

Creating **Structure**  
and **Precision**  
in Financial **Planning**  
for Economic **Prosperity**



ANNUAL  
**REPORT**  
2019



ANNUAL  
**REPORT**  
2019

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



**VISION**

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



**MISSION**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

### AUDIT COMMITTEE

Mr. Shahid Ghaffar	Chairman
Mr. Khalid Aziz Mirza	Member
Mr. Abdul Jaleel Shaikh	Member
Mr. Ahmed Ateeq	Member

### HUMAN RESOURCE AND REMUNERATION COMMITTEE

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

### COMPANY SECRETARY

Ms. Iqra Sajjad

### CHIEF FINANCIAL OFFICER

Syed Askary Haider Rizvi

**BANKERS**

Habib Bank Limited  
Soneri Bank Limited  
National Bank of Pakistan

**AUDITORS**

KPMG Taseer Hadi & Co.  
Chartered Accountants

**REGISTERED OFFICE**

6th Floor, Horizon Vista, Plot No. Commercial 10, Block No. 4,  
Scheme No. 5, Clifton, Karachi, Pakistan.

Tel: (+92-21) 38771685 Fax: (+92-21) 35374275 Web: [www.awwal.com.pk](http://www.awwal.com.pk)

**LEGAL ADVISOR**

LMA Ebrahim Hosain

**SHARI'AH ADVISOR**

Mufti Muhammad Hassaan Kaleem

**SHARE REGISTRAR**

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

## CODE OF CONDUCT

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### 1 INTEGRITY

- Employees shall perform their work honestly with diligence and responsibility;
- Employees shall not knowingly be a party to any illegal activity or engage in any acts that are discreditable to the Company/Modaraba;
- Employees shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the Interests of the Company/Modaraba;
- Employees shall not accept any gift or consideration that may impair or be presumed to impair their professional judgment;
- Employees shall exercise maximum caution in making sure that information given to customers is free of errors, making it as truthful and honest as can be.

### 2 OBJECTIVITY

- Employees shall ensure that all operational activities and decision making processes focus on achievements of the Company's/Modaraba's objectives and are in line with the mission statement of the Company/Modaraba;
- Employees shall disclose all material facts known to them if not disclosed, may distort the reporting of business proposal under review.

### 3 CONFIDENTIAL AND PROPRIETARY INFORMATION

- Employees shall protect against the disclosure of sensitive and confidential information about customers and employees unless disclosure is authorized and within law;
- Employees shall safeguard against the disclosure of sensitive and confidential information about their fellow employee and the Company/Modaraba as a whole unless authorized to do so;
- Employees shall not disclose to a customer or any other quarter that a suspicious transaction is being or has been reported to any authority, unless disclosure is required by law.

### 4 IMPROPER INFLUENCE

- Employees are strictly prohibited from giving, soliciting or accepting business courtesies or gifts intended to influence business decision;
- Employees shall make all business decisions on the merit of the transaction and in compliance with any legal and regulatory requirements.

## 5 UNFAIR BUSINESS PRACTICES

- Employees shall refrain from unfair and deceptive business practices e.g. unauthorized and counterproductive use of the Company's/Modaraba's resources, the misuse of proprietary information or the misrepresentation and concealment of material facts.

## 6 INSIDER TRADING

- Employees are prohibited from disclosing "Inside Information" to others or use for their own benefits;
- Employees shall abide by the "insider trading" laws that prohibit from buying and selling Stock with advance knowledge of important Company/Modaraba information that is unavailable to the general public. Such information may include proposed mergers or acquisitions, new equity or debt offering.

## 7 RECORDING AND REPORTING OF THE COMPANY

- Employees shall ensure that all business related information / transaction are recorded and reported accurately, honestly and in a timely manner. Accuracy of all Company/Modaraba records extends to financial statements, financing documents regulatory bodies and other government agencies;
- Employees shall ensure that no funds or accounts should be established for a purpose that is not fully reflected in the books and records of Company/Modaraba whether pertaining to receipts or disbursements.

## 8 COMPLIANCE WITH LAWS, RULES AND REGULATIONS

- Employees shall comply with all applicable laws, rules and regulations.

## 9 PROTECTION AND PROPER USE OF COMPANY'S/MODARABA'S ASSETS

- Employees shall ensure that all the Company's/Modaraba's assets are used for authorized and legitimate business purposes;
- Employees shall protect the Company's/Modaraba's assets e.g. computer equipment and software (Intellectual property etc.) and ensure that those assets are efficiently and properly used in respect of all Company/Modaraba related activities.

## POLICY FOR CHARITY

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Awwal Modaraba generates its income by doing transactions in a sharia compliant modes after its screening by the Sharia Advisor. However, Awwal Modaraba may receive income which will not be compliant to Sharia and will be transferred to charity account.

The Modaraba will maintain separate account for charity amounts and all amounts of charity shall be transferred to the charity bank account as soon as the charity is ascertained and approved by the Sharia Advisor.

Charity shall be paid to any charitable organization on the recommendation of the Board of Directors and after the approval of Sharia Advisor.

The charitable organization to which charity is paid shall not be in any way related to the Sharia Advisor, Awwal Modaraba, its Management Company or their employees and directors.

The amount in charity accounts shall be disbursed in a maximum period of one year.

Charity cannot be paid to individuals.

Charity amount cannot be used for marketing or CSR activities neither the charity disbursement should be highlighted in any way. The Guidelines issued by Registrar Modaraba for charity from time to time will be followed in this regard.

## CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY

### Aims to be a responsible corporate citizen of the country

CSR covers the entire process by which an organization approaches, defines and develops its relationships with stakeholders for sustainable community and social development of the country. Awwal Modaraba began its operations in February 2016. Since its inception the management has been striving to serve for creating shared value and contributing to social and environmental good.

Internal capacity building and trainings should be conducted for the employees to develop their understanding along with necessary Sharia Knowledge. The management is looking forward to engage with all of its stakeholders to work towards prosperous economy and nation at large.

### Focus Areas

- Environmental development
- Education at grass root level
- Healthcare for the needy
- Disaster relief
- Creating awareness for civic responsibilities

### GUIDING PRINCIPLES

Our focus of activities and initiatives will be in line with the Modaraba's vision, mission and business activities.

Will participate in grass root level programs to create awareness about clean environment and its impact on general behaviour and health.

Promote and support the institutions providing education to the less fortunate.

Support the institutions providing healthcare facilities to the needy patients.

Perform relief activities in case of disaster.

We encourage our employees to initiate and take part in community service projects.

### Reporting

Awwal Modaraba will publish its focus areas and CSR activities through:

- Placement on its website.
- CSR activities during the financial year will be outlined in the Modaraba's financial statements of the respective year.

However, CSR activities will mainly be disclosed on the Modaraba's website.

## CHAIRMAN'S REVIEW

I am pleased to present my review, as Chairman of the Board of Directors ('the Board') of Awwal Modaraba Management Limited, the management company of Awwal Modaraba.

The year 2019 proved to be a tough year for the economy. On one hand, businesses are faced by increased costs due to rising inflation, higher interest rates and rupee depreciation. On the other hand, demand has also been affected due to overall economic slowdown, deferment of projects, fall in consumer disposable income, workforce layoffs etc.

The country finally entered the IMF Program in May 2019 which is expected to gradually lead to stabilization in the next two to three years as the Program brings in not only the much needed financial support but also a reforms agenda for structural improvement. Policy clarity and stability is another critical factor required to bring in business confidence as the Government continues the reforms agenda.

The Modaraba has been able to achieve commendable results in FY2019 in terms of profitability and asset quality. Income arising from project advisory has declined on a year-to-year basis due to the economic situation and is expected to be low in the coming year as well. On the other hand, the increase in mark up rates has translated into direct increase in bottom line. The Board and the management are maintaining a strong focus on judicious underwriting of new credits to preserve asset quality to avoid losses in a vulnerable economic situation.

As per the provisions of Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980, the income of Modaraba is exempt from tax provided it distributes 90% of its profit. The Modaraba has availed this tax exemption in the past and intends to continue to avail it. In light of this fact, despite being eligible for Income tax exemption certificate, the request has been turned down by tax authorities. Consequently, we are suffering from deduction of tax on our income and carry taxation recoverable balance of PKR 7.5 million in our books till FY2019. Challenging the refusal of grant of exemption certificate, we have filed a petition in Sindh High Court. The case is tagged with other similar petitions and the decision is pending.

The Board of Directors of the management company comprises of six members, including two Independent Non-Executive Directors and one female Director. The Board performs its statutory duties and fulfils its responsibilities by ensuring that the Modaraba has a capable leadership and an effective executive management team. The board, on quarterly basis, undertakes an overall review of business risks to ensure that management maintains a sound system of risk identification, risk management and related systemic internal controls to safeguard assets, resources, reputation and interest of the Company and its certificate-holders.

On behalf of the Board, I take this opportunity to thank all our customers, investors, regulators and other stakeholders for placing their trust in the Modaraba.



**Khalid Aziz Mirza**  
Chairman

Dated: 29 August 2019

## DIRECTORS' REPORT

The Board of Directors of Awwal Modaraba Management Limited, the management company of Awwal Modaraba, is pleased to present the Directors' Report together with Audited Financial Statements of Awwal Modaraba for the year ended 30 June 2019.

FY2019 proved to be a year of uncertainties for Pakistan amid growing economic concerns. State Bank of Pakistan (SBP) pursued a tightening monetary policy. Policy Rate was increased from 7.5% to 13.25% to combat rising inflation which was compounded by the depreciating rupee losing 34% value during the year. Due to above factors and fall in consumer demand, business environment has suffered. Despite these pressures, the performance of Awwal Modaraba in terms of profitability and maintenance of asset quality remains sound. The unleveraged balance sheet of the Modaraba was protected from increasing interest rate scenario. We maintained close coordination with our clients to assess the impact on their business operations. Our recovery rate remains 100% due to the diligent efforts of our team. However, some of the bigger projects have not materialized in the expected time frame due to economic slowdown which led to lower advisory income than expected.

### Operating Results

	30 June 2019 (Rupees '000')	30 June 2018 (Rupees '000')
<b>Balance Sheet</b>		
Certificate capital	1,000,000	1,000,000
Total equity	1,184,757	1,221,374
Investment in Musharika Finance	669,985	778,814
<b>Profit &amp; Loss</b>		
Revenue	185,381	263,315
Operating expenses	57,246	51,947
Profit before Management Fee	128,135	211,368
Net profit for the year	111,383	183,734
<b>Appropriations</b>		
Profit distribution @ 8.90% (2018: @ 14.80%)	89,000	148,000
Transfer to Statutory reserve for the year	22,277	36,747
Unappropriated profit carried forward	89,166	148,060
Earnings per certificate	1.11	1.84

## Financial snapshot

The aggregate loan portfolio declined to PKR 669.98 Million from 778.81 Million at the previous year-end with ongoing maturities and the excess funds of upto PKR 200 Million were placed in Modaraba term deposit. Total revenues amounted to PKR 185.38 Million in FY2019 from PKR 263.31 Million in the previous year. The reduction came from lower advisory income which is more than halved in the outgoing year as discussed earlier. A conscious decision was taken to delay taking new exposure till the broader economic situation is clearer. Operating costs are kept under strict control with greater benefit derived from the support of shared services with Pak Brunei Investment Company. Net Profits amounted to PKR 111.38 Million (FY2018: PKR 183.73 Million). Since the Modaraba pays off more than 90% of its income as dividend, there is no tax incidence as provided under the Modaraba Ordinance.

## Profit Distribution

The Board in its meeting held on 29 August 2019 has approved cash dividend of Re. 0.89 (8.9%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended 30 June 2019.

To comply with Prudential Regulations for Modarabas, the Board of Directors has transferred Rs. 22.28 million to statutory reserve. As per the Prudential Regulations for Modarabas, the Modaraba is required to transfer not less than 20% and not more than 50% of the Modaraba's after tax profit to statutory reserve till such time that the reserve equals 100% of the paid-up capital. Subsequently, a sum not less than 5% of the after tax profit is to be transferred to such reserve.

## Economic Outlook

Some good news for the economy is that uncertainties on IMF program has been resolved. The 39-Month EFF Arrangement amounts to around USD 6 billion while it is expected to unlock another USD 38 billion from multilateral and bilateral creditors over the period. Along with the much needed financial aid, the structural and economic reforms envisaged by the Program aims to stabilize the economy and lay the foundation for robust and balanced growth including: a decisive fiscal consolidation to reduce public debt and build resilience while expanding social spending; a flexible, market-determined exchange rate to restore competitiveness and rebuild official reserves; to eliminate quasi-fiscal losses in the energy sector; and to strengthen institutions and enhance transparency.

FY20 budget is also a step in this direction which targets to generate revenues via taxation measures and removal of subsidies. The SBP Policy Rate was increased to 13.25% p.a. in the last MPS announced on July 16, 2019 which was a 100 bps increase over the previous level. The clear message sent by SBP is that it expects that adjustments required due to exchange rate depreciation and inflationary impact of measures taken in FY20 budget are accounted for in this rate increase. The inflation expectation for FY20 is at an average level of 11–12% and is expected to fall further in FY21 as the one-off effect of some of the causes of the recent rise in inflation diminishes. Therefore, further rate hikes look unlikely and we can look forward to reflation measures shortly.

