

**25<sup>th</sup> ANNUAL REPORT**  
**JUNE 30, 2014**

**First Prudential Modaraba**

**Managed by :**  
**KASB Invest (Private) Limited**

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**CORPORATE INFORMATION**

<b>Board of Directors</b>	Syed Waseem-ul- Haq Haqqe Syed Muhammad Rehmanullah Farukh S. Ansari Rashid K. Siddiqui	Chairman Director Director Chief Executive Officer
<b>Audit Committee</b>	Farukh S. Ansari Syed Muhammad Rehmanullah Syed Waseem-ul- Haq Haqqe	Chairman Member Member
<b>Human Resource and Remuneration Committee</b>	Farukh S. Ansari Syed Waseem-ul- Haq Haqqe Syed Muhammad Rehmanullah Rashid K. Siddiqui	Chairman Member Member Member
<b>Company Secretary &amp; Chief Financial Officer</b>	Aftab Afroz Mahmood	
<b>Head of Internal Audit</b>	Syed Shahid Owais	
<b>Management Company</b>	KASB Invest (Private) Limited	
<b>Registered Office</b>	6-C, Block-6, PECHS, Off. Sharah-e-Faisal, Karachi.	
<b>Karachi Office</b>	Office No. A-601, 602, 5 <sup>th</sup> Floor, Lakson Square Building No.3, Sanwar Shaeed Road, Karachi.74200 Tel: 021-35643086-87 Fax No. 021-5643283	
<b>Auditors</b>	M. Yousuf Adil Saleem & Co. Chartered Accounts	
<b>Legal Advisor</b>	Ahmed & Qazi	
<b>Shariah Advisor</b>	Mufti Muhammad Ibrahim Essa	
<b>Bankers</b>	Habib Bank Limited (Islamic Banking) Burl Bank Limited	
<b>Share Registrar</b>	Shares & Corporate Services (Pvt.) Limited Mehersons Estate, Talpur Road, Karachi. 74000 Tel: 021-32401634	

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.

### **DIRECTOR'S REPORT**

The Board of Directors of KASB Invest (Private) Limited, the Management Company of First Prudential Modaraba are pleased to present 25th Annual Report of First Prudential 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 Prudential 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 Prudential Modaraba from Prudential Capital Management Limited to KASB Invest (Pvt) Limited. KASB Invest (Private) Limited as the new Modaraba management company of First Prudential Modaraba took over its management/ administrative control on November 13, 2014 pursuant to SECPs instructions received vide letter No. SCD-SD/Ent/KASBIL/2014/323 dated November 11, 2014.

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

- Syed Waseem-ul- Haq Haqqle - Chairman
- Syed Muhammad Rahmanullah - 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 of Prudential Capital Management Limited. Those financial Statements were only Initialed and not signed by the Statutory Auditors due to non-completion of the Board as the approval regarding fit and proper criteria of the directors elected in October 2013 was not received from the SECP.

Further, the draft auditors' report of the modaraba had contained qualifications on 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 modaraba. In this respect, M/s Avasi 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 also 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 Yousuf Adil Saleem & Co. 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, 2014	June 30, 2013
Total Income from Operations	64.44	75.90
Operating Expenses	(48.44)	(48.88)
Operating Profit for the period	18.00	28.02
Unrealized gain / (loss) on changes in fair value of held for trading investments - at fair value through profit and loss	(3.26)	1.91
(Loss) gain arising on changes in fair value of Investment properties	(14.11)	0.32
Impairment (losses) and (Provision) /		
Reversal against doubtful receivables-net	(72.89)	(0.28)
Net (loss) profit after tax for the year	(72.26)	25.79
Earning Per Certificate - Rs.	(0.83)	0.30

**REVIEW OF OPERATIONS**

During the year ended on 30th June 2014, the Overall operating performance of the First Prudential Modaraba reflects that the Net Loss of Rs.72.262 million recorded as against a profit of Rs.25.791 million last year. This loss is mainly occurred due to provision/impairment amounting to Rs.45.957 million against doubtful assets, unrealized loss of Rs. 3.255 million on investments, impairment of Rs. 26.931 million on property and Loss of Rs. 14.114 million on changes in fair value of investment properties. The Loss per Modaraba Certificate stands to Rs.0.83 during the year as against the Earning of Rs.0.30 during last year. Due to heavy loss in the current year, the management has decided to repeal the dividend announced by ex-management.

**Emphasis paras in Auditors Report:**

The auditors has drawn attention (without qualification) on certain non-compliances of Prudential Regulations and object clause of prospectus of Modaraba. The observations are pertaining to the possession of properties which were obtained through settlement from defaulted clients. The management shall resolve the issue in consultation with the SECP.

**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 & 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

## **First Prudential Modaraba**

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### **Sharia Compliance and Sharia Audit Mechanism**

The Board is committed to comply with the requirements of circular No. 08 of 2012 Shar'ah 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. 210,727/- 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 8 meetings of Board of Directors were held and none of the meetings were held by the present management company. All such meetings were held by the Board of previous management company, i.e., Prudential Capital Management (Pvt) Limited. Attendance by each director was as follows:

<b>Name of Director</b>	<b>Meeting Attended</b>
Mr. Fazal Mohammad Mughal (Relinquished Director)	06
Mr. Muhammad Hussain (Relinquished Director)	03
Mr. Attaulah Khan (Relinquished Director)	03

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.

## **First Prudential Modaraba**

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### **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**

The present auditors i.e M/s M.Yousuf Adil Salim & Co. Chartered Accountants have completed their fifth year of continuous appointment, therefore, on the recommendation of Audit Committee, the Board has approved the appointment of M/s Awaiz 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

  
Syed Waseem-ul-Haq  
Chairman

Karachi.  
Dated: April 24, 2015



## First Prudential Modaraba

### Summary of key Operating and Financial data of the

Modaraba for last six years.

Year ended June 30, 2014

.....Rupees in millions.....

Year	2014	2013	2012	2011	2010	2009
Paid-up Capital	872.177	872.177	872.177	872.177	872.177	872.177
Statutory Reserve	138.651	138.651	133.493	128.899	120.245	113.586
Certificate Holders' Equity	433.988	515.877	519.608	512.996	505.487	472.061
Certificate	87.217	87.217	87.217	87.217	87.217	87.217
Current Liabilities	57.555	45.089	38.758	32.278	45.413	80.298
Non-Current Assets	158.378	241.070	150.437	109.642	139.590	145.794
Current Assets	326.186	343.515	440.827	462.481	430.375	435.933
Profit / (Loss) before taxation	(72.253)	25.957	32.969	33.270	32.935	(103.260)
Taxation	-	(0.186)	-	-	0.457	(0.457)
Earning / (Loss) per Certificate (Rs.)	(0.83)	0.30	0.38	0.38	0.38	(1.19)

### STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

#### FIRST PRUDENTIAL MODARABA

JUNE 30th, 2014

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

First Prudential Modaraba (the Modaraba) was managed by Prudential Capital Management Limited (the PCML). In pursuance of a show cause notice dated June 9, 2010 issued to the PCML and after taking approval from the Securities and Exchange Commission of Pakistan (SECP) under 20 (2) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Registrar Modarabas passed an order dated October 28, 2010 under section 20 (1)(a)(ii) to remove the PCML and appointed another Modaraba Management Company as Administrator to takeover and manage the affairs of the Modaraba in place of PCML.

PCML challenged the order in the Sindh High Court (SHC) and SHC gave a verdict against PCML on May 22, 2014. PCML filed appeal against this order of SHC in the Supreme Court of Pakistan. On October 23, 2014, the Supreme Court of Pakistan upheld the verdict of the Sindh High Court on removal of the existing management of PCML.

Accordingly, the orders of the Registrar Modaraba dated October 28, 2010 stood restored and on the basis of which KASB Invest (Private) Limited (formerly KASB Modaraba Management (Private) Limited) took over the management and control of First Prudential Modaraba on November 13, 2014. Hence this statement is being approved by the Board of KASB Invest (Private) Limited.

The PCML, the then manager of First Prudential Modaraba (the Modaraba) as on June 30, 2014, had applied the principles contained in the Code in the following manner:

1. As on June 30, 2014, the Board of the PCML included:

Category	Names
Non Executive Directors	Mr. Fazal Muhammad Mughal* Dr. Muhammad Hussain*
Independent Director	Mr. Javed Iqbal Zia**
Executive Director	Syed Mazhar Mujtaba**

Independent Director meet the criteria of Independence given in clause i(b) of the Code.

\* The application for Fit and Proper criteria as required by Circular 4 of 2004 dated January 28, 2004 as amended by Circular 10 of 2008 dated June 2, 2008 to the Registrar Modaraba, Securities and Exchange Commission of Pakistan, was not sent.

\*\* Approval for Fit and Proper criteria as required by Circular 4 of 2004 dated January 28, 2004 as amended by Circular 10 of 2008 dated June 2, 2008 from the Registrar Modaraba, Securities and Exchange Commission of Pakistan was not received.

2. The directors of PCML had confirmed that none of them was serving as a director on more than seven listed companies, including the PCML.
3. All the directors of the PCML were registered as taxpayers and none of them had defaulted in payment of any loan to a banking company, a DFI or an NFI or, being a member of a stock exchange, had been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the Board. The Board was re-elected on October 31, 2013. The SECP through its various correspondences directed the PCML to appoint a new Chief Executive. The PCML requested the SECP to allow them to nominate another director as Chief Executive Officer to fulfill the requirements of the law. Based on this request, the SECP granted the appointment of another director as Chief Executive Officer under stop gap arrangement for six months (i.e. till July 5, 2014).

## **First Prudential Modaraba**

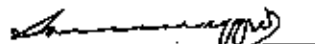
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5. The PCML had prepared a "Code of Conduct" and disseminated it throughout the Modaraba along with its supporting policies and procedures.
6. The Board had developed a vision/mision statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended had been maintained.
7. All the powers of the Board had been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer of the PCML, had been taken by the Board.
8. In the absence of designated Chairman of the Board, the meetings were presided over by a Director elected by the Board as 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. One of the Directors was exempt from the requirements of certification under "The Board Development Series" program having more than 15 years of experience, while no such program was arranged for the other Directors.
10. During the year ended June 30, 2014, the board appointed Chief Financial Officer in compliance with the requirement of the Code. There are no new appointments of Company Secretary and head of internal audit. The appointment, remuneration and terms of employment had been approved by the Board of Directors.
11. The directors' report for the year ended June 30, 2014, had been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed in respect of the Modaraba by the Board of KASB Invest (Private) Limited.
12. The financial statements of the Modaraba were not endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives did not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holdings.
14. The Modaraba had complied with all the corporate and financial reporting requirements of the Code.
15. Board had formed an Audit Committee, which comprised of two members instead of three. Both the members were non-executive directors including an independent director and the chairman of the committee was a non-executive director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the committee had been formed and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee for the Modaraba and the PCML. It comprised of three members of which two were non-executive directors and the chairman of the committee was a non-executive director.
18. The Modaraba has setup an internal audit function which was not effective. The head of internal audit was not suitably qualified as required by the Code.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

## **First Prudential Modaraba**

20. The statutory auditors or the persons associated with them had not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they had observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's certificates, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information had been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the Code of Corporate Governance have been complied with except for the following:
  - a) The mechanism for an annual evaluation of the Board, required under the sub-clause (e) of clause (v) had not been put in place.

