



## CORPORATE INFORMATION

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BOARD OF DIRECTORS	Mr. AbdulHam eed Khan Mr. M uham m ad Akhtar I Pathan Mr. M oham m ad M ushanafKhan	(Chairm an) (D irector) (D irector)
AUDIT COMM ITTEE	Mr. M uham m ad Akhtar I Pathan Mr. AbdulH am eed Khan Mr. M oham m ad M ushanafKhan	(Chairm an) (M em ber) (M em ber)
HUMAN RESOURCE AND REMUNERATION COMM ITTEE	Mr. AbdulH am eed Khan Mr. M uham m ad Akhtar I Pathan Mr. M oham m ad M ushanafKhan	(Chairm an) (M em ber) (M em ber)
SHARIAH ADVISOR	M ufti M uham m ad Ibrahin Essa	
COMPANY SECRETARY	Mr. M oham m ad M ushanafKhan	
BANKERS	BurjBank Lin ited Habb Bank Ltd. (Islam ic Banking) A baraka Bank (Pakistan) Ltd. FaysalBank Lin ited	
AUDITORS	M . YousufAdilSaleem & Co. Chartered Accountants	
LEGAL ADVISOR	M uham m ad ZubairQ uraishy & Co.	
MANAGEMENT COMPANY	M /s RoyalM anagem entServices (Pvt.) Lin ited	
REGISTERED OFFICE	O ffice No. 54, G round F bor, Beverley Centre, 56-G, Blue Area, Islam abad	
KARACHIOFFICE	O ffice No. A-601-602, 6th F bor, Lakson Square Building No 3, SawarShaheed Road, Karachi- 74200, Tel: 92-21-35643086-87, Fax: 92-21-35643283	
SHARE REGISTRAR	Shares & Corporate Services (Pvt.) Lin ited, M ehersons Estate, 1st F bor, B bck-E, Talpur Road, Karachi- 74000 Tel: 021 -32401634	



## CHARMAN'S REVIEW

The Board of Directors of Royal Management Services (Pvt) Limited, Managers First Pak Modaraba are pleased to present 22nd Annual Report of First Pak Modaraba together with Audited Accounts and Auditors' Report thereon for the year ended 30<sup>th</sup> June 2013 before the certificate holders.

KEY OPERATING / FINANCIAL HIGHLIGHTS	(Rs. in million)	
Year ended	30.06.2013	30.06.2012
<b>Total Income from Operations</b>	<b>6.348</b>	<b>8.200</b>
<b>Operating Expenses</b>	<b>4.246</b>	<b>4.801</b>
<b>Profit from Operation</b>	<b>2.102</b>	<b>3.399</b>
<b>Unrealized Gain / (Loss) on Re-measurement of Investment</b>	<b>(0.064)</b>	<b>(1.521)</b>
<b>Net Profit / (Loss)</b>	<b>1.957</b>	<b>1.886</b>
<b>Earning per Certificate (Re)</b>	<b>0.16</b>	<b>0.15</b>
<b>Dividend declared (Re)</b>	<b>0.12</b>	<b>0.12</b>

## REVIEW OF OPERATIONS:

The Board of Directors is pleased to announce a cash dividend @ 1.20 percent (Re.0.12 per certificate) for the year ended 30-06-2013, to the certificate holders of the First Pak Modaraba. The Management of Modaraba has waived its management fee for this year to provide maximum return to the certificate holders.

During the Fiscal Year 2013, Pakistan's economy continued to remain under pressure due to low growth and an unfavorable fiscal and balance of payments position. The main reason for the low growth rate and low productivity was contraction of private investment expenditure, which declined for the fifth consecutive year. This decline in investment was mainly due to energy crises and challenging law and order situation in the country. In order to spur economic growth, the State Bank of Pakistan continued a monetary policy of reducing discount rate, during the period under review, resulting in reduction in discount rates by 300 basis point to 9% by June 2013.

During the year ended on 30<sup>th</sup> June 2013, the overall operating performance of the First Pak Modaraba reflects that Operating Income decreased to Rs.6.348 M million as against Rs.8.20 M million during the last year. Modaraba has earned Rs.1.319 M million capital gain on sale of investments compared to earned Rs.1.196 M million last year. Operating expenses has decreased to Rs.4.246 M million from Rs.4.801 M million as compared to last year FY 2011-12. The Net Profit of the Modaraba stands to Rs.1.957 M million as against a profit of Rs.1.886 M million last year. The Earning per Certificate stands to Re.0.16 during the year as against Re.0.15 during last year.

The Modaraba set aside Rs.0.391 million (20% of net profit) as statutory reserve in compliance with the Prudential Regulation for Modaraba issued by Securities & Exchange Commission of Pakistan. Now its balance has been amounted to Rs.24.717 million.

Refer Note 1.2 to the financial statements regarding order of change of management by Securities and Exchange Commission of Pakistan (SECP). Since in the opinion of the legal advisor of the management of Modaraba this order was unconstitutional and unwarranted. The said order was challenged in the Sindh High Court under CP-3158/2010 and the Honorable Court stayed the application of the said order and the proceedings are on. In the meanwhile the Supreme Court of Pakistan in CP-59/2011 dated April 12, 2013 has passed a detailed order which confirms some of the points raised by the management of the Modaraba. The management now feels that this detailed decision dealing with constitutional points has perhaps strengthened our position.



In view of the order of Registrar Modaraba for change of management of Modaraba, which was stayed by Sindh High Court, activities of your Modaraba presently are almost at a standstill. We understand that this is damaging the interest of certificate holders but we have very little in our hands to counter the situation. Let us pray together that the situation changes as soon as possible.

Keeping in view the adverse economic indicators, your management adopted strict credit policies and conservative approach for fresh disbursement. Similarly, trading in the stock market was done on a very calculated manner. Your Modaraba, while remaining cautious and prudent during the prevailing economic slowdown, is focused to take benefit of good opportunities that add value of all stake holders.

## Observations of External Auditors:

1. The amount under the head "Advances, prepayments and other receivables" include balance amounting to Rs.10.476 million against sale proceeds of various equity investments and Rs.1.00 million against cash margin deposit due from Prudential Securities Limited (PSL). The Modaraba besides holding amount of cash against their aggregate receivables amounting to Rs.11.476 million from PSL with Karachi Stock Exchange (Guarantee) Limited on April 29, 2010 on call of cash due to suspension of operation of PSL at Karachi Stock Exchange (Guarantee) Limited. To cover this outstanding we have also signed an agreement with PSL to purchase offered land at Narowal, the original title documents are in custody of the Modaraba.

2. The amount under the head "Investment" includes an amount of 1.838 million in Prudential Securities Limited (PSL) an unlisted public company. We have asked PSL to provide us the latest Audited Financial Statements to determine fair value of our investment. The operation of PSL has been ceased at Stock Exchange and we are trying to call back our invested amount as PSL has sufficient assets to set off our invested amount.

3. The amount under the head "Advances, prepayments and other receivables" include balance amounting to Rs.1.0 million against sale proceeds of various equity investments due from Pearl Capital Management Limited (PCML). PCML gave two cheques of Rs.0.5 million each for the settlement of above balance, but subsequently those were bounced. The Modaraba is preparing to file criminal complaint against the signatories of the cheques.

## Sharia Compliance and Sharia Audit Mechanism

After the issue of circular no. 08 of 2012 Shariah Compliance and Shariah Audit Mechanism (SCSAM) for Modarabas, the Board is trying its best to comply the requirement of Shariah Compliance and Shariah Audit Mechanism for Modarabas under the direction of our Shariah Auditor & Shariah Advisor. The Modarabas are allowed only to deal in Shariah compliant scrips. We have strictly complied with this circular and have disposed of all our non-shariah scrips. Further, due to restriction on investments only to be made in Shariah compliant scrips, we were able to achieve net capital gain of Rs.1.319 million (2012: Rs.1.196 million) and dividend income of Rs.0.693 million (2012: Rs.1.362 million), net decline of Rs.0.546 million. We are in process of establishing an effective treasury function which shall be responsible for cash forecasting, business plans and budget, investments, risk management.

## CORPORATE AND FINANCIAL REPORTING FRAMEWORK

a. The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

b. Proper books of account of the Modaraba have been maintained.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.



d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

e. The system of internal controls is sound in design and has been effectively implemented and monitored.

f. There are no significant doubts upon the Modaraba's ability to continue as a going concern.

g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations except for those reported in Auditors' review report on compliance of code of corporate governance

h. Key operating and financial data of last six years in a summarized form is annexed.

i. During the year 5 meetings of Board of Directors were held. Attendance by each director was as follows:

Name of Director	Number of meeting Attended
M r. Abdul Ham eed Khan	5
M r. Akhtar I. Pathan	4
M r. M uham m ad M ushara f Khan	5

j. The Statement of pattern of certificate holding of the Modaraba as at 30<sup>th</sup> June 2013 as per code of corporate governance is annexed.

FUTURE OUTLOOK

The current economic situation, along with a very competitive environment for Islamic financial products, has resulted in a very challenging outlook for the Modaraba. The Management of your Modaraba is proactively studying available options which would best protect and preserve certificate holders' interest in the future.

