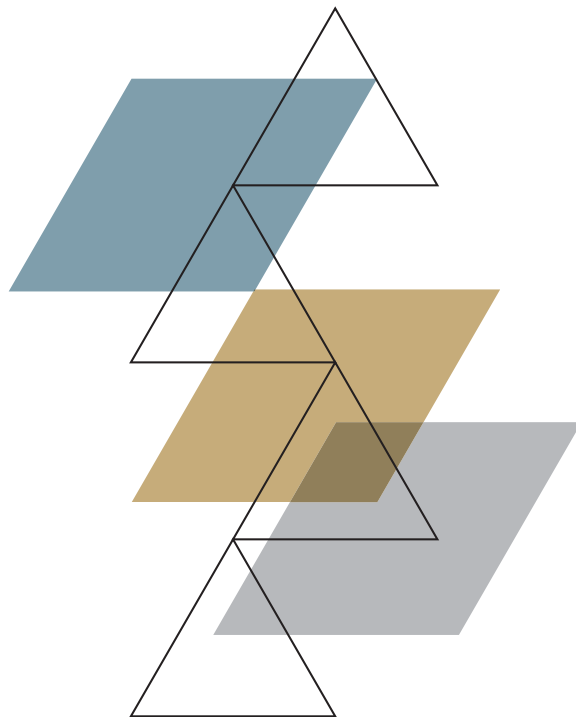


AWWAL  
MODARABA

Creating Structure  
and Precision in  
Financial Planning for  
Economic Prosperity



Quarterly Report  
March 2019

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**Vision & Mission Statements**

**VISION STATEMENT**

Awwal Modaraba Management Limited (AMML) will play a role in the economic progress and development of Pakistan by providing a range of advisory services and financial support, through Shari'ah compliant modes; to viable projects in high growth, capital starved sectors of the economy.

**MISSION STATEMENT**

AMML aims to be at the vanguard of innovation in modaraba management services, offering the best solutions to our customers, value to our shareholders and modaraba investors, complemented with a challenging, equal opportunity environment to our employees.

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## Corporate Information

### Board of Directors

|                         |          |                         |
|-------------------------|----------|-------------------------|
| Mr. Khalid Aziz Mirza   | Chairman | Independent Director    |
| Mr. Shahid Ghaffar      |          | Independent Director    |
| Ms. Ayesha Aziz         |          | Non-Executive Director  |
| Mr. Abdul Jaleel Shaikh |          | Non-Executive Director  |
| Mr. Ahmed Ateeq         |          | Non-Executive Director  |
| Mr. Karim Hatim         |          | Chief Executive Officer |

### Audit Committee

|                         |          |
|-------------------------|----------|
| Mr. Shahid Ghaffar      | Chairman |
| Mr. Khalid Aziz Mirza   | Member   |
| Mr. Abdul Jaleel Sheikh | Member   |
| Mr. Ahmed Ateeq         | Member   |

### Human Resource and Remuneration Committee

|                       |          |
|-----------------------|----------|
| Mr. Khalid Aziz Mirza | Chairman |
| Ms. Ayesha Aziz       | Member   |
| Mr. Karim Hatim       | Member   |

### Company Secretary

Ms. Iqra Sajjad

### Chief Financial Officer

Syed Askary Haider Rizvi

### Bankers

Habib Bank Limited  
Soneri Bank Limited  
National Bank of Pakistan

### Auditors

KPMG Taseer Hadi & Co.  
Chartered Accountants

### Legal Advisor

LMA Ebrahim Hosain

### Shari'ah Advisor

Mufti Muhammad Hassaan Kaleem

### Share Registrar

THK Associates (Pvt) Ltd.  
1st Floor, 40-C, Block-6  
P.E.C.H.S.  
Karachi -75400.  
Tel : (+92-21) 111-000-322  
Fax: (+92-21) 34168271

### Registered Office

6th Floor, Horizon Vista  
Plot No. Commercial 10,  
Block No. 4, Scheme No. 5  
Clifton, Karachi, Pakistan.  
Tel : (+92-21) 38771685  
Fax : (+92-21) 35374275  
Web: www.awwal.com.pk

# AWWAL MODARABA

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## Directors' Report

*For the nine months period ended 31 March 2019*

The Board of Directors (Board) of Awwal Modaraba Management Limited, the management company of Awwal Modaraba, is pleased to present the unaudited accounts for the nine months period ended 31 March 2019.

### Economy

FY2019 is a challenging year for Pakistan's economy as it is facing the heat of corrective measures being taken by the economic managers. The State Bank of Pakistan increased the policy rate to 10.75% on March 29, 2019 and USD is now trading well above PKR 140 per USD. Inflationary pressures are yet to subside, which was also one of the reasons for the policy rate hike. We expect more stability towards the second half of the calendar year as impact of corrective measures and government's policies to boost business becomes visible.

### Financial Performance

Modaraba is following a cautious approach towards underwriting new business till economic conditions become clearer. Therefore, advisory mandates undertaken are lower and outstanding portfolio size was maintained at PKR 756 million. During the nine months under review, overall revenues have been recorded at PKR 106 million compared to PKR 179 million in corresponding period last year with lower level of advisory fee income. Total expenses for the period were contained at PKR 41 million in comparison with the corresponding period of PKR 37 million. The Modaraba posted profit before tax for the period being PKR 65 million compared to the corresponding period of PKR 143 million.

### Governance

There has been no change in the Board of Directors of Awwal Modaraba Management Limited during the period under review.

### Acknowledgement

The Board would like to acknowledge and appreciate Securities and Exchange Commission of Pakistan and Registrar Modaraba for their continuous guidance and support. Also, would like to avail this opportunity to thank its customers and investors for placing their trust in the Modaraba.

On behalf of the Board



Karim Hatim  
Chief Executive Officer

Date: 19 April 2019



Abdul Jaleel Shaikh  
Director

## AWWAL MODARABA

### ڈائریکٹر رپورٹ:

برائے اختتام مدت نومبر 31 مارچ 2019

اول مضار بہ بینجمنٹ لمیٹڈ، جو اول مضار بہ کی بینجمنٹ کہتی ہے، کے بورڈ آف ڈائریکٹرز (بورڈ)، غیر آڈٹ شدہ مالی گوشوارے برائے اختتام مدت نومبر 31 مارچ 2019 پیش کرتے ہوئے انتہائی مسرت محسوس کر رہے ہیں۔