## Way Ahead

FY20 still appears to be a difficult one for Modaraba operations which focuses on project finance and turnaround of distressed companies to generate high returns. In the current scenario, many new projects have been deferred as existing business operations in our target segment are very vulnerable. Underwriting of new exposures is being done very selectively where we are assured of protection of capital. We are expecting advisory mandates to pick up as the business activity gradually increases to support revenue growth. Meanwhile, our unleveraged balance sheet implies that the increase in profit rates is directly resulting in increase in return from deployed funds.

## Governance & Shariah Compliance

The Board of Directors is committed to ensure compliance with various requirements of the Pakistan Stock Exchange and Securities and Exchange Commission of Pakistan (SECP). The Modaraba is in compliance with the requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2017, relevant for the year ended 30 June 2019.

Shariah Advisor is involved from the outset to ensure that prospective clients' business and proposed transaction structure are in line with Shariah principles. Strong emphasis is placed on good governance and implementation of all policies in spirit. The Board of Directors comprise independent directors to ensure external oversight.

## Corporate and Financial Reporting Framework

The Board of Directors is pleased to report that:

- The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on 30 June 2019 except for those disclosed in the financial statements.
- During the year under review, four (4) meetings of the Board of Directors were held. Attendance by each director was as follows:

Name of Director	No. of Meetings Attended
Mr. Khalid Aziz Mirza	4
Mr. Shahid Ghaffar	4
Ms. Ayesha Aziz	4
Mr. Abdul Jaleel Shaikh	4
Mr. Ahmed Ateeq	4
Mr. Karim Hatim (CEO)	4

Leave of absence was granted to the director who could not attend the meeting.

The Board has formed an Audit Committee in compliance with the requirements of the Code of Corporate Governance. The Committee comprises of four members. The head of the Audit Committee is an Independent Director. The Committee reviews the periodic financial statements and examines the adequacy of financial policies and practices to ensure that an efficient and strong system of internal control is in place. The Committee also reviews the audit reports issued by the Internal Audit Department. The Audit Committee is also responsible for recommending to the Board of Directors the appointment of external auditors.

- During the year under review, four (4) meetings of the Audit Committee were held. Attendance by each member was as follows:

Name of Member	No. of Meetings Attended
Mr. Shahid Ghaffar	4
Mr. Khalid Aziz Mirza	4
Mr. Abdul Jaleel Shaikh	4
Mr. Ahmed Ateeq	4

- One meeting of Human Resource and Remuneration Committee (HR&RC) was held to finalize the recommendation for the yearly staff compensation amounts.
- The pattern of holding of certificates by the certificate-holders is included in this annual report.
- The Directors, CEO, CFO, Company Secretary, their spouses and minor children did not carry out any transaction in the certificates of Modaraba during the year under review.
- The value of investments of the Provident Fund as at 30 June 2019 is Rs. 8,886,723 and setting up of the gratuity fund is in process. The Modaraba recorded Rs. 4,707,462 for the gratuity up to 30 June 2019.

## The Board of Directors

The total number of directors are 6 including CEO as per the following:

- Male: 5
- Female: 1

The composition of Board is as follows:

Category	Names
<b>Independent Directors</b>	Mr. Khalid Aziz Mirza
	Mr. Shahid Ghaffar
<b>Other Non-Executive Directors</b>	Ms. Ayesha Aziz
	Mr. Abdul Jaleel Shaikh
	Mr. Ahmed Ateeq
<b>Chief Executive Officer</b>	Mr. Karim Hatim

## Director's Remuneration

The remuneration of a Director for attending meetings of the Board or any Committee of the Board is determined under the Director's Compensation Policy adopted by Awwal Modaraba Management Limited. Under the said policy, an independent director is entitled to receive the prescribed fee as determined by the Board of Directors only for attending the Board Meeting. Further, the nominee directors / Chief Executive Officer / any other director in whole time remunerated service with the Company are not entitled to any payment for attending meetings of the Board or any Committee of the Board. However, all the directors are entitled to be paid all traveling, hotel and other expenses incurred by them in attending and returning from meetings of the Directors or any committee of Directors or General Meeting of the company in connection with the business of the Company.

## Auditors

On the recommendation of the Audit Committee, the Board has approved appointment of the present auditors M/s. KPMG Taseer Hadi & Co. Chartered Accountants, being eligible for appointment and upon their consent to act as auditors, have been appointed auditors of the Modaraba for financial year ending 30 June 2020, subject to the approval of Registrar of Modaraba Companies and Modarabas.

## Shari'ah Advisor's Report

The Modaraba continues to seek guidance from its Shari'ah Advisor, Mufti Muhammad Hassaan Kaleem as and when required to ensure full compliance to Shari'ah Audit mechanism developed in consultation with Registrar Modaraba. The internal audit department has also been trained to handle the day to day affairs of the Modaraba ensuring complete adherence to Shari'ah policies and principles. The Shari'ah Advisor Report issued for the affairs of the Modaraba for the year ended 30 June 2019 is attached in the Annual Financial Statements.

## Acknowledgments

The Board of Directors would like to acknowledge and appreciate SECP and Registrar Modaraba for their continuous guidance and support. Also, we would like to avail this opportunity to thank our customers and investors for placing their trust in the Modaraba.

On behalf of the Board



**Karim Hatim**  
Chief Executive Officer

Date: 29 August 2019



**Abdul Jaleel Shaikh**  
Director

## بورڈ آف ڈائریکٹرز

مندرجہ ذیل کے مطابق ڈائریکٹرز کی تعداد چھ (6) ہے جن میں سی ای او شامل ہیں:

مرد: 5

عورت: 1

بورڈ کی تشکیل مندرجہ ذیل ہے:

نام	کمپنی
محترم خالد عزیز مرزا	انڈیپنڈنٹ اینڈ ڈائریکٹر
محترم شاہد غفار	
محترمہ عائشہ عزیز	دیگر نان ایگزیکٹو ڈائریکٹر
محترم عبدالجلیل شیخ	
محترم احمد عتیق	
محترم کریم حاتم	چیف ایگزیکٹو آفیسر

## ڈائریکٹرز کا مشاہرہ

ڈائریکٹرز بورڈ کے کسی بھی اجلاس میں شرکت یا بورڈ کی کمیٹی میں شرکت اول مضاربہ مینجمنٹ لمیٹڈ کی متعین کردہ ڈائریکٹرز رولز پالیسی کے تحت مقرر کی جاتی ہے۔ اس پالیسی کے تحت، ایک انڈیپنڈنٹ اینڈ ڈائریکٹر صرف بورڈ آف ڈائریکٹرز کی طرف سے مقرر کردہ فیس کے مطابق فیس وصول کرنے کا حق رکھتا ہے۔ مزید برآں، نامزد ڈائریکٹر/چیف ایگزیکٹو آفیسر/یا کوئی بھی دیگر ڈائریکٹر کمیٹی کے لیے مشاہراتی سروس کے دوران بورڈ کے یا بورڈ کی کمیٹی کے اجلاس میں شرکت کرنے کے لیے کسی بھی قسم کی ادائیگی کا مستحق نہیں ہوگا۔ تاہم تمام ڈائریکٹرز کمیٹی کے برنس کے سلسلے میں بورڈ کے یا بورڈ کی کمیٹی کے اجلاس یا جزل مینٹنگ میں شرکت کرنے یا واپسی کے لیے ہونے والے تمام سفری، رہائش اور دیگر اخراجات وصول کرنے کے حقدار ہوں گے۔

## آڈیٹرز

آڈٹ کمیٹی کی سفارش پر، بورڈ نے موجودہ آڈیٹرز میسرز KPMG تا ثیر ہادی اینڈ کمیٹی، چارٹرڈ اکاؤنٹینٹس کی تقرری کی منظوری دی جو کہ تقرری کے لیے اہلیت رکھتے ہیں اور اس کے متمنی بھی ہیں۔ ان کا تقرر 30 جون 2020 تک کے مالیاتی سال کے لیے مضاربہ کے آڈیٹرز کے طور پر کیا گیا ہے جو کہ رجسٹرڈ مضاربہ کمپنیز اور مضاربہ کی منظوری سے مشروط ہے۔


## شرعیہ ایڈوائزر رپورٹ


مضاربہ مستقل طور پر شرعی مشیر مفتی محمد حسان کلیم کی زیر ہدایت کام کر رہا ہے اور حسب ضرورت اس بات کو یقینی بنا رہا ہے کہ تمام مالیاتی معاملات شرعیہ آڈٹ میکنزم کے تحت انجام دیئے جائیں جو کہ رجسٹرار مضاربہ کی ہدایات کے مطابق ہوں۔ انٹرنل آڈٹ ڈپارٹمنٹ کو یہ تربیت بھی دی گئی ہے کہ وہ شرعی اصول اور پالیسیز کے مطابق روزمرہ کے مضاربہ کے معاملات کو سرانجام دیں۔ شرعیہ آڈٹ رپورٹ جو کہ مالیاتی سال 30 جون 2019 کی مدت کے لیے مضاربہ کے معاملات کے لیے جاری کی گئی ہے سالانہ مالیاتی رپورٹ میں شامل ہے۔

## اظہار تشکر

بورڈ SECP اور رجسٹرار مضاربہ کی مسلسل رہنمائی اور تعاون کا معترف ہے اور اسے سراہتا ہے۔ اس کے ساتھ اس موقع کا فائدہ اٹھاتے ہوئے اپنے صارفین اور سرمایہ کاروں کے اعتماد کا تہ دل سے مشکور ہے۔

بورڈ کی جانب سے

  
عبدالجلیل شیخ  
ڈائریکٹر

  
کریم حاتم  
چیف ایگزیکٹو آفیسر

مورخہ: 29 اگست 2019

## کاروباری اور مالیاتی رپورٹنگ کا دائرہ عمل

بورڈ آف ڈائریکٹرز یہ اطلاع دیتے ہوئے مسرت محسوس کرتے ہیں کہ:

- ☆ مضاربہ کی بیجمنٹ کی جانب سے تیار کردہ مالیاتی گوشوارے، اس کے معاملات، سرگرمیوں کے نتائج، کیش فلوز اور ایکویٹی میں تبدیلیوں کی درست تصویر کشی کرتے ہیں۔
- ☆ مضاربہ کے کھاتے درست طور پر برقرار رکھے گئے ہیں۔
- ☆ مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی موزوں پالیسیاں باقاعدگی کے ساتھ استعمال کی گئی ہیں اور اکاؤنٹنگ کے تخمینے معقول اور محتاط فیصلہ سازی پر مبنی ہیں۔
- ☆ مالیاتی گوشواروں کی تیاری میں، پاکستان میں مضاربہ پر لاگو ہونے والے، مالیاتی رپورٹنگ کے بین الاقوامی معیار پر عمل درآمد کیا گیا ہے۔
- ☆ داخلی کنٹرول کا سسٹم مستحکم ساخت کا حامل ہے اور اس کا مؤثر نفاذ اور نگرانی کی گئی ہے۔
- ☆ آئندہ بھی ایک کامیاب کاروبار کے طور پر جاری رہنے کے لیے مضاربہ کی اہلیت میں کوئی نمایاں شہ نہیں ہے۔
- ☆ لسٹنگ ضوابط کار میں وضاحت کردہ، کاروباری طریقہ عمل کی بہترین تعمیل سے کوئی ظاہری انحراف موجود نہیں۔
- ☆ ٹیکسوں، ڈیوٹیوں، محصولات اور چارجز کی مد میں کوئی بھی ادائیگیاں ایسی نہیں جو 30 جون 2019 کو واجب الادا ہوں، سوائے ان کے جنہیں مالیاتی گوشواروں میں ظاہر کیا گیا ہے۔
- ☆ زیر جائزہ سال کے دوران، بورڈ آف ڈائریکٹرز کے چار (4) اجلاس منعقد ہوئے۔ ان میں ہر ڈائریکٹر کی حاضری یکجہ اس طرح رہی:

ڈائریکٹر کا نام	ڈائریکٹرز کی اجلاس میں شرکت کی تعداد
محترم خالد عزیز مرزا	4
محترم شاہد غفار	4
محترمہ عائشہ عزیز	4
محترم عبدالجلیل شیخ	4
محترم احمد عتیق	4
محترم کریم حاتم (سی ای او)	4

بورڈ نے کوڈ آف کارپوریشن گورننس کی ضروریات کے مطابق ایک آڈٹ کمیٹی قائم کی ہے۔ جس میں چار (4) اراکین شامل ہیں۔ آڈٹ کمیٹی کا سربراہ ایک انڈیپنڈنٹ ڈائریکٹر ہے۔ کمیٹی باقاعدگی سے مالیاتی گوشواروں کا جائزہ لیتی ہے۔ اندرونی کنٹرول کے نظام کی موزونیت اور اثر پذیریری کو یقینی بنانے کے لیے مالی حکمت عملی اور افعال کا جائزہ لیتی ہے۔ کمیٹی نے انٹرنل آڈٹ ڈپارٹمنٹ کی طرف سے جاری کردہ آڈٹ رپورٹس کا بھی جائزہ لیا۔ آڈٹ کمیٹی بیرونی آڈٹ منتظمین کی تقرری کے لیے بھی بورڈ آف ڈائریکٹرز کو سفارش کرنے کی مجاز ہے۔

