



Social values of Islam provide the faithful with a large measure of spiritual peace and serenity, and this contentment can be reaped while pursuing business aspirations within the confines of Islamic law. We visualize creating an institution where society can seek a just and fair advantage from the richness of Islamic system of trade finance.

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## CORPORATE INFORMATION

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Board of Directors	Syed Waseem-ul- Haq Haqqie Rashid K. Siddiqui Syed Muhammad Rehmanullah Farrukh S. Ansari	Chairman Chief Executive Officer Director Director
Audit Committee	Farrukh S. Ansari Syed Muhammad Rehmanullah Syed Waseem-ul- Haq Haqqie	Chairman Member Member
Human Resource and Remuneration Committee	Farrukh S. Ansari Syed Waseem-ul- Haq Haqqie Syed Muhammad Rehmanullah Rashid K. Siddiqui	Chairman Member Member Member
Company Secretary & Chief Financial Officer	Aftab Afroz Mahmoodi	
Head of Internal Audit	Syed Shahid Owais	
Management Company	KASB Invest (Private) Limited	
Registered Office	8-C, Block-6, PECHS, Off. Sharah-e-Faisal, Karachi.	
Karachi Office	Office No. A-601, 602, 6 <sup>th</sup> Floor, Lakson Square Building No.3, Sarwar Shaeed Road, Karachi.74200 Tel: 021-35643086-87 Fax No. 021-5643283	
Auditors	Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accounts	
Legal Advisor	Ahmed & Qazi Advocates Muhammad Zubair Quraishy & Co	
Shariah Advisor	Mufti Muhammad Ibrahim Essa	
Bankers	Habib Bank Limited (Islamic Banking) Burj Bank Limited Al-Baraka Islamic Bank Faysal Bank Limited Bank Al-Falah Limited	
Share Registrar	Shares & Corporate Services (Pvt.) Limited Mehersons Estate, Talpur Road, Karachi. 74000 Tel: 021-32401634	



## DIRECTORS' REPORT

The Board of Directors of KASB Invest (Private) Limited, the Management Company of First Pak Modaraba are pleased to present 23rd Annual Report of First Pak Modaraba together with Audited Accounts and Auditors' Report thereon for the year ended 30th June 2014 before the certificate holders.

This is the first Annual Report presented by the Management of KASB Invest (Pvt) Limited after taken over of management/administrative control of First Pak Modaraba.

The Honorable Supreme Court of Pakistan vide order dated October 23, 2014, upheld the order of Registrar Modaraba dated October 28, 2010 for change of management of First Pak Modaraba from Royal Management Services (Pvt.) Limited to KASB Invest (Pvt.) Limited. KASB Invest (Private) Limited as the new Modaraba management company of First Pak Modaraba took over its management/ administrative control on November 13, 2014 pursuant to SECPs instructions received vide letter No. SCD-SD/Enf/KASBIL/2014/323 dated November 11, 2014.

Consequently, the governing body of the modaraba is comprised of the following members:

- Syed Waseem-ul- Haq Haqqie – Chairman
- Syed Muhammad Rehmanullah- Director
- Mr. Farrukh S. Ansari – Director
- Mr. Rashid K. Siddiqui- Chief Executive Officer

Similarly, the registered office of the Modaraba has now become 8-C, Block-6, PECHS, Karachi with effect from November 13, 2014.

The financial statements for the year ended June 30, 2014 were earlier approved by the Board appointed by Royal Management Services (Private) Limited on October 10, 2014 on which the auditors of the modaraba had issued qualified report for non-provisioning against certain assets that were doubtful for recovery.

After consultation with the SECP, independent due diligence assignments of the Modaraba was conducted to obtain independent view point on strength and weakness of modarba. In this respect, M/s Avais Hyder Liaquat Nauman Chartered Accountants were appointed to conduct financial due diligence and M/s Ahmed & Qazi Advocates & Legal Consultants were appointed to conduct legal due diligence.

The KASB Invest (Private) Limited have considered the qualifications as appropriate and decided to revise the said financial statements after incorporating all required provisioning.

Based on the final reports of the due diligences, required provisions and impairments are made in the financial statements and the statutory auditors of the Modaraba were requested to review and issue a revised audit report thereon.

Accordingly, M/s Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants have issued revised audit report in which they have removed all qualifications which were present in earlier report of the same period.



## KEY OPERATING / FINANCIAL HIGHLIGHTS

(Rupees in millions)  
June 30

	<b>2014</b>	<b>2013</b>
Year ended		
Total Income from Operations	6.877	6.348
Operating Expenses	(3.696)	(4.246)
Unrealized Gain / (Loss) on		
Re-measurement of Investment	(0.599)	(0.064)
Permanent Diminution in value of available for sale investments	(4.875)	-
Provision against doubtful receivables	(13.362)	-
Net Profit/(Loss)	(15.656)	1.957
Earning /(Loss) per Modaraba Certificate (Rs.)	(1.25)	0.16

## Review of Operations:

During the year ended on 30th June 2014, the Overall operating performance of the First Pak Modaraba reflects that the Net Loss of Rs.15.656 million recorded as against a profit of Rs.1.957 million last year. This loss is mainly occurred due to provision amounting to Rs.13.362 million against doubtful assets and permanent diminution of Rs.4.875 million in value of available for sale investments. The Loss per Modaraba Certificate stands to Rs.1.25 during the year as against Earning of Re.0.16 during last year. Due to heavy loss in the current year, the management has decided to repeal the dividend announced by ex-management.

## Committees of the Board:

The management has reconstituted the Audit Committee and Human Resource & Remuneration Committee. Compositions of committees are below:

## Audit Committee

1. Mr. Farrukh S. Ansari - Chairman
2. Syed Muhammad Rehmanullah - Member
3. Syed Waseem-ul-Haq Haqqie - Member

## Human Resource &amp; Remuneration Committee

1. Mr. Farrukh S. Ansari - Chairman
2. Syed Muhammad Rehmanullah - Member
3. Syed Waseem-ul-Haq Haqqie - Member
4. Mr. Rashid K. Siddiqui -Member

## Sharia Compliance and Sharia Audit Mechanism

The Board is committed to comply with the requirements of circular No. 08 of 2012 Shariah Compliance and Shariah Audit Mechanism for Modarabas under the direction of its Sharia Advisor.

## CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Board of Directors is fully aware of its duties & responsibilities under Code of Corporate Governance issued by Securities & Exchange Commission of Pakistan.

- a. The financial statements, prepared by the management of the Modaraba, present its state of affairs fairly, 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 Financial Reporting 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 control 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. The Modaraba operates a provident fund for its permanent employees having value of Rs.442,651/- as on June 30, 2014.
- i. Key operating and financial data of last six years in a summarized form is annexed.
- j. 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
Mr. Abdul Hameed Khan (Relinquished Director)	5
Mr. Muhammad Musharraf Khan (Relinquished Director)	5
Mr. Akhtar I. Pathan (Relinquished Director)	2

- k. The Statement of pattern of certificate holding of the Modaraba as at 30th June 2014 as per code of corporate governance is annexed.

Compliance with Code of Corporate Governance

Statement of compliance with the Code of Corporate Governance is annexed with the financial statements for the year ended June 30, 2014.

