PMEX.

Presently, Mr. Adam is also a member of Audit Committee, Human Resources & Remuneration Committee, Index Experts Committee, Market Development & New Products Committee, Voluntary De-listing Committee and Demutualization Committee.

Other Directorships:

- Chief Executive, Adam Securities (Private) Limited
- Director, Pakistan Mercantile Exchange Limited



Mr. Kamal Afsar

Director

Mr. Kamal Afsar has over 40 years of rich and unique blend of professional experience which encompasses working for the corporate sector, trade diplomacy and running the affairs of the Government, both in Pakistan and abroad.

Mr. Afsar has held directorships at various large corporate sector entities in Pakistan. He was Chairman, State Life Insurance Corporation of Pakistan, Chairman and CEO, Pakistan Reinsurance Company Limited, and Chairman and CEO, Pakistan Automobile Corporation Limited. Mr. Afsar has also served as the Managing Director, Karachi Electric Supply Corporation Limited and CEO, National Tanker Company.

Working for the public sector, Mr. Afsar has held the position of Federal Commerce Secretary where he was involved in decision making at the highest level in matters concerning Pakistan's economy. He remained Consul General of Pakistan at Hong Kong for over 5 years, gathering hands-on experience in international trade and diplomacy.

Mr. Afsar holds a post-graduate degree in Economics and International Relations. He is a former International Player and Captain of Pakistan Table Tennis Team and former Vice President, Asian Table Tennis Union. He is also the Chairman, Karachi Race Club.

At KSE, besides being the director on the Board, he is also nominated as member of Regulatory Affairs Committee, Human Resources & Remuneration Committee and Voluntary De-listing Committee of the Board.

Other Directorships:

- Director, Central Depository Company of Pakistan Limited

DIRECTORS' PROFILE



Mr. Shazad G. Dada

Director

Mr. Shazad Dada is the Chief Executive Officer of Barclays Bank PLC, Pakistan. He joined Barclays Bank in October 2010, with the overall responsibility for managing all its businesses including Corporate, Investment and Retail Banking. He is also the Head of Regional Transaction Services Steering Committee for Asia & India / UAE & Pakistan (ROW).

Mr. Dada is a seasoned banker and a prominent capital market professional with around 25 years of experience. He started his banking career in the USA after joining Bankers Trust in 1990, which was later acquired in 1999 by Deutsche Bank AG. Since 2005, he was working in Pakistan as the Chief Country Officer and Head of Global Banking Deutsche Bank. Prior to taking up the role in Pakistan, Mr. Dada was Managing Director in the Mergers, Acquisitions and Corporate Advisory Group at Deutsche Bank Securities, Inc. in New York and was the Head of Media & Telecommunication M&A practice in Americas.

Mr. Dada graduated with honors from University of Pennsylvania with a Bachelor of Science and Bachelor of Arts degree. Mr. Dada also has MBA from The Wharton School, University of Pennsylvania.

He has been contributing towards the development of the Pakistani financial market and continues to do so as the Chairman of Pakistan Banks' Association and Council Member and Chairperson, Finance Committee of The Institute of Bankers Pakistan.

The Board of Directors of KSE has appointed Mr. Dada as member of its Nomination Committee, Audit Committee, Human Resources & Remuneration Committee and Index Experts Committee.

In addition to his commercial interests, Mr. Dada is an active supporter of a number of social causes and is associated with various reputed charitable organizations.

Other Offices:

- Chairman, Pakistan Banks Association
- Chairman, Pakistan Mercantile Exchange Limited
- Chairman, Finance Committee, The Institute of Bankers Pakistan
- Chairman, Board of Trustees, Development in Literacy (DIL)-Pakistan
- Member, Board of Directors, British Overseas School
- Member, Board of Directors, AISEC



Mr. Abid Ali Habib

Director

Mr. Abid Ali Habib is the Chairman and Chief Executive of Abid Ali Habib Securities (Private) Limited and the Director of Aba Ali Habib Securities (Private) Limited; both being holders of trading rights at Karachi Stock Exchange (KSE) and Pakistan Mercantile Exchange.

Mr. Habib is a prominent member of brokers' community at KSE and has always rendered valuable contribution towards the betterment and growth of the Exchange. In the past, he has been elected as Director of KSE for various terms between the years 1995 and 2011. During these years, he has served on various Committees constituted by the Board, as Chairman or member.

He played the central role in conceptualization, planning and design of internet-based order routing system and also supervised, implemented and tested Karachi Automated Trading System.

As member of Demutualization Committee of KSE during the years 2005, 2006 and 2010, Mr. Habib was the key figure in preparation of Preliminary Report on proposed demutualization of KSE, identifying various issues and recommendations thereon, in line with existing models and international practices. Ultimately, the objectives of corporatization and demutualization of KSE were achieved in 2012.

Mr. Habib held the position of Chairman, Companies Affairs/Corporate Governance Committee of KSE for the years 2010 and 2011. During this term, a number of tasks were initiated and successfully completed, having positive impact on overall regulatory environment of the Exchange. Some of the major achievements included (i) various amendments in Listing Regulations; (ii) action against delinquent/non-performing companies in violation of Listing Regulations; (iii) revision of annual listing fee; (iv) mechanism for verification of rumor mongering in the market pertaining to listed companies/securities; (v) implementation of revised Code of Corporate Governance; (vi) measures for disclosure of information to market participants/investors pertaining to sale/purchase of securities by any director, CEO or executive or their spouses; and (vii) revision of criteria for selection of Top Companies.

Presently, Mr. Habib is acting as Chairman of Arbitration Committee and as a member of Human Resources & Remuneration Committee, Index Experts Committee, Investment Committee, Market Development & New Products Committee and Voluntary De-listing Committee of KSE's Board.

Other Directorships:

- Chairman, Abid Ali Habib Securities (Private) Limited
- Director, Aba Ali Habib Securities (Private) Limited
- Director, Central Depository Company of Pakistan Limited



DIRECTORS' PROFILE



Mr. Muhammad Yasin Lakhani

Director

Mr. Muhammad Yasin Lakhani holds the degrees of B.A. (Hons.) and Masters in International Relations and is currently the Chief Executive of Lakhani Securities (Private) Limited. His previous experience reflects his involvement with the capital markets of Pakistan as he has held the position of President/Chairman of Karachi Stock Exchange during the years 1994, 1998-99, 2001 and 2005. In addition to above, he has been elected as director of KSE during the years 1969, 1986, 1987, 1989, 1990, 2009, 2010 & 2012. He has also served as Chairman of Advisory and Arbitration Committee, Administration Committee, Rules & Regulations Committee, Taxation Committee, Company Affairs Committee and Defaulters' Committee of the Exchange for various terms.

Mr. Lakhani was the member of Pakistan's delegation in the Investment Conferences held in Seoul, Hong Kong, Singapore and London. Also, he represented Pakistan at the Asia Pacific Forum on Securities Market Regulations & Supervision, General Assembly of the Euro Asia Stock Markets and Capital Market Forum of Islamic Countries. He was the member of Committee on Code of Corporate Governance formed by Institute of Chartered Accountants of Pakistan.

Mr. Lakhani has been instrumental in setting up the Central Depository Company of Pakistan Limited (CDC), where he served as Chairman and member of their Board also. He is credited for introducing Investors Account Service in CDC in 1999. He has been a founder member of National Clearing Company of Pakistan Limited (NCCPL) as well.

Mr. Lakhani is also the Chairman of Investment Committee and a member of Audit Committee, Human Resources & Remuneration Committee, Market Development & New Products Committee, Voluntary De-listing Committee and Demutualization Committee of the Exchange.

Other Directorships:

- Chief Executive, Lakhani Securities (Private) Limited
- Director, National Clearing Company of Pakistan Limited



Mr. Adul Qadir Memon
Director

Mr. Abdul Qadir Memon is a fellow of Institute of Taxation Management of Pakistan and a Commerce graduate from University of Karachi. Mr. Memon is a 'Certified Director' from Institute of Cost and Management Accountants of Pakistan under the Code of Corporate Governance and he has also completed an Executive Program on 'Leadership & Governance' from National School of Public Policy. He is a well known and respected tax and corporate law expert and a senior resource.

Mr. Memon established his own consulting firm A. Qadir & Company, which he has been managing successfully over the last 33 years and readily makes available his expertise to and contributes positively in the efforts to streamline the system for steady economic growth of the country. He is a member of the Advisory/Taxation Committees of the Revenue Advisory Council of Ministry of Finance, Federation of Pakistan Chamber of Commerce & Industry and Karachi Chamber of Commerce & Industry besides being a member of the Federal Board of Revenue's Alternative Dispute Resolution Committee. He is also a Member of Competition Commission Consultative Group.

Mr. Memon, a devoted and hardworking man, has been the President of Pakistan Tax Bar Association where, he has also served as Senior Vice President previously. He has also the honor of holding the offices of Vice President, twice Secretary General and President of Karachi Tax Bar Association during various terms. He has also served as President of Junior Chamber International - Pakistan and Memon Professional Forum. Mr. Memon has also served as Chairman of National Clearing Company of Pakistan Limited.

Mr. Memon is a seeker of knowledge and professional excellence and has presented many papers on the subjects of taxation, corporate laws and individual development. He has widely travelled and attended many national and international conferences and seminars.

He is a member of Management Association of Pakistan, Karachi Tax Bar Association and Institute of Taxation Management of Pakistan. He holds the life membership of Memon Professional Forum, Junior Chamber International, the Arts Council of Pakistan and Pakistan Billiards & Snookers Association and takes keen interest in their affairs to promote their respective causes.

He also devotes his time for the social causes and helps those engaged in social work. He is a founder of Cleft and Contracture Care Foundation and a member of Executive Committee of Health & Nutrition Development Society (HANDS) as well as Sir Adamjee Institute.

In addition to acting as director on the Board of KSE, Mr. Memon is also the Chairman of Audit Committee and Taxation Committee and a member of Regulatory Affairs Committee and Investment Committee.

Other Directorships:

- Director, National Clearing Company of Pakistan Limited

DIRECTORS' PROFILE



Mr. Asif Qadir

Director

Mr. Asif Qadir holds a degree in Chemical Engineering from Columbia University, New York and has over 30 years of management and marketing experience in the chemical and fertilizer sector.

Mr. Qadir's career began at Exxon Chemical Pakistan Limited in August 1978. At Exxon, he worked in various capacities including as Worldwide Business Advisor for Exxon Chemicals as well as for Esso Chemical Alberta Limited of Canada.

Mr. Qadir went on to join Engro Chemical Pakistan Limited (now Engro Corporation Limited) where he became one of the key management figures. He was also the CEO/President of Engro Polymer & Chemicals Limited till the end of 2011.

Mr. Qadir has served as the President of Management Association of Pakistan from 2007 to 2009 and on the Executive Committee of Overseas Investors' Chamber of Commerce & Industry from 2006 to 2009.

The Board of KSE has appointed Mr. Asif Qadir as Chairman of Committee for hearing appeals of TREC holders for violation/non-compliances of Regulations and for handling cases of suspension or cancellation/forfeiture of TREC and imposition of fines and as member of Nomination Committee, Regulatory Affairs Committee and Audit Committee of KSE Board.

Other Directorships:

- Chairman, Inbox Business Technologies (Private) Limited
- Chairman, Unicol Limited
- Director, Tri-Pack Films Limited
- Director, Thal Limited
- Director, Engro PowerGen Qadirpur Limited
- Director, Descon Oxychem Limited
- Director, National Industrial Parks Development & Management Company



Mr. Mohammed Sohail
Director

Mr. Mohammed Sohail is the Chief Executive Officer of Topline Securities (Private) Limited with an extensive experience of over 19 years in Pakistan's capital markets, research and broking.

Before joining Topline Securities, he has worked as Director Broking with JS Global Capital Limited and as Head of Research at Invest Capital Investment Bank Limited.

Mr. Sohail who is MBA from IBA Karachi is regarded as one of the prominent capital market analysts of the country. He is the first analyst to be awarded "Best Analyst" by CFA Association of Pakistan for two years running (2003 and 2004). In 2011 and again in 2012, Asiamoney awarded him the title of "Best Salesperson" in Pakistan.

Previously at KSE, he has been elected as director on KSE's Board for the year 2011. Mr. Sohail has served as member of various committees including New Product & Market Development Committee, Index Experts Committee and IT Steering Committee in the years 2010 & 2011. Moreover, he has served on different committees formed by Securities Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP).

Currently, Mr. Sohail is the Chairman of Market Development & New Products Committee and a member of Audit Committee, Index Experts Committee, Investment Committee and Voluntary De-listing Committee of the Board.

Mr. Sohail is also a visiting faculty member at Institute of Business Administration (IBA) and a member of Board of Studies for Accounting and Finance at College of Business Management (CBM), Karachi.

Other Directorships:

- Chief Executive, Topline Securities (Private) Limited
- Chief Executive, Topline Commodities (Private) Limited
- Director, Central Depository Company of Pakistan Limited
- Director, JCR-VIS Credit Rating Company Limited

DIRECTORS' PROFILE



**Syed Muhammad
Shabbar Zaidi**

Director

Syed Muhammad Shabbar Zaidi, a Chartered Accountant by profession and partner, A.F. Ferguson and Co. has a distinguished record of achievements to his credit.

He is Past President, Institute of Chartered Accountants of Pakistan and South Asian Federation of Accountants and former Chairman, Professional Standards and Technical Advisory Committee of the Institute of Chartered Accountants of Pakistan.

His current responsibilities include being Chairman of Taxation Committee of Institute of Chartered Accountants of Pakistan; Member, Developing Nations Committee of International Federation of Accountants; Member, Central Audit Committee of Board of State Bank of Pakistan; Senior Member of the Task Force for Reform of Tax Administration (2000); Advisor, Corporate Rehabilitation Committee of Securities and Exchange Commission of Pakistan, and Trustee, Sindh Institute of Urology and Transplantation (SIUT).

Mr. Zaidi is the Chairman of Regulatory Affairs Committee and a member of Human Resources & Remuneration Committee and Taxation Committee of KSE's Board.

KARACHI STOCK EXCHANGE POST-DEMUTUALIZATION

The stock exchanges of Pakistan were previously operating as non-profit companies with mutualized structure wherein members had ownership as well as trading rights.

This structure created potential for conflict of interest as members predominantly controlled affairs of stock exchanges and was not conducive for appropriate corporate governance in a self regulatory organization.

Corporatization and Demutualization of stock exchanges entailed converting their structure from non-profit, mutually owned organization to for-profit entities owned by shareholders. Demutualization is designed to create increased transparency at Karachi Stock Exchange and greater balance between interests of various stakeholders by clear segregation of commercial and regulatory functions as well as separation of trading and ownership rights. Demutualization is a well-established global trend and a number of stock exchanges worldwide operate in demutualized set up.

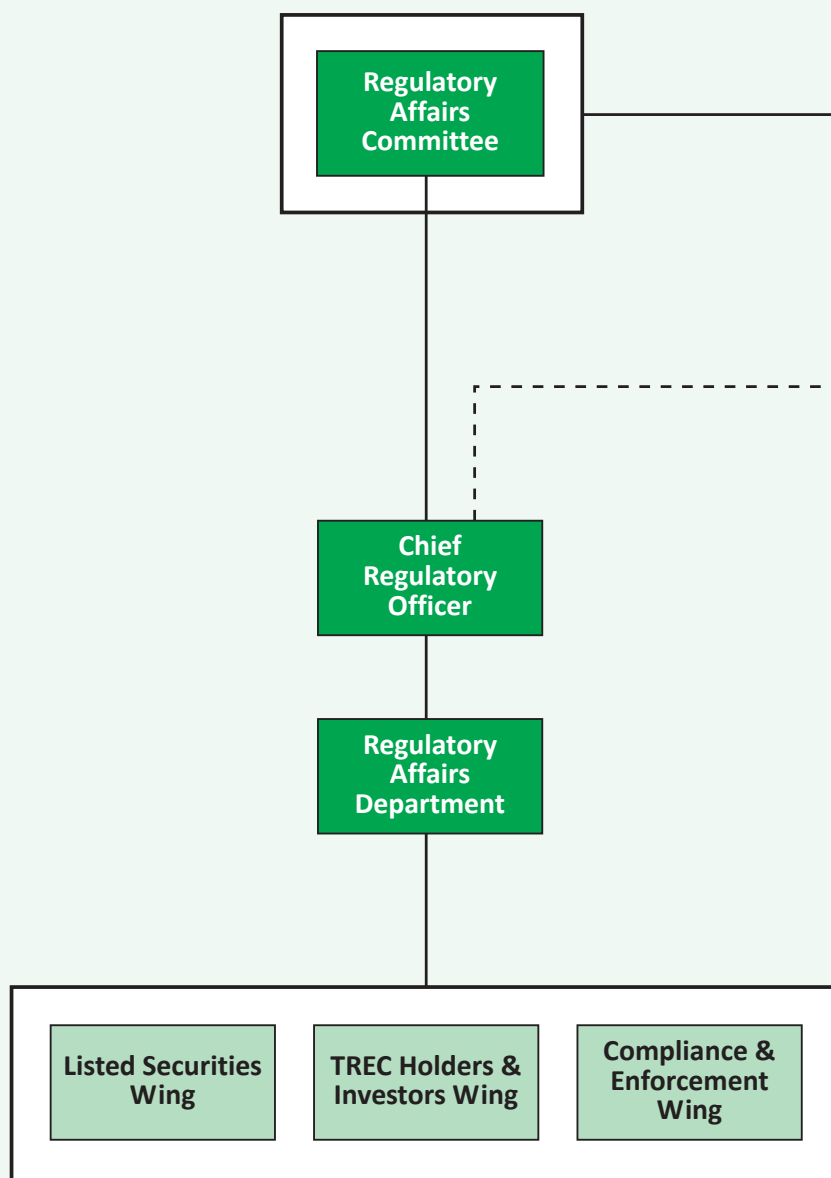
The enactment of Stock Exchanges (Corporatization, Demutualization & Integration) Act, 2012 ("Act") has brought Pakistan's capital market at par with other international jurisdictions such as India, Malaysia, Singapore, USA, UK, Germany, Australia, Hong Kong and Turkey among others. It has provided a framework for corporatization, demutualization and integration of stock exchanges. The said Act has enabled demutualization of stock exchanges, which is expected to result in expanding market outreach, attracting new investors, improving liquidity and enabling the stock exchanges to attract international strategic partners. It should also facilitate consolidation of brokers leading to financially strong entities.

The regulatory and public interest role of the Exchange may be contrasted with its commercial role and objectives. The commercial role of the Exchange is to provide services to generate revenues from listings, trading services, fees for membership and charges for data-vending and providing automated trading infrastructure. This revenue is derived directly from those who use or purchase services or information from the Exchange: the dealers, intermediaries, listed issuers and information vendors; and indirectly from the investing public. The range and quality of listings and other services on the Exchange and the ability of the Exchange to attract and retain quality listings is critical in determining the level of total operating revenues. While the demutualized Exchange will continue to provide most of these services, it has now a different governance structure in which outside shareholders are represented by Board of Directors. The Chairman of the Board is required to be elected from amongst the directors who do not represent TRE certificate holders or any persons connected therewith. Subject to the Act, four directors have been elected at the general meeting of the Exchange in accordance with the Companies Ordinance, while six directors have been nominated by SECP, who will be replaced by interests of Strategic Investors, Financial Institutions or the general public to be elected or co-opted in accordance with the provisions of the Act.

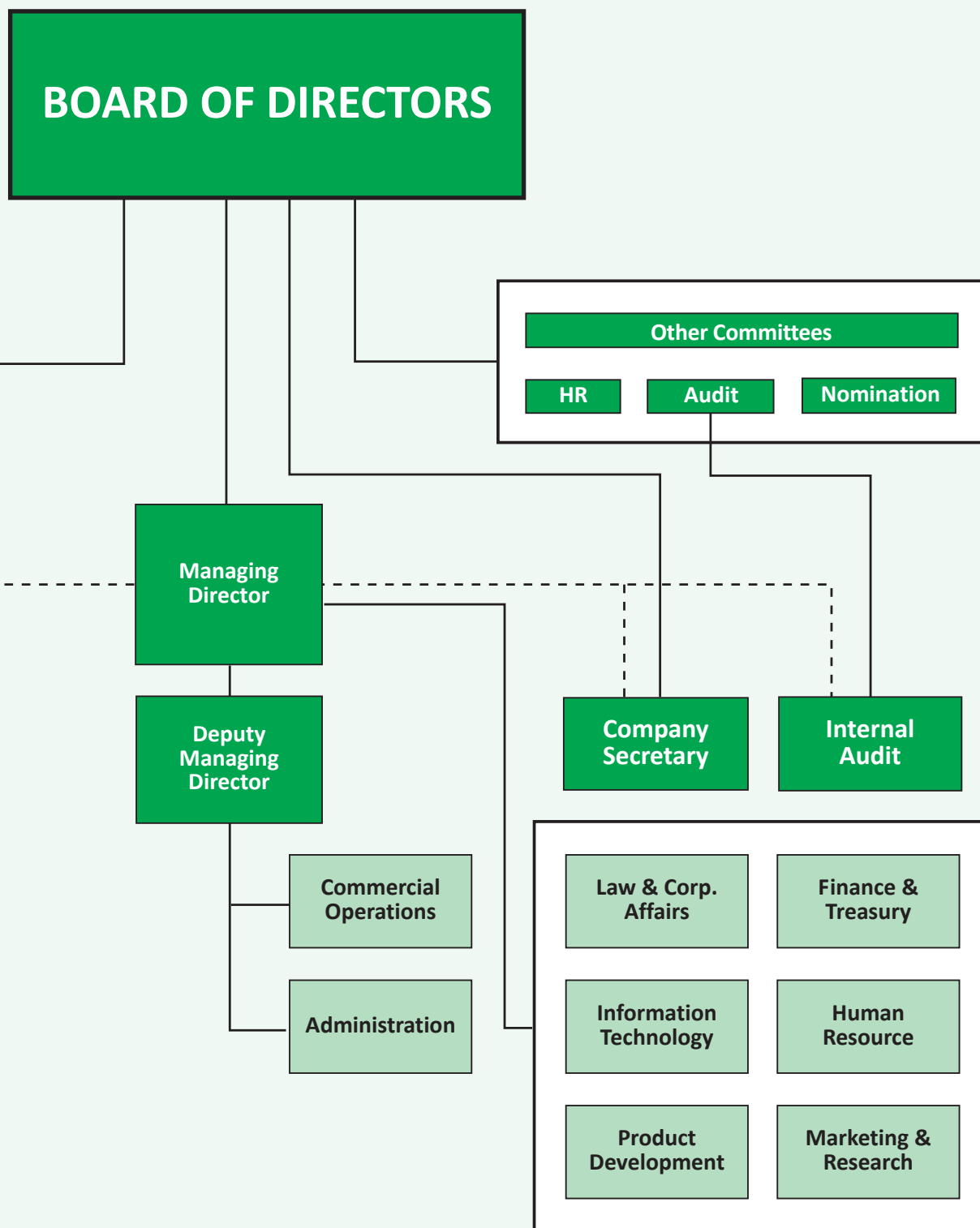
In addition to modification of the organizational structure of the Exchange to achieve the objective of avoiding conflict of interest, the regulatory and commercial functions performed by the existing departments of the Exchange have been segregated. In this regard, SECP has approved a Plan for Segregation of Commercial & Regulatory Functions of Stock Exchanges. This Plan has elaborated the regulatory arrangements that the stock exchanges must have in place to ensure clear segregation of their regulatory and commercial functions. The Regulatory Affairs Committee as envisaged under the Plan is to function as a 'Chinese wall' for effectively segregating the regulatory functions of the Exchange from its commercial activities. In order to successfully attain segregation, two distinct reporting lines have been identified, wherein the regulatory departments shall be reporting to the Chief Regulatory Officer and the commercial departments shall be reporting directly to the CEO/MD. A consolidated organization chart for the Exchange is given below to provide a holistic picture of the organization structure of the demutualized exchange:



ORGANIZATIONAL STRUCTURE



OF THE DEMUTUALIZED EXCHANGE



BOARD COMMITTEES

Composition & Functions

In compliance with the above-referred Segregation Plan & Code of Corporate Governance (CCG) and in order to meet the specific requirements of the Exchange as a Frontline Regulator and a commercial entity, the Board has constituted a number of committees of which the most important/ critical are described in following pages

Regulatory Affairs Committee

Composition

The Committee is composed of a minimum number of four members, who are all non-TREC directors. The Chairman of the Committee is Syed Muhammad Shabbar Zaidi.

