Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the members of Octopus Digital Limited

Report on the Audit of the Financial Statements as at 31 December 2020

Opinion

We have audited the annexed financial statements of Octopus Digital Limited, which comprise the statement of financial position as at 31 December 2020, statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements and our auditors' report thereon.

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

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

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

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

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

Other matter

The financial statements of Octopus Digital Limited for the year ended 31 December 2020, were audited by another firm of chartered accountants who expressed an unmodified opinion on those statements on 24 April 2020.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Farooq Hameed.

EY Ford Rhodes

EY Ford Rhodes
Chartered Accountants
Lahore: 17 May 2021

OCTOPUS DIGITAL LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020	2019
ASSETS		**(Rupees)**	(Rupees)
Non current assets			
Property and equipment	**6**	**3,394,301**	93,348
Intangible assets	**7**	**1,089,575,948**	-
		1,092,970,249	93,348
Current assets			
Trade debts	**8**	**9,452,869**	994,490
Contract assets	**9**	**14,118,457**	-
Due from related parties	**10**	**237,870,545**	16,566,892
Advances and other receivables	**11**	**471,222**	60,000
Bank balances	**12**	**434,006**	3,710,934
		262,347,099	21,332,316
		1,355,317,348	21,425,664
EQUITY AND LIABILITIES			
CAPITAL AND RESERVE			
Authorized share capital 109,400,002 (2019:100,000,000) ordinary shares of Rs. 10 each	**13**	**1,094,000,020**	1,000,000,000
Issued, Subscribed and Paid up capital 109,400,002 (2019: 1,000,002) ordinary shares of Rs 10. each	**13**	**1,094,000,020**	10,000,020
REVENUE RESERVE			
Unappropriated profit		**210,580,906**	1,939,579
		1,304,580,926	11,939,599
Current liabilities			
Trade and other payables	**14**	**13,727,187**	7,271,295
Contract liabilities	**15**	**4,128,904**	-
Provision for taxation		**32,880,331**	2,214,770
		50,736,422	9,486,065
Contingencies and commitments	**16**		
		1,355,317,348	21,425,664

The annexed notes from 1 to 30 form an integral part of these financial statements

Chief Executive

Director

OCTOPUS DIGITAL LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		(Rupees)	(Rupees)
Revenue from contracts with customers	**17**	**277,113,714**	18,456,415
Cost of revenue	**18**	**(22,207,225)**	-
Gross profit		**254,906,489**	18,456,415
Administrative and selling expenses	**19**	**(15,345,607)**	(13,693,493)
Other operating expenses	**20**	**(216,718)**	(95,432)
Profit from operations		**239,344,164**	4,667,490
Finance cost	**21**	**(37,276)**	(4,110)
Profit before taxation		**239,306,888**	4,663,380
Taxation	**22**	**(30,665,561)**	(2,214,770)
Profit after taxation for the year		**208,641,327**	2,448,610
Other comprehensive income		**-**	-
Total comprehensive income		**208,641,327**	2,448,610

The annexed notes from 1 to 30 form an integral part of these financial statements

Chief Executive

Director

OCTOPUS DIGITAL LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES	**(Rupees)**	(Rupees)
Net profit before taxation	**239,306,888**	4,663,380
Adjustment for:		
Depreciation	**350,000**	42,984
Amortization	**14,453,333**	-
Operating profit before working capital changes	**254,110,221**	4,706,364
Adjustments for working capital changes		
Increase in current assets		
Trade debts	**(8,458,379)**	(17,561,382)
Contract assets	**(14,118,457)**	-
Advances and other receivables	**(385,930)**	(36,000)
Due from related parties	**(221,303,653)**	-
	(244,266,419)	(17,597,382)
Increase in current liabilities		
Contract liabilities	**4,128,904**	-
Trade and other payables	**6,455,892**	6,652,375
	10,584,796	6,652,375
Cash generated from / (used in) operations	**20,428,598**	(6,238,643)
Income tax paid	**(25,292)**	-
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES	**20,403,306**	(6,238,643)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(3,650,953)**	(55,443)
Additions in capital work-in-progress	**(20,029,281)**	-
NET CASH USED IN INVESTING ACTIVITIES	**(23,680,234)**	(55,443)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of ordinary shares	**-**	10,000,000
NET CASH GENERATED FROM FINANCING ACTIVITIES	**-**	10,000,000
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(3,276,928)**	3,705,914
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3,710,934**	5,020
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**434,006**	3,710,934

The annexed notes from 1 to 30 form an integral part of these financial statements

Chief Executive **Director**

OCTOPUS DIGITAL LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share Capital	Revenue Reserve	
	Issued, subscribed and paid-up capital	Unappropriated profit	Total Equity
	---------- (Rupees) ----------		
Balance as at 1 January 2019	20	(509,031)	(509,011)
Issue of ordinary shares	10,000,000	-	10,000,000
Total comprehensive income for the year	-	2,448,610	2,448,610
Balance as at 31 December 2019	**10,000,020**	**1,939,579**	**11,939,599**
Total comprehensive income for the year	**-**	**208,641,327**	**208,641,327**
Issuance of ordinary shares to parent company	**1,084,000,000**	**-**	**1,084,000,000**
Balance as at 31 December 2020	**1,094,000,020**	**210,580,906**	**1,304,580,926**