### معیشت

مالی سال 2019 پاکستان کی معیشت کے لیے ایک مشکل سال ہے، معاشی منتظمین کی طرف سے کیے گئے اصلاحی اقدامات کے باعث پاکستانی معیشت سخت دور سے گزر رہی ہے۔ 29 مارچ 2019 کو اسٹیٹ بینک آف پاکستان نے پالیسی ریٹ میں اضافہ کرتے ہوئے مالیاتی پالیسی ریٹ 10.75 فیصد کر دیا ہے جبکہ امریکی ڈالر کی 140 پاکستانی روپے کی حد سے اوپر خرید و فروخت ہو رہی ہے۔ افراط زر کے دباؤ میں ابھی کی ہوئی ہے، جو کہ پالیسی ریٹ میں اضافے کی ایک اور وجہ ہے۔ ہم توقع رکھتے ہیں کہ کاروبار کو فروغ دینے کے لیے کھڑی پالیسیوں اور اصلاحی اقدامات کے باعث رواں سال کی دوسری ششماہی میں زیادہ استحکام حاصل ہو سکے گا۔

### مالی کارکردگی

ملکی معاشی حالات میں بہتری آنے تک مضاربہ نے نئے کاروبار کے لیے اپنا تھاپ روپیہ برقرار رکھا ہوا ہے۔ اسی بات کو مد نظر رکھتے ہوئے مشاورتی خدمات محدود جبکہ پورٹ فولیو کا حجم 756 ملین پاکستانی روپے تک رہا۔ زیر جائزہ نو ماہ میں مضاربہ کی اس مدت کے دوران ہونے والی مجموعی آمدنی پچھلے سال کی اسی مدت کے 179 ملین پاکستانی روپے کے مقابلے میں کم مشاورتی فیس کے ساتھ 106 ملین پاکستانی روپے رہی۔ اس مدت کے دوران مجموعی اخراجات گزشتہ سال کی اسی مدت کے 37 ملین پاکستانی روپے کے مقابلے میں 41 ملین پاکستانی روپے تک محدود رہے۔ مضاربہ کا قبل از محاسبہ منافع پچھلے سال کے اسی مدت کے منافع 143 ملین پاکستانی روپے کے مقابلے میں 65 ملین پاکستانی روپے رہا۔

### نظامت:

زیر جائزہ مدت کے دوران اول مضاربہ بینجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز میں کوئی تبدیلی نہیں ہوئی۔

### اظہار تشکر

بورڈ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور رجسٹرڈ مضاربہ کی مسلسل رہنمائی اور تعاون کا معترف ہے اور اسے سراہتا ہے۔ اس کے ساتھ، اس موقع کا فائدہ اٹھاتے ہوئے مضاربہ اپنے صارفین اور سرمایہ کاروں کے اعتماد کا جہد دل سے مشکور ہے۔

بورڈ کی جانب سے



کریم حاتم

چیف ایگزیکٹو آفیسر

مورخہ: 19 اپریل 2019



عبدالجلیل شیخ

ڈائریکٹر

# AWWAL MODARABA

## Condensed Interim Statement of Financial Position

As at 31 March 2019


|  | Note | 31 March<br>2019<br>(Unaudited)<br>(Rupees) | 30 June<br>2018<br>(Audited) |
|--|------|---|------------------------------|
| <b>ASSETS</b>  |      |   |                              |
| <b>Current assets</b>                                      |      |   |                              |
| Bank balances  | 4    | 310,331,319                                 | 298,945,833                  |
| Accruals, prepayments, advances and other receivables      |      | 34,283,885                                  | 27,437,338                   |
| Current portion of receivable against advisory fee         | 5    | 36,008,820                                  | 71,717,084                   |
| Current portion of Investment against repurchase agreement | 6    | 48,878,899                                  | 17,999,991                   |
| Current portion of Musharika Finance                       | 7    | 310,600,347                                 | 345,040,495                  |
| Current portion of Diminishing Musharika Finance           | 8    | 20,000,000                                  | -                            |
| Current portion of long term loans                         |      | 2,137,800                                   | 1,567,430                    |
| Taxation recoverable                                       |      | 7,229,625                                   | 6,368,628                    |
| <b>Total current assets</b>                                |      | <b>769,470,695</b>                          | <b>769,076,799</b>           |
| <b>Non - current assets</b>                                |      |   |                              |
| Receivable against advisory fee                            | 5    | 11,613,786                                  | 24,443,848                   |
| Investment against repurchase agreement                    | 6    | -   | 48,878,899                   |
| Long term portion of Musharika Finance                     | 7    | 96,426,227                                  | 133,773,324                  |
| Long term portion of Diminishing Musharika Finance         | 8    | 280,000,000                                 | 300,000,000                  |
| Long term loans  |      | 4,932,695                                   | 4,015,254                    |
| Long term deposit  |      | 75,000                                      | 75,000                       |
| Intangible asset   | 9    | 7,255,416                                   | 258,600                      |
| Operating fixed assets                                     | 10   | 1,771,876                                   | 2,571,493                    |
| <b>Total non-current assets</b>                            |      | <b>402,075,000</b>                          | <b>514,016,418</b>           |
| <b>TOTAL ASSETS</b>  |      | <b>1,171,545,695</b>                        | <b>1,283,093,217</b>         |
| <b>LIABILITIES AND EQUITY</b>                              |      |   |                              |
| <b>Current liabilities</b>                                 |      |   |                              |
| Accrued expenses   | 11   | 26,414,901                                  | 35,024,301                   |
| Payable to related parties                                 | 20   | 6,840,383                                   | 26,652,246                   |
| Unclaimed profit distribution                              |      | 144,195                                     | 42,217                       |
| <b>Total liabilities</b>                                   |      | <b>33,399,479</b>                           | <b>61,718,764</b>            |
| <b>CERTIFICATE HOLDERS' EQUITY</b>                         |      |   |                              |
| <b>Certificate capital</b>                                 |      |   |                              |
| <b>Authorised certificate capital</b>                      |      |   |                              |
| 100,000,000 Modaraba Certificates of Rs. 10 each           |      | 1,000,000,000                               | 1,000,000,000                |
| <b>Issued, subscribed, and paid-up certificate capital</b> |      |   |                              |
| 100,000,000 Modaraba Certificates of Rs. 10 each           |      | 1,000,000,000                               | 1,000,000,000                |
| Statutory reserve  | 13   | 86,269,243                                  | 73,314,890                   |
| Unappropriated profit                                      |      | 51,876,973                                  | 148,059,563                  |
| <b>Total Equity</b>  |      | <b>1,138,146,216</b>                        | <b>1,221,374,453</b>         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        |      | <b>1,171,545,695</b>                        | <b>1,283,093,217</b>         |
| <b>Contingencies and Commitments</b>                       |      |   |                              |
|  | 14   |   |                              |


The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited  
(Management Company)