Functions

The Committee is entrusted to consider and recommend for approval of the Board, all regulatory amendments and to ensure that the Regulatory Affairs Department (RAD) functions efficiently and allows Karachi Stock Exchange to effectively play its role as a self regulatory organization. The Committee is responsible to take measures necessary to implement an effective regulatory regime and to improve investor confidence and market integrity. In this regard, the Committee has been assigned to:

- (i) develop an overall regulatory plan and roles and responsibilities of each division of RAD together with a roadmap for effective regulatory role;
- (ii) ensure on continuous basis, adequacy and effectiveness of the Exchange's regulatory plan and approve annual plans/targets for the RAD;
- (iii) establish criteria for evaluating candidates for the senior management of RAD including CRO and to formulate and recommend to the Board, budget and staff allocation for RAD;
- (iv) identify and manage potential conflicts-of-interest in commercial and regulatory functions regularly;
- (v) make arrangement for training/education of members of RAD in respect of conflict management and also for development of the manual on conflict management policy and get it circulated to all employees of RAD.

Number of meetings held

During FY2012-13, the Committee held 15 meetings.

Members of the Committee

Syed Muhammad Shabbar Zaidi (Chairman)
 Mr. Kamal Afsar
 Mr. Abdul Qadir Memon
 Mr. Asif Qadir



Nomination Committee

Composition

The Committee is comprised of 3 directors nominated by Securities and Exchange Commission of Pakistan, who do not represent Trading Right Entitlement Certificate Holders of the Exchange. Mr. Muneer Kamal is the Chairman of the Committee.

Functions

The Committee is mandated to perform the following key tasks:

- (i) To review the structure, size and composition (including the skills, knowledge, experience and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.
- (ii) To develop a Panel of Experts (PoE) and to identify individuals, based on minimum eligibility criteria and qualification, to become independent members of the Board and/or Regulatory Affairs Committee (RAC) and to make recommendations to the Board in this regard.
- (iii) To assess the independence of independent non-executive Directors.
- (iv) To make recommendations to the Board on succession planning for directors, in particular, the Chairman and the Managing Director.
- (v) To make recommendations to RAC on the name of Chief Regulatory Officer (CRO), based on a pre-defined minimum eligibility criteria devised by RAC.

Number of meetings held

During the FY 2012-13, the Committee held 2 meetings.

Members of the Committee

Mr. Muneer Kamal (Chairman)
Mr. Shazad G. Dada
Mr. Asif Qadir

Audit Committee

Composition

The Committee is composed of six members, including Chairman of the Committee, who is from the directors not representing TREC holders. Mr. Abdul Qadir Memon is the Chairman of Audit Committee.

Functions

In general, the Committee's responsibilities are divided into following three important areas:

(i) Financial Reporting

The responsibilities of the Committee in the area of financial reporting are to provide oversight that financial reporting and related disclosures made by management are in accordance with the applicable laws and regulations including Regulations issued by the Securities and Exchange Commission of Pakistan, and they reasonably portray the Exchange's: 1) financial condition; 2) results of operations; 3) plans and long-term commitments.



(ii) Corporate Governance

The responsibility of the Committee with respect to corporate governance is to provide assurance that the Exchange is in reasonable compliance with pertinent laws and regulations including Code of Corporate Governance; is conducting its affairs ethically; is maintaining effective controls against employee conflict of interest and fraud; and its communication to the stakeholders is effective.

(iii) Enterprise Level Risk Management and Control

The responsibility of the Committee for risk management and control includes an understanding and oversight of the Exchange's system of internal controls. The Committee shall monitor the Enterprise Level Risk Management and Control processes excluding trade related risk management, the activities of Risk Management Department and Market Control and Surveillance Department.

Number of meetings held

During FY2012-13, the Committee held 9 meetings.

Members of the Committee

Mr. Abdul Qadir Memon (Chairman)
 Mr. Abdul Majeed Adam
 Mr. Shazad G. Dada
 Mr. Muhammad Yasin Lakhani
 Mr. Asif Qadir
 Mr. Mohammed Sohail

HR & Remuneration Committee

Composition

The Committee is composed of seven members. The Chairman of the Committee is Mr. Muneer Kamal.

Functions

- (i) To review human resource management policies of the Exchange or revision(s) thereof
- (ii) To review the organizational structure of the Exchange or revision(s) thereof.
- (iii) To review the overall compensation policies, including of those related with annual / interim increments / promotions and salary revision(s), market comparisons / salary surveys.
- (iv) To recommend to the Board, the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO (Managing Director)
- (v) To recommend to the Board, the selection, evaluation, compensation (including retirement benefits) of Chief Operating Officer (Deputy Managing Director), Chief Financial Officer, Company Secretary and Head of Internal Audit

Number of meetings held

During FY2012-13, the Committee held 4 meetings.

Members of the Committee

Mr. Muneer Kamal (Chairman)
 Mr. Abdul Majeed Adam
 Mr. Kamal Afsar
 Mr. Shazad G. Dada

Mr. Abid Ali Habib
 Mr. Muhammad Yasin Lakhani
 Syed Muhammad Shabbar Zaidi



Other Committees

The Board has also constituted following other committees:

Committee	Chairman / Convener
(i) Arbitration Committee	Mr. Abid Ali Habib
(ii) Committee for hearing appeals of TREC holders and for handling cases of suspension, cancellation or forfeiture of TREC or imposition of fines on TREC holders	Mr. Asif Qadir
(iii) Demutualization Committee*	Haji Ghani Haji Usman
(iv) Index Expert Committee	Mr. Tariq Iqbal Khan
(v) Investment Committee	Mr. Muhammad Yasin Lakhani
(vi) Market Development & New Products Committee	Mr. Mohammed Sohail
(vii) Taxation Committee	Mr. Abdul Qadir Memon
(viii) Voluntary De-listing Committee	Mr. Nadeem Naqvi

* The composition and constitution of Demutualization Committee was ratified by the General Body as required by Demutualization Act and the Committee was authorized to elect its own Chairman.



REGULATORY AFFAIRS DEPARTMENT

1. CRO has overall responsibility of managing and developing the Regulatory Affairs Department, under supervision, guidance & reporting to the Regulatory Affairs Committee of the Board and its Chairman.
2. GM / Chief Compliance Officer (CCO) has the responsibility of managing the day-to-day operations of the compliance & enforcement functions, reporting to the CRO and being specifically responsible for:
 - a. Monitoring compliance, investigating, conducting hearings and taking enforcement actions related to Issuers of securities (both equity & debt) that are listed on the Karachi Stock Exchange
 - b. Monitoring Compliance, investigating, conducting / participating & recording hearings, (within parameters set by the Board & RAC and any committees set up by them) and taking enforcement actions as related to TREC Holders to whom the Exchange has issued TREC's (Trade Rights Entitlement Certificate)
 - c. Monitoring and compliance of capital adequacy, net capital balance, receivables & payables of TREC Holders
 - d. Supervising SYSTEM AUDITS, SPECIAL AUDITS and investigations and taking necessary enforcement actions with the concurrence of CRO & RAC
3. Manager - Regulatory & Policy Development and SECP & Regulatory Liaison is responsible for researching, analysing, drafting regulatory policies and obtaining inputs from internal constituencies (concerned commercial departments of the Exchange) and external constituencies (TREC Holders, SECP, Listed Securities Issuers, Legal & Accounting bodies, etc.). Additionally, he is responsible for liaising with, reporting to and managing the entire communication & coordination process with the SECP, all other regulators and government agencies. He works directly under CRO and also acts as the coordinator with commercial functions of the Exchange in any matters that require regulatory oversight/input in the Exchange's operations.
4. Manager - Risk Management & Market Surveillance is responsible for monitoring compliance of all trading activity and ensuring that systemic risk parameters are fully within prescribed limits. Further, he is responsible for conducting periodic planned & random checks on trading patterns of TREC Holders, alerting the CRO of any anomalies/suspicious trading pattern/behavior and conducting related investigations/hearings with the concurrence of the CRO.
5. Manager - Listed Securities has the responsibility of monitoring all compliance aspects of companies whose securities (equity, debt, other) are listed on the Exchange. This includes listing regulations, corporate actions, Code of Corporate Governance, results announcements, dividend payments, as well as investor complaints against listed companies (securities issuers). He will implement and manage the listed companies monitoring system being developed in-house by the RAD & IT Division of the Exchange. He reports to the GM-Chief Compliance Officer (CCO) and CRO at regular frequency and provides a monthly dash board to the RAC with CRO's concurrence, highlighting compliance status & regulatory enforcement actions taken during the period under review.
6. Manager - TREC Holder / Investor Affairs is responsible for monitoring compliance, investigating, calling for explanations/hearings pertaining to both regulatory issues and investor complaints related to TREC Holders as well as intra-TREC Holder complaints. Working under supervisions of GM/CCO, he will perform all secretarial functions related to relevant various committees' work including Special Committee, Arbitration Committee, etc.
7. Manager - Post Trade Risk Management is responsible for SYSTEM AUDIT, Special Audits as directed by the RAC, Special Committee or the Board through the CRO. Also responsible for monitoring and reporting of capital adequacy, net capital balance, receivables and payables of TREC Holders.



"Knowledge is more than additive. What we learn when we bring two bodies of knowledge together may be much more than the sum of each alone..... That is why the technological improvements that make it easier to gain access to that knowledge are so important..... We do not know what we will discover, only that there is a lot still to be discovered."

John Kay

*The Financial Times
September 25, 2013*

"Technology is making skills and knowledge the only sources of sustainable strategic advantage."

Lester Thurow



"Everyone holds his fortune in his own hands, like a sculptor the raw material he will fashion into a figure.... We are merely born with the capability to do it. The skill to mould the material into what we want must be learned and attentively cultivated."

Johann Wolfgang von Goethe



MANAGEMENT TEAM



STANDING (FROM LEFT TO RIGHT)

Mr. Mansoor Ali	<i>DGM - Information Technology</i>
Mr. Aamir Nazir	<i>DGM - Finance & Treasury</i>
Mr. Ahmed Ali Mitha	<i>Chief Financial Officer</i>
Mr. Sani-e-Mehmood Khan	<i>GM - Product Development, Research and Marketing</i>
Mr. Abbas Mirza	<i>Chief Compliance Officer</i>
Mr. Haroon Askari	<i>Deputy Managing Director</i>
Mr. Nadeem Naqvi	<i>Managing Director</i>
Mr. Muhammad Rafique Umer	<i>Company Secretary and GM - Law & Corporate Affairs</i>
Mr. Shafqat Ali	<i>Chief Regulatory Officer</i>
Mr. Muhammad Ghuffran	<i>DGM - Companies Affairs</i>
Mr. Farhan Ansari	<i>Head of Internal Audit</i>
Mr. Nisar Qazi	<i>DGM - Administration</i>

ABOUT KSE

The Karachi Stock Exchange (KSE) is Pakistan's largest and most liquid Stock Exchange, was incorporated in 1949 as a Company Limited by Guarantee. As a result of demutualization KSE stood corporatized and demutualised as a public company limited by shares under the name of 'Karachi Stock Exchange Limited', with effect from August 27, 2012.

KSE provides a reliable, orderly, liquid and efficient digitized marketplace where investors meet directly to buy and sell listed companies' common stock and other securities. For over 60 years, the KSE has facilitated capital formation, serving a wide spectrum of participants, including individual and institutional investors, the trading community and listed companies.

KSE offers companies and investors an efficient and transparent securities market for raising capital and achieving investment objectives. Companies listed on the KSE are present in all aspects of our lives and are amongst Pakistan's most well known, largest and most innovative companies.

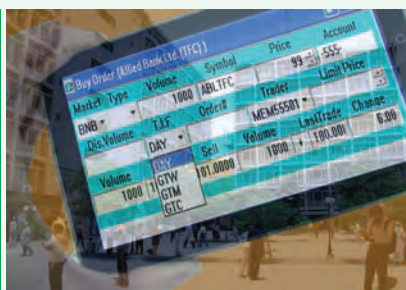
KSE remains the pioneer of Pakistan's Capital Market Developments by introducing new products, constantly upgrading technology infrastructure through partnerships with the world's leading technology companies and through the continuous assessment and improvement of services, catering to every segment of customers' needs

KSE THEN



- ✦ Incorporated on March 10, 1949 as a company limited by guarantee.
- ✦ Exchange having 200 members.
- ✦ Started with 5 companies that had a paid up capital of Rs. 37 million
- ✦ Trading was conducted through an open-out-cry system
- ✦ The first index was the KSE 50 Index

KSE NOW



- ✦ A company limited by shares, with the initial share capital equally allotted to 200 initial members.
- ✦ 569 companies listed
- ✦ Modern Risk Management System
 - ✓ VaR based margin collection
 - ✓ Pre-trade margin verification
 - ✓ Client level margining system
- ✦ FIX Compliant
- ✦ Electronic Trading through KATS
 - ✓ 6 indices
 - ✓ KSE 100
 - ✓ KSE 30
 - ✓ KSE All Share Index
 - ✓ KMI 30
 - ✓ Oil & Gas Sector
 - ✓ Banking sector
- ✦ Market capitalization: US \$ 52.07 billion (June 30, 2013)

KSE TOMORROW



- ✦ Public Listed Company with Strategic Investor
- ✦ Products in the pipeline:
 - ✓ Options
 - ✓ Exchange Traded Fund (ETFs)
 - ✓ Tradable Sector Indices
 - ✓ Fixed Income Derivatives
 - ✓ Government Securities Trading
- ✦ Broad based investor participation via Cross border listings of companies and indices
- ✦ Opening up of branches in other cities and in the region



PRODUCTS & SERVICES

KSE offers a range of products to its investors through a state of the art technology infrastructure. Market participants (both local and internationally based investors) are provided access to these products through various distribution channels of the brokerage houses.

Our Trading products include:

- ☛ Equities (otherwise known as the Ready Market)
- ☛ Deliverable Futures Contracts
- ☛ Cash Settled Futures
- ☛ Stock Index Futures Contracts
- ☛ Bond

Stock Index Futures Contracts based on:

- ☛ Kse-30 index
- ☛ Oil and Gas sector Index
- ☛ Banking Sector Index

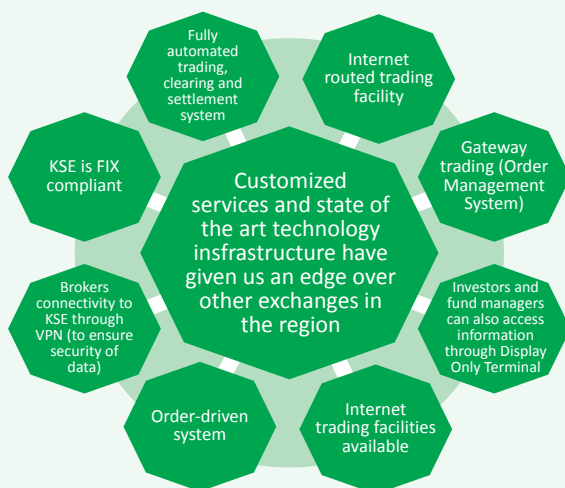
KSE plans on introducing the following new Products and services in the year 2013-2014

- ☛ Government securities trading through KSE
- ☛ Index based Options
- ☛ KSE-30 based Stock Index Futures Trading at Lahore AND Islamabad Stock Exchange

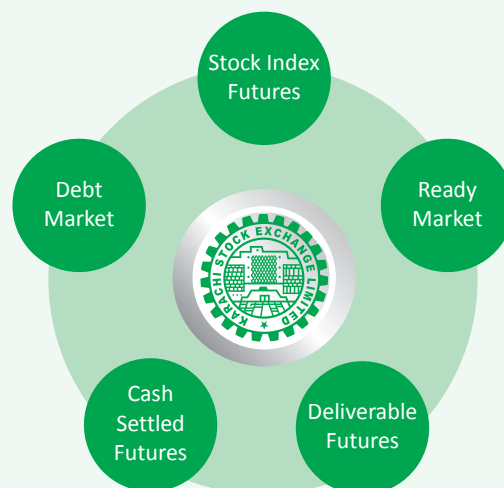
KSE also offers a number of data products and services providing both historical and "live" data feed to its customers. Additional services being offered to customers by the organization include

- ☛ Technology services by I.T. help desk
- ☛ Customer Services & Investor Relations Services to help resolution of investor complaints and queries
- ☛ Investor Education programs

KSE'S INVESTOR SERVICES



MARKETS CURRENTLY OFFERED TO INVESTORS BY KSE



KEY DEVELOPMENTS

MEASURES FOR INCREASING ACTIVITY IN DERIVATIVES

KSE strategy is to first have liquidity in the stock index futures. The second step is to launch Index Options and appointment of market makers in single stock cash settled futures.

Market Makers-a key pre-requisite

As a part of strategy to have liquidity in the stock index futures, KSE appointed a leading brokerage firm as a market maker in the KSE-30 Index based Futures Contracts. The market making process begun from November 16, 2012 and as this process unfolded, the Stock Index Futures came into vogue gradually and observed a maximum of 2.00% of ready market value traded and an average daily traded value of PKR 15 Million during the period November 16, 2013 and June 30, 2013.

KSE-30 based SIFC Trading in the Lahore Stock Exchange and Islamabad Stock Exchange

Securities and Exchange Commission of Pakistan has extended approval to LSE and ISE to commence Stock Index Futures Trading based on KSE-30 Index. This will enable LSE and ISE members and investors to directly trade the KSE-30 Index and develop market makers in Lahore and Islamabad itself, thus enhancing overall liquidity in these futures contracts. ISE and LSE are taking steps to commence KSE-30 Index based SIFC trading at their exchanges latest by March 2014.

MEASURES FOR DEBT MARKET DEVELOPMENT

On instructions from Finance Minister during his visit to KSE, a fast track project has been initiated jointly by SBP, KSE, SECP, and CDC to develop a framework for trading of Government Securities on the Karachi Stock Exchange's Bond Automated Trading System (BATS). The Primary Objective of the trading of Government Securities at the Stock Exchange is to diversify the investor base with particular emphasis on retail investors. Another benefit of an organized exchange market is that it increases the range of liquid, investable asset class. Small investor, who may not have been able to acquire securities on the primary market through noncompetitive bid mechanism, will have additional opportunities to acquire those securities on the secondary market.

KSE has sent a set of initial recommendations to ministry of finance, and trading of Government Securities is expected to commence through stock exchanges in the FY2013-14.

MEASURES FOR NEW PRODUCTS

ETF, OPTION AND SPAN

Exchange Traded Funds-

KSE has entered into agreements with two U.S. based asset management companies to launch KSE-30 and KMI (Islamic Index) based Exchange Traded Funds (ETFs) which would be traded at the New York Stock Exchange (NYSE). This would provide important exposure to the Pakistan's capital market in the key global financial centre and would also provide familiarity with major sectors and stocks to the world's largest institutional investors. KSE has also entered into agreement with two Pakistan based Asset Management Companies to launch KSE Traded ETFs. Out of the four ETFs in the pipeline, two are expected to be launched by March 2014, one at NYSE and one at KSE.

Option and in-House VaR-

Work on development of option products is complete. KSE would like that Option writers are introduced to the market first, and there is enough liquidity in the stock index futures to actually provide a space to benefit from price discrepancies between options and futures contracts. KSE's target is to observe execution of at least 500



SIFC contracts daily by December 2013 and ideally January or February 2014 can be a suitable time for the launch of option based products.

Shariah Compliant Financing Product

Shariah Compliant Trading is formation of a Shariah Compliant Universe. KSE and Al-Meezan have developed a Shariah Compliant benchmark index, comprising of top-30 stocks selected from Shariah Compliant universe of 180 stocks on the basis most liquid and largest free float market capitalization.

KSE and Al-Meezan have also developed basic functional specifications for a Shariah Compliant Trading Counter and Shariah Compliant Financing Products. As per the procedure, KSE is awaiting response from the Shariah Board of Al-Meezan, subsequent to which this product will be placed before KSE committees/board/SECP for approval and subsequent action.

MEASURES FOR INVESTOR AWARENESS-

Financial inclusion is a key element in the development of a robust financial sector and growth of a modern market-based economy. Penetration of financial products in general and capital market products in particular, is extremely low in Pakistan. In 2012, KSE launched a focused campaign to generate large scale awareness amongst individual savers regarding the role that capital markets can play in the overall context of their long term financial planning. This year in FY-2013, this campaign has been further streamlined with the number of workshops and seminars increased significantly.

KSE conducted altogether 19 programs (14 for senior investors and 5 for young investors) which have provided over 1500 senior potential investors and 1233 young savers of Pakistan the knowledge required for making wise investment decisions. These programs were conducted in Karachi and Lahore and in some cases students of lower Sindh i.e. Hyderabad, MITHI and Badin, attended the programs held at the KSE auditorium.

INDUSTRY WIDE PROFESSIONAL ENHANCEMENT-

In order to put the Capital Market of Pakistan on equal footing with regional and global markets, a quantum leap is needed in upgrading governance standards of individual personnel of capital market participating institutions as well as their technical skills enhancement. KSE worked closely with the Institute of Capital Markets (ICM) to roll out certification program on the one hand and on the other, to put the guidelines for minimum required professional qualifications to participate as a service provider in the capital markets. The first ever Pakistan Market Regulation (PMR) Certification Program shall be launched by March 2014.

MEASURES FOR ENCOURAGING NEWLISTING -

The Karachi Stock Exchange has embarked upon an initiative to increase liquidity on the Exchange by increasing the number of listed companies. Under this initiative, the Companies Affairs Department of the Exchange has approached several, low risk, privately held corporations having a good financial track record. All the companies approached qualify on the basic listing requirements, regarding minimum required paid up capital for listing a company, set forth by the Exchange.

A total of 28 companies, belonging to a diverse group of sectors such as pharmaceutical, real estate, asset management, oil and gas, infrastructure and textile, were approached in the first month. Out of the companies approached, four have shown keen interest in getting listed onto the exchange in 2 - 3 years time. The relatively



KEY DEVELOPMENTS

long time required by companies is to prepare themselves to be in compliance with the corporate governance regulations set forth for listing. One company has shown interest in getting listed immediately and discussions are under way.

A major reason cited by companies that are interested in getting listed, but after 2 - 3 years, is that there is no short-term monetary benefit of listing such as tax relief. If such an incentive were available, companies would reconsider listing immediately. KSE's management is of the view that this new initiative will generate the much needed awareness among the private entrepreneurs of Pakistan while providing public equity investors with more investment choices by further broadening the already large pool of listed companies that are backed by strong financial performance. The management of KSE believes that at least 3 - 4 new companies will get listed by mid-2014 as a result of this initiative.

LEVERAGING TECHNOLOGY FOR CAPITAL MARKET DEVELOPMENT

KSE has embarked upon a KAIZEN program for continuous improvement in the technology platform for the future growth and broadening the capital market itself. The Management of the Exchange is fully cognizant of the fact that advances in the Information and Communication Technology are changing the very nature of securities trading. With savers and investor just a click away from the variety of markets, investment vehicles, asset classes and investment related service providers, KSE will enter this lead more comprehensively as soon as G3/4 licences are awarded and Telco's rollout broadband services soon after.

At present KSE is contemplating to migrate its core trading platform to a new and much more flexible architecture which will enable the exchange to provide a host of services and applications for investors via expanding base of smart phones and other hand held devices at increasingly affordable costs.



PHOTO GALLERY



**Mr. Ishaq Dar, Finance Minister Pakistan
addressing KSE TREC Holders**



Visit of US Consul General



Visit of Canadian High Commissioner



**Visit of Vice Chairman,
China Investment Corporation**



Visit of British Deputy High Commissioner



Visit of German Ambassador

PHOTO GALLERY



Visit of CAS School



Visit of IBA, Jamshro



Visit of Karachi Grammer School Students



Visit of Sindh Univirsity-Badin



Awareness Programe TREC Holder



Awareness Session on Corporate Governance





IPO - Bank Alfalah 5th issue of TFC



IPO - Treet Corp P.T.C



IPO - Tamir Microfinance Bank



Visit of President of US-OPIC



Visit of World Bank Delegation



Visit of Chairman Pakistan Society, UK,
Sir William Blackburne

PHOTO GALLERY



Stock Index Futures - Singing Ceremony



Gong Ceremony - Market Making



Visit of Turkish Ambassador



Visit of Tehran Stock Exchange Delegation



Seminar on Agri Commodities Trading



Investor Awareness Generation Programme
North Nazimabad Karachi



"After all, what do alpha and beta mean? If an investor is doing the best he or she can, and the investor's manager can improve the investor's risk-return frontier, that manager has created an alpha for the investor, however he has done it. It might not be an alpha for a smarter investor who has already incorporated it, but everything is relative."

Robert C. Merton

*1997 Nobel Prize in Economics
Innovations in Investment Management*



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that 66th Annual General Meeting of Karachi Stock Exchange Limited will be held on Wednesday, October 23, 2013 at 04:00 pm at the Registered Office of the Company, Stock Exchange Building, Stock Exchange Road, Karachi to transact the following business:

Ordinary Business

1. To receive, approve and adopt the Audited Annual Accounts of the Company for the year ended June 30, 2013 together with Directors' and Auditors' Reports thereon.
2. To consider and approve payment of cash dividend for the year ended June 30, 2013 @ 1.25% i.e. Re.0.125 per share of Rs.10/- each, as recommended by the Board of Directors.
3. To appoint auditors of the Company for the year ending on June 30, 2014 and to fix their remuneration.