The annexed notes from 1 to 30 form an integral part of these financial statements

Chief Executive **Director**

1 CORPORATE AND GENERAL INFORMATION

1.1 Legal status and nature of the business

Octopus Digital Limited (the Company) was incorporated in Pakistan on 29 December 2017 as a private limited company which was converted to public Company on 11 November 2020 under the Companies Act, 2017. The Company is a wholly owned subsidiary of a listed company namely Avanceon Limited (the Holding Company). Its registered office is situated at 19 KM Main Multan Road, Lahore.

The prime business of the Company is to carry out Information Technology enabled services which includes but are not limited to online data/information storage, online monitoring and review of employees efficiency, online monitoring of cost and production efficiency, online monitoring and maintenance of plant and machinery, sale and trade of related software and equipment etc.

1.2 Business Transfer Arrangement

The Company entered into a Business Arrangement Contract dated 08 December 2020 with Avanceon Limited, the Holding Company. Under the contract, entire business of AMS segment was transferred to the Company along-with the existing customer contracts and employees involved in AMS business. The Company acquired the rights to carry on AMS business with effect from 01 January 2020 against consideration of Rs. 1,084 million settled through issuance of 108,400,000 shares of the Company at face value of Rs. 10 each.

The transaction has been accounted for using the acquisition method and accordingly, the intangible assets acquired as disclosed in note 7 have been initially measured at their fair value at the date of acquisition.

1.3 Impact of COVID-19 on the financial statements

The World Health Organization (WHO) declared COVID-19 as a global pandemic on 11 March 2020. Accordingly on March 20, 2020, the Government of Pakistan announced temporary lock down as a measure to reduce the spread of COVID-19. The outbreak of COVID-19 has had a distressing impact on overall demand in the global economy with notable downgrade in growth forecasts. The Company's management is fully cognizant of the business challenges posed by the COVID-19 outbreak and closely monitoring the possible impacts on the Company's operations and liquidity positions and believes that its current policies for managing credit, liquidity and market risk are adequate in response to current situation.

The Company's management is fully cognizant of the business challenges posted by the COVID-19 outbreak and closely monitoring the possible impacts on the Company's operations and liquidity positions and believes that its current policies for managing credit, liquidity and market risk are adequate in response to current situation. Further, subsequent to year end, the situation is improved with the easing of lock down and re-opening of the businesses.

The management has assessed the impact of the COVID 19 on the financial statements and concluded that there is no material impact of the COVID 19 on the carrying amounts of assets, liabilities, income or expenses which required specific disclosures.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2.2 Standards, Interpretations and amendments to published approved accounting standards

2.2.1 New/ Revised Standards, Interpretations and Amendments

Changes in accounting policies and disclosures resulting from amendments in standards during the year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year, except for new standards, interpretation and amendments to following standards as described below:

IFRS 3	-	Business Combinations - Definition of a Business (amendments)	01 January 2020
IFRS 7 & IFRS 9	-	Financial instruments - Amendments regarding pre-replacement issues in the context of the interest rate benchmark reform (IBOR)	01 January 2020
IAS 1 & IAS 8	-	Presentation of Financial Statements & Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material, to clarify the definition of material and its alignment with the definition used in the Conceptual Framework (amendments)	01 January 2020
IFRS 16	-	Covid-19-Related Rent Concessions (Amendment to IFRS 16)	01 June 2020
IFRS 14		Regulatory Deferral Accounts - Original issue	01 July 2019

The adoption of the above amendments and improvements to accounting standards did not have any material effect on the financial statement.

The IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which is effective for annual periods beginning on or after 01 January 2020 for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Amendments to approved accounting standards that are not yet effective

The following standards, amendments and interpretations with respect to the approved accounting standards, as applicable in Pakistan, would be effective from the dates mentioned below and have not been adopted early by the Company:

Standard or Interpretation		**Effective date (annual periods beginning on or after)**
IFRS 7 & IFRS 9	Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	01 January 2021
IFRS 3	Business Combinations – The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.	01 January 2022
IAS 16	Property, plant and equipment – Amendment to clarify the prohibition on an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.	01 January 2022
IAS 37	Provisions, contingent liabilities and contingent assets to specify which costs should be included in an entity's assessment whether a contract will be loss-making.	01 January 2022
IAS 1	Presentation of Financial Statements to clarify how to classify debt and other liabilities as current	01 January 2023

The above amendments to standards are not expected to have any material impact on the Company's financial statements in the period on initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

Standard			**IASB effective date (annual periods beginning on or after)**
IFRS 1	-	First time adoption of International Financial Reporting Standards	01 July 2009
IFRS 17	-	Insurance Contracts	01 January 2023

The Company expects that the adoption of the above standards will not affect the Company's financial statements in the period of initial application.