  
Chief Financial Officer

  
Chief Executive Officer

  
Director

  
Director

# AWWAL MODARABA

## Condensed Interim Profit and Loss Account and Other Comprehensive Income (Unaudited)

For the nine months and quarter period ended 31 March 2019

|   | Note | For the nine months period ended |              | For the quarter ended |              |
|---|------|----------------------------------|--------------|-----------------------|--------------|
|   |      | 31 March                         | 31 March     | 31 March              | 31 March     |
|   |      | 2019                             | 2018         | 2019                  | 2018         |
|   |      | (Unaudited)                      |              | (Unaudited)           |              |
| ----- (Rupees) -----  |      |                                  |              |                       |              |
| <b>Income</b>   |      |                                  |              |                       |              |
| Advisory fee  |      | 16,775,000                       | 108,086,684  | 5,757,353             | 55,088,496   |
| Income from Investment against repurchase agreement                   |      | 8,287,550                        | 4,745,709    | 640,343               | 1,260,411    |
| Income from Musharika Finance   |      | 38,785,836                       | 29,199,174   | 13,459,535            | 10,475,811   |
| Income from Diminishing Musharika Finance                             |      | 28,163,225                       | 20,961,774   | 10,068,904            | 6,144,165    |
| Income from deposits with banks                                       |      | 13,990,137                       | 12,923,064   | 5,532,363             | 4,517,844    |
| Income from sukuk certificates  |      | -                                | 3,476,656    | -                     | -            |
|   |      | 106,001,748                      | 179,393,062  | 35,458,498            | 77,486,727   |
| <b>Expenses</b>   |      |                                  |              |                       |              |
| Administrative and operating expenses                                 |      | (39,823,313)                     | (33,723,095) | (13,374,067)          | (11,325,751) |
| Financial charges   |      | (84,799)                         | (18,678)     | (6,968)               | (9,473)      |
|   |      | 66,093,636                       | 145,651,289  | 22,077,463            | 66,151,503   |
| Management Company's remuneration                                     |      | -                                | -            | -                     | -            |
| Provision for services sales tax on Management Company's remuneration | 15   | -                                | -            | -                     | -            |
| Provision for Workers' Welfare Fund                                   | 11.1 | (1,321,873)                      | (2,913,026)  | (441,549)             | (1,323,030)  |
|   |      | (1,321,873)                      | (2,913,026)  | (441,549)             | (1,323,030)  |
| <b>Profit for the period before taxation</b>                          |      | 64,771,763                       | 142,738,263  | 21,635,914            | 64,828,473   |
| Taxation  | 16   | -                                | -            | -                     | -            |
| <b>Profit for the period after taxation</b>                           |      | 64,771,763                       | 142,738,263  | 21,635,914            | 64,828,473   |
| Other comprehensive income for the period                             |      | -                                | -            | -                     | -            |
| <b>Total comprehensive income for the period</b>                      |      | 64,771,763                       | 142,738,263  | 21,635,914            | 64,828,473   |
| ----- (Rupees) -----  |      |                                  |              |                       |              |
| <b>Earnings per certificate - basic and diluted</b>                   | 17   | 0.65                             | 1.43         | 0.22                  | 0.65         |

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited  
(Management Company)

  
Chief Financial Officer

  
Chief Executive Officer

  
Director

  
Director

# AWWAL MODARABA

## Condensed Interim Cash Flow Statement (Unaudited)

For the nine months period ended 31 March 2019


|   | Note | 31 March<br>2019                    | 31 March<br>2018          |
|---|------|-------------------------------------|---------------------------|
|   |      | (Unaudited)<br>----- (Rupees) ----- |                           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |      |                                     |                           |
| Profit for the period before taxation                         |      | 64,771,763                          | 142,738,263               |
| <b>Adjustments for non-cash items</b>                         |      |                                     |                           |
| Depreciation on operating fixed assets                        | 10   | 923,120                             | 846,244                   |
| Amortisation on intangible asset                              | 9    | 913,184                             | 105,174                   |
|   |      | <u>1,836,304</u>                    | <u>951,418</u>            |
| <b>Changes in assets</b>                                      |      |                                     |                           |
| Accruals, prepayments, advances and other receivables         |      | (6,846,547)                         | (3,523,901)               |
| Receivable against advisory fee                               |      | 48,538,326                          | (23,356,331)              |
| Investment against repurchase agreement                       |      | 17,999,991                          | (22,878,912)              |
| Disbursement of Musharika Finance                             |      | (35,000,000)                        | (216,030,013)             |
| Repayment of Musharika Finance                                |      | 106,787,245                         | 101,476,535               |
| Disbursement of Diminishing Musharika Finance                 |      | -                                   | (33,650,794)              |
| Repayment / Settlement of Diminishing Musharika Finance       |      | -                                   | 87,291,670                |
| Long term loans   |      | (1,487,811)                         | (1,431,551)               |
| Receivable from related parties                               |      | -                                   | 13,667,063                |
| Short term investment   |      | -                                   | 100,000,000               |
|   |      | <u>129,991,204</u>                  | <u>1,563,766</u>          |
| <b>Changes in liabilities</b>                                 |      |                                     |                           |
| Accrued expenses  |      | (8,609,400)                         | 16,811,330                |
| Payable to related parties                                    |      | (19,811,863)                        | (18,780,674)              |
| Unclaimed profit distribution                                 |      | 101,978                             | 39,392                    |
|   |      | <u>(28,319,285)</u>                 | <u>(1,929,952)</u>        |
| Taxes withheld  |      | <u>(860,997)</u>                    | <u>(3,736,793)</u>        |
| <b>Net cash generated from operating activities</b>           |      | <u>167,418,989</u>                  | <u>139,586,702</u>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |      |                                     |                           |
| Capital expenditure   |      | <u>(8,033,503)</u>                  | <u>(451,394)</u>          |
| <b>Net cash used in investing activities</b>                  |      | <u>(8,033,503)</u>                  | <u>(451,394)</u>          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |      |                                     |                           |
| Profit paid to certificate holders                            |      | <u>(148,000,000)</u>                | <u>(122,500,000)</u>      |
| <b>Net cash used in financing activities</b>                  |      | <u>(148,000,000)</u>                | <u>(122,500,000)</u>      |
| <b>Net (decrease) / increase in cash and cash equivalents</b> |      | <u>11,385,486</u>                   | <u>16,635,308</u>         |
| Cash and cash equivalents at beginning of the period          |      | <u>298,945,833</u>                  | <u>252,808,456</u>        |
| <b>Cash and cash equivalents at end of the period</b>         | 4    | <u><u>310,331,319</u></u>           | <u><u>269,443,764</u></u> |


The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited  
(Management Company)