We are making all possible efforts to do the best to augment the system and special emphasis are being placed on recoveries and careful risk assessment to safeguard any adverse impact in future. New products and services are being explored to enhance our business generating activities. We are fully geared to maintain this upward trend and Inshah Allah foresee to achieve better results and to regularly pay progressive rate of return to the certificate holders of the Modaraba.

Auditors

On the recommendation of Audit Committee, the Board has approved the appointment of Messrs. M. Yousuf Adil Saleem & Co., Chartered Accountants, as auditors for the year ended June 30, 2014, subject to approval by the Registrar Modaraba, SECP.

Acknowledgement:

The Board of Directors express its gratitude to its Certificate Holder for reposing their confidence in the Management of the Modaraba and also appreciates the hard work and dedication of the staff of the Modaraba.

For & on behalf of the Board of Directors of  
Royal Management Services (Pvt) Limited,  
Managers First Pak Modaraba

Chaiman

Karachi  
October 10, 2013



Debitte.

M. Yousuf Adil Saleem & Co  
Chartered Accountants

c. the business conducted, investment made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;

f) in our opinion, except for the effects of the matters stated in paragraphs (a), (b) and (c) the balance sheet, profit and loss account, 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 Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2013 and of the profit, its cash flows and changes in equity for the year then ended; and

g) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

h) We draw attention to the following matters:

i. The position of Chief Executive Officer is vacant since October, 2008 for the reasons mentioned in note 1.3 to the financial statements.

ii. During the last year, the Modaraba incurred expenditure of Rs. 0.886 million on behalf of the Management Company and disclosed as other receivable (refer note 9.3 to the financial statements) which is in contravention of the Section 17 of Modaraba Companies and Modaraba (Formation and Control) Ordinance.

iii. Note 1.2 to the financial statements regarding appointment of Administrator by Securities and Exchange Commission of Pakistan (SECP) which has been stayed by the Sindh High Court.

Our report is not qualified in respect of paragraph h' above.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants

Engagement Partner:  
Mushtaq Ali Hani

Karachi  
Dated: October 10, 2013



VISION STATEMENT

"To participate prominently in the economic and social development of the Country and increase prosperity of stakeholders through a well established and competitive Islamic financial system managed by motivated and efficient human resources"

MISSION STATEMENT

We are in business to generate year to year increase in profit to reward our stakeholders and the wider business environment. This will be achieved by making First Pak Modaraba a profitable and growing entity through exploiting the opportunities and avoiding threats in the environment"



STATEMENT OF COMPLIANCE WITH BEST PRACTISES OF THE CODE OF CORPORATE GOVERNANCE As per clause (XI)

Name of Company FIRST PAK MODARABA
Year Ended June 30, 2013

This statement is being presented to comply with the Code of Corporate Governance (the CCG) contained in listing regulations of Karachi Stock Exchange Limited, Lahore Stock Exchange Limited & Islamabad Stock Exchange Limited, for the purpose of establishing a framework of good governance, whereby a listed Modaraba is managed in compliance with the best practices of corporate governance.

The Royal Management Services (Private) Limited (the Modaraba Management Company); Manager of First Pak Modaraba (the Modaraba), has applied the principles contained in the CCG in the following manner.

1) The Modaraba Management Company encourages representation of independent non-executive directors. At present the Board includes:

Table with 2 columns: Category, Names. Rows include Independent Directors (Mr. Abdul Hamid Khan, Mr. M. Akhtar IPathan), Executive Director (None), and Non-Executive Directors (Mr. M uhammad M ushanaf Khan).

The independent directors meet the criteria of independence under clause i (b) of the CCG.

2) The independent directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Modaraba Management Company.

3) All the resident directors of the Modaraba Management Company are registered as taxpayers and none of them has defaulted in payment of any bank to a banking company, a DFI or an NBFIO, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4) No casual vacancy occurred on the Board. A casual vacancy of Chief Executive Officer occurred in the year 2008 have not been filled to date.

5) The Modaraba Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Modaraba along with its supporting policies and procedures.

6) The Board has developed a vision, mission statement and overall corporate strategy and Modaraba Management Company is in the process of developing significant policies that will be approved by the Board. A complete record of particulars of significant policies along with the dates on which they were approved or amended will be 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 non-executive directors, have been taken by the Board. However, the office of CEO of the Modaraba Management Company is vacant since October 2008.



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 and 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 meetings. The minutes of the meetings were appropriately recorded and circulated.

9) The Board will arrange for certification under "The Board Development Series" program offered by Pakistan Institute of Code of Corporate Governance for their Directors to acquaint them with their duties and responsibilities as per timelines provided by the Securities & Exchange Commission of Pakistan.

10) There are no new appointments of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year. The appointment, remuneration and terms and conditions of employment of the Chief Financial Officer, Company Secretary and Head of Internal Audit have been approved by the Board of Directors.

11) The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12) As the Modaraba Management Company has no Chief Executive Officer (CEO), the financial statements of the Modaraba were duly endorsed by a Director in the absence of CEO and by Chief Financial Officer before approval of the Board.

13) The directors, CEO and executives do not hold any interest in the shares of the Modaraba Management Company other than that disclosed in the pattern of certificate holdings.

14) The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.

15) The Board has formed an Audit Committee, it comprises three members, all of whom are non-executive directors and the chairman of the committee is an independent director.

16) The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17) The Board has formed an HR and Remuneration Committee for the Modaraba and Modaraba Management Company. It comprises three members, all of whom are non-executive directors and the chairman of the committee is an independent director.

18) The Modaraba has outsourced its internal audit function to a Professional firm of Chartered Accountants. Further, the Modaraba is in the process of hiring a Head of Internal Audit as per the criteria laid down by the CCG.

19) The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba 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 to the Modaraba and Modaraba Management Company except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21) The closed period, prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and stock exchange.

22) Material price sensitive information has been disseminated among all market participants at once through stock exchange.

23) We confirm that all other material principles enshrined in the CCG have been complied with.

Karachi  
Date October, 10, 2013

For & on behalf of the Board of Directors

CHAIRMAN

DIRECTOR



Debitte .

M .YousufAdilSaleem & Co  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
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Pakistan  
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Fax: +92 (0) 21-34541314  
Web: www.debitte.com

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

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the CCG) prepared by the Board of Directors (the Board) of Royal Management Services (Private) Limited (the Modaraba Management Company) representing First Pak Modaraba [The Modaraba], for the year ended June 30, 2013, to comply with the relevant Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges Limited where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Modaraba Management 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 Modaraba's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Modaraba Management Company's personnel and review of various documents prepared by the Modaraba to comply with the CCG.

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 Listing Regulation of Karachi Stock Exchange Limited, Lahore Stock Exchange Limited and Islamabad Stock Exchange Limited require the Modaraba Management 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 such transactions are also required to be separately placed before 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.

Nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2013.



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M .YousufAdilSaleem & Co  
Chartered Accountants

We draw attention to the following paragraphs of the Statements;

- Paragraph 4 regarding non-appointment of Chief Executive Officers since 2008.
- Paragraph 6 regarding non-preparation of record of significant policies.
- Paragraph 9 regarding non-arrangement of orientation courses and certification under directors' training program by the directors of the Modaraba Management Company.
- Paragraph 12 regarding endorsement of financial statements by the Chief Executive Officer before approval of the Board
- Paragraph 18 regarding non-appointment of suitably qualified and experienced Head of Internal Auditor.

Further, we draw attention to the following non-compliance during the year.

- The requirement of Clause (xiii) of the CCG with respect to the qualification of Chief Financial Officer who holds postgraduate degree other than in finance although he has more than 05 years' experience in working in a listed entity.

M .YousufAdilSaleem & Co.  
Chartered Accountants

Karachi  
Dated: October 10, 2013





## Debitte.

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## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of First Pak Modaraba (the Modaraba) as at June 30, 2013 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), 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.

These financial statements are the Modaraba Management Company's [Royal Management Services (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. 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 financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the Modaraba Management Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) "Advances, prepayments and other receivables" include a long outstanding balance of Rs. 10,476 million (refer note 9.2 to the financial statements) receivable on account of stock market transactions and Rs. 1 million (refer note 9.1 to the financial statements) as deposit on account of security paid against trading in shares. These amounts are due from Prudential Securities Limited (PSL). Operations of PSL have been ceased by The Karachi Stock Exchange Limited (KSE) and the Modaraba has filed a claim with KSE for these amounts. In our opinion, chances of recoverability of Rs. 11,476 million are remote; however, no provision has been made by the Modaraba for doubtful recoveries of these amounts.



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M. Yousuf Adil Saleem & Co  
Chartered Accountants

b) Investments include Rs. 4,875 million (refer note 6.1 to the financial statements) in the shares of Prudential Securities Limited (PSL) - an unlisted public company; classified as available for sale and carried at Rs. 1,838 million against which an unrealized loss on revaluation of Rs. 3,037 million is reflected in reserves. The operations of PSL have been ceased which indicates a significant and prolonged decline in the fair value of this investment below its carrying value resulting in an objective evidence of impairment; therefore, in our opinion this investment should be fully impaired. However, no impairment has been recorded in respect of carrying amount of Rs. 1,838 million, and unrealized loss on revaluation of Rs. 3,037 million has not been reclassified from equity to profit and loss account, which is in contravention to the requirements of the International Accounting Standards 39 'Financial Instruments: Recognition and Measurement'.

c) Advances, deposits, prepayments and other receivables also include balance from Pearl Capital Management Limited (PCML) - a broker, amounting to Rs. 999,832 (refer note 9.3 to the financial statements). Operations of the broker have been ceased by the Karachi Stock Exchange Limited (KSE). Even though KSE invited claims against PCML, the Modaraba has neither filed a claim within due date nor made any communication with the KSE for recovery. In our opinion there is a remote chance for the recovery of the said balance, however no provision has been made by the Modaraba for doubtful recovery of this advance.