3 BASIS OF PREPARATION

3.1 BASIS OF MEASUREMENT

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

3.2 PRESENTATION CURRENCY

These financial statements are presented in Pakistan Rupee (PKR), which is the Company's functional currency. All financial information presented in PKR has been rounded off to nearest rupee.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

4.1 Provision for taxation

Provision for taxation is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income and the decisions taken by appellate authorities. The charge for tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted.

4.2 Provisions and contingencies

The Company reviews the status of all pending litigations and claims against the Company. Based on its judgment and the advice of the legal advisors for the estimated financial outcome, appropriate disclosure or provision is made. The actual outcome of these litigations and claims can have an effect on the carrying amounts of the liabilities or assets recognized at the reporting date.

4.3 Provision for expected credit losses

For trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

4.4 Impairment of non-financial assets

Non-financial assets excluding goodwill are reviewed for impairment at each reporting or whenever events or changes in circumstances indicate, that the carrying amount may not be recoverable. Goodwill is tested for impairment at each reporting date. An impairment loss is recognized, equal to the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each statement of financial position date. Reversals of the impairment loss are restricted to the depreciated cost of the asset. An impairment loss, or the reversal of an impairment loss, is recognized in the statement of profit or loss for the year.

4.5 Cost to complete the projects and related revenue

As part of application of cost to cost method on contract accounting, the Company estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognized.

These estimates are based on the prices of materials and services applicable at that time, forecasted increases and expected completion date at the time of such estimation. Such estimates are reviewed at regular intervals. Any subsequent changes in the prices of materials and services compared to forecasted prices and changes in the time of completion affect the results of the subsequent periods. In accordance with the matching principle, the revenue recognition is based on percentage of completion method.

4.6 Purchase price allocation

The Company has made provisional assessment of purchase price allocation to intangible assets acquired under the Business Transfer Arrangement as explained in note 1.2. The Company has used judgment in identification of intangible assets acquired and allocation of purchase price to each of these assets.

Other areas where estimates and judgments involved are disclosed in respective notes to the financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Property plant and equipment

Owned assets

Property and equipment are stated at cost less accumulated depreciation and any identified accumulated impairment loss.

Depreciation is charged to profit or loss using the straight line method whereby the cost less residual value of an operating asset is written off over its estimated useful life. Depreciation is charged on additions from the month of its acquisition whereas no depreciation is charged on assets disposed off during the month. The rates of depreciation are stated in note 6 to the financial statements. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

The Company assesses at each reporting date whether there is any indication that property and equipment may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit or loss currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit or loss during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period in which it is incurred.

5.2 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Capital work-in-progress

Capital work in progress is stated at cost less any identified impairment loss.

5.3 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

5.4 Financial instruments – initial recognition and subsequent measurement

5.4.1 Financial instruments: assets

i) Classification and measurement of financial

Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument.

business model test) and the contractual cash flows of the asset which meet the solely payments of principal and interest ('SPPI') test.

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The Company determines the classification at initial recognition.

a) Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FV

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has trade debts, due from related parties and bank balances classified as financial assets at amortized cost.

b) Financial assets at fair value through OCI (FVTOCI)

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment by investment basis.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company does not have any financial asset under this category.

c) Financial assets at fair value through profit or loss

A financial asset is mandatorily classified in this category if it is acquired principally for the purpose of selling in the short term, or if it fails the SPPI test. Derivatives are classified as FVTPL as they do not meet the SPPI criteria.

A financial asset can be classified in this category by choice if so designated by management at inception. This designation is because the relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair value basis.

The Company defines fair value as the price, as at the measurement date, that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Company does not have any financial asset under this category.

ii) Initial recognition

At initial recognition, the Company recognizes a financial asset except for trade debts without significant financing component at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

iii) Subsequent measurement

Gains and losses arising from changes in the fair value of assets classified as fair value through profit or loss are included in the statement of profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of debt instruments classified as fair value through other comprehensive income are recognized as other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in statement of comprehensive income is recognized in the statement of profit or loss. Any premium or discount paid on the purchase of securities held at amortized cost is amortized through the statement of profit or loss using the effective interest rate method.

iv) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying value and the sum of the consideration received and receivable is recognized in statement of profit or loss. In addition, on derecognition of an investment in a debt instrument classified as FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to statement of profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to equity.

5.4.2 Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, contract assets and due from related parties, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

5.4.3 Offsetting of financial assets and liabilities

enforceable right to set off the recognized amount and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

5.4.5 Financial Instruments: liabilities

i) Classification of financial liabilities

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

ii) Initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of financial liabilities measured at amortized cost, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

iii) Subsequent measurement

Financial liabilities at amortized cost are subsequently measured at amortized cost. Whereas, financial liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial liabilities held at FVTPL are included in the statement of profit or loss in the period in which they arise.

Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in statement of comprehensive income. Currently, there are no financial liabilities designated at FVTPL.

iv) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

5.5 Trade debts and other receivables

Trade debts and other receivables are recognized and carried at original invoice amount less expected credit losses (ECL) as explained in Note 5.4.2.