  
Chief Financial Officer

  
Chief Executive Officer

  
Director

  
Director

# AWWAL MODARABA

## Condensed Interim Statement of Changes in Equity (Unaudited)

For the nine months period ended 31 March 2019


|  | Paid up<br>certificate<br>capital | Reserves             |                          | Total                |
|--|-----------------------------------|----------------------|--------------------------|----------------------|
|  |                                   | Statutory<br>reserve | Unappropriated<br>profit |                      |
|  | ----- (Rupees) -----              |                      |                          |                      |
| Balance as at 30 June 2017   | 1,000,000,000                     | 36,568,147           | 123,572,590              | 1,160,140,737        |
| Total comprehensive income for the period  |                                   |                      |                          |                      |
| - Profit for the nine months period ended<br>31 March 2018                           | -                                 | -                    | 142,738,263              | 142,738,263          |
| - Other comprehensive income for the nine months period                              | -                                 | -                    | -                        | -                    |
|  | -                                 | -                    | 142,738,263              | 142,738,263          |
| Transfer to statutory reserve  | -                                 | 28,547,653           | (28,547,653)             | -                    |
| <b>Transactions with Certificate Holders<br/>of the Modaraba - Distribution</b>      |                                   |                      |                          |                      |
| - Profit distribution for the year ended<br>30 June 2017 @ Rs. 1.225 per certificate | -                                 | -                    | (122,500,000)            | (122,500,000)        |
| Balance as at 31 March 2018  | 1,000,000,000                     | 65,115,800           | 115,263,200              | 1,180,379,000        |
| <b>Balance as at 30 June 2018</b>  | <b>1,000,000,000</b>              | <b>73,314,890</b>    | <b>148,059,563</b>       | <b>1,221,374,453</b> |
| Total comprehensive income for the period  |                                   |                      |                          |                      |
| - Profit for the nine months period ended<br>31 March 2019                           | -                                 | -                    | 64,771,763               | 64,771,763           |
| - Other comprehensive income for the nine months period                              | -                                 | -                    | -                        | -                    |
|  | -                                 | -                    | 64,771,763               | 64,771,763           |
| Transfer to statutory reserve  | -                                 | 12,954,353           | (12,954,353)             | -                    |
| <b>Transactions with Certificate Holders<br/>of the Modaraba - Distribution</b>      |                                   |                      |                          |                      |
| - Profit distribution for the year ended<br>30 June 2018 @ Rs. 1.480 per certificate | -                                 | -                    | (148,000,000)            | (148,000,000)        |
| <b>Balance as at 31 March 2019</b>   | <b>1,000,000,000</b>              | <b>86,269,243</b>    | <b>51,876,973</b>        | <b>1,138,146,216</b> |


The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited  
(Management Company)

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

## Notes to the Condensed Interim Financial Statements

*For the nine months period ended 31 March 2019*

### 1 LEGAL STATUS AND OPERATIONS

Awwal Modaraba (the Modaraba) has been floated under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder. The Modaraba is managed by the Awwal Modaraba Management Limited (Management Company), a company wholly owned by Pak Brunei Investment Company Limited (Holding Company). After receiving certificate of minimum subscription, the Modaraba commenced its business operations with effect from 10 February 2016. The registered office is situated at 6th Floor, Horizon Vista, Plot Commercial No. 10, Block No. 4, Scheme No. 5, Clifton, Karachi.

Awwal Modaraba is a perpetual, multi purpose and multi dimensional Modaraba and is primarily engaged in providing Working Capital, Term Finance, Ijarah, Musharika, Morabaha, advisory services and other Shari'ah compliant investment / instrument to clients which include distressed assets with high potential of turnaround, project finance, infrastructure and high growth companies. The Modaraba is listed on Pakistan Stock Exchange Limited (PSX).

### 2 BASIS OF PREPARATION

#### 2.1 Statement of Compliance

This condensed interim financial information of the Modaraba for the nine months period ended 31 March 2019 has been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Boards (IASB) as notified under the Companies Act 2017;
- Provisions of and directions issued under the Companies Act 2017;
- Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulation for Modarabas ;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act 2017.

Where the provisions of and directives issued under the Companies Act 2017, the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulation for Modarabas differ from IFRS Standards and IFAS, the provision of and directives issued under the Companies Act, 2017 the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas have been followed.

#### 2.2 Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention except as stated otherwise in these condensed interim financial statements.

#### 2.3 Functional and presentation currency

These condensed interim financial statements are presented in Pakistani Rupees which is also the Modaraba's functional and presentation currency. All amounts have been rounded to the nearest rupee, unless otherwise indicated.

#### **2.4 Significant accounting estimates and judgements**

In preparing these condensed interim financial statements management has made judgements, estimates and assumptions that affect the application of the Modaraba's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the condensed interim financial statements and information about assumptions and estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next year are included in the following notes:

- i) Classification of financial instruments and Provision for impairment (note 3.4.1)
- ii) Provision for taxation (note 16)

### **3 SIGNIFICANT ACCOUNTING POLICIES**

**3.1** The accounting policies and methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of audited annual separate financial statements of the Modaraba as at and for the year ended 30 June 2018 except for the adoption of new standards effective as of 1 July 2018 as referred to in note 3.4 to these condensed interim financial statements.

#### **3.2 New standards, interpretations and amendments adopted by the Company**

The Modaraba has initially adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 July 2018. The impact of the adoption of these standards and the new accounting policies are disclosed in note 3.4 below. A number of other new standards are effective from 1 July 2018 but they do not have a material effect on the Modaraba's condensed interim financial statements.

#### **3.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2019:

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Modaraba's condensed interim financial statements.
- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The Modaraba

## **AWVAL MODARABA**

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is currently in the process of analyzing the potential impact of its lease arrangements that will result in recognition of right to use assets and liabilities on adoption of the standard.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Modaraba's condensed interim financial statements.
- Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Modaraba's condensed interim financial statements.
- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of materiality in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.
- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:
- IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
- IAS 23 Borrowing Costs - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Modaraba's condensed interim financial statements.

### **3.4 Changes in accounting policies**

The below explains the impact of the adoption of IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 Financial Instruments' on the Modaraba's condensed interim financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

#### **3.4.1 IFRS 9 Financial Instruments**

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement.'

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

##### **Classification and measurement of financial assets and financial liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, the Modaraba classifies its financial assets in the following measurement category:

- those to be measured at amortised cost.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on principal amount outstanding.

The classification and measurement under IFRS 9 does not have any impact on Modaraba's accounting policy. There has been no major change resulted in accounting treatment for the financial instruments that have been accounted for in these condensed interim financial statements except for the calculation of impairment provision on financial assets where the requirements of the Prudential Regulations for Modarabas as issued by SECP prevails. Loans and other receivables and cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost. Loans and other receivables and investment against repurchase agreement are initially measured at transaction price and are subsequently measured at amortised cost using the effective interest method, net of impairment losses. Any gain or loss on derecognition is recognised in statement of profit or loss.

#### **3.4.2 IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Modaraba has applied the modified retrospective method upon adoption of IFRS 15 as allowed

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under the Standard. This method requires the recognition of the cumulative effect (without practical expedients) of initially applying IFRS 15 to retained earnings. Accordingly, the information presented for 2018 has not been restated i.e. it is presented, as previously reported under IAS 18 and related interpretations.