Special Business

4. To consider and approve induction of Mr. Abid Ali Habib and Mr. Mohammed Sohail, the two sitting directors representing TREC-Holders of the Company, as members of Demutualization Committee of the Company and for this purpose, pass the following resolution, with or without modification, as an Ordinary Resolution:

"RESOLVED THAT induction of two sitting directors, namely Mr. Abid Ali Habib and Mr. Mohammed Sohail, on Demutualization Committee of Karachi Stock Exchange Limited, the creation and constitution of which was earlier ratified by members of the Company at an Extraordinary General Meeting held on May 29, 2012, be and is hereby approved."

Other Business

5. To discuss any other matter with the permission of the Chair.

By order of the Board of Directors

Sd/-

Muhammad Rafique Umer

Company Secretary

Karachi:

Dated: October 01, 2013

Note: A statement under section 160(1)(b) of Companies Ordinance, 1984, setting out all material facts concerning the Special Business to be transacted at the Annual General Meeting, is enclosed.



Statement under section 160(1)(b) of the Companies Ordinance, 1984

This statement sets out material facts concerning the special business to be transacted at the Annual General Meeting of Karachi Stock Exchange Limited [the Company] to be held on Wednesday, October 23, 2013 at 04:00 pm.

1. Section 3 of Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 ("the Act") promulgated on May 07, 2012 envisaged ratification, by members of the Stock Exchange, of creation and constitution of the Demutualization Committee of the Company existing at the time of commencement of the Act. In pursuance of the Act, members of the Company ratified the constitution and creation of the said Committee, at an Extraordinary General Meeting held on May 29, 2012. At that time, the Committee was composed of 12 persons, being senior members of the Company along with five sitting member directors, as follows:

01. Haji Ghani Haji Usman	07. Mr. Yaqoob Habib
02. Mr. Abdul Majeed Adam	08. Mr. Muhammad Ashraf Kothari
03. Mr. Saeed Ahmed Butt	09. Mr. Muhammad Yasin Lakhani
04. Mr. Firozuddin Cassim	10. Mr. Zafar Siddiq Moti
05. Mr. Shehzad Chamdia	11. Mr. Abdul Aziz Tayub Patel
06. Mr. Muhammad Siddique Dalal	12. Mr. Amin Issa Tai
2. Upon receipt of Certificate of Re-registration on August 27, 2012, signifying corporatization of the Company, the directors holding office as on that date automatically ceased to hold office and the Board was re-constituted with four directors representing TREC-Holders (former members) of the Company. These included Mr. Abdul Majeed Adam, Mr. Saeed Ahmed Butt, Mr. Yaqoob Habib and Mr. Muhammad Yasin Lakhani.
3. Subsequently, in accordance with the requirement of section 10(2) of the Act, the Company conducted an election of directors at an Extraordinary General Meeting held on September 25, 2012, in respect of the four seats held by the directors representing TREC-Holders. As a result, Mr. Abdul Majeed Adam, Mr. Abid Ali Habib, Mr. Muhammad Yasin Lakhani and Mr. Mohammed Sohail were elected to the Board.
4. Since, the present Board has been constituted for a term of three years where, out of the four directors representing TREC-Holders, Mr. Abdul Majeed Adam and Mr. Muhammad Yasin Lakhani are already on the Committee; the Board recommends that Mr. Abid Ali Habib and Mr. Mohammed Sohail may also be appointed as members of Demutualization Committee so as to ensure better co-ordination between the Board and the Committee.
5. The Directors of the Company except Mr. Abid Ali Habib and Mr. Mohammed Sohail have no direct or indirect interest in the Special Business.



NOTES:

1. The Register of Members will remain closed from October 17, 2013 to October 23, 2013 (both days inclusive).
2. All members are entitled to attend and vote at the meeting.
3. A member entitled to attend, speak and vote at the meeting shall also be entitled to appoint another member as his/her proxy to attend, speak and vote instead of him/her and a proxy so appointed shall have such rights with respect to attending, speaking and voting at the meeting as are available to the member appointing him as proxy. The Instrument of Proxy and the Power of Attorney or other authority (if any) under which it is signed or a notarized certified copy of that Power of Attorney or authority, in order to be effective, must be received by the Exchange at least 48 hours before the meeting. A proxy must be a member of the Exchange. The Form of Proxy is enclosed with this notice.
4. Any company or other body corporate which is a member of the Exchange may, by resolution of its Directors, or proxy signed by authorized officers, authorize any of its officials or any other person to act as its representative at the meeting and the person so authorized shall be entitled to exercise the same powers as if he were an individual member of the Exchange.
5. Members are requested to notify the change of their registered address, if any, immediately but before book closure to our Share Registrar, Central Depository Company of Pakistan Limited [CDC], CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi.
6. Since all shares issued to members are in dematerialized format, credited in their respective CDC accounts, the individual members desiring to attend the meeting are requested to bring their original Computerized National Identity Cards (CNICs) along with the Investor Account or Participant Id and House Account / Sub-Account numbers, for identification purposes, whereas, in case of corporate member, the resolution of Board of Directors / Power of Attorney with specimen signature of the nominee may preferably be provided to the Exchange well in advance or otherwise produced at the time of meeting.



"Don't think about why you question, simply don't stop questioning. Don't worry about what you can't answer, and don't try to explain what you can't know. Curiosity is its own reason. Aren't you in awe when you contemplate the mysteries of eternity, of life, of the marvelous structure behind reality? And this is the miracle of the human mind to use its constructions, concepts, and formulas as tools to explain what man sees, feels and touches. Try to comprehend a little more each day. Have holy curiosity."

Albert Einstein



REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Karachi Stock Exchange Limited (the Company) to comply with the said Code.

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

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

Further, the Code requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, for the year ended 30 June 2013.

We draw your attention to:

- i. clause 1 of the Statement, which states that currently the Company's Board of Directors do not have any independent director for the reasons stated therein;
- ii. clause 8 of the Statement which states that Chief Financial Officer of the Company did not attend all the meetings of the Board of Directors as required under the Code.

Our conclusion is not qualified in respect of the above matter.

Chartered Accountants

Date: September 12, 2013

Karachi



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE [SEE CLAUSE (XL)]

Karachi Stock Exchange Limited

Year ended June 30, 2013

This statement is being presented to comply with the Code of Corporate Governance [CCG] contained in Regulation No.35 of Listing Regulations of Karachi Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance. Karachi Stock Exchange ["the Company"], although not a listed Company, has voluntarily adopted the best practices of corporate governance.

The Company has applied the principles contained in CCG in the following manner:

1. As provided in Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 [the Act] and in accordance with the requirements of the Articles of Association of the Company, the Board of Directors comprises of four elected directors and six directors nominated by the Securities and Exchange Commission of Pakistan(SECP). Accordingly, at present, the Board of Directors of the Company includes:

Category	Names
Executive Director	(i) Mr. NadeemNaqvi (Managing Director)
Non-Executive Directors	<p><i>SECP Nominees</i></p> <p>(i) Mr. Muneer Kamal (Chairman of the Board)</p> <p>(ii) Mr. Kamal Afsar</p> <p>(iii) Mr. Shazad G. Dada</p> <p>(iv) Mr. Abdul Qadir Memon</p> <p>(v) Mr. Asif Qadir</p> <p>(vi) Syed Muhammad Shabbar Zaidi</p> <p><i>Representatives of Trading Right Entitlement Certificate Holders</i></p> <p>(vii) Mr. Abdul Majeed Adam</p> <p>(viii) Mr. Abid Ali Habib</p> <p>(ix) Mr. Muhammad Yasin Lakhani</p> <p>(x) Mr. Mohammed Sohail</p>

Since, composition of present Board is defined in the Act and because the Company is presently in a transitory phase of demutualization where the specified portion of the existing shares of the Company is to be divested by initial/current shareholders and sold to strategic investor and general public in pursuance of the Act; the requirement of CCG for having at least one 'independent director' is, therefore, yet to be complied with by the Company. With the divestment of shares as aforesaid, the directors nominated by the SECP will be replaced by the representatives of new shareholders paving way for induction of independent non-executive directors and directors representing minority interests on the Board of Directors of the Company.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a DFI or an NBFI. None of the directors represents companies/firms which are Trading Right Entitlement Certificate (TREC) holders of a stock exchange that have been declared as defaulter by that stock exchange.
4. No casual vacancy occurred on the Board during the year



5. The Company has adopted a 'Statement of Ethics and Business Practices', which has been signed by all the directors of the Company. Similarly, the Company has also developed a 'Statement of Code of Conduct and Business Practices' which has been disseminated to all the employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other non-executive directors, are being exercised by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting except in the case of 5 meetings in emergent situations. The minutes of the meetings were appropriately recorded and circulated. The Chief Financial Officer of the Company has not attended all meetings of the Board of Directors except for the meetings where finance-related matters were discussed.
9. As of June 30, 2013, two directors of the Company have acquired the directors' training certificate as required under the CCG. The Company plans to arrange Director's Training Programs in future, for the remaining directors, excluding those who are already exempted under the CCG.
10. The Board approves the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment. However, there was no new appointment against these positions during the year.
11. The Directors' Report for this year has been prepared in compliance with the requirements of CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of CCG.
15. The Board has formed an Audit Committee. It comprises of six (6) members including the Chairman. All members of Audit Committee are non-executive directors.
16. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of the interim and annual financial results of the Company and as required by CCG. The total number of the meetings held during the year ended June 30, 2013 was 9. The terms of the reference of the Committee have been formed and advised to Committee for compliance.
17. The Board has formed Human Resources & Remuneration Committee. It comprises of seven (7) members including the Chairman. All members of Human Resources and Remuneration Committee are non-executive directors.



18. The Board has set-up an effective internal audit function through a combination of internal and outsourced expertise. Internal Auditors are conversant with the policies and procedures of the Company and are considered suitably qualified and experienced for the purpose. The internal resources are engaged in internal audit function on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the CCG have been complied with.

On behalf of the Board of Directors

Sd/-
MUNEER KAMAL
 Chairman

Sd/-
NADEEM NAQVI
 Managing Director

Karachi
 September 12, 2013



"The longer that a critical state builds up in an economy, or in other words, the more fingers of instability that are allowed to develop connections to other fingers of instability, the greater the potential for a serious avalanche.... When things are unstable, it isn't the last grain of salt that causes the pile to collapse. That (is) the proximate cause The real reason, though, is the remote cause, the farthest reason. The farthest reason is the underlying instability of the system itself."

John Mauldin Jonathan Tepper
ENDGAME © 2011





DIRECTORS' REPORT



DIRECTORS' REPORT

The Board of Directors of Karachi Stock Exchange Limited (Exchange/KSE) is pleased to present the Annual Report of the Exchange for the financial year ended June 30, 2013. Please note that on August 27, 2012, KSE's corporate structure was changed from a 'company limited by guarantee' and it was re-registered with the name and style of "Karachi Stock Exchange Limited" as a public company limited by shares, signifying the demutualization of the Exchange in accordance with the provisions of "Stock Exchanges [Corporatization, Demutualization and Integration] Act, 2012" (Demutualization Act/Act).

MACRO ECONOMIC BACKDROP

In FY12-13 the global economy continued to be weighed down by the after effects of the 2008 financial crisis despite massive reflationary efforts by developed countries' central banks. In CY2012, the global economy grew by 3.2% versus 4.4% in CY2011. Within this, developed economies expanded by 1.2% while emerging economies grew by 5.1%. This macro dynamic continued to take its toll on global capital markets where, according to World Federation of Exchanges, the volume of equity transactions decreased by 22.5% in 2012 over 2011 to US\$49trillion. The volume of derivatives transactions also fell by 20%.

Pakistan faced its share of macro-economic challenges during the year under review. Real GDP growth remained suppressed at 3.3% in FY12-13 due to continued power sector crisis, poor law & order situation and inability to raise tax revenues, thus negatively impacting development expenditure and in turn, economic growth. The above environment also deterred investment by the private sector, with overall investment to GDP ratio touching a low of 15% versus 19% in 2008.

A silver lining on the domestic front was deceleration in inflation with CPI averaging 7.36% in FY12-13 versus 11.30% in FY11-12 which enabled the central bank to reduce its discount rate by 300 basis points from 12% as on June 30, 2012 to 9% as on June 30, 2013.

The external sector, while still weak due to below trend economic environment in key export markets, remained relatively stable based on record inflows of inward remittances by expatriate Pakistanis, reaching US\$14.3billion in FY12-13. This helped keep current account deficit at 1.6% of GDP. However, foreign exchange reserves remained under pressure on account of debt repayments, primarily to the IMF. This, in turn, led to accelerated rupee depreciation of 4.88% during the period under review.

Looking ahead, greater stability in the economic environment appears to be on the horizon. This is actually being driven by greater stability on the political front. Unlike the Middle East, Pakistan is more firmly on the path of sustained political stability after the relatively smooth and peaceful transition from one freely elected civilian government to another. This development, the first in Pakistan's 66 year history, has provided confidence that democracy is beginning to take root in the country. As an added bonus, the high turnout in May 2013 elections and the big mandate received by PML(N) with near absolute majority in the parliament has raised expectations regarding decisive actions in the area of structural reforms in the economy, something the previous coalition government was unable to implement despite several attempts.

Further, given the present Government's historic credentials as pro-business and market oriented, there now appears a real possibility of rejuvenating economic growth. Indeed, the swiftness with which the new administration moved to tackle power-sector financial conundrum, small but symbolically important corporate tax rate reduction, raising sales-tax rate, increasing fuel prices to reduce power subsidies - all impressed the IMF enough for it to agree on providing Pakistan US\$6.7billion, 3-year Extended Fund Facility. This has come at the cost of suppressed economic growth in FY13-14 and further depreciation of the Rupee but should provide the space for the Government to implement deeper economic restructuring and reforms. It will also now enable the World Bank, Asian Development Bank and other bilateral and multilateral agencies to disburse over



US\$5.0billion worth of approved but withheld long term concessionary funding for development and infrastructure projects. This should go a long way in stabilizing the external sector while also reversing the decline in much needed infrastructure investment.

CAPITAL MARKET DYNAMICS

The Pakistan stock market turned out to be the best contrarian bet for both domestic and international portfolio investors in FY12-13. Between July 1, 2012 and June 30, 2013, the KSE-100 Index depicted a rise of 52% making it one of the top performing markets in the emerging Asia region. During this period, MSCI Emerging Market Index posted 0.3% return while the MSCI Frontier Market Index returned 18.5%. This stellar outperformance has continued with the KSE-100 Index rising by 30% in calendar year to date (January-September 2013) while MSCI EM & FM indices have posted returns of -11.5% and 9.8%, respectively.

The Pakistan market's solid performance was driven by:

- Strong underlying corporate sector earnings growth and deleveraging
- Attractive valuations where the market capitalization-to-GDP ratio after the market run up was still only 20% as compared to the previous KSE-100 peak in April 2008, when it was over 40%
- Renewed interest by foreign investors which saw net foreign liquidity inflow of US\$589million in FY12-13 versus an outflow of US\$189million in FY11-12
- Vastly improved investor sentiment and confidence upon successful civilian transition of government and strong pro market credentials of the newly elected government

Market activity also improved significantly during the year. Average Daily Value (ADV) traded in Ready Market was PkR5.9billion in FY12-13 versus PkR4.0billion in FY11-12. Admittedly, the activity levels rose in the second half of the year with ADV in 1Q and 2Q FY12-13 being PkR4.3billion and rising to PkR8.9billion in 4Q FY12-13. This trend has continued in the first quarter of FY13-14, where ADV has been PkR10.2billion in July and August 2013. Moreover, ADV traded in Futures Market was PkR2.6billion.

Going forward, if the government is able to get a handle on the power sector and the law & order issues, both real sector and financial sector investments are likely to depict further improvement as businesses and investors feel more confident about the macro environment. This would auger well for market performance in FY13-14.

FINANCIAL REVIEW

As per audited accounts, KSE's profit after tax in FY13 was PkR120.6million versus PkR669.2million in FY12. However, after tax numbers reflect additive tax adjustments which in FY12 were PkR662.2million and in FY13 were PkR51.5million. Excluding these tax effects, the pretax profit of the Exchange was PkR69.1million in FY12-13 versus PkR6.9million in FY11-12. The pretax profit improvement is an indication of the turnaround achieved by KSE after a three-year hiatus in earnings. For comparison purposes, the pre-tax profit in FY10 and FY11 was PkR38.3million and PkR41.4million, respectively.

Revenue of the Exchange grew by 11.4% to PkR737.6million in FY13 from PkR661.9million in FY12. Excluding management fees, operating revenue was PkR671.8million versus PkR646.2million last year, depicting a growth of 4.0%. This was mainly due to lackluster trading activity in the first three quarters of FY13 where average daily traded value in the ready (spot) market remained in the range of PkR3.9-5.9billion and only in the last quarter rose to PkR8.9billion. Further, revenues from equipment & connectivity facilities actually fell by 26.4% as many market participants reduced their usage of KATS Terminals in the first half of FY13. It was the spurt in trading



activity in the fourth quarter that helped trading fees show YoY increase of 52.8% thus stabilizing full year growth. Overall, trading and listing fees constituted 42.1% of operating revenue in FY13 versus 35.6% in FY12. Treasury operations contributed 41.5% to operating revenue versus 45.0% last year.

Administrative expenses rose by 4.2% during the period under review to PkR733.2million from PkR703.8million last year. This is reflective of strong cost control measures adopted by management across all areas of operations and, given that official inflation was near 7.4% in FY12-13 it is a significant achievement. Within administration cost, three items are particularly noteworthy. First, depreciation and amortization expense increased by 21.4% to PkR238.3million in FY13 due to corporatization & demutualization related asset revaluation carried out last year. Excluding this effect, administration cost actually decreased by 2.5% YoY while HR cost rose by about 10.1%. Finally, I.T. operational costs reduced by 24.9% to PkR57.2million in line with management's continued strategic shift to reduce equipment obsolescence and thus, maintenance expenses.

After accounting for financial and other charges, operating loss in FY12-13 was PkR71.9million, a sharp improvement over FY11-12 when the operating loss was PkR112.4million. Other income and Share of profits of Associates rose by 18.1% to reach PkR141.0million. Putting these together, pretax profit was PkR69.1million in FY12-13 versus PkR6.9million in FY11-12.

Dividend

The directors have recommended a final cash dividend of Re.0.125, as follows:

	(Rupees in '000)
Profit for the year	120,623
Final cash dividend @ 1.25%	100,185
Balance carried forward	<u>20,438</u>

Earnings per share

The basic and diluted earnings per share is Re.0.17.

OPERATIONS REVIEW AND OUTLOOK

The nature of stock exchange business is such that trading activity, capital raising and market sentiment forecasting is difficult, to say the least. Therefore, areas of focus for the Exchange are ensuring a reliable and efficient infrastructure for trading, clearing and related services to market participants, investors and listed companies. In this regard we are constantly upgrading our IT platform and endeavoring to put in place the technical infrastructure for new products such as Government debt trading, Options contracts & ETFs. The Exchange is also working with relevant constituencies to enhance the attractiveness and operational ease of existing products - such as Cash Settled Futures Contracts, Margin Trading System, Securities Lending & Borrowing - so that their usage and volume of activity increases.

At the same time, with the frontline regulatory functions of the Exchange having been segregated into the Regulatory Affairs Department (RAD) headed by the Chief Regulatory Officer (CRO) who reports to the Regulatory Affairs Committee (RAC) of the Board of Directors, management of the Exchange can now focus fully on product & market development, customer service enhancement and operational efficiency. Here, the Board would like to acknowledge the immense contribution of the independent directors who constitute the Regulatory Affairs Committee. They devoted enormous amount of time and energy to make the segregated regulatory function a reality.



In the commercial business arena a clear road map has been developed for the marketing function, segmented as under:

- ☛ **Retail** - primary objective is to increase the investor base. In 2012-13, over 3500 savers participated in KSE organized workshops and seminars designed to develop awareness regarding systematic saving & investment strategies, risk and return dynamics of capital market investments as well as cautions and responsibilities when dealing with market intermediaries.
- ☛ **Institutional** - focus on bringing awareness to institutional investors, both financial & non-financial, regarding risk management reforms carried out in the capital market and products / services that are particularly suited for institutional investment managers.
- ☛ **Corporate** - concerted efforts to identify and convince private companies considered ready for next stage of growth as to how they can tap the capital market for long term funding to help them expand.
- ☛ **International** - the goal is to brand Pakistan and our capital market and put KSE on international portfolio investors' radar screen. In 2012-13, KSE organized Pakistan investment road shows in collaboration with leading market players in Shanghai, New York and Washington DC. In 2013-14 an investment conference has already been held in London in collaboration with the London Stock Exchange and Barclays Bank and more are planned in the UAE and Hong Kong before December 2013.

The overarching theme in marketing is to enhance both demand and supply of listed securities - equities, fixed income and hybrids including their derivatives; and brand KSE nationally and globally as the leading securities exchange of Pakistan.

In terms of operational efficiency, the primary focus remains on "sweating" our assets i.e. raising productivity continuously. In FY12-13, total operating cost has risen by 4.6% versus official average inflation of 7.4%. Importantly, over the last two years Human Resource cost as a percentage of total administrative cost has been brought down to 40.7% in FY13 from 50.1% in FY11. Given the large legacy cost structure inherited from before corporatization and demutualization in August 2012, this has been a challenging task. However, significant progress has been made on this front and more will become visible in the future, especially in terms of HR cost rationalization and functional productivity improvement.

DEMUTUALIZATION

Demutualization Committee of KSE (the Committee), the creation and constitution of which was ratified by the General Body of the Exchange, is mandated mainly to -

- (i) approve the valuation of the Karachi Stock Exchange undertaken and revised by Deutsche Bank AG;
- (ii) enter into negotiations, finalize and execute agreements for sale of upto 40% of the total issued share capital of the Exchange out of the shares deposited into CDC blocked account with one or more strategic investors or financial institutions at a price that is equal to or greater than the valuation carried out by Deutsche Bank AG;
- (iii) accept or reject an offer from a strategic investor, if the price offered is less than the valuation as referred to above; and
- (iv) determine the offer price for offer for sale to general public not less than 20% of the total issued share capital of the Exchange out of the shares deposited into CDC blocked account.

Accordingly, the Committee is overseeing the process of demutualization of KSE with the assistance of Deutsche Bank AG [DBAG] which is the advisor and sole book-runner for the purpose of placement of KSE's shares first with the strategic investor and then with the general public. With active participation and approval of the



Committee, DBAG is currently in the stage of finalizing information memorandum, which will be circulated among the potential investors with a view to reach an agreement for acquisition of 40% shares of KSE out of 60% allotted to initial shareholders and kept in blocked account.

DESIGNING THE FUTURE

Going forward, there is a clear focus on two aspects:

- I. Strengthening the self regulatory function through capacity building of the Regulatory Affairs Department so that the Exchange is able to effectively play its role as the frontline regulator of the capital market. This would entail enhanced corporate governance monitoring of listed companies and focused monitoring for compliance of market participants as well as improved systemic risk management and market surveillance. KSE aims to be an institution that promotes investor interest and leads the development of capital markets through transparency, efficiency and fairness to all market participants & constituencies.
- II. Building a sustainable revenue generating structure that creates shareholder value. In this regard the goal is to create an organization with three broad segments. First, the regulatory segment noted above; second, a service segment with transparent cost structure for all services provided to market participants and; third, a dynamic profit focused exchange operations segment. This last will have clear business revenue lines emphasizing aggressive marketing initiatives and a strong productivity bent driven by technology. Thus, going forward, following business segments are envisaged to be in place:
 1. Securities & derivatives, covering all trading related activities focusing on trading revenues
 2. Access/Connectivity & TREC-Holder services, focusing on facilities revenue & costs
 3. Issuer services, focusing on listing revenues and corporate actions
 4. Market data provision to third parties and via multiple media platforms
 5. Associates' income, in terms of clearing, settlement and custodial services

Each segment will have a strategic quantified revenue objective and be treated as a profit centre with its own management P&L. As this business model gets executed we expect a sustainable Exchange institution to emerge which is an exemplary self regulatory organization as well as an agent for capital market development while also building shareholder value. In other words, we are today in the process of reinventing the Karachi Stock Exchange.

CONTRIBUTION TO NATIONAL EXCHEQUER

The capital markets are amongst the larger contributors to the national exchequer. During the year 2012-13, the Exchange collected taxes from TREC Holders of the Exchange on securities market transactions and paid an aggregate amount of Rs.570 million to the government exchequer (Rs.385 million in 2011-2012).