5.6 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of statement of cash flows, cash and cash equivalents comprise of bank balances.

5.7 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the reporting date. Transactions in foreign currencies are translated into rupees at the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

5.8 Revenue recognition

The Company records its revenue on following basis as discussed below:

Sale of goods

Revenue from sale of goods is to be recognized at a point in time when control of the goods is transferred to the customers, generally on delivery of products to customers.

Rendering of services

Maintenance and service income comprises of revenue earned from service level agreements, where the customer enters into a contract with the Company for a fixed period of time and fee amount, both pre-defined in the contract, for various technical and engineering services. Revenue is recognized on the basis of percentage of rendering of services, i.e. on the number of days of services performed out of the total contracted days for service level agreements.

Project revenue

These comprise of projects such as Hardware and Software Automation, Efficiency solution, Scada Upgradation etc. Revenue from these projects is accounted for using cost to cost method, according to which the Company's progress towards satisfaction of performance obligations is determined by dividing actual cost incurred on the project to date by total forecasted cost, which is calculated by a team of engineers on the inception of the project.

5.9 Related party transactions

Transactions involving related parties arising in the normal course of business are conducted at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Parties are said to be related if they are able to influence the operating and financial decisions of the Company and vice versa.

6 PROPERTY AND EQUIPMENT

Operating fixed assets -

2020									
Description	C O S T			DEPRECIATION			Net book value as at 31 December 2020	Rate
	As at 01 January 2020	Additions during the year	As at 31 December 2020	Opening depreciation as at 01 January 2020	Depreciation charge for the year	As at 31 December 2020		
---------- Rupees ----------								
Tools and Equipment	-	3,650,953	3,650,953	-	304,246	304,246	3,346,707	33.33%
Office Equipment	55,443	-	55,443	8,317	11,088	19,405	36,038	20%
Computers	104,000	-	104,000	57,778	34,666	92,444	11,556	33.33%
Total	159,443	3,650,953	3,810,396	66,095	350,000	416,095	3,394,301	

Description	COST			DEPRECIATION			Net book value as at 31 December 2019	Rate
	As at 01 January 2019	Additions during the year	As at 31 December 2019	Opening depreciation as at 01 January 2019	Depreciation charge for the year	As at 31 December 2019		
2019								
	---------- Rupees ----------							
Office Equipment	-	55,443	55,443	-	8,317	8,317	47,126	20%
Computers	104,000	-	104,000	23,111	34,667	57,778	46,222	33.33%
	104,000	55,443	159,443	23,111	42,984	66,095	93,348	

6.1.2 The depreciation charge for the year on fixed assets has been allocated as follows:

	Note	2020	2019
		(Rupees)	(Rupees)
Cost of revenue	**18**	**175,000**	-
Administrative and selling expenses	**19**	**175,000**	42,984
		350,000	42,984

7	**INTANGIBLE ASSETS**	**Note**	**2020**	2019
			(Rupees)	(Rupees)
	Intangible assets acquired on business transfer			
	Assets having indefinite life		**650,400,000**	-
	Assets having finite life	7.1	**419,146,667**	-
			1,069,546,667	-
	Capital work in progress	7.2	**20,029,281**	-
			1,089,575,948	-
7.1	Cost	7.1.1	**433,600,000**	-
	Less: Accumulated amortization		**(14,453,333)**	-
	Net book value as at 31 December		**419,146,667**	-
	Amortization rate		**3.33%**	-
7.1.1	**Cost**			
	As at 01 January		**-**	-
	Additions during the year	7.1.3	**433,600,000**	-
	As at 31 December		**433,600,000**	-
7.1.2	**Amortization**			
	As at 01 January		**-**	-
	For the year	7.1.2.1	**14,453,333**	-
	As at 31 December		**14,453,333**	-

7.1.2.1 The amortization charge has been allocated to cost of revenue.

7.1.3 This represents intangible assets acquired on purchase of After Market Support (AMS) segment from the Holding Company; Avanceon Limited as explained in note 1.2. As mentioned in the note, the transaction was completed close to the year end; therefore, the Company is in process of finalizing the allocation of purchase price to identifiable intangible assets acquired. As per provisional assessment the Company has identified following intangible assets:

	Note	**2020**
		(Rupees)
Customer contracts with recommendation		**75,880,000**
General SOPs, Manuals, Procedures and Policy documentation		**32,520,000**
Customer and subscriber lists		**54,200,000**
Specific Database, Technology and Policy Manuals		**271,000,000**
Assets having finite life		**433,600,000**
Goodwill	7.1.4	**650,400,000**
		1,084,000,000

7.1.4 Goodwill has been tested for impairment. The recoverable amount has been determined based on a value in use calculation using cash flow projections from the financial budgets approved by the Board covering a five-year period. The discount rate applied to cash flow projections is 14.6% per annum. The calculation of value-in-use is most sensitive to assumptions relating to revenue growth, terminal growth and discount rate used.

These assumptions are important, as well as using industry data for growth rates, management assesses how the position might change over the projected period and ready to trade off amongst various revenue options to meet the desired results. Management believes that reasonable possible changes in other assumptions used to determine the recoverable amounts will not result in an impairment of goodwill.