In respect of matters stated in paragraphs (a), (b) and (c), had the provision been made "advances, prepayments and other receivables" would have been reduced by Rs. 12,476 million, investments by Rs. 1,838 million, unrealized loss on available for sale investment by Rs. 3,037 million and profit for the year would have converted into loss amounting to Rs. 15,394 million.

d) In our opinion, except for paragraphs (a), (b) and (c) above, proper books of account have been kept by the Modaraba Management Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;

e) In our opinion:

a. except for paragraphs (a), (b) and (c) above, the balance sheet and the related profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied;

b. the expenditure incurred during the year was for the purpose of the Modaraba's business; and



SHARIAH ADVISOR'S REPORT

I have reviewed the affairs of First Pak Modaraba managed by Royal Management Services (Private) Limited for the Year ended June 30, 2013 in accordance with the requirements of the Circular No.8 of 2012, issued by the Securities and Exchange Commission of Pakistan, regarding Shariah Compliance and Shariah Audit Mechanism for Modarabas.

REVIEW OF OPERATIONS :

Based on my review following were the major developments in respect of *Shariah* that took place during this period:

BANK ACCOUNTS :

During the period under review, Modaraba has closed all saving and dividend saving accounts maintained with conventional banks except one due to legal matters. During the period Modaraba has also received profits on conventional saving accounts which have been transferred into charity payable account.

For investment and operational purpose, First Pak Modaraba is operating the Bank accounts only which are maintained with Islamic Banks.

INVESTMENTS IN ISLAMIC FUNDS

Modaraba has made its investment in Islamic products with Islamic Banks and Islamic Funds.

DIVIDEND PURIFICATION :

Modaraba has effectively performed process of dividend purification of equities and transferred charitable amount into charity payable account.

TAKAFUL :

During the period Modaraba took most welcomed step in respect of adopting Takaful arrangement for security of the assets. In this reference Modaraba converted all insurable assets from conventional insurance to Takaful arrangement. I appreciate the Management of Modaraba on taking this decision.

CHARITY :

I confirm that Modaraba has transferred all charitable amounts such as charity of dividend purification, profits on conventional saving accounts etc. into charity payable account and I further confirm that considerable amount of charity has been paid as charity to the registered charitable organizations during the period.

EQUITY SHARES :

Modaraba has disposed off all non *Shariah* compliant equity shares during the period which are not in the list prescribed and provided by the NBFIA and Modaraba Association of Pakistan, except for the following shares:



S No	Name of Shares	Quantity
1.	Pak Industrial & Commercial Leasing	279,749
2.	Prudential Investment Bank	120,000
3.	Prudential Securities Limited (unlisted)	487,500

As informed by the management the buyers are not available to acquire these shares and values of serial 1 to 2 suspended / delisted companies have been fully provided in the books of account.

OBSERVATION :

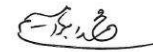
- Modaraba still maintained one saving account with conventional Bank. This account could not be closed due to legal matters.
- Shares as mentioned above are in the holding of Modaraba and they are not in the approved list of NBFIA & Modaraba Association of Pakistan.

RECOMMENDATION (S) :

- Modaraba should close saving account maintained with conventional bank as soon as legal matter resolves.
- Modaraba should dispose off all non *Shariah* compliant equity shares subject to the legal clearance and availability of the buyers.

CONCLUSION :

By the grace of Almighty ALLAH, after introduction of *Shariah* Compliance and *Shariah* Audit Mechanism for Modarabas by Securities & Exchange Commission of Pakistan (SECP), through Circular No.8 of 2012 the Management of First Pak Modaraba has effectively shown its sincerity to comply with *Shariah* Rulings in its true spirit, therefore, the business operations of First Pak Modaraba are *Shariah* compliant up to the best of my knowledge.

  
Mufti Ibrahim Essa  
Shariah Advisor



Dated : September 23, 2013

Karachi.





BALANCE SHEET  
AS AT JUNE 30, 2013

ASSETS	Note	2013 Rupees	2012 Rupees
<b>Current Assets</b>			
Cash and bank balances	5	48,371,514	9,086,062
Investments	6	10,843,216	47,443,006
Modaraba finance	7	-	-
Ijarah rentals receivable	8	74,496	-
Advances, deposits, prepayments and other receivables	9	13,999,234	15,495,132
Tax refundable - considered good		4,889,437	4,512,654
<b>Total Current Assets</b>		<b>78,177,897</b>	<b>76,536,854</b>
<b>Non - Current Assets</b>			
Property and equipment - Ijarah	10	324,659	548,192
Property and equipment - owned	11	123,107	73,214
Long term investments	6.3	-	1,350,000
Advance and deposits	12	45,750	58,250
<b>Total Non - Current Assets</b>		<b>493,516</b>	<b>2,029,656</b>
<b>TOTAL ASSETS</b>		<b>78,671,413</b>	<b>78,566,510</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Current portion of Ijarah deposits	13	287,400	-
Accrued and other liabilities	14	949,562	1,677,626
Unclaimed profit distribution		4,129,447	3,748,284
<b>Total Current Liabilities</b>		<b>5,366,409</b>	<b>5,425,910</b>
<b>Non - Current Liabilities</b>			
Long term Ijarah deposits	13	-	287,400
<b>TOTAL LIABILITIES</b>		<b>5,366,409</b>	<b>5,713,310</b>
<b>NET ASSETS</b>		<b>73,305,004</b>	<b>72,853,200</b>
<b>REPRESENTED BY</b>			
Certificate Capital	15	125,400,000	125,400,000
Statutory reserve		24,716,601	24,325,280
Accumulated loss		(73,774,472)	(73,834,955)
Unrealized loss on available for sale investment		(3,037,125)	(3,037,125)
		<b>73,305,004</b>	<b>72,853,200</b>
Contingencies and commitments	16		

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

As mentioned in note 1.3 to the financial statements, due to non-appointment of chief executive officer these financial statements have been signed by three directors instead of chief executive officer and two directors.

DIRECTOR

DIRECTOR

DIRECTOR



PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
<b>INCOME</b>			
Return on term deposits receipts and PLS accounts		4,024,930	4,829,303
Gain on sale of investments		1,318,714	1,196,340
Dividend income		693,560	1,361,798
Ijarah rentals		297,984	751,404
Other income	17	12,351	60,815
		<b>6,347,539</b>	<b>8,199,660</b>
<b>Unrealised loss on remeasurement of held for trading investments</b>			
		<b>(63,909)</b>	<b>(1,520,809)</b>
		<b>6,283,630</b>	<b>6,678,851</b>
<b>EXPENDITURE</b>			
Administrative expenses	18	(3,981,003)	(4,228,239)
Amortization on Ijarah assets		(223,533)	(534,042)
Workers welfare fund		(41,582)	(38,331)
		<b>(4,246,118)</b>	<b>(4,800,612)</b>
Profit for the year		<b>2,037,512</b>	<b>1,878,239</b>
<b>Modaraba company's management fee</b>			
		<b>-</b>	<b>-</b>
Profit before taxation		<b>2,037,512</b>	<b>1,878,239</b>
<b>Provision for taxation</b>			
	19	<b>(80,908)</b>	<b>7,779</b>
Profit after taxation		<b>1,956,604</b>	<b>1,886,018</b>
<b>Other comprehensive income</b>			
		<b>-</b>	<b>-</b>
<b>Total income for the year</b>		<b>1,956,604</b>	<b>1,886,018</b>
<b>Earnings per certificate</b>	20	<b>0.16</b>	<b>0.15</b>

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As mentioned in note 1.3 to the financial statements, due to non-appointment of chief executive officer these financial statements have been signed by three directors instead of chief executive officer and two directors.

