



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

NOTIFICATION

Islamabad, the 5th July, 2004

S.R.O. 589(I)/2004.—In exercise of the powers conferred by section 505 of the Companies Ordinance, 1984 (XLVII of 1984), read with clause (c) of section 43 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997), the Securities and Exchange Commission of Pakistan is pleased to direct that for the Fourth Schedule to the said Ordinance the following shall be substituted, namely:—

“FOURTH SCHEDULE

(See section 234)

REQUIREMENT AS TO BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF LISTED COMPANIES

PART I.—GENERAL

1. The listed companies and their subsidiaries shall follow all the International Accounting Standards in regard to accounts and preparation of balance sheet and profit and loss account as are notified for the purpose in the official Gazette by the Commission, under sub-section (3) of section 234 of the Companies Ordinance, 1984 (XLVII of 1984).

2. In this Schedule, unless there is anything repugnant in the subject or context,—

- (i) “arm’s length price” means the price applied in a transaction between knowledgeable and willing parties, not being related parties, in uncontrolled conditions;
- (ii) "capital reserve" includes capital redemption reserve, capital repurchase reserve account, share premium account, profit prior to incorporation or any reserve not regarded free for distribution by way of dividend;
- (iii) "executive" means an employee, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year;
- (iv) “related party”, in relation to a company, means an entity which has the ability to control the company or exercise significant influence over the company in making financial and operating decisions or vice versa and includes the following, namely:—
 - (a) entities that directly or indirectly through one or more intermediaries control, or are controlled by, or are under common control with, the reporting company including holding companies, subsidiaries and fellow subsidiaries;
 - (b) associates, as defined in the International Accounting Standard 28, Accounting for Investments in Associates;

- (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting company that gives them significant influence over the company, and close members of the family of any such individual;
- (d) key management personnel, that is, persons having authority and responsibility for planning, directing and controlling the activities of the reporting company including directors and officers of such company and close members of the families of such individuals;
- (e) entities in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in clause (c) or (d) or over which such person is able to exercise significant influence including entities owned by directors or major shareholders of the reporting company and entities that have a key management personnel in common with the reporting company;
- (f) entities in which one or more of the directors or members of the governing board are appointed by the reporting company or vice versa;
- (g) where one or more of the directors or members of the governing board of the entity as well as the reporting company are appointed by the same person or persons;

- (h) entities whose process of manufacture or business is wholly dependent on the use of know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the reporting company is the owner or in respect of which the company has exclusive rights or vice versa;
- (i) where more than half of the raw materials and consumables required in the process of manufacture carried out by an entity are supplied by the reporting company, or by persons specified by the company, or vice versa, and the prices and other conditions relating to the supply are influenced by the entity or the company; and
- (j) where goods or articles manufactured or processed by an entity are sold or transferred to the reporting company or to persons specified by the company, or vice versa, and the prices and other conditions relating thereto are influenced by the entity or the company;

Explanation.—

- (1) In considering each possible related party relationship, attention should be directed to the

substance of the relationship and not merely to the legal form.

(2) For the purposes of this clause,—

(i) “entity” means a partnership firm or a Hindu undivided family or an association of persons or a trust or a company; and

(ii) “close members of the family of an individual” means persons who may be expected to influence, or be influenced by, that individual in their dealings with the reporting company.

(v) "revenue reserve" means reserve that is normally regarded as available for distribution through the profit and loss account, including general reserves and other specific reserves created out of profit and un-appropriated profit i.e., credit balance of profit and loss account after appropriations for the period to the date of balance sheet;

(vi) “transfer pricing” means the pricing of transactions between two or more related parties or between two or more segments of a company; and

(vii) any word or expression used herein but not defined in the Ordinance or this Schedule shall be assigned the meaning as under the generally accepted accounting principles.

3. The following shall be disclosed in the financial statements, namely:--
 - (i) The capacity of an industrial unit, actual production and the reasons for shortfall; and
 - (ii) the general nature of any credit facilities available to the company under any contract, other than trade credit available in the ordinary course of business, and not availed of at the date of the balance sheet.