7.2 This relates to the development of software to provide digital services.

		Note	**2020**	2019
			(Rupees)	(Rupees)
8	**TRADE DEBTS**			
	Considered good			
	Due from related party-Avanceon Limited		**-**	994,490
	Due from others	8.2	**9,452,869**	-
			9,452,869	994,490
8.1	**Ageing of Avanceon Limited**			
	Past due 1–30 days		-	994,490
8.2	**Ageing of due from others**			
	Past due 1–30 days		**7,974,096**	-
	Past due 31–90 days		**7,995**	-
	Over 90 days		**1,470,778**	-
			9,452,869	-
9	**CONTRACT ASSETS**			
	Project deferred revenue		**2,595,802**	-
	Project deferred cost		**11,522,655**	-
			14,118,457	-

10	DUE FROM RELATED PARTIES - UNSECURED, CONSIDERED GOOD	Note	2020	2019
			(Rupees)	(Rupees)
	Avanceon Limited		**208,368,098**	16,566,892
	Avanceon FZE		**9,192,064**	-
	Avanceon Automation & Control WLL		**20,310,383**	-
			237,870,545	16,566,892

10.1 These balances are unsecured, interest free and recoverable in the normal course of business.

11	ADVANCES AND OTHER RECEIVABLES	Note	2020	2019
			(Rupees)	(Rupees)
	Advance to employees		**54,000**	-
	Tax deducted at source		**85,292**	60,000
	Advances to suppliers		**331,930**	-
			471,222	60,000
12	**BANK BALANCES**			
	Current account		**434,006**	3,203,026

13 SHARE CAPITAL

2020	2019		2020	2019
No. of shares				
109,400,002	100,000,000	**Authorized share capital ordinary shares of Rs.10**	**1,094,000,020**	1,000,000,000
		Issued, subscribed and paid-up capital		
1,000,002	1,000,002	Ordinary shares of Rs.10 each fully paid in cash	**10,000,020**	10,000,020
108,400,000	-	Ordinary shares of Rs.10 each issued for consideration other than in cash (note 13.3)	**1,084,000,000**	-
109,400,002	1,000,002		**1,094,000,020**	10,000,020

13.1 109,400,000 (2019: 1,000,000) shares are held by Avanceon Limited, parent Company and remaining 2 (2019:2) shares are held by two directors i.e. Tanveer Karamat and Bakhtiar Hameed Wain.

13.2	Movement during the year is as follows:	2020	2019	2020	2019
		No. of shares		**(Rupees)**	(Rupees)
	Balance as at January 01	**1,000,002**	2	**10,000,020**	20
	Issued during the year	**108,400,000**	1,000,000	**1,084,000,000**	10,000,000
	Balance as at December 31	**109,400,002**	1,000,002	**1,094,000,020**	10,000,020

13.3 These shares have been issued against transfer of business of After Market Support segment from Holding Company as explained in note 1.2.

14	CREDITORS, ACCRUED AND OTHER LIABILITIES	Note	2020	2019
			(Rupees)	(Rupees)
	Creditors		**1,361,466**	-
	Accrued liabilities		**500,000**	250,000
	Payable to employees		**768,726**	-
	Tax deducted at source		**39,446**	-
	Sales tax payable		**11,057,549**	2,953,026
	Other liabilities	**14.1**	**-**	4,068,269
			13,727,187	7,271,295

14.1 This represent the amount Rs. Nil (2019:Rs.4,068,269) transferred to Company to carry out the day to day operations by Avanceon FZE. These payments are un secured and do not carry interest.

15	CONTRACT LIABILITIES	Note	2020	2019
			(Rupees)	(Rupees)
	Advances from customers	**15.1**	**4,125,732**	-
	Billing in excess of earnings	**15.2**	**3,172**	-
			4,128,904	-

15.1 This amount relates to the advance received from customer with respect to after market support project (AMS)

15.2 **Movement of billings in excess of earnings:**

	2020	2019
As at 01 January	**-**	-
Addition during the year	**892,976**	-
Recognized as revenue during the year	**(889,804)**	-
As at 31 December	**3,172**	-

16 CONTIGENCIES AND COMMITMENTS

16.1 There are no contingencies and commitments of the Company as at 31 December 2020.(2019: Rs. Nil)

		Note	2020	2019
17	**REVENUE FROM CONTRACTS WITH CUSTOMERS**		**(Rupees)**	(Rupees)
	Transfer of business	**17.1**	**241,242,084**	-
	Revenue from contracts with customers	**17.2**	**35,871,630**	18,456,415
			277,113,714	18,456,415

17.1 The Company acquired the business of After Market Support (AMS) segment of Avanceon Limited as explained in note 1.2 with effect from 01 January 2020. However, due to operational and procedural reasons, Avanceon Limited continued to carry on business with its customers of AMS segment after the effective date of the contract uptil 30 September 2020. Therefore, as of this date, the entire AMS segment's revenue net of direct cost recorded by Avanceon Limited relating to period after effective date was transferred to the Company after retaining an administrative charge.