FUTURE OUTLOOK

The current management is in the process of preparing a revival plan for the Modaraba and believes that it could be achieved not only through the efforts of the Management itself and staff of the Modaraba but also and more importantly under the guidance and supervision of the Registrar Modaraba, Securities and Exchange Commission of Pakistan and other regulating authorities.

The management of the Modaraba is all geared up and its good liquidity also permits to lend to selected good quality clients. Since there are no financial obligations and as a result no financial costs, this helps the Modaraba to offer lending at very competitive rates to good quality clients with financially sound footing. The current economic situation, alongwith 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 achieve better result and to regularly pay progressive rate of return to the certificate holders of the Modaraba.



The management believes that Modaraba's good liquidity also permits to lend to selected good quality clients. Since there are no financial obligations and as a result no financial costs, this helps the Modaraba to offer lending at very competitive rates to good quality clients with financially sound footing.

The Modaraba intends to increase its efforts for the recoveries from the defaulted clients through increased interaction & negotiation and expediting & accelerating legal recourse. This will result in increased liquidity and profitability through reversal of provisions.

Auditors

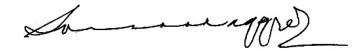
In order to keep the same auditors of all the modarabas under the management of KASB Invest (Pvt.) Ltd., on the recommendation of Audit Committee, the Board has approved the appointment of M/s Avais Hyder Liaquat Nauman, Chartered Accountants, as the statutory auditors for the year ended June 30, 2015, subject to approval by the Registrar Modaraba.

Acknowledgement:

The Board of Directors would like to thank for continuous guidance and support extended by the Registrar Modaraba, Securities and Exchange Commission of Pakistan, the Karachi, Lahore and Islamabad Stock Exchanges. The Board is also thankful to its valued customers, Certificate Holders for reposing their confidence in the Management of the Modaraba.

For & on behalf of the Board of Directors

Karachi.  
Dated: April 24, 2015

  
Syed Waseem-ul-Haq Haqqie  
Chairman



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

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

Year	2014	2013	2012	2011	2010	2009
Paid up Capital	125.400	125.400	125.400	125.400	125.400	125.400
Statutory Reserve	24.717	24.717	24.325	23.948	21.262	18.503
Certificate Holders' Equity	59.182	73.305	72.853	75.983	66.312	59.416
Certificate	12.540	12.540	12.540	12.540	12.540	12.540
Current Liabilities	8.031	5.366	5.426	5.478	4.939	4.174
Non-Current Assets	10.087	0.494	2.030	1.956	1.717	3.429
Current Assets	57.125	78.178	76.537	79.971	69.968	60.771
Profit/(Loss) after taxation	(15.656)	1.957	1.886	13.432	6.899	(33.498)
Earning/(Loss) per Certificate (Rs.)	(1.25)	0.16	0.15	1.07	0.55	(2.67)
Dividend (%)	Nil	1.2%	1.2%	4%	3%	Nil



STATEMENT OF COMPLIANCE WITH THE CODE OF  
CORPORATE GOVERNANCE  
YEAR ENDED JUNE 30, 2014

This statement is being presented to comply with the Code of Corporate Governance contained in the Regulation No. 35 of Listing Regulations of Karachi Stock Exchange Ltd. for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Royal Management Services (Private) Ltd (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:

Category	Names
Independent Directors	Mr. Abdul Hameed Khan Mr. Amir Mehmood ( Subject to approval from Registrar Modatraba)
Non-Executive Directors	Mr. Muhammad Musharraf Khan

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.

3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a stock exchange, has been declared as a defaulter by the stock exchange.

4. No casual vacancy occurred on the Board. Casual Vacancy of CEO was filled by the appointment on 6th January, 2014 by SECP under the stop gap arrangement for 6 months till 6th July 2014.

5. The Company has prepared a Statement of Ethics and Business Practices which has been signed by all the directors and senior employees of the Company.

6. The Board has developed a vision and mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8. The meetings of the Board were presided by the Chairman. 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. Due to busy schedule of directors no training program could be conducted by the end of fiscal year. However the omission will be rectified in the next year.



10. The Board did not arranged orientation courses for its directors during the financial year to apprise them with their duties and responsibilities.
11. No new appointment of CFO, Company Secretary and Head of Internal Audit has been made during the year.
12. The Directors' Report for this period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. As the Modaraba Management company has no Chief Executive Officer, the financial statements of Modaraba were duly endorsed by the Director in the absence of CEO and the Chief Financial Officer before approval of the Board.
14. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee. It comprises two members, who are non-executive Directors and chairman of the committee is an Independent Director.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises two members, who are non-executive Directors and chairman of the committee is an Independent Director.
18. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
19. The Modaraba has setup an effective internal audit function. The Modaraba is in the process of hiring a Head of Internal Audit as per criteria laid down by CCG.
20. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. The 'closed period' prior to the announcement of interim / final results and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.



23. The company has complied with all the major corporate and financial reporting requirements to the code. All related parties transactions has been reviewed and approved by the Board and are carried out as per agreed terms.
24. We confirm that all other material principles contained in the Code have been complied with except for the requirements pertaining to change in composition of Board of Directors or some its committees.

Karachi  
Date:October 10, 2014

For & on behalf of the Board of Directors

  
DIRECTOR



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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Royal Management Services (Pvt) Ltd (the Modaraba Management Company) representing First Pak Modaraba (the Modaraba) for the year ended June 30, 2014 to comply with the requirements of Listing Regulation No(s) 35 of the Karachi Stock Exchange(s) where the Modaraba is listed.

The responsibility for compliance with the Code 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 Management Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Modaraba Management Company's personnel and review of various documents prepared by the Modaraba Management Company to comply with the Code.

As a part of our audit of the 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 of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Modaraba Management Company's corporate governance procedures and risks.

The Code requires the Modaraba Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended June 30, 2014.



Further, we highlight below instance(s) of non-compliance with the requirement(s) of the Code as reflected in the note/paragraph reference where these is/are stated in the Statement of Compliance:

- i. As disclosed in point 9 of the statement, none of the directors have obtained certification under directors training program as required under clause (xi) of the code.
- ii. As disclosed in point 10 of the statement, Board has not arrange orientation courses for its directors to appraise them with their duties and responsibilities as required under clause (xi) of the code.
- iii. As disclosed in point 13 of the statement, financial statements were not duly endorsed by CEO for consideration and approval of board of Directors, as required under clause (xxi) of the code
- iv. As disclosed in point 16 and 17 of the statement, Board has formed an audit committee and Human resource and remuneration committee which is not in compliance with clause (xxiv) and (xxv) of the code.
- v. As disclosed in point 19 of the statement, the Board is in process of hiring a head of internal audit as required by clause (xxxi) of the code.

This review report was originally issued on October 10, 2014 and has now been reissued without any change but with an additional information subsequent to the report date and pursuant to SECP's direction dated November 11, 2014, M/s KASB Invest (Private) Limited took over the management and control of First Pak Modaraba and as such the instances of non compliance with the requirements of the Code mentioned above are related to the Board of Royal Management Services (Private) Limited which was the then Modaraba Management Company of First Pak Modaraba.

