



M O D A R A B A

# **Crescent Standard Modaraba**

(An Islamic Financial Institution)

Managed by:

**B.R.R. Investments (Private) Limited**

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**2013**



M O D A R A B A

**CRESCENT STANDARD MODARABA**  
(An Islamic Financial Institution)



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## **CORPORATE INFORMATION**

|                                 |  |
|---------------------------------|--|
| Modaraba Company                | B.R.R. Investments (Private) Limited   |
| Chairman                        | Mr. Rafique Dawood   |
| Chief Executive                 | Mr. Ayaz Dawood  |
| Directors                       | Mr. Waqas Anwer Qureshi - Director<br>Mr. Aftab Mustafa Khan - Director (Resigned)   |
| Audit Committee                 | Mr. Waqas Anwer Qureshi - Chairman<br>Mr. Rafique Dawood - Member<br>Mr. Aftab Mustafa Khan - Member (Resigned)  |
| HR and Remuneration Committee   | Mr. Waqas Anwer Qureshi - Chairman<br>Mr. Rafique Dawood - Member<br>Mr. Aftab Mustafa Khan - Member (Resigned)  |
| Shariah Advisor                 | Mufti Syed Sabir Hussain   |
| Chief Financial Officer         | Syed Tariq Masood  |
| Company Secretary               | Mr. Tahir Mehmood  |
| Auditors                        | Ernst & Young Ford Rhodes Sidat Hyder<br>Chartered Accountants   |
| Legal Advisor                   | Minto & Mirza  |
| Bankers                         | Al -Baraka Bank(Pakistan) Limited  |
| Web-site                        | <a href="http://www.firstdawood.com/csm">www.firstdawood.com/csm</a>   |
| Registered Office & Head Office | 1900-B, Saima Trade Towers,<br>I.I Chundrigar Road, Karachi-74000<br>PABX 92-21-32271875-80<br>92-21- 37010960-65<br>92-21-37014641-3<br>Fax : 92-21-3227-1912                             |
| Registrars                      | F.D Registrar Services (SMC-Pvt.) Ltd<br>1705,17th Floor,Saima Trade Tower "A"<br>I.I Chundrigar Road, Karachi-74000<br>Phone # 92-21-32271906<br>92-21-35478192-3<br>Fax # 92-21-32621233 |



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## **MISSION**

To become a symbol for spreading a variety of Islamic modes of financing, thereby providing ample and profitable investment opportunities to the stake holders who demand Halal profits according to Sharia Laws, optimizing returns to the certificate holders, management and customers.

## **VISION**

To innovate and promote Islamic Financial Products, based on Sharia Principles and to curb interest based financial systems, thereby facilitating establishment of an equitable economic system.



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## **NOTICE OF ANNUAL REVIEW MEETING (ARM)**

The Board of Directors of B.R.R. Investments (Pvt) Ltd Manager of Crescent Standard Modaraba (CSM) in their meeting held on October 31, 2013 have declared cash dividend of CSM @ Re. 0.15 per Modaraba Certificate i.e. 1.5 % for the year ended June 30, 2013.

To determine the names of Certificate Holders entitled to receive Cash dividend and to attend the Annual Review Meeting, The Certificate Transfer Books of the Modaraba will be closed from November 23, 2013 to November 30, 2013 (both days inclusive) the Transfers received at the Registrar Office, F.D. Registrar Services (SMC-Pvt.) Ltd at 1705, 17th Floor, Saima Trade Towers A, I.I. Chundrigar Road Karachi before the close of business hours on November 22, 2013 will be treated in time for the purpose of above entitlement to the transferees. Further, Certificate Holders are advised to notify to the Registrar Office of any change in their addresses.

The ARM of Certificate Holders of CSM will be held on Saturday November 30, 2013 at 12:30 p. m. at First Floor, BRR Tower, Plot No. 11/14 Hassan Ali Street, off: I.I Chundrigar Road Karachi, 74000

Place Karachi  
November 7, 2013

By Order of the Board  
Company Secretary



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## **DIRECTORS' REPORT**

On behalf of the Board of Directors of B.R.R. Investments (Private) Limited ('BRR' or 'the company'), manager of Crescent Standard Modaraba ('CSM' or 'the Modaraba'), it gives me pleasure to present to you the Annual Report and Audited Financial Statements for the year ended June 30, 2013.

### **MODARABA'S PERFORMANCE:**

Summary of the comparative financial performance is given below;

|                                     | June 30, 2013    | June 30, 2012 |
|-------------------------------------|------------------|---------------|
|                                     | .....Rupees..... |               |
| Profit Before Management Fee & WWF  | 6,746,521        | 6,917,646     |
| Management Fee                      | 674,652          | 691,765       |
| Sales Tax on Management Fee         | 107,944          | 110,682       |
| Provision for Workers' Welfare Fund | 119,279          | 124,518       |
| Profit After Management Fee & WWF   | 5,844,646        | 5,990,681     |
| Certificate Holder's Equity         | 124,771,486      | 122,160,692   |
| Earnings per certificate            | 0.29             | 0.30          |
| Break up value – per certificate    | 6.24             | 6.11          |

### **Dividend:**

The Board is pleased to announce Rs. 0.15 per certificate cash dividend for the year ended June 30, 2013.