The following table demonstrates the AMS revenues earned from different geographical locations of the Group transferred to the Company:

	Pakistan	Dubai	Qatar	Total
		Rupees		
AMS Segment Revenues of Group	**187,055,350**	**241,314,072**	**84,855,237**	**513,224,659**
Cost of AMS Segment of Group	**(84,304,042)**	**(82,342,830)**	**(27,007,432)**	**(193,654,304)**
Gross profit	**102,751,308**	**158,971,242**	**57,847,805**	**319,570,355**

		Note	2020	2019
17.2	**Timing of revenue recognition**		**(Rupees)**	(Rupees)
	At a point in time		**5,717,737**	-
	Over the time		**30,153,893**	-
			35,871,630	-
17.2.1	**Local sales and services**			
	Sale of goods		**6,839,761**	-
	Less: Sales tax		**(994,198)**	-
			5,845,563	-
	Services rendered		**6,475,251**	-
	Less: Sales tax		**(449,185)**	-
			6,026,066	-
	Fee for technical services - Avanceon Limited	**-**	**27,840,000**	-
	Less: Sales tax		**(3,840,000)**	-
			24,000,000	-
	Agency commission		**-**	21,409,441
	Less: Sales tax		**-**	(2,953,026)
			-	18,456,415
	Net sales		**35,871,629**	18,456,415

		Note	2020	2019
18	**COST OF REVENUE**			
	Materials consumed		**3,482,917**	-
	Salaries, wages, allowances and other benefits		**1,628,842**	-
	Telephone, postage and telex		**63,214**	-
	Travelling and conveyance relating to engineering services		**1,731,912**	-
	Printing and stationery expense		**11,278**	-
	Installation charges relating to engineering services		**469,243**	-
	Entertainment relating to engineering services		**67,306**	-
	Rent, rates and taxes		**84,000**	-
	Depreciation on Property and equipment	**6.1.2**	**175,000**	-
	Amortization on intangible assets	**7.1.2.1**	**14,453,333**	-
	Other expenses		**40,180**	-
			22,207,225	-

18.1 As explained in note 17, the cost of revenue relating to period from January 1, 2020 to September 30, 2020 has been netted off against the respective revenue categories as it was transferred to the Company on basis of percentage of margin recorded by the Group companies during this period.

		Note	2020	2019
19	**ADMINISTRATIVE AND SELLING EXPENSES**		**Rupees**	Rupees
	Salaries, wages, allowances and other benefits		**9,230,106**	7,228,569
	Telephone, postage and telex		**63,214**	41,470
	Taxes		**84,000**	-
	Sales promotion expense		**-**	551,147
	Printing and stationery expense		**11,278**	47,877
	Travelling and conveyance		**887,555**	578,743
	Legal and professional charges		**746,613**	1,986,000
	Auditors' remuneration	**19.1**	**500,000**	338,750
	Fee and subscription		**3,600,535**	377,953
	Depreciation on property and equipment	**6.1.2**	**175,000**	42,984
	Entertainment		**47,306**	
	Back office support	**19.2**	**-**	2,500,000
			15,345,607	13,693,493

19.1 Auditors' remuneration

	2020	2019
	Rupees	Rupees
Statutory audit fee		
Ali Akhtar Adnan	**-**	250,000
EY Ford Rhodes	**500,000**	-
Out of pocket expenses	**-**	62,500
Certification fee	**-**	26,250
	500,000	338,750

19.2 This represents the management fee charged by the Holding Company Rs. Nil (2019: 2,500,000) for sharing office premises, operational, human resource and administrative support as per the agreement between the parties.

	2020	2019
20 OTHER OPERATING EXPENSES	**Rupees**	Rupees
Exchange loss	**216,718**	95,432
21 FINANCE COST		
Bank charges	**37,276**	4,110
22 PROVISION FOR TAXATION		
Current tax		
- for the year **22.1**	**30,665,561**	2,214,770

22.1 Relationship between tax expenses and accounting profit	**2020 Rupees**
Profit before tax	**239,306,888**
Tax at applicable tax rate	**69,398,998**
Tax effect of expenses not allowed for tax	**4,292,967**
Tax effect of expenses allowed for tax	**(7,934,734)**
Exempt income	**(35,091,669)**
	30,665,562

22.2 Tax charge reconciliation has not been presented for prior year as the income was subject to tax at fixed rate of 12% of revenue.