For and on behalf of the Board



Syed Waseem-ul-Haq Haqqie  
Karachi  
Dated: April 24, 2015

**REVIEW REPORT TO THE CERTIFICATE HOLDERS  
ON STATEMENT OF COMPLIANCE WITH THE  
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 KASB Invest (private) Limited (the Modaraba Management Company) of First Prudential Modaraba for the year ended June 30, 2014 to comply with the requirements of Listing Regulation No. 35 of the Karachi, Lahore and Islamabad Stock Exchanges where the Modaraba is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Modaraba's compliance with the provisions of the Code 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 to comply with the Code.

As 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 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.

Following instance of non-compliance with the requirements of the Code was observed which is not stated in the Statement of Compliance:

As mentioned in para 1 of the Statement, the application for approval of fit and proper criteria of directors of Prudential Capital Management Limited (the PCML) from the Securities and Exchange Commission of Pakistan (SECP) as required under Circular 4 of 2004 dated January 28, 2004 as amended by Circular 10 of 2008 dated June 2, 2008, had not been sent in respect of two of the re-elected non-executive directors, therefore the presence of these directors could not be considered as quorum in the meeting of the Board of Directors conducted during the year. In the absence of the quorum, the information disclosed / matters stated / compliance mentioned in paragraph 1, 4, 7, 8, 10, 15, 16 and 17 of the Statement of Compliance were affected.

Based on our review, except for the above instance of non-compliance, 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 Modaraba for the year ended June 30, 2014.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph reference where these are stated in the Statement of Compliance.

## **First Prudential Modaraba**

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<b>Paragraph Reference</b>	<b>Description</b>
	The Statement is for the year ended June 30, 2014 when the PCML was managing the affairs of the Modaraba and it was subsequently removed pursuant to the order of the Supreme Court of Pakistan on October 23, 2014. Accordingly the Board of directors of the KASB Invest (Private) Limited approved this Statement.
8	Modaraba Management Company had not elected Chairman of the Board of Directors as required by clause (vi) of the Code;
9	No formal directors training program had been arranged for directors;
12	Chief Executive Officer and Chief Financial Officer did not endorse financial statements and financial information before presenting them to Board of directors for consideration and approval as required by (xxi) of the Code;
15	Board of Directors had established an audit committee of two members instead of three members as required by clause (xiv) of the Code;
18	The head of internal audit was not suitably qualified as required by (xiv) of the Code and the Modaraba had not setup an effective internal audit function; and
23	Board of Directors had not put in place a mechanism for Annual Evaluation of Boards' own performance as required by clause (v)(e) of the Code.

### **Chartered Accountants**

Place: Karachi

Date: April 24, 2015

**AUDITORS' REPORT TO THE CERTIFICATE HOLDERS**

We have audited the annexed balance sheet of First Prudential 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 which 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) proper books of account have been kept by the Modaraba Management Company in respect of First Prudential 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 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 and deposited in the Central Zakat Fund established under section 7 of that Ordinance.
- e) We draw attention to the following matters:
  - i) In prior year, the Modaraba acquired two offices through a settlement agreement with an entity which default in repayments. The Modaraba is using these offices for its own use and has classified them under 'Property and equipment – own use' (refer note 14.1 to the financial statements). Prudential Regulations for the Modaraba prohibits to hold office premises for its own use.

ii) Object clause of the Modaraba does not allow holding of immovable properties for business purpose and indulging in the business of brokerage of securities. Further, Shar'iah Compliance and Shar'iah Audit Mechanism for the Modaraba prohibit holding non Shar'iah compliant scripts. However, the Modaraba has entered into the following transactions in prior years which are in contravention of the said requirements.

- The Modaraba acquired a property through assignment by the Sindh High Court against settlement of a Morebaha facility in 2003. The Modaraba has treated this property as 'Investment Property' (refer note 16.3 to the financial statements).
- The Modaraba has acquired properties consisting of four shops through a settlement agreement with a defaulted party in 2013. The Modaraba has treated these shops as 'Investment Property' (refer note 16.3 to the financial statements).
- The Modaraba by virtue of surrender of membership of the Lahore Stock Exchange Limited (LSE), which was acquired from a defaulted party against the settlement of claim, received shares of the LSE and a room (refer note 13.1 to the financial statements).

(iii) Note 1 to the financial statements regarding the approval of these financial statements by the Board after incorporating the adjustments and changes in disclosure arising from review of subsequent events from the date of financial statements to the date of this report.

Our report is not qualified in respect of matters contain under paragraph 'e' above.

### **Chartered Accountants**

**Engagement Partner:**  
Mushtaq Ali Hirani

**Dated:** April 24, 2015  
**Karachi**



### **SHARIAH ADVISOR'S REPORT**

I have reviewed the affairs of First Prudential 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 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, the following were the major activities / developments in respect of Shariah that took place during this period:

#### **BANK ACCOUNTS:**

After Implementation of circular # 8 of 2012, Modaraba has closed all saving accounts maintained with conventional banks.

Further, for investment and operational purposes, Modaraba is operating the Bank accounts maintained with Islamic Banks only.

#### **FRESH DISBURSEMENTS**

##### **IJARAH**

Modaraba has disbursed Ijarah Facilities for the vehicles to different clients. I confirm that, all Documentations, Contracts and Transaction Flows were in line with Shariah and Modaraba got Shariah Approval of undersigned before execution of each and every transaction.

##### **DIMINISHING MUSHARAKA**

Modaraba has disbursed Diminishing Musharaka facility to a reputable corporate customer. I confirm that, all Documentations, Contracts and Transaction Flows were in line with Shariah and duly approved by the undersigned.

#### **DIVIDEND PURIFICATION:**

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

#### **CHARITY:**

I confirm that Modaraba has transferred all charitable amounts such as charity of late payment, dividend purification 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.

#### **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.

#### **EQUITY SHARES**

Modaraba's entire equity investments were made in approved Shariah compliant scripts provided and updated by NBFIs and Modaraba Association of Pakistan and in compliance of circular 8 of 2012, except for the following shares:

## **First Prudential Modaraba**

### **Non Shariah Compliant Shares (Table 1)**

<b>S.No</b>	<b>Name of Shares</b>	<b>Quantity</b>
1.	Prudential Discount & Guarantee House – CDC Freeze	191,700
2.	Zeal Pak Cement Factory– CDC Freeze	360,000
3.	Prudential Stocks Fund Ltd – Physical	1,670,720
4.	Prudential Securities Limited (unlisted)– Physical	1,107,244
5.	Hussain Industries – Physical	348
6.	Lahore Stock Exchange	843,975

The values of serial 1 to 3 have been fully provided in the books of account As per the explanation given by Modaraba, no buyer is available for acquiring the shares of Prudential Securities Limited (unlisted)– Physical (serial 4). The shares of M/s. Hussain Industries are in physical form and registered in the name of Third Prudential Modaraba, therefore it could not be sold.

In this year Modaraba did not dispose off the shares of Lahore stock Exchange, however non Shariah portion of the dividend received on these shares have been transferred into charity account.

### **Undisclosed and Non Shariah Compliant Shares (Table # 2)**

<b>S.No</b>	<b>Name of Shares</b>	<b>Quantity</b>
1.	Zeal Pak Cement Factory– CDC Freeze	10,400,000
2.	Uman Textile Limited	700,000
3.	Investec Modaraba	500,000
4.	Investec Securities	200,000

The shares mentioned in table no 2 are undisclosed shares, these shares were transferred by a defaulted party, as the payment of claim, into the name of First Prudential Modaraba, but Modaraba refused to accept these shares till date as satisfaction of its claim.

### **OBSERVATIONS:**

- Shares as mentioned in Table No. 1 above are in the holding of Modaraba. However, these shares are not in the approved list of NBFI & Modaraba Association of Pakistan.
- It was observed that the shares of M/s. Hussain Industries Limited are still in the name of Third Prudential Modaraba.

### **RECOMMENDATION(S):**

- Since the shares of M/s. Hussain Industries are not in the name of First Prudential Modaraba, therefore, I recommend the Management to ensure that all assets of First Prudential Modaraba should be in its own name.
- Modaraba should dispose-off all non Shariah Compliant shares subject to the clearance of legal and availability of the buyers specially the shares of Lahore Stock Exchange where Lahore Stock Exchange has determined its value in the period under review.
- In respect of the shares of Table No. 2, Modaraba should settle the dispute with the defaulted broker as soon as possible.

## **First Prudential Modaraba**

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### **CONCLUSION:**

Generally, the Management of First Prudential Modarabahas effectively shown its sincerity to comply with Shariah Rulings in its true spirit; therefore, I am of the view that the business operations of First Prudential Modaraba are Shariah compliant up to the best of my knowledge.



Mufti Ibrahim Cass  
Shariah Advisor  
15-10-2014



# First Prudential Modaraba

## BALANCE SHEET AS AT JUNE 30, 2014

ASSETS	Note	2014 Rupees	2013 Rupees
<b>Current Assets</b>			
Cash and bank balances	5	180,144,618	224,519,535
Investments	8	80,824,460	46,994,510
Musharika, morabaha and other finance	7	-	24,576,891
Diminishing musharika	8	31,553,643	13,723,212
Ijarah rentals receivable	9	1,569,362	734,008
Receivable against sale of shares - net		5,666,393	-
Advances, prepayments and other receivables	10	16,427,649	33,267,602
<b>Total Current Assets</b>		<b>326,186,026</b>	<b>343,815,558</b>
<b>Non - Current Assets</b>			
Long term investments	11	14,188,377	9,553,797
Long term portion of diminishing musharika	8	55,770,669	50,212,898
Long term deposits	12	88,192	3,068,192
Loan and receivables	6.1	-	5,816,258
Intangible assets	13	541,716	6,549,890
Property and equipment - own use	14	22,525,317	48,593,921
Property, plant and equipment -Ijarah	15	38,204,179	76,082,525
Investment property	16	27,080,000	41,194,500
<b>Total Non - Current Assets</b>		<b>158,376,450</b>	<b>241,069,981</b>
<b>TOTAL ASSETS</b>		<b>484,562,476</b>	<b>584,885,539</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Ijarah deposits	17	26,831,162	16,878,600
Accrued and other liabilities	18	5,441,098	5,701,394
Unclaimed profit distribution		25,282,315	22,709,604
<b>Total Current Liabilities</b>		<b>57,554,575</b>	<b>45,089,498</b>
<b>Non - Current Liabilities</b>			
Long term portion of Ijarah deposits	17	4,019,350	24,119,480
<b>TOTAL LIABILITIES</b>		<b>61,573,925</b>	<b>69,208,978</b>
<b>NET ASSETS</b>		<b>422,988,551</b>	<b>515,676,561</b>
<b>REPRESENTED BY</b>			
Issued, subscribed and paid up capital	19	872,176,800	872,176,800
Statutory reserves		138,650,648	138,650,648
Accumulated loss		(587,838,897)	(495,150,887)
		<b>422,988,551</b>	<b>515,676,561</b>
Contingencies and commitments	20		