INVESTMENTS IN ASSOCIATE AND OTHER COMPANIES

The Exchange currently holds investments in the following associate and other companies:

Name of company	Amount invested (Rs. in million)	Percentage shareholding	As appearing in the accounts (Rs. in million)
Associates			
Central Depository Company of Pakistan Limited [CDC]	39.81	39.81	890.00
National Clearing Company of Pakistan Limited [NCCPL]	30.00	47.06	200.36
Others			
JCR-VIS Credit Rating Company Limited [JCR-VIS]	2.50	12.50	2.50
Pakistan Mercantile Exchange Limited [PMEX]*	42.09	19.14	22.09

* KSE holds 3,636,356 (2012: 3,636,356) ordinary shares of Rs.10 each; representing 19.14% equity in PMEX. Break-up value of each ordinary share of Rs.10 is Rs.Nil (2012: Nil) based on the unaudited accounts of PMEX available for the year ended June 30, 2013. The original cost of investment in PMEX is Rs.42.091million.

During the year, a cash dividend @ 30% (2012: 30%) by CDC; cash dividend @ 10% (2012: Nil) by NCCPL and cash dividend @ 5% (2012: 3%) was declared by JCR-VIS for the financial year ended June 30, 2012 and was received by KSE.

BOARD OF DIRECTORS

The Board of Directors of the Exchange, before corporatization and demutualization, comprised of 10 members including the Managing Director. Out of these, 5 directors were elected from amongst the members of the Exchange, whereas 4 non-member directors were nominated and appointed by SECP. The Managing Director, by virtue of his office used to be the tenth director on the Board. The Board existing as on June 30, 2012, comprising of following, continued in the beginning of the financial year under review:

(i) Mr. Muneer Kamal (Chairman), (ii) Mr. Nadeem Naqvi (Managing Director), (iii) Mr. Abdul Majeed Adam, (iv) Mr. Saeed Ahmed Butt, (v) Mr. Shazad G. Dada, (vi) Mr. Yaqoob Habib, (vii) Mr. Muhammad Yasin Lakhani, (viii) Mr. Abdul Qadir Memon, (ix) Mr. Asif Qadir and (x) Haji Ghani Haji Usman.

As stated earlier, the Exchange stood corporatized and demutualized with effect from August 27, 2012 and simultaneously, a new Board of 11 'First Directors' was constituted in terms of the provisions of Demutualization Act; composed of 6 directors nominated by SECP, 4 directors nominated by the Board from amongst the past members (now TREC Holders) of the Exchange and the Managing Director. These included the following:

Directors nominated by SECP

1. Mr. Muneer Kamal (Chairman)
2. Mr. Kamal Afsar
3. Mr. Shazad G. Dada
4. Mr. Abdul Qadir Memon
5. Mr. Asif Qadir
6. Syed Muhammad Shabbar Zaidi



Directors representing TREC Holders

7. Mr. Abdul Majeed Adam
8. Mr. Saeed Ahmed Butt
9. Mr. Yaqoob Habib
10. Mr. Muhammad Yasin Lakhani

Managing Director

11. Mr. Nadeem Naqvi

Subsequently, in accordance with the requirements of Demutualization Act, KSE conducted election of directors at an Extraordinary General Meeting held on September 25, 2012, in respect of four seats held by representatives of TREC Holders where Mr. Abdul Majeed Adam, Mr. Abid Ali Habib, Mr. Muhammad Yasin Lakhani Mr. Abid Ali Habib and Mr. Mohammed Sohail were elected.

During the financial year ended June 30, 2013, 14 Board meetings (09 scheduled & 05 emergent) were held, in which Directors' attendance was as follows:

Name of Director	From July 01, 2012 To August 26, 2012		From August 27, 2012 To September 25, 2012		From September 26, 2012 To June 30, 2013	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
Mr. Muneer Kamal	02	02	01	01	11	10
Mr. Nadeem Naqvi	02	02	01	01	11	11
Mr. Abdul Majeed Adam	02	01	01	01	11	11
Mr. Saeed Ahmed Butt	02	01	01	01		
Mr. Shazad G. Dada	02	01	01	01	11	09
Mr. Yaqoob Habib	02	02	01	01		
Mr. Muhammad Yasin Lakhani	02	02	01	01	11	11
Mr. Abdul Qadir Memon	02	01	01	01	11	10
Mr. Asif Qadir	02	02	01	01	11	11
Haji Ghani Haji Usman	02	02				
Mr. Kamal Afsar			01	01	11	09
Syed Muhammad Shabbar Zaidi			01	01	11	05
Mr. Abid Ali Habib					11	10
Mr. Mohammed Sohail					11	11

Leave of absence was granted to directors who could not attend some of the Board meetings. The Board records its appreciation of the contribution made by the outgoing Directors.

The KSE Board consists of a mix of experienced and successful professionals with diverse background. The non-member directors have a proven track record of running major institutions, while the member directors have a deep understanding of the working of the Exchange and the local equity market.

CORPORATE GOVERNANCE - CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Board of Directors and the Company remain committed to the principles of good corporate management practices with emphasis on transparency and disclosures. The Board and management are cognizant of their responsibilities and monitor the capital market operations and performance to enhance the accuracy, comprehensiveness and transparency of financial and non-financial information.



The Board is pleased to advise that KSE has voluntarily adopted the Code of Corporate Governance and has complied, in all material respects, with the best practices contained in the said Code, as fully explained in the attached Statement of Compliance. Further, as per the Code's requirements, the following specific statements are being made:

- ☛ Proper books of accounts of the Company have been maintained.
- ☛ The financial statements prepared by the management present fairly its state of affairs, the results of its operations and cash flows.
- ☛ Appropriate accounting policies have been consistently applied in preparation of financial statements which conform to the International Financial Reporting Standards, as applicable in Pakistan. The accounting estimates, wherever required, are based on reasonable and prudent judgment.
- ☛ The system of internal controls is sound in design. It has been effectively implemented by the management and is monitored by the internal and external auditors as well as the Board of Directors and the Audit Committee. The Board reviews the effectiveness of established internal controls through the Audit Committee and suggests, wherever required, further improvement in the internal control systems.
- ☛ There are no significant doubts upon the Company's ability to continue as a going concern.
- ☛ There is no reported instance of any material departure from the best practices of corporate governance.
- ☛ Significant deviations from last years' operating results, future plans and changes, if any, have been separately disclosed, as appropriate, in this report of the Directors.
- ☛ Value of investment of KSE Employees' Gratuity Fund is Rs.137.304 million based on unaudited accounts for the year June 30, 2013.
- ☛ Key operating and financial data of last 6 years has been included in this annual report.
- ☛ Pattern of shareholding is annexed to this report.

CORPORATE SOCIAL RESPONSIBILITY

Karachi Stock Exchange, being a national institution and a responsible corporate citizen, strongly realizes its duty towards the society. In view of this, KSE has a defined policy for Corporate Social Responsibility activities.

During the year under review, the Board approved the donation of Rs.400,000/- to Kharadar General Hospital.

AUDITORS

Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants, have completed their assignment and retired. Being eligible, they have offered themselves for reappointment. However, based on the recommendation of Audit Committee, the Board recommends shareholders to appoint any other firm of Chartered Accountants as KSE's auditors for the financial year ending on June 30, 2014.



ACKNOWLEDGEMENT

The Board wishes to express its gratitude to KSE's TREC Holders and other stakeholders for their continued commitment and support to KSE and the capital markets. The Board is also grateful to Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Federal Board of Revenue and the Ministry of Finance, Revenue & Economic Affairs, Government of Pakistan, for their active support and guidance to KSE at all times.

Furthermore, the Board would like to thank all Committee members for their guidance and support. The Board acknowledges and appreciates the contribution and dedication of all KSE staff members in performing their tasks with diligence and commitment.

For and on behalf of the Board of Directors

Sd/-

MUNEER KAMAL

Chairman

Sd/-

NADEEM NAQVI

Managing Director

Karachi

September 12, 2013



FINANCIAL HIGHLIGHTS (Six years at a glance)

(Rs. million)	2008	2009	2010	2011	2012	2013
RESTATED						
BALANCE SHEET						
SHARE CAPITAL	-	-	-	-	-	8015
RESERVES	2,740	2,985	3,661	3,807	4,532	64
SURPLUS ON REVALUATION OF ASSETS - NET	-	-	-	-	3,288	-
LONGTERM LIABILITIES	269	261	362	248	185	56
CURRENT LIABILITIES	5,994	621	1,320	1,137	1,518	2,796
TOTAL LIABILITIES	9,003	3,867	5,343	5,192	9,523	10,931
FIXED ASSETS	272	466	1,246	1,176	4,492	4,331
OTHER LONGTERM ASSETS	823	870	887	894	1,124	1,215
CURRENT ASSETS	7,908	2,531	3,210	3,122	3,907	5,385
TOTAL ASSETS	9,003	3,867	5,343	5,192	9,523	10,931
OPERATIONAL RESULTS						
TOTAL INCOME	1,716	914	675	681	781	879
TOTAL EXPENSES	715	535	637	639	774	810
PROFIT BEFORE TAX	1,001	379	38	42	7	69
PROFIT AFTER TAX	772	314	68	145	669	121
RATIOS						
CURRENT RATIO	1.32	4.08	2.43	2.75	2.57	1.93
QUICK RATIO	1.29	3.26	2.21	2.37	2.10	1.68
NET PROFIT MARGIN	45%	34%	10%	21%	86%	14%
EXPENSES AS A PERCENTAGE OF REVENUE	42%	59%	94%	94%	99%	92%
PROFIT BEFORE TAX A PERCENTAGE OF REVENUE	58%	41%	6%	6%	1%	8%



"When presented new information, we have no other option than to relate it to what we already know - there is no blank space in our minds within which new information can be stored so as not to "contaminate" it with existing information."

Clifford Konold

*Scientific Reasoning Research Institute
University of Massachusetts*

The most important questions of life are indeed, for the most part, really only problem of probability

Pierre Simon Laplace

Theorie Analytique des Probabilites, 1812



MARKET HIGHLIGHTS

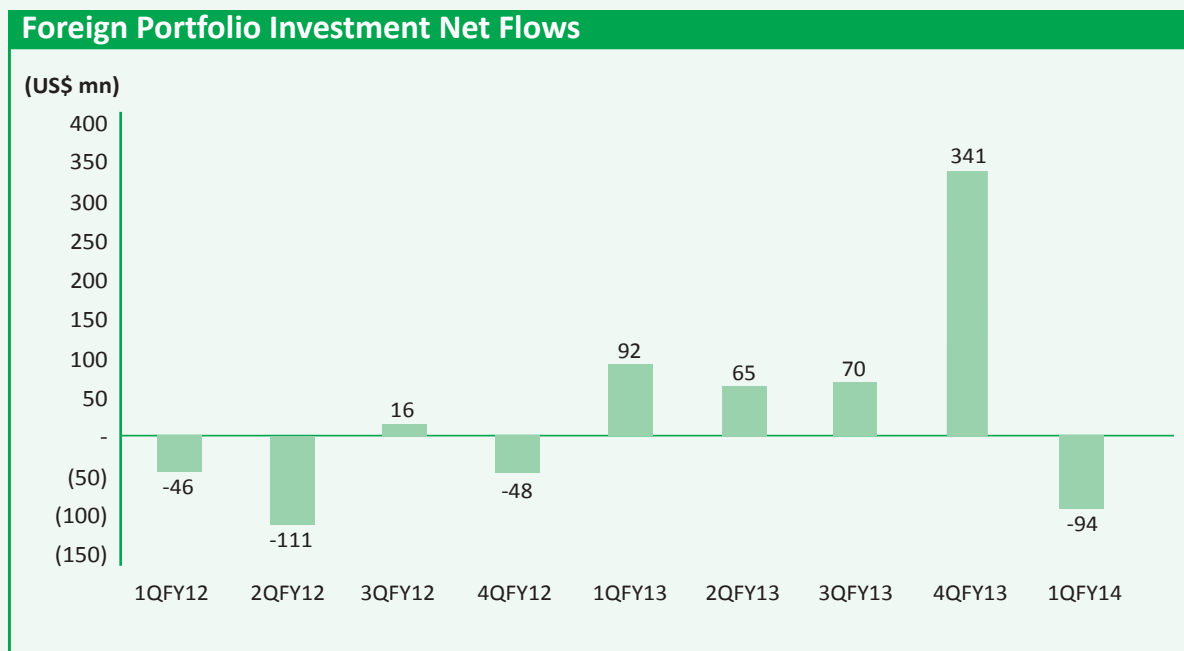
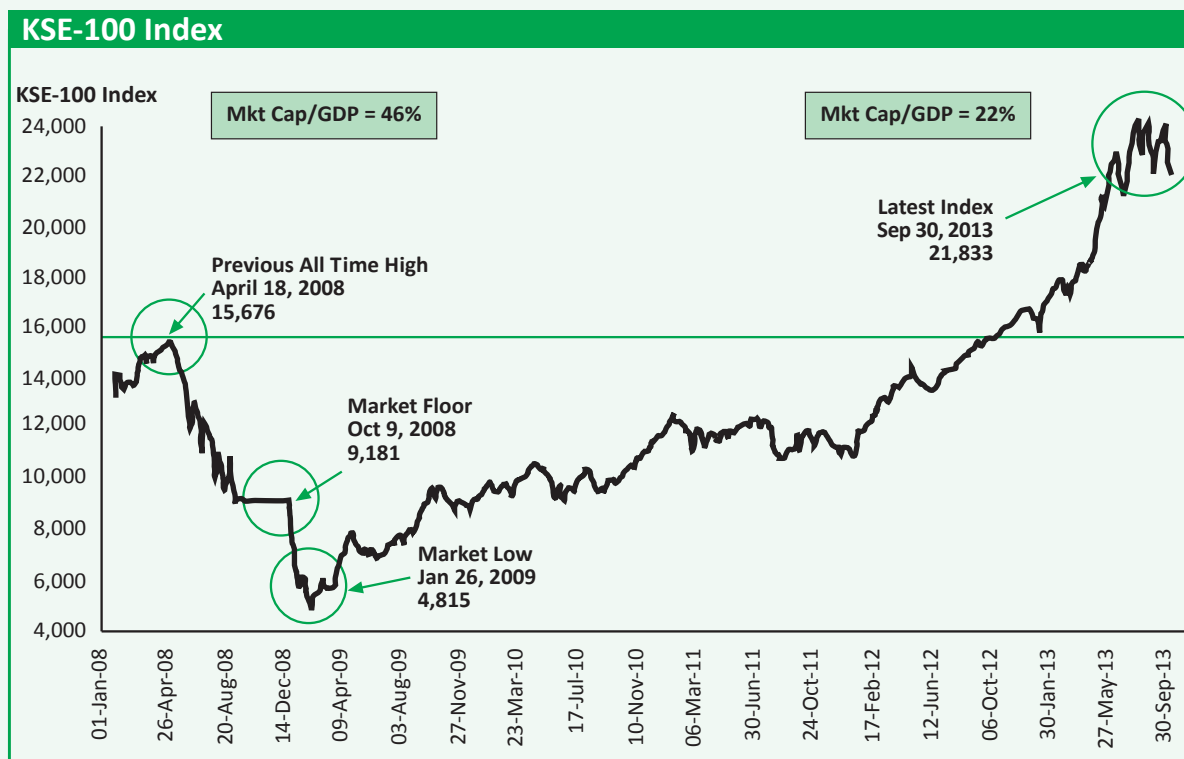
DESCRIPTION	2010	2011	2012	2013
Total Listed Companies	652	639	590	569
Total Listed Capital (Rs. in million)	909,894	943,733	1,069,838	1,116,005
Total Market Capitalization (Rs. in million)	2,732,374	3,288,657	3,518,136	5,154,738
New Companies Listed	8	1	4	4
Listed Capital of New Companies (Rs. in million)	40,653	4,350	11,861	7,404
New Debt Instruments Listed	5	2	5	9
Total Issue Size of New Debt Instruments (Rs. in million)	8,650	5,000	11,500	12,255
Total Shares Volume (million)	42,959	28,018	38,011	54,319
Average Daily Share Volume (million)	173	112	153	221
KSE Indices				
KSE - 100 Index				
Year End	9721.91	12496.03	13801.41	21005.69
High	10677.47	12681.94	14617.97	22757.72
Low	7270.72	9516.42	10842.26	14142.92
KSE - All Share Index				
Year End	6809.60	8663.10	9708.31	14987.53
High	7522.88	8794.69	10251.17	16020.93
Low	5194.43	6652.45	7549.52	9935.78
KSE - 30 Index				
Year End	9556.58	11586.49	11922.13	16207.96
High	10876.61	12476.12	12762.79	17787.71
Low	7711.91	9372.08	10060.64	12246.91
KMI - 30 Index				
Year End	14573.54	20936.20	23776.48	36713.89
High	16079.33	21344.19	25221.31	38747.31
Low	10871.59	14421.31	19436.79	24303.16

NOTES:

- (i) The figures are from July to June.
- (ii) The total number of listed companies have been stated after 3 companies De-listed in 2010, 11 companies in 2011, 51 companies in 2012 and 25 companies in 2013 and 4 companies Merged in 2010, 3 companies in 2011 and 2 companies in 2012.
- (iii) The total listed capital has been stated after adjustment of capital of companies by way of merger, bifurcation and de-listing, etc.
- (iv) The KSE 100 Index was started in November 1991 with a base of 1000 points and it is recomposed semi-annually and was last re-composed on February 28, 2013 closing statistics.
- (v) The KSE All Share Index based on the prices of August 29, 1995 = 1000, commenced w.e.f. September 18, 1995.
- (vi) The KSE - 30 Index based on the prices of June 30, 2005 = 10000, introduced w.e.f. September 01, 2006.
- (vii) The KMI - 30 Index introduced w.e.f. September 01, 2008.

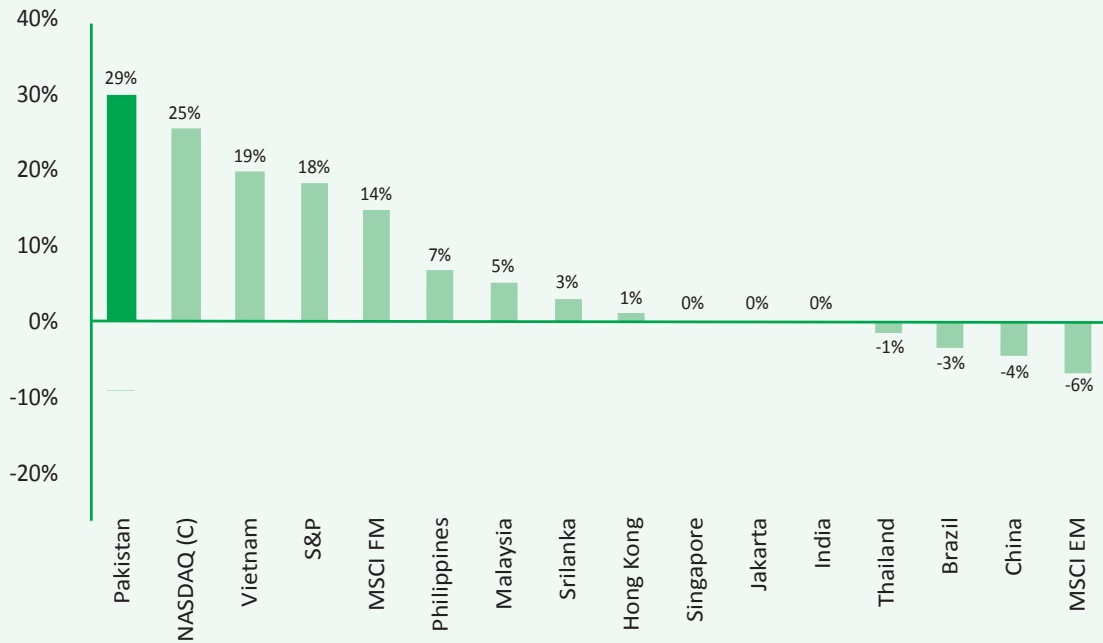


KSE-100 INDEX: COMING FULL CIRCLE

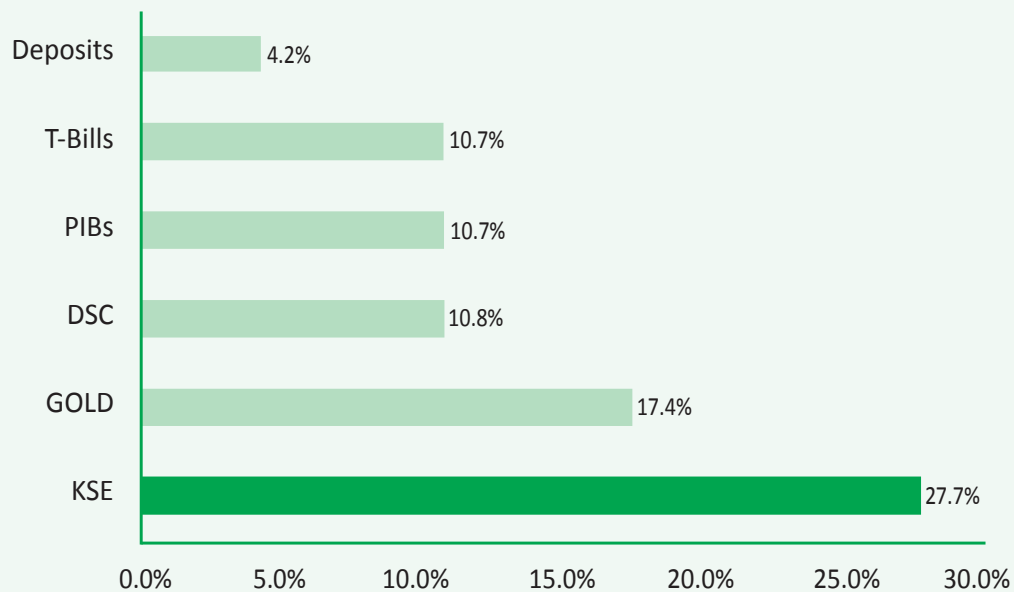


PAKISTAN MARKET PERFORMANCE

Major World Indices' Performance Jan 2013 - Sep 2013



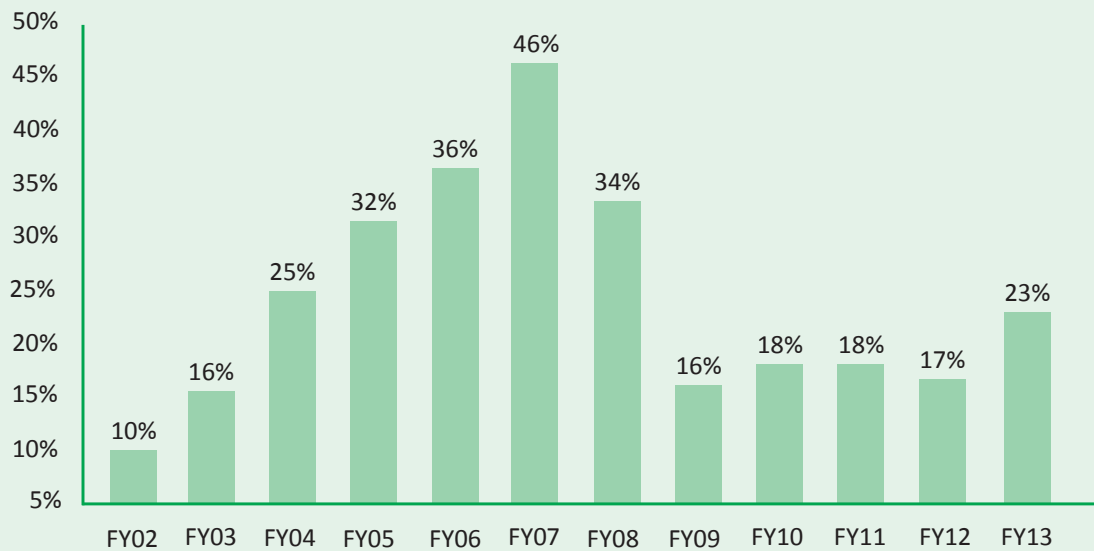
*Historical Asset Classes Returns in Pakistan (10 Year average p.a.)