Karachi.  
Date: April 24, 2015

Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants



## AUDITORS' REPORT TO THE CERTIFICATE HOLDRES

We have audited the annexed balance sheet of First Pak Modaraba (the Modaraba) as at June 30, 2014 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 [KASB Invest (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 (Floatation 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) in our opinion, 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 (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;

b) in our opinion:

(i) 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 (Floatation 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;

(ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and

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



c) in our opinion, 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 (Floatation 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 Management Company's affairs as at June 30, 2014 and of the loss, its cash flows and changes in equity for the year then ended: and

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

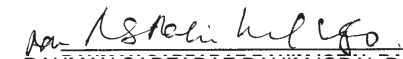
### Emphasis of Matter

Without qualifying our opinion, we draw attention to our previously issued modified audit report dated Oct 10, 2014 on the financial statement of the Modaraba for the year ended 30th June 2014 and note no 1.2 to the financial statements which describes the reason for the revision of the annexed financial statements of the Modaraba for the year ended June 30, 2014 based on which we have to issued this unqualified report with an emphasis of matter paragraph.

### Other Matter

The financial statements of the Modaraba for the year ended June 30, 2013 were audited by M. Yousuf Adil Saleem & Company, Chartered Accountants who, through their report dated October 10, 2013, expressed a qualified opinion there on. However, the report also contained emphasis of matter paragraph.

Karachi.  
Date: April 24, 2015

  
**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ**  
CHARTERED ACCOUNTANTS  
ENGAGEMENT PARTNER: MUHAMMAD RAFIQ DOSANI





## SHARIAH ADVISOR'S REPORT

I have reviewed the affairs of First Pak Modaraba for the Year ended June 30, 2014 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.

## SHARIAH COMPLIANCE:

The Modaraba effectively has introduced a mechanism to strengthened the Shariah compliance, in letter and spirit and the systems, procedures and policies adopted by the Modaraba are in line with the Shariah principles;

## REVIEW OF OPERATIONS:

Based on my review following were the major activities / developments in respect of Shari'ah that took place during this period:

## BANK ACCOUNTS:

Modaraba does not maintain any saving account with conventional banks except the one which could not be closed due to legal matters. 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:

For risk mitigation, the Modaraba effectively adopted and maintaining Takaful coverage with Takaful companies and did not obtain any coverage from conventional Insurance companies.

## 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's entire equity investments were made in approved Shariah compliant scripts provided and updated by NBF and Modaraba Association of Pakistan and in compliance of circular 8 of 2012, 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 maintains 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 NBF & 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 complaint equity shares subject to the legal clearance and availability of the buyers.

## CONCLUSION:

By the grace of Almighty ALLAH, after introduction of Shari'ah Compliance and Shari'ah 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 Shari'ah compliant up to the best of my knowledge.

Mufti Ibrahim Essa  
Shariah Advisor



Dated: September 29, 2014

Karachi.



## BALANCE SHEET AS AT JUNE 30, 2014

ASSETS	Note	2014 Rupees	2013 Rupees
<b>Current Assets</b>			
Cash and bank balances	5	31,488,537	48,371,514
Investments	6	14,453,135	10,843,216
Current Portion of diminishing Musharika		2,207,753	-
Morabaha finance	7	-	-
Ijarah rentals receivable	8	-	74,496
Advances, deposits, prepayments and other receivables	9	4,046,100	13,999,234
Tax refundable - considered good		4,929,854	4,889,437
<b>Total Current Assets</b>		<b>57,125,379</b>	<b>78,177,897</b>
<b>Non - Current Assets</b>			
Property and equipment -Ijarah	10	-	324,659
Property and equipment - owned	11	106,164	123,107
Diminishing Musharika	12	9,935,452	-
Advance and deposits	13	45,750	45,750
<b>Total Non - Current Assets</b>		<b>10,087,366</b>	<b>493,516</b>
<b>TOTAL ASSETS</b>		<b>67,212,745</b>	<b>78,671,413</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Current portion of Ijarah deposits	14	-	287,400
Accrued and other liabilities	15	3,646,595	949,562
Unclaimed profit distribution		4,384,535	4,129,447
<b>Total Current Liabilities</b>		<b>8,031,130</b>	<b>5,366,409</b>
<b>Non - Current Liabilities</b>			
Long term Ijarah deposits	14	-	-
<b>TOTAL LIABILITIES</b>		<b>8,031,130</b>	<b>5,366,409</b>
<b>NET ASSETS</b>		<b>59,181,615</b>	<b>73,305,004</b>
<b>REPRESENTED BY</b>			
Certificate Capital	16	125,400,000	125,400,000
Statutory reserve		24,716,601	24,716,601
Accumulated loss		(90,934,986)	(73,774,472)
Unrealized loss on available for sale investment		-	(3,037,125)
		<b>59,181,615</b>	<b>73,305,004</b>
Contingencies and commitments	17		

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

For KASB Invest (Private) Limited  
(Management Company)

  
CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR



## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 Rupees	2013 Rupees
<b>INCOME</b>			
Return on term deposit receipts and PLS accounts		3,165,898	4,024,930
Income on Diminishing Musharika		928,546	-
Gain on sale of investments		2,269,513	1,318,714
Dividend income		422,346	693,560
Ijarah rentals		49,664	297,984
Other income		40,650	12,351
		<u>6,876,617</u>	<u>6,347,539</u>
Unrealised loss on remeasurement of held for trading investments		(599,066)	(63,909)
Permanent diminution in value of available for sale investments	6.1	(4,875,000)	-
Provision against doubtful receivables	9	(13,362,651)	-
		<u>(11,960,100)</u>	<u>6,283,630</u>
<b>EXPENDITURE</b>			
Administrative expenses	18	(3,658,355)	(3,981,003)
Amortization on Ijarah assets		(37,259)	(223,533)
Workers welfare fund		-	(41,582)
		<u>(3,695,614)</u>	<u>(4,246,118)</u>
(Loss)/profit for the year		<u>(15,655,714)</u>	<u>2,037,512</u>
Modaraba Company's Management Fee		-	-
(Loss)/profit before taxation		<u>(15,655,714)</u>	<u>2,037,512</u>
Provision for taxation	19	-	(80,908)
(Loss)/profit after taxation		<u>(15,655,714)</u>	<u>1,956,604</u>
Other Comprehensive income		-	-
<b>Total (loss)/income for the year</b>		<u>(15,655,714)</u>	<u>1,956,604</u>
(Loss)/Earnings per certificate	20	<u>(1.25)</u>	<u>0.16</u>

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

For KASB Invest (Private) Limited  
(Management Company)