زیر جائزہ سال کے دوران آڈٹ کمیٹی کے چار (4) اجلاس منعقد کیے گئے۔ ہر ممبر کی طرف سے اجلاس میں کی گئی شرکت کی تعداد مندرجہ ذیل ہے:

ممبر کا نام	ممبر کی اجلاس میں شرکت کی تعداد
محترم شاہد غفار	4
محترم خالد عزیز مرزا	4
محترم عبدالجلیل شیخ	4
محترم احمد عتیق	4

☆ عملے کی سالانہ سفارش کردہ معاوضہ کی رقم کا جائزہ لینے اور اسے حتمی شکل دینے کے لیے ایچ آر اور ریزرویشن کمیٹی (HR & RC) کی ایک میٹنگ منعقد ہوئی۔

☆ سرٹیفیکیٹ ہولڈنگ کا خلاصہ اس سالانہ مالیاتی رپورٹ میں شامل ہے۔

☆ ڈائریکٹرز، سی ای او، ایف او، کمپنی سیکرٹری، ان کے فریق ثانی اور نابالغ اولاد نے زیر جائزہ مالی سال کے دوران مضاربہ کے سرٹیفیکیٹ میں کوئی لین دین نہیں کی۔

☆ 30 جون 2019 تک پروویڈنٹ فنڈ میں سرمائے کی قدر 8,886,723 پاکستانی روپے رہی جبکہ گریجویٹ فنڈ کے قیام پر بھی کام ہو رہا ہے۔ زیر جائزہ سال میں مضاربہ کی گریجویٹ کی مد میں

4,707,462 پاکستانی روپے ریکارڈ کیے گئے۔

نصف سے بھی زیادہ تخفیف ہوئی، جیسا کہ پہلے بیان کیا گیا۔ وسیع تر اقتصادی صورتحال مزید واضح ہونے تک نئی سرمایہ کاری کو زیر التواء رکھنے کے لیے ایک سو چاسھ فیصد فیصلہ کیا گیا۔ کاروباری عملی لاگتوں کو انتہائی قابو میں رکھنے کے ساتھ پاک برونائی انویسٹمنٹ کمپنی کے ساتھ مشترکہ خدمات کی باہمی معاونت کی بدولت پہلے سے زیادہ فائدہ حاصل کیا گیا۔ خالص منافع 111.38 ملین روپے رہا (مالی سال 2018: 183.73 ملین روپے)۔ چونکہ مضارب اپنی آمدنی کا 90 فیصد حصہ بطور ڈیویڈنڈ ادا کرتا ہے، لہذا مضارب آرڈیننس کے تحت کوئی ٹیکس لاگو نہیں ہے۔

## منافع کی تقسیم

بورڈ نے 29 اگست 2019 کو منعقدہ اجلاس میں 10 روپے والے سرٹیفکیٹ پر 0.89 پیسے (8.9%) فی سرٹیفکیٹ کے حساب سے نقد منافع منقسمہ کی منظوری دے دی ہے، جو 30 جون 2019 کو ختم شدہ سال کے لیے زکوٰۃ اور ٹیکس کی کٹوتیوں (جہاں لاگو ہوں) سے مشروط ہے۔

مضارب کے پروڈنشل ریگولیشنز کی تعمیل کے لیے بورڈ آف ڈائریکٹرز نے اسٹیٹوٹری ریزرو کی مدد میں 22.28 ملین روپے منتقل کیے ہیں۔ مضارب کے پروڈنشل ریگولیشنز کے تحت لازم ہے کہ منافع بعد از ٹیکس کم از کم 20 فیصد اور زیادہ سے زیادہ 50 فیصد تک اسٹیٹوٹری ریزرو میں منتقل کرے تا وقتیکہ اسٹیٹوٹری ریزرو سرٹیفکیٹ کی پیمائش کے 100 فیصد کے مساوی نہ ہو جائے۔ بعد ازاں منافع بعد از ٹیکس کا 5 فیصد منتقل کیا جائے گا۔

## اقتصادی منظر نامہ

معیشت کے لیے ایک اچھی خبر یہ ہے کہ آئی ایم ایف پروگرام کی غیر یقینی کیفیت ختم ہو گئی۔ 39 ماہ پر محیط EFF کی انتظام کاری 6 ملین امریکی ڈالرز تک جا پہنچی جبکہ توقع ہے کہ آئندہ کچھ عرصے میں یہ کثیر فریقی اور قرض دہندگان سے مزید 38 ملین امریکی ڈالرز شامل کر سکتے ہیں۔ انتہائی مطلوب مالیاتی امداد کے ساتھ، پروگرام کی جانب سے شامل کردہ اسٹریٹجکل اور اقتصادی اصلاحات کا مقصد معیشت کو استحکام بخشنا اور مستحکم و متوازن ترقی کی راہ ہموار کرنا ہے جس میں شامل ہے: عوامی قرضوں میں کمی لانے کے لیے جامع عالی لائحہ عمل اور معاملات میں چلک کے ساتھ ساتھ معاشرتی بنیادوں پر خرچ؛ مسابقت کی بحالی اور باضابطہ ذخائر کی تعمیر نو کے لیے ایک باسہولت، بازاری تعین کی حامل شرح مبادلہ، توانائی کے شعبے میں حکومتی فیصلوں کے باعث ہونے والے مالیاتی نقصانات میں کمی لانا؛ اور اداروں کو مضبوط کرنا اور شفافیت کو وسعت دینا۔

مالی سال 2020 کا بجٹ بھی اس سمت میں ایک قدم ہے جس کا ہدف محصولاتی اقدامات اور سبسڈیز کے خاتمے کی بدولت آمدنیوں کا حصول ہے۔ 16 جولائی 2019 کو اعلان کردہ گزشتہ MPS میں SBP کی شرح پالیسی بڑھ کر 13.25 فیصد سالانہ ہو گئی جو کہ سابقہ سطح سے 100 BPS زیادہ ہے۔ SBP کی جانب سے واضح پیغام یہ دیا گیا کہ اس کی توقع کے مطابق شرح میں کمی کے لیے اس اضافے میں زرمبادلہ کی تخفیف قدر اور مالی سال 2020 میں کیے گئے اقدامات کے نتیجے میں افراط زر کے اثرات کے باعث درکار تصفیاتی افعال کو پیش نظر رکھا گیا ہے۔ مالی سال 2020 کے لیے افراط زر 11 سے 12 فیصد کی اوسط سطح پر رہنے کی توقع ہے اور مالی سال 2021 میں اس میں مزید تنزیل کا امکان ہے کیونکہ حالیہ اضافے کے بعض اسباب یکمشت اثرات ختم ہو جائیں گے۔ لہذا، شرح میں مزید اضافے کا امکان موجود نہیں ہے اور ہم کچھ ہی عرصے میں تقریبی اقدامات دیکھ سکیں گے۔

## مستقبل کی پیش رفت

مالی سال 2020 مضارب کی عملی سرگرمیوں کے لیے ابھی تک ایک مشکل سال نظر آ رہا ہے جس کا مطمح نظر سرمائے کی پیش قدمی اور بلند منافعوں کے حصول کے لیے زبرد باؤ کمپنیوں کی بحالی ہے۔ موجودہ صورتحال میں، بہت سے نئے کاروباری منصوبے زیر التواء ہیں کیونکہ ہمارے معین شدہ اہداف کے شعبوں میں موجودہ کاروباری عملی سرگرمیاں انتہائی غیر محفوظ ہیں۔ نئی سرمایہ کاری کی ضمانت انتہائی سوچ سمجھ کر صرف ان ہی شعبے کے لیے دی جا رہی ہے جہاں ہمیں اصل سرمائے کے تحفظ کا یقین ہو۔ ہمیں توقع ہے کہ جوں جوں آمدنی میں اضافے کو مستحکم بنانے کے لیے کاروباری سرگرمی میں اضافہ ہوگا، ایڈوانزری اپنے عروج کی جانب گامزن ہوگی۔ اس دوران، ہماری غیر قرضہ جاتی بیلنس شیٹ ظاہر کرتی ہے کہ منافع میں اضافے کا براہ راست نتیجہ منظم کردہ فنڈز سے حاصل شدہ آمدنی میں اضافے کی صورت میں برآمد ہوگا۔

## عملداری اور شرعی اصولوں کی تعمیل

بورڈ آف ڈائریکٹرز، اسٹاک ایکسچینج اور سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان (SECP) کے مختلف درکار لوازمات کی تعمیل کو یقینی بنانے کے لیے کوشاں ہے۔ مضارب، 30 جون 2019 کو اختتام پذیر سال کے حوالے سے، اسلڈ کمپنی کورڈ آف کارپوریٹ گورننس (COCG) ریگولیشنز 2017 کے درکار لوازمات کی تعمیل پر کار بند ہے۔

مضارب کے شرعی مشیر، آغاز سے ہی کاروبار کے ہر مرحلے پر شامل ہوتے ہیں تاکہ اس بات کو یقینی بنایا جاسکے کہ ممکنہ کلائنٹس کا کاروبار اور لین دین کا تجویز کردہ اسٹریٹجی شرعی اصولوں کے عین مطابق ہو۔ عمدہ کاروباری طریقہ عمل اور تمام پالیسیوں کے نفاذ پر کڑی توجہ مرکوز کی جاتی ہے۔ خارجی عمومی جائزے کو یقینی بنانے کے لیے بورڈ آف ڈائریکٹرز میں انڈیپنڈنٹ اینڈ ڈائریکٹرز شامل ہیں۔

## ڈائریکٹرز رپورٹ برائے اختتام سال 30 جون 2019

اول مضاربہ مینجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز جو اڈل مضاربہ (مضاربہ) کی مینجمنٹ کچنی ہے، اڈل مضاربہ کے آڈٹ شدہ مالی گوشوارے برائے اختتام سال 30 جون 2019 کے ہمراہ ڈائریکٹرز رپورٹ پیش کرتے ہوئے انتہائی مسرت محسوس کرتے ہیں۔

سال 2019 بڑھتے ہوئے معاشی خدشات کے باعث پاکستانی معیشت کے لیے غیر یقینی صورتحال کا سال ثابت ہوا۔ اسٹیٹ بینک آف پاکستان (SBP) نے سخت گیر مالیاتی پالیسی اختیار کی۔ بڑھتے ہوئے افراط زر کا مقابلہ کرنے کے لیے پالیسی کی شرح 7.5 فیصد سے بڑھا کر 13.25 فیصد کر دی گئی جو سال کے دوران روپے کی قدر میں 34 فیصد کمی ہونے کے باعث بنی۔ مندرجہ بالا عوامل اور صارفین کی عدم دلچسپی کے باعث کاروباری ماحول متاثر ہوا۔ ان دباؤ کے باوجود اثاثہ جات کے معیار کو برقرار رکھنے اور منافع کے لحاظ سے اول مضاربہ کی کارکردگی مستحکم رہی۔ مضاربہ کی بیلنس شیٹ پر قرضہ جات نہ ہونے کی وجہ سے شرح سود میں اضافے سے محفوظ رہی۔ ہم نے اپنے کلائنٹس کے ساتھ مل کر ان کی کاروباری سرگرمیوں پر اثر انداز ہونے والے عوامل پر مکمل ہم آہنگی برقرار رکھی۔ ہماری ٹیم کی موثر اور مکمل کوششوں کے باعث ہماری وصولیوں کی شرح 100 فیصد رہی۔ تاہم معاشی سست روی کی وجہ سے کچھ بڑے منصوبے متوقع معیاد میں تاخیر کا شکار ہوئے جس کی وجہ سے توقع سے کم مشاورتی آمدنی حاصل ہوئی۔

2018 جون 30 (روپے '000)	2019 جون 30 (روپے '000)	کاروباری عملداری کے نتائج
1,000,000	1,000,000	بیلنس شیٹ
1,221,374	1,184,757	سرٹیفیکیٹ کپیتل
778,814	669,985	ٹوٹل ایکویٹی
		مشارکہ فنانس میں سرمایہ کاری
		نفع و نقصان کا اسٹیٹمنٹ
263,315	185,381	آمدنی
51,947	57,246	عمل کاری کے اخراجات
211,368	128,135	مینجمنٹ فیس سے قبل منافع
183,734	111,383	حتمی منافع برائے سال
		تخصیصات
148,000	89,000	منافع کی تقسیم بحساب 8.9% (2018: 14.80%)
36,747	22,277	اسٹیٹوری ریزرو میں منتقلی برائے سال
148,060	89,166	نیز مختص منافع، اگلی معیاد میں منتقل شدہ
1.84	1.11	آمدنی فی سرٹیفیکیٹ

### مالیاتی جائزہ

قرضے کا مجموعی پورٹ فولیو گزشتہ سال کے اختتام پر 778.81 ملین روپے کے مقابلے میں کم ہو کر 669.98 ملین روپے ہو گیا جبکہ جاری میچورٹیٹیز اور 200 ملین روپے تک کے اضافی فنڈز کو مضاربہ ٹرم ڈپازٹ میں لگا لیا گیا۔ مجموعی آمدنی مالی سال 2019 میں 185.38 ملین روپے رہی جو کہ گزشتہ سال 263.31 ملین روپے تھی۔ اس کی کاسب کم مشاورتی آمدنی تھی جس میں اختتام پذیر سال کے دوران