*January 01, 2003 - December 31, 2012

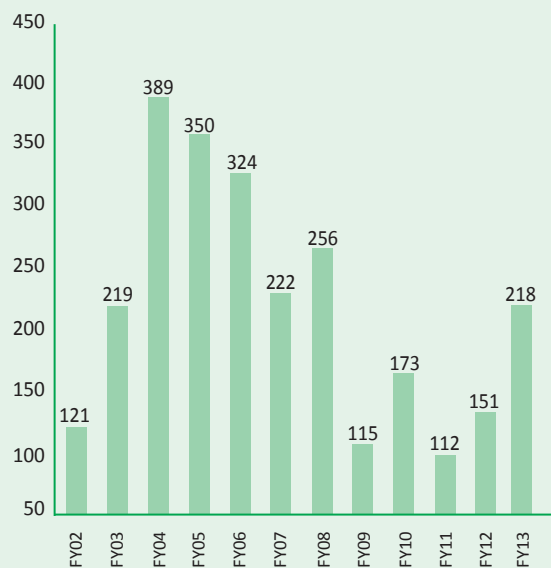


MARKET CAPITALIZATION-TO-GDP RATIO



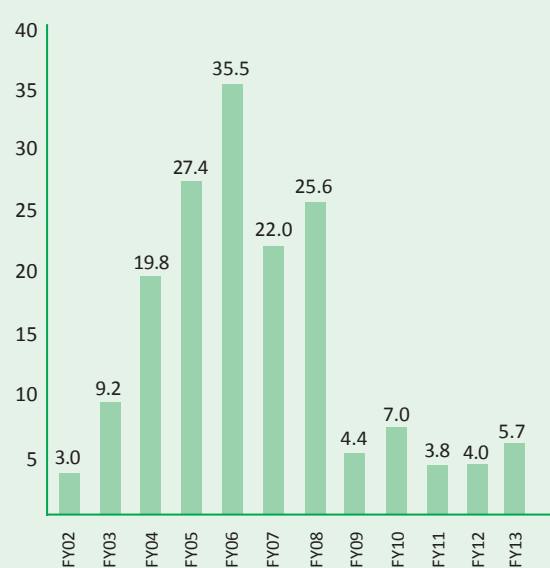
AVG. DAILY VOLUME TRADED

(Shr mn)



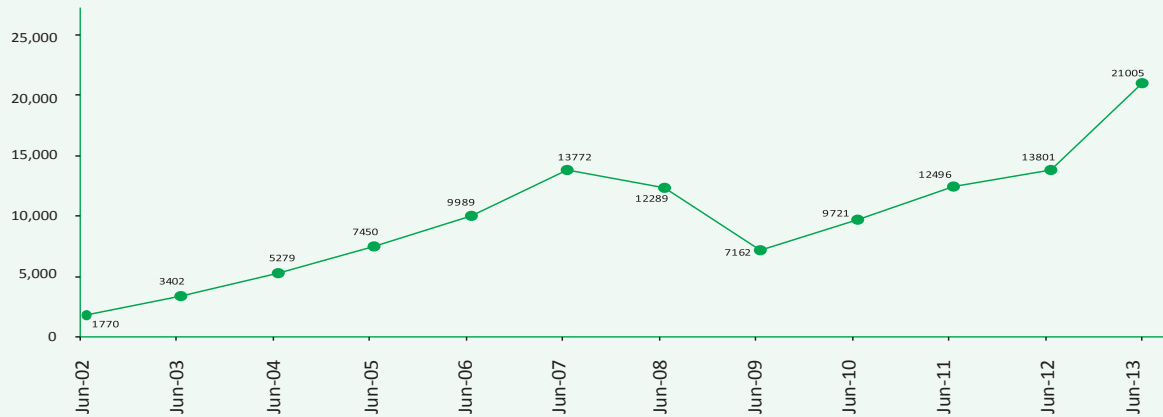
AVG. DAILY VALUE TRADED

(PkR bn)

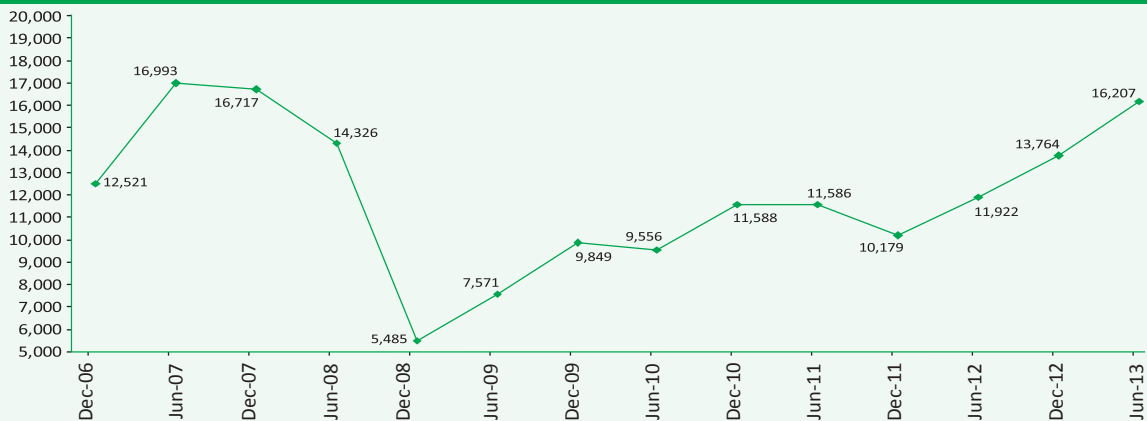


KSE INDICES

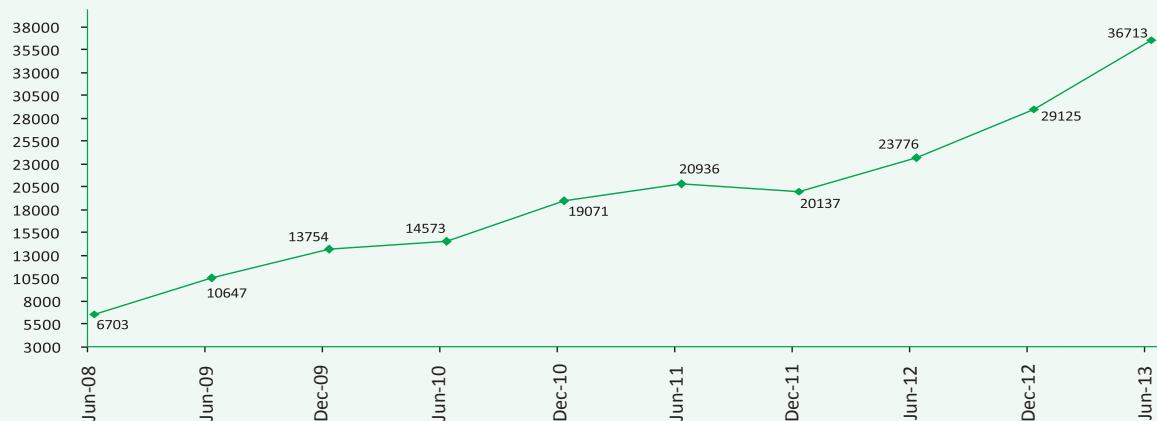
KSE 100 INDEX 2002 TO 2013



KSE 30 INDEX 2006 TO 2013

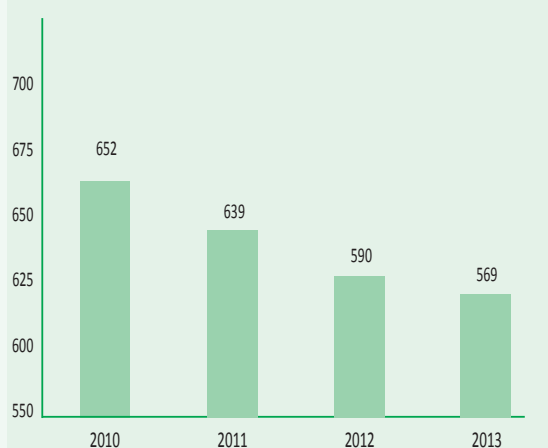


KMI 30 INDEX 2008 TO 2013



LISTED COMPANIES STATISTICS

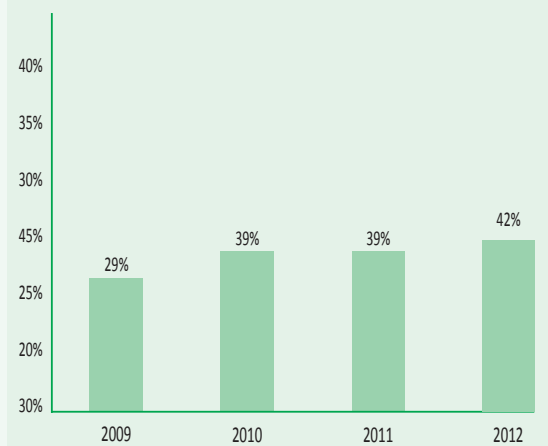
NUMBER OF LISTED COMPANIES



PERCENTAGE OF COMPANIES MAKING PROFIT



PERCENTAGE OF COMPANIES PAYING DIVIDENDS



PERCENTAGE OF COMPANIES THAT ANNOUNCED ANNUAL RESULTS



Listed Companies Statistics

LISTING OF NEW COMPANIES - EQUITY

(Rs. in million)

Name of Company	Date of Listing	Paidup Capital	Capital Offered to		Subscription Received	
			General Public/ Employees	Premium	General Public /Employees	Premium
Akzo Nobel Pakistan Limited (i)	13-Jul-2012	464	-	-	-	-
TPL Trakker Limited (ii)	16-Jul-2012	2,172	100	-	115	-
Aisha Steel Mills Limited (iii) (Offer for Sale)	06-Aug-2012	2,680	100	-	276	-
Aisha Steel Mills Limited (iv) (Preference Shares)	06-Aug-2012	758	-	-	-	-
Javedan Corporation Limited (Preference Shares) (Offer for Sale) (12 % Non-Voting, Cumulative, Convertible, Redeemable & Non-Participatory Preference Shares)	08-Oct-2012	1128	146	-	11	-
SFL Limited (v)	07-Jan-2013	201	-	-	-	-
TOTAL		7,404	346	-	402	-

- (i) The Company is being listed on the Exchange pursuant to the scheme of re-construction of ICI Pakistan Limited through demerger of its paint business. The split of the share capital is based on the ratio i.e. 66.54 : 33.46.
- (ii) Book Building Portion of the issue comprised of 20,000,000 Ordinary Shares (66.70% of the total issue) at a floor price of PKR 10 per share.
- (iii) The present offer consist of 10,000,000 ordinary shares at a price of PKR 10 per share, out of which 500,000 ordinary shares have been allocated to the employees of the Company and the remaining 9,500,000 ordinary shares have been offered to the general public.
- (iv) The Preference Shares are listed without public offering by way of distribution of Specie Dividend in the form of Convertible Preference Shares of the Company by Arif Habib Corporation Limited to its shareholders in the ratio of 1 : 10 i.e. 1 Preference Share for every 10 Shares of Arif Habib Corporation Limited.
- (v) The Company is listed without public offering after the demerger of Sapphire Fibres Limited under a Scheme of Arrangement sanctioned by the Honourable High Court of Sindh through its order dated April 28, 2011.

LISTING OF NEW DEBT INSTRUMENTS

(Rs. in million)

Name of Company	Date of Listing	Amount Offered			Subscription Received			Amount Listed
		General Public	Others	Total Issue	General Public	Others	Total Issue	
Pakistan Mobile Communication Ltd. (PPTFCs) *	04-Jul-2012	-	-	-	-	-	-	2,000
Karachi Electric Supply Company Ltd. (TFC1)	13-Aug-2012	300	-	300	300	-	300	300
Karachi Electric Supply Company Ltd. (TFC2) **	13-Aug-2012	500	-	1200	1200	-	1200	1200
Karachi Electric Supply Company Ltd. (TFC3) ***	13-Aug-2012	200	-	500	500	-	500	500
Treet Corporation Limited (PTC) ****	11-Oct-2012	-	-	-	-	-	1,255	1,255
Tameer Microfinance Bank Limited (TFC1)	14-Jan-2013	500	-	500	500	-	500	500
Tameer Microfinance Bank Limited (TFC2)	14-Jan-2013	500	-	500	500	-	500	500
Jahangir Siddiqui & Co. Limited. (PPTFCs) *	04-Mar-2013	-	-	-	-	-	-	1,000
Bank Alfalah Limited	28-Mar-2013	1,250	3,750	5,000	4,082	3,750	7,832	5,000
TOTAL		3,250	3,750	8,000	7,082	3,750	12,087	12,255

- * Privately placed listed Debt Securities under the schedule III of the Regulation Governing Over-The-Counter (OTC) Market.
- ** The Company has exercised the Green Shoe Option of Rs. 700 million.
- *** The Company has exercised the Green Shoe Option of Rs. 300 million.
- **** The PTC is being listed by way of Right Issue through offering document to the existing shareholders of the Company in the Ratio of 1 : 1 at a price of Rs.30 per PTC.



PROSPECTUS CLEARED BY THE EXCHANGE

Sr. #	Name of Company
1	Pakistan Refinery Limited (TFC-1)
2	Pakistan Refinery Limited (TFC-2)

LISTING OF OPEN-END MUTUAL FUNDS

(Rs. in million)

Sr. #	Name of Company	Date of Listing	Fund Size
1	Primus Cash Fund	01-Oct-2012	2,384
2	ABL Islamic Stock Fund	28-Jun-2013	537

APPLIED FOR LISTING

Sr. #	Name of Company
1	Pakistan International Bulk Terminal Limited
2	Avanceon Limited
3	DYL Motor Cycles Limited
4	Hascol Petroleum Limited

DELISTING OF COMPANIES / SECURITIES

(Rs. in million)

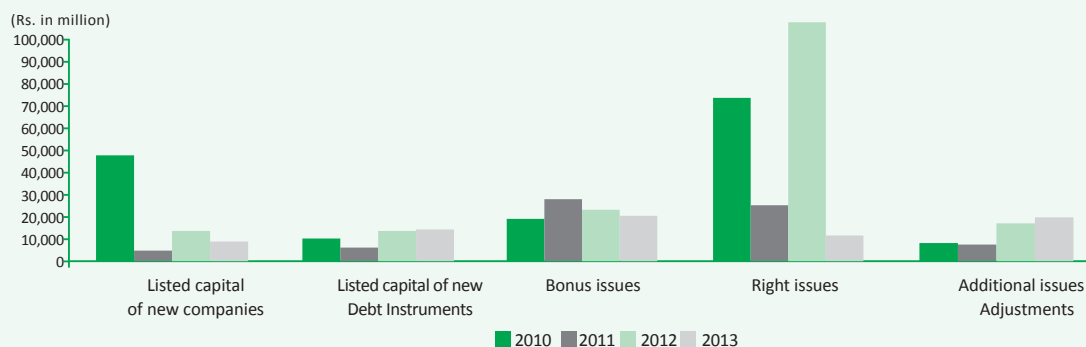
Sr. #	Name of Company	Date of De-listing	Paid up Capital
1	Mubarik Dairies Limited	August 01, 2012	28
2	Accord Textile Mills Limited	August 01, 2012	93
3	Amin Spinning Mills Limited	August 01, 2012	52
4	AMZ Ventures Limited	August 01, 2012	225
5	Dadabhoy Insurance Company Limited	August 01, 2012	50
6	Fawad Textile Mills Limited	August 01, 2012	92
7	First Islamic Modaraba	August 01, 2012	100
8	Harum Textile Mills Limited	August 01, 2012	95
9	Indus Fruit Products Limited	August 01, 2012	275
10	Ittefaq Textile Mills Limited	August 01, 2012	51
11	Kashmir Polytex Limited	August 01, 2012	71
12	Mian Muhammad Sugar Mills Limited	August 01, 2012	147
13	Sahrish Textile Mills Limited	August 01, 2012	102
14	Shahpur Textile Mills Limited	August 01, 2012	140
15	The Ittefaq General Insurance Company Limited	August 01, 2012	10
16	The Union Insurance Company of Pakistan Limited	August 01, 2012	82
17	Zahur Textile Mills Limited	August 01, 2012	747
18	MacDonald Layton & Co. Limited	August 01, 2012	32
19	Pakistan Telephone Cables Limited	August 16, 2012	210
20	Bawany Sugar Mills Limited	November 15, 2012	87
21	Kohinoor Looms Limited	January 08, 2013	180
22	Fazal Vegetable Ghee Mills Limited	January 08, 2013	20
23	Southern Networks Limited	March 18, 2013	500
24	Syed Match Company Limited	April 08, 2013	3
25	Natover Lease & Refinance Limited	May 06, 2013	88



BREAK-UP OF LISTED CAPITAL

(Rs. in million)

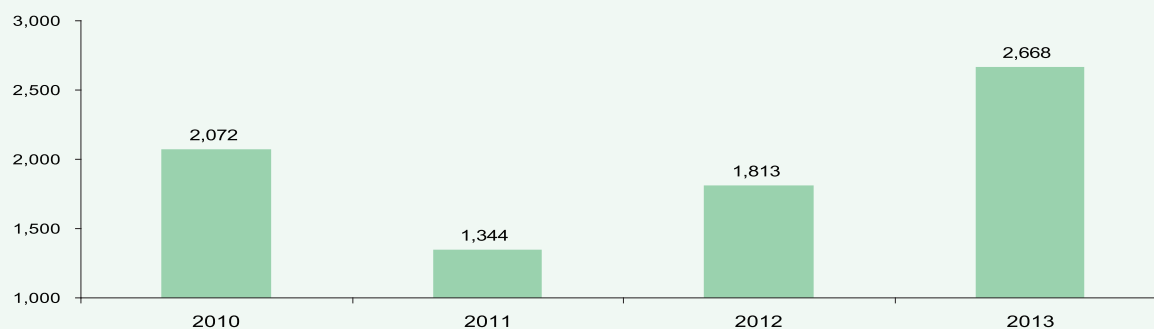
	2010	2011	2012	2013
Listed Capital of New Companies	40,653	4,350	11,861	7,404
Listed Capital of New Debt Instruments	8,650	5,000	11,500	12,255
Bonus Issues	16,457	24,122	19,902	17,330
Right Issues	62,528	21,689	91,725	9,838
Additional Issues / Adjustments	6,789	6,123	14,440	16,638
	135,078	61,284	149,428	63,465

**AVERAGE DAILY TURNOVER OF SHARES (READY)**

(In million)

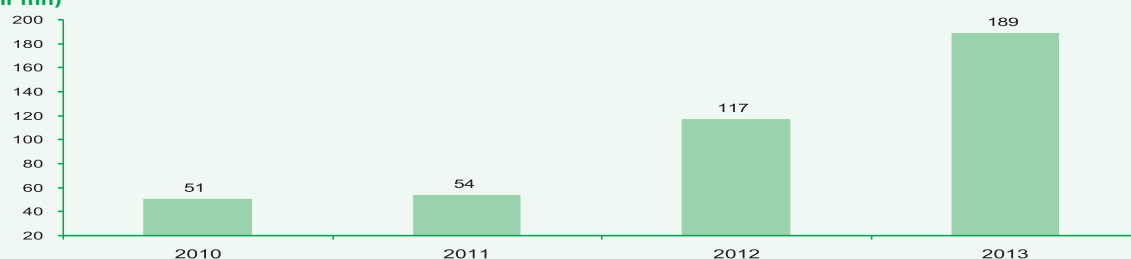
	2010	2011	2012	2013
July	171.226	75.806	79.866	103.438
August	159.935	60.890	59.087	193.141
September	267.781	69.481	84.291	162.003
October	222.152	129.069	115.727	143.548
November	133.069	131.618	54.930	269.884
December	128.571	157.211	61.608	171.452
January	195.017	186.959	90.309	175.367
February	173.178	110.939	200.353	299.141
March	168.299	110.189	392.614	221.133
April	209.794	86.551	338.744	188.309
May	107.993	94.977	211.691	355.808
June	135.235	130.682	124.156	384.877
Total	2,072.251	1,344.372	1,813.375	2,668.100

(Shr mn)

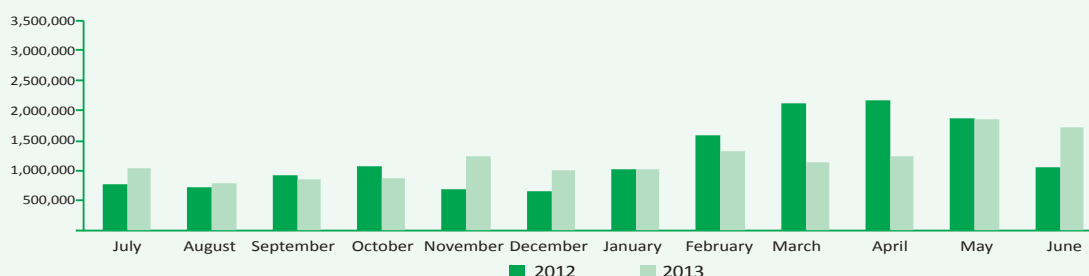


AVERAGE DAILY TURNOVER OF SHARES (Futures Counter)**(In million)**

	2010	2011	2012	2013
July	0.262	3.357	3.621	9.928
August	1.728	2.196	4.509	11.436
September	2.417	2.119	7.294	12.794
October	2.559	2.970	9.465	14.844
November	3.012	4.143	6.007	16.215
December	2.530	5.319	5.226	9.995
January	6.883	8.216	7.737	10.327
February	4.854	5.975	10.286	21.159
March	7.223	7.460	15.247	21.120
April	9.039	4.075	19.575	18.087
May	4.634	3.567	17.605	20.262
June	5.815	4.293	10.792	22.976
Total	50.955	53.690	117.362	189.144

(Shr mn)**TRADES ON KARACHI AUTOMATED TRADING SYSTEM (KATS)**

Month	2012		2013	
	No. of Trades	Daily Average	No. of Trades	Daily Average
July	761,999	36,286	1,034,938	47,043
August	715,945	34,093	775,152	43,064
September	906,742	45,337	845,907	42,295
October	1,068,382	53,419	868,774	41,370
November	676,083	35,583	1,221,112	67,840
December	640,539	32,027	999,650	47,602
January	1,014,758	46,125	1,013,702	46,077
February	1,568,575	74,694	1,314,243	69,171
March	2,113,618	100,648	1,131,243	53,869
April	2,151,263	102,441	1,219,808	55,446
May	1,857,682	84,440	1,837,980	83,545
June	1,051,388	50,066	1,703,194	85,160
TOTAL	14,526,974		13,965,703	
Average Daily		57,930		56,873



SECTOR-WISE CAPITAL LISTED ON THE EXCHANGE 2012

(Rs. in million)

Sector Name	No. of Companies	2012 Paid up Capital
Oil and Gas	12	78,749.341
Chemicals	32	96,428.430
Forestry (Paper and Board)	4	1,562.751
Industrial Metals and Mining	9	11,893.909
Construction and Materials (Cement)	36	79,025.327
General Industries	13	4,021.098
Electronic and Electrical Goods	3	372.244
Engineering	11	1,669.916
Industrial Transportation	3	2,462.166
Support Services	1	3,853.907
Automobile and Parts	16	7,279.671
Beverages	3	305.573
Food Producers	50	20,557.368
Household Goods	13	7,061.541
Leisure Goods (Miscellaneous)	1	73.493
Personal Goods (Textile)	176	55,384.037
Tobacco	3	3,182.759
Health Care Equipment and Services	2	581.076
Pharma and Bio Tech	9	5,368.094
Media	2	2,288.510
Travel and Leisure	4	29,604.917
Fixed Line Telecommunication	5	68,878.471
Electricity	16	137,141.196
Multiutilities (Gas and Water)	2	15,151.330
Commercial Banks	23	400,292.599
Non Life Insurance	29	15,492.092
Life Insurance	4	2,721.411
Real Estate Investment and Services	2	2,813.839
Financial Services	39	32,245.912
Equity Investment Instruments	44	26,584.307
Software and Computer Services	1	785.717
Technology Hardware and Equipment	1	2,172.490
TOTAL	569	1,116,005.492



SECTOR WISE PERFORMANCE OF COMPANIES LISTED ON THE EXCHANGE - 2012

Name of Sector	Number of Companies	Companies that Announced Annual Results	Dividend Paying Companies	Profit Making Companies that Omitted Dividend	Profit Making Companies	Loss Making Companies
Oil and Gas	12	12	9	-	9	3
Chemicals	32	31	17	6	23	8
Forestry (Paper and Board)	4	3	2	1	3	-
Industrial Metals and Mining	9	7	3	-	2	5
Construction and Materials (Cement)	36	35	9	12	21	14
General Industries	13	11	7	-	7	4
Electronic and Electrical Goods	3	3	1	-	1	2
Engineering	11	10	6	1	7	3
Industrial Transportation	3	2	2	-	1	1
Support Services	1	1	-	-	-	1
Automobile and Parts	16	14	9	1	10	4
Beverages	3	3	2	-	2	1
Food Producers	51	47	22	10	32	15
Household Goods	13	8	2	3	5	3
Leisure Goods (Miscellaneous)	1	1	-	1	1	-
Personal Goods (Textile)	178	163	57	36	93	70
Tobacco	3	3	2	-	2	1
Health Care Equipment and Services	2	1	1	-	1	-
Pharma and Bio Tech	9	9	9	-	9	-
Media	3	3	1	-	1	2
Travel and Leisure	4	4	1	2	3	1
Fixed Line Telecommunication	5	5	1	1	2	3
Electricity	16	15	7	2	9	6
Multiutilities (Gas and Water)	2	2	2	-	2	-
Commercial Banks	23	23	13	6	19	4
Non Life Insurance	29	24	15	2	17	7
Life Insurance	4	4	2	1	3	1
Real Estate Investment and Services	2	2	1	-	1	1
Financial Services	39	30	10	7	17	13
Equity Investment Instruments	44	39	30	2	32	7
Software and Computer Services	1	1	-	1	1	-
Technology Hardware and Equipment	1	1	-	1	1	-
TOTAL	573	517	243	94	337	180
PERCENTAGE		90.23%	42.41%	16.40%	58.81%	31.41%
2011						
TOTAL	638	530	248	105	353	177
PERCENTAGE		83.07%	38.87%	16.46%	55.33%	27.74%

Notes:

- 1 Based on the financial results of the companies up to December 31, 2012.
- 2 Companies omitted dividends are those companies, which have shown profit during the year but not declared dividend.
- 3 Dividend includes Cash / Stock Dividend.