DIRECTOR

DIRECTOR

DIRECTOR



CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2013

	2013 Rupees	2012 Rupees
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	2,037,512	1,878,239
Adjustments for non-cash changes and other items:		
Gain on sale of investments	(1,318,714)	(1,196,340)
Dividend income	(693,560)	(1,361,798)
Gain on disposal of intangible assets	-	(4,323)
Gain on disposal of own assets	(12,351)	-
Unrealised loss on remeasurement of held for trading investments	63,909	1,520,809
Amortization on intangible assets	223,533	534,043
Depreciation-owned	63,858	61,940
	<u>(1,673,325)</u>	<u>(445,669)</u>
	<u>364,187</u>	<u>1,432,570</u>
Cash flows before movements in working capital		
(Increase) / decrease in operating assets		
Intangible rentals receivable	(74,496)	111,000
Advances, prepayments and other receivables	<u>1,091,124</u>	<u>(2,677,663)</u>
	<u>1,016,628</u>	<u>(2,566,663)</u>
(Decrease) / increase in operating liabilities		
Long term intangible deposits	-	(544,990)
Accrued and other liabilities	<u>(728,064)</u>	<u>(344,360)</u>
	<u>(728,064)</u>	<u>(889,350)</u>
Cash generated from / (used in) operations	<u>652,751</u>	<u>(2,023,443)</u>
Income tax paid / adjustment	<u>(40,417)</u>	<u>8,212</u>
Net cash generated from / (used in) operating activities	<u>612,334</u>	<u>(2,015,231)</u>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividend received	693,560	1,361,798
Investments encashed / (made) - net	39,204,595	(5,748,072)
Long term deposits paid	-	(750)
Proceeds from disposal of intangible assets	-	502,107
Purchase of own assets	(124,400)	-
Proceeds from disposal of own assets	<u>23,000</u>	<u>-</u>
Net cash generated from / (used in) investing activities	<u>39,796,755</u>	<u>(3,884,917)</u>



	2013 Rupees	2012 Rupees
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Profit distribution	<u>(1,123,637)</u>	<u>(4,306,112)</u>
Net cash used in financing activities	<u>(1,123,637)</u>	<u>(4,306,112)</u>
Net increase / (decrease) in cash and cash equivalents (A+B+C)	39,285,452	(10,206,260)
Cash and cash equivalents at July 01	9,086,062	19,292,322
Cash and cash equivalents at June 30	<u><u>48,371,514</u></u>	<u><u>9,086,062</u></u>

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

As mentioned in note 1.3 to the financial statements, due to non-appointment of chief executive officer these financial statements have been signed by three directors instead of chief executive officer and two directors.

DIRECTOR

DIRECTOR

DIRECTOR



STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2013

	Reserves			Sub Total	Total
	Capital Reserve*	Revenue Unrealized loss on available for sale investments	Accumulated Loss		
Balance at July 1, 2011	125,400,000	23,948,076	(3,037,125)	(70,327,769)	75,983,182
Profit for the year ended June 30, 2012	-	-	-	1,886,018	1,886,018
Other comprehensive income for the year ended June 30, 2012	-	-	-	-	-
Transfer to statutory reserve	-	377,204	-	(377,204)	-
Distribution @ 4% declared for the year ended June 30, 2011	-	-	-	(5,016,000)	(5,016,000)
Balance at June 30, 2012	125,400,000	24,325,280	(3,037,125)	(73,834,955)	72,853,200
Profit for the year ended June 30, 2013	-	-	-	1,956,604	1,956,604
Other comprehensive income for the year ended June 30, 2013	-	-	-	-	-
Transfer to statutory reserve	-	391,321	-	(391,321)	-
Distribution @ 1.2% declared for the year ended June 30, 2012	-	-	-	(1,504,800)	(1,504,800)
Balance at June 30, 2013	125,400,000	24,716,601	(3,037,125)	(73,774,472)	73,305,004

\* Statutory reserve represents profit, set aside to comply with the Prudential Regulations for Modarabas issued by the SECP. These regulations require the Modaraba to transfer not less than 20% and not more than 50% of its after-tax profit till such time that reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after-tax profit is to be transferred. During the current year, the Modaraba has transferred an amount of Rs 391,321/- (2012: 377,204) which represents 20% of the profit after tax.

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

As mentioned in note 1.3 to the financial statements, due to non-appointment of chief executive officer, these financial statements have been signed by these directors instead of chief executive officer and two directors.

  
DIRECTOR

  
DIRECTOR

  
DIRECTOR



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 First Pak Modaraba (the Modaraba) is a multipurpose, perpetual Modaraba. The Modaraba is registered under the Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980 and the Modaraba Companies and Modaraba Rules, 1981 and is managed by Royal Management Services (Private) Limited, a company incorporated in Pakistan under the Companies Ordinance 1984. The Modaraba is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The Modaraba is currently engaged in various modes of Islamic fundings and businesses which include ijrah financing, deployment of funds as investment in liquidated securities. Registered office of the Modaraba is situated at Beverly Centre, 56-G, Blue Area, Islamabad.

1.2 In pursuance of a show cause notice dated July 09, 2010 and July 22, 2010 issued to the Royal Management Services (Private) Limited (RMSL) and after taking approval from the Securities and Exchange Commission of Pakistan (SECP) under 20 (2) of the Modaraba Ordinance, 1980, the Registrar Modarabas passed an order dated October 28, 2010 under section 20 (1)(a)(iii) to remove the Modaraba Company, Royal Management Services (Private) Limited (RMSL) and appointed another Modaraba Management Company as Administrator to takeover and manage the affairs of Modaraba in place of RMSL. RMSL has challenged the order in the Sindh High Court (the Court) and the Court has suspended the said order of the Registrar Modarabas till the decision of the case with the remark that the order was passed without giving opportunity of fair trial in terms of Article 10-A of the Constitution of Pakistan. The matter is pending in the High Court of Sindh.

1.3 The position of the Chief Executive Officer (CEO) is vacant since October, 2008. The application for the appointment of proposed CEO has been rejected twice by the Securities and Exchange Commission of Pakistan (SECP) on October 29, 2010 and on September 08, 2011. In the absence of a CEO the board is directly managing the affairs of the Modaraba.

1.4 The financial statements are presented in Pak Rupees, which is the Modaraba's functional and presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 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 as are notified under the Companies Ordinance, 1984, Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan, the requirements of the Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980, Islamic Financial Accounting Standards (IFAS), Modaraba Companies and Modaraba Rules, 1981 and directives issued by SECP differ with the requirements of IFRS, the requirements of the Modaraba Companies and Modaraba (Formation and Control) Ordinance, 1980, Islamic Financial Accounting Standards (IFAS), Modaraba Companies and Modaraba Rules, 1981 or the directives issued by SECP prevail.

2.2 Adoption of New Standards, and Amendments and Interpretations to the published approved accounting standards:

During the year, the following standards, amendments to standards and interpretations including amendments to interpretations became effective, however, the application of these amendments and interpretations did not have a material impact on the financial statements of the Modaraba:



Standards/Amendments/Interpretations	Effective date (accounting period beginning on or after)
IAS 1 - Presentation of Financial Statements (Amendment)	July 1, 2012
FRS 7 - Financial Instruments	April 01, 2012
IFAS 3 - Islamic Financial Accounting Standard on Profit and Loss Sharing on Deposits	January 01, 2013

2.3 Standards, interpretations and amendments to the published approved accounting standards not yet effective:

The following Standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Modaraba's operations or are not expected to have significant impact on the Modaraba's financial statements other than certain additional disclosures.

Standards/Amendments/Interpretations	Effective date (accounting period beginning on or after)
IAS 1 - Presentation of Financial Statements - Clarification of Requirements for Comparative Information (Amendment)	January 1, 2013
IAS 16 - Property, Plant and Equipment Classification of servicing equipment (Amendment)	January 1, 2013
IAS 19 - Employee Benefits	January 1, 2013
IAS 32 - Financial Instruments: Presentation Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 1, 2014
IAS 32 - Financial Instruments: Presentation Offsetting financial assets and financial liabilities	January 1, 2014
IAS 34 - Interim Financial Reporting Interim reporting of segment information for total assets and total liabilities (Amendment)	January 1, 2013
IFRS 7 - Financial Instruments Disclosures - Offsetting financial assets and financial liabilities (Amendment)	January 1, 2013
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been considered by the Modaraba as the standards and their relevant amendments have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 - First Time Adoption of International Financial Reporting Standards
- IFRS 9 - Financial Instruments
- IFRS 10 - Consolidated Financial Statements
- IFRS 11 - Joint Arrangements
- IFRS 12 - Disclosure of Interests in Other Entities
- IFRS 13 - Fair Value Measurement



IAS 27 (Revised 2011) - Separate Financial Statements due to non-adoption of FRS 10 and FRS 11

IAS 28 (Revised 2011) - Investments in Associates and Joint Ventures due to non-adoption of FRS 10 and FRS 11

3. BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, except for certain investments which have been measured at fair value / equity method.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

4.1 Property and equipment

(i) **Tajrah and amortisation**

Tajrah assets are stated at cost less accumulated amortisation and impairment loss (if any). Amortisation is charged to income applying the straight line method whereby the cost of an asset, less its residual value, is written off over its lease period. In respect of additions and disposals during the year, amortisation is charged proportionately to the period of lease.

(ii) **In own use and depreciation**

Operating assets are stated at cost less accumulated depreciation and impairment loss (if any). Depreciation is charged to profit and loss account applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and disposal during the year, depreciation is charged proportionately to the period of use.

Profit or loss on disposal of assets is recognised as income or expense.

Assets' residual values, if significant and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to income as and when incurred.