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

For KASB Invest (Private) Limited  
(Management Company)

  
CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

# First Prudential Modaraba

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

INCOME	Note	2014 Rupees	2013 Rupees
Ijarah rentals earned		22,448,109	39,138,554
Return on deposits with bank		16,575,398	20,245,649
Income on diminishing musharika		10,245,053	2,799,881
Capital gain on sale of investments		12,139,601	6,968,800
Dividend		2,939,081	3,014,846
Rental income from investment property		270,000	947,994
Other (loss) / income	21	(179,840)	2,779,125
		<u>64,437,402</u>	<u>75,894,849</u>
Amortization charges - other receivable	6.1	-	(2,000,000)
Unrealised (loss) / gain on investments - held for trading at fair value through profit or loss	6.4	(3,255,191)	1,905,629
(Loss) / gain arising on changes in fair value of investment properties	16	(14,114,500)	315,000
Provisions and impairment losses against doubtful receivables-net	22	(45,956,891)	(263,401)
		<u>1,110,820</u>	<u>76,832,077</u>
EXPENDITURE			
Impairment of an intangible asset	13	(5,344,352)	-
Impairment of property and equipment - own use	14	(21,587,036)	-
Depreciation on Ijarah assets	15	(25,013,063)	(31,319,068)
Impairment on Ijarah assets	15	(3,348,043)	-
Administrative expenses	23	(18,039,788)	(17,916,842)
Workers welfare fund		-	(529,727)
Bank and other charges		(42,067)	(109,822)
		<u>(73,373,348)</u>	<u>(49,875,459)</u>
(Loss) / profit for the year		<u>(72,282,526)</u>	<u>25,956,618</u>
Modaraba company's management fee	24	-	-
(Loss) / profit before taxation		<u>(72,282,526)</u>	<u>25,956,618</u>
Provision for taxation	25	-	(165,980)
(Loss) / profit after taxation		<u>(72,282,526)</u>	<u>25,790,738</u>
Other comprehensive income			
Deficit on revaluation of investments available for sale		(365,420)	(3,556,766)
Total comprehensive income for the year		<u>(72,627,946)</u>	<u>22,233,972</u>
Earnings per certificate	26	<u>(0.83)</u>	<u>0.30</u>

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

	Reserves				
	Capital	Revenue	Accumulated	Sub total	Total
	Certificate capital	Statutory reserve	Unrealized gain/(loss) on available for sale	loss	
Balance at July 01, 2012	872,176,600	133,492,500	345,848	(488,407,061)	819,607,887
Comprehensive Income					
Profit for the year ended June 30, 2013	-	-	-	25,790,738	25,790,738
Other comprehensive loss for the year ended June 30, 2013	-	-	(3,558,766)	-	(3,558,766)
	-	-	(3,558,766)	25,790,738	22,231,972
Transfer to statutory reserve	-	5,158,148	-	(5,158,148)	-
Distribution @ 3 % declared for the year ended June 30, 2012	-	-	-	(26,185,298)	(26,185,298)
Balance at June 30,2013	872,176,600	138,650,648	(3,210,918)	(481,339,769)	515,676,561
Comprehensive Income					
Profit for the year ended June 30, 2014	-	-	-	(72,262,528)	(72,262,528)
Other comprehensive income for the year ended June 30, 2014	-	-	(365,420)	-	(365,420)
Total comprehensive income for the year ended June 30, 2013	-	-	(365,420)	(72,262,528)	(72,627,948)
Balance at June 30, 2014	872,176,600	138,650,648	(3,576,338)	(584,262,359)	422,988,551

\*Statutory reserve represents profit set aside to comply with the Prudential Regulations for Modarabas issued by the SECIP. These regulations require the Modarabas to transfer not less than 20% and not more than 50% of its after tax profit for each year to such fund. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

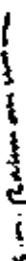
The attached notes form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR



DIRECTOR

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

	Note	2014 Rupees	2013 Rupees
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) / profit before taxation		(72,262,528)	25,956,618
Adjustments for non-cash changes and other items:			
Gain on sale of investments		(12,139,601)	(6,868,800)
Dividend income		(2,939,081)	(3,014,846)
Unrealised (gain) / loss on changes in fair value of held for trading investments - at fair value through profit and loss		3,255,191	(1,805,629)
Reversal / (provisions and impairment losses) against doubtful receivables-net	22	45,956,891	283,401
Impairment on property and equipment - own use		21,587,036	-
Impairment of an intangible asset		5,344,352	-
Impairment of an ijarah asset		3,348,043	-
Loss / (gain) on remeasurement of investment property		14,114,500	(315,000)
Gain on disposal-own use assets		(483,069)	(87,427)
Loss / Gain on disposal-ijarah assets		1,420,558	(335,386)
Amortization charges - other receivable		-	2,000,000
Depreciation-own use assets		2,927,226	1,475,718
Depreciation on ijarah assets		25,013,063	31,319,088
Amortization - intangibles		663,822	522,206
Gain on settlement of term deposit receipts		-	(1,854,500)
Unwinding of interest - term deposit receipt		(587,209)	(416,126)
		<u>107,501,733</u>	<u>20,802,679</u>
		35,239,205	46,759,297
Cash flows before movements in working capital			
(Increase) / decrease in operating assets			
Musharika, morabaha and other finance		5,556,550	4,275,743
Diminishing musharika		(23,388,202)	(83,936,110)
Ijarah rentals receivable		(1,576,149)	1,654,761
Receivable against sale of shares - net		(6,666,393)	-
Advances, prepayments and other receivables		(412,118)	3,262,059
		<u>(26,486,312)</u>	<u>(64,743,547)</u>
Increase / (decrease) in operating liabilities			
Ijarah deposits		(9,347,468)	(5,480,867)
Accrued and other liabilities		(260,298)	(1,643,274)
		<u>(10,207,764)</u>	<u>(7,324,141)</u>
Cash used in operations		(1,454,871)	(15,306,391)
Income tax paid		(180,102)	(210,715)
Net cash used in operating activities		<u>(1,634,973)</u>	<u>(15,519,106)</u>

	2014 Rupees	2013 Rupees
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividend received	2,938,081	3,014,846
Investments (purchased) / encashed - net	(28,325,755)	173,723,159
Proceeds from disposal - own use assets	2,157,500	162,000
Proceeds from disposal - Ijarah assets	13,711,682	10,093,680
Purchase of own use assets	(120,100)	(4,956,623)
Purchase of Ijarah assets	(5,815,000)	(9,252,500)
Purchase of intangible assets	-	(1,827,744)
Long term deposit received	-	1,900
Net cash (used in) / generated from investing activities	<u>(15,252,582)</u>	<u>170,958,718</u>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Profit distribution and net cash used in financing activities	<u>(17,487,351)</u>	<u>(21,288,143)</u>
Net (decrease) / increase in cash and cash equivalents (A+B+C)	<u>(34,374,916)</u>	<u>134,151,469</u>
Cash and cash equivalents at July 01	224,519,535	90,368,066
Cash and cash equivalents at June 30	<u>190,144,619</u>	<u>224,519,535</u>

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

  
CHIEF EXECUTIVE

For KASB Invest (Private) Limited  
(Management Company)

  
DIRECTOR

  
DIRECTOR



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

**1. LEGAL STATUS AND NATURE OF BUSINESS**

1.1 First Prudential 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 was managed by Prudential Capital Management Limited (PCML) a company incorporated in Pakistan under the Companies Ordinance 1984. In pursuance of a show cause notice dated June 9, 2010 issued to the PCML and after taking approval from the Securities and Exchange Commission of Pakistan (SECP) under 20 (2) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Registrar Modarabas passed an order dated October 28, 2010 under section 20 (1)(a)(iii) to remove the Modaraba Company. PCML and appointed another Modaraba Management Company as Administrator to takeover and manage the affairs of the Modaraba in place of PCML. PCML had challenged the order in the Sindh High Court (SHC) and SHC gave a verdict against the appeal dated May 22, 2014. PCML instituted a case against this order of SHC in the Supreme Court of Pakistan. On October 23, 2014, the Supreme Court of Pakistan upheld the verdict of the Sindh High Court on removal of the existing management of Prudential Capital Management Limited. Accordingly, the orders of the Registrar Modaraba dated October 28, 2010 stood restored and effective on the basis of which KASB Invest (Private) Limited took over the management and control of First Prudential Modaraba from November 13, 2014. Prior to the take-over, the results for the year ended June 30, 2014 were communicated to the stock exchanges in accordance with the requirements of the Listing Regulations, but the financial statements were not disseminated. The new management of the Modaraba engaged a professional firm of Chartered Accountants to carry out an independent due diligence review as at November 30, 2014. Adjustments arising as a result of this review have been incorporated in these financial statements.

1.2 The registered office of KASB Invest (Private) Limited is situated at 8 C Block 6, PECHS, Shahrah e Faisal, Karachi. The Modaraba is listed on Karachi, Lahore and Islamabad Stock Exchanges. The Modaraba is currently engaged in various modes of Islamic fundings and businesses which include Ijarah financing, deployment of fund in musharika, morabaha and investment in securities.

1.3 These financial statements have been presented to Board of Directors of KASB Invest (Private) Limited after incorporating the subsequent events arising during the period and appropriate disclosure has been given in relevant notes.

1.4 These financial statements are presented in Pak Rupees, which is the Modaraba's 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 prevail.

## First Prudential Modaraba

**2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2014.**

The following standards, amendments and interpretations are effective for the year ended June 30, 2014. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

<b>Standards or Interpretations</b>	<b>Effective for periods beginning on or after</b>
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information	January 01, 2013
Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment	January 01, 2013
Amendments to IAS 19 – Employee Benefits (as revised in 2011)	January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 01, 2013
Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities	January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	January 01, 2013
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

### **New accounting standards and IFRS interpretations that are not yet effective**

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

Amendments to IAS 19 Employee Benefits: Employee contributions	July 01, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2015
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 01, 2015
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	January 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	January 01, 2014
IFRS 10 – Consolidated Financial Statements	January 01, 2015
IFRS 11 – Joint Arrangements	January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2015
IFRS 13 – Fair Value Measurement	January 01, 2015

## **First Prudential Modaraba**

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers

### **3. BASIS OF MEASUREMENT**

These financial statements have been prepared under the historical cost convention, except for:

- certain investments carried at fair value;
- investment property which have been measured at fair value;
- certain loan and receivables - measured at amortized cost.

### **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) Leased and depreciation**

Leased assets are stated at cost less accumulated depreciation and impairment loss (if any). Depreciation 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, depreciation 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 in accordance with the rates specified in note 14 to these financial statements. In respect of additions and disposal during the year, depreciation is charged proportionately to the period of use.

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

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

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

#### **4.2 Investment property**

Investment property, which are held for rentals and capital appreciation, are measured initially at its cost, including transaction costs. Subsequent to initial recognition, it is measured at its fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

#### **4.3 Intangibles**

An intangible asset is recognised as an asset if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of such asset can be measured reliably.