4. Any penalty in terms of money or otherwise imposed under any law by any authority shall be disclosed in the first annual report furnished after the imposition of the penalty. If, as a result of any appeal, revision petition, or review application, such penalty is reduced enhanced or waived, the original penalty imposed shall nevertheless be disclosed, and the fact of any reduction, enhancement or waiver shall be disclosed, in the first annual report furnished after such reduction, enhancement or waiver.

5. Where any property or asset, acquired with the funds of the company, is not held in the name of the company or is not in the possession and control of the company, this fact shall be stated; and the description and value of the property or asset, the person in whose name and possession or control it is held shall be disclosed.

6. In extremely rare circumstances, where the company decides to use a price other than the arm's length price, subject to the approval of the Board of Directors, for reasons to be recorded in writing, it is in the interest of the company to do so, there shall be disclosed in the financial statements,—
- (i) that transactions between the company and related parties and between segments of the company have been measured at arm's length prices except for the transaction in question;
 - (ii) the transaction for which a price other than the arm's length price has been used, the arm's length price that could have been applied and the price used; and
 - (iii) the financial impact of the departure from the arm's length price on the company's net profit or loss, assets, liabilities, equity and cash flows for each relevant period presented.

PART II.— REQUIREMENTS AS TO BALANCE SHEET

FIXED ASSETS

1. Fixed assets, other than investments, shall be classified under appropriate sub-heads, duly itemized such as:
- (i) Property, plant and equipment:
 - (a) land (distinguishing between free-hold and leasehold);
 - (b) buildings (distinguishing between buildings on free-hold land and those on leasehold land);
 - (c) plant and machinery;

- (d) furniture and fittings;
 - (e) vehicles;
 - (f) office equipment;
 - (g) capital work in progress indicating significant item wise details;
 - (h) development of property; and
 - (i) others (to be specified).
- (ii) Intangible:
- (a) goodwill;
 - (b) brands names;
 - (c) computer software;
 - (d) licences and franchises;
 - (e) patents, copyright, trade marks and designs;
 - (f) intangible assets under development; and
 - (g) others (to be specified).

LONG-TERM INVESTMENTS

2(A). There shall be shown under separate sub-heads the aggregate amount in respect of the following, namely:—

- (i) Investments in related parties; and
- (ii) other investments.

(B) For the purposes of clauses(i) and (ii) of sub-head 2(A) above, investments shall be shown under the head long term investments, indicating separately,—

- (a) at cost;
- (b) using the equity method;
- (c) held to maturity investments, which are not due to mature within next twelve months; and
- (d) available for sale investments, which are not intended to be sold within next twelve months.

LONG TERM LOANS AND ADVANCES

3(A) There shall be shown under separate sub-heads, distinguishing between considered good and considered bad or doubtful, aggregate amounts respectively of the company's,—

- (i)** loans and advances to related parties; and
- (ii)** other loans and advances.

(B) There shall be stated under sub-head 3(A)(i),—

- (i)** the name of each borrower together with the amount of loans and advances, the terms of loan and advance and the particulars of collateral security held, if any; and

- (ii) in case of loans and advances to directors, chief executive and executives, the purposes for which loans and advances were made and reconciliation of the carrying amount at the beginning and end of the period showing disbursement and repayments.
- (C) There shall be stated under sub-head 3(A) (ii) in respect of loans and advances other than those to the suppliers of goods or services, the name of the borrower and terms of repayment if the loan or advance is material together with the particulars of collateral security, if any.
- (D) There shall be disclosed separately in respect of sub-head 3(A) (i) the maximum aggregate amount of loans and advances outstanding at any time since the date of incorporation or since the date of the previous balance-sheet, whichever is later. Such maximum amounts shall be calculated by reference to month-end balance.
- (E) Provision, if any, made for bad or doubtful loans and advances shall be shown as a deduction under each clause of sub-head 3(A).