The revenue recognition of the Modaraba is based on the following policies:

- Advisory fees are recognized as revenue when the related services are performed.
- Profit on Sukuk Certificates is recognised using effective profit rate method.
- Profit on Musharika arrangements and Investment against repurchase agreement is recognised under the effective profit rate method based on the amount outstanding.
- Profit / return on deposits is recognised on accrual basis using the effective profit rate method.
- Income from Shari'ah non-compliant avenues is not recognised in the profit and loss account and is classified as charity payable.
- Miscellaneous income is recognised on receipt basis.
- Capital gain / loss on sale of equity investments is recognised in the profit and loss account on the date of transaction.

The above is generally consistent with the timing and amounts of revenue the Modaraba recognised in accordance with the previous standard, IAS 18. Therefore, the adoption of IFRS 15 did not have an impact on the timing and amounts of revenue recognition of the Modaraba.

Apart from providing more extensive disclosures, the application of IFRS 15 has not had a significant impact on the financial position and / or financial performance of the Modaraba for the reasons described above. Accordingly there was no adjustment to retained earnings on application of IFRS 15 at 1 July 2018.

| 4   | BANK BALANCES   | Note | 31 March<br>2019<br>(Unaudited)<br>(Rupees) | 30 June<br>2018<br>(Audited) |
|-----|---|------|---|------------------------------|
|     | - cash in hand  |      | 20,000                                      | -                            |
|     | Balances with banks   |      |   |                              |
|     | - in current accounts   |      | 144,606                                     | 42,638                       |
|     | - in deposit accounts   | 4.1  | <u>310,166,713</u>                          | <u>298,903,195</u>           |
|     |   |      | <u><b>310,331,319</b></u>                   | <u><b>298,945,833</b></u>    |
| 4.1 | These balances are held with Islamic Banks and Islamic Banking windows of commercial banks and carry profit at an average rate of 3.9% to 9.5% (30 June 2018: 3.9% to 6.25%) per annum. |      |   |                              |
| 5   | RECEIVABLE AGAINST ADVISORY FEE   |      |   |                              |
|     | Receivable against advisory fee   | 5.1  | 47,622,606                                  | 96,160,932                   |
|     | less: current portion of fee  |      | <u>(36,008,820)</u>                         | <u>(71,717,084)</u>          |
|     |   |      | <u><b>11,613,786</b></u>                    | <u><b>24,443,848</b></u>     |
| 5.1 | This represents advisory fee receivable from customers in connection with advisory services rendered by the Modaraba.   |      |   |                              |

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### 6 INVESTMENT AGAINST REPURCHASE AGREEMENT

|  | Note      | 31 March<br>2019<br>(Unaudited)<br>(Rupees) | 30 June<br>2018<br>(Audited) |
|--|-----------|---|------------------------------|
| Investment against repurchase agreement - <i>secured</i> | 6.1 & 6.2 | <b>48,878,899</b>                           | 66,878,890                   |
| less: current portion of investment                      |           | <b>(48,878,899)</b>                         | (17,999,991)                 |
|  |           | <b>-</b>                                    | <b>48,878,899</b>            |

**6.1** On 28 December 2016, the Modaraba has entered into an agreement with the financee company for purchase and sale of 301,750 shares of financee's subsidiary company. As per the arrangement the underlying shares will be offered to the financee company at pre agreed prices on various offer dates. The shares repurchased by the financee company will come under pledge with the Modaraba with each divestment transaction on the respective offer dates and will remain under pledge until complete divestment of all shares. This is a limited time investment.

**6.2** On 16 January 2018, the Modaraba has entered into an agreement with a shareholder of a company (investee company) for the purchase of 2,051,150 shares of the investee company. Concurrently, the Modaraba has entered into a separate agreement with another shareholder of the investee company for the selling of underlying shares within a period of eighteen months from the date of purchase at an agreed price. The underlying shares have been transferred in the name of the Modaraba. The prospective purchaser has provided two post dated cheques for the amounts of agreed price.

### 7 MUSHARIKA FINANCE

|  |     |                      |                    |
|--|-----|----------------------|--------------------|
| Musharika finance - <i>secured</i>         | 7.1 | <b>407,026,574</b>   | 478,813,819        |
| less: current portion of Musharika Finance |     | <b>(310,600,347)</b> | (345,040,495)      |
|  |     | <b>96,426,227</b>    | <b>133,773,324</b> |

**7.1** The Modaraba has provided Musharika Finance facilities to several customers for various purposes. The agreed share in the purchase of the assets between the Modaraba and the customers ranges from 74.4% to 99% (30 June 2018: 74.4% to 99%) and 1% to 25.6% (30 June 2018: 1% to 25.6%) respectively. The customers have either transferred the titles of the assets in the name of the Modaraba or the assets are held in trust by Agent, being related party of the Modaraba, appointed in terms of Inter-Creditor and Security Sharing Arrangement Agreement (the agreement) for and on behalf of Modaraba to the extent of its interest defined in the said agreement. The combined forced sales value of the underlying assets as security amounts to Rs. 512.86 million (30 June 2018: Rs. 512.86 million) in aggregate. The Modaraba has also obtained various securities against these facilities including personal guarantees of sponsors / directors of customers, post dated cheques issued by customers, hypothecation of assets amounting in aggregate to Rs. 533.67 million (30 June 2018: Rs.533.67 million). Further, in case of one customer, the Modaraba along with related party of the Modaraba holds 42 million (30 June 2018: 42 million) ordinary shares of a scheduled bank as pledge and lien on debt collection account against respective exposure.

These facilities have various maturity dates up to 15 November 2021. These facilities carry profit ranging from 3 months KIBOR plus 1.5% to 6 months KIBOR plus 5%.

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### 7.2 Contractual rentals receivable on Musharika Finance facilities:

|                                      | 31 March 2019 (Unaudited) |   |                         |                    | 30 June 2018 (Audited) |   |                         |                    |
|--------------------------------------|---------------------------|---|-------------------------|--------------------|------------------------|---|-------------------------|--------------------|
|                                      | Due within<br>one year    | Due after<br>one year but<br>within five<br>years | Due after<br>five years | Total              | Due within<br>one year | Due after<br>one year but<br>within five<br>years | Due after<br>five years | Total              |
| ----- (Rupees) -----                 |                           |   |                         |                    |                        |   |                         |                    |
| <i>Musharika Finance facilities:</i> |                           |   |                         |                    |                        |   |                         |                    |
| - Principal repayments               | 310,600,347               | 96,426,227  | -                       | 407,026,574        | 345,040,495            | 133,773,324                                       | -                       | 478,813,819        |
| - Profit                             | 33,078,801                | 12,521,370  | -                       | 45,600,171         | 38,940,867             | 12,435,366  | -                       | 51,376,233         |
|                                      | <u>343,679,148</u>        | <u>108,947,597</u>                                | <u>-</u>                | <u>452,626,745</u> | <u>383,981,362</u>     | <u>146,208,690</u>                                | <u>-</u>                | <u>530,190,052</u> |

The above represents rentals receivable by the Modaraba in future periods in respect of Musharika Finance facilities given under long term arrangements.