### Definite life

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of the item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 13 to these financial statements. The useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed off, it is charged till the month preceding the month of disposal.

### Indefinite life

The useful life of an intangible asset that is not being amortised is reviewed at the end of each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

### 4.4 Investments

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

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

#### ii) Available for sale

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

#### iii) Held to maturity

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

#### iv) Loan and receivables

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

#### v) Derecognition

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

#### vi) Investment in associates

These investments are accounted for using equity method of accounting and initially are recognized at cost.

### **4.5 *Ujarah* rentals receivable, morabaha and musharika and diminishing musharika finances**

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

### **4.6 Staff retirement benefits**

#### **Defined contribution plan**

The Modaraba operates a defined contribution provident fund for all employees who opt for deductions. Equal monthly contributions are made both by the Modaraba and the employees to the fund at the rate of 10% of basic salary.

### **4.7 Accrued and other liabilities**

These are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services.

### **4.8 Provisions**

Provisions are recognised when the Modaraba has a present, legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### **4.9 Impairment**

#### **Financial Assets**

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

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

#### **Available-for-sale financial investments**

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

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

## **First Prudential Modaraba**

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

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

### **Non-financial assets**

The Modaraba assesses at each balance sheet date whether there is any indication that assets except deferred tax assets and investment properties may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

### **4.10 Revenue recognition**

#### **4.10.1 Ijarah rentals**

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

Documentation charges, front end fees and other Ijarah related income are taken to profit and loss account when they are realised.

#### **4.10.2 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.

#### **4.10.3 Morabaha and musharika transactions**

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

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

#### **4.10.4 Diminishing musharika**

Profit on diminishing musharika is recognised as and when profits become due on a systematic basis over the term of diminishing musharika period.

#### **4.10.5 Rental Income**

Rental income arising from investment properties is accounted for on accrual basis.

#### **4.10.6 Dividend Income**

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

### **4.10.7 Return on finance**

Return on finance is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **4.10.8 Other income**

Other income is recognised on accrual basis.

### **4.10.9 Income from Shariah non-compliant avenues**

Income from Shariah non-compliant avenues is not recognised in the profit and loss account and is classified as charity payable.

### **4.10.10 Mark-up income**

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

### **4.11 Taxation**

#### **Current**

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

The income of non-trading Modaraba is exempt from taxation under clause 100 of Part 1 of the Second schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of the total profits in the year as reduced by the amount transferred in statutory reserve are distributed amongst the certificate holders.

#### **Deferred**

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

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

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

### **4.12 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.

### **4.13 Financial assets**

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

## 4.14 Financial liabilities

Financial liabilities are classified according to the substance of contractual arrangements entered into. Financial liabilities includejarah deposits, accrued and other liabilities and unclaimed profit distribution.

## 4.15 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).

## 4.16 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.

## 4.17 Profit distribution

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

## 4.18 Earning per certificate

The Modaraba presents basic and diluted earnings per certificate data for its certificate holders. Basic earnings per certificate is calculated by dividing the profit or loss attributable to certificate holders of the Modaraba by the weighted average number of certificates outstanding during the year. Diluted earnings per certificate is determined by adjusting the profit or loss attributable to certificate holders and the weighted average number of certificates outstanding for the effects of all dilutive potential certificates.

## 4.19 Critical Accounting Estimates and Judgments

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

- i) classification of investments (Note 6)
- ii) provision for doubtful recovery against investments (Note 6)
- iii) amortisation of intangible assets (Note 13)
- iv) depreciation on property and equipment (Note 15 & 16)
- v) impairment losses / provision for doubtful receivables (Note 22)
- vi) contingencies (Note 20)

	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
<b>5. CASH AND BANK BALANCES</b>			
Cash in hand		6,399	33,381
Cash at banks			
Current accounts		187,431,407	1,503,546
Saving accounts	5.1	2,708,813	222,982,809
		<u>190,139,229</u>	<u>224,486,154</u>
		<u>190,144,819</u>	<u>224,519,535</u>

5.1 Effective mark-up rate in respect of saving accounts ranges from 3.5 % to 8.85 % (2013 : 4.75 % to 12.5 %) per annum.



## First Prudential Modaraba

6. INVESTMENTS	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
Loans and receivables			
Receivable against TDR - considered good	6.1	1,035,824	1,376,234
Held for trading at fair value through profit or loss			
- Quoted securities	6.2	<u>78,788,636</u>	<u>45,518,276</u>
		<u>80,824,460</u>	<u>46,894,510</u>

6.1 Modaraba had entered into an agreement dated December 06, 2012, with the Invest Capital Investment Bank Limited (ICIBL) for settlement of the term deposit receipt of Rs.10 million. As per the terms, the entire mark-up/profit/penalties accrued till date of settlement agreement was waived off by the Modaraba. The balance was receivable in 60 equal monthly instalments of Rs. 166,667 beginning from December 10, 2012 at Nil profit. Rescheduled amount is as follows:

Term Deposit Receipt as at December 06, 2012		10,000,000	10,000,000
Less: Amortization charge		(2,000,000)	(2,000,000)
Less: Received in earlier period		<u>(807,508)</u>	<u>-</u>
Total receivable		7,192,492	8,000,000
Instalments received during the year		<u>(1,376,101)</u>	<u>(807,508)</u>
Net receivable		5,816,391	7,192,492
Provision against doubtful recoveries	6.1.1	<u>(4,780,567)</u>	<u>-</u>
Less: Long term portion		<u>1,035,824</u>	<u>(5,816,258)</u>
		<u>1,035,824</u>	<u>1,376,234</u>

6.1.1 Subsequent to year end, based on the the correspondence provided by ICIBL it was revealed that the Modaraba had entered into an arrangement of Portfolio Management Services with ICIBL and a limited liability company was incorporated for this purpose in 2010, under which ICIBL incurred an expenditure of Rs. 5.78 million on account of bidding for Karachi Stock Exchange (KSE) membership as authorised by Board of Directors of the Modaraba Management Company in their meeting held on April 25, 2010. The Modaraba filed an application to SECP for relaxation of Regulation 7(7) of the Prudential Regulations for Modarabas for Investing in an unlisted entity which was rejected. This resulted in forfeiture of amount paid for bidding for purchase of membership card by KSE. These facts were not on record nor reflected in the books of accounts of the Modaraba since that time. During subsequent event review, ICIBL confirmed that it intends to adjust this amount from the outstanding balance. Based on these facts, it is evident that ICIBL did not intend to pay the amount as on the reporting date and provision has been recognized accordingly.

### 6.2 Quoted securities

Unless stated otherwise, the holdings are in the fully paid ordinary shares/ certificates/ units of Rs 10/- each.

June 2014	June 2013		June 2014 Rupees	June 2013 Rupees
Number of Certificates / Shares / Units		Name of Investee company / Fund / modaraba		
-	255,063	Open-end mutual fund MCB Islamic Income Fund (Face value of Rs. 100 each)	-	25,979,578
31,000	-	Oil & gas exploration companies		
22,000	6,300	Attock Refinery Limited	6,580,890	-
7,000	-	National Refinery Limited	4,738,140	1,515,654
37,200	-	Pakistan State Oil Company Limited	2,721,950	-
13,600	-	Pakistan Petroleum Limited	8,345,448	-
	-	Shell Pakistan Limited	4,309,968	-

## First Prudential Modaraba

June 2014	June 2013		June 2014 Rupees	June 2013 Rupees
<b>Number of Certificates / Shares/ Units</b>		<b>Name of Investee</b>		
-	305,000	<b>Chemicals</b>		
100,000	25,000	Fauji Fertilizer Bin Qasim Limited	-	11,449,700
100,000	-	Fauji Fertilizer Company Limited	11,225,000	2,685,750
		Lotte Chemical Pakistan Limited	718,000	-
		<b>Construction and materials (Cement)</b>		
355,000	-	Fauji Cement Company Limited	6,830,200	-
17,500	8,500	D.G. Khan Cement Company Limited	1,539,300	795,055
-	13,000	Kohat Cement Company Limited	-	1,115,790
15,000	-	Cheral Cement Company Limited	981,800	-
5,000	-	Maple Leaf Cement Factory Limited	150,250	-
		<b>General Industrials</b>		
-	5,000	Mapac Film Limited	-	114,050
		<b>Automobile &amp; parts</b>		
35,000	-	General Tyre and Rubber Company of Pakistan Limited	2,826,250	-
		<b>Food producers</b>		
117,500	-	Engro Foods Limited	12,047,275	-
		<b>Personal goods</b>		
72,000	-	Tariq Glass Limited	2,260,800	-
		<b>Household goods (Textile)</b>		
525	1,565	Nishat Mills Limited *	58,768	147,439
-	2,200	<b>Pharma and bio tech</b>		
		GlaxoSmithKline Pakistan Limited	-	266,926
		<b>Electricity</b>		
183,000	15,000	The Hub Power Company Limited	10,749,420	924,750
125,000	-	Pak Gen Power Limited	2,255,000	-
		<b>Mult utilities (gas and water)</b>		
1,495	12,360	Sui Northern Gas Pipeline Limited *	33,862	247,942
-	9,000	Sui Southern Gas Company Limited	-	175,680
		<b>Equity Investment Instruments</b>		
25,000	20,000	First Habib Modaraba (Face value of certificate Rs.5/- each)	243,750	198,000
		<b>Software and Computer services</b>		
40,000	-	NetSol Technologies Limited	1,168,800	-
		<b>Suspended / Delisted Companies</b>		
348	348	Hussain Industries Limited *	8.3	2,575
-	1,670,720	Prudential Stock Fund	-	-
380,000	380,000	Zeal-Pak Cement Factory Limited	6.3	-
<u>959,858</u>	<u>2,086,193</u>		<u>79,768,636</u>	<u>45,618,276</u>

\* These shares are not in the name of the Modaraba : Nishat Mills Limited 25 (2013: 29) shares (Second Prudential Modaraba), Sui Northern Gas Pipeline Limited 254 (2013: 231) shares and Hussain Industries Limited 348 shares (2013: 348) (Third Prudential Modaraba).