LONG-TERM DEPOSITS AND PREPAYMENTS

- 4. There shall be stated separately long-term deposits and long-term prepayments. Any material item shall be disclosed separately.

CURRENT ASSETS

5(A). Current assets shall be classified under sub-heads appropriate to the company's affairs including, where applicable, the following, namely:—

- (i) Stores, spare parts and loose tools distinguishing, where practicable, each from the other;
- (ii) stock-in-trade distinguishing between appropriate classifications;
- (iii) trade debts other than loans or advances, showing separately debts considered good and debts considered doubtful or bad;
- (iv) loans and advances, showing separately those considered good and those considered doubtful or bad;
- (v) trade deposits and short term prepayments and current account balances with statutory authorities;
- (vi) interest accrued;
- (vii) other receivables specifying separately the material items;
- (viii) financial assets, other than as mentioned in clauses(iii) to (vii) above, and cash and bank balances;
- (ix) tax refunds due from the Government ; and
- (x) cash and bank balances, distinguishing between current and deposit accounts, where applicable.

(B) In the case of clauses (iii), (iv) and (viii) of sub-heads 5 (A) above the following particulars shall be stated separately, namely:—

- (i) The aggregate amount due by directors, chief executive and executives of the company and any of them severally or jointly with any other person; and
 - (ii) aggregate amount due by related parties, other than in clause (i) of sub-head 5(B) above, names to be specified in each case.

- (C) In case of clause (iii) of sub-head (5)(A) above there shall be shown under separate sub-heads the aggregate amount in respect of the following, namely:—
 - (i) Investments in related parties; and
 - (ii) other investments.

- (D) For the purposes of clause (i) and (ii) of sub-head (c) above, investments shall be shown under the head current assets, wherever applicable, indicating separately,—
 - (a) held to maturity investments;
 - (b) available for sale investments; and
 - (c) held for trading.

- (E) Provision, if any, made for diminution in the value of or loss in respect of any current asset shall be shown as a deduction from the gross amount of the respective assets.

SHARE CAPITAL AND RESERVES

6. Share capital and reserves shall be classified under the following sub-heads, namely:--
- (i) Issued, subscribed and paid up capital, distinguishing in respect of each class between,--
 - (a) shares allotted for consideration paid in cash;
 - (b) shares allotted for consideration other than cash, showing separately shares issued against property and others (to be specified); and
 - (c) shares allotted as bonus shares.
 - (ii) Reserves, distinguishing between capital reserves and revenue reserves.

SURPLUS ON REVALUATION OF FIXED ASSETS

7. The surplus on revaluation of fixed assets shall be treated and shown as specified in section 235 of the Companies Ordinance, 1984 (XLVII of 1984).

NON CURRENT LIABILITIES

- 8(A) Non-current liabilities shall be classified under appropriate sub-heads, duly itemized such as:

- (i) long term financing;
 - (ii) debentures;
 - (iii) liabilities against assets subject to finance lease;
 - (iv) long term murabaha;
 - (v) long term deposits; and
 - (vi) deferred liabilities.
- (B) Long term loans shall be classified as secured and unsecured, and under each class shall be shown separately:
- (i) loans from banking companies and other financial institutions, other than those as specified in clause (ii) below;
 - (ii) loans from related parties; and
 - (iii) other loans.
- (C) Long-term deposits shall be classified according to their nature.

CURRENT LIABILITIES

- 9(A)** Current liabilities and provisions shall, so far as they are appropriate to the company's business, be classified under the following sub-heads, namely:—
- (i) Trade and other payables, which shall be classified as:
 - (a) creditors;

- (b) murabaha;
 - (c) accrued liabilities;
 - (d) advance payments;
 - (e) payable to employee retirement benefit funds;
 - (f) unpaid and unclaimed dividend; and
 - (g) others (to be specified, if material);
- (ii)** interest, profit, return or mark-up accrued on loans and other payables;
- (iii)** short term borrowings which shall be classified as:
- (a) short-term borrowings, distinguishing between secured and unsecured and between loans taken from:
 - (i) banking companies and other financial institutions other than related parties;
 - (ii) related parties; and
 - (iii) others;
 - (b) short-term running finance, distinguishing between secured and unsecured;
- (iv)** current portion of long term borrowings;
- (v)** current portion of long term murabaha; and
- (vi)** provision for taxation, showing separately income tax and other taxes.