### 8 DIMINISHING MUSHARIKA FINANCE

|  | Note      | 31 March<br>2019<br>(Unaudited)<br>(Rupees) | 30 June<br>2018<br>(Audited) |
|--|-----------|---|------------------------------|
| Diminishing Musharika Finance - secured                | 8.1 & 8.2 | 300,000,000                                 | 300,000,000                  |
| less: current portion of Diminishing Musharika Finance |           | <u>(20,000,000)</u>                         | <u>-</u>                     |
|  |           | <u>280,000,000</u>                          | <u>300,000,000</u>           |

**8.1** This includes Rs. 200 million outstanding against Diminishing Musharika Finance facility forwarded by the Modaraba to its corporate customer for the purpose of balance sheet re-profiling. This facility is secured against various collaterals which mainly include mortgage over personal properties of sponsors having worth Rs. 153.36 million with forced sales value of Rs. 132.46 million. Further, the facility is also secured with pari passu hypothecation and mortgage charges over present and future fixed and current assets of the customer having a value of Rs. 119.05 million, pledge over sponsor shares, personal guarantees, sponsor support and lien over collection account.

**8.2** The Modaraba has provided Diminishing Musharika Finance facility to its corporate customer for the purpose of financing the construction of housing project. The facility is secured against various collaterals which mainly include transfer of personal properties of sponsors and/or their associates having value of Rs. 100 million with forced sales value of Rs 87.11 million. Further this facility is secured with first pari passu hypothecation charge over the present and future fixed assets, including plant and machinery and land and building, present and future current assets of the customer up to an amount of Rs. 33.33 million, present and future fixed assets, including plant and machinery and land and building, and present and future current assets of the housing project up to an amount of Rs. 16.67 million, lien on debt collection accounts of the customer and personal guarantees of the Sponsors.

The above facilities have maturity dates up to 20 April 2024 and carry profit ranging from 3 months KIBOR plus 2.5% to 6 months KIBOR plus 5%.

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### 8.3 Contractual rentals receivable on Diminishing Musharika Finance facilities:

|   | 31 March 2019 (Unaudited) |   |                         |                    | 30 June 2018 (Audited) |   |                         |                    |
|---|---------------------------|---|-------------------------|--------------------|------------------------|---|-------------------------|--------------------|
|   | Due within<br>one year    | Due after<br>one year but<br>within five<br>years | Due after<br>five years | Total              | Due within<br>one year | Due after<br>one year but<br>within five<br>years | Due after<br>five years | Total              |
| (Rupees)  |                           |   |                         |                    |                        |   |                         |                    |
| <i>Diminishing Musharika<br/>Finance facilities</i> |                           |   |                         |                    |                        |   |                         |                    |
| - Principal<br>repayments                           | 20,000,000                | 257,222,230                                       | 22,777,770              | 300,000,000        | -                      | 260,000,000                                       | 40,000,000              | 300,000,000        |
| - Profit  | 42,498,382                | 82,822,095  | 1,477,036               | 126,797,513        | 31,926,849             | 78,916,754  | 3,465,469               | 114,309,072        |
|   | <u>62,498,382</u>         | <u>340,044,325</u>                                | <u>24,254,806</u>       | <u>426,797,513</u> | <u>31,926,849</u>      | <u>338,916,754</u>                                | <u>43,465,469</u>       | <u>414,309,072</u> |

This represents rentals receivable by the Modaraba in future periods in respect of Diminishing Musharika Finance facilities given under long term arrangements.

### 9 INTANGIBLE ASSET

|                                    | 31 March<br>2019<br>(Unaudited)<br>(Rupees) | 30 June<br>2018<br>(Audited) |
|------------------------------------|---|------------------------------|
| <b>Cost</b>                        |   |                              |
| Opening Balance                    | 420,731                                     | 420,731                      |
| Additions                          | 7,910,000                                   | -                            |
| Disposal                           | -   | -                            |
|                                    | <u>8,330,731</u>                            | <u>420,731</u>               |
| <b>Amortisation</b>                |   |                              |
| Opening Balance                    | 162,131                                     | 21,899                       |
| Charge for the period / year       | 913,184                                     | 140,232                      |
| Disposal                           | -   | -                            |
|                                    | <u>1,075,315</u>                            | <u>162,131</u>               |
| <b>Net book value as at</b>        | <u>7,255,416</u>                            | <u>258,600</u>               |
| <b>Annual rate of amortisation</b> | <u>33.33%</u>                               | <u>33.33%</u>                |

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## 10 OPERATING FIXED ASSETS

|   | Furniture<br>and<br>Fittings | Office<br>equipment,<br>computer<br>and allied<br>equipment | Motor<br>vehicles       | Total                   |
|---|------------------------------|---|-------------------------|-------------------------|
|   | ----- (Rupees) -----         |   |                         |                         |
| <b>Cost</b>                               |                              |   |                         |                         |
| Balance as at 01 July 2017                | 47,400                       | 1,896,797   | 1,613,740               | 3,557,937               |
| Additions                                 | 26,325                       | 573,130   | -                       | 599,455                 |
| Disposal                                  | -                            | (15,000)  | -                       | (15,000)                |
| Balance as at 30 June 2018                | <u>73,725</u>                | <u>2,454,927</u>  | <u>1,613,740</u>        | <u>4,142,392</u>        |
| Balance as at 1 July 2018                 | <b>73,725</b>                | <b>2,454,927</b>  | <b>1,613,740</b>        | <b>4,142,392</b>        |
| Additions                                 | -                            | 123,503   | -                       | 123,503                 |
| Disposal                                  | -                            | -   | -                       | -                       |
| <b>Balance as at 31 March 2019</b>        | <b><u>73,725</u></b>         | <b><u>2,578,430</u></b>                                     | <b><u>1,613,740</u></b> | <b><u>4,265,895</u></b> |
| <b>Accumulated depreciation</b>           |                              |   |                         |                         |
| Balance as at 01 July 2017                | 2,760                        | 243,473   | 203,949                 | 450,182                 |
| Charge for the year                       | 11,123                       | 761,510   | 363,084                 | 1,135,717               |
| Disposal                                  | -                            | (15,000)  | -                       | (15,000)                |
| Balance as at 30 June 2018                | <u>13,883</u>                | <u>989,983</u>  | <u>567,033</u>          | <u>1,570,899</u>        |
| Balance as at 01 July 2018                | <b>13,883</b>                | <b>989,983</b>  | <b>567,033</b>          | <b>1,570,899</b>        |
| Charge for the period                     | 11,061                       | 639,746   | 272,313                 | 923,120                 |
| Disposal                                  | -                            | -   | -                       | -                       |
| <b>Balance as at 31 March 2019</b>        | <b><u>24,944</u></b>         | <b><u>1,629,729</u></b>                                     | <b><u>839,346</u></b>   | <b><u>2,494,019</u></b> |
| Net book value as at 30 June 2018         | <u>59,842</u>                | <u>1,464,944</u>  | <u>1,046,707</u>        | <u>2,571,493</u>        |
| <b>Net book value as at 31 March 2019</b> | <b><u>48,781</u></b>         | <b><u>948,701</u></b>                                       | <b><u>774,394</u></b>   | <b><u>1,771,876</u></b> |
| <b>Annual Rates of depreciation</b>       | <b><u>20%</u></b>            | <b><u>33% - 50%</u></b>                                     | <b><u>25%</u></b>       |                         |