## First Prudential Modaraba

6.3 This represents non-shariah compliant investments.

	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
<b>6.4 Unrealised (loss) / gain on Investments - held for trading at fair value through profit or loss</b>			
Weighted average cost of investments		83,043,827	43,712,647
Changes in fair value for the year		(3,255,191)	1,905,629
Market value of Investments	6.2	<u>79,788,636</u>	<u>45,618,276</u>

## 7. MUSHARIKA, MORABAHA AND OTHER FINANCE

<b>Musharika and morabaha finance</b>			
- considered good		-	15,785,486
- considered doubtful		356,905,568	348,676,832
Less: Provision against doubtful amounts		<u>(356,905,568)</u>	<u>(348,676,832)</u>
	7.1	-	15,785,486
<b>Other finance - unsecured</b>			
- considered good		-	8,791,205
- considered doubtful		11,002,281	2,211,076
		<u>11,002,281</u>	<u>11,002,281</u>
Less: Provision against doubtful amounts	7.2	<u>(11,002,281)</u>	<u>(2,211,076)</u>
		-	8,791,205
		-	<u>24,576,691</u>

### 7.1 Musharika and morabaha finance

	Note	Considered Good June 30, 2014	June 30, 2013	Considered Doubtful June 30, 2014	June 30, 2013	June 30, 2014	Total June 30, 2013
<b>Unsecured</b>							
<b>Musharika finance</b>							
Principal	-	-	105,172,201	105,172,201	105,172,201	105,172,201	105,172,201
Profit	-	-	45,238,105	45,238,105	45,238,105	45,238,105	45,238,105
Subtotal	-	-	150,410,306	150,410,306	150,410,306	150,410,306	150,410,306
<b>Secured</b>							
<b>Morabaha finance</b>							
Principal	7.1.1	-	13,541,691	85,406,423	79,880,294	85,406,423	87,202,185
Profit	-	-	2,243,596	121,088,839	122,608,032	121,088,839	124,849,627
Subtotal	-	-	15,785,486	206,495,262	199,266,326	206,495,262	212,051,812
<b>Less: Provision against doubtful receivables</b>							
	-	-	-	(356,905,568)	(348,676,832)	(356,905,568)	(348,676,832)
	-	-	15,785,486	-	-	-	15,785,486

7.1.1 The return on morabaha finance ranges from 14% to 21% (2013: 14% to 21%) per annum. These finances are secured against equitable mortgage of immovable properties and charge on vehicles, machineries, other assets and personal guarantee of sponsor directors.

### 7.1.2 Movement of provision for doubtful receivables

	Note	June 30, 2014			June 30, 2013		
		Principal	Profit	Total	Principal	Profit	Total
Opening balance		178,832,495	167,844,137	346,676,632	178,865,826	177,154,712	356,020,538
Provision / (reversal of provision) during the year	7.3	11,748,129	(1,519,193)	10,228,936	(33,331)	(2,504,967)	(2,538,298)
Written-off during the year		-	-	-	-	(8,805,608)	(8,805,608)
Closing balance		<u>190,580,624</u>	<u>166,324,944</u>	<u>356,905,568</u>	<u>178,832,495</u>	<u>167,844,137</u>	<u>346,676,632</u>

	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
<b>7.2 Movement of provision for doubtful receivables</b>			
Opening balance		2,211,076	2,211,076
For the year	7.3	8,781,205	-
Closing balance		<u>11,002,281</u>	<u>2,211,076</u>

7.2.1 The finance was provided to Invest Capital Investment Bank Limited (ICIBL) against certain Ijarah assets under a funded risk participation agreement. It carried return at the rate 17.16 % (2013: 17.16%) per annum.

7.3 Subsequent to the takeover, the new management agreed with the provisions forming the subject matter of auditors' disagreement with previous management and decided to provide against the doubtful receivables. Since the event of default existed on the reporting date, these adjustments have been incorporated in these financial statements.

**8. DIMINISHING MUSHARAKA**

Principal	86,823,244	63,449,762
Profit	<u>501,068</u>	<u>486,348</u>
	87,324,312	63,936,110
Less: long term portion	<u>(55,770,888)</u>	<u>(50,212,698)</u>
	<u>31,553,424</u>	<u>13,723,212</u>

8.1 These carry profit rate ranging from 12.8% to 14.68% (2013: 12.8% to 13.11%) per annum and are repayable on monthly basis over a maximum period of three years.

**9. IJARAH RENTALS RECEIVABLE**

Considered good	1,569,362	734,008
Considered doubtful	<u>23,994,027</u>	<u>23,115,511</u>
	25,563,389	23,849,519
Less: Provision for doubtful receivables	9.1 <u>(23,984,027)</u>	<u>(23,115,511)</u>
	<u>1,569,362</u>	<u>734,008</u>

**9.1 Movement in provision for doubtful receivables**

Opening balance	23,115,511	24,054,306
Charge for the year	9.1.1 <u>1,180,455</u>	<u>783,686</u>
Reversal during the year	<u>(301,838)</u>	<u>(1,722,490)</u>
Closing balance	<u>878,316</u>	<u>(938,794)</u>
	<u>23,994,027</u>	<u>23,115,511</u>

9.1.1 Subsequent events' review confirmed existence of event of default as on reporting date and therefore, this provision has been updated accordingly.

**9.2 Future minimum Ijarah rentals receivable**

Within one year	6,079,497	27,245,231
After one year but not more than five years	<u>4,548,373</u>	<u>12,783,606</u>
	<u>10,627,870</u>	<u>40,028,840</u>

# First Prudential Modaraba

## 10. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Notes	Considered Good		Considered Doubtful		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<b>Advance</b>						
Income tax	13,373,756	13,193,654	-	-	13,373,756	13,193,654
To staff	10.1 100,650	219,374	1,814,000	1,814,000	1,914,650	2,033,374
Prepayments	266,715	283,762	-	-	266,715	283,762
<b>Other receivables from</b>						
Brokers on account of sale of shares	10.2 -	-	55,619,558	55,619,558	55,619,558	55,619,558
A related party	10.3 -	18,432,273	18,432,273	-	18,432,273	18,432,273
A bank	10.4 -	-	10,241,347	10,241,347	10,241,347	10,241,347
<b>Return on deposits with banks</b>						
Others	1,313,486	1,066,976	-	-	1,313,486	1,066,976
Sub total	373,833	71,563	13,177,945	13,177,945	13,551,878	13,249,506
Provision for doubtful receivables	10.5 -	-	(109,285,123)	(90,852,850)	(109,285,123)	(90,852,850)
	15,427,549	33,267,602	-	-	15,427,549	33,267,602

10.1 The doubtful amount of Rs. 1.8 million was paid to an ex-managing director of the Modaraba without prior approval of the board of directors for the purchase of a motor vehicle. The Modaraba has initiated criminal proceedings for the recovery of said amount from the ex-managing director.

10.2 The doubtful amount includes claim of Rs. 64.62 million receivable from a defaulted stock broker - Investec Securities Limited. The said broker, through its various correspondences with the Modaraba has offered / transferred shares and certificates of following entities on various dates which are not acknowledged by the Modaraba. Owing to the weak financial position of the entities and significance of the amount of claim, the management of the Modaraba has not accepted the shares / certificates as satisfaction of claim and same is not recorded in the books of accounts. Detail of shares / certificates offered / transferred is as under.

Name of entities	No. of Shares / Certificates
Zeal-Pak Cement Factory Limited	10,400,000
Uzman Textile Mills Limited	700,000
First Investec Modaraba	500,000
Investec Securities Limited	200,000

10.3 This amount includes Rs. 17.69 million paid as advance for purchase of securities to Prudential Securities Limited (PSL). Remaining amount of Rs. 0.54 million is blocked in CDC-sub account of the said broker against various shares as under:

Names of companies	No. of Shares	Value as per investor's claim
Al-Ghazi Tractors Limited	500	112,085
Javed Omar Vohra & Company Limited	1,000	8,460
Pakistan Petroleum Limited	2,100	422,478

Operations of PSL has been ceased by Karachi Stock Exchange Limited (KSE) and the Modaraba has filed a claim with the KSE for the whole amount. Subsequent events' review confirmed existence of event of default as on reporting date and therefore, the provision has been made accordingly.

## First Prudential Modaraba

10.4 This represents an unauthorized amount debited to Modaraba's account by a scheduled commercial bank on behalf of a party considered to be a group company. The Modaraba filed a suit with a banking court for recovery under the Financial Institutions (Recovery of Finances) Ordinance, XLVI of 2001 which was decreed against the Modaraba only due to the reason that it was time-barred. Management filed an appeal in the Sindh High Court against the judgment of the Banking Court. The Sindh High Court has set aside the decree of the Banking Court with the directions that the Banking Court, in the first instance, shall decide the application for leave to defend moved by the Bank. The case is under process with the Banking Court.

	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
<b>10.5 Movement in provision for doubtful receivables</b>			
Opening balance		90,852,850	88,587,121
Provision for the year	10.3&22	18,432,273	2,787,628
Reversal during the year		-	(531,899)
		18,432,273	2,255,729
Closing balance		109,285,123	90,852,850

## 11. LONG TERM INVESTMENTS

Available for sale			
Listed entity	11.1	4,870,302	-
Unlisted companies	11.2	9,318,075	9,553,797
		14,188,377	9,553,797

### 11.1 Listed entities

June 30, 2014	June 30, 2013	Note	June 30, 2014	June 30, 2013
Number of Units of Rs. 100 each				

48,116	UBL Al-Ameen Islamic Preservation Fund III-A			
	Cost		5,000,000	-
	Less: Unrealized loss		(129,696)	-
			4,870,302	-

### 11.2 Unlisted companies

Number of Shares of Rs. 10 each

1,107,244	1,107,244	Prudential Securities Limited		
		Cost	4,173,707	4,173,707
		Less: Impairment	(4,173,707)	(4,173,707)
			-	-
191,700	191,700	Prudential Discount and Guarantee House Limited		
			-	-
843,975	843,975	Lahore Stock Exchange Limited		
		Cost	12,764,715	12,764,715
		Less: Fair value adjustment	(3,446,640)	(3,210,818)
			9,318,075	9,553,797
			9,318,075	9,553,797

## First Prudential Modaraba

11.2.1 Movement of impairment	Note	2014 Rupees	2013 Rupees
Opening balance		4,173,707	795,077
Impairment charge during the year		-	3,378,630
Closing balance		<u>4,173,707</u>	<u>4,173,707</u>

The breakup value of shares of Prudential Securities Limited was Rs. 3.77 per share based on last available audited financial statements for the year ended June 30, 2008.

11.2.2 Due to adverse financial condition of the investee Company, investments have been fully impaired.

11.2.3 This represents shares acquired against the surrender of Lahore Stock Exchange Limited membership card (refer note 13.1). Under the current circumstances the active market is not available for such shares, therefore the net asset based valuation has been considered as the closest estimate of the fair value of the shares. The Modaraba has recognized a fair value adjustment based on latest available financial information of the investee company for the quarter ended March 31, 2014, the breakup value of which is Rs. 11.04 per share.

## 12. LONG TERM DEPOSITS

Margin deposit	12.1	3,000,000	3,000,000
Other deposits		<u>66,192</u>	<u>66,192</u>
		3,066,192	3,066,192
Less: Provision against doubtful amounts	10.3&12.2	<u>(3,000,000)</u>	-
		<u>66,192</u>	<u>3,066,192</u>

12.1 This margin deposit was held with a defaulted broker, Prudential Securities Limited, whose operations has been ceased by Karachi Stock Exchange Limited (KSE) and the Modaraba has filed a claim with the KSE for the amount. (Refer note 10.3)

12.2 The provision has been identified during the review of subsequent events.

## 13. INTANGIBLE ASSETS

LSE - Trading right entitlement certificate (TREC)	13.1	5,344,352	5,344,352
Computer software	13.2	<u>541,716</u>	<u>1,205,538</u>
		5,886,068	6,549,890
Impairment of TREC	13.1.2	<u>(5,344,352)</u>	-
		<u>541,716</u>	<u>6,549,890</u>

## First Prudential Modaraba

13.1 LSE membership card and room was obtained by the Modaraba in the year 2010 against the settlement of certain outstanding balance receivable against a defaulted party.