23 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, directors and executives of the Company is as follows:

	Executives		**Directors**		**Chief Executive**	
	2020 (Rupees)	2019 (Rupees)	**2020 (Rupees)**	2019 (Rupees)	**2020 (Rupees)**	2019 (Rupees)
Managerial remuneration	**3,544,710**	-	**-**	-	**-**	-
House Rent	**1,417,884**	-	-	-	-	-
Utilities	**354,471**	-	-	-	-	-
Provident Fund	**354,471**	-	-	-	-	-
Other	**23,100**	-	-	-	-	-
	5,694,636	-	**-**	-	**-**	-
Number of Persons	**2**	-	**2**	1	**1**	1

24 RELATED PARTY TRANSACTIONS

Related party transactions represent transactions with holding companies and associated companies on the basis of common directorship. The Company carries out transactions with its related parties in the normal course of business. Significant related party transactions, other than remuneration of directors which is disclosed in Note 23, are as follows:

Name of related party	Basis of Relationship	Nature of transactions	2020 (Rupees)	2019 (Rupees)
Avanceon FZE	Associated Company due to common directorship	Funds received by the Company	**-**	3,704,400
		Receivable against sub-contracted services	**16,460,547**	-
		Expenses incurred on behalf of the Company	**2,872,492**	-
		Exchange loss	**327,722**	95,342
Avanceon Automation And Control WLL	Associated Company due to common directorship	Receivable against sub-contracted services	**20,310,383**	-
Avanceon Limited	Holding Company	Expenses incurred by the Company on behalf of Holding Company	**-**	17,561,382
		Expenses incurred by Holding Company on behalf of the Company	**37,244,649**	-
		Share of profit receivable from parent Company	**186,582,463**	-
		Project deferred cost	**11,991,898**	-
		Funds received by the Company	**1,130,082**	-
		Funds transferred by the Company	**6,000,000**	-
		Fee for technical service charged by the Company	**27,840,000**	-
		Receivable against sub-contracted services	**20,750,882**	-

24.1 Name of undertaking, registered address and country of incorporation in respect of companies incorporated outside Pakistan with whom the Company has entered into transactions during the year is as follows:

Name of Company	Registered address	County of incorporation
Avanceon FZE	FZS 1BD04 Jebel Ali Free Zone Dubai UAE, PO BOX 18590	Dubai
Avanceon Automation And Control WLL	Al Jaber Engg. HO Building Box: 15976, Fox Hills, Lusail, Doha - Qatar	Qatar

25 FINANCIAL RISK MANAGEMENT OBJECTIVES

The Company's principal financial liabilities comprises of creditors and other liabilities. The Company's financial assets include trade debts, due from related parties, cash and bank balances that arrive directly from its operations. In addition to these, the Company also has receivables from related parties.

The Company's activities expose it to a variety of financial risks: Credit risk ,liquidity risk and market risk (including currency risk and interest rate risk),. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board), and Finance Department. The Board provides principles for overall risk management, as well as policies covering specific areas such as credit risk, liquidity risk, market risk and interest rate risk.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to react to changes in market conditions and the Company's activities.

25.1 Credit Risk

25.1.1 Exposure to credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Company does not believe it is exposed to major concentration of credit risk, however, to manage any possible exposure the Company applies approved credit limits to its customers.

The management monitors and limits Company's exposure to credit risk through monitoring of client's credit exposure review and conservative estimates of provisions for expected credit losses, if any, and through expected recoverability of amounts. The Company is exposed to credit risk on long term deposits, trade debts and bank balance. The maximum exposure to credit risk at the reporting date is:

	2020 (Rupees)	2019 (Rupees)
Trade debts	**9,452,869**	994,490
Contract assets	**14,118,457**	-
Due from related parties	**237,870,545**	-
Bank balances	**434,006**	3,710,934
	261,875,877	4,705,424

The maximum exposure to credit risk for trade debts at the reporting date by geographical region is as follows:

	2020	2019
Domestic	**9,452,869**	994,490
Export	**-**	-
	9,452,869	994,490

As per the Company's assessment of credit risk of its trade debts and contract assets, based on past experience of the Group with the counter-parties, historic default rate is zero. Therefore, it considers the credit risk to be minimal and no expected credit loss has been recognized.

Balances due from related parties are recoverable within a period of twelve months from the reporting date; therefore the impact of time value of money is considered immaterial and resultantly the impact of expected credit loss is minimal.

25.1.2 Bank balances- Credit quality

Credit risk from balances with banks and financial institutions is managed by the Company's finance department in accordance with the Company's policy. The Company deals with banks having credit ratings in the top categories therefore, considers these as low risk and does not expect credit loss to arise on the balances. Following are the credit ratings of banks with which balances are held:

Counter party	Rating			2020	2019
	Short term	Long term	Agency	Amount (Rupees)	
JS Bank Limited	A-1+	AA-	PACRA	**434,006**	3,710,934

25.2 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The foreign currency transaction of the Company are mainly receivable from related parties.

This exists due to the Company's exposure resulting from outstanding import payments or foreign creditors and in respect of export revenue. A foreign exchange risk management guideline has been provided by the Corporate Center. The policy allows the Company to take currency exposure within predefined limits while open exposures are monitored. The Company aims to protect itself against adverse currency movements by either linking the price of its products to foreign currency.