## 11 ACCRUED EXPENSES

|  | Note | 31 March<br>2019<br>(Unaudited) | 30 June<br>2018<br>(Audited) |
|--|------|---------------------------------|------------------------------|
|  |      | (Rupees)                        |                              |
| Audit remuneration payable                     |      | 333,061                         | 329,751                      |
| Leave fare allowance and staff medical accrual |      | 9,576,441                       | 4,831,881                    |
| Sindh sales tax payable                        |      | 750,946                         | 13,788,488                   |
| Provision for Workers' Welfare Fund            | 11.1 | 8,802,985                       | 7,481,112                    |
| Advances from Customers                        | 11.2 | 3,218,535                       | 3,416,334                    |
| Others   | 11.3 | 3,732,933                       | 5,176,735                    |
|  |      | <u>26,414,901</u>               | <u>35,024,301</u>            |

**11.1** The Sindh Workers' Welfare Fund Act, 2014 ('the Act') became effective from 21 May 2015 and is applicable on the Modaraba due to which Modaraba is liable to pay contribution to Workers' Welfare Fund (WWF) at the higher of the profit before taxation as per the financial statements or taxable income as provided in its income tax return. However, the Modaraba has filed a petition challenging the vires of Section 5 of the Act in the Sindh High Court ('the Court'). Similar petitions have been filed by other Modarabas and obtained an interim injunction from the Court. An interim injunction has been granted by the Court and the matter is tagged with other similar petitions filed with the Court. However, as matter of abundant caution, full provision in respect of Workers' Welfare Fund has been made in these condensed interim financial statements.

**11.2** This represents advances from customers against the advisory services to be rendered by the Modaraba.

**11.3** This includes staff retirement benefit payable amounting to Rs. 3.71 million (30 June 2018: Rs. 3.13 million).

**12 PAYABLE TO MODARABA MANAGEMENT COMPANY**

The Modaraba Management Company is entitled to a remuneration for services rendered to the Modaraba under provisions of the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 up to a maximum of 10% per annum of the net annual profits of the Modaraba.

Management records accrual in respect of remuneration of the Management Company out of the net annual profit of the Modaraba on the basis of annual audited accounts provided that 90% of the profit available for appropriation is also distributed to the certificate holders of the Modaraba after setting aside out of the profit of the Modaraba such sums as it thinks proper as reserve in accordance with the regulatory framework applicable for Modaraba.

**13 STATUTORY RESERVE**

Statutory reserves represent profits set aside by the Modaraba to comply with the Prudential Regulations issued by the Securities and Exchange Commission of Pakistan. These regulations require the Modaraba to transfer not less than 20% and not more than 50% of its after tax profit till such time that reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

During the period, the Modaraba has transferred an amount of Rs. 12.95 million (30 June 2018: Rs. 36.75 million) which represents 20% (30 June 2018: 20%) of the profit after taxation for the period.

**14 CONTINGENCIES AND COMMITMENTS**

Details of contingencies regarding Services Sales Tax on Management Company's remuneration and Provision for Sindh Workers' Welfare Fund are disclosed in notes 15 and 11.1 respectively.

On 24 January 2017, the Modaraba had entered into a Musharika Finance Agreement with a customer for Rs. 30 million out of which Rs. 18.20 million has already been disbursed as disclosed in note 7 of these condensed interim financial statements.

**15 PROVISION FOR SERVICE SALES TAX ON MANAGEMENT COMPANY'S REMUNERATION**

The Sindh Revenue Board (SRB) has imposed Sindh Sales Tax (SST) on the Modaraba Management Company's remuneration with effect from 01 November 2011. However, certain modaraba management companies have approached the Honorable Sindh High Court (the Court) and Appellate Tribunal of SRB, challenging the levy of SST on management company's remuneration. The Modaraba Management Company has not received any demand notice from SRB for payment

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of SST on Management Company's remuneration and accordingly, based on legal advisor's opinion, can neither file any petition challenging the levy of SST on Management Company's remuneration nor can join the proceedings of pending petition in the Court. As a matter of abundant caution the management is accruing SST on Management Company's remuneration and will discharge the liability on direction of the Court based on outcome of the petition filed by other modaraba management companies.

### 16 TAXATION

As per Clause 100 of Second Schedule to the Income Tax Ordinance, 2001, the income of a non-trading modaraba is exempt from income tax provided that they distribute not less than ninety percent profit to certificate holders out of current year's total profit after making appropriation for statutory reserves. The Modaraba intends to continue to avail this exemption by distributing 90% of its profits to its certificate holders after making appropriation to statutory reserves for the year ended 30 June 2019. Accordingly, no provision in respect of current and deferred taxation has been made in these condensed interim financial statements.

### 17 EARNINGS PER CERTIFICATE - BASIC AND DILUTED

|  | For the nine months period ended |                  | For the quarter ended |                  |
|--|----------------------------------|------------------|-----------------------|------------------|
|  | 31 March<br>2019                 | 31 March<br>2018 | 31 March<br>2019      | 31 March<br>2018 |
|  | (Unaudited)                      |                  |                       |                  |
|  | (Rupees)                         |                  |                       |                  |
| <b>Basic</b>   |                                  |                  |                       |                  |
| Profit for the period after taxation                                     | 64,771,763                       | 142,738,263      | 21,635,914            | 64,828,473       |
|  | (Number)                         |                  |                       |                  |
| Weighted average number of certificates<br>outstanding during the period | 100,000,000                      | 100,000,000      | 100,000,000           | 100,000,000      |
|  | (Rupee/es)                       |                  |                       |                  |
| Earnings per certificate   | 0.65                             | 1.43             | 0.22                  | 0.65             |

#### Diluted

Diluted earnings per certificate has not been presented as the Modaraba does not have any convertible instruments in issue as at reporting date which would have any effect on the earnings per certificate if the option to convert is exercised.