FINANCIAL STATEMENTS



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Karachi Stock Exchange Limited formerly [The Karachi Stock Exchange (Guarantee) Limited](the Company) as at 30 June 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 4.1 to the financial statements with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2013 and of the profit, its comprehensive income, its cash flows and its changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to the contents of note 28 to the accompanying financial statements in respect of Contingencies. The ultimate outcome of the matters referred therein cannot presently be determined with certainty and, hence, no provision for any liability that may arise from such matters has been made in the financial statements. Our opinion is not qualified in respect of this matter.

Chartered Accountants

Audit Engagement Partner: Arslan Khalid

Date: 12 September 2013

Karachi



BALANCE SHEET

As at June 30, 2013

ASSETS	Note	2013	2012
		----- (Rupees in '000) -----	
NON-CURRENT ASSETS			
Property and equipment	7	3,549,713	3,613,539
Intangible assets	8	110,204	137,800
Investment property	9	671,145	740,115
Investment in associates	10	1,090,365	1,057,550
Long term investments	11	24,591	24,591
Long term deposits	12	37,160	37,160
Long term loans	13	1,333	5,643
Deferred tax asset	14	61,445	-
		5,545,956	5,616,398
CURRENT ASSETS			
Trade Debts	15	20,936	17,326
Loans and advances	16	23,264	13,655
Prepayments	17	7,902	11,956
Other receivables	18	95,507	48,375
Short term investments	19	1,862,449	1,678,291
Taxation – net		532,344	621,574
Cash and bank balances	20	2,842,524	1,516,009
		5,384,926	3,907,186
TOTAL ASSETS		<u>10,930,882</u>	<u>9,523,584</u>
SHARE CAPITAL, FUNDS, RESERVES AND LIABILITIES			
Share Capital	21	8,014,766	-
General Entrance Fee Fund		-	140,295
Reserves		63,488	4,532,411
Total equity		8,078,254	4,672,706
SURPLUS ON REVALUATION OF ASSETS - NET	22	-	3,288,222
NON-CURRENT LIABILITIES			
Deferred liability – Agent Welfare Fund		1,249	1,178
Dara F. Dastoor Scholarship Fund	23	2,173	2,213
Long term deposits	24	52,971	41,112
		56,393	44,503
CURRENT LIABILITIES			
Provision for wealth tax	25	1,684	1,684
Deposits from members against exposures and losses	26	2,398,190	1,096,147
Trade and other payables	27	396,361	420,322
		2,796,235	1,518,153
CONTINGENCIES AND COMMITMENTS	28		
TOTAL SHARE CAPITAL, FUNDS, RESERVES AND LIABILITIES		<u>10,930,882</u>	<u>9,523,584</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.

Sd/-
Chairman

Sd/-
Managing Director



PROFIT AND LOSS ACCOUNT

For the year ended June 30, 2013

	Note	2013 ----- (Rupees in '000) -----	2012
Revenue			
Listing fee	29	199,788	175,504
Income from exchange operations	30	151,491	140,226
Management fee	31	65,856	15,668
Mark-up / interest income	32	278,494	290,932
Rental income from investment property		41,999	39,560
		737,628	661,890
Operating cost			
Administrative expenses	33	(733,174)	(703,790)
Financial and other charges	34	(76,371)	(70,494)
		(809,545)	(774,284)
Operating loss		(71,917)	(112,394)
Other income	35	23,537	22,855
Share of profit of associates	10	117,482	96,524
Net profit before taxation		69,102	6,985
Taxation	36	51,521	662,222
Net profit after taxation		120,623	669,207
Basic and diluted earnings per share (Rupees)	37	0.17	-

The annexed notes from 1 to 44 form an integral part of these financial statements.

Sd/-
Chairman

Sd/-
Managing Director



STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2013

	Note	2013 ----- (Rupees in '000) -----	2012
Net profit for the year		120,623	669,207
Other comprehensive (loss) / income			
Items to be reclassified to profit or loss in sub sequent periods:			
Share of other comprehensive (loss) / income			
of associates' in respect of surplus / (deficit) on	10.1	(3,297)	3,002
revaluation of available-for-sale investments			
Total comprehensive income for the year		<u>117,326</u>	<u>672,209</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.

Sd/-
Chairman

Sd/-
Managing Director



CASH FLOW STATEMENT

For the year ended June 30, 2013

	2013	2012
	----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	69,102	6,985
Non-cash adjustments to reconcile income before tax to net cash flows		
Depreciation on tangible assets	178,786	127,101
Amortisation of intangible assets	59,487	69,205
Investment property		-
Dividend	(125)	(75)
Provision for gratuity	14,063	13,318
Mark-up / interest income	(278,494)	(290,932)
Provision for trade debts considered doubtful	1,045	7,207
Bad debts directly written off		272
Loss / (gain) on disposal of fixed assets	710	(31)
Reversal of provision against receivables on recovery	(3,683)	(275)
Fair value gain on investment property	(19,613)	(20,371)
Share of profit of associates	(117,482)	(96,524)
	<u>(165,306)</u>	<u>(191,105)</u>
	(96,204)	(184,120)
Working capital adjustments:		
(Increase) / decrease in current assets		
Trade Debts	(972)	48,384
Loans and advances	(9,609)	430
Prepayments	4,054	(1,412)
Other receivables	(42,892)	4,538
	(49,419)	51,940
(Decrease) / Increase in current liabilities		
Deposits from members against exposures and losses	1,302,043	275,294
Trade and other payables	(23,167)	138,099
	<u>1,133,253</u>	<u>281,213</u>
Income tax refund	97,439	84,881
Income tax paid	(18,117)	(37,490)
	<u>79,322</u>	<u>47,391</u>
Gratuity paid	(14,857)	(45,000)
Decrease in Dara F. Dastoor Scholarship Fund	(40)	(16)
Increase in deferred liability	71	87
Decrease in long term deposits	11,859	(54,611)
Mark-up / interest received	301,384	286,961
	<u>298,417</u>	<u>187,421</u>
Net cash flows used in operating activities	<u>1,510,992</u>	<u>516,025</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(46,140)	(105,899)
Capital work-in-progress	(14,582)	4,297
Proceeds from sale of fixed assets	1,699	1,142
Dividend Received	81,495	59,787
Investments sold	3,246,125	1,293,943
Investments purchased	(3,457,384)	(1,607,870)
Decrease in long term loans	4,310	8,167
Net cash flows used in investing activities	<u>(184,477)</u>	<u>(346,433)</u>
Net increase in cash and cash equivalents	1,326,515	169,592
Cash and cash equivalents at the beginning of the year	1,516,009	1,346,417
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>2,842,524</u>	<u>1,516,009</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.

Sd/-
Chairman

Sd/-
Managing Director



STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2013

Note	Reserves					Total
	Share Capital	General Entrance Fee Fund	General Reserves	Un- appropriated profit / (loss)	Share of Associates' Reserves	
	(Rupees in '000)					
Balance as at July 01, 2011	-	140,295	62,781	3,743,402	1,011	3,947,489
Profit for the year	-	-	-	669,207	-	669,207
Other comprehensive income	-	-	-	-	3,002	3,002
Total comprehensive income	-	-	-	669,207	3,002	672,209
Transferred from surplus on revaluation of operating fixed assets-net of tax				53,008		53,008
Balance as at June 30, 2012	-	140,295	62,781	4,465,617	4,013	4,672,706
Balance as at July 01, 2012	-	140,295	62,781	4,465,617	4,013	4,672,706
Issuance of shares from:						
- available reserves	4,726,544	(140,295)	(62,781)	(4,519,455)	(4,013)	-
- surplus on revaluation of assets	3,288,222	-	-	-	-	3,288,222
	8,014,766	(140,295)	(62,781)	(4,519,455)	(4,013)	3,288,222
Profit for the year	-	-	-	120,623	-	120,623
Other comprehensive income	-	-	-	-	(3,297)	(3,297)
Total comprehensive income	-	-	-	120,623	(3,297)	117,326
Balance as at June 30, 2013	8,014,766	-	-	66,785	(3,297)	8,078,254

The annexed notes from 1 to 44 form an integral part of these financial statements.

Sd/-
Chairman

Sd/-
Managing Director



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2013

1. LEGAL STATUS AND NATURE OF OPERATIONS

- 1.1** Karachi Stock Exchange Limited [formerly: The Karachi Stock Exchange (Guarantee) Limited] (the Company or KSE) was incorporated under the Companies Act, 1913 (now Companies Ordinance, 1984) on March 10, 1949 as a Company Limited by Guarantee.

The Company is engaged in conducting, regulating and controlling the trade or business of buying, selling and dealing in shares, scripts, participation term certificates, modaraba certificates, stocks, bonds, debentures stock, government papers, loans, and any other instruments and securities of like nature including, but not limited to, special national fund bonds, bearer national fund bonds, foreign exchange bearer certificates and documents of similar nature, issued by the Government of Pakistan or any other agency authorised by the Government of Pakistan.

The registered office of the Company is situated at Stock Exchange Building, Stock Exchange Road, Karachi.

Demutualisation and Corporatisation of the Karachi Stock Exchange (Guarantee) Limited

In May 2012, the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act 2012 [the Act] was enacted to provide for the corporatisation and demutualisation of the stock exchanges in Pakistan and to facilitate the integration of the stock exchanges and for matter ancillary thereto.

According to the said Act, the KSE was converted from a company limited by guarantee to a public company limited by shares with effect from August 27, 2012 under the Companies Ordinance, 1984 and the majority ownership of the KSE is segregated from the right to trade on such stock exchange.

Pursuant to the above and in accordance with the requirements of the Act, the Securities and Exchange Commission of Pakistan (SECP) vide its letter date July 20, 2012 approved the revaluation of the assets and liabilities of the KSE, its proposed authorised and paid-up capital, name of its initial shareholders and directors, plan for the segregation of commercial and regulatory function and its Memorandum and Articles of Association. Subsequently, the general body of the KSE in its Extra Ordinary General Meeting held on August 13, 2012 has adopted the Memorandum and Articles of Association of the KSE to take effect from the date of corporatisation and demutualisation of the KSE. The paid-up capital of the KSE after the said corporatisation and demutualisation is disclosed in note 21 to the financial statements.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

- 3.1** These financial statements have been prepared under the historical cost convention except for operating fixed assets, investment property and certain investments which are valued on a fair value basis as stated in notes 4.2, 4.5 and 4.6 below.
- 3.2** These financial statements are presented in Pakistani Rupees which is the Company's functional and presentation currency.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

4.1 New and amended standards and interpretations

The Company has adopted the following amendments to IFRSs which became effective for the current year:

IAS 1 – Presentation of Financial Statements – Presentation of items of other comprehensive income (Amendment)

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above amendments did not have any effect on the financial statements.

4.2 Operating fixed assets - tangible

4.2.1 All categories of operating fixed assets are carried at revalued amount, being its fair value at the date of its revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

4.2.2 The surplus arising on revaluation of operating fixed assets is credited to the 'surplus on revaluation of assets' account shown below reserves. A revaluation deficit is recognised in the profit and loss account, except that the deficit offsets a previous surplus on any fixed asset, in which case, the deficit is charged to the balance of surplus on revaluation.

4.2.3 The depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and an amount equal to incremental depreciation for the year (net of deferred taxation) is transferred from surplus on revaluation of assets to retained earnings through statement of changes in funds and reserves to record realisation of surplus to the extent of the incremental depreciation charge for the year. Upon disposal, any balance of revaluation surplus is transferred to retained earnings.

4.2.4 The depreciation is charged to profit and loss account applying the diminishing balance method over its estimated useful life of the respective assets, except for Computers and related accessories which are depreciated using straight-line method. The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. In respect of additions and disposals of assets, depreciation is charged from the month in which asset is available to use and continue depreciating it until it is derecognised i.e. up to the month preceding the disposal, even if during that period the asset is idle. Useful lives are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors.

4.2.5 Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of assets, if any, are included in income currently.

4.2.6 An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognised.



4.3 Capital work-in-progress

Capital work-in-progress is stated at cost. It consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation.

4.4 Intangible assets

These are stated at cost less accumulated amortisation. Amortisation is charged to income using the straight-line method at the rate disclosed in note 8 to the financial statements.

Amortisation on additions is charged for the full month in which an asset is put to use and on deletions up to the month immediately preceding the deletion.

Gains or losses on disposal of intangible assets, if any, are included in income currently.

4.5 Investment property

According to the new accounting policy, investment property is stated at fair value, which reflects market conditions at the reporting date. Gain or loss on remeasurement of investment property at fair value is recognised in profit and loss account. Fair value is evaluated annually by an independent professional valuer on the basis of professional assessment of present market value. Previously, investment property of the Company was carried at cost less accumulated depreciation and accumulated impairment losses.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised as income in the period of derecognition.

Maintenance and normal repairs are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains or losses on disposal of investment property, if any, are included in income currently.

4.6 Investments

The management of the Company determines the appropriate classification of its investments at the time of purchase or increase in holding and classifies / reclassifies its investment as subsidiaries, associates and joint ventures, at fair value through profit or loss account, held to maturity and available for sale.

All investments are initially recognised at cost, being the fair value of the consideration given including transaction costs associated with the investment except in the case of investments at fair value through profit or loss account where transaction costs are charged to profit and loss account when incurred.

Available for sale investments

Investments which are intended to be held for an indefinite period of time but may be sold in response to the need for liquidity are classified as available for sale. After initial recognition, these are stated at fair values (except for unquoted investments where active market does not exist) with any resulting gains or losses being taken to comprehensive income until the investment is disposed or impaired, at which time the respective surplus or deficit is transferred to profit and loss account.

Unquoted investments where active market does not exist and whose fair value cannot be reliably measured are stated at cost.



Investments at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held-for-trading and financial assets designated upon initial recognition as at fair value through profit or loss. These securities are either acquired for generating a profit from short-term fluctuation in prices or are securities included in a portfolio in which a pattern of short-term profit taking exists, and related transaction costs are expensed out. These investments are measured at subsequent reporting dates at fair value and resulting gains and losses are included in the profit and loss account for the year.

Held to maturity investments

Investments with fixed or determinable payments and fixed maturity where management has both the positive intent and ability to hold to maturity are classified as held to maturity and are stated at amortised cost. Provision for impairment in value, if any, is taken to income currently.

Investment in associates

Investments in associates are accounted for using the equity method, whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Company's share of the net assets of the associate. The profit and loss account reflects the Company's share of the results of the operations of the associate. Where there has been a change recognised in the other comprehensive income or surplus on revaluation of assets of the associate, the Company recognises its share in its comprehensive income or surplus on revaluation of assets, as the case may be.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the same in the profit and loss account.

4.7 Trade debts and other receivables

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

4.8 Loans, advances and deposits

These are stated at cost.

4.9 Cash and cash equivalents

Cash in hand and at banks are carried at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and at bank and short term investments that are highly liquid in nature and are readily convertible into known amounts of cash, which are subject to insignificant risks of changes in value.

4.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



4.11 Revenue recognition

- Income from initial listing fee is recognised when the securities are initially listed on the ready board. Income from annual listing fee is recognised on an accrual basis.
- Income in respect of trading by members in shares, contracts and bonds is recognised at the trade date.
- Income in respect of trading by members in CFS is recognised when the financing is settled.
- Rental income, facilities and equipment fees, non-operating facilities income and membership fees are recognised on accrual basis while other fees are recognised when received.
- Investments purchased at premium or discount, are amortized through the profit and loss account using the effective interest rate method.
- Income from investments and bank accounts is recognised on an accrual basis.
- Dividend income is recognised when the Company's right to receive dividend is established.
- Management fee from KSE Clearing House Protection Fund and KSE Investors Protection Fund is recognised on accrual basis as disclosed in note 31 to the financial statements.

4.12 Taxation

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account all tax credits and tax rebates available, if any. The tax charge as calculated above is compared with turnover tax under Section 113 of the Income Tax Ordinance, 2001, and whichever is higher is provided for in the financial statements.

Deferred

Deferred tax is recognised, using the balance sheet liability method, on all major temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except for taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit or taxable temporary differences will be available against which the deductible temporary differences and / or carry-forward of unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

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



4.13 Staff retirement benefits

The Company operates an approved funded gratuity scheme (defined benefit plan) for all its permanent employees who attain the minimum qualification period for entitlement to gratuity. Provision is made annually, to cover obligations under the scheme, by way of a charge to profit and loss account, calculated in accordance with the actuarial valuation. The most recent valuation in this regard was carried out as at June 30, 2013, using the Projected Unit Credit Method for valuation of the scheme. Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses for each individual plan exceeds 10% of the higher of (a) the defined benefit obligation and (b) the fair value of plan assets. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

4.14 Impairment

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of that asset is estimated and impairment losses are recognised in the profit and loss account.

4.15 Foreign currency translation

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing on the balance sheet date. Gains and losses on translation are taken to income currently. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4.16 Financial instruments

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. All the financial assets are derecognised at the time when the Company loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of the financial assets and financial liabilities are taken to profit and loss account currently.

All regular way purchases of financial assets are recognised on a transaction date i.e. the date the Company receives the financial asset. All regular way sales of financial assets are recognized on the settlement date i.e. the date the asset is delivered to the counter party. Regular way purchases or sales of financial assets that require delivery of assets within the time generally established by regulation or convention the market place.

4.17 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions



that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions 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 judgements about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.

The estimates and judgements that have a significant effect on the financial statements are in respect of the following:

	Notes
- Operating assets	4.2, 4.3, 4.4, 7 & 8
- Investment property	4.5 & 9
- Classification of investments	4.6, 10, 11 & 19
- Provisions and contingencies	4.10, 25 & 28
- Deferred tax	4.12 & 14
- Post employment benefits	4.13 & 27.3

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard, interpretation or amendment:

6.1 Standard, interpretation or amendment

Effective date (accounting periods beginning on or after)

IFRS 7	- Financial Instruments : Disclosures – (Amendments)	
	- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	January 01, 2013
IAS 19	- Employee Benefits – (Amendment)	January 01, 2013
IAS 32	- Offsetting Financial Assets and Financial liabilities – (Amendment)	January 01, 2014
IFRIC 20	- Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

6.2 The Company expects that the adoption of the above revisions and amendments of the standards will not materially affect the Company's financial statements in the period of initial application other than the amendments to IAS-19 'Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to profit and loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

While the Company is currently assessing the full impact of the above amendments which are effective from 1 January 2013 on the financial statements, it is certain that the adoption of the said amendments will result in retrospective change in the Company's accounting policy related to recognition of actuarial gains and



losses (refer to note 4.13 to the financial statements) to recognize total actuarial gains and losses as other comprehensive income in the period in which they occur. The potential impact of the said changes on the balance sheet and the statement of changes in equity for the year ended 2013 upon adoption of the standard is estimated as under:

2013
(Rupees in '000)

Net decrease in unappropriated profit as on 01 July 2013	11,313
Net increase in employees' benefit liability	15,387
No effect on the profit and loss account and the other comprehensive income as there is no unrecognized actuarial gain / loss for the year ended June 30, 2013.	

The impact for the year 2014 has not yet been determined by the Company.

- 6.3** Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

**"IASB Effective date
(annual periods beginning
on or after)"**

Standard

IFRS 9	- Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10	- Consolidated Financial Statements	January 01, 2013
IFRS 11	- Joint Arrangements	January 01, 2013
IFRS 12	- Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13	- Fair Value Measurement	January 01, 2013

7. PROPERTY AND EQUIPMENT

	Note	2013 ----- (Rupees in '000) -----	2012
Operating fixed assets - Tangible	7.1	3,537,677	3,613,539
Capital work-in-progress	7.2	12,036	-
		<u>3,549,713</u>	<u>3,613,539</u>



7.1 OPERATING FIXED ASSETS – Tangible

	2013										
	Cost/Revalued Amount					Rate / period	Accumulated depreciation			Written Down Value	
	As at July 01, 2012	Additions / (Disposals)	Transfer from investment property- net (note 7.1.1)	Revaluation Surplus	As at June 30, 2013		As at July 01, 2012	Charge / (deletions) / transfer *	Reversal of Accumulated Depreciation	As at June 30, 2013	As at June 30, 2013
	(Rupees in '000)						%	(Rupees in '000)			
Leasehold land	2,677,882		-	-	2,677,882	99 years	39,380	78,761	-	118,141	2,559,741
Building on leasehold land	741,244	3,400	88,583	-	833,227	5	18,531	37,594	-	56,125	777,102
							(1,983) *				
Lift, generators and electric installation	50,439	920	-	-	51,359	25	6,268	11,062	-	17,330	34,029
Furniture and fixtures	7,096	86	-	-	7,182	20	675	1,301	-	1,976	5,206
Office equipment	26,999	1,810	-	-	28,809	20	2,672	5,000	-	7,672	21,137
Computers and related accessories	184,220	7,884	-	-	192,104	20 & 33.33	15,425	43,430	-	58,855	133,249
Vehicles	9,410	2,650 (2,795)	- -	-	9,265	20	800	1,638 (386)	-	2,052	7,213
	3,697,290	16,750 (2,795)	88,583	-	3,799,828		83,751	178,786 (2,369)	-	262,151	3,537,677

7.1.1 Transfer from / (to) investment property - net

Note

- transfer from investment property to operating fixed assets	9	120,600
- transfer from operating fixed assets to investment property (cost)		(34,000)
- related depreciation		1,983
	9	(32,017)
Net transfer from investment property to operating fixed assets - net		88,583

	2012										
	Cost/Revalued Amount					Rate / period	Accumulated depreciation			Written Down Value	
	As at July 01, 2011	Additions / (Disposals)	Reversal of Accumulated	Revaluation Surplus	As at June 30, 2012		As at July 01, 2011	Charge / (deletions)	Reversal of Accumulated Depreciation	As at June 30, 2012	As at June 30, 2012
	(Rupees in '000)						%	(Rupees in '000)			
Leasehold land	90	-	(60)	2,677,852	2,677,882	99 years	59	39,381	(60)	39,380	2,638,502
Building on leasehold land	94,457	-	(26,802)	673,589	741,244	5	25,067	20,266	(26,802)	18,531	722,713
Lift, generators and electric installation	124,196	425	(77,330)	3,148	50,439	25	70,635	12,963	(77,330)	6,268	44,171
Furniture and fixtures	22,879	579	(16,362)	-	7,096	20	15,636	1,401	(16,362)	675	6,421
Office equipment	67,470	2,317	(45,953)	3,165	26,999	20	43,459	5,166	(45,953)	2,672	24,327
Computers and related accessories	567,353	47,910	(462,085)	31,042	184,220	20 & 33.33	431,046	46,464	(462,085)	15,425	168,795
Vehicles	12,021	5,283 (1,227)	(8,292)	1,625	9,410	20	7,745	1,460 (113)	(8,292)	800	8,610
	888,466	56,514 (1,227)	(636,884)	3,390,421	3,697,290		593,647	127,101 (113)	(636,884)	83,751	3,613,539



7.1.2 In accordance with the Company's accounting policy, operating fixed assets were revalued last year. The revaluation was carried out by an independent valuer, FAMCO Associates (Private) Limited on the basis of professional assessment of present market values and resulted in a surplus of Rs. 3,390.421 million over the book value of the respective assets as at the year end.