Pursuant to demutualization of LSE, the ownership rights in a Stock Exchange were segregated from the right to trade on an exchange. As a result of such demutualization, the membership card had been surrendered to LSE against the following:

- (a) 843,975 ordinary shares of face value of Rs. 10 each of LSE; and
- (b) Trading Right Entitlement Certificate (TREC).

The Institute of Chartered Accountants of Pakistan in its opinion dated May 29, 2013, concluded that the demutualization, in substance, had not resulted in exchange of dissimilar assets, and therefore no gain or loss should be recognized and the segregation of ownership rights and the trading rights should be accounted for by allocating the cost/carrying value of the membership card between the two distinct assets on a reasonable basis.

Out of total shares issued to the modaraba by LSE, the Modaraba had received 40% equity shares i.e. 337,590 shares in its CDC account. The remaining 60% shares had been transferred to CDC sub-account in the Modaraba's name under LSE's participant IDs with the CDC which will remain blocked until these are divested/sold to strategic investor(s), general public and financial institutions and proceeds are paid to the Modaraba.

LSE had determined the fair value of shares on the basis of the fair valuation of the underlying assets and liabilities of LSE in accordance with the requirement of the Demutualization Act. The breakup value of share of Rs. 11.04 per share, based on latest available financial information for the quarter ended March 31, 2014, is considered as the closest estimates of the fair value of the shares. Further, the board of directors of LSE in the meeting held on July 22, 2013 had determined the Notional Value of the TREC as Rs. 4 millions.

Therefore, based on the above estimates of fair values of LSE shares (Rs. 9.654 million) and TREC (Rs. 4 million), the Modaraba had allocated its carrying value of the membership card in the ratio of 0.71 to shares and 0.29 to TREC after deducting the value of broker room based on its fair value determined through valuation carried out by independent valuer. The allocation is as follows:

	Note	Rupees
Membership card and a room as at July 01, 2012		22,326,567
Less: Broker's room at fair value		4,217,600
Amount attributable to LSE shares and TREC	13.1.1	<u>18,108,967</u>

### 13.1.1 Allocation made on the said ratio:

Trading right entitlement certificate (TREC)	5,344,352
Ordinary shares	<u>12,764,715</u>
	<u>18,108,967</u>

13.1.2 As per section 16 of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, every TREC holder was required to register itself as a broker within two years of the date of demutualization i.e. by August 28, 2014, failure to which would've resulted in the lapse of the TREC. The impelment has been recorded as the modaraba did not register itself as a broker before the expiry of the said date.



## 13.2 Computer softwares

Particular	COST		AMORTIZATION			Rate of Amortization %
	As at July 01, 2013	Additions during the year	As at June 30, 2014	Charge for the year	As at June 30, 2014	
Management information system (MIS)	1,500,000	-	1,500,000	499,950	958,284	33
Windows operating licensee	327,744	-	327,744	163,872	327,744	50
<b>Total</b>	<b>1,827,744</b>	<b>-</b>	<b>1,827,744</b>	<b>663,822</b>	<b>1,288,028</b>	

## For comparative period

Particular	COST		AMORTIZATION			Rate of Amortization %
	As at July 01, 2012	Additions during the year	As at June 30, 2013	Charge for the year	As at June 30, 2013	
Management information system (MIS)	-	1,500,000	1,500,000	458,334	458,334	33
Windows operating licensee	-	327,744	327,744	163,872	163,872	50
<b>Total</b>	<b>-</b>	<b>1,827,744</b>	<b>1,827,744</b>	<b>622,206</b>	<b>622,206</b>	



## 14.2 Disposal of property and equipment - Own Use

Following assets were disposed off during the year

Particulars	Cost	Accumulated depreciation	Written down value	Sale proceeds	Mode of disposal	Particulars of buyers
Rupees						
Motor vehicles						
Honda Civic	1,989,000	285,350	1,673,650	1,740,000	Negotiations	Syed Sharaz Ahmed House # 153-A, Street 25th, Khayaban-e-Roohi, Phase-6, Karachi.
Other items having written down value of less than Rs. 50,000 each	1,078,885	1,078,094	791	417,500	Negotiations	
June 30, 2014	3,047,885	1,373,444	1,674,441	2,157,500		
June 30, 2013	2,071,377	1,997,726	74,251	162,000		

## 15 PROPERTY, PLANT AND EQUIPMENT - UARAH

	Cost	Depreciation		Impairment		Useful Life			
		at July 1, 2013 (Additional Disposals)	at June 30, 2014	Accumulated at July 1, 2013	For the year ended June 30, 2014 Accumulated at June 30, 2014		Carrying value at June 30, 2014		
Plant and machinery	5,355,000 (4,586,000)	770,000	4,269,899	30,501 (13,888,000)	572,500	197,500	-	24 to 80 months	
Office equipment	801,000	801,000	512,150	-	512,150	288,850	-	24 to 60 months	
Vehicles	183,056,100 (26,415,373)	153,256,727	98,657,615	24,982,562 (21,200,133)	100,340,064	11,363,441	3,348,043	38,204,179	24 to 60 months
	189,212,100 (40,000,373)	154,656,727	101,219,764	25,013,063 (24,068,133)	101,424,714	11,849,791	3,348,043	38,204,179	

## - For comparative period

	Cost		Depreciation		Impairment		Useful Life
	at July 1, 2012 (Additional/ Disposals)	at June 30, 2013	Accumulated at July 1, 2012	For the year / on disposals at June 30, 2013	Accumulated at July 1, 2013	For the year / on disposals at June 30, 2013	

Subsequent events highlighted existence of indications of impairment as at reporting date and accordingly provision for impairment has been made.

16. INVESTMENT PROPERTIES  
CARRIED AT FAIR VALUE

Note	at July 01, 2013	Additions at cost	Unrealised loss	Fair values at June 30, 2014	Independent valuer's name	Valuation date
Office suite	16.1	10,815,000	-	(2,415,000)	Rupees Iqbal A. Nanjee & Co. (Private) Limited	April 10, 2016
Lahore Stock Exchange broker's room	16.2	4,217,500	-	(1,217,500)	Rupees Iqbal A. Nanjee & Co. (Private) Limited	April 10, 2015
Four shops	16.3	26,182,000	-	(10,482,000)	Rupees Iqbal A. Nanjee & Co. (Private) Limited	April 10, 2015
		41,194,500	-	(14,114,500)		
- For comparative period						
Note	at July 01, 2012	Additions at cost	Unrealised gain	Fair values at June 30, 2013	Independent valuer's name	Valuation date
Office premise	16.1	10,500,000	-	315,000	Rupees 10,815,000 Rizvi Associates (Private) Limited	June 29, 2013
Lahore Stock Exchange broker's room	16.2	-	4,217,500	-	Rupees 4,217,500 Rizvi Associates (Private) Limited	June 29, 2013
Four shops	16.3	-	26,182,000	-	Rupees 26,182,000 Consultancy Support & Services	October 12, 2012
		10,500,000	30,379,500	315,000		41,194,500

16.1 In pursuance of execution of the decree the office suite in Fayyaz Center, Sharahi e Falast, Karachi, mortgaged with the Modaraba as security against a morabaha facility, were assigned by the Sindh High Court in 1988. This property is in name of the Second Prudential Modaraba.

16.2 Due to demutualization of the Lahore Stock Exchange Limited (refer note 13.1) the Modaraba has classified the broker's room as an investment property.

16.3 This represents four shops in Zarkoon Plaza, Sadar, Rawalpindi acquired through a settlement agreement. It includes cost of Rs. 56,000 incurred in transferring the ownership of the said offices in the name of the Modaraba.

16.4 These valuations have been arrived at by reference to market evidence of transaction prices for similar properties.

16.5 Subsequent events highlighted existence of indications of impairment as at reporting date and provision for impairment was calculated on the basis of valuation carried out by M/s Iqbal A. Nanjee & Co. (Private) Limited.

## First Prudential Modaraba

	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
<b>17. IJARAH DEPOSITS</b>			
Ijarah deposits		30,850,512	40,797,980
Long term portion		<u>(4,019,350)</u>	<u>(24,119,480)</u>
		<u>26,831,162</u>	<u>16,678,500</u>

## 18. ACCRUED AND OTHER LIABILITIES

Accrued expenses		1,278,250	1,207,366
Insurance on Ijarah assets		374,340	596,692
Workers welfare fund	18.1	2,585,873	2,585,673
Charity Payable	18.2	220,790	645,131
Others		<u>962,045</u>	<u>668,532</u>
		<u>5,441,098</u>	<u>5,701,394</u>

18.1 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 whichever ever is higher.

During the year 2011, the Honourable 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, being prudent, has made the provision for WWF amounting to Rs. 2.58 million in these financial statements..

18.2 This includes amounts relating to charity accrued on various non-Shariah compliant avenues. The management utilises the balances as per the requirements of Clause VI of circular no 8 of 2012 (Shariah Compliance and Shariah Audit Mechanism) for Modarabas.

### Movement in charity payable

Opening balance	645,131	1,128,824
Add : amount credited during the year	<u>1,226,659</u>	<u>815,307</u>
	1,870,790	1,945,131
Less : Paid during the year	<u>(1,650,000)</u>	<u>(1,100,000)</u>
Closing balance	<u>220,790</u>	<u>845,131</u>

## First Prudential Modaraba

### 19. CERTIFICATE CAPITAL

June 2014	June 2013		June 2014 Rupees	June 2013 Rupees
Number of Certificates	Number of Certificates	Authorised		
87,217,660	87,217,660	Modaraba certificates of Rs.10/- each	872,176,600	872,176,600
13,451,650	13,451,650	Issued, subscribed and paid-up Modaraba certificates of Rs.10/- each fully paid in cash	134,516,500	134,516,500
8,864,716	8,864,716	Modaraba certificates of Rs.10/- each fully paid bonus certificates	88,647,160	88,647,160
64,901,294	64,901,294	Modaraba certificates of Rs.10/- issued under scheme of arrangement for amalgamation with Second and Third Prudential Modaraba	649,012,940	649,012,940
<u>87,217,660</u>	<u>87,217,660</u>		<u>872,176,600</u>	<u>872,176,600</u>

As at June 30, 2014, the Prudential Capital Management Company Limited held 10,521,305 (2013: 10,521,305) certificates of Rs. 10 each.

### 20. CONTINGENCIES AND COMMITMENTS

#### Contingencies

The taxation officer while making assessment in respect of tax years 2006, 2007 and 2008 disallowed certain expenses on account of apportionment between normal and presumptive income and created an additional demand of Rs. 8.63 million.

The Modaraba had filed appeals with CIT(Appeals) against the said orders pending final decision.

No provision has been made in the financial statements in this regard as the management is confident that ultimate outcome of the appeals in question will be in favour of the Modaraba.