## PATTERN OF HOLDING OF CERTIFICATES BY THE CERTIFICATE-HOLDERS as at 30 June 2019

No. of Certificate Holders	Certificate Holding		Total Certificates Held
	From	To	
47	1	100	272
184	101	500	91,392
11	501	1000	9,794
16	1001	5000	44,976
3	5001	10000	24,000
1	10001	15000	11,000
2	15001	20000	38,000
1	9995001	10000000	10,000,000
1	89780001	89785000	89,780,566
<b>266</b>			<b>100,000,000</b>

Category No.	Categories of Certificate Holders	No. of Certificates Held	Category Wise No. of Certificate Holders	Category Wise Certificates Held	Percentage (%)
1	INDIVIDUALS		259	216,934	0.2169%
2	DIRECTORS THEIR SPOUSE & MINOR CHILDREN		3	1,500	0.0015%
	<i>Mr. Tahir Aziz</i>	500			
	<i>Ms. Seema Jaleel Shaikh</i>	500			
	<i>Ms. Hina Ahmed</i>	500			
3	RELATED PARTIES		1	500	0.0005%
	<i>Ms. Rubina Rubab</i>	500			
4	ASSOCIATED COMPANIES		2	99,780,566	99.7806%
	<i>Awwal Modaraba Management Limited</i>	10,000,000			
	<i>Pak Brunei Investment Company Limited</i>	89,780,566			
5	FOREIGN INVESTORS		1	500	0.0005%
<b>TOTAL</b>			<b>266</b>	<b>100,000,000</b>	<b>100.000000%</b>

## KEY FINANCIAL DATA

	2019	2018	2017	2016
Total Assests	1,234,332,197	1,283,093,217	1,202,708,828	1,043,051,075
Musharika Finance	369,985,326	478,813,819	396,248,948	83,657,848
Diminishing Musharika Finance	300,000,000	300,000,000	286,974,209	-
Current Assests	807,975,226	769,076,799	625,018,763	974,281,202
Current Liabilities	49,574,689	61,718,764	42,568,091	14,608,204
Paid-Up Capital	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Statutory Reserve	95,591,501	73,314,890	36,568,147	5,688,574
Certificate Holders' Equity	1,184,757,508	1,221,374,453	1,160,140,737	1,028,442,871
Gross Revenue	185,381,248	263,314,904	208,214,563	61,923,689
Net Profit	111,383,055	183,733,716	154,397,866	28,442,871
<b>Profitability Ratios</b>				
Net Profit Margin (%)	60.08%	69.78%	74.15%	45.93%
Return on Equity (%)	9.40%	15.04%	13.31%	2.77%
Return on Assests(%)	8.85%	14.78%	13.75%	2.73%
<b>Liquidity Ratios</b>				
Current ratio (x)	16	12	15	67
<b>Market ratio</b>				
Market Value Per Certificate (Rupees)	11.10	11.50	10.51	10.25
EPS	1.11	1.84	1.54	0.28
Price Earnings Ratio (x)	10	6.25	6.82	36.61
Dividend Yield Ratio (%)	8.02%	12.87%	11.66%	2.21%
Dividend Payout Ratio (%)	80.18%	80.43%	79.55%	81.07%
Cash Dividend (%)	8.9%	14.8%	12.25%	2.27%
Cash Dividend per Certificate (Rupees)	0.89	1.48	1.23	0.227
Book Value per Certificate (Rupees)	11.85	12.21	11.60	10.28
Dividend (Rupees)	89,000,000	148,000,000	122,500,000	22,700,000

## Muhammad Hassaan Kaleem

Lecturer, Jamia Darul Uloom, Karachi  
Shariah Advisor for Financial Matters

### Shariah Advisor's Report

I have conducted the shariah review of Awwal Modaraba managed by Awwal Modaraba Management Limited, Modaraba Management Company for the financial year ended June 30, 2019 in accordance with the requirements of the Shariah Compliance and Shariah Audit Mechanism for Modarabas and report that, in my opinion:

- i. Awwal Modaraba has introduced a mechanism which has 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.
- ii. No major developments took place during the period.
- iii. The agreements entered into by the Modaraba are Shariah compliant and the financing agreements have been executed on the formats as approved by the Religious Board and all the related conditions have been met.
- iv. To the best of my information and according to the explanations given to me, the business transactions undertaken by Awwal Modaraba and all other matters incidental thereto are in conformity with the Shariah requirements as well as the requirements of the Propsectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shariah Compliance and Shariah Audit Regulations for Modarabas.
- v. Profit sharing ratios, profits and charging of losses (if any) relating to any deposit raising product confirm to the basis and principles of Shariah.
- vi. No earnings that have been realized from the sources or by means prohibited by Shariah. Accordingly, no amount was credited to charity account.

#### Recommendation

I recommend that regular shariah training programs should be introduced for staff to strengthened their knowledge base and to keep abreast of prevailing issues and developments.

#### Conclusion

In my opinion and to the best of my knowledge and information provided by Awwal Modaraba management with relevant explanation, I am of the view that during the period of overall business operations of the Modaraba are Shariah Compliant.



Mufti Muhammad Hassaan Kaleem  
Shariah Advisor  
Awwal Modaraba

Dated: 29 August 2019

## STATEMENT OF COMPLIANCE WITH LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2017

Year ended 30 June 2019

This statement is being presented to comply with Listed Companies (Code of Corporate Governance) Regulations, 2017. Regardless of the fact that Awwal Modaraba Management Limited, the Management Company of Awwal Modaraba, is an unlisted public limited company, the Board of Directors of the Management Company are pleased to confirm that the Code is being complied with in all material respects (pertaining to the operations of the Modaraba). Awwal Modaraba Management Limited ('AMML' or 'the Company') has complied with the requirements of the Regulations in the following manner:

1. The total number of directors are 6 as per the following:
  - a. Male: 5
  - b. Female: 1
2. The composition of Board is as follows:

Category	Names
<b>Independent Directors</b>	Mr. Khalid Aziz Mirza
	Mr. Shahid Ghaffar
<b>Other Non-Executive Directors</b>	Ms. Ayesha Aziz
	Mr. Abdul Jaleel Shaikh
	Mr. Ahmed Ateeq
<b>Executive Director</b>	Mr. Karim Hatim (Chief Executive Officer)

3. The directors have confirmed that none of them is serving as a director on more than five listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
4. The company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by Board/shareholders as empowered by the relevant provisions of the Act and these Regulations.
7. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of Board.
8. The Board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. The directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of Memorandum and Articles of Association and are aware of their duties and responsibilities. As required under CCG, at least half of the directors on Board of the Company are required to obtain certification under any Directors' Training Program (DTP) by June 30, 2019. Four of the directors have already obtained training in prior years while another director has been granted exemption from the DTP certification requirement by the Securities and Exchange Commission of Pakistan.

10. The Board has approved appointment of CFO, Company Secretary and outsourcing of Internal Audit function, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.
11. Chief Financial Officer and Chief Executive Officer duly endorsed the financial statements before approval of the Board.
12. The Board has formed committees comprising of members given below:

**Audit Committee**Mr. Shahid Ghaffar (Chairman)Mr. Khalid Aziz MirzaMr. Abdul Jaleel ShaikhMr. Ahmed Ateeq**HR and Remuneration Committee**Mr. Khalid Aziz Mirza (Chairman)Ms. Ayesha AzizMr. Karim Hatim

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of meetings of the committees were as per following:
- |                               |           |
|-------------------------------|-----------|
| Audit Committee               | Quarterly |
| HR and Remuneration Committee | Annually  |
15. The Board has outsourced the internal audit function to the internal audit department of the parent company (Pak Brunei Investment Company Limited) who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.
16. The statutory auditors of the company 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), and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. We confirm that all other requirements of the Regulations have been complied with.



**Khalid Aziz Mirza**  
Chairman

Dated: 29 August 2019



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2, Beaumont Road  
Karachi 75530 Pakistan  
+92 (21) 35685847, Fax +92 (21) 35685095

## **INDEPENDENT AUDITOR'S REVIEW REPORT**

**To the certificate holders of Awwal Modaraba**

### **Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2017**

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 ("the Regulations") prepared by the Board of Directors of Awwal Modaraba Management Limited, the Modaraba Management Company of Awwal Modaraba (the Modaraba) for the year ended 30 June 2019 in accordance with the requirements of regulation 40 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Modaraba Management Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Modaraba's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Modaraba's personnel and review of various documents prepared by the Modaraba Management Company to comply with the Regulations.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Modaraba Management Company's corporate governance procedures and risks.

The Regulations require 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 and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. 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 procedures to assess and determine the Modaraba Management Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.



KPMG Taseer Hadi & Co.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba Management Company's compliance for and on behalf of the Modaraba, in all material respects, with the requirements contained in the Regulations as applicable to the Modaraba for the year ended 30 June 2019.

KPMG Taseer Hadi & Co.  
KPMG Taseer Hadi & Co.  
Chartered Accountants

Karachi  
Date: 13 September 2019



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2, Beaumont Road  
Karachi 75530 Pakistan  
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### **Auditors' Report to the Certificate Holders**

We have audited the annexed statement of financial position of **Awwal Modaraba** as at 30 June 2019 and the related statement of profit or loss account and other comprehensive income, statement of cash flows and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statement), 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 (Awwal Modaraba Management Limited) responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the Modaraba Management Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of Awwal 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 statement of financial position and statement of profit or loss account and other comprehensive income 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 accounts and are further in agreement with accounting policies consistently applied except for the changes as stated in note 4.1 to the financial statements, with which we concur;



KPMG Taseer Hadi & Co.

- ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
- iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of profit or loss account and other comprehensive income, statement of cash flows 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 30 June 2019 and of the profit, 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.

**Date: 13 September 2019**

**Karachi**

*KPMG Taseer Hadi & Co.*  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Muhammad Taufiq**

## STATEMENT OF FINANCIAL POSITION as at 30 June 2019

	NOTES	2019	2018
(Rupees)			
<b>ASSETS</b>			
<b>Current assets</b>			
Bank balances	5	164,135,475	298,945,833
Modarabah term deposit	6	200,000,000	-
Accruals, prepayments, advances and other receivables	7	45,294,829	27,437,338
Current portion of receivable against advisory fee	8	49,150,553	71,717,084
Current portion of Investment against repurchase agreement	9	48,878,899	17,999,991
Current portion of Musharika Finance	10	276,993,084	345,040,495
Current portion of Diminishing Musharika Finance	11	13,888,890	-
Current portion of long term loans	12	2,089,758	1,567,430
Taxation recoverable		7,543,738	6,368,628
<b>Total current assets</b>		<b>807,975,226</b>	<b>769,076,799</b>
<b>Non - current assets</b>			
Receivable against advisory fee	8	34,707,466	24,443,848
Investment against repurchase agreement	9	-	48,878,899
Long term portion of Musharika Finance	10	92,992,242	133,773,324
Long term portion of Diminishing Musharika Finance	11	286,111,110	300,000,000
Long term loans	12	4,446,284	4,015,254
Long term deposit		75,000	75,000
Intangible asset	13	6,561,192	258,600
Operating fixed assets	14	1,463,677	2,571,493
<b>Total non-current assets</b>		<b>426,356,971</b>	<b>514,016,418</b>
<b>TOTAL ASSETS</b>		<b>1,234,332,197</b>	<b>1,283,093,217</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accrued expenses	15	28,327,156	35,024,301
Payable to related parties	16	21,103,338	26,652,246
Unclaimed profit distribution		144,195	42,217
<b>Total liabilities</b>		<b>49,574,689</b>	<b>61,718,764</b>
<b>CERTIFICATE HOLDERS' EQUITY</b>			
<b>Certificate capital</b>			
<b>Authorised certificate capital</b>			
100,000,000 Modaraba Certificates of Rs. 10 each	17	1,000,000,000	1,000,000,000
<b>Issued, subscribed, and paid-up certificate capital</b>			
100,000,000 Modaraba Certificates of Rs. 10 each		1,000,000,000	1,000,000,000
Statutory reserve	18	95,591,501	73,314,890
Unappropriated profit		89,166,007	148,059,563
<b>Total Equity</b>		<b>1,184,757,508</b>	<b>1,221,374,453</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,234,332,197</b>	<b>1,283,093,217</b>
<b>Contingencies and Commitments</b>	20		

The annexed notes from 1 to 32 form an integral part of these financial statements.

For Awwal Modaraba Management Limited  
(Management Company)



Chief Financial Officer



Chief Executive Officer



Director



Director

## STATEMENT OF PROFIT OR LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	NOTES	2019	2018
		(Rupees)	
<b>Income</b>			
Advisory fee		62,775,000	164,009,252
Income from Investment against repurchase agreement		10,254,856	9,893,383
Income from Musharika Finance		52,306,445	40,827,532
Income from Diminishing Musharika Finance		38,492,267	28,656,440
Income from deposits with banks		21,355,420	16,451,541
Income from Modarabah Term Deposit		197,260	-
Income from sukuk certificates		-	3,476,656
Profit on sale of fixed asset		-	100
		<b>185,381,248</b>	263,314,904
<b>Expenses</b>			
Administrative and operating expenses	21	(57,153,767)	(51,921,310)
Financial charges		(91,992)	(25,631)
		<b>128,135,489</b>	211,367,963
Management Company's remuneration		(12,813,549)	(21,136,796)
Provision for services sales tax on Management Company's remuneration	22	(1,665,761)	(2,747,783)
		<b>(14,479,310)</b>	(23,884,579)
Provision for Workers' Welfare Fund	15.1	(2,273,124)	(3,749,668)
<b>Profit for the year before taxation</b>		<b>111,383,055</b>	183,733,716
Taxation	23	-	-
<b>Profit for the year after taxation</b>		<b>111,383,055</b>	183,733,716
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>111,383,055</b>	183,733,716
		(Rupees)	
<b>Earnings per certificate - basic and diluted</b>	24	<b>1.11</b>	1.84

The annexed notes from 1 to 32 form an integral part of these financial statements.