  
CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR



## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2014

	2014 Rupees	2013 Rupees
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/Profit before taxation	<b>(15,655,714)</b>	2,037,512
Adjustments for non-cash changes and other items:		
Gain on sale of investments	<b>(2,269,513)</b>	(1,318,714)
Dividend income	<b>(422,346)</b>	(693,560)
Gain on disposal-own assets	<b>(4,500)</b>	(12,351)
Permanent diminution in value of investments	<b>4,875,000</b>	-
Unrealised loss on remeasurement of held for trading investments	<b>599,066</b>	63,909
Provision against doubtful receivables	<b>13,362,651</b>	-
Amortization on ijarah assets	<b>37,259</b>	223,533
Depreciation-owned	<b>45,958</b>	63,858
	<b>16,223,575</b>	<b>(1,673,325)</b>
	<b>567,861</b>	364,187
Cash flows before movements in working capital		
(Increase) / decrease in operating assets		
Diminishing Musharika	<b>(12,143,205)</b>	-
Ijarah rentals receivable	<b>74,496</b>	(74,496)
Advances, prepayments and other receivables	<b>(3,448,655)</b>	1,091,124
	<b>(15,517,364)</b>	1,016,628
Increase / (Decrease) in operating liabilities		
Long term ijarah deposits	<b>(287,400)</b>	-
Accrued and other liabilities	<b>2,697,033</b>	(728,064)
	<b>2,409,633</b>	(728,064)
Cash generated from / (used in) operations	<b>(12,539,870)</b>	652,751
Income tax paid / adjustment	<b>(1,279)</b>	(40,417)
Net cash generated from / (used in) operating activities	<b>(12,541,149)</b>	612,334
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividend received	<b>422,346</b>	693,560
Investments encashed / (made) -net	<b>(3,777,347)</b>	39,204,595
Proceeds from disposal-ijarah assets	<b>287,400</b>	-
Purchase of own assets	<b>(29,015)</b>	(124,400)
Proceeds from disposal-own assets	<b>4,500</b>	23,000
Net cash generated from / (used in) investing activities	<b>(3,092,116)</b>	39,796,755



	2014 Rupees	2013 Rupees
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Profit distribution	<b>(1,249,712)</b>	(1,123,637)
Net cash used in financing activities	<b>(1,249,712)</b>	(1,123,637)
Net increase / (decrease) in cash and cash equivalents (A+B+C)	<b>(16,882,977)</b>	39,285,452
Cash and cash equivalents at July 01	<b>48,371,514</b>	9,086,062
Cash and cash equivalents at June 30	<b>31,488,537</b>	48,371,514

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

For KASB Invest (Private) Limited  
(Management Company)

  
CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2014

	Certificate capital	Capital		Revenue		Sub Total	Total
		Statutory Reserve*	Accumulated Loss	Unrealized loss on available for sale investments			
Balance at July 1, 2012	125,400,000	24,325,280	(73,834,955)	(3,037,125)	(76,872,080)	72,853,200	
Profit for the year ended June 30, 2013	-	-	1,956,604	-	1,956,604	1,956,604	
Other comprehensive income for the year ended June 30, 2013	-	-	-	-	-	-	
Transfer to statutory reserve	-	391,321	(391,321)	-	(391,321)	-	
Distribution @ 1.2 % declared for the year ended June 30, 2012	-	-	(1,504,800)	-	(1,504,800)	(1,504,800)	
Balance at June 30, 2013	125,400,000	24,716,601	(73,774,472)	(3,037,125)	(76,811,597)	73,305,004	
Loss for the year ended June 30, 2014	-	-	(15,655,714)	-	(15,655,714)	(15,655,714)	
Other comprehensive income for the year ended June 30, 2014	-	-	-	-	-	-	
Reversal of unrealised loss on Available for sale upon derecognition	-	-	-	3,037,125	-	3,037,125	
Transfer to statutory reserve	-	-	-	-	-	-	
Distribution @ 1.2 % declared for the year ended June 30, 2013	-	-	(1,504,800)	-	(1,504,800)	(1,504,800)	
Balance at June 30, 2014	125,400,000	24,716,601	(90,934,986)	-	(90,934,986)	59,181,615	

\*\* 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 equals 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 not transferred any amount to Statutory Reserve as a result of loss for the year of Rs Nil (2013 : 391,321).\*

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

For KASB Invest (Private) Limited  
(Management Company)

  
CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014

## 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 (Floatation and Control) Ordinance, 1980 and the Modaraba Companies and Modaraba Rules, 1981 and is managed by KASB Invest (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 funding and business which include Ijarah financing, Diminishing Musharika financing, deployment of fund as investment in liquid securities.

1.2 The financial statements have been amended by KASB Invest (Private) Limited as the new Modaraba management company of First Pak Modaraba that took over its management and control pursuant to SECPs instructions received vide letter No. SCD-SD/Enf/KASBIL/2014/323 dated November 11, 2014. Under the circumstances the CEO & CFO of KASB Invest (Private) Limited has assumed the charge of CEO and CFO of the Modaraba with effect from November 13, 2014. Similarly, the registered office of the Modaraba has now become 8-C, Block-6, PECHS, Karachi with effect from November 13, 2014.

The financial statements for the said year were earlier approved by the Board appointed by Royal Management Services (Private) Limited on October 10, 2014 on which the auditors of the modaraba had issued qualified report for non-provisioning against certain assets that were doubtful of recovery under note 9 and required to be impaired in note 6 to the said financial statements. The KASB Invest (Private) Limited have considered the qualification as appropriate and decided to revise the said financial statements after incorporating all required provisioning. In this regard, after consultation with SECP, M/s Avais Hyder Liaquat Nauman Chartered Accountants was appointed to conduct financial due diligence and M/s Ahmed & Qazi Advocates were appointed for legal due diligence. Based on the reports of the due diligence, the statutory auditors of the Modaraba were requested to review and issue a revised audit report thereon. The financial statements were revised after making provision amounting to Rs 12.476 million against doubtful advances and amount of Rs 886,442 receivable from Royal Management Services (Private) Limited as well as recording impairment loss of Rs 4.875 million on Investment in shares (Refer note 6 and 9).

The Annual Review Meeting scheduled to be held on October 31, 2014 was suspended by SECP.

1.3 The Financial Statements is presented in Pak Rupees, which is the Modarabas functional and presentation currency.

## 2. BASIS OF PREPARATION

## 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 (Floatation 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 (Floatation 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 (Floatation and Control) Ordinance, 1980, Islamic Financial Accounting Standards (IFAS), Modaraba Companies and Modaraba Rules, 1981 or the directives issued by SECP shall prevail.



2.2 Initial application of standards, amendments or an interpretation to existing

a) Standards, amendments or interpretations which became effective during the year:

Standards, amendments to published standards and interpretations that are effective in year beginning from July 01, 2013 and are relevant to the Modaraba:

IAS 1, 'Financial statement presentation' regarding other comprehensive income, emphasizes on the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The application of the amendment has not affected the results or net assets of the Modaraba as it is only concerned with presentation and disclosures.

IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. Applicable to annual periods beginning on or after January 1, 2013.

IAS 32 Financial Instruments: Presentation - Applicable to annual periods beginning on or after 1 January 2013, is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.

IAS 34 Interim Financial Reporting is amended, Applicable to annual periods beginning on or after 1 January 2013, to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments.

IAS 28 "Investments in Associates and Joint Ventures", applicable to annual reporting periods beginning on or after January 1, 2013.

IFRS 12, 'Disclosure of interests in other entities', effective for annual periods beginning on or after January 1, 2013.

IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after January 1, 2013.

IAS 19 (revised) 'Employee Benefits' has eliminated the corridor approach and requires to calculate finance cost on net funding bases. The Modaraba has applied this change in accounting policy retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and recorded unrecognized actuarial losses net of taxes associated with retirement benefit plan by adjusting the opening balance of unappropriated profit and retirement benefit for the prior years presented.

b) New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective:

IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on Modaraba's financial statements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on Modaraba's financial statements.

Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.



Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Modaraba's financial statements.

Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a Modaraba can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

Amendments to IAS 27 'Separate Financial Statements' (effective for annual period beginning on or after 1 January 2016). The amendments to IAS 27 allow entities to use equity method to account for its investment in subsidiaries, joint ventures and associates in the Separate Financial Statements. Management is currently evaluating the implication of the amendment.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.



IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These are not expected to have any impact other than increased disclosures.

Securities and Exchange Commission of Pakistan (SECP) vide SRO 633(1)/2014 dated 10th July 2014 has approved the below IFRSs:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of interests in other entities'
- IFRS 13 'Fair Value Measurement'

### 2.3 Islamic Financial Accounting Standard - 1

During the year ended June 30, 2005, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transaction undertaken by a bank / financial institution, effective for financial periods beginning on or after January 1, 2006. The Modaraba adopted this standard effective from July 1, 2006.

### 2.4 Islamic Financial Accounting Standard - 2

During the year ended June 30, 2008, Islamic Financial Accounting Standard 2 'Ijarah' issued by the Institute of Chartered Accountants of Pakistan which was notified by the Securities and Exchange Commission of Pakistan vide an SRO 431(1)/ 2007 dated May 5, 2007 was adopted. Under the above IFAS 2, the 'Ijarah' transactions are accounted for in the following manner:

- Mujir (lessors) shall present the assets subject to Ijarah in their balance sheet according to the nature of the asset, distinguished from the assets in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognized as an expense.
- Ijarah income shall be recognized in income on an accrual basis as and when the rental becomes due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the leased asset is diminished.
- SECP, vide its letter No. SC/ M/ RW/ SCM /2009 dated March 9, 2009, allowed that in case of Modarabas, IFAS-2 shall be applied for Ijarah transactions executed on or after July 1, 2008.



### 3. Basis of Measurement

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) Ijarah and amortization

Ijarah assets are stated at cost less accumulated amortization and impairment loss (if any). Amortization 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, amortization 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 recognized 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 statement as and when incurred.

#### 4.2 Investments

The Modaraba determines the appropriate classification of its investments at the time of purchase of investment and re-evaluates this classification on a regular basis. The existing investment portfolio of the Modaraba has been categorized as follows:

##### Held-for-trading "at fair value through profit and loss"

These are investments which are acquired principally for the purpose of generating profits from short-term fluctuations in market prices, interest rate movements, dealer's margin or are investments included in a portfolio in which a pattern of short-term profit taking exists.

##### Available for sale

These are investments that are intended to be held for an indefinite period of time and which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices.

##### Held to maturity

These are investments with fixed or determinable payments and fixed maturity that the Modaraba has the positive intention and ability to hold to maturity.

All investments are initially recognized at cost, being the fair value of the consideration given. Cost includes transaction costs associated with the investment. Subsequent to initial recognition, held-for trading and available-for-sale investments for which active market exists, are measured at their market value while held-to maturity investments are stated at amortized cost using the effective interest rate method less impairment, if any.



Any surplus or deficit on revaluation of held-for-trading investments are charged to income currently, while in case of available-for-sale investments, the resulting surplus/(deficit) is kept in a separate account and is shown in the balance sheet below the shareholders' equity as surplus/(deficit) on revaluation of investments. At the time of disposal the respective surplus or deficit is transferred to income currently.

Unquoted available for sale investments, except where an active market exists, are carried at cost less accumulated impairment losses, if any,

Impairment of investments is recognized when there is a permanent diminution in their values. Provision for impairment in the value of investment, if any, is taken to the profit and loss account.

#### 4.3 Ijarah rentals receivable, ijarah, murabaha 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 recognized 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 recognized 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 recognized in the profit and loss account - is removed from equity and recognized 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 recognized 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 amortized 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 recognized in the profit and loss account, the impairment loss is reversed through the profit and loss account.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized 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 recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized 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 recognized 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 recognized as income.

#### 4.7 Revenue recognition

##### 4.7.1 Ijarah rentals

Income from ijarah is recognized as and when lease rentals become due on a systematic basis over the lease and ijarah 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 recognized 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 recognized on a time proportion basis.

##### 4.7.4 Dividend income

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

##### 4.7.5 Markup income

Mark-up / return on deposits / investments is recognized 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 is exempt from tax provided that not less than 90% of its total profits in the year as reduced by the amount transferred to statutory reserve are distributed amongst the certificate holders. Due to loss in the current year, no provision has been made in these financial statements.

## 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 recognized 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 recognized 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 Modarabas 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)
- iii) Provision against doubtful investments (Note 6)
- ii) Depreciation/amortization on property, plant and equipment (Note 10 & 11)

Note	2014 Rupees	2013 Rupees
<b>5. CASH AND BANK BALANCES</b>		
	4,380	940
Cash in hand		
Cash at banks		
Current accounts	31,026,336	3,904,172
Saving accounts	457,821	44,466,402
	31,484,157	48,370,574
	<u>31,488,537</u>	<u>48,371,514</u>

5.1 Effective mark-up rate in respect of PLS accounts ranges from 5% to 8.85 % (June 2013 : 5% to 10.25%) per annum.

## 6. INVESTMENTS

Available for sale	6.1	-	1,837,875
Held for trading at fair value through profit or loss account	6.2	14,453,135	7,655,341
Amortized Cost - term deposit receipts	6.3	-	1,350,000
		<u>14,453,135</u>	<u>10,843,216</u>

## 6.1 Available for sale

Fully paid ordinary shares of Rs 10 each.





2014	2013	Name of company	Note	2014 Rupees	2013 Rupees
Number of Shares					
Unquoted securities					
487,500	487,500	Prudential Securities Limited			
		Cost		4,875,000	4,875,000
		Unrealized loss on remeasurement of investment		-	(3,037,125)
		Less: Permanent Diminution	6.1.1	<u>(4,875,000)</u>	<u>-</u>
				<u>-</u>	<u>1,837,875</u>

6.1.1 The operations of Prudential Securities Limited remained suspended that indicates a significant and prolonged decline in the fair value of this investment below carrying value resulting in an objective evidence of impairment. Therefore, the investment has been considered as fully impaired.

#### 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.

2014	2013	Name of Company	2014 Rupees	2013 Rupees
Number of Certificates / Shares				
Open-end Mutual Funds				
-	30,621	MCB Islamic Income Fund Type-A (Face value of certificate Rs.100/- each)	-	3,118,901
9,623	-	Al-Ameen Islamic Principal Preservation Fund III (Face value of certificate Rs.100/- each)	974,060	-
Oil and gas				
2,000	-	National Refinery Limited	430,740	-
-	1,000	Attock Refinery Limited	-	172,550
16,600	-	Pakistan Petroleum Limited	3,724,210	-
-	1,000	Mari Petroleum Company Limited	-	136,570
1,000	-	Pakistan State Oil Limited	388,850	-
5,000	-	Shell Pakistan Limited	1,381,400	-
Chemicals				
-	60,000	Fauji Fertilizer Bin Qasim Limited	-	2,252,400
5,000	3,000	Fauji Fertilizer Company Limited	561,250	322,290
Construction and materials				
-	6,000	D.G. Khan Cement Company Limited	-	502,140
18,000	-	Cherat Cement Limited	1,178,280	-
100,000	-	Fauji Cement Limited	1,924,000	-
Software and Computer services				
10,000	-	NetSol Technologies	292,200	-
Food Producers				
26,500	4,000	Engro Foods Limited	2,717,045	563,080
Personal Goods				
-	1,000	Nishat Mills Limited	-	94,210
Electricity				
15,000	8,000	The Hub Power Company Limited	881,100	493,200
Suspended / Delisted Company				
120,000	120,000	Prudential Investment Bank Limited	-	-
279,749	279,749	Pakistan Industrial & Commercial Leasing Limited	-	-
			<u>14,453,135</u>	<u>7,655,341</u>



	Note	2014 Rupees	2013 Rupees
6.2.1 Unrealized loss on changes in fair value of held for trading investments			
Weighted average cost of investments		15,052,201	7,719,250
Unrealized loss on changes in fair value of held for trading investments		<u>(599,066)</u>	<u>(63,909)</u>
Market value of investments		<u>14,453,135</u>	<u>7,655,341</u>

#### 6.3 Amortized cost - Term Deposit Receipts

- Other receivables	6.3.1	-	1,350,000
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6.3.1 This represent 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 which have been received as of June 30, 2014.