	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
<b>21. OTHER (LOSS) / INCOME</b>			
Gain on disposal of property and equipment -own use		463,059	87,427
(Loss) / gain on disposal of property, plant and equipment- Ujarah		(1,420,558)	335,386
Front end fee, documentation charges and others		190,450	85,686
Gain on settlement of term deposit receipts	8.1 & 22.1	-	1,854,500
Unwinding of interest - term deposit receipt		667,208	416,128
		<u>(179,840)</u>	<u>2,779,125</u>

21.1 This represent excess of fair values of acquired properties over carrying values of term deposit receipts.

# First Prudential Modaraba

	Note	June 30, 2014 Rupees	June 30, 2013 Rupees
<b>22. IMPAIRMENT LOSSES AND PROVISION / (REVERSAL) AGAINST DOUBTFUL RECEIVABLES-NET</b>			
<b>Impairment losses:</b>			
Available for sale - in unlisted companies	11.2.1	-	3,378,630
Profit on term deposit receipts - written off		-	1,075,479
		-	4,454,109
<b>Provision / (reversal of provision) against doubtful receivables</b>			
Investments - loan and receivables (term deposit receipt)	6.1	4,780,567	(3,000,000)
Musharika and morabaha finance	7.1.2	10,228,836	(2,538,288)
Other finance	7.2	8,791,205	-
Ijarah finance	8.1	578,516	(836,794)
Advances, prepayments and other receivables	10.5	18,432,273	2,285,728
Long term deposits	12	3,000,000	-
Others		(154,506)	40,655
		48,956,891	(4,176,708)
		48,956,891	263,401

## 23. ADMINISTRATIVE EXPENSES

Salaries, allowances and benefits	23.1	5,828,688	6,621,008
Transaction cost on investments		489,234	75,137
Fees and subscription		859,577	969,596
Repairs and maintenance		998,979	702,288
Rent, rates and taxes		22,992	468,191
Registrar services		900,000	900,000
Telephone and postage		898,949	877,733
Travelling and conveyance		441,625	688,105
Depreciation-own use assets	14	2,927,228	1,475,718
Amortization - intangibles	13.2	663,775	622,208
Auditors' remuneration	23.2	775,990	775,000
Electricity, water and gas		815,738	561,304
Printing and stationery		830,295	706,074
Vehicles running		583,658	564,517
Legal and professional		749,883	1,164,056
Entertainment		187,265	221,273
Advertisement		50,200	171,163
Newspapers and periodicals		24,718	15,000
Insurance		168,224	175,077
Miscellaneous		62,744	55,404
		18,038,788	17,918,842

### 23.1 REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

	2014			2013		
	Officers	Other employees	Total	Officers	Other employees	Total
	Rupees			Rupees		
Remuneration	1,327,548	3,904,565	5,232,114	2,518,000	3,406,095	5,924,095
Provident fund	28,000	182,727	210,727	106,058	117,918	223,976
Medical	31,500	171,928	203,428	83,772	125,263	209,035
Fuel	137,658	-	137,658	182,917	-	182,917
Others	490	44,260	44,750	12,000	68,964	80,964
	1,525,298	4,303,480	5,828,688	2,902,747	3,718,261	6,621,008
No. of persons	2	18		3	15	



## First Prudential Modaraba

### 23.2 AUDITORS' REMUNERATION

	June 30, 2014 Rupees	June 30, 2013 Rupees
Statutory audit	450,000	450,000
Half year review	220,000	220,000
Review of code of corporate governance	50,000	50,000
CDC certification	10,000	10,000
Out of pocket expenses	45,000	45,000
	<u>775,000</u>	<u>775,000</u>

### 24. MODARABA COMPANY'S MANAGEMENT FEE

The Modaraba Management Company is entitled to remuneration for services rendered to the Modaraba under the provisions of the Modaraba Ordinance, 1980, up to a maximum of 10% per annum of the net profit before tax of the Modaraba. However, keeping in view the performance of the Modaraba the Board of Directors has decided to waive the management fee for the year ended June 30, 2014.

### 25. PROVISION FOR TAXATION

Current		
for prior year		165,860

The income of the Modaraba is exempt from tax, provided not less than 90% of their profits are distributed to the certificate holders. Due to losses incurred in the current year, the profit has not been distributed. The Modaraba is also exempt from the provisions of section 113 (minimum tax) under clause 11 of Part IV of the Second Schedule of the Income Tax Ordinance, 2001.

### 26. EARNINGS PER CERTIFICATE - BASIC AND DILUTED

(Loss) / profit for the year (Rupees)	(72,262,528)	25,790,738
Weighted average number of ordinary certificates	87,217,860	87,217,860
Earnings per certificate (Rupee)	(0.83)	0.30

### 27. RELATED PARTY TRANSACTIONS

The related parties comprise of associated undertakings and directors of the Modaraba Management Company. The Modaraba, in the normal course of business carries out transactions with these related parties. Significant transactions with related parties are as follows:

Relationship with the Modaraba	Nature of Transactions	June 30, 2014 Rupees	June 30, 2013 Rupees
Chief Executive Officer of PCML	Perquisites	110,869	242,405
Provident fund	Contributions made	210,727	223,978
Prudential Capital Management Limited	Dividend paid	2,419,877	3,156,362
Employee	Sale of motor vehicle	350,000	

## First Prudential Modaraba

### 26. FINANCIAL RISK MANAGEMENT

The Modaraba's activities expose it to a variety of financial risks entered: liquidity risk entered, credit risk entered and market risk entered (including currency risk, fair value profit rate risk and price 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 minimise potential adverse effects on the Modaraba's financial performance.

The Modaraba's principal financial liabilities comprise Ijarah deposits and accrued and other liabilities. The Modaraba's principal financial assets comprise of Ijarah rentals receivable, musharika, morabaha and other finance and cash and bank balances that arrive directly from its operations. The Modaraba also holds investments classified as held for trading and available-for-sale investments.

#### 26.1 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. 326.66 million against its current liabilities of Rs. 57.65 million which lead to total surplus of Rs. 269.11 million.

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

	Total	Up to three months	More than three months and up to one year	More than one year
	Rupees			
<b>2614</b>				
Ijarah deposits	30,850,512	10,803,150	16,228,012	4,019,350
Accrued and other liabilities	2,855,425	2,855,425	-	-
Unclaimed profit distribution	25,282,315	25,282,315	-	-
	58,988,252	38,740,890	16,228,012	4,019,350
<b>2613</b>				
Ijarah deposits	40,797,980	3,007,640	13,670,660	24,119,480
Accrued and other liabilities	3,115,721	5,701,394	-	-
Unclaimed profit distribution	22,709,604	22,709,604	-	-
	26,625,325	26,410,998	-	-

The Modaraba do not expose to any interest rate risk against its financial liabilities.

#### 26.2 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 control 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 (morabaha and musharika finance, diminishing musharika, Ijarah rental receivables), deposits with bank and financial institutions and other receivables.

## First Prudential Modaraba

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. The Modaraba's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee.

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 minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The Modaraba's maximum exposure to credit risk related to receivable at June 30, 2014 and June 30, 2013 is the carrying amounts of following financial assets.

	June 30, 2014 Rupees	June 30, 2013 Rupees
Balances with banks	190,138,220	224,486,154
Musharika, morabaha and other finance	-	24,575,891
Diminishing musharika	87,324,312	63,936,110
Ijarah rentals receivable	1,569,382	734,008
Receivable against sale of shares - net	8,888,393	-
Advances and other receivables	1,788,078	18,790,186
	<u>287,486,365</u>	<u>333,522,149</u>

The analysis below summarises the quality rating of the major Banks in which the Modaraba deals.

Banks	Short Term	Long Term	June 30, 2014 Rupees	June 30, 2013 Rupees
BankIslami Pakistan Limited	A1	A	-	137,444
Burj Bank Limited	A-1	A	2,701,890	77,481,488
Faysal Bank Limited	A1+	AA	-	2,250,165
HBL Islamic Banking Limited	A-1+	AA	185,932,785	137,357,663
Allied Bank Limited	A1+	AA+	-	2,358,644
Summit Bank Limited	A-2	A-	-	3,397,215
Albaraka Bank (Pakistan) Limited	A1	A	1,488,538	1,488,538

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:

## First Prudential Modaraba

As at June 30, 2014				
QAEM	Substandard	Doubtful	Loss	Total
Rupees				
Ijarah rental receivable	-	-	23,994,027	23,994,027
Musharika, morabaha and other finance	-	-	356,905,566	356,905,566

As at June 30, 2013				
QAEM	Substandard	Doubtful	Loss	Total
Rupees				
Ijarah rental receivable	-	640,501	22,275,010	23,115,511
Musharika, morabaha and other finance	-	-	346,676,632	346,676,632

Total Impairment against these assets as at June 30, 2014 is Rs. 380.90 million (2013: Rs. 368.95 million).

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.

Detail of the Industrial sector analysis of Ijarah (Cost), morabaha, musharika and diminishing musharika portfolio (original principal) are as under.

Sector	2014		2013	
	Rupees	%age	Rupees	%age
Textile weaving	116,104,651	18.385%	116,104,651	18.859%
Textile Composite	68,961,751	9.098%	68,961,751	9.393%
Tobacco	65,894,871	10.525%	65,894,871	10.796%
Fuel and energy	3,259,000	0.521%	11,393,000	1.867%
Auto and allied engg.	8,690,695	1.385%	8,690,695	1.424%
Cables and electrical goods	3,073,600	0.481%	4,197,000	0.886%
Transport and communication	181,815,603	29.009%	155,422,650	25.465%
Construction	8,139,905	1.300%	8,139,905	1.334%
Leather and tanneries	415,364	0.066%	415,364	0.068%
Food and allied industries	38,347,399	6.125%	38,347,399	6.283%
Miscellaneous	144,560,231	23.090%	145,780,731	23.885%
	626,062,680	100.00%	610,348,027	100.00%

### 28.3 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. All such activities are carried out with the approval of the Board. The Modaraba is exposed to interest rate and currency risks.

#### 28.3.1 Equity price risk

The Modaraba's investment in listed 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 Modaraba's Investment Committee reviews and approves all equity investment decisions.