For Awwal Modaraba Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

Director

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	NOTES	2019	2018
(Rupees)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year before taxation		111,383,054	183,733,716
<b>Adjustments for</b>			
Depreciation on operating fixed assets	14	1,231,319	1,135,717
Amortisation on intangible asset	13	1,607,408	140,232
Income from sukuk certificates		-	(3,476,656)
Profit on sale of operating fixed asset		-	(100)
		114,221,781	181,532,909
<b>Changes in assets</b>			
Accruals, prepayments, advances and other receivables		(17,857,491)	(14,196,193)
Modarabah Term Deposit		(200,000,000)	-
Receivable against advisory fee		12,302,913	(25,114,537)
Investment against repurchase agreement		17,999,991	(16,878,915)
Disbursement of Musharika Finance		(235,000,000)	(216,030,013)
Proceeds from repayment / settlement of Musharika Finance		343,828,493	133,465,142
Disbursement of Diminishing Musharika Finance		-	(100,317,461)
Proceeds from repayment / settlement of Diminishing Musharika Finance		-	87,291,670
Long term loans		(953,358)	(1,955,272)
Receivable from related party		-	19,792,349
		(79,679,452)	(133,943,230)
<b>Changes in liabilities</b>			
Accrued expenses		(6,697,144)	16,265,869
Payable to related parties		(5,548,908)	2,846,818
Unclaimed profit distribution		101,978	37,986
		(12,144,074)	19,150,673
Taxes withheld		(1,175,110)	(1,854,085)
<b>Net cash from operating activities</b>		<b>21,223,145</b>	<b>64,886,267</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Income from sukuk certificates received		-	4,350,465
Capital expenditure		(8,033,503)	(599,455)
Proceeds from disposal of operating fixed asset		-	100
Short term investment - sukuk certificates		-	100,000,000
<b>Net cash (used in) / from investing activities</b>		<b>(8,033,503)</b>	<b>103,751,110</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Profit paid to certificate holders		(148,000,000)	(122,500,000)
<b>Net cash used in financing activities</b>		<b>(148,000,000)</b>	<b>(122,500,000)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(134,810,358)</b>	<b>46,137,377</b>
Cash and cash equivalents at beginning of the year		298,945,833	252,808,456
<b>Cash and cash equivalents at end of the year</b>		<b>164,135,475</b>	<b>298,945,833</b>

The annexed notes from 1 to 32 form an integral part of these financial statements.

For Awwal Modaraba Management Limited  
(Management Company)



Chief Financial Officer



Chief Executive Officer



Director



Director



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 1. LEGAL STATUS AND OPERATIONS

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

Awwal Modaraba is a perpetual, multi purpose and multi dimensional Modaraba and is primarily engaged in providing Working Capital, Term Finance, Ijarah, Musharika, Morabaha and other Shari'ah compliant investment / instrument to credit worthy customers. The Modaraba is listed on Pakistan Stock Exchange Limited (PSX).

### 2. BASIS OF PREPARATION

#### 2.1 Statement of Compliance

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

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

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

#### 2.2 Basis of measurement

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

#### 2.3 Functional and presentation currency

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

## 2.4 Critical accounting estimates and judgements

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

- i) Classification of financial instruments (note 4.4).
- ii) Provision for impairment (note 4.10)
- iii) Provision for taxation (note 4.5 and 23).
- iv) Residual values, useful lives and depreciation methods of operating fixed assets (notes 4.2)
- v) Residual values, useful lives and amortisation methods of intangible assets (notes 4.3)

## 3. New or amendments / interpretations to existing standards, interpretation and forthcoming requirements

There are new and amended standards and interpretations that are mandatory for accounting periods beginning 01 July 2018 other than those disclosed in note 4.1. These are considered not to be relevant or do not have any significant effect on the Company's financial statements and are therefore not stated in these financial statements.

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

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

- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. Management is not expecting impact of the standard on the Modaraba's financial statements.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on the Modaraba's financial statements.
- Amendment to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019). For a debt instrument to be eligible for measurement at amortised cost or fair value through other comprehensive income (FVOCI), IFRS 9 requires its contractual cash flows to meet

the criterion that cash flows are 'solely payments of principal and interest' (SPPI). Some prepayment options could result in a situation wherein the party that triggers the early termination receives compensation from the other party (negative compensation). The amendment allows that financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. The application of amendment is not likely to have an impact on the Modaraba's financial statements.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on the Modaraba's financial statements.
  
- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of this amendment does not have an impact on the Modaraba's financial statements.
  
- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.
  
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.
  
- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately and it contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements

of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
  - IAS 23 Borrowing Costs - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above improvements to standards are not likely to have material / significant impact on Modaraba's financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

Except as described below in note 4.1, the significant accounting policies are consistently applied in the preparation of these financial statements are the same as those applied in earlier periods presented.

### 4.1 Changes in significant accounting policies

The Modaraba has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' from 01 July 2018 which are effective from annual periods beginning on or after 01 July 2018 and for reporting period / year ending on or after 30 June 2019 respectively. The Commission has deferred the provisioning criteria as per IFRS 9 till 30 June 2019.

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

#### 4.1.1 IFRS 15 'Revenue from Contracts with Customers'

On 28 May 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 15 "Revenue From Contracts with Customers" which provides a unified five-step model for determining the timing, measurement and recognition of revenue. The focus of the new standard is to recognize revenue as performance obligations are

made rather than based on the transfer of risk and rewards. IFRS 15 includes a comprehensive set of disclosure requirements including qualitative and quantitative information about contracts with customers to understand the nature, amount, timing and uncertainty of revenue. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and the number of revenue related interpretations.

The Modaraba has applied the modified retrospective method upon adoption of IFRS 15 as allowed under the Standard. This method requires the recognition of the cumulative effect (without practical expedients) of initially applying IFRS 15 to retained earnings. Under this transition method, comparative information for prior periods has not been restated and continues to be reported in accordance with the previous standard under IAS 18 and related interpretations.

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

#### **4.1.2 IFRS 9 'Financial Instruments'**

IFRS 9 replaced the provisions of IAS 39 'Financial Instruments: Recognition and Measurement' that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Changes in accounting policies resulting from adoption of IFRS 9 have been applied retrospectively. The details of new significant accounting policies adopted and the nature and effect of the changes to previous accounting policies are set out below:

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

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

- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL); and
- measured at amortized cost.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of business model within which a financial asset is held; and
- The designation and revocation of previous designation of certain financial assets as measured at FVTPL.

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

For assets measured at fair value, gains and losses will either be recorded in the statement of profit or loss account or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The adoption of IFRS 9 did not have a significant effect on the Company's accounting policies related to financial liabilities.

The accounting policies that apply to financial instruments are stated in note 4.4 to the financial statements.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Modaraba's financial assets as at 30 June 2018:

	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>Original carrying Amount</b>	<b>New carrying Amount</b>
			----- (Rupees) -----	
<b>As at 30 June 2018</b>				
Bank balances	Loans and receivables	Amortized cost	<b>298,945,833</b>	<b>298,945,833</b>
Accruals and other receivables	Loans and receivables	Amortized cost	<b>26,885,565</b>	<b>26,885,565</b>
Receivable against Advisory Fee	Loans and receivables	Amortized cost	<b>96,160,932</b>	<b>96,160,932</b>
Investment against repurchase agreement	Loans and receivables	Amortized cost	<b>66,878,890</b>	<b>66,878,890</b>
Musharika Finance	Loans and receivables	Amortized cost	<b>478,813,819</b>	<b>478,813,819</b>
Diminishing Musharika Finance	Loans and receivables	Amortized cost	<b>300,000,000</b>	<b>300,000,000</b>
Long term loans	Loans and receivables	Amortized cost	<b>5,582,684</b>	<b>5,582,684</b>
Long term deposit	Loans and receivables	Amortized cost	<b>75,000</b>	<b>75,000</b>
<b>Total financial assets</b>			<b>1,273,342,723</b>	<b>1,273,342,723</b>

## ii Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. IFRS 9 introduces a forward looking expected credit loss model, rather than the current incurred loss model, when assessing the impairment of financial asset in the scope of IFRS 9. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The Modaraba applies the IFRS 9 simplified approach for measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets, except in the case of calculation impairment provision on financial assets where the requirements of the Prudential Regulations for Modaraba prevails.

Loss allowance on other securities and bank balances is measured at 12 months expected credit losses. Since these assets are short term in nature, therefore no credit loss is expected on these balances. The Modaraba is also not expecting a material impact on long receivables regarding advisory fee and long term loans.

## 4.2 Operating fixed assets

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amounts or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Modaraba and the cost of the items can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

Depreciation on all fixed assets is charged to profit and loss account on a straight-line basis in accordance with the rates specified in note of the financial statements and after taking into account residual values, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date. Depreciation is charged from the date the asset is available for use till the date of disposal.

Gains and losses on disposals are determined by comparing the sale proceeds with the carrying amounts. These are recorded in the profit and loss account in the period in which they arise.

## 4.3 Intangible assets

These are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged using the straight line method over the asset's estimated useful life at the rate stated in note, after taking into account the residual value, if any. The residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Amortisation on additions is charged from the date the assets are available for use up to the date the assets are disposed off in accordance with rate specified in respective note of the financial statements. Gain and losses on disposal of such assets, if any, are included in the profit and loss account.

## 4.4 Financial instruments

### 4.4.1 Initial measurement of financial asset

The Modaraba classifies its financial assets into following three categories:

- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL); and
- measured at amortised cost.

A financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

#### *Subsequent measurement*

Debt Investments at FVOCI	These assets are subsequently measured at fair value. Interest / markup income calculated using the effective interest method, and impairment are recognised in the statement of profit or loss account. Other net gains and losses are recognised in other comprehensive income. On de-recognition, gains and losses accumulated in other comprehensive income are reclassified to the statement of profit and loss account.
Equity Investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in the statement of profit or loss account unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to the statement of profit and loss account.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest / markup or dividend income, are recognised in the statement of profit and loss account.
Financial assets measured at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest / markup income, and impairment are recognised in the statement of profit and loss account.

### 4.4.2 Non-derivative financial assets

All non-derivative financial assets are initially recognised on trade date i.e. date on which the Modaraba becomes party to the respective contractual provisions. Non-derivative financial assets comprise loans and receivables that are financial assets with fixed or determinable payments that are not quoted in active markets and includes advisory fee receivable, diminishing musharika finance, musharika finance, modarabah term deposits, investment in repurchase agreement, long term loans, accruals, prepayments, advances and other receivables and cash and cash equivalent. The Modaraba derecognises the financial assets when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial assets are transferred or it neither transfers nor retain substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

#### 4.4.2.1 Loans and Receivables

The Modaraba's receivables comprise of Receivable against advisory fee, Musharika Finance, Diminishing Musharika Finance, deposits, other receivables and cash and cash equivalents with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective profit rate method.

#### **4.4.2.2 Investment against repurchase agreements**

Transactions of purchase under resale (reverse-repo) of securities, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the balance sheet. Amounts paid under these agreements are recognised as investment against repurchase agreement. The difference between purchase and resale price is treated as income from investment against repurchase transactions and accrued over the life of the agreement.

#### **4.4.2.3 Cash and cash equivalents**

For the purpose of presentation in statement of cash flows, cash and cash equivalents includes cash in hand, balances with banks and investments with maturities of less than three months or less from acquisition date that are subject to insignificant risk of changes in fair value and short term borrowings availed by the Modaraba, which are repayable on demand and form an integral part of the Modaraba's cash management.

#### **4.4.2.4 Financial liabilities**

Financial liabilities are initially recognised on trade date i.e. date on which the Modaraba becomes party to the respective contractual provisions. Financial liabilities include mark-up bearing borrowings and trade and other payables. The Modaraba derecognises the financial liabilities when contractual obligations are discharged or cancelled or expire. Financial liability other than at fair value through profit or loss are initially measured at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these liabilities are measured at amortised cost using effective interest rate method.

#### **4.4.2.5 Accrued expenses and other payables**

Accrued expense and other payables are recognised at amortised costs.

#### **4.4.2.6 Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Modaraba has a legally enforceable right to offset and the Modaraba intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements only when permitted by the accounting and reporting standards as applicable in Pakistan.

### **4.5 Taxation**

#### **Current**

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into account applicable tax credits, rebates and exemptions available, if any. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits for the year as reduced by amount transferred to a mandatory reserve as required under the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) are distributed to the certificate holders.

The Modaraba intends to avail the tax exemption by distributing at least 90% of its profits to the certificate holders.