4.2 Investments

All purchases and sales of investments are recognised using trade date accounting. Trade date is the date that the Modaraba commits to purchase or sell the investment.

i) **Held for trading "at fair value through profit or loss"**

These investments are initially recognised at fair value and subsequently measured at fair value. As per requirement of IAS-39 "Financial Instruments, Recognition and Measurement" the gain or loss on revaluation of investment held for trading is to be included in profit and loss account.

ii) **Available for sale**

Investment securities held by the Modaraba which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognised at fair value plus transaction cost and subsequently measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognised in profit and loss as other comprehensive income.



iii) Held to maturity

These are investments with fixed or determinable payments and fixed maturity, and which, the Modaraba has positive intent and ability to hold till maturity. Held to maturity investments are initially recognised at fair value plus transaction cost and are subsequently measured at amortized cost using effective interest rate method, less any impairment losses recognized to reflect irrecoverable amounts.

iv) Loan and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognized at fair value upon origination and are subsequently measured at amortized cost by the effective interest method. Short term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

v) Derecognition

All investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Modaraba has transferred substantially all risks and rewards of ownership.

4.3 Ijarah rentals receivable, ijrah, modaraba and musharika finances

Receivables considered doubtful are provided for in accordance with the requirement of the Prudential Regulations for Modarabas. Specific provision is also made for receivables considered doubtful.

4.4 Staff retirement benefits

Defined contribution plan

The Modaraba operates a defined contribution provident fund for all employees. Equal monthly contributions are made both by the Modaraba and the employees to the fund at the rate of 8.33% of basic salary.

4.5 Provisions

Provisions are recognised when the Modaraba has a present, legal or constructive obligation 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 of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.6 Impairment

Financial Assets

Impairment is recognised by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modaraba and subjective evaluation carried out on an ongoing basis.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.



Available-for-sale financial investments

For available-for-sale financial investments, the Modaraba assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account - is removed from equity and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the profit and loss account; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The Modaraba assesses at each balance sheet date whether there is any indication that assets except deferred tax assets and investment property may be impaired. If such indication exists, the carrying amounts 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 recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss for asset subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognised as income.

4.7 Revenue recognition

4.7.1 Ijarah rentals

Income from ijrah is recognised as and when lease rentals become due on a systematic basis over the lease and ijrah period.

4.7.2 Hire purchase transactions

For hire purchase transactions, the unearned finance income is deferred and taken to income over the period of hire purchase, applying the annuity method to produce a constant rate of return on the net investment.



4.7.3 Morabaha and musharika transactions

Profit from musharika transactions is recognised on the basis of pro rata accrual of the profit estimated for the transaction over the period.

Profit from morabaha finance is accounted for on culmination of morabaha transaction. However, the profit on that portion of morabaha finance not due for payment is deferred by accounting for "Deferred Morabaha Income" with a corresponding credit to "Unearned Morabaha Income" which is recorded as a liability. The same is then recognised on a time proportion basis.

4.7.4 Dividend income

Dividend is recognised as income when the right of receipt is established.

4.7.5 Markup income

Markup / return on deposits / investments is recognised on accrual basis using the effective interest rate method.

4.8 Taxation

Current

Provision for taxation is made on taxable income if any, at the prevailing rates of tax after taking into account any tax credit available.

The income of non-trading modaraba is exempt from taxation under clause 100 of Part I of the Second schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its income excluding realized and unrealised capital gains for the period is distributed amongst the certificate holders.

Deferred

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

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

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

4.9 Foreign currencies translation

Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange approximating to those prevalent on the balance sheet date. Foreign currency transactions are converted into Rupees at the rate of exchange prevailing on the date of transactions. Exchange gains and losses on translation are taken to income currently.

4.10 Financial assets

Financial assets comprise of Ijarah rentals receivable, investments, morabaha finances, deposits, other receivables, excluding taxation. Ijarah rentals receivable, morabaha and other receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.



4.11 Financial liabilities

Financial liabilities are classified according to the substance of contractual arrangements entered into. Significant financial liabilities includes ijarah deposits and accrued and other liabilities.

4.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, with banks on current, savings and deposit accounts, as well as balance held with the State Bank of Pakistan (SBP).

4.13 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Modaraba has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Corresponding income on the assets and charge on the liability is also off-set.

4.14 Profit distribution

Profit distribution to the Modaraba's Certificate Holders is recognised as a liability in the financial statements in the period in which the dividends are approved by the board of Modaraba Company.

4.15 Significant accounting estimates and judgment

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgment was exercised in application of accounting policies are as follows:-

- i) classification of investments (Note 6)
- ii) depreciation/amortisation on property, plant and equipment (Note 10 & 11)
- iii) provision against doubtful investments (Note 6)
- iv) contingencies (Note 16)





	Note	2013 Rupees	2012 Rupees
<b>5. CASH AND BANK BALANCES</b>			
Cash in hand		940	2,735
Cash at banks			
Current accounts		3,904,172	2,534,170
Saving accounts	5.1	44,466,402	6,549,157
		48,370,574	9,083,327
		<u>48,371,514</u>	<u>9,086,062</u>

5.1 Effective mark-up rate in respect of PLS accounts ranges from 5% to 10.25% (June 2012 : 5% to 11%) per annum.

**6. INVESTMENTS**

Available for sale	6.1	1,837,875	1,837,875
Held for trading at fair value through profit or loss account	6.2	7,655,341	9,905,131
Loan and receivables - term deposit receipts	6.3	1,350,000	35,700,000
		<u>10,843,216</u>	<u>47,443,006</u>

**6.1 Available for sale**

Fully paid ordinary shares of Rs 10 each.

2013 Number of Shares	2012 Number of Shares	Name of company	2013 Rupees	2012 Rupees
487,500	487,500	Prudential Securities Limited	4,875,000	4,875,000
		Cost	(3,037,125)	(3,037,125)
		Less: Fair value adjustments	<u>1,837,875</u>	<u>1,837,875</u>

6.1.1 Latest financial statements of investee company are not available. The breakup value of shares based on last available audited financial statements for the year ended June 30, 2008 was Rs. 3.77 (2012: Rs 3.77) per share.



6.2 Held for trading at fair value through profit or loss account  
Unless stated otherwise, the holdings are in the fully paid ordinary shares / certificates / units of Rs 10/- each.

2013 Number of Certificates / Shares	2012 Number of Certificates / Shares	Name of Company	2013 Rupees	2012 Rupees
<b>Open-end Mutual Funds</b>				
30,621	-	MCB Islamic Income Fund Type-A (Face value of certificate Rs.100/- each)	3,118,901	-
-	100,809	National Investment Trust Limited	-	3,050,480
<b>Oil and gas</b>				
-	5,000	National Refinery Limited	-	1,156,950
-	1,000	Pakistan Oilfields Limited	-	235,840
1,000	-	Attock Refinery Limited	172,550	-
1,000	-	Mari Petroleum Company Limited	136,570	-
<b>Chemicals</b>				
-	9,700	Engro Corporation Limited	-	987,848
60,000	52,500	Fauji Fertilizer Bin Qasim Limited	2,252,400	2,143,050
3,000	-	Fauji Fertilizer Company Limited	322,290	-
-	4,000	ICI Pakistan Limited	-	524,280
-	40,000	Lotte Pakistan PTA Limited	-	281,200
<b>Construction and materials</b>				
6,000	3,000	D.G. Khan Cement Company Limited	502,140	118,140
-	1,000	Lucky Cement Limited	-	115,390
<b>General Industrials</b>				
-	2,000	Packages Limited	-	199,400
<b>Food Producers</b>				
4,000	-	Engro Foods Limited	563,080	-
<b>Personal Goods</b>				
-	6,650	Nishat (Chunian) Limited	-	115,644
1,000	-	Nishat Mills Limited	94,210	-
<b>Pharma and Bio Tech</b>				
-	3,044	GlaxoSmithKline Pakistan Limited	-	192,504
<b>Fixed Line Telecommunication</b>				
-	2,500	Pakistan Telecommunication Company Limited	-	34,225
<b>Electricity</b>				
8,000	12,000	The Hub Power Company Limited	493,200	502,680
-	5,500	Kot Addu Power Company Limited	-	247,500
<b>Suspended / Delisted Company</b>				
120,000	120,000	Prudential Investment Bank Limited	-	-
279,749	279,749	Pakistan Industrial & Commercial Leasing Limited	-	-
			<u>7,655,341</u>	<u>9,905,131</u>



	Note	2013 Rupees	2012 Rupees
6.2.1 Unrealized loss on changes in fair value of held for trading investments			
Weighted average cost of investments		7,719,250	11,425,940
Unrealized loss on changes in fair value of held for trading investments		(63,909)	(1,520,809)
Market value of investments		<u>7,655,341</u>	<u>9,905,131</u>

## 6.3 Loan and receivables - term deposit receipts

-Term deposit receipts	6.3.1	-	33,000,000
-Other receivables	6.3.2	1,350,000	4,050,000
Less: Long term portion		-	(1,350,000)
		<u>1,350,000</u>	<u>2,700,000</u>
		<u>1,350,000</u>	<u>35,700,000</u>

6.3.1 Effective mark-up rate in respect of term deposit accounts carried at fair value ranged from 10.50% to 10.85% (June 2012: 10.50% to 14.25%) per annum.

6.3.2 This represents investments made in the term deposit certificate of Invest Capital Investment Bank Limited (ICIBL). The management of the Modaraba on April 30, 2012 entered into a settlement agreement with the ICIBL against total outstanding balance of Rs. 5,000,000. As per revised terms the ICIBL paid Rs. 500,000/- at the time of signing the agreement and remaining investment to be paid in 20 equal installments out of which total 14 installments have been received as of June 30, 2013.