The carrying amount of investment is as follows:

	June 30, 2014 Rupees	June 30, 2013 Rupees
In listed securities carried at fair value through profit or loss	78,788,638	45,616,276
In unlisted security available for sale	9,318,075	9,553,797
In mutual funds available for sale	4,670,302	-
	<u>93,977,013</u>	<u>55,172,073</u>

#### Sensitivity analysis

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

Index	Impact on profit after tax and equity	
	2014 Rupees	2013 Rupees
Increase in market value - 5%	3,989,432	2,280,914
Decrease in market value - 5%	(3,989,432)	(2,280,914)

## 28.3.2 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,jarah finance, diminishing musharaka and musharaka and modaraba finance. At the balance sheet date the profit rate risk profile of the Modaraba's profit bearing financial instruments is:

June 30, 2014

	Effective yield / profit rate %	Total	Up to one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five years	Not exposed to yield / profit risk
Cash and bank balances	3.6 % - 8.5 %	190,139,220	2,706,813	-	-	-	-	187,432,406
Investments		80,824,460	-	-	-	-	-	80,824,460
Musharaka, modaraba and other finance	14% - 21%	-	20,540,230	-	-	-	-	-
Diminishing musharaka	12.5% - 14.68%	87,324,312	1,815,966	2,629,778	11,833,992	71,044,588	-	1,588,362
Jarah rentals receivable		1,588,382	-	-	-	-	-	8,686,393
Receivable against sale of shares - net		6,696,393	-	-	-	-	-	1,788,078
Advances and other receivables		1,788,078	-	-	-	-	-	278,285,098
Total financial assets as at June 30, 2014		368,310,825	25,062,999	2,629,778	11,833,992	71,044,588	-	
Jarah deposit		30,850,512	-	-	-	-	-	30,850,512
Accrued and other liabilities		2,855,425	-	-	-	-	-	2,855,425
Undivided profit distribution		25,282,315	-	-	-	-	-	25,282,315
Total financial liabilities as at June 30, 2014		58,988,252	-	-	-	-	-	58,988,252
Total yield / profit risk sensitivity gap			25,062,999	2,629,778	11,833,992	71,044,588	-	
Cumulative yield / profit risk sensitivity gap			25,062,999	27,692,775	38,526,767	110,571,355	110,571,355	

June 30, 2013

	Effective yield / profit ratio %	Total	Up to one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five years	Not exposed to yield / profit risk
Cash and bank balances	4.75 % - 12.5 %	224,519,535	224,471,197	-	-	-	-	58,615
Investments		46,994,510	-	-	-	-	-	-
Musharika, modaraba and other finance	14% - 21%	24,576,881	23,835,159	741,532	-	-	-	-
Diminishing musharika	12.8-13.10 %	63,936,110	1,511,466	4,534,399	18,137,595	39,265,301	-	-
Ijarah rentals receivable		734,008	-	-	-	-	-	-
Advances, prepayments and other receivables		19,790,189	-	-	-	-	-	-
Total Financial Assets as at June 30, 2013		380,551,040	248,817,822	5,275,931	18,137,595	39,265,301	-	19,790,185
Ijarah deposit		40,797,980	-	-	-	-	-	19,846,802
Accrued and other liabilities		3,115,721	-	-	-	-	-	40,797,980
Unclaimed profit distribution		22,709,804	-	-	-	-	-	3,115,721
Total Financial Liabilities as at June 30, 2013		66,623,505	-	-	-	-	-	22,709,804
Total yield / profit risk sensitivity gap			249,617,822	5,275,931	18,137,595	39,265,301	-	25,825,325
Cumulative yield / profit risk sensitivity gap			249,617,822	255,093,753	273,231,349	312,497,650	312,497,650	

### 28.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of the financial assets and financial liabilities approximate their fair values. The fair values of these financial assets/liabilities cannot be reasonably estimated due to absence of market for such assets/liabilities.

#### 28.4.1 Fair value hierarchy

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).



## First Prudential Modaraba

	Level 1	Level 2	Level 3	Total
	-----Rupees-----			
<b>Financial assets at FVTPL</b>				
Quoted companies	79,788,636	-	-	79,788,636
<b>Available-for-sale financial assets</b>				
Listed entities	4,870,302	-	-	4,870,302
Unlisted entities	-	-	9,318,075	9,318,075

### 28.5 Financial Instrument by category

	As at June 30, 2014			Total
	Loan and receivables	Assets at fair value through profit & loss	Available for sale	
	-----Rupees-----			
<b>ASSETS</b>				
Cash and bank balances	190,144,819	-	-	190,144,819
Investments	1,036,824	79,788,636	14,188,377	96,012,837
Musharika, morabaha and other finance	-	-	-	-
Diminishing musharika	87,324,312	-	-	87,324,312
Ijarah rentals receivable	1,568,362	-	-	1,568,362
Receivable against sale of shares - net	6,668,393	-	-	6,668,393
Advances and other receivables	1,788,078	-	-	1,788,078
	288,528,588	79,788,636	14,188,377	382,505,601
<b>LIABILITIES</b>				
Ijarah deposits	30,850,512	-	-	30,850,512
Accrued and other liabilities	2,855,425	-	-	2,855,425
Unclaimed profit distribution	25,282,315	-	-	25,282,315
	58,988,252	-	-	58,988,252

	As at June 30, 2013			Total
	Loan and receivables	Assets at fair value through profit & loss	Available for sale	
	-----Rupees-----			
<b>ASSETS</b>				
Cash and bank balances	224,519,535	-	-	224,519,535
Investments	7,192,482	45,618,276	9,553,797	62,364,595
Musharika, morabaha and other finance	24,576,891	-	-	24,576,891
Diminishing musharika	63,938,110	-	-	63,938,110
Ijarah rentals receivable	734,008	-	-	734,008
Advances, prepayments and other receivables	19,790,186	-	-	19,790,186
Long term deposits	3,088,192	-	-	3,088,192
	343,815,214	45,618,276	9,553,797	398,987,287
<b>LIABILITIES</b>				
Ijarah deposits	40,797,980	-	-	40,797,980
Accrued and other liabilities	3,115,721	-	-	3,115,721
Unclaimed profit distribution	22,709,604	-	-	22,709,604
	66,623,305	-	-	66,623,305

## **First Prudential Modaraba**

### **29. CAPITAL RISK MANAGEMENT**

The Modaraba manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. As at balance sheet date Modaraba do not have any exposure in short term and long term borrowing and it has sufficient surplus funds to manage the affairs of the Modaraba effectively. Further Modaraba has very positive current ratio of 5.68 (2013: 7.63:1).

Consistently with others in the industry, the Modaraba monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. During the current year, the Modaraba's strategy, unchanged from last year, was to maintain the debt-to-adjusted capital ratio to zero.

### **30. 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-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Chief Executive Officer is responsible for the Modaraba's entire product and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

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

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

### **31. SUBSEQUENT EVENT**

Since the management of Modaraba was replaced by a Court Order as fully explained in note 1.1 before the financial statements were authorised for issue, these financial statements have been adjusted appropriately for subsequent events as disclosed in note 6, 7, 9, 10, 12, 14, 15, 16, 20 and 22 to these financial statements.

### **32. DATE OF AUTHORISATION OF ISSUE**

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

### **33. GENEAL**

Figures have been rounded off to the nearest Rupee.

For KASB Invest (Private) Limited  
(Management Company)

  
CHIEF EXECUTIVE

  
DIRECTOR

  
DIRECTOR

# First Prudential Modaraba

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

	NO OF CERTIFICATE HOLDER	NO OF CERTIFICATES	PERCENTAGE
ASSOCIATED COMPANIES UNDERTAKING AND RELATED PARTIES	-----	-----	-----
NT AND ICP	2	49,058	0.06
NATIONAL BANK OF PAKISTAN TRUSTEE WING		6,155	
INVESTMENT CORPORATION OF PAKISTAN		42,903	
DIRECTORS, C.E.O THEIR SPOUSE AND MINOR CHILDREN	-----	-----	-----
SPOUSE	-----	-----	-----
EXECUTIVES.	-----	-----	-----
PUBLIC SECTOR COMPANIES AND CORPORATIONS.	1	1,929,159	2.21
STATE LIFE INSURANCE CORPORATION OF PAKISTAN LTD.		1,929,159	
BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS	20	2,357,068	2.70
HABIB BANK LIMITED		828	
THE BANK OF PUNJAB		2,974	
HABIB BANK LTD. LSE BRANCH		848	
NATIONAL DEVELOPMENT FINANCE CORPORATION		10,625	
CRESCENT INVESTMENT BANK LTD.		100	
FIDELITY INVESTMENT BANK LTD.		9,428	
PARAMOUNT INVESTMENT BANK LTD.		1,638	
GULF INSURANCE COMPANY LTD.		13,653	
DELTA INSURANCE COMPANY LTD.		164	
NATIONAL INSURANCE COMPANY LTD.		2,275,232	
FIRST INTER FUND MODARABA		1,122	
UNI CAP MODARABA		136	
INDUSTRIAL CAPITAL MODARABA		100	
FIRST MEHRAN MODARABA		7,935	
GENERAL MODARABA		3,306	
MODARABA AL MALI		47	
FIRST PROVIDENCE MODARABA		449	
FIRST HALVERI MODARABA		3,000	
FIRST EQUITY MODARABA		16,484	
PRUDENTIAL DISCOUNT & GUARANTEE HOUSE LIMITED		9,000	

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

	NO OF CERTIFICATE HOLDER	NO OF CERTIFICATES	PERCENTAGE
SHAREHOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANIES.	3	34,950,763	40.07
PRUDENTIAL CAPITAL MANAGEMENT LTD.	10,521,205		
RASHIDULLAH YACOOB	12,629,322		
PASHTOON RASHIDULLAH	11,800,236		
INDIVIDUAL	10,761	42,197,453	48.38
OTHER CORPORATE SHAREHOLDERS	50	5,734,158	6.58
	<u>10,867</u>	<u>87,217,660</u>	<u>100.00</u>

## PATTERN OF SHARE HOLDING AS AT 30-06-2014

<u>NUMBER OF SHARE HOLDERS</u>	<u>SHARE HOLDINGS</u>			<u>TOTAL SHARES HELD</u>
3,375	1	-	100	169,734
2,644	101	-	500	636,934
2,226	501	-	1000	1,711,063
1,898	1001	-	5000	4,011,055
325	5001	-	10000	2,631,256
106	10001	-	15000	1,256,059
79	15001	-	20000	1,395,478
40	20001	-	25000	1,133,845
12	25001	-	30000	337,013
19	30001	-	35000	610,680
18	35001	-	40000	672,452
14	40001	-	45000	594,221
13	45001	-	50000	628,616
9	50001	-	55000	472,540
7	55001	-	60000	405,353
5	60001	-	65000	313,246
2	65001	-	70000	133,262
4	70001	-	75000	296,110
5	75001	-	80000	393,881
4	85001	-	90000	353,724
1	90001	-	95000	94,140
7	95001	-	100000	897,000
3	100001	-	105000	309,502
1	105001	-	110000	110,000
1	110001	-	115000	110,689
3	120001	-	125000	366,071
3	135001	-	140000	419,099
1	140001	-	145000	142,749
3	145001	-	150000	446,000
2	160001	-	155000	305,124
1	155001	-	160000	160,000
4	175001	-	160000	703,091
1	180001	-	185000	180,200
1	195001	-	200000	199,500
2	200001	-	205000	409,000
1	210001	-	215000	211,166
1	220001	-	225000	223,073
1	225001	-	230000	227,523
1	235001	-	240000	238,009
1	245001	-	250000	246,000
1	255001	-	260000	257,279
1	300001	-	305000	303,461
1	315001	-	320000	317,290



**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 Prudential Modaraba to be held on Thursday, May 28, 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 Prudential 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 22, 2015 to May 28, 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 21, 2015 will be treated in time.
2. The certificate holders are advised to notify the Registrar of First Prudential 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 Prudential 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.

*If undelivered please return to :*

**First Prudential Modaraba**

Office No. A-601, 602, 6th Floor, Labson Square Building No.3,  
Siarwar Shauheed Road, Karachi 74200

Tel: 021-35643086-87 Fax No. 021-5643263