#### **Deferred**

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising between the tax bases and carrying amounts of assets and liabilities appearing in the

financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax asset and liability is measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting date.

However, the Modaraba has not recognised any amount in respect of deferred tax in these financial statements as the Modaraba intends to avail the tax exemption in future years by distributing at least 90% of its profits to its certificate holders.

#### **4.6 Provisions**

Provisions are recognised when the Modaraba has a present, legal or constructive obligation as a result of past obligating events, and 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 of obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

#### **4.7 Contingent liabilities**

A contingent liability is disclosed when the Modaraba has a possible obligation as a result of past events, whose existence will be confirmed only by the occurrence or non-occurrence, of one or more uncertain future events not wholly within the control of the Modaraba; or the Modaraba has a present legal or constructive obligation that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

#### **4.8 Revenue recognition**

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

#### **4.9 Staff Retirement Benefit**

##### **4.9.1 Staff provident fund**

The Modaraba provides provident fund benefits to its eligible employees. Equal monthly contributions are made, both by the Modaraba and the employees, at the rate of 10% of basic salary and same is charged to profit and loss account when they become due.

#### **4.9.2 Staff gratuity**

Modaraba has a policy to provide gratuity benefit to its employees. Gratuity is calculated based on one month's basic salary drawn for each year of service with the Modaraba. Only eligible executives are entitled to gratuity benefit.

#### **4.10 Impairment**

##### **4.10.1 Financial assets**

The Modaraba recognises loss allowances for Expected Credit Losses (ECLs) in respect of financial assets measured at amortised cost, except in the case of calculation of impairment provision on financial assets where the requirements of the Prudential Regulations for Modaraba prevails.

The Modaraba measures loss allowances at an amount equal to lifetime ECLs, except for other securities and bank balances which are measured at 12 months expected credit losses. Since these assets are short term in nature, therefore no credit loss is expected on these balances.

##### **4.10.2 Non-financial assets**

The carrying amounts of the Modaraba's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount, being higher of value in use and fair value less costs to sell, is estimated. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

##### **4.11 Proposed profit distribution to certificate holders and transfers between reserves**

Dividends declared and transfers between reserves are recorded in the period in which the distribution and transfers are approved.

##### **4.12 Earnings per certificate**

Basic earnings per certificate is calculated by dividing the profit after taxation for the period by the weighted average number of certificates outstanding during the period. Diluted earnings per certificate is determined by adjusting the profit or loss attributable to ordinary certificate holders by taking into account the conversion of any dilutive potential ordinary certificates.

##### **4.13 Segment reporting**

As per IFRS 8: "Operating Segments", segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer has been identified as the chief operating 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 portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

##### **4.14 Expenses**

All expenses are recognised in the profit and loss account on an accrual basis.

## 5. BANK BALANCES

	Notes	2019	2018
		(Rupees)	
<i>Balances with banks</i>			
- in current accounts		<b>144,606</b>	42,638
- in deposit accounts	5.1	<b>163,990,869</b>	298,903,195
		<b>164,135,475</b>	298,945,833

- 5.1** These balances are held with Islamic Banks and Islamic Banking windows of commercial banks and carry profit at an average rate of 4.1% to 11% (2018: 3.9% to 6.25%) per annum.

## 6. MODARABAH TERM DEPOSIT

	Notes	2019	2018
		(Rupees)	
Modarabah Term Deposit	6.1	<b>200,000,000</b>	-

- 6.1** During the year, AWWAL Modaraba (Rabb-ul-Maal) invested an amount of Rs. 200 million in the General Pool created by Related Party (Mudarib or Investment Manager) in accordance with the principles of Shariah. As per the terms of the agreement, this term deposit will mature on 2 July 2020 and the Related Party shall pay profit to the Modaraba on maturity with profit sharing ratio between Modaraba and Related Party of 94.12% and 5.88%, and having profit rate of 12% and 0.75% respectively.

## 7. ACCRUALS, PREPAYMENTS, ADVANCES AND OTHER RECEIVABLES

	Notes	2019	2018
		(Rupees)	
Accrued profit on Investment against repurchase agreement		<b>11,414,712</b>	5,078,507
Accrued profit on Musharika Finance		<b>4,503,270</b>	3,210,483
Accrued profit on Diminishing Musharika Finance		<b>22,736,783</b>	12,962,794
Accrued profit on Modaraba Term deposit		<b>197,260</b>	-
Accrued profit on deposit accounts		<b>2,633,102</b>	1,366,617
Receivable from employees	7.1	<b>100,380</b>	80,321
Other advance		<b>69,678</b>	-
Prepayments	7.2	<b>457,754</b>	471,452
Other receivables	7.3	<b>3,181,890</b>	4,267,164
		<b>45,294,829</b>	27,437,338

- 7.1** This represents expenses incurred by the Modaraba on behalf of its employees which will be adjusted against their respective salaries.
- 7.2** This includes Rs.14,920 pertaining to an account maintained with the State Bank of Pakistan for the collection of ECIB Charges.
- 7.3** This comprises of sums receivable from existing and potential customers on account of expenses incurred and paid for by the Modaraba on their behalf and other dues.

**8. RECEIVABLE AGAINST ADVISORY FEE**

	Notes	2019	2018
		(Rupees)	
Receivable against advisory fee	8.1	<b>83,858,019</b>	96,160,932
less: current portion of fee		<b>(49,150,553)</b>	(71,717,084)
		<b>34,707,466</b>	24,443,848

- 8.1** This represents advisory fee receivable from customers in connection with advisory services rendered by the Modaraba.

**9. INVESTMENT AGAINST REPURCHASE AGREEMENT**

	Notes	2019	2018
		(Rupees)	
Investment against repurchase agreement - secured	9.1	<b>48,878,899</b>	66,878,890
less: current portion of investment		<b>(48,878,899)</b>	(17,999,991)
		<b>-</b>	48,878,899

- 9.1** On 16 January 2018, the Modaraba has entered into an agreement with a shareholder of a company (investee company) for the purchase of 2,051,150 shares of the investee company. Concurrently, the Modaraba has entered into a separate agreement with another shareholder of the investee company for the selling of underlying shares after a period of eighteen months from the date of purchase at an agreed price. The underlying shares have been transferred in the name of the Modaraba. Subsequently the tenor of facility was extended for one year.

**10. MUSHARIKA FINANCE**

	Notes	2019	2018
		(Rupees)	
Musharika finance - secured	10.1	<b>369,985,326</b>	478,813,819
less: current portion of Musharika Finance		<b>(276,993,084)</b>	(345,040,495)
		<b>92,992,242</b>	133,773,324

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

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

## 10.2 Contractual rentals receivable on Musharika Finance facilities:

	2019			Total	2018			Total
	Due within one year	Due after one year but within five years	Due after five years		Due within one year	Due after one year but within five years	Due after five years	
----- (Rupees) -----								
<i>Musharika Finance facilities:</i>								
- Principal repayments	276,993,084	92,992,242	-	369,985,326	345,040,495	133,773,324	-	478,813,819
- Profit	50,389,302	10,592,689	-	60,981,991	38,940,867	12,435,366	-	51,376,233
	<b>327,382,386</b>	<b>103,584,931</b>	<b>-</b>	<b>430,967,317</b>	<b>383,981,362</b>	<b>146,208,690</b>	<b>-</b>	<b>530,190,052</b>

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

## 11. DIMINISHING MUSHARIKA FINANCE

	Notes	2019	2018
(Rupees)			
Diminishing Musharika Finance - secured	11.2 & 11.3	300,000,000	300,000,000
less: current portion of Diminishing Musharika Finance		(13,888,890)	-
		<b>286,111,110</b>	300,000,000
<b>11.1</b> <i>Opening balance</i>		<b>300,000,000</b>	286,974,209
<i>Facilities extended during the year</i>		-	100,317,458
<i>Less:</i>			
<i>Repayments during the year</i>		-	(6,874,996)
<i>Settlements during the year</i>		-	(80,416,671)
		-	(87,291,667)
<i>Closing balance</i>		<b>300,000,000</b>	300,000,000

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

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

The above facilities have maturity dates up to 20 April 2026 and carry profit ranging from 3 months KIBOR plus 2.5% to 6 months KIBOR plus 5%.

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

	2019				2018			
	Due within one year	Due after one year but within five years	Due after five years	Total	Due within one year	Due after one year but within five years	Due after five years	Total
<i>Finance facilities</i>								
- Principal repayments	13,888,890	219,444,443	66,666,667	300,000,000	-	260,000,000	40,000,000	300,000,000
- Profit	13,350,967	156,062,553	57,981,164	227,394,684	31,926,849	78,916,754	3,465,469	114,309,072
	<b>27,239,857</b>	<b>375,506,996</b>	<b>124,647,831</b>	<b>527,394,684</b>	<b>31,926,849</b>	<b>338,916,754</b>	<b>43,465,469</b>	<b>414,309,072</b>

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

#### 12. LONG TERM LOANS - considered good, unsecured

	Notes	2019	2018
			(Rupees)
Due from employees	12.1	<b>6,536,042</b>	5,582,684
Less: receivable within one year		<b>(2,089,758)</b>	(1,567,430)
		<b>4,446,284</b>	4,015,254

12.1 Loans to executives are provided by the Modaraba for the purchase of motor vehicles and other purposes in accordance with the terms of their employment. These loans are interest free and have tenor of 5 years.

12.2 Maximum balance due from employees during the year was Rs. 5.12 million (2018: 3.49 million).

#### 13. INTANGIBLE ASSET

	2019	2018
		(Rupees)
<b>Cost</b>		
Balance as at 01 July	<b>420,731</b>	420,731
Additions	<b>7,910,000</b>	-
Disposal	-	-
<b>Balance as at 30 June</b>	<b>8,330,731</b>	420,731
<b>Amortisation</b>		
Balance as at 01 July	<b>162,131</b>	21,899
Charge for the year	<b>1,607,408</b>	140,232
Disposal	-	-
<b>Balance as at 30 June</b>	<b>1,769,539</b>	162,131
<b>Net book value as at 30 June</b>	<b>6,561,192</b>	258,600
<b>Annual rate of amortisation</b>	<b>33.33%</b>	33.33%

**14. OPERATING FIXED ASSETS**

	Furniture and Fittings	Office equipment, computer and allied equipment	Motor vehicles	Total
	----- (Rupees) -----			
<b>Cost</b>				
Balance as at 01 July 2017	47,400	1,896,797	1,613,740	3,557,937
Additions	26,325	573,130	-	599,455
Disposal	-	(15,000)	-	(15,000)
Balance as at 30 June 2018	73,725	2,454,927	1,613,740	4,142,392
<b>Balance as at 1 July 2018</b>	<b>73,725</b>	<b>2,454,927</b>	<b>1,613,740</b>	<b>4,142,392</b>
<b>Additions</b>	<b>-</b>	<b>123,503</b>	<b>-</b>	<b>123,503</b>
<b>Disposal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at 30 June 2019</b>	<b>73,725</b>	<b>2,578,430</b>	<b>1,613,740</b>	<b>4,265,895</b>
<b>Accumulated depreciation</b>				
Balance as at 01 July 2017	2,760	243,473	203,949	450,182
Charge for the year	11,123	761,510	363,084	1,135,717
Disposal	-	(15,000)	-	(15,000)
Balance as at 30 June 2018	13,883	989,983	567,033	1,570,899
<b>Balance as at 01 July 2018</b>	<b>13,883</b>	<b>989,983</b>	<b>567,033</b>	<b>1,570,899</b>
<b>Charge for the year</b>	<b>14,748</b>	<b>853,487</b>	<b>363,084</b>	<b>1,231,319</b>
<b>Disposal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at 30 June 2019</b>	<b>28,631</b>	<b>1,843,470</b>	<b>930,117</b>	<b>2,802,218</b>
Net book value as at 30 June 2018	59,842	1,464,944	1,046,707	2,571,493
<b>Net book value as at 30 June 2019</b>	<b>45,094</b>	<b>734,960</b>	<b>683,623</b>	<b>1,463,677</b>
<b>Annual Rates of depreciation</b>	<b>20%</b>	<b>33% - 50%</b>	<b>25%</b>	

**15. ACCRUED EXPENSES**

	Notes	2019	2018
		(Rupees)	
Audit remuneration payable		359,640	329,751
Leave fare allowance and staff medical accrual		4,415,926	4,831,881
Sindh sales tax payable		5,982,573	13,788,488
Provision for Workers' Welfare Fund	15.1	9,754,236	7,481,112
Advances from Customers	15.2	2,943,121	3,416,334
Others	15.3	4,871,660	5,176,735
		<b>28,327,156</b>	<b>35,024,301</b>

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

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

**15.3** This includes staff retirement benefit payable amounting to Rs. 4.71 million (2018: Rs. 3.13 million).

## **16. PAYABLE TO RELATED PARTIES**

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

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

## **17. CERTIFICATE CAPITAL**

### **Authorised certificate capital**

2019	2018		2019	2018
Number of certificates			(Rupees)	
<u>100,000,000</u>	<u>100,000,000</u>	Modaraba certificates of Rs. 10 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>

### **Issued, subscribed and paid-up certificate capital**

<u>100,000,000</u>	<u>100,000,000</u>	each fully paid in cash	<u>1,000,000,000</u>	<u>1,000,000,000</u>
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**17.1** As at 30 June 2019, Awwal Modaraba Management Limited (the Management Company) and Pak Brunei Investment Company Limited held 10,000,000 (2018: 10,000,000) and 89,780,566 (2018: 89,780,566) certificates of Rs. 10 each respectively.