### **NATURE OF BUSINESS AND MARKET DYNAMICS:**

The control of Crescent Standard Modaraba was handed over to BRR Investments (Private) Ltd. by Deputy Registrar, Modaraba Wing, Securities and Exchange Commission of Pakistan on January 19, 2007. Since then its present management has worked very hard on turning around the Modaraba despite its state being in disarray when the same was taken over by the company. In addition to that general market conditions were also lackluster due to economic downturn and specific issues of the sector which got aggravated after the liquidity crisis of 2008.

It should be matter of satisfaction for you that CSM's control is held by a management company which had floated its first Modaraba 28 years back in the name of BRR Capital Modaraba (now B.R.R Guardian Modaraba). And at the present time is considered among the leading Modarabas of the country. Unfortunately the Modaraba sector which constituted over 52 entities at one point in time has shrunk into very few which are performing and we are pleased to report that your Modaraba is among them despite several limitations. The major activity of the Modaraba has been providing short term



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finance to small and medium enterprises in the form of Ijarah, Morabaha and other Sharia-compliant modes of finance.

### **ECONOMIC OUTLOOK:**

Following the pattern of missed budgetary targets, fiscal year 2012-13 proved to be another difficult year for Pakistan and the businesses operating within. In contrast with the target of 4.3 percent and the precedent of 4.4 percent previous year, the GDP grew by 3.6 percent this year. In addition, severe energy crisis, deplorable security environment, huge circular debt, and a turbulent transition of political power to new government for most part of the financial year hindered growth and made operational survival a challenge.

The economic environment did not prove conducive to investments which fell from 14.9 percent to 14.2 percent in 2012-13. Investment to GDP ratio substantially deteriorated and hampered growth.

Power crisis proved to be a continuing obstacle during the last financial year as well. Load-shedding and power outages not merely intensified, but they were more unpredictable in the last fiscal year. The key factors that aggravated the power crisis include ineffective energy mix, inefficient energy transportation and distribution, excessive reliance on expensive furnace oil for power production, large line losses, and unresolved circular debt.

### **WAY FORWARD:**

We believe that it is high time for the economic managers of the country to look into the deficiencies of the past and make policies which help the country grow in future. The 185 million-people population, of which majority is youth, look towards the new government with great hope. It is incumbent upon the new government to live up to their expectations. The role that is expected of all federal and provincial administrations is to remove bureaucratic hurdles to ensure smooth operation of business; to reduce the financial and non-financial cost of doing business; to improve law and order situation and justice system in the country; to provide electricity, gas and infrastructure to the industry; and impart meaningful education to the youth of Pakistan that equips them with skills in demand.

The providing of venture capital to the youth and ensuring loans to business community would promote the entrepreneurial activity for the growth of SME sector thus bringing prosperity and self-reliance for the people and country alike. The crowding out factor at the present time is proving detrimental to the growth of business which must be addressed by the government.





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## **RESOURCES, OPPORTUNITIES, BUSINESS RISKS AND MITIGANTS:**

The NBFC sector used to be a robust organ of the over-all financial sector of Pakistan. The revival of commercial banks first of all took away the special rights of leasing from the leasing companies and Modarabas which were primarily engaged in the leasing business. Since pricing played a major role in wooing the prime business by the banks, the leasing companies and Modarabas were left with second and third tier business. Even in this scenario the institutions belonging to commercial banks were able to compete. The rest were virtually wiped out.

The other reason of deceleration of growth was due to poor recoveries. The over-all downturn of the economy due to gas and power shortages and law and order situations incapacitated the viability of various businesses and industrial units which led to massive defaults.

The third element which disillusioned the whole scenario was the pricing regime of the sector. The pricing of floating rates linked with KIBOR has shrunk the profitability of the traditional leasing sector. Taking into account the reduction of top tier business and providing for administration cost and potential losses on account of non-performing loans, the viability of lending and leasing business has been fast reducing.

To get out of this predicament the Modaraba sector would need to mobilize funds at a cost which enables it to take risk on lending under various modes. In this connection Registrar Modaraba has lately introduced two modes through which Modaraba sector would be able to mobilize funds directly from the public. One of the modes is Certificate of Investment Modaraba (COIM) and the other is Commodity Finance Certificate (CFC). These modes are under review by the Modarabas and it is hoped once implemented could prove as very important vehicle for resource mobilization for the Modaraba sector.

The other element that would add to the viability of the financial sector and that of Modaraba sector is to ensure rule of law by the government and improve good governance. Timely appointment of judges for every court specially the High Courts, Banking Courts and Modaraba Tribunals is essential to bring financial discipline in the business sector and sanctity of compliance with all financial transactions. It is hoped that by doing so alone and ensuring timely rulings by the Courts the confidence of investors would be restored and it would be much easier for the financier to take credit risks even at lower margins which would expand the size of business activity. It would also send positive vibes around the world if Pakistan's legal system gets improved and delivers at all levels.