#### 7. MORABAHA FINANCE

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

7.1 This include amount of Morabaha finance receivable from five different parties. These amounts are outstanding since many years. As per term 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	<u>119,542</u>	<u>119,542</u>
	119,542	194,038
Less: Provision for doubtful receivables	<u>(119,542)</u>	<u>(119,542)</u>
	<u>-</u>	<u>74,496</u>

#### 8.1 Movement of provision

Opening balance	119,542	119,542
Reversal during the year	<u>-</u>	<u>-</u>
Closing balance	<u>119,542</u>	<u>119,542</u>

#### 8.2 Future minimum ijarah rentals receivable

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



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

Considered good

	Note	2014 Rupees	2013 Rupees
Profit Receivable on Diminishing Musharika		147,641	-
Advance Sindh Sales Tax		13,000	-
Advance tax		1,279	40,417
Advance to staff		22,000	87,000
Deposit	9.1	-	1,000,000
Prepayments		191,781	175,367
Profit receivable - on bank deposits and TDR		300,596	185,172
Receivables against sale of shares		3,366,195	11,604,720
Others	9.4	3,608	906,558
		<u>4,046,100</u>	<u>13,999,234</u>

Considered doubtful

Deposit due from PSL	9.1 & 9.2	11,476,377	-
Amount due from PCML	9.3	999,832	-
Amount due from Royal Management Services(Pvt) Ltd.	9.4	886,442	-
Profit receivable on Morabaha finance		4,028,913	4,028,913
		<u>21,437,664</u>	<u>18,028,147</u>
Less: Provision for doubtful receivables		<u>(17,391,564)</u>	<u>(4,028,913)</u>
		<u>4,046,100</u>	<u>13,999,234</u>

9.1 This represents the amount of Rs.1.0 million paid to Prudential Securities Limited (PSL) as advance for purchase of securities but the transaction remained incomplete. Operations of PSL were subsequently suspended by Karachi Stock Exchange Limited (KSE). Keeping in view remote chance of recovery, provision has been recorded against the total amount of claim.

9.2 This includes Rs. 10.476 million (2013: Rs. 10.476 million) receivable from PSL. As mentioned in note 9.1 operations of PSL were suspended by Karachi Stock Exchange Limited (KSE) and the Modaraba has filed claim with KSE for the amount. Keeping in view remote chance of recovery, provision has been recorded against the total amount of claim.

9.3 This includes Rs. 999,832 receivable from Pearl Capital Management Limited (PCML). The operations of PCML has been suspended by Karachi Stock Exchange Limited. A claim was lodged with the KSE for the recovery of the said amount which was rejected on the grounds of having been filed after the lapse of the last date for the submission of claims as notified by KSE. Hence, provision has been made against the total amount of claim.

9.4 This includes Rs. 886,442 (2013: Rs. 886,442) receivable from Royal Management Services (Private) Limited in respect of various expenses paid on their behalf. KASB Invest (Pvt.) Limited took over the management of Modaraba on November 11, 2014 from Royal Management Services (Private) Limited , therefore, provision has been made against the total amount of receivable.



**10. PROPERTY AND EQUIPMENT -JARAH**

	Cost	Accumulated at July 1, 2013	Amortization For the year	Accumulated at June 30, 2014	Carrying value at June 30, 2014	Rate%
Vehicles	1,217,000	892,341	37,259 (670,600)	259,000	-	33.33
	<u>(958,000)</u>					
<b>- For comparative period</b>						
	Cost	Accumulated at July 1, 2012	Amortization For the year	Accumulated at June 30, 2013	Carrying value at June 30, 2013	Rate%
Vehicles	1,217,000	668,808	223,533	892,341	324,659	33.33



11. PROPERTY AND EQUIPMENT - OWNED

	Cost		Depreciation		Rate%
	at July 1, 2013	at June 30, 2014	Accumulated at July 1, 2013	For the year / (on disposals) June 30, 2014	
Office equipment	289,307	298,322	263,845	19,148 (20,000)	33.33
Furniture and fixtures	41,445	39,645	30,843	1,260 (1,800)	10
Motor vehicles	165,900	165,900	78,857	25,550	20
	496,652	503,867	373,545	45,958 (21,800)	

- For comparative period

	Cost		Depreciation		Rate%
	at July 1, 2012	at June 30, 2013	Accumulated at July 1, 2012	For the year / (on disposals) June 30, 2013	
Office equipment	360,794	289,307	332,288	33,944 (102,387)	33.33
Furniture and fixtures	96,295	41,445	76,917	8,127 (54,201)	10
Motor vehicles	82,400	165,900	57,070	21,787	20
	539,489	496,652	466,275	63,858 (156,588)	



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	20,000	20,000	-	4,000	Mr. Qadri Hassan
Furniture and fixtures	1,800	1,800	-	500	Mr. Qadri Hassan
June 30, 2014	<u>21,800</u>	<u>21,800</u>	<u>-</u>	<u>4,500</u>	

12. DIMINISHING MUSHARIKA

	Note	2014 Rupees	2013 Rupees
Diminishing Musharika	12.1	12,143,205	-
Less: Current Portion of Diminishing Musharika		<u>(2,207,753)</u>	-
		<u>9,935,452</u>	-

12.1 These carry profit rate at 14.59% per annum and are payable on monthly basis over a period of 3 years with a grace period of 1 year.

13. LONG TERM ADVANCES AND DEPOSITS

	2014 Rupees	2013 Rupees
Long term deposits	<u>45,750</u>	<u>45,750</u>

14. LONG TERM IJARAH DEPOSITS

	2014 Rupees	2013 Rupees
Ijarah deposits	-	287,400
Current portion	<u>-</u>	<u>(287,400)</u>

15. ACCRUED AND OTHER LIABILITIES

	Note	2014 Rupees	2013 Rupees
Workers welfare fund	15.1	492,736	492,736
Auditors' remuneration		310,000	335,000
Charity fund payable		66,072	6,724
Other payables	15.2	<u>2,777,787</u>	<u>115,102</u>
		<u>3,646,595</u>	<u>949,562</u>



## 15.1 Worker welfare fund

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

During the year 2011, the Honorable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF 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 WWF 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 WWF amounting to Rs. 492,736/- in these financial statements.

15.2 It include Rs. 2,610,000 payable on account of offer for sale of PPL book account in respect of 16,600 PPL shares allotted to First Pak Modaraba in the Book Building process of PPL.