## **18. STATUTORY RESERVE**

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

During the current year, the Modaraba has transferred an amount of Rs. 22.28 million (2018: Rs. 36.75 million) which represents 20% (2018: 20%) of the profit after taxation for the year.

## 19. RECONCILIATION OF MOVEMENT OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Liabilities			Equity			Total
	Accrued expenses	Payable to related parties	Unclaimed profit distribution	Issued, subscribed and paid-up Certificate capital	Statutory reserve	Unappropriated profit	
<b>Balance as at 01 July 2018</b>	35,024,301	26,652,246	42,217	1,000,000,000	73,314,890	148,059,563	1,283,093,217
<b>Changes from financing cash flows</b>							
Dividend paid	-	-	-	-	-	(148,000,000)	(148,000,000)
<b>Total changes from financing cash flows</b>	-	-	-	-	-	(148,000,000)	(148,000,000)
<b>Liability - related</b>							
Changes in Accrued expenses	(6,697,144)	-	-	-	-	-	(6,697,144)
Changes in Payable to related parties	-	(5,548,908)	-	-	-	-	(5,548,908)
Changes in Unclaimed Dividend	-	-	101,978	-	-	-	101,978
Transfer to Unappropriated profit	-	-	-	-	22,276,611	-	22,276,611
Transfer to Statutory reserve	-	-	-	-	-	(22,276,611)	(22,276,611)
Profit for the year	-	-	-	-	-	111,383,055	111,383,055
Other comprehensive income	-	-	-	-	-	-	-
- net of deferred tax	-	-	-	-	-	-	-
	(6,697,144)	(5,548,908)	101,978	-	22,276,611	89,106,444	99,238,981
<b>Balance as at 30 June 2019</b>	<b>28,327,157</b>	<b>21,103,338</b>	<b>144,195</b>	<b>1,000,000,000</b>	<b>95,591,501</b>	<b>89,166,007</b>	<b>1,234,332,198</b>

## 20. CONTINGENCIES AND COMMITMENTS

- 20.1** Details of contingencies regarding Services Sales Tax on Management Company's remuneration and Provision for Sindh Workers' Welfare Fund are disclosed in notes 22 and 15.1 respectively.
- 20.2** On 24 January 2017, the Modaraba had entered into a Musharika Finance Agreement with a customer for Rs. 30 million out of which Rs. 18.2 million has already been disbursed as disclosed in note 10 of these financial statements.

## 21. ADMINISTRATIVE AND OPERATING EXPENSES

	Notes	2019	2018
(Rupees)			
Salaries and other staff benefits	21.1	36,203,053	33,897,299
Amortisation on intangible asset	13	1,607,408	140,232
Depreciation on operating fixed assets	14	1,231,319	1,135,717
Fees and subscriptions		1,791,491	1,334,184
Advertising, travelling and entertainment expenses		1,197,533	1,517,632
Telecommunication		293,248	333,852
Postage		50,756	28,609
Repair and maintenance		185,174	140,947
Printing and Stationery		747,537	1,498,507
Auditor's remuneration	21.2	431,069	454,050
Legal and professional charges		1,686,753	2,150,693
Insurance		106,572	100,389
Shared service expense	21.3	9,512,436	8,391,693
Other expenses		2,109,418	797,506
		<b>57,153,767</b>	<b>51,921,310</b>

- 21.1** Salaries and other benefits include Rs. 1.581 million (2018: Rs. 2.74 million) in respect of staff retirement benefits.

**21.2 Auditor's Remuneration**

	2019	2018
	(Rupees)	
Statutory audit fee	210,000	192,500
Half yearly review fee	58,000	55,000
Fee for review of compliance with the Code of Corporate Governance	27,000	25,000
Fee for other certifications	75,000	125,000
Sindh Sales Tax	31,280	31,800
Out of pocket expenses	29,789	24,750
	<b>431,069</b>	<b>454,050</b>

**21.3** This includes shared service cost of the Modaraba charged by a related party (Holding Company) under a service level agreement.

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

The Sindh Revenue Board (SRB) has imposed Sindh Sales Tax (SST) on the Modaraba Management Company's remuneration with effect from 01 November 2011. However, certain modaraba management companies have approached the Honourable Sindh High Court (the Court) and Appellate Tribunal of SRB, challenging the levy of SST on management company's remuneration. The Modaraba Management Company has not received any demand notice from SRB for payment of SST on Management Company's remuneration and accordingly, based on legal advisor's opinion, can neither file any petition challenging the levy of SST on Management Company's remuneration nor can join the proceedings of pending petition in the Court. As a matter of abundant caution the management is accruing SST on Management Company's remuneration and will discharge the liability on direction of the Court based on outcome of the petition filed by other modaraba management companies.

**23. TAXATION**

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

**23.2** The income tax returns of the Modaraba have been filed up to the financial year ended 30 June 2018 which are deemed assessed under the Income Tax Ordinance 2001, unless selected for audit by the taxation authorities.

## 24. EARNINGS PER CERTIFICATE - BASIC AND DILUTED

	2019	2018
<b>Basic</b>		
Profit for the year after taxation	111,383,055	183,733,716
		(Rupees)
Weighted average number of certificates outstanding during the year	100,000,000	100,000,000
		(Number)
Earnings per certificate	1.11	1.84
		(Rupees)

### Diluted

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

## 25. REMUNERATION OF EXECUTIVES AND OTHER EMPLOYEES

	2019		
	Executives (Key management personnel)	Other employees	Total
	----- (Rupees) -----		
Basic salary	8,693,453	4,544,954	13,238,407
Allowances	3,912,042	2,045,208	5,957,250
Bonus	5,423,598	2,283,543	7,707,141
Provident fund	869,340	413,716	1,283,056
Gratuity fund	1,472,163	108,872	1,581,035
Contribution to Employees' Old Age Benefit	23,400	76,700	100,100
Other benefits	4,549,126	1,786,938	6,336,064
	24,943,122	11,259,931	36,203,053
	----- (Numbers) -----		
Number of employees as at 30 June 2019	3	9	12

	2018		
	Executives (Key management personnel)	Other employees	Total
	----- (Rupees) -----		
Basic salary	7,708,053	3,723,344	11,431,397
Allowances	3,468,615	1,675,520	5,144,135
Bonus	5,779,096	1,718,596	7,497,692
Provident fund	770,802	192,336	963,138
Gratuity fund	2,567,418	169,848	2,737,266
Contribution to Employees' Old Age Benefit	23,400	59,972	83,372
Other benefits	3,749,895	1,211,240	4,961,135
	24,067,279	8,750,856	32,818,135
	----- (Numbers) -----		
Number of employees as at 30 June 2018	3	9	12

## 26. FINANCIAL RISK MANAGEMENT

The Modaraba's activities expose it to a variety of financial risks :

- Market risk
- Credit risk
- Liquidity risk

The Modaraba's overall risk management programme seeks to maximise the returns derived to the level of risks to which the Modaraba is exposed and seeks to minimize potential adverse effects on the Modaraba's financial performance. Risk is inherent in the Modaraba's activities but it is managed through process of on-going identification, measurement and monitoring, subject to risk limits and other controls.

The Board of Directors of the Management Company have overall responsibility for the establishment and oversight of Modaraba's risk framework including developing and monitoring the Modaraba risk management policies.

### 26.1 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba, at present, is not exposed to currency risk as all transactions are carried out in Pak Rupees.

#### *Profit rate risk*

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market profit rates. Majority of profit bearing financial instruments are reset within three to six months to prevailing KIBOR thereby limiting exposure in this respect.

As at 30 June 2019, the Musharika and Diminishing Musharika Facilities are exposed to profit rate risk as detailed in Note 10 and 11 to these financial statements.

#### *Sensitivity analysis for variable and fixed rate instruments*

In case of 100 basis points increase / decrease in profit rates on the last repricing date of variable rate instruments and fixed rate instruments with all other variables held constant, the net profit of the Modaraba will be higher / lower by Rs. 8,341,208 (2018: Rs. 797,026). The composition of the Modaraba's portfolio of financial instruments and profit rates are expected to change over time. Therefore, the sensitivity analysis prepared as of 30 June 2019 is not necessarily indicative of the effect on the Modaraba's profit and loss and reserves due to changes in profit rates.

### *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at 30 June 2019, the Modaraba does not hold any instruments which exposed it to price risk.

## **26.2 Credit Risk**

Credit risk is the risk of financial loss to the Modaraba if the counterparty to a financial instrument fails to meet its contractual obligations. The risk is generally limited to principal amounts and accrued interest thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Modaraba Rules and Regulations. The carrying amount of respective financial assets represents the maximum credit exposure at the reporting date.

	<b>2019</b>	2018
	(Rupees)	
Bank balances	<b>164,135,475</b>	298,945,833
Modaraba Term Deposit	<b>200,000,000</b>	-
Accruals and other receivables	<b>44,667,017</b>	26,885,565
Receivable against advisory fee	<b>83,858,019</b>	96,160,932
Investment against repurchase agreement	<b>48,878,899</b>	66,878,890
Musharika Finance	<b>369,985,326</b>	478,813,819
Diminishing Musharika Finance	<b>300,000,000</b>	300,000,000
Long term deposit	<b>75,000</b>	75,000
	<b>1,211,599,736</b>	1,267,760,039

### *Bank balances*

The Modaraba maintains balances with commercial banks having reasonably high long term credit ratings which are summarized as follows:

	<b>2019</b>	2018
	(Rupees)	
AAA	<b>107,865,340</b>	130,162,016
AA-	<b>56,270,135</b>	168,783,817
	<b>164,135,475</b>	298,945,833

### *Advisory fee*

Advisory fee is to be recovered in cash and management is not expecting any material loss there against as the counterparties are referred by the Holding Company and the customers will be availing financing facilities either from the Holding Company or the Modaraba based on credit evaluation performed for which advisory fee is charged.

#### *Musharika Finance, Diminishing Musharika Finance and Investment against repurchase agreement*

The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP). The Modaraba aims to manage its credit risk exposure through diversification of its Musharika arrangements to avoid undue concentration of risks with individuals or groups of customers in specific locations or businesses. Credit risk is further mitigated through proper due diligence, appropriate transaction structuring and adequate collateralization of the exposure. In addition, the risk is mitigated through adequate insurance coverage of the assets under charge of the Modaraba. The respective collateral details against the Modaraba's exposure is detailed in notes of respective investments.

Investment against repurchase agreement is secured against the shares held as collateral. The shares purchased will come under pledge with the Modaraba until complete divestment of all shares.

#### *Long term deposit*

This represents security deposit maintained with the Central Depository Company of Pakistan Limited. Such deposit is refundable upon termination of services and management does not expect significant credit risk to arise thereagainst.

#### *Past due but not impaired*

Certain receivables against diminishing musharika and musharika finance facility were past due as at 30 June 2019 but the related amounts were recovered subsequently. The Modaraba provides financing facilities to financially distressed companies, hence, delays in recovering the due amounts is anticipated and is an inherent risk in the ordinary course of its business. However, management closely monitors the investment portfolio to identify indicators for impairment.

The Modaraba considers impairing its portfolio based on the provisioning requirements of the Prudential Regulations for Modarabas issued by the SECP which includes subjective evaluation of the portfolio of the Modaraba on an on-going basis. The Modaraba also performs subjective evaluation of performing and non-performing portfolios based on past experience, repayment pattern and consideration of financial positions of counter parties and has the option to downgrade the category of classification determined on the basis of Prudential Regulations. Further, management considers applicable Prudential Regulations, for the purpose of ascertaining the forced sales value and the haircut that needs to be applied thereagainst.

#### *Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Modaraba's total credit exposure. Concentration of credit risk indicate the relative sensitivity of the Modaraba's performance to developments affecting a particular industry.

The Modaraba manages credit risks and its concentration through diversification of activities to avoid undue concentration of risk with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for geographical and industrial sectors.

Details of the Modaraba's concentration of credit risk of financial instruments by industrial distributions are as follows:

Sectors	2019		2018	
	Rupees	%	Rupees	%
Cable and Electrical Goods	219,712,043	21.85%	233,599,648	18.49%
Banks	164,135,475	16.32%	298,945,833	23.66%
Real Estate and Developers	118,719,187	11.81%	127,987,761	10.13%
Food and Allied	161,983,035	16.11%	194,444,708	15.39%
Engineering	68,163,572	6.78%	88,344,948	6.99%
Pharmaceutical	-	0.00%	18,908,317	1.50%
Cement	202,269,151	20.12%	201,125,425	15.92%
Security Services	8,979,614	0.89%	14,816,630	1.17%
Others	61,550,407	6.12%	85,202,789	6.74%
	1,005,512,484	100.00	1,263,376,059	100.00%

### 26.3 Liquidity risk

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 stressed conditions, without incurring unacceptable losses or risking damage to the Modaraba's reputation. The following are the contractual maturities of financial liabilities:

	2019				
	Carrying amount	Contractual cash flows	Upto 1 month	Over 1 month to 3 months	Over 3 months to 1 year
	------(Rupees)-----				
<b>Financial liabilities</b>					
Accrued expenses	12,590,347	(12,590,347)	358,032	8,010,223	4,222,093
Payable to related parties	21,103,338	(21,103,338)	1,108,578	19,994,760	-
	33,693,685	(33,693,685)	1,466,610	28,004,983	4,222,093
	------(Rupees)-----				
	2018				
	Carrying amount	Contractual cash flows	Upto 1 month	Over 1 month to 3 months	Over 3 months to 1 year
	------(Rupees)-----				
<b>Financial liabilities</b>					
Accrued expenses	13,754,701	(13,754,701)	147,079	3,266,526	10,341,096
Payable to related parties	26,652,246	(26,652,246)	-	26,652,246	-
	40,406,947	(40,406,947)	147,079	29,918,772	10,341,096

The table above shows the undiscounted cash flows of the Modaraba's financial liabilities on the basis of their earliest possible contractual maturity or settlement.