Had there been no revaluation, the net book value of the assets would have been as follows:

	Note	2013 ----- (Rupees in '000) -----	2012
Leasehold land		29	30
Building on leasehold land		66,010	65,920
Lift, generators and electric installation		31,336	40,580
Furniture and fixtures		5,147	6,348
Office equipment		18,658	21,228
Computers and related accessories		75,328	124,905
Vehicles		5,722	7,110
		<u>202,230</u>	<u>266,121</u>

7.1.3 Included in additions during the year are the following amounts transferred from capital work-in-progress:

Building on leasehold land	3,400	-
Lift, generators and electric installation	537	425
Office equipment	-	197
Advance against computers and related accessories	5,099	39,971
Advance against vehicles	2,636	5,165
	<u>11,672</u>	<u>45,758</u>

7.1.4 Cost of fully depreciated assets is Rs.149.377 (2012: Rs. 148.816) million as at the year end.

7.2 Capital work-in-progress

Advances against:		
- Computer hardware	11,493	-
- Vehicle	423	-
- Lift, generator and electric installation	120	-
	<u>12,036</u>	<u>-</u>

8. INTANGIBLE ASSETS

Operating intangible assets	8.1	98,200	128,297
Intangible assets under development	8.2	12,004	9,503
		<u>110,204</u>	<u>137,800</u>



8.1 Operating Intangible Assets

	2013							
	COST			Rate %	ACCUMULATED AMORTISATION			WRITTEN DOWN VALUE
	As at July 01, 2012	Additions (Rupees in '000)	As at June 30, 2013		As at July 01, 2012	Charge for the year (Rupees in '000)	As at June 30, 2013	As at June 30, 2013
	-----	-----	-----		-----	-----	-----	-----
Computer software	220,475	429	220,904	25	159,996	28,608	188,604	32,300
Internally developed software and market products	131,169	28,961	160,130	25	63,351	30,879	94,230	65,900
	<u>351,644</u>	<u>29,390</u>	<u>381,034</u>		<u>223,347</u>	<u>59,487</u>	<u>282,834</u>	<u>98,200</u>

	2012							
	COST			Rate %	ACCUMULATED AMORTISATION			WRITTEN DOWN VALUE
	As at July 01, 2011	Additions (Rupees in '000)	As at June 30, 2012		As at July 01, 2011	Charge for the year (Rupees in '000)	As at June 30, 2012	As at June 30, 2012
	-----	-----	-----		-----	-----	-----	-----
Computer software	199,022	21,453	220,475	25	117,488	42,508	159,996	60,479
Internally developed software and market products	103,237	27,932	131,169	25	36,654	26,697	63,351	67,818
	<u>302,259</u>	<u>49,385</u>	<u>351,644</u>		<u>154,142</u>	<u>69,205</u>	<u>223,347</u>	<u>128,297</u>

8.2 Intangible assets under development

	Note	2013 ----- (Rupees in '000) -----	2012
Internally developed software		4,450	1,949
Internally developed market products		6,554	6,554
Computer software		<u>11,150</u>	<u>11,150</u>
		<u>22,154</u>	<u>19,653</u>
Provision for impairment		<u>(10,150)</u>	<u>(10,150)</u>
		<u>12,004</u>	<u>9,503</u>

9. INVESTMENT PROPERTY

Balance as at 1 July		740,115	719,744
Transfers:			
- transfer from investment property to operating fixed assets	7.1.1	(120,600)	-
- transfer from operating fixed assets to investment property	7.1.1	32,017	-
		<u>(88,583)</u>	-
Gain from changes in fair value		<u>19,613</u>	<u>20,371</u>
Balance as at 30 June	9.1	<u>671,145</u>	<u>740,115</u>



- 9.1** Represents office spaces in the KSE's building, the fair value of this property as at June 30, 2013 has been arrived at on the basis of a valuation carried out by Iqbal A. Nanji & Co., independent valuers. The valuation was carried out in accordance with the commercial rates for sale of office spaces prevailing in the market. This resulted in gain from changes in the fair value of investment property over the previous fair value of investment property of Rs. 19.613 million.
- 9.2** The rental income for the year from the investment property amounted to Rs.41.999 (2012: Rs.39.560) million.

10. INVESTMENT IN ASSOCIATES - under equity method of accounting

	Note	2013 ----- (Rupees in '000) -----	2012
Unquoted companies			
Central Depository Company of Pakistan Limited [(CDC) (25,875,200 shares having face value Rs. 258,752,000)]		890,005	873,000
National Clearing Company of Pakistan Limited [(NCCPL) (4,687,500 shares having face value Rs. 46,875,000)]		200,360	184,550
	10.1	<u>1,090,365</u>	<u>1,057,550</u>

10.1 Reconciliation of changes in carrying value of investment in associate

	2013 ----- (Rupees in '000) -----		
	CDC	NCCPL	Total
Opening Balance	873,000	184,550	1,057,550
Share of profit for the year	97,086	20,396	117,482
Deficit on revaluation of associates' available-for-sale investments	(2,461)	(836)	(3,297)
Dividend received during the year	(77,620)	(3,750)	(81,370)
Closing balance	<u>890,005</u>	<u>200,360</u>	<u>1,090,365</u>
	2012 ----- (Rupees in '000) -----		
	CDC	NCCPL	Total
Opening Balance	642,103	175,425	817,528
Share of profit for the year	88,063	8,461	96,524
Surplus on revaluation of associates' available-for-sale investments	2,338	664	3,002
Dividend received during the year	(59,712)	-	(59,712)
Surplus on revaluation of property & equipment - net	200,208	-	200,208
Closing balance	<u>873,000</u>	<u>184,550</u>	<u>1,057,550</u>



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Name of associate	Country of incorporation	Total assets	Total liabilities	2012		Revenues	Interest held %
				Net assets	Share of net assets		
				(Rupees in '000)			
Central Depository Company of Pakistan Limited	Pakistan	2,584,689	391,778	2,192,911	873,000	823,342	39.81
Break-up value of each ordinary share of Rs.10 is Rs.33.73 based on the latest audited accounts available for the year ended June 30, 2012.							
National Clearing Company of Pakistan Limited	Pakistan	1,066,706	674,545	392,161	184,550	126,280	47.06
Break-up value of each ordinary share of Rs.10 is Rs 49.21 based on the latest audited accounts available for the year ended June 30, 2012.							
		3,651,395	1,066,323	2,585,072	1,057,550	949,622	

11.	LONG TERM INVESTMENTS	Note	2013 ----- (Rupees in '000) -----	2012
	Available for sale - unquoted			
	JCR VIS Credit Rating Company Limited, a related party		2,500	2,500
	250,000 (2012: 250,000) ordinary shares of Rs.10 each, representing 12.50% (2012: 12.50%) shareholding.			
	Pakistan Mercantile Exchange Limited (PMEX), a related party			
	[Formerly: National Commodity Exchange Limited (NCEL)]		22,091	22,091
	3,636,356 (2012: 3,636,356) ordinary shares of Rs.10 each, representing 19.14% (2012: 19.14%) shareholding. The original cost of investment in PMEX is Rs.42.091 million.			
			<u>24,591</u>	<u>24,591</u>
12.	LONG TERM DEPOSITS			
	Earnest money	12.1	33,819	33,819
	Utilities		1,914	1,915
	Others		1,427	1,426
			<u>37,160</u>	<u>37,160</u>
12.1	This includes 10% of the bid amount, amounting to Rs.32.999 (2012: Rs.32.999) million, paid by the Company to Pakistan Railways during the year ended June 30, 1993 as earnest money against the purchase of land. However, as a result of initiation of certain legal proceedings by one of the bidders, further action for purchase of land could not take place. Subsequently, Pakistan Railways cancelled the sale of railway land to the Company and requested the Company to apply for the refund of the above-referred amount. Recently, the Court has dismissed the suit on merit, which was filed by above-referred bidder.			
	During the year ended June 30, 2002, based upon the legal advice obtained, the Company filed a counter suit against Pakistan Railways for specific performance of the agreement which, if decided in favour of the Company, may require the Company to purchase the land and pay the balance of the purchase consideration, amounting to Rs.296.995 (2012: Rs.296.995) million. The said case is pending adjudication in High Court of Sindh.			
13.	LONG TERM LOANS			
	Employees - Considered good, secured	13.1	7,014	13,650
	Recoverable within one year shown under current assets		(5,681)	(8,007)
			<u>1,333</u>	<u>5,643</u>
13.1	These personal loans are sanctioned for the purchase of motorcycles, performing Hajj and other domestic purposes. These are secured against the outstanding balances in the Employees' Gratuity Fund. These are recoverable in monthly instalments over a period, with original maturity between 2 and 6 (2012: 2 and 6) years and are interest free. All outstanding long term loans at the year end will mature within one to three years.			



14. DEFERRED TAX ASSET**Note****2013****2012**

----- (Rupees in '000) -----

Deductible temporary differences arising from:

Provision against receivable from member

14.1

224

224

Provision for debts considered doubtful

7,432

8,721

Carry forward tax losses

452,101

475,370

Minimum tax paid

11,123

9,346

470,880

493,661

Taxable temporary differences arising from:Differences between written down values
and tax base of assets

(401,285)

(398,725)

Share of profit from associate

(8,150)

(5,971)

(409,435)

(404,696)

61,445

88,965

14.1 The management, based on the current year results and the future years projections, estimates that sufficient taxable profits would be available in the future against which the deferred tax asset of Rs. 61.445 million as at the year end could be realized. Accordingly, the deferred tax asset has been fully recognised in these financial statements in accordance with the accounting policy of the Company as disclosed in note 4.12.

15. TRADE DEBTS**Unsecured Considered good**

Due from members

15.1

3,162

1,883

Due from companies

17,774

15,443

20,936

17,326

Considered doubtful

Due from companies

22,279

24,917

43,215

42,243

Provision for doubtful debts

15.2

(22,279)

(24,917)

20,936

17,326

15.1 Included herein is a sum of Rs.0.287 (2012: Rs.0.144) million due from related parties.

15.2 Reconciliation of provision for trade debts

Opening balance

24,917

19,348

Provision for the year

33

1,045

7,207

Amount written off

-

(1,363)

Amount recovered

35

(3,683)

(275)

Closing balance

22,279

24,917



16.	LOANS AND ADVANCES	Note	2013 ----- (Rupees in '000) -----	2012
	Loans - secured, considered good			
-	Current portion of long term loans to employees		5,681	8,007
	Advances, considered good			
-	Employees		6,103	3,646
-	Suppliers		11,480	2,002
			17,583	5,648
			23,264	13,655

17. PREPAYMENTS

Maintenance of information technology equipments / software		6,849	10,747
Insurance		400	453
Others		653	756
		7,902	11,956

18. OTHER RECEIVABLES

Due from members		5,005	4,145
Due from non-members	18.1	20,567	19,798
Management fee receivable		41,466	7,834
Interest / profit accrued on PLS savings accounts		5,963	1,723
Due from an ex-member	18.2	6,574	6,574
Others		18,073	10,442
		97,648	50,516
Less: Provision for doubtful receivable		(2,141)	(2,141)
		95,507	48,375

18.1 This represents amount due on account of license fee, data vending fee, advertisement and reimbursement of electricity charges, etc. incurred by the Company.

18.2 This represents amount due from an ex-member upon the cancellation of his membership and declaration as a defaulter. As a result thereof, certain shares of the ex-member were taken over by the Company in order to square up the ex-member's position and are held pending the outcome of a law suit brought against the Company by him in the Honourable High Court of Sindh (refer note 28.5, 28.6 and 28.7). The market value of these shares as at June 30, 2013 amounted to Rs. 15.441 (2012: Rs.15.192) million.

19. SHORT TERM INVESTMENTS

Held to maturity

Term Deposit Certificates		-	284,008
Market Treasury Bills	19.1	1,862,449	1,394,283
		1,862,449	1,678,291

19.1 These represent Market Treasury Bills having cost of Rs.1,819.109 (2012: Rs: 1,337.870) million and interest accrued thereon of Rs. 43.34 (2012: Rs: 56.413) million. The effective rate of return ranges from 8.91 % to 10.23 % (2012: 11.69% to 13.29%) per annum. These will mature latest by December 12, 2013.



20. CASH AND BANK BALANCES

	Note	2013 ----- (Rupees in '000) -----	2012
In hand		52	1
With banks on			
Current accounts	20.1 & 20.3	2,454	7,945
PLS accounts in:			
foreign currency		40,674	28,249
local currency	20.1 to 20.4	2,799,344	1,479,814
		2,842,524	1,516,009

20.1 Included in 'current accounts' and 'PLS accounts' are Rs.0.06 (2012: Rs.0.65) million and Rs.2,398.190 (June 30, 2012: Rs.1,095.497) million, respectively, aggregating to Rs. 2,398.25 (2012: Rs.1,096.147) million, representing deposits from members against exposures and losses refer note 26. These deposits are utilised by the Company in the event of default of members to recover losses there from, as provided for in the relevant regulations of the Company. Rate of return on PLS accounts varies from 3.50 % to 8.50 % (2012: 6.0 % to 11.70 %). However, the effective rate for the year is 7.8 %.

20.2 Included herein are funds earmarked by the Company against the outstanding balance in the Dara F. Dastoor Scholarship Fund, amounting to Rs.2.173 (2012: Rs.2.213) million (note 23).

20.3 Included herein are balances, aggregating to Rs.8.392 (2012: Rs.8.382) million, deposited with the Company by members and an ex-member with respect to certain arbitration cases pending settlement (note 27.1).

20.4 Included herein is Rs.254.912 (2012: Rs. 267.120) million held by the Company on account of disposal of membership cards of defaulting / expelled members (note 27.2).

21. SHARE CAPITAL

2013 -----Number of shares-----	2012	Note	2013 ----- (Rupees in '000) -----	2012
		Authorised capital		
1,000,000,000	-	Ordinary shares of Rs.10/- each	10,000,000	-
		Issued, subscribed and paid-up capital		
801,476,600	-	Ordinary shares of Rs. 10/- each (see note 1.1)	8,014,766	-

22. SURPLUS ON REVALUATION OF ASSETS - NET

Surplus on revaluation of assets - net	22.1 & 22.2	-	3,288,222
--	-------------	---	------------------



	Note	2013	2012
		----- (Rupees in '000) -----	
22.1 Movement of surplus on revaluation of assets - net			
Operating fixed assets		-	3,390,421
Share of associate's surplus on revaluation of fixed assets		-	200,208
		-	3,590,629
Related deferred tax liability on revaluation of the Company's operating fixed assets		-	(249,399)
Net surplus on revaluation of assets recognised during the year		-	3,341,230
Incremental depreciation on operating fixed assets (net of deferred tax) transferred to retained earnings		-	(53,008)
Balance of surplus as of 30 June		-	3,288,222
22.2	In terms of the requirements of the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act 2012 [the Act], the shares issued to the initial shareholders of the Company upon demutualisation are determined after taking into account the revaluation of the assets of the Company. Accordingly, notwithstanding to the provisions of section 235 of the Companies Ordinance, 1984, the balance of surplus has been utilised for the purposes of issuing shares to the initial shareholders of the Company on the effective date of demutualisation. This treatment regarding the surplus has also been approved by the SECP.		
23. DARA F. DASTOOR SCHOLARSHIP FUND			
Opening balance		2,213	2,229
Profit on bank deposits during the current year	23.1	173	213
		2,386	2,442
Scholarships awarded during the year		(213)	(229)
		2,173	2,213
23.1	This represents profit on bank deposits at a rate of 8.5% (2012: 10.15%) per annum earmarked by the Company and allocated by the Board of Directors of the Company for the purposes of utilizing the same for the scholarship of the children of employees (note 20.2).		
24. LONG TERM DEPOSITS			
Clearing house deposits from members		49,481	37,630
Other security deposits		3,490	3,482
		52,971	41,112
25. PROVISION FOR WEALTH TAX	25.1	1,684	1,684
25.1	Included herein are (a) a sum of Rs.0.500 (2012: Rs.0.500) million, representing provision in respect of the assessed liability for the assessment year 1999-2000 and (b) a sum of Rs.1.184 (2012: Rs.1.184) million, representing provision for the assessment year 2000-2001 the assessment of which is currently pending finalisation by the relevant tax authorities.		
Further, the Inspecting Additional Commissioner raised an additional demand of Rs.19.184 million in respect of assessment years 1996-97 to 1999-2000 against which various appeals have been filed by the Company with the Income Tax Appellate Tribunal (ITAT). During the year ended June 30, 2002, the ITAT on appeals filed by the Company allowed relief to the Company by cancelling the wealth tax orders and allowing exemption under the Wealth Tax Act 1963. Against this decision of the ITAT, during the year ended June 30, 2007, the Income Tax Department filed an appeal with the Honourable High Court of Sindh against the order			



issued by the ITAT. Pending the resolution of these matters, no provision has been made in the financial statements of the current year for a sum of Rs.19.184 (2012: Rs.19.184) million (note 28.2).

26. DEPOSITS FROM MEMBERS AGAINST EXPOSURES AND LOSSES

	Note	2013 ----- (Rupees in '000) -----	2012
Deposits from members against exposures and losses	26.1 to 26.3	<u>2,398,190</u>	<u>1,096,147</u>

26.1 Included herein is a sum of Rs.179.445 (2012: Rs. 74.562) million of deposits against exposures and losses from related parties.

26.2 In addition to the amount deposited by members against their exposures and losses, the members have also (a) pledged their shares, amounting to Rs. 5,123.476 (2012: Rs.4,231.250) million, in the CDC account of the Company and (b) provided bank guarantees amounting to Rs. 556.400 (2012: Rs.1,036.341) million and (c) pledged government securities amounting to Rs 107.953 (2012: 50) million.

26.3 This amount (2012: Rs 1,095.499 million) is placed in saving accounts on which interest is paid to members at the rate ranging from 2.50% to 7.50% (2012: 5% to 10.5%).

27. TRADE AND OTHER PAYABLES

Deposits against Arbitration	27.1	8,392	8,382
Accrued expenses		<u>39,820</u>	<u>70,769</u>
		48,212	79,151

Other liabilities

Due to members		148	159
Due to non-members		259	240
Retention money		535	535
Fees and rent received in advance		16,323	20,585
Amount held against defaulted members	27.2	254,912	267,120
Amount received in respect of employees' motorcycle instalments		809	1,233
Employees' Gratuity Fund	27.3	13,919	14,713
Tax deducted at source		48	79
Taxes collected from members		23,001	5
SECP transaction fee		667	212
Payable to members against return on cash margins on future contracts	34.1	26,387	24,927
Workers' Welfare Fund payable		1,596	143
Others		9,545	11,220
		<u>348,149</u>	<u>341,171</u>
		396,361	420,322

27.1 This represents amount deposited with the Company by members with respect to certain arbitration cases pending settlement (note 20.3).

27.2 This represents amount obtained on disposal of membership cards of defaulting / expelled members, including profit accrued thereon, deposited in a separate bank account to be utilised for the settlement of dues of the defaulting members, including investors claim, if any (note 20.4).



	Note	2013 ----- (Rupees in '000) -----	2012 ----- (Rupees in '000) -----
27.3 Employees' Gratuity Fund		13,919	14,713
27.3.1 Principal actuarial assumptions			
Significant actuarial assumptions used in the valuation are as follows:		2013	2012
		% Per annum	
Discount rate		11.5%	12.5%
Increase in salaries		8.5%	9%
Expected return on plan assets		11.5%	11%
27.3.2 Liability recognised in the balance sheet:		2013	2012
		----- (Rupees in '000) -----	
Present value of obligation		162,870	135,697
Fair value of plan assets		(122,251)	(109,671)
		40,619	26,026
Unrecognised actuarial loss		(26,700)	(11,313)
		13,919	14,713
27.3.3 Expense recognised in profit and loss account:			
Current service cost		10,076	9,151
Interest cost		16,179	14,611
Expected return on plan assets		(12,192)	(10,444)
		14,063	13,318
27.3.4 Movement in the liability recognised in the balance sheet:		2013	2012
		% Per annum	
Opening balance		14,713	46,395
Charge for the year		14,063	13,318
Contribution		(14,857)	(45,000)
Closing balance		13,919	14,713
27.3.5 Actual return on plan assets		9.35	12.63
27.3.6	The expected return on plan assets was determined by considering the market expectations and depends upon the assets portfolio of the fund, at the beginning of the year, for returns over the entire life of the related obligation.		
27.3.6.1 Movement of present value of defined benefit obligation		2013	2012
		----- (Rupees in '000) -----	
Opening balance		135,697	113,976
Current service cost		10,076	9,151
Interest cost		16,179	14,611
Total benefits paid		(12,532)	(11,502)
Actuarial gain on obligation		13,450	9,461
Closing balance		162,870	135,697



27.3.6.2	Movement of fair value of plan assets	Note	2013		2012	
			----- (Rupees in '000) -----			
	Opening balance		109,671		63,588	
	Return on plan assets		12,192		10,444	
	Contributions		14,857		45,000	
	Benefits paid by the fund		(12,532)		(11,502)	
	Actuarial gain or (loss) on assets		(1,937)		2,141	
	Closing balance		<u>122,251</u>		<u>109,671</u>	
27.3.7						
Constituents of plan assets			Fair Value as at June 30, 2013		Fair Value as at June 30, 2012	
			(Rupees in '000)	Percentage	(Rupees in '000)	Percentage
	Bonds		113,671	92.98%	108,101	98.57%
	Cash and Net Current Assets		8,580	7.02%	1,570	1.43%
			<u>122,251</u>	<u>100%</u>	<u>109,671</u>	<u>100%</u>
27.3.8						
Historical information			2013	2012	2011	2010
			----- (Rupees in '000) -----			
	Present value of defined benefit obligation		162,870	135,697	113,976	-
	Fair value of plan assets		(122,251)	(109,671)	(63,588)	-
	Funding surplus		<u>40,619</u>	<u>26,026</u>	<u>50,388</u>	<u>-</u>
	Experience adjustment on plan liabilities		(13,450)	9,461	16,266	11,762
	Experience adjustment on plan assets		(1,937)	(2,142)	(4,561)	(13,610)

28. CONTINGENCIES AND COMMITMENTS

Income tax related contingencies

28.1 The income tax assessments of the Company have been finalized up to and including the tax year 2012, corresponding to the income year ended June 30, 2012. However, the Company has filed an application in the Honourable High Court of Sindh against the decision of ITAT in respect of the additions made by the Taxation Officer of Rs.36.583 million on account of tax gain / (loss) on disposal / write off of fixed assets in tax year 2003, which is currently pending adjudication.

The management of the Company is hopeful that the outcome of the appeal would be in favour of the Company and, hence, pending the resolution of this matter, provision amounting to Rs.15.731 (2012: Rs.15.731) million has not been made in the financial statements of the current year.

28.2 Contingency relating to wealth tax amounts to Rs.19.184 (2012: Rs.19.184) million is discussed in detail in note 25. Pending resolution of this matter, no provision has been made in the financial statements of the current year for any liability that may arise on this account.

Contingencies relating to KSE's operation

28.3 A lawsuit was filed by a commercial bank against the Company for the recovery of Rs.500 (2012: Rs.500) million as damages for defamation on the grounds that the Company placed the bank on Defaulters Counter



illegally and malafidely, which caused loss of reputation to the bank. The said law suit is currently pending in the Honourable High Court of Sindh. The management believes that, it is unlikely that the court would award substantial damages in favour of the bank as the Company acted in good faith and public interest. Accordingly, no provision has been made by the Company in the financial statements of the current year for any liability that may arise as a result of this lawsuit.

28.4 A lawsuit was filed by five investors against the Company and an ex-member for declaration, injunction and recovery of damages, aggregating to Rs.70.00 (2012: Rs.70.00) million together with interest thereon @ 22% (2012: 22%) per annum with quarterly interests, or any other relief that may be apt. The investors alleged that the Company had unlawfully taken possession and disposed off some shares belonging to the petitioners that were lying with the above-mentioned ex-member. The Company considers the said lawsuit to be untenable and not maintainable in the court of law and has, therefore, not made provision in the financial statements for any liability that may arise as a result of this law suit.

28.5 An ex-member filed a lawsuit during the year ended June 30, 2000 against the Company, Central Depository Company of Pakistan Limited and the SECP, in the Honourable High Court of Sindh, for cancelling his membership and declaring him as a defaulter. He further claimed damages of Rs.300 (2012: Rs.300) million from each. The Company had declared him as a defaulter in accordance with its regulations as the said member had not made payments to settle his liability to the Company for the ready clearing dues and exposure and losses, aggregating to Rs.351.392 (2012: Rs.351.392) million. A sum of Rs.302.882 (2012: Rs.302.882) million including receivables amounting to Rs.6.574 (2012: Rs.6.574) million shown under other receivables was subsequently realized by the Company from the sale of the assets of the ex-member and the Company squared up his position by paying Rs.48.509 (2012: Rs.48.509) million from the Clearing House Protection Fund, which is still due from him.

The ex-member had also filed a constitutional petition against the Company, alleging certain technical deviations on part of the Company from the existing rules and regulations which was later withdrawn by the defaulting member. As per the legal advisor of the Company, the overall position of the Company seems to be sound and the Company has a fairly good defence in the said lawsuit. Accordingly, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit (refer note 18.2).

28.6 A fund management and investment Company filed a lawsuit in the Honourable High Court of Sindh against an ex-member, as referred to in note 28.5 above, CDC, SECP and the Company during the year ended June 30, 2000. The fund management and investment Company (the petitioner), currently being represented by an official liquidator as the petitioner has since gone into liquidation, alleged that the Company had unlawfully taken the delivery of shares for which the petitioner had entered into contracts for purchase with the ex-member, discussed above. The petitioner claimed declaration, injunction and delivery of the undelivered shares and damages of Rs.500.00 (2012: Rs.500.00) million. According to the legal advisor, the Company has a very good defence in the said lawsuit. For this reason, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit (refer note 18.2).

28.7 In addition to the lawsuits disclosed in note 28.5 & 28.6 above, five law suits in prior years, involving the ex-members' default were filed by Mr. Iftikhar Ahmed Shafi, Mian Nisar Elahi, Shafi Chemical Industries, Diamond Industries Limited and Mr. Muhammad Ali, against several other defendants and the Company in the Honourable High Court of Sindh for the recovery of damages of Rs.5,606.612 (2012: Rs.5,606.612) million, Rs.428.440 (2012: Rs.428.440) million, Rs.49.777 (2012: Rs.49.777) million, Rs.743.026 (2012: Rs.743.026) million, and Rs. 23.419 (2012: Rs. 23.419) million respectively, for declaration, injunction, recovery of shares, damages and compensation. The legal advisor of the Company considers that above mentioned lawsuits would be decided in favour of the Company. Hence, no provision has been made in the financial statements for any liability that may arise as a result of these lawsuits (refer note 18.2).