### 18 CAPITAL MANAGEMENT

The Modaraba's prime objective when managing capital is to safeguard the Modaraba's ability to continue as a going concern so that it can continue to provide optimum returns to its certificate holders' and benefits of other stake holders and to maintain a strong capital base to support the sustained development of its businesses.

The Modaraba manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of profit paid to certificate holders or issue new certificates.

The Modaraba is not subject to externally imposed capital requirements.

## 19 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of financial asset fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values of financial assets that are traded in active markets are based on quoted market prices. For all other financial instruments the Modaraba determine fair values using valuation techniques unless the fair value cannot be reliably measured.

For assets that are recognised in the financial statements at fair value on a recurring basis, the Modaraba recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There were no transfers between different levels of fair values mentioned above.

The table below shows the carrying amounts and fair values of a financial asset and financial liability including their fair value hierarchy for financial instruments measured at fair value. It does not include the fair value information of financial assets and financial liabilities not measured at fair value if the carrying amount is reasonable approximation of fair value.

| 31 March 2019 (Unaudited)                               |                             |            |         |         |   |
|---|-----------------------------|------------|---------|---------|---|
| Carrying amount / cost                                  |                             | Fair value |         |         |   |
| Amortized Cost  | Other financial liabilities | Level 1    | Level 2 | Level 3 |   |
| ----- (Rupees) -----                                    |                             |            |         |         |   |
| <b>Financial assets not measured at fair value</b>      |                             |            |         |         |   |
| Bank balances   | 310,331,319                 | -          | -       | -       | - |
| Accruals and other receivables                          | 33,230,914                  | -          | -       | -       | - |
| Receivable against advisory fee                         | 47,622,606                  | -          | -       | -       | - |
| Investment against repurchase agreement                 | 48,878,899                  | -          | -       | -       | - |
| Musharika Finance                                       | 407,026,574                 | -          | -       | -       | - |
| Diminishing Musharika Finance                           | 300,000,000                 | -          | -       | -       | - |
| Long term loans   | 7,070,495                   | -          | -       | -       | - |
| Long term deposit                                       | 75,000                      | -          | -       | -       | - |
| <b>Financial liabilities not measured at fair value</b> |                             |            |         |         |   |
| Accrued expenses  | -                           | 16,860,970 | -       | -       | - |
| Payable to related parties                              | -                           | 6,840,383  | -       | -       | - |

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| 30 June 2018 (Audited)                                  |             |            |         |         |   |
|---|-------------|------------|---------|---------|---|
| Carrying amount / cost                                  |             | Fair value |         |         |   |
| Amortized   | Other       | Level 1    | Level 2 | Level 3 |   |
| Cost  | financial   |            |         |         |   |
|   | liabilities |            |         |         |   |
| ----- (Rupees) -----                                    |             |            |         |         |   |
| <b>Financial assets not measured at fair value</b>      |             |            |         |         |   |
| Bank balances   | 298,945,833 | -          | -       | -       | - |
| Accruals and other receivables                          | 26,885,565  | -          | -       | -       | - |
| Receivable against advisory fee                         | 96,160,932  | -          | -       | -       | - |
| Investment against repurchase agreement                 | 66,878,890  | -          | -       | -       | - |
| Musharika Finance                                       | 478,813,819 | -          | -       | -       | - |
| Diminishing Musharika Finance                           | 300,000,000 | -          | -       | -       | - |
| Long term loans   | 5,582,684   | -          | -       | -       | - |
| Long term deposit                                       | 75,000      | -          | -       | -       | - |
| <b>Financial liabilities not measured at fair value</b> |             |            |         |         |   |
| Accrued expenses  | -           | 13,754,701 | -       | -       | - |
| Payable to related parties                              | -           | 26,652,246 | -       | -       | - |

For financial assets and financial liabilities not measured at fair value, management consider that their carrying amounts approximate fair value because of their short term nature and credit quality of counterparties. For Investment against repurchase agreement, Musharika Finance and Diminishing Musharika Finance, management considers that their carrying amount approximate fair value as the transaction is entered in to at negotiated rate considering market prevailing rates and also assessing credit standings of counterparties.

## 20 RELATED PARTY TRANSACTIONS

The related parties of the Modaraba comprise of the Management Company and its Holding Company, other associated companies, staff retirement funds, Directors and Key Management Personnel. Transactions with related parties are carried out at agreed rates.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Modaraba considers its Chief Financial Officer to be its key management personnel. There are no transactions with key management personnel other than their terms of employment / entitlement. Details of certificate holding of Holding Company, Management Company, Directors, Key Management Personnel and their family members are disclosed in pattern of certificate holding included in the annual report of the Modaraba.

Transactions and balances with related parties during the period other than those disclosed elsewhere in the financial statements are given below:

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## 20.1 Details of the transactions with related parties

|  | 31 March<br>2019<br>(Unaudited)<br>(Rupees) | 31 March<br>2018 |
|--|---|------------------|
| <b>Pak Brunei Investment Company Limited</b>                   |   |                  |
| - Holding company of the Management company                    |   |                  |
| Shared service expense   | <u>7,134,327</u>                            | <u>6,293,772</u> |
| Other expenses   | <u>1,583,924</u>                            | <u>415,552</u>   |
| Purchase of LMS software                                       | <u>7,910,000</u>                            | <u>-</u>         |
| <b>Awwal Modaraba Management Limited</b>                       |   |                  |
| - Management Company   |   |                  |
| Payment of Management Company's remuneration during the period | <u>21,136,796</u>                           | <u>-</u>         |

## 20.2 Amounts outstanding as at period / year end

|   | 31 March<br>2019<br>(Unaudited) | 30 June<br>2018<br>(Audited) |
|---|---------------------------------|------------------------------|
| <b>Pak Brunei Investment Company Limited</b>                    |                                 |                              |
| - Holding company of the Management company                     |                                 |                              |
| Payable balance against expenses paid on behalf of the Modaraba | <u>1,324,933</u>                | <u>-</u>                     |
| <b>Awwal Modaraba Management Limited</b>                        |                                 |                              |
| - Management Company  |                                 |                              |
| Payable balance against Management Company's remuneration       | <u>5,515,450</u>                | <u>26,652,246</u>            |
| <b>Staff retirement benefits funds</b>                          |                                 |                              |
| Contribution payable to staff gratuity fund                     | <u>3,710,394</u>                | <u>3,126,427</u>             |

## 21 CORRESPONDING FIGURES

Corresponding figures have been rearranged or reclassified wherever necessary for the purpose of comparison and better presentation. There were no major reclassifications in these condensed interim financial statements in the current period.


## 22 DATE OF AUTHORISATION


These condensed interim financial statements were authorised for issue on 19 April 2019 by the Board of Directors of the Management Company.

For Awwal Modaraba Management Limited  
(Management Company)

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

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