## 26.4 Financial instruments by category

	2019		
	At amortised cost	FVTPL	Other financial liabilities
------(Rupees)-----			
<b>Assets</b>			
Bank balances	164,135,475	-	-
Modarabah term deposit	200,000,000	-	-
Accruals and other receivables	44,667,017	-	-
Receivable against Advisory Fee	83,858,019	-	-
Investment against repurchase agreement	48,878,899	-	-
Musharika Finance Facility	369,985,326	-	-
Diminishing Musharika Finance Facility	300,000,000	-	-
Long term loans	6,536,042	-	-
Long term deposit	75,000	-	-
	<b>1,218,135,778</b>	-	-
<b>Liabilities</b>			
Accrued expenses	-	-	12,590,347
Payable to related parties	-	-	21,103,338
	-	-	<b>33,693,685</b>
<b>2018</b>			
	At amortised cost	FVTPL	Other financial liabilities
------(Rupees)-----			
<b>Assets</b>			
Bank balances	298,945,833	-	-
Modarabah term deposit	-	-	-
Accruals and other receivables	26,885,565	-	-
Receivable against Advisory Fee	96,160,932	-	-
Investment against repurchase agreement	66,878,890	-	-
Musharika Finance	478,813,819	-	-
Diminishing Musharika Finance	300,000,000	-	-
Long term loans	5,582,684	-	-
Receivable from related party	-	-	-
Short term investment	-	-	-
Long term deposit	75,000	-	-
	<b>1,273,342,723</b>	-	-
<b>Liabilities</b>			
Accrued expenses	-	-	13,754,701
Payable to related parties	-	-	26,652,246
	-	-	<b>40,406,947</b>

## 27. CAPITAL MANAGEMENT

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

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

The Modaraba is not subject to externally imposed capital requirements.

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

2019					
FVTPL	Carrying amount / cost		Level 1	Fair value	
	At amortised cost	Other financial liabilities		Level 2	Level 3
(Rupees)					
<b>Financial assets not</b>					
Bank balances	-	164,135,475	-	-	-
Modaraba Term Deposit	-	200,000,000	-	-	-
Accruals and other receivables	-	44,667,017	-	-	-
Receivable against advisory fee	-	83,858,019	-	-	-
Investment against repurchase agreement	-	48,878,899	-	-	-
Musharika Finance	-	369,985,326	-	-	-
Diminishing Musharika Finance	-	300,000,000	-	-	-
Long term loans	-	6,536,042	-	-	-
Long term deposit	-	75,000	-	-	-
<b>Financial liabilities not</b>					
Accrued expenses	-	-	12,590,347	-	-
Payable to related parties	-	-	21,103,338	-	-

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

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

## 29. RELATED PARTY TRANSACTIONS

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

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

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

### 29.1 Details of the transactions with related parties

	2019	2018
	(Rupees)	
<b>Pak Brunei Investment Company Limited</b>		
<b>- Holding company of the Management company</b>		
Modaraba Term Deposit	200,000,000	-
Profit accrued during the year	197,260	-
Advisory fee income	-	7,250,000
Shared service expense	9,512,436	8,391,693
Other expenses	589,355	95,987
<b>Awwal Modaraba Management Limited</b>		
<b>- Management Company</b>		
Management Company's remuneration	14,479,310	23,884,579

### 29.2 Amounts outstanding as at year end

<b>Pak Brunei Investment Company Limited</b>		
<b>- Holding company of the Management company</b>		
Payable in respect of shared services	1,108,578	-
Modaraba Term Deposit	200,000,000	-
Receivable balance in respect of Modarabah Term Deposit - Profit Accrued	197,260	-
<b>Awwal Modaraba Management Limited</b>		
<b>- Management Company</b>		
Payable balance against Management Company's remuneration - net	19,994,760	26,652,246
<b>Staff retirement benefits funds</b>		
Contribution payable to staff provident fund	-	-
Contribution payable to staff gratuity fund	4,707,462	3,126,427

## 30. CORRESPONDING FIGURES

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

**31. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD**

The Board of Directors of the Management Company has approved dividend at the rate of Re. 0.89 (2018: Rs. 1.48) per certificate for the year ended 30 June 2019, resulting in a total distribution of profit amounting to Rs. 89 million (2018: Rs. 148 million), in its meeting held on 29 August 2019 which is more than 90% of the net profit for the year ended 30 June 2019, after appropriation to the statutory (mandatory) reserve as required under the Modaraba Regulations.

These financial statements do not reflect this proposed distribution which will be incorporated in the financial statements for the year ending 30 June 2020.

**32. DATE OF AUTHORISATION**

These financial statements were authorised for issue on 29 August 2019 by the Board of Directors of the Management Company.



Chief Financial Officer

For Awwal Modaraba Management Limited  
(Management Company)



Chief Executive Officer



Director



Director

## NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the 4th Annual Review Meeting of certificate-holders of Awwal Modaraba will be held on Friday, 11 October 2019 at 03:00 p.m. at the Registered Office of Awwal Modaraba Management Limited situated at Horizon Vista, Commercial 10, Block No. 4, Scheme No. 5, Clifton, Karachi, to review the performance of the Modaraba for the year ended 30 June 2019.

On behalf of the Board



Iqra Sajjad  
Company Secretary  
Awwal Modaraba Management Limited  
Managers of Awwal Modaraba  
20 September 2019  
Karachi

### Notes:

1. The certificate transfer books shall remain closed from Friday, 27 September 2019 to Friday, 11 October 2019 (both days inclusive). Transfers received in order at the office of the Registrar of Awwal Modaraba i.e. M/s THK Associates (Private) Limited., before the close of business hours on Thursday, 26 September 2019 will be treated as in time for the purpose of entitlement to dividend to the transferees and to attend the Annual Review Meeting.
2. The Certificate holders are advised to notify change in their address, if any, to the Share Registrars, M/s THK Associates (Private) Limited, at 1st Floor, 40-C, Block 6, PECHS Karachi – 75400, Telephone No: 021-111-000-322, Fax No: 021-35655595.
3. **For attending the Meeting:**
  - i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original CNIC or original passport at the time of attending the Meeting.
  - ii) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting.
4. In terms of Securities and Exchange Commission of Pakistan's (SECP) S.R.O. 634 (I)/ 2014, the Annual Report for the year ended 30 June 2019 will also be placed on Modaraba's website [www.awwal.com.pk/financials](http://www.awwal.com.pk/financials) simultaneously with the dispatch of the same to the certificate holders.
5. **Deduction of withholding tax on the amount of Dividend**  
The Government of Pakistan through the Finance Act, 2019 has made certain amendments in Section 150 of the Income Tax Ordinance, 2001 whereby different rates are prescribed for deduction of withholding tax on the amount of dividend paid by the companies. These tax rates are as under:
 

<b>a. Rate of tax deduction for filer of income tax returns:</b>	<b>25%</b>
<b>b. Rate of tax deduction for non-filers of income tax return:</b>	<b>50%</b>

All the certificate-holders whose names are not entered into the Active Tax Payers List (ATL) as maintained by FBR, despite the fact that they are filers, are advised to make sure that their names are entered into ATL before the start of book closure date otherwise tax on their cash dividend will be deducted @ 50% instead of 25%.

A valid Exemption Certificate under Section 159 of the Ordinance is mandatory to claim exemption of withholding tax under Clause 47B of Part-IV of Second Schedule to the Ordinance. Those who fall in the category mentioned in the above Clause must provide a valid Tax Exemption Certificate to our Shares Registrar; else tax will be deducted on

dividend amount as per rates prescribed in Section 150 of the Ordinance. Certificate holders desiring non-deduction of zakat are also requested to submit a valid declaration for non-deduction of zakat.

The corporate certificate holders having CDC accounts are required to have their National Tax Number (NTN) updated with their respective participants, whereas corporate physical certificate holders should send a copy of their NTN certificate to the Company or its Share Registrar. The certificate holders while sending NTN or NTN certificates, as the case may be, must quote company name and their respective folio numbers.

Certificate holders seeking exemption from deduction of income tax or are eligible for deduction at a reduced rate are requested to submit a valid tax certificate or necessary documentary evidence as the case may be. Certificate holders desiring non-deduction of zakat are also requested to submit a valid declaration for non-deduction of zakat.

#### 6. Withholding tax on dividend in case of Joint Account Holders

For shareholders holding their shares jointly as per the clarification issued by the FBR, withholding tax will be determined separately on "Filer / Non-Filer" status of the principal shareholder as well as the joint-holder(s) based on their shareholding proportions. Therefore, all certificate holders who hold certificates jointly are requested to provide shareholding proportions of principal certificate holder and joint-holder(s) in respect of certificates held by them to our Share Registrar, in writing as follows:

Folio No. / CDC Account No.				
	Name and CNIC No.	Certificate holding Proportion (No. of Certificates)	Name and CNIC No.	Certificate holding Proportion (No. of Certificates)

The required information must reach our Share Registrar before close of business on Thursday, 26 September 2019; otherwise it will be assumed that the certificates are equally held by Principal certificate holder and Joint-holder(s).

7. As per the directives issued by the Securities and Exchange Commission of Pakistan ("SECP") vide S.R.O.787(1)2014 dated 08 September 2014, companies are allowed the circulation of Audited Financial Statements along with Notice of Annual Review Meeting to their certificate holders through email. Certificate holders who wish to receive Modaraba's Annual Report via email in future are requested to fill the consent form (available at Awwal Modaraba website) and return it to our Share Registrar at 1st Floor, 40-C, Block 6, PECHS Karachi – 75400, Telephone No: 021-111-000-322, Fax No: 021-35655595.

#### 8. Payment of Dividend through electronic mode (mandatory)

Under the provisions of Section 242 of the Companies Act, 2017, it is mandatory for a listed company to pay cash dividend to its shareholders only through electronic mode directly into bank account designated by the entitled shareholders. Therefore, all the certificate holders of Awwal Modaraba are hereby advised to provide dividend mandate of their respective banks in the "Dividend Mandate Form" available on Company's website. Certificate holders maintaining shareholding under Central Depository System (CDS) are advised to submit their bank mandate information directly to the relevant participant / CDC Investor Account Service. In the absence of bank account details or in case of incomplete details, the Company will be constrained to withhold the payment of cash dividend of those shareholders who have not provided the same. For more information, you may contact our share registrar at THK Associates (Private) Limited: 1st Floor, 40-C, Block 6, PECHS Karachi – 75400, Telephone No: 021-111-000-322, Fax No: 021-35655595.

#### 9. Unclaimed Dividends and Physical Modaraba Certificates

Certificate holders, who by any reason, could not claim their dividends or did not collect their physical Modaraba certificates, are advised to contact our Shares Registrars, M/s THK Associates (Private) Limited, to collect / enquire about their unclaimed dividend or pending Modaraba certificates, if any. Please note that in compliance with Section 244 of the Companies Act, 2017, after having completed the stipulated procedures, all dividends unclaimed for a period of three years, from the date due and payable, shall be deposited to the credit of the Federal Government and in case of shares/certificates, shall be delivered to the Securities & Exchange Commission of Pakistan.

## DIVIDEND MANDATE FORM

Date:

I hereby wish to communicate my desire to receive my dividends directly in my bank account as detailed below:

1. Name of Certificate Holder(s): \_\_\_\_\_
2. Folio Number: \_\_\_\_\_
3. Postal Address: \_\_\_\_\_
4. Contact Number: \_\_\_\_\_
5. Name of Bank: \_\_\_\_\_
6. Bank Branch & Full Mailing Address: \_\_\_\_\_
7. Title of Bank Account: \_\_\_\_\_
8. Bank Account No. (complete with code): \_\_\_\_\_
9. IBAN Number (complete with code): \_\_\_\_\_
10. CNIC No. (attach copy): \_\_\_\_\_
11. NTN (in case of corporate entity, attach copy): \_\_\_\_\_

It is stated that the above particulars given by me are correct to the best of my knowledge and I shall keep the Company informed in case of any changes in the said particulars in future.

### INDIVIDUAL CERTIFICATE HOLDER(S)

\_\_\_\_\_  
Signature

CNIC No. \_\_\_\_\_  
(copy attached)

### CORPORATE ENTITY

\_\_\_\_\_  
Authorized Signatory(ies)

NTN No. \_\_\_\_\_  
(copy attached)








*(In case Certificates held in CDC, then please inform concerned Participant / CDC Investor Account Services).*










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