## 7. MORABAH FINANCE

Morabaha finance - Unsecured	7.1	15,319,705	15,319,705
Less: Provision for doubtful morabaha finance		(15,319,705)	(15,319,705)
		<u>-</u>	<u>-</u>

7.1 This includes amount of Morabaha finance receivable from five different parties. These amounts are outstanding since many years. As per terms of agreement, the profit against these finance ranged from 16.5% to 20%, however, based on the guidelines of prudential regulation for Modaraba, total profit against these finances are fully suspended.

## 8. IJARAH RENTALS RECEIVABLE

Considered good		74,496	-
Considered doubtful		119,542	119,542
		<u>194,038</u>	<u>119,542</u>
Less: Provision for doubtful receivables		(119,542)	(119,542)
		<u>74,496</u>	<u>-</u>



	Note	2013 Rupees	2012 Rupees
8.1 Movement of provision			
Opening balance		119,542	230,542
Reversed during the year		-	(111,000)
Closing balance		<u>119,542</u>	<u>119,542</u>

## 8.2 Future minimum ijarah rentals receivable

Within one year		49,664	297,984
After one year but not more than five years		-	49,664
		<u>49,664</u>	<u>347,648</u>

## 9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Considered good

Advance tax		40,417	457,691
Current portion of advance to staff	12	87,000	117,000
Deposit	9.1	1,000,000	1,000,000
Prepayments		175,367	140,830
Profit receivable on - term deposit receipts		5,856	540,924
Profit receivable - on PLS accounts		179,316	366,341
Receivables against sale of shares	9.2 & 9.3	11,604,720	11,969,938
Others	9.4	906,558	902,408
		<u>13,999,234</u>	<u>15,495,132</u>

Considered doubtful

Profit receivable on Morabaha finance		4,028,913	4,028,913
		<u>18,028,147</u>	<u>19,524,045</u>
Less: Provision for doubtful receivables		(4,028,913)	(4,028,913)
		<u>13,999,234</u>	<u>15,495,132</u>

9.1 The amount was paid to Prudential Securities Limited (PSL) as advance for purchase of securities. Operations of PSL has been ceased by Karachi Stock Exchange Limited (KSE). Modaraba has filed claim with KSE for the amount.

9.2 It includes Rs. 10,476 million (2012: Rs. 10,476 million) receivable from PSL. As mentioned in note 9.1 operations of PSL has been ceased by Karachi Stock Exchange Limited (KSE) and the Modaraba has filed claim with KSE for the amount.

9.3 It includes Rs. 999,832 receivable from Pearl Capital Management Limited (PCML). The operations of PCML has been ceased by Karachi Stock Exchange Limited.

9.4 It includes Rs. 886,442 (2012: Rs. 886,442) receivable from the Modaraba Management Company in respect of various expenses paid on their behalf.



10. PROPERTY, PLANT AND EQUIPMENT -JARAH

at July 1, 2012	Cost		Amortisation		Carrying value at June 30, 2012	Rate%
	at July 1, 2011	Additions/ (Disposals)	at June 30, 2012	at June 30, 2013		
1,217,000	-	1,217,000	668,808	892,341	324,659	33.33
			Rupees.....			
			668,808	223,533	892,341	
- For comparative period						
at July 1, 2011	at July 1, 2012	at June 30, 2012	Depreciation		Carrying value at June 30, 2012	Rate%
at July 1, 2011	Additions/ (Disposals)	at June 30, 2012	at July 1, 2011	For the year/ (on disposals)	at June 30, 2012	Change for the year
3,434,715	-	1,328,000	1,743,697	534,043 (1,608,932)	668,808	111,000
			Rupees.....			
			1,743,697	534,043 (1,608,932)	668,808	111,000
			Rupees.....			
			1,743,697	534,043 (1,608,932)	668,808	111,000



11. PROPERTY AND EQUIPMENT -OWN

at July 1, 2012	Cost		Depreciation		Carrying value at June 30, 2013	Rate%
	at July 1, 2011	Additions/ (Disposals)	at July 1, 2012	For the year/ (on disposals)		
360,794	30,900 (102,387)	289,307	332,288	33,944 (102,387)	263,845	33.33
96,295	10,000 (64,850)	41,445	76,917	8,127 (54,201)	30,843	10
82,400	83,500	165,900	57,070	21,787	78,857	20
539,489	124,400 (167,237)	496,652	466,275	63,858 (156,588)	373,545	123,107
			Rupees.....			
			466,275	63,858 (156,588)	373,545	
- For comparative period						
at July 1, 2011	at July 1, 2012	at June 30, 2012	Depreciation		Carrying value at June 30, 2012	Rate%
at July 1, 2011	Additions/ (Disposals)	at June 30, 2012	at July 1, 2011	For the year/ (on disposals)	at June 30, 2012	Change for the year
360,794	-	360,794	296,458	35,830	332,288	28,506
96,295	-	96,295	67,287	9,630	76,917	19,378
82,400	-	82,400	40,590	16,480	57,070	25,330
539,489	-	539,489	404,335	61,940	466,275	73,214



## 11.1. Disposal of property and equipment own

Following assets were disposed off during the year - by negotiations:

Particulars	Cost	Accumulated depreciation	Written down value	Sale proceed	Particulars of buyers
Office equipment	102,387	102,387	-	3,000	Mr. Bahadur Khan Mohalla Masji Tooba, Pathan Colony, Site Karachi
Furniture and fixtures	64,850	54,201	10,649	20,000	Mr. Bahadur Khan Mohalla Masji Tooba, Pathan Colony, Site Karachi
June 30, 2013	<u>167,237</u>	<u>156,588</u>	<u>10,649</u>	<u>23,000</u>	

## 12. ADVANCES AND DEPOSITS

	Note	2013 Rupees	2012 Rupees
Advance to Staff Considered good Current portion		87,000 (87,000)	129,500 (117,000)
Long term deposits		- 45,750	12,500 45,750
		<u>45,750</u>	<u>58,250</u>

## 13. LONG TERM IJARAH DEPOSITS

	Note	2013 Rupees	2012 Rupees
Ijarah deposits Current portion		287,400 (287,400)	287,400 -
		<u>-</u>	<u>287,400</u>

## 14. ACCRUED AND OTHER LIABILITIES

	Note	2013 Rupees	2012 Rupees
Workers welfare fund	14.1	492,736	451,154
Auditors' remuneration		335,000	310,000
Charity fund payable		6,724	63,548
Other payables		115,102	852,924
		<u>949,562</u>	<u>1,677,626</u>



## 14.1. Worker welfare fund

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (W W F Ordinance). Through these amendments Workers' Welfare Fund (W W F) is payable @ 2% of the profit before taxation as per the financial statements or taxable income whichever is higher.

During the year 2011, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the W W F Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the W W F Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

The Management Company, as a matter of abundant caution, has made the provision for W W F amounting to Rs. 492,736/- in these financial statements.

## 15. CERTIFICATE CAPITAL

	2013 Number of Certificates	2012 Number of Certificates	2013 Rupees	2012 Rupees
Authorised				
15,000,000	<u>15,000,000</u>	<u>15,000,000</u>	<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid-up				
10,000,000	10,000,000	10,000,000	100,000,000	100,000,000
2,540,000	2,540,000	2,540,000	25,400,000	25,400,000
<u>12,540,000</u>	<u>12,540,000</u>	<u>12,540,000</u>	<u>125,400,000</u>	<u>125,400,000</u>

As at June 30, 2012, the Royal Management Services (Private) Limited (the Management Company) held 1,254,000 (2012: 1,254,000) certificates of Rs. 10 each.

## 17. CONTINGENCIES AND COMMITMENTS

No contingencies and commitments exist at the year end.



	Note	2013 Rupees	2012 Rupees
<b>17. OTHER INCOME</b>			
Gain on disposal of property and equipment-own		12351	-
Gain on disposal of property and equipment- Ijarah		-	4,323
Others		-	56,492
		<u>12,351</u>	<u>60,815</u>

**18. ADMINISTRATIVE EXPENSES**

Salaries, allowances and benefits	18.1	1,080,351	961,104
Fees and subscription		601,611	486,271
Telephone and postage		415,299	479,194
Legal and professional		70,000	377,500
Registrar services		360,000	360,000
Auditors' remuneration	18.2	418,000	410,000
Travelling and conveyance		171,811	137,406
Printing and stationery		156,344	181,818
Transaction cost on investment		56,430	103,353
Repairs and maintenance		146,071	124,911
Security services		118,161	108,000
Rent, rate and taxes		57,227	132,079
Electricity, water and gas		45,485	65,791
Entertainment		77,515	105,820
Depreciation-owned assets		63,858	61,940
Insurance		20,161	16,605
Bank charges		10,156	2,805
Miscellaneous		112,523	113,642
		<u>3,981,003</u>	<u>4,228,239</u>

**18.1 REMUNERATION OF OFFICERS AND OTHER EMPLOYEES**

	2013			2012		
	Officers	Other Employees	Total	Officers	Other Employees	Total
	.....Rupees.....			.....Rupees.....		
Remuneration	594,000	351,600	945,600	525,000	325,000	850,000
Provident fund	24,828	16,968	41,796	24,452	13,600	38,052
Medical expenses	24,828	26,127	50,955	24,452	13,600	38,052
Others	42,000	-	42,000	35,000	-	35,000
	<u>685,656</u>	<u>394,695</u>	<u>1,080,351</u>	<u>608,904</u>	<u>352,200</u>	<u>961,104</u>
No. of persons	3	3		2	3	



	2013 Rupees	2012 Rupees
<b>18.2 AUDITORS' REMUNERATION</b>		
Statutory audit fee	275,000	250,000
Half year review fee	75,000	75,000
Review of code of corporate governance	25,000	25,000
CDC certification	10,000	10,000
Out of pocket expenses	33,000	50,000
	<u>418,000</u>	<u>410,000</u>

**19. Provision for Taxation**

Current for previous year	<u>80,908</u>	<u>(7,779)</u>
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The income of the Modaraba is exempt from tax, provided not less than 90% of their profits are distributed to the certificate holders. The management intends to distribute the profit and accordingly no provision for tax has been made in the current year. The Modaraba is also exempt from the provisions of section 113 (minimum tax) under clause 11 of Part IV of the Second Schedule of the Income Tax Ordinance, 2001.