CONTINGENCIES AND COMMITMENTS

- 10.** There shall be added a footnote to the balance-sheet, showing separately,—
- (i)** aggregate amount of any guarantees given by the company on behalf of any related party and where practicable, the general nature of the guarantee;
 - (ii)** where practicable the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for or a statement that such an estimate can not be made; and
 - (iii)** any other commitment, if the amount is material, indicating the general nature of the commitment.

PART III.— REQUIREMENTS AS TO PROFIT AND LOSS ACCOUNT

- 1.** The profit and loss account shall be so drawn up as to disclose separately the manufacturing, trading and operating results. In the case of manufacturing concern, the cost of goods manufactured shall also be shown.
- 2.** The profit and loss account shall disclose all material items of income and expenses including the following, namely:—
 - (A)** The turnover and showing as deduction therefrom trade discount and sales tax.

(B) Expenses, classified according to their function under the following sub-heads, along with additional information on their nature, namely:—

- (i) Cost of sales;
- (ii) distribution cost;
- (iii) administrative expenses;
- (iv) other operating expenses; and
- (v) finance cost.

(C) Other operating income, which shall include the following, namely:—

- (i) Income from financial assets;
- (ii) income from investments in and debts, loans, advances and receivables to each related party; and
- (iii) income from assets other than financial assets.

(D) Finance cost shall show, inter alia, separately the amount of interest on borrowings from related parties, if any.

(E) Other information relating to the following, namely:—

- (i) Debts written off as irrecoverable distinguishing between trade debts, loans, advances and other receivables; and
- (ii) provisions for doubtful or bad debts distinguishing between trade debts, loans, advances and other receivables.

(F) The aggregate amount of auditors' remuneration, showing separately fees, expenses and other remuneration for services

rendered as auditors and for services rendered in any other capacity and stating the nature of such other services. In the case of joint auditors, the aforesaid information shall be shown separately for each of the joint auditors.

(G) In the case of donations where any director or his spouse has interest in the donee, the names of such directors, their interest in the donee and the names and address of all donees shall be disclosed.

3. There shall be stated by way of a note the respective amounts included in items (E) (i) and (ii) of paragraph 2 of this Part for:

(i) debts due by directors, chief executive, and executives of the company and any of them severally or jointly with any other person; and

(ii) debts due by related parties (other than in clause (i) above).

4. The following shall be stated by way of a note, namely:—

(i) The aggregate amount charged in the financial statements in respect of the directors, chief executive and executives by the company as fees, remuneration, allowances, commission, perquisites or benefits or in any other form or manner and for any services rendered, and shall give full particulars of such aggregate

amounts separately for the directors, chief executive and executives together with the number of such directors and executives, under appropriate heads, such as,—

- (a) fees;
- (b) managerial remuneration;
- (c) commission or bonus, indicating the nature thereof;
- (d) reimbursable expenses which are in the nature of a perquisite or benefit;
- (e) pension, gratuities, company's contribution to provident, superannuation and other staff funds, compensation for loss of office and in connection with retirement from office;
- (f) other perquisites and benefits in cash or in kind stating their nature and, where practicable, their approximate money values; and
- (g) the amounts, if material, by which any items shown above are affected by any change in an accounting policy.

(ii) In the case of sale of fixed assets, if the book value of the asset or assets exceeds in aggregate fifty thousand rupees, particulars of the assets and in aggregate,—

- (a) cost or valuation, as the case may be;
- (b) the book value; and

(d) the sale price and the mode of disposal (e.g. by tender or negotiation) and the particulars of the purchaser.”

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