## 15. CERTIFICATE CAPITAL

2014	2013		2014	2013
Number of Certificates			Rupees	Rupees
		Authorised		
<u>15,000,000</u>	<u>15,000,000</u>	Modaraba certificates of Rs.10/- each	<u>150,000,000</u>	<u>150,000,000</u>
10,000,000	10,000,000	Issued, subscribed and paid-up Modaraba certificates of Rs.10/- each fully paid in cash	100,000,000	100,000,000
2,540,000	2,540,000	Modaraba certificates of Rs.10/- each fully paid bonus certificates	25,400,000	25,400,000
<u>12,540,000</u>	<u>12,540,000</u>		<u>125,400,000</u>	<u>125,400,000</u>

As at June 30, 2014, the Royal Management Services (Private) Limited (the Ex- Management Company) held 1,254,000 (2013: 1,254,000) certificates of Rs. 10 each.

## 17. CONTINGENCIES AND COMMITMENTS

No contingencies and commitments exist at the year end.



	Note	2014 Rupees	2013 Rupees
18. ADMINISTRATIVE EXPENSES			
Salaries, allowances and benefits	18.1, 18.2 & 18.3	1,032,123	1,080,351
Fees and subscription		714,422	601,611
Telephone and postage		385,669	415,299
Legal and professional		57,200	70,000
Registrar services		240,000	360,000
Auditors' remuneration	18.4	355,150	418,000
Travelling and conveyance		91,504	171,811
Printing and stationery		205,733	156,344
Transaction cost on investment		122,071	56,430
Repairs and maintenance		61,905	146,071
Security services		117,000	118,161
Rent, rate and taxes		1,751	57,227
Electricity, water and gas		93,776	45,485
Entertainment		1,510	77,515
Depreciation-owned assets		45,958	63,858
Insurance		20,670	20,161
Bank charges		13,122	10,156
Miscellaneous		98,791	112,523
		<u>3,658,355</u>	<u>3,981,003</u>

18.1 It includes charge for provident fund as follows

- Provident fund	40,997	41,796
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## 18.2 DISCLOSURES RELATING TO PROVIDENT FUND

(i) Size of the fund	442,651	509,664
(ii) Cost of Investment made	397,938	425,113
(iii) Percentage of Investment made	89.9%	83.4%

Breakup of Investment -at fair value

Deposit with Silk Bank.	<u>397,938</u>	<u>425,113</u>
	397,938	425,113

Percentage of Investment

Deposit Account	<u>100%</u>	<u>100%</u>
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These investments are made meeting the requirement of section 227 of Companies Ordinance 1984 and Employee's Provident Fund Rules 1996.



18.3 The aggregate amounts incurred during the year for remuneration including all benefits to officers and other employees of the Company are given below:

**REMUNERATION OF OFFICERS AND OTHER EMPLOYEES**

	2014			2013		
	Officers	Other Employees	Total	Officers	Other Employees	Total
	.....Rupees.....			.....Rupees.....		
Remuneration	579,000	329,129	908,129	594,000	351,600	945,600
Provident fund	24,828	16,169	40,997	24,828	16,968	41,796
Medical expenses	24,828	16,169	40,997	24,828	26,127	50,955
Others	42,000	-	42,000	42,000	-	42,000
	<u>670,656</u>	<u>361,467</u>	<u>1,032,123</u>	<u>685,656</u>	<u>394,695</u>	<u>1,080,351</u>
No. of persons	3	4		3	3	

18.3.1 Certain employees have been provided Modaraba maintained car and is also entitled for fuel & mobile expenses.

18.3.2 The total number of employees as at June 30th are 3 (2013: 6) and the average number of employees during the year equates to 6 (2013: 6)

		2014 Rupees	2013 Rupees
<b>18.4 AUDITORS' REMUNERATION</b>			
Statutory audit fee	18.4.1	175,000	275,000
Half year review fee		100,000	75,000
Review of code of corporate governance		25,000	25,000
CDC certification		25,000	10,000
Out of pocket expenses		<u>30,150</u>	<u>33,000</u>
		<u>355,150</u>	<u>418,000</u>

18.4.1 As per letter no. SC/R/MW/Pak/2014-08 audit fee for the year has been approved by the registrar modaraba.

**19. Provision for Taxation**

Current for prior year	<u>-</u>	<u>80,908</u>
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The income of the Modaraba is exempt from tax provided that not less than 90% of total profits in the year as reduced by the amount transferred to statutory reserve, required under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980, are distributed amongst the certificate holders.

No provision for current and deferred taxation has been made in these financial statements in accordance with accounting policy of the Modaraba as disclosed in 4.8 in the financial statements.

**20. (LOSS)/EARNINGS PER CERTIFICATE - BASIC AND DILUTED**

(Loss)/Profit for the year (Rupees)	(15,655,714)	1,956,604
Weighted average number of ordinary certificates	<u>12,540,000</u>	<u>12,540,000</u>
(Loss) /Earnings per certificate (Rupees per certificate)	<u>(1.25)</u>	<u>0.16</u>



**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	2014 Rupees	2013 Rupees
Modaraba Management Company (Previous Management Company)	Dividend paid	150,480	150,480
Provident Fund	Contribution made	40,997	41,796

**22. FINANCIAL RISK MANAGEMENT**

The Modaraba's activities expose it to a variety of financial risks: market risk (including currency risk, fair value profit rate 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 programme 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, diminishing musharika & morabaha finances, advance, prepayments and other receivables and cash and bank balances that arrive 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. 57.125 million against its current liability of Rs.8.031 million which lead to total surplus of Rs. 49.094 million.

The table below shows an analyses of 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 ..... Rupees .....	More than three months and upto one year	More than one year
2014				
Accrued and other liabilities	3,646,595	3,646,595	-	-
Unclaimed profit distribution	4,384,535	4,384,535	-	-
Ijarah deposits	-	-	-	-
	8,031,130	8,031,130	-	-
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	-	-

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 counter parties and continually assessing the credit worthiness of counter parties.

The Modaraba is exposed to credit risk from its financing activities (diminishing musharika & 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 within 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, 2014 and June 30, 2013 is the carrying amounts of following financial assets

	2014	2013
Diminishing Musharika	12,143,205	-
Advances, deposits, prepayments and other receivables	4,046,100	13,958,817
Balances with banks and financial institutions	31,488,537	49,720,574
	47,677,842	63,679,391



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

Bank balances	Short Term	Long Term	2014	2013
Habib Bank Limited	A-1+	AAA	31,014,879	20,574,068
Al Baraka Bank (Pakistan) Limited	A1	A	312,902	318,837
Faysal Bank Limited	A1+	AA	8,816	10,330
Burj Bank Limited	A-1	A	8,062	27,335,386
Bank AlFalalah Limited	A1+	AA	118,669	111,124
Invest Capital Investment Bank Limited	D - Default	D - Default	-	1,350,000

Past due but not impaired financings are those for which contractual profit or principal payments are past due, but the Modaraba believes that impairment 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 impaired as per the accounting policy is as under:

	As at June 30, 2014				
	OAEM	Substandard	Doubtful	Loss	Total
Ijarah rentals receivable	-	-	-	119,542	119,542
Morabaha finance	-	-	-	15,319,705	15,319,705
	As at June 30, 2013				
	OAEM	Substandard	Doubtful	Loss	Total
Ijarah rentals receivable	-	-	-	119,542	119,542
Morabaha finance	-	-	-	15,319,705	15,319,705

Total impairment against these assets as at June 30, 2014 is Rs. 15,439,247/- (June 2013: 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.