- 28.8** The Islamabad Stock Exchange (Guarantee) Limited filed a complaint with the Competition Commission of Pakistan (the Commission) against the Company alleging abuse of its dominant position in securities market in contravention of Section 3 of the Competition Ordinance, 2007. The Commission after giving due consideration issued a show cause notice to the Company, against which the Company filed a petition in the Honourable High Court of Sindh. The Court allowed the Commission to proceed further but restrained it from passing any final order. The Islamabad Stock Exchange filed two separate civil petitions for leave to appeal against orders of the Honourable High Court of Sindh in the Honourable Supreme Court of Pakistan.

The Honourable Supreme Court of Pakistan in its Order dated November 13, 2008 vacated the above stay order and disposed off the stay application and fixed the petition for regular hearing.

Further, on May 29, 2009 the Commission passed a final order and directed the Company to take corrective measures along with the other exchanges of Pakistan and to enter into an arrangement similar to that existing between Lahore Stock Exchange and Islamabad Stock Exchange. In case of failure to comply with the direction of the Commission, the Company will be liable to pay a penalty of Rs.50 (2012: Rs. 50) million at the end of the six month period and thereafter an additional penalty of Rs.250,000 per day, if the non-compliance continues. The Company has filed an appeal before the Supreme Court against the Commission's Order. As per the legal advisor, the Company has a reasonable case in respect of the above. Hence, no provision for any liability which may arise in this regard has been made in the financial statements of the Company.

- 28.9** The single bench of the Competition Commission (the Commission) of Pakistan passed an order on March 18, 2009, thereby penalizing the Company for a sum of Rs.6 (2012: Rs. 6) million for placement of floor. The Company filed an appeal before the Appellate Bench of the Commission. The Commission after conducting multiple hearings of the said appeal finally issued its order on November 26, 2009. The Commission reduced the penalty by 50% (fifty percent) restricting it to a nominal sum of Rs. 500,000/-. The Company filed an appeal in Honourable Supreme Court of Pakistan against the Order dated November 26, 2009 passed by the Appellate Bench of the Commission. On February 11, 2010, the case was fixed for hearing of application for interim relief. The Advocate for the Commission undertook on behalf of the Commission that no coercive action will be taken against KSE in pursuance of the impugned Order till next date of hearing. The legal advisor of the Company is confident that the said appeal would ultimately be decided in favour of the Company and, hence, no provision has been made in these financial statements.
- 28.10** An investor has filed a claim of Rs. 2.8 (2012: Rs. 2.8) million as a suit for recovery and an application for appointment of receiver against the Company and an ex-Member. Written statement and Counter Affidavit have been filed on behalf of the Company. As per the legal advisor, the Company has a reasonable case in respect of the above. Hence, no provision for any liability which may arise as result of the lawsuit in the financial statements of the Company.
- 28.11** As a result of a dispute between the Company and a member (suspended), whereby the member (suspended) was not sharing certain information relating to trading of shares, the Company complained to the SECP and the member (suspended) fearing about any coercive action by the Company and SECP, filed a suit against the Company in the Honourable High Court of Sindh. However, the SECP before filing the law suit by the member, had already suspended the license of the brokerage of the member. The member (suspended) has filed the above law suit for declaration, permanent injunction, mandatory injunction and damages of Rs. 2,000 (2012: Rs 2,000) million against the Company. The member (suspended) sought direction against the Company to restore its membership and registration to its original position. However, the management believes that, it is unlikely that the Court would award damages in favour of the investor. Accordingly, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit.



28.12 An investor was using the services of an expelled member for trading of securities of listed companies. However, the investor claimed that the expelled member with malafide intentions misappropriated funds and trading profit and fictitiously transferred them in the names of his relatives. In March, 2010, the investor requested the expelled member to liquidate his shares, however, the expelled member kept on delaying the matter which created doubts. In view of various complaints against the expelled member, The Company under its Notice dated August 26, 2010 expelled its membership. The investor alleged that the Company despite various objections and in violation of provision / regulations conveniently permitted the expelled member to function (prior to August 26, 2010). Accordingly, during the year, the investor filed a lawsuit in the High Court of Sindh of Rs. 20 million against the Company and other parties for the award of damages. However, the management believes that, it is unlikely that the Court would award damages in favour of the investor. Accordingly, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit.

28.13 A member filed a suit in the Honourable High Court of Sindh against the SECP, the Company and others whereby the member pleaded that it has suffered losses on account of trades executed by one of its client/investor. Further, the SECP asks the Company to initiate any inquiry against the member and thereafter requiring the member to maintain status quo in respect of the securities retained by the Company. The member has therefore sought judgment in decree of the Court, among others to:

- declare that the show cause notice issued by SECP and the directions issued by SECP to the Company are unlawful and without jurisdiction.
- declare that the inquiry being conducted by the Company on SECP's direction is void and without any lawful justification.
- restrain the SECP and the Company from cancelling the member's license/membership or from taking any coercive action against them.
- award damages of Rs. 50 million in favour of the member and against all the defendants (jointly and severally liable) for harassing and damaging the member's reputation.

The management of the Company believes that no provision against the above matter is required to be made in these financial statements. The said matter is dealt with by the in house legal department of the Company.

28.14 A customer of the member of the Company has filed a case against the Company in Honourable High Court of Sindh, wherein, an amount of Rs. 91 (2012 : Rs. 91) million has been claimed by the customer of the member from the Company on account of alleged loss of investment and damages said to have been arisen due to fixation of a floor price and closure of the exchange in the year 2008. The legal advisor the Company anticipate a positive outcome to the matter from the standpoint of the Company and accordingly no provision against the above matter has been made by the management in these financial statements.

28.15 The plaintiff, who has purchased office within the premises of the Company from the ex-member, has alleged that the Company is unlawfully imposing restrictions on him for operating in the newly purchased office despite the fact that he has paid all outstanding dues relating to such purchase. In the circumstances, the Plaintiff prayed the Court to declare that he is the lawful owner of the subject office and has all legal rights to use and occupy the same without any hindrance on part of the Company. The plaintiff has launched a claim of Rs. 5 (2012 : Rs. 5) million from the Company in this regard. The legal advisor the Company is optimistic that the matter will be decided in favour of the Company and accordingly no provision against the above matter has been made by the management in these financial statements.



28.16 During the year, a customer of the member of the Company has filed a case against the member and the Company in Court of first Senior Civil Judge(South), Karachi wherein, an amount of Rs. 11.386 million has been claimed by the customer from the Company on account of certain activities of the member which as per the customer has resulted in financial losses to him. The matter is currently being dealt by in-house legal department of the Company. As per the Company, it apparently has a reasonable defence in respect of the claim in the suit, accordingly no provision against the above matter has been made by the management in these financial statements.

28.17 In addition to the law suits disclosed above, fifty nine (2012: fifty four) law suits having no financial effect on the Company have also been filed by or against the Company.

The potential financial impact of the contingencies disclosed in notes 28.1 to 28.17 above, aggregated to Rs.10,486.874 (2012: Rs.10,681.482) million at the end of the current year. No provision has been made in the financial statements for any liability that may arise as a result of these lawsuits as the management is confident about the favourable outcome of above stated matters.

29. LISTING FEE	2013	2012
	----- (Rupees in '000) -----	
Annual fees	142,646	117,950
Initial fees	57,142	57,554
	199,788	175,504

30. INCOME FROM EXCHANGE OPERATIONS

Trading fee	83,041	54,360
Facilities and equipment fee	36,744	49,926
Income from non-trading facilities	21,175	25,231
Membership fee	2,100	2,070
Other fee	8,431	8,639
	151,491	140,226

31. MANAGEMENT FEE

The Company manages KSE Clearing House Protection Fund and KSE Investors Protection Fund which includes provision of services related to finance & investment, risk management and customers services and investors complaints. The Board of Directors of the Company in its meeting held on October 31, 2012 has approved charging management fee from such funds @ 2% per annum of the respective fund size as at June 30, 2012 with effect from October 01, 2012. Previously the management fees was charged @ 0.5% per annum of the respective fund size subject to Rs 10 million per fund.

32. MARK-UP / INTEREST INCOME

Return on:		
Short term investments	181,396	186,637
PLS saving accounts	97,098	104,295
	278,494	290,932



33. ADMINISTRATIVE EXPENSES	Note	2013	2012
		----- (Rupees in '000) -----	
Salaries and other benefits	33.1	298,395	271,107
Rent, rates and taxes		1,294	1,294
Fuel and power		37,511	33,973
Repairs and maintenance		19,271	22,380
Computer maintenance and related expenses		57,165	76,072
Insurance		5,927	7,523
Telephone, courier and postage		3,192	2,912
Printing and stationery		6,903	7,170
Donations	33.2	400	1,200
Audit fee		925	850
Legal and professional charges		12,647	13,089
Demutualisation expense		12,077	35,250
Depreciation - operating fixed assets	7.1	178,786	127,101
Amortisation of intangible assets	8.1	59,487	69,205
Travelling and conveyance		5,358	4,544
Entertainment expenses		3,914	3,803
Reception meetings and functions		9,299	4,065
Advertisement, marketing and development		6,034	1,517
Provision for trade debts considered doubtful	15.2	1,045	7,207
Trade debts directly written off		-	272
Provision against receivable from companies		-	1,500
Security expenses		9,499	9,007
Subscription fee		2,482	2,135
Loss / (gain) on sale of property and equipment		710	(31)
Other expenses		853	645
		<u>733,174</u>	<u>703,790</u>

33.1 Included herein is a sum of Rs.14.063 (2012: Rs.13.318) million and Rs.Nil (2012: Nil) million in respect of retirement benefits respectively.

33.2 Donations are paid to a Medical Institution, as per the policy approved by Board of Directors, in which none of the directors of the Company is interested in any capacity.

34. FINANCIAL AND OTHER CHARGES

Return on cash margin against ready and future exposure and loses	34.1	73,249	70,199
Bank charges		1,669	152
Workers' Welfare Fund		1,453	143
		<u>76,371</u>	<u>70,494</u>

34.1 Pursuant to the implementation of new risk management system with effect from December 04, 2006, the Company has accrued return on cash margins deposited by members against future contracts at various rates during the period ranging between 2 % and 10 % (2012: 5% and 10.5%) per annum, after deducting 1% service charge, as per the Directive issued by the Securities and Exchange Commission of Pakistan.



35. OTHER INCOME	Note	2013 ----- (Rupees in '000) -----	2012
Fair value gain on investment property	9 & 35.1	19,613	20,371
Doubtful debt recovered	15.2	3,683	275
Exchange gain		116	2,134
Dividend on long term investment		125	75
		<u>23,537</u>	<u>22,855</u>

35.1 In accordance with the requirements of section 248 of the Companies Ordinance, 1984, dividend shall not be declared or paid out of unrealized gain on investment property credited to profit and loss account. Accordingly, the fair value gain on investment property is not available for dividend distribution.

36. TAXATION

Current	36.1	9,924	9,118
Prior		-	(413,199)
Deferred		(61,445)	(258,141)
	36.2	<u>(51,521)</u>	<u>(662,222)</u>

36.1 This represents minimum tax and tax at reduced rates under relevant sections of the Income Tax Ordinance, 2001. Due to recognition of prior period deferred tax, the effective tax rate is significantly different from the applicable tax rate.

36.2 Reconciliation between tax and accounting profit	2013 (Rupees in '000)
Profit before taxation	69,102
Tax expense applicable at the rate of 35% (2012: 35%)	(24,186)
Tax effects of:	
- Income exempt from tax	6,905
- Expenses not deductible for tax purpose	(204)
- Income taxed at reduced rate	41,150
- Deferred tax recognised during the year on prior years temporary differences	27,520
- Others	336
	<u>51,521</u>

Relationship between tax and accounting profit for the year 2012 is not presented due to the tax loss in the previous year.

37. BASIC AND DILUTED EARNINGS PER SHARE

	(Rupees in '000)	
Profit after taxation	<u>120,623</u>	-
	(Numbers in '000)	
Weighted average number of ordinary shares outstanding during the year	<u>702,664</u>	-
	(Rupees)	
Basic and diluted earnings per share (Rupees)	<u>0.17</u>	-



37.1 As referred in note 1.1 to the financial statements, the ordinary shares of the Company were issued in August 2012 upon the demutualization of the KSE, and therefore, earnings per share is reported only for the current year.

38. REMUNERATION OF MANAGING DIRECTOR AND DIRECTORS

The aggregate amounts charged in the financial statements for the year in respect of remuneration, including benefits, to the Managing Director and Directors of the Company are as follows:

	2013		
	Managing Director	Director	Total
	----- (Rupees in '000) -----		
Managerial remuneration	12,672	-	12,672
Annual performance payout	4,224	-	4,224
Reimbursement of expenses	1,186	-	1,186
Fees	-	5,780	5,780
	<u>18,082</u>	<u>5,780</u>	<u>23,862</u>
Number	<u>1</u>	<u>12</u>	

	2012		
	Managing Director	Director	Total
	----- (Rupees in '000) -----		
Managerial remuneration	11,686	-	11,686
Annual performance payout	2,640	-	2,640
Reimbursement of expenses	434	-	434
Fees	-	2,090	2,090
	<u>14,760</u>	<u>2,090</u>	<u>16,850</u>
Number	<u>1</u>	<u>8</u>	

38.1 The Managing Director of the Company is also provided with the free use of Company owned and maintained car.

39. RELATED PARTY TRANSACTIONS

The related parties comprise of associates, companies with common directorship, staff gratuity fund, directors and key management personnel. The Company in the normal course of business carries out transactions with various related parties.

The balances with related parties are disclosed in respective notes to the financial statements. Following are the details of transactions with related parties during the year ended June 30, 2013 and June 30, 2012.



	2013	2012
	----- (Rupees in '000) -----	
Management fee		
KSE Clearing House Protection Fund	50,824	10,000
KSE investors Protection Fund	15,032	5,668
	<u>65,856</u>	<u>15,668</u>
Dividend income		
Central Depository Company of Pakistan	77,620	59,712
JCR-VIS Credit Rating Company Limited	125	75
National Clearing Company of Pakistan Limited	3,750	-
	<u>81,495</u>	<u>59,787</u>
Income from investment property		
Central Depository Company of Pakistan	4,810	4,932
National Clearing Company of Pakistan Limited	9,891	8,595
	<u>14,701</u>	<u>13,527</u>
Trading fees		
Aba Ali Habib Securities (Private) Limited	2,264	922
Adam Securities (Private) Limited	2,053	741
Dawood Equity Limited	15	74
Fortune Securities Limited	-	227
Ghani Osman Securities (Private) Limited	70	451
Lakhani Securities (Private) Limited	109	40
Nael Capital (Private) Limited	-	52
Topline Securities (Private) Limited	947	710
Trade-In Securities (Private) Limited	13	51
Y.H. Securities (Private) Limited	29	85
Zafar Moti Capital Securities (Private) Limited	-	37
	<u>5,500</u>	<u>3,390</u>
Facilities and equipment fees		
Aba Ali Habib Securities (Private) Limited	262	299
Adam Securities (Private) Limited	709	766
Dawood Equity Limited	30	168
Fortune Securities Limited	-	323
Ghani Osman Securities (Private) Limited	54	382
Lakhani Securities (Private) Limited	12	12
Nael Capital (Private) Limited	-	53
Topline Securities (Private) Limited	165	220
Trade-In Securities (Private) Limited	30	618
Zafar Moti Capital Securities (Private) Limited	-	109
	<u>1,262</u>	<u>2,950</u>
Listing fees		
KASB Bank Limited	438	321
Engro Corporation Limited	726	636
Engro Polymer & Chemicals Limited	515	463
	<u>1,679</u>	<u>1,420</u>
Retirement benefit plan		
Payment made to gratuity fund during the year	<u>14,857</u>	<u>45,000</u>

40. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise long term and short term deposits, accrued and other liabilities.



The financial assets comprise of short term investments, cash at bank, trade debts, loans and advances, long term deposits and other receivables.

The Company is exposed to market risk, credit risk and liquidity risk.

40.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of interest rate risk, equity price risk and currency risk. The Company is exposed to market risk as a result of mismatches or gaps in the amounts of financial assets and financial liabilities that mature or reprice in a given period. The Company manages this risk by matching the repricing of financial assets and liabilities through risk management strategies.

40.2 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. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short term investments and bank deposits in saving accounts. At the balance sheet date, the interest rate profile of the Company's interest-bearing financial instruments is as follows:

is as follows:

2013				
	Interest / mark-up bearing			Total
	Effective yield / mark-up rate %	Upto six months	More than six months and upto one year	
	----- (Rupees in '000) -----			
Financial assets				
Short term investments	8.9 - 10.2	1,706,039	156,410	1,862,449
Cash and bank balances	3.5 - 8.5	2,840,018	-	2,840,018
		<u>4,546,057</u>	<u>156,410</u>	<u>4,702,467</u>
Financial liabilities				
Deposits from members against exposures and losses	2.5 - 7.5	<u>2,398,190</u>	<u>-</u>	<u>2,398,190</u>
2012				
	Interest / mark-up bearing			Total
	Effective yield / mark-up rate %	Upto six months	More than six months and upto one year	
	----- (Rupees in '000) -----			
Financial assets				
Short term investments	11.50 - 13.29	1,222,337	455,954	1,678,291
Cash and bank balances	6 - 11.5	1,508,063	-	1,508,063
		<u>2,730,400</u>	<u>455,954</u>	<u>3,186,354</u>
Financial liabilities				
Deposits from members against exposures and losses	5 - 10.50	1,096,147	-	1,096,147



The following table demonstrates the sensitivity of Company's income for the year to a reasonably possible change in interest rates, with all other variables held constant.

	Effect on income	
	2013	2012
	----- (Rupees in '000) -----	
Change in basis point		
+ 100	13,968	20,902
- 100	(13,968)	(20,902)

40.3 Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of change in foreign exchange rates relates only to the bank balance in saving accounts maintained in US dollars amounting to Rs. 40.674 (2012:Rs.28.249) million [US dollars 0.413 (2012: US dollars 0.301) million].

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's income before tax and reserves.

	Change in US dollar rate	Effect on income before tax	Effect on reserves
	----- (Rupees in '000) -----		
2013	+10%	4,067	4,067
	-10%	(4,067)	(4,067)
2012	+10%	(2,825)	(1,836)
	-10%	2,825	1,836

40.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to credit risk on its short term investments, deposits, trade debts, loans and advances, cash at bank and other receivables. The table below shows the maximum exposure to credit risk for the components of the balance sheet.

Financial assets	2013	2012
	----- (Rupees in '000) -----	
Short term investments		
- Market treasury bills	1,862,449	1,394,283
- Term deposit certificates	-	284,008
Cash at bank	2,842,472	1,516,008
Trade debts	20,936	17,326
Loans and advances	23,264	13,655
Long term deposits	37,160	37,160
Other receivables	95,507	48,375
	<u>4,881,788</u>	<u>3,310,815</u>

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets is broadly diversified and transactions are entered



into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk. The table below analyses the credit quality of Company's exposure with respect to cash at bank only:

Ratings*	2013	2012
	----- (%) -----	
AAA	-	6.12
AA+	54.44	58.98
AA	9.49	12.10
AA-	3.94	3.39
A+	11.09	-
A	9.62	16.75
A-	6.93	0.62
BBB	4.49	2.04
	<u>100.00</u>	<u>100.00</u>

* Ratings are performed by PACRA and JCR-VIS

40.5 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to the Company's reputation. The table below summarizes the maturity profile of Company's financial liability:

	2013		
	On demand	Upto three months	More than one year
	----- (Rupees in '000) -----		
Long term deposits	-	-	52,971
Deposits from members against exposures and losses	2,398,190	-	-
Trade and other payables	369,974	26,387	-
Total	<u>2,768,164</u>	<u>26,387</u>	<u>52,971</u>
			<u>2,847,522</u>
	2012		
	On demand	Upto three months	More than one year
	----- (Rupees in '000) -----		
Long term deposits	-	-	41,112
Deposits from members against exposures and losses	1,096,147	-	-
Trade and other payables	395,395	24,927	-
Total	<u>1,491,542</u>	<u>24,927</u>	<u>41,112</u>
			<u>1,557,581</u>



41. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on September 12, 2013 proposed a final cash dividend @ 1.25% i.e. Re. 0.125 per share, for the financial year ended on June 30, 2013, amounting to Rs. 100,184,575 (2012: Nil) for approval of the shareholders in the Annual General Meeting to be held on October 23, 2013.

42. DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on September 12, 2013 by the Board of Directors of the Company.

43. NUMBER OF EMPLOYEES

The number of employees as at June 30, 2013 were 241 (2012: 250).

44. GENERAL

44.1 Figures have been rounded off to the nearest thousand rupees.

44.2 Certain prior year's figures have been reclassified for the purpose of comparison. Major reclassifications during the year are as follows:

Statement	Components	Reclassification from	Reclassification to	2012 Rupees in '000
Profit and loss account	Mark-up/interest income	Other operating income	Revenue	290,932
Profit and loss account	Rental income from investment property	Other income	Revenue	39,560
Profit and loss account	Management fee	Other operating income	Revenue	15,668

Sd/-
Chairman

Sd/-
Managing Director



PATTERN OF SHAREHOLDING

As of June 30, 2013

Number of Shareholders	Shareholdings			Total Shares Held
6	1	to	100	600
2	101	to	500	1,000
1	501	to	1,000	1,000
2	20,001	to	25,000	50,000
1	45,001	to	50,000	50,000
1	55,001	to	60,000	60,000
1	95,001	to	100,000	100,000
4	115,001	to	120,000	467,528
1	185,001	to	190,000	190,000
1	195,001	to	200,000	200,000
1	200,001	to	205,000	200,369
4	230,001	to	235,000	935,056
2	245,001	to	250,000	500,000
1	315,001	to	320,000	320,000
1	425,001	to	430,000	430,000
1	550,001	to	555,000	552,953
7	1,600,001	to	1,605,000	11,220,671
8	2,400,001	to	2,405,000	19,235,440
1	2,705,001	to	2,710,000	2,707,383
1	3,200,001	to	3,205,000	3,204,430
1	3,755,001	to	3,760,000	3,757,383
1	3,905,001	to	3,910,000	3,907,383
188	4,005,001	to	4,010,000	753,385,404
237				801,476,600



Categories of Shareholders As at June 30, 2013

	Number of shareholders	Number of shares held	Percentage
Directors, their spouse(s) and minor children			
Mr. Abdul Majeed Adam	1	100	0.00
Mr. Mohammed Sohail	1	100	0.00
Mr. Muhammad Yasin Lakhani	1	100	0.00
Mr. Muhammad Abid Ali Habib	1	100	0.00
	4	400	0.00
Associated companies, undertakings and related parties			
Abid Ali Habib Securities (Private) Limited	1	4,007,283	0.50
Adam Securities (Private) Limited	1	4,007,283	0.50
Lakhani Securities (Private) Limited	1	4,007,283	0.50
Topline Securities (Private) Limited	1	4,007,283	0.50
	4	16,029,132	2.00
Executives	-	-	-
Public sector companies and corporations			
Pak Libya Holding Company (Private) Limited	1	4,007,383	0.50
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds			
First Equity Modaraba	1	4,007,383	0.50
Orix Leasing Pakistan Limited	1	4,007,383	0.50
Security Investment Bank Limited	1	4,007,383	0.50
	3	12,022,149	1.50
Mutual funds	-	-	-
General Public	-	-	-
Others			
Joint Stock Companies	188	731,697,412	91.29
Individuals	37	37,720,124	4.71
	225	769,417,536	96.00
	237	801,476,600	100.00
Shareholders holding 5% shares or more	-	-	-



FORM OF PROXY 66th Annual General Meeting

I/We, _____ of _____, holding Computerized National Identity Card No. _____ and being a member of Karachi Stock Exchange Limited, hereby appoint _____ of _____, holding Computerized National Identity Card No. _____ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Exchange, to be held on 23rd day of October 2013 and at any adjournment thereof.

As witness my/our hand/seal this _____ day of _____, 2013

WITNESSES:

1. Signature _____	2. Signature _____
Name _____	Name _____
Address _____	Address _____
_____	_____
CNIC No _____	CNIC No. _____

CDC Account No. _____

Revenue Stamp
of Rs.5/-

To be signed by above-named shareholder

Notes:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Exchange, not less than 48 hours before the time of holding the meeting.
2. The Proxy Form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
3. Attested copies of CNIC of the appointer and the proxy-holder shall be furnished with the Proxy Form.
4. The proxy-holder shall produce his original CNIC at the time of the meeting.
5. In case of corporate entity, the Board of Directors' resolution / Power of Attorney with specimen signature shall be submitted along with Proxy Form.



SERVING INVESTORS AND INDUSTRY



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