The Company is exposed to currency risk arising primarily with respect to the United States Dollar (USD), United Arab Emirates Dirham (AED) and Qatari Riyal (QAR). The Company's exposure to foreign currency changes for all other currencies is not material. Currently, the Company's foreign exchange risk exposure is restricted to foreign currency creditors, debtors and bank balances as shown below:

	2020			
	Rupees	USD	AED	QAR
Due from related parties				
- Avanceon FZE Dubai	**9,192,064**	**-**	**212,533**	**-**
- Avanceon Automation and Control W.L.L, Qatar	**20,310,383**	**-**	**-**	**474,764**
- Others				
USD	**331,930**	**2,072**	**-**	**-**
	29,502,447	**2,072**	**212,533**	**474,764**
Trade Payables				
- Others				
USD	**(1,120,922)**	**(6,996)**	**-**	**-**
Net Exposures	**28,381,525**	**(4,924)**	**212,533**	**474,764**

The following significant exchange rates were applied during the year:	2020	2019
Rupees per USD		
Average rate	**157.67**	146.98
Reporting date rate	**160.23**	155.10
Rupees per AED		
Average rate	**42.74**	40.02
Reporting date rate	**43.25**	42.23
Rupees per QAR		
Average rate	**42.69**	40.36
Reporting date rate	**42.78**	42.59

Foreign currency sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in the US Dollar, Arab Emirates Dirham, Qatari Riyal and Euro exchange rate, with all other variables held constant, of the Company's profit before tax and equity.

	USD		
	Change in Exchange rate	Effect on profit/(loss) before tax	Effect on equity
		(Rupees)	
2020	**5%**	**(39,449)**	**(28,009)**
	-5%	**39,449**	**28,009**
2019	5%	-	-
	-5%	-	-

	AED		
	Change in Exchange rate	Effect on profit/(loss) before tax	Effect on equity
		(Rupees)	
2020	**5%**	**459,603**	**326,318**
	-5%	**(459,603)**	**(326,318)**
2019	5%	-	-
	-5%	-	-

	QAR		
	Change in Exchange rate	Effect on profit/(loss) before tax	Effect on equity
		(Rupees)	
2020	**5%**	**1,015,520**	**721,019**
	-5%	**(1,015,520)**	**(721,019)**
2019	5%	-	-
	-5%	-	-

ii) Other price risk

Other price risk is a risk that fair value or future cash flows of a financial instruments will fluctuate because of changes in the market prices (other than those arising from currency risk and interest rate risk), whether those changes are caused by specific to the individual financial instruments or its issuer, or factors effecting all similar instruments traded in the market.

As at 31 December 2020, the Company is not exposed to any significant price risk. (2019: Nil)

iii) Interest rate risk

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

As at 31 December 2020, the Company is not exposed to any interest risk (2019: Nil).

25.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credits facilities.

Financial liabilities in accordance with their contractual maturities are presented below:

	Carrying amount	Contractual cash flow	Within 1 year	Between 1 and 5 years	Over 5 years
	------------	------------	(Rupees)	------------	------------
As at 31 December 2020					
Trade and other payables	**2,630,192**	**2,630,192**	**2,630,192**	**-**	**-**

	Carrying amount	Contractual cash flow	Within 1 year	Between 1 and 5 years	Over 5 years
As at 31 December 2019	------------	------------	(Rupees)	------------	------------
Trade and other payables	250,000	250,000	250,000	-	-

25.4 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. The Company has no financial instruments categorizing at fair value through profit and loss or at fair value through other comprehensive income.

25.5 Financial instruments by category

	2020	2019
	(Rupees)	(Rupees)
- Debt instruments at amortized cost		
Trade debts	**9,452,869**	994,490
Due from related parties	**237,870,545**	-
Total financial assets	**247,323,414**	994,490
Cash and cash equivalents	**434,006**	3,710,934
Total current assets	**247,757,420**	4,705,424

	2020	2019
FINANCIAL LIABILITIES	**(Rupees)**	(Rupees)
At amortized cost		
Trade and other payables	**2,630,192**	250,000
Total current financial liabilities	**2,630,192**	250,000

26 FAIR VALUE MEASUREMENT

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to levels 1 to 3 based on the degree to which fair value is observable:

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair values are observable either, directly or indirectly.
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The Company did not have any financial instruments carried at fair value to be disclosed in financial statement (2019: Nil).

27 CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company manages its capital structure and makes adjustments to in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares or sell assets to reduce debt. The management seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Company finances its operations through equity, and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. Consistent with others in the industry and the requirements of the lenders the Company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including current and non-current borrowings less cash and bank balances.

Gearing ratio is not calculated as there is Nil borrowings of Company as at 31 December 2020.

28 NUMBER OF EMPLOYEES	**2020**	2019
Number of employees at year end	**21**	4
Average number of employees	**20**	3

29 CORRESPONDING FIGURES

Corresponding figures have been re-arranged or reclassified wherever necessary, for better and fair presentation. No significant re-arrangement or reclassification has been made during the year except for the following disclosed below:

Description	Reclassified From	Reclassified To	2019
Expenses on behalf of parent Company	Trade debts (Note 8)	Due from related parties (Note 11)	16,566,892

30 DATE OF AUTHORIZATION

These financial statements have been authorized for issue by the Board of Directors of the Company on 20 April 2021.

Chief Executive **Director**