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 sentiments, 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, ijarah finance and musharika and morabaha 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 if directors of the management company reviews and approves all equity investment decision.

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

	2014	2013
Investments	14,453,135	7,655,341

## 22.3.3 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.

	Impact on profit after tax and equity	
	2014	2013
KSE 100 (5% Increase)	722,657	382,767
KSE 100 (5% Decrease)	(722,657)	(382,767)

## 22.3.4 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 an amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction. Carrying values of financial assets and financial liabilities approximate their fair values.

## 22.4.1 Fair Value Hierarchy

The table below analysis financial instruments carried at fair value by valuation method. The different levels has 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 assets or liability that are not based.



June 30, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Quoted companies	14,453,135	-	-	14,453,135
Available-for-sale financial assets				
Unlisted entities	-	-	-	-
Loan and receivable financial assets				
Term deposit receipt	-	-	-	-
	<u>14,453,135</u>	<u>-</u>	<u>-</u>	<u>14,453,135</u>

June 30, 2013

	Level 1	Level 2	Level 3	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
	<u>7,655,341</u>	<u>3,187,875</u>	<u>-</u>	<u>10,843,216</u>

## 22.5 Financial instrument by category

As at June 30, 2014

	Loan and receivables	Assets at fair value through profit & loss	Available-for-sale	Total
ASSETS				
Cash and bank balances	31,488,537	-	-	31,488,537
Investments	-	14,453,137	-	14,453,137
Diminishing Musharika	12,143,205	-	-	12,143,205
Advances, prepayments and other receivables	4,031,821	-	-	4,031,821
Long term deposits	45,750	-	-	45,750
	<u>47,709,313</u>	<u>14,453,137</u>	<u>-</u>	<u>62,162,450</u>
LIABILITIES				
Accrued and other liabilities	3,646,595	-	-	3,646,595
Unclaimed profit distribution	4,384,535	-	-	4,384,535
	<u>8,031,130</u>	<u>-</u>	<u>-</u>	<u>8,031,130</u>



As at June 30, 2013

	Loan and receivables	Assets at fair value through profit & loss .....Rupees.....	Available-for-sale	Total
<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
Ijarah rentals receivable	74,496	-	-	74,496
Advances, prepayments and other receivables	13,958,817	-	-	13,958,817
Long term deposits	45,750	-	-	45,750
	<u>63,800,577</u>	<u>7,655,341</u>	<u>1,837,875</u>	<u>73,293,793</u>
<b>LIABILITIES</b>				
Ijarah deposits	287,400	-	-	287,400
Accrued and other liabilities	949,562	-	-	949,562
Unclaimed profit distribution	4,129,447	-	-	4,129,447
	<u>5,366,409</u>	<u>-</u>	<u>-</u>	<u>5,366,409</u>

23. CAPITAL RISK MANAGEMENT

The Modaraba manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization 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 7.11:1 which is assessed as not overstated (2013: 14.57:1).

The Modaraba is continuously endeavoring for invest in risk free business with maximizing 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 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. DATE OF AUTHORIZATION OF ISSUE

These financial statements has been authorized for issue on April 24, 2015 by the Board of Directors of the KASB Invest (Private) Limited.

26. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purposes of comparison and better presentation.

27. GENERAL

Figures have been rounded off to the nearest Rupee.

  
CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR





PATTERN OF CERTIFICATE HOLDINGS AS AT 30.06.2014

NUMBER OF SHARE HOLDERS	SHARE HOLDINGS			TOTAL SHARES HELD
885	1	-	100	38,181
1,360	101	-	500	278,060
1,114	501	-	1000	914,604
540	1001	-	5000	1,030,731
69	5001	-	10000	460,106
42	10001	-	15000	506,821
11	15001	-	20000	162,555
7	20001	-	25000	165,730
5	25001	-	30000	141,214
2	30001	-	35000	61,908
5	35001	-	40000	191,762
1	40001	-	45000	41,954
7	45001	-	50000	335,719
1	60001	-	65000	62,700
1	65001	-	70000	65,835
1	105001	-	110000	109,725
1	110001	-	115000	111,860
3	125001	-	130000	376,475
1	135001	-	140000	137,500
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	335001	-	340000	337,919
1	340001	-	345000	340,338
1	395001	-	395000	395,000
1	495001	-	500000	500,000
1	865001	-	870000	868,500
1	1035001	-	1040000	1,036,296
1	1250001	-	1255000	1,254,000
1	1305001	-	1310000	1,308,568
<u>4,070</u>				<u>12,540,000</u>



## CATEGORIES OF CERTIFICATE HOLDING AS ON 30-06-2014

	No of Certificate holders	No of Certificate Held	Total No of Certificate	Percentage
ASSOCIATED COMPANIES UNDERTAKING AND RELATED PARTIES	-----	-----	-----	-----
NIT AND ICP	1		3,500	0.03
INVESTMENT CORPORATION OF PAKISTAN		3,500		
DIRECTORS, C.E.O THEIR SPOUSE AND MINOR CHILDREN	-----	-----	-----	-----
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	6		4,744	0.04
THE BANK OF KHYBER		1,526		
NATIONAL DEVELOPMENT LEASING CORPORATION LTD.		350		
NEW JUBILEE INSURANCE COMPANY LTD.		500		
L.T.V. CAPITAL MODARABA		1,345		
FIRST PRUDENTIAL MODARABA		100		
MODARABA AL MALL		923		
CERTIFICATEHOLDING TEN PERCENT OR MORE VOTING INTREST IN THE LISTED COMPANY	1		1,254,000	10.00
ROYAL MANAGEMENT SERVICES (PVT) LTD.		1,254,000		
INDIVIDUALS	4032		10,507,555	83.79
OTHER CORPORATE CERTIFICATEHOLDERS	29		660,476	5.27
TOTAL	<u>4070</u>		<u>12,540,000</u>	<u>100.00</u>



## NOTICE OF THE ANNUAL REVIEW MEETING

Notice is hereby given that the 15<sup>th</sup> Annual Review Meeting of the Certificate Holders of First Pak Modaraba to be held on Friday, May 29, 2015 at 3.30 p.m. at Institute of Chartered Accountants of Pakistan, Near Teen Talwar, Clifton, Karachi to review the performance of the First Pak Modaraba for the year ended June 30, 2014 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

Place: Karachi.  
Date: April 24, 2015

Aftab Afroz Mahmoodi  
Company Secretary

1. The Modaraba Certificates transfer Book shall remain close from May 23, 2015 to May 29, 2015 (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 May 22, 2015 will be treated in time.

2. The certificate holders are advised to notify 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, Talpur Road, Near NBP Head Office Karachi.

3. Accounts Holders holding book entry securities of the First Pak 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 additions, have to follow the guidelines as laid down in Circular No. 1 of 2000 dated January 26, 2000 of the Securities & Exchange Commission of Pakistan.



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**FIRST**

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**PAK**

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**MODARABA**

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23RD ANNUAL REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2014

Managed by:

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**KASB Invest (Private) Limited**

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