**20. EARNINGS PER CERTIFICATE - BASIC AND DILUTED**

Profit for the year (Rupees)	1,956,604	1,886,018
Weighted average number of ordinary certificates	12,540,000	12,540,000
Earnings per certificate (Rupees per certificate)	0.16	0.15

**21. RELATED PARTY TRANSACTIONS**

The related parties comprise of associated undertakings, directors of the Modaraba Management Company. The Modaraba, in the normal course of business carries out transactions with these related parties. Amounts due from and to related parties and key management personnel, if any, are shown under receivables and payables. Significant transactions with related parties are as follows:-

Relationship with the Company	Nature of transaction	2013 Rupees	2012 Rupees
Modaraba Management Company	Expenses paid on their behalf	-	886,442
	Dividend paid	150,480	501,600
Provident Fund	Contribution made	41,796	38,052



22. Financial Risk Management

The Modaraba's activities expose it to a variety of financial risks: market risk (including currency risk, fair value, profitable risk and price risk), credit risk and liquidity risk. The board of directors of the management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

The Modaraba's overall risk management program mainly focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Modaraba's financial performance.

The Modaraba's principal financial liabilities comprise ijarah deposits, accrued and other liabilities and unclaimed profit distribution. The Modaraba's principal financial assets comprises of ijarah rentals receivable, morabaha finances, advance, prepayments and other receivables and cash and bank balances that arise directly from its operations. The Modaraba also holds held for trading, available-for-sale, and loan and receivable as its investments.

22.1 Liquidity risk management

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Modaraba will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Modaraba'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 stress conditions, without incurring unacceptable losses or risking damage to the Modaraba's reputation. Modaraba holds total current assets of Rs. 78.18 million against its current liability of Rs. 5.37 million which lead to total surplus of Rs. 72.81 million.

The table below analyses the Modaraba's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. However, Modaraba has surplus funds to pay off its liabilities. The amounts in the table are the contractual undiscounted cash flows.

	Total	Upto three months	More than three months and upto one year	More than one year
2013				
Accrued and other liabilities	949,562	949,562	-	-
Unclaimed profit distribution	4,129,447	4,129,447	-	-
Ijarah deposits	287,400	287,400	-	-
	5,366,409	5,366,409	-	-
2012				
Accrued and other liabilities	1,677,626	1,677,626	-	-
Unclaimed profit distribution	3,748,284	3,748,284	-	-
Ijarah deposits	287,400	-	-	287,400
	5,713,310	5,425,910	-	287,400

22.2 Credit risk and concentration of 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 Modaraba controls credit risk by monitoring credit exposure, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

The Modaraba is exposed to credit risk from its financing activities (morabaha finance, ijarah rental receivables), deposits with bank and financial institutions and other receivables.



The Modaraba has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Modaraba uses other publicly available financial information and its own trading records to rate its major customers.

Credit risk from balances with banks and financial institutions is managed by finance department in accordance with the Modaraba's policy. Investments of surplus funds are made only with approved counterparties and with credit limits assigned to each counterparty. Counterparty credit limits are approved by the Board of Directors. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The Modaraba's maximum exposure to credit risk related to financial instruments at June 30, 2013 and June 30, 2012 is the carrying amounts of following financial assets:

	2013	2012
Advances, deposits, prepayments and other receivables	13,958,817	15,037,441
Balances with banks and financial institutions	49,720,574	44,783,327
	63,679,391	59,820,768

The analysis below summarizes the quality rating of the major banks in which the Modaraba deals:

Bank balances	Short Term	Long Term	2013	2012
Faysal Bank Limited	A1+	AA	10,330	721,465
Burj Bank Limited	A-1+	AA	27,335,386	36,683,858
Habib Bank Limited	A-1	A	20,574,068	-
Bank Alfalah Limited	A-1+	AA+	111,124	3,021,442
Al Baraka Bank (Pakistan) Limited	A1+	AA	318,837	-
Invest Capital Investment Bank Limited	A1	A		
Bank Limited			1,350,000	4,050,000
Sumit Bank Limited	D - Default	D - Default	-	1,224,086
	A-2	A		

Past due but not in paid financings are those for which contractual profit or principal payments are past due, but the Modaraba believes that in payment is not appropriate on the basis of the level of security collateral available to the Modaraba.

An analysis of the financial assets that are individually in paid as per the accounting policy is as under:

	As at June 30, 2013				
	O AEM	Substandard	Doubtful	Loss	Total
Ijarah rentals receivable	-	-	-	119,542	119,542
Morabaha finance	-	-	-	15,319,705	15,319,705
	As at June 30, 2012				
	O AEM	Substandard	Doubtful	Loss	Total
Ijarah rentals receivable	-	-	-	119,542	119,542
Morabaha finance	-	-	-	15,319,705	15,319,705

Total in payment against these assets as at June 30, 2013 is Rs. 15,439,247/- (June 2012: 15,439,247/-)

The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments.





26. DATE OF AUTHORITY OF ISSUE

These financial statements have been authorised for issue on October 10, 2013 by the Board of Directors of the Royal Management Services (Private) Limited.

27. FIGURES

Figures have been rounded off to the nearest Rupee.

As mentioned in note 1.3 to the financial statements, due to non-appointment of chief executive officer these financial statements have been signed by three directors instead of chief executive officer and two directors.

DIRECTOR

DIRECTOR

DIRECTOR



22.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiment, speculative activities, supply and demand of securities and liquidity in the market. The Modaraba incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Modaraba is exposed to profit risk.

22.3.1 Profit rate risk

The profit rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the profit rate exposure arises from short term deposits with banks, ijara finance and musharka and modaraba finance. The profit rate risk profile of the modaraba's profit bearing financial instruments is solely on cash and bank balances which is not exposed to significant profit rate risk.

22.3.2 Equity price risk

The Modaraba's equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Modaraba manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the modaraba's senior management on a regular basis. The Board of Directors of Management Company reviews and approves all equity investment decisions.

The carrying amount of investment in equity securities carried at fair value as shown in note 6 is as follows:

	2012	2011
Investments	7,655,341	9,905,131

Sensitivity analysis

The table below summarises the impact of increase/decrease in Karachi Stock Exchange index on the modaraba's profit after tax and on equity. The analysis is based on the assumption that the equity index had increased/decreased by 5% with all other variables held constant and all modaraba's equity instruments moved on perfect correlation with the index.

Index	Impact on profit after tax and equity	
	2013	2012
KSE 100 (5% increase)	382,767	495,257
KSE 100 (5% decrease)	(382,767)	(495,257)

22.3.3 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 Modaraba at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

22.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of the financial assets and financial liabilities approximate their fair values.

22.4.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).



	June 30, 2013			
	Level1	Level2	Level3	Total
Financial assets at FVTPL Quoted companies	7,655,341	-	-	7,655,341
Available-for-sale financial assets Unlisted entities	-	1,837,875	-	1,837,875
Loan and receivable financial assets Term deposit receipt	-	1,350,000	-	1,350,000
<b>Total</b>	<b>7,655,341</b>	<b>3,187,875</b>	<b>-</b>	<b>10,843,216</b>

	June 30, 2012			
	Level1	Level2	Level3	Total
Financial assets at FVTPL Quoted companies	9,905,131	-	-	9,905,131
Available-for-sale financial assets Unlisted entities	-	1,837,875	-	1,837,875
Loan and receivable financial assets Term deposit receipt	-	35,700,000	-	35,700,000
<b>Total</b>	<b>9,905,131</b>	<b>37,537,875</b>	<b>-</b>	<b>47,443,006</b>

## 22.5 Financial instrument by category

	As at June 30, 2013			
	Loan and receivables	Assets at fair value through profit & loss	Available-for-sale	Total
.....Rupees.....				
<b>ASSETS</b>				
Cash and bank balances	48,371,514	-	-	48,371,514
Investments	1,350,000	7,655,341	1,837,875	10,843,216
Tijarah rentals receivable	74,496	-	-	74,496
Advances, prepayments and other receivables	13,958,817	-	-	13,958,817
Accrued profit	-	-	-	-
Advance to staff	45,750	-	-	45,750
Long term deposits	-	-	-	-
	<b>63,800,577</b>	<b>7,655,341</b>	<b>1,837,875</b>	<b>73,293,793</b>
<b>LIABILITIES</b>				
Tijarah deposits	287,400	-	-	287,400
Accrued and other liabilities	949,562	-	-	949,562
Unclaimed profit distribution	4,129,447	-	-	4,129,447
	<b>5,366,409</b>	<b>-</b>	<b>-</b>	<b>5,366,409</b>



	As at June 30, 2012			
	Loan and receivables	Assets at fair value through profit & loss	Available-for-sale	Total
.....Rupees.....				
<b>ASSETS</b>				
Cash and bank balances	9,086,062	-	-	9,086,062
Investments	35,700,000	9,905,131	1,837,875	47,443,006
Tijarah rentals receivable	-	-	-	-
Advances, prepayments and other receivables	15,037,441	-	-	15,037,441
Accrued profit	907,265	-	-	907,265
Advance to staff	12,500	-	-	12,500
Long term deposits	45,750	-	-	45,750
	<b>60,789,018</b>	<b>9,905,131</b>	<b>1,837,875</b>	<b>72,532,024</b>
<b>LIABILITIES</b>				
Tijarah deposits	287,400	-	-	287,400
Accrued and other liabilities	1,677,626	-	-	1,677,626
Unclaimed profit distribution	3,748,284	-	-	3,748,284
	<b>5,713,310</b>	<b>-</b>	<b>-</b>	<b>5,713,310</b>

## 23. CAPITAL RISK MANAGEMENT

The Modaraba manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. As at balance sheet date Modaraba do not have any exposure in short term and long term borrowing and it has sufficient surplus funds to manage the affairs of the Modaraba effectively. Further Modaraba has positive current ratio of 14.57:1 (2012:14.11:1).

The Modaraba is continuously endeavoring for invest in risk free business with maximising returns in order to improve the position of its accumulated reserves, however, due to risky economic and market conditions, the Modaraba is following conservative approach and it is not actively making any major investments or financing of its allowed business.

Consistently with others in the industry, the Modaraba monitors capital on the basis of the debt-to-adjusted capital ratio. Modaraba focus towards the equity based financing and therefore consistent with the previous years. Currently, the Modaraba is not exposed to any external borrowings.

## 24. SEGMENT INFORMATION

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief decision-maker. The Board of Directors of the Management Company has been identified as the chief decision-makers, who is responsible for allocating resources and assessing performance of the operating segments.

The Chief Financial Officer who is also the member of investment committee is responsible for the Modaraba's entire portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

The internal reporting provided to the Board of Directors of the Management Company for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from investments in entities incorporated in Pakistan.

## 25. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors have approved profit distribution of Rs. 1,504,800 at the rate of 1.2% (Rs. 0.12 per certificate of Rs 10) for the year ended June 30, 2013. These financial statements do not reflect this distribution.



Summary of key Operating and Financial data of the  
Modaraba for last six years.  
Year ended June 30

.....Rupees in million .....

Year	2013	2012	2011	2010	2009	2008
Paid up Capital	125.400	125.400	125.400	125.400	125.400	125.400
Statutory Reserve	24.717	24.325	23.948	21.262	18.503	18.503
Certificate Holders' Equity	73.305	72.853	75.983	66.312	59.416	96.919
Certificate	12.540	12.540	12.540	12.540	12.540	12.540
Current Liabilities	5.366	5.426	5.478	4.939	4.174	3.932
Non-Current Assets	0.494	2.030	1.956	1.717	3.429	5.570
Current Assets	78.178	76.537	79.971	69.968	60.771	96.590
Profit/(Loss) before taxation	2.038	1.886	13.483	6.396	(33.498)	5.721
Taxation	-	(0.008)	0.051	(0.501)	-	0.090
Earning/(Loss) per Certificate (Rs.)	0.16	0.15	1.07	0.55	(2.67)	0.45
Dividend (%)	1.2%	1.2%	3%	3%	Nil	3%



PATTERN OF SHARE HOLDINGS AS AT 30.06.2013

NUMBER OF SHARE HOLDERS	SHARE HOLDINGS			TOTAL SHARES HELD
915	1	-	100	45,894
1,342	101	-	500	289,821
1,160	501	-	1000	788,760
513	1001	-	5000	1,099,488
75	5001	-	10000	519,420
48	10001	-	15000	571,321
12	15001	-	20000	215,914
11	20001	-	25000	246,973
8	25001	-	30000	212,889
5	30001	-	35000	156,865
2	35001	-	40000	75,827
1	40001	-	45000	41,954
5	45001	-	50000	242,119
2	50001	-	55000	105,500
2	60001	-	65000	121,535
1	75001	-	80000	80,000
1	100001	-	105000	102,000
1	105001	-	110000	109,725
1	110001	-	115000	111,860
3	125001	-	130000	376,475
1	145001	-	150000	149,790
1	160001	-	165000	160,500
1	205001	-	210000	205,649
2	245001	-	250000	500,000
1	285001	-	290000	290,000
1	325001	-	330000	327,838
1	335001	-	340000	337,919
1	395001	-	395000	395,000
1	455001	-	460000	455,600
1	495001	-	500000	500,000
1	540001	-	545000	544,568
1	865001	-	870000	868,500
1	1035001	-	1040000	1,036,296
1	1250001	-	1255000	1,254,000
<u>4,123</u>				<u>12,540,000</u>



CATEGORIES OF CERTIFICATE HOLDING  
AS ON 30-06-2013

	No of Certificate holders	No of Certificate Held	TotalNo ofCertificate	Percentage
ASSOCIATED COMPANIES UNDERTAKING AND RELATED PARTIES	1		1,254,000	10.00
ROYAL MANAGEMENT SERVICES (PVT) LIMITED		1,254,000		
NT AND IP	1		3,500	0.03
INVESTMENT CORPORATION OF PAKISTAN		3,500		
DIRECTORS, CEO THEIR SPOUSE AND MINOR CHILDREN	1		25	0.00
MR. MOHAMMAD MUSHARRAF KHAN		25		
EXECUTIVE	—	—	—	—
PUBLIC SECTOR COMPANIES AND CORPORATIONS.	1		109,725	0.87
STATE LIFE INSURANCE CORPORATION OF PAKISTAN LTD		109,725		
BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABA AND MUTUAL FUNDS	7		11,669	0.09
THE BANK OF KHYBER		1,526		
NATIONAL DEVELOPMENT LEASING CORPORATION LTD.		350		
NEW JUBILEE INSURANCE COMPANY LTD.		500		
LTV CAPITAL MODARABA		1,345		
FIRST PRUDENTIAL MODARABA		100		
PROGRESSIVE INS.CO LTD.		6,925		
MODARABA AL MALL		923		
CERTIFICATE HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY	—	—	—	—
INDIVIDUALS	4078		10,498,187	83.72
OTHER CORPORATE CERTIFICATE HOLDERS	34		662,894	5.29
<b>TOTAL</b>	<b>4123</b>		<b>12,540,000</b>	<b>100.00</b>



NOTICE OF THE ANNUAL REVIEW MEETING

Notice is hereby given that the 14<sup>th</sup> Annual Review Meeting of the Modaraba's Certificate Holders of First Pak Modaraba will be held on October 31, 2013 at 12.00 noon at Office No. 54, Ground Floor, 56 - G, Beverly Centre Blue Area, Islamabad to review the performance of Modaraba for the year ended June 30, 2013 in terms of clause 20 of the Prudential Regulation for Modaraba issued vide Circular No. 5/2000 by Registrar Modaraba.

By Order of the Board

Karachi  
October 10, 2013

Muhammad Musharraf Khan  
Company Secretary

Notes:-

1. The Modaraba Certificates transfer Book shall remain closed from October 24, 2013 to October 31, 2013 (both days inclusive) to determine the name of Certificate Holders eligible to attend the Annual Review Meeting. Transfer received in order at the Registrar Office of the Modaraba (whose address is given below) upto the close of business hours on October 23, 2013 will be treated in time.

2. The Certificate Holders are advised to notify to the Registrar of First Pak Modaraba of any change in their addresses to ensure prompt delivery of mails. Further, any Certificate for transfer etc. should be lodged with the Registrar Shares & Corporate Services (Pvt.) Limited, Mehersons Estate, First Floor, Block E, Talpur Road, Near. NBP Head Office, Karachi.

3. Accounts Holders holding Book entry securities of the Modaraba in Central Depository Company of Pakistan Limited, who wish to attend the Annual Review Meeting, are requested to bring original Computerized National Identity Card for identification purpose and will in addition, have to follow the guidelines as laid down in Circular No. 1 of 2000 dated January 26, 2000 of the Securities and Exchange Commission of Pakistan (SECP) for attending the meeting.



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# FIRST PAK MODARABA

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22ND ANNUAL REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2013

Managed by:

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Royal Management Services (Pvt.) Limited

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BOOK - POST  
Printed Matter

If undelivered please return to :  
First Pak Modaraba  
Registrar  
Meharsons Estate, 1st floor, Block-F,  
Talpur Road, Karachi.  
Tel: 32401634  
Fax: 35643283  
Email: info@firstpakmodaraba.com