## **COMPLIANCE WITH THE BEST PRACTICE OF THE CODE OF CORPORATE GOVERNANCE:**

Your Management Company has implemented provisions of the code of corporate governance relevant for the year ended June 30, 2013. The external auditors review report on the statement of compliance with the code of corporate governance is annexed with this report.



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As per directives of SECP/Karachi Stock Exchange, the Directors hereby confirm the following code of good governance and ethical business practices required by clause (xix) of the Code:

- The financial statements prepared by management present fairly Modaraba's state of affairs, the result of its operations, cash flows and changes in equity.
- Your Modaraba has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements on reasonable and prudent judgment.
- Relevant International Accounting Standards and Islamic Financial Accounting Standards, as applicable in Pakistan, provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies & Modaraba Rules, 1981 and directives of the Securities and Exchanges Commission of Pakistan have been followed in the preparation of financial statements.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- There are no significant doubts over the ability to continue as 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 outstanding, except as disclosed in the financial statements. The Sindh High Court grant relief against payment of Sales tax on management fee under C.P No. 3896 of 2013.
- There has been no departure from the best practices of transfer pricing.

**TRADING / DEALING IN CERTIFICATE OF MODARRABA:**

During the fiscal year, no trade in the certificate of the Modaraba was carried out by the Directors, CFO, Company Secretary, and their spouses and minor children.

**CODE OF CONDUCT:**

The Board of Directors of the Management Company has adopted the required 'Code of Conduct' to which the management company & Modarabas is committed voluntarily maintaining the highest



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standards of conduct and ethical behavior is a moral right and legal requirement that requires the personal commitment.

The Code of Conduct indicates good business conduct that generally promotes the qualities of honesty, fairness, consideration and enlightened professionalism.

**STAFF RETIREMENT BENEFITS:**

CSM operates a Provident Fund scheme for all permanent employees. The value of investments as at June 30, 2013 is Rs. 213,002.

**POST BALANCE SHEET EVENTS:**

No circumstances have arisen since the Balance Sheet date, which require adjustment to disclosure in the Financial Statements.

**TRANSACTION WITH CONNECTED PERSONS / RELATED PARTIES:**

All transactions between BRR Guardian Modaraba (BRRGM) and connected person/related parties are carried at an arm's length basis except for those transactions whose justification has been recorded.

**AUDITORS:**

We would also like to apprise the certificate-holders that on recommendation of Audit Committee M/s BDO Ebrahim & Company - Chartered Accountants have been appointed as auditors for the year ended 2013-14 subject to approval of Registrar Modaraba Companies and Modarabas. in place of retiring auditor M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants

**KEY OPERATING AND FINANCIAL DATA:**

The Key Operating and Financial data of last six years has been presented with analysis summarized on the last page.

**RISK MANAGEMENT FRAMEWORK:**

Risk taking is an integral part of any business and is rooted in the philosophy of risk versus reward, (the higher the risk the greater the reward). Our fundamental objective is to maximize certificate's value, but this must be carried out in clearly articulated risk tolerance framework.



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**BOARD OF MEETINGS:**

**Board of Directors' Meetings:**

The status of Board of Directors Meetings is as follows:

| <b>Sr. NO</b> | <b>Name</b>                   | <b>Designation</b> | <b>Attendance</b> |
|---------------|-------------------------------|--------------------|-------------------|
| 1             | Mr. Rafique Dawood            | Chairman           | 4 out of 4        |
| 2             | Mr. Ayaz Dawood               | CEO                | 2 out of 4        |
| 3             | Mr. Farouque Habib Rahimtoola | Director           | 4 out of 4        |
| 4             | Mr. Muhammad Shahid Murtaza   | Director           | 4 out of 4        |

**Audit Committee Meetings**

The status of Board's Audit Committee Meetings is as follows

| <b>Sr. No.</b> | <b>Name</b>                   | <b>Designation</b> | <b>Attendance</b> |
|----------------|-------------------------------|--------------------|-------------------|
| 1              | Mr. Farouque Habib Rahimtoola | Chairman           | 4 out of 4        |
| 2              | Mr. Rafique Dawood            | Member             | 4 out of 4        |
| 3              | Mr. Muhammad Shahid Murtaza   | Member             | 4 out of 4        |

Elections of the Directors were held during the year in which four directors were re-elected for a term of three years whereas Mr. Ayaz Dawood was reappointed as Chief Executive. Among them two directors Mr. Farooq Rahimtoola and Mr. Shahid Murtaza resigned. One casual vacancy was filled by appointment of Mr. Aftab Mustafa Khan with approval of Registrar of Modaraba but he offered his resignation on September 30, 2013. Two casual vacancies two new directors Syed Ali Raza, and Mr. Waqas Anwer Qureshi have been appointed in place of the outgoing directors subject to approval of the Registrar Modaraba Companies and Modarabas. Approval of Mr. Waqas Anwer Qureshi has been granted by the Registrar Modaraba on October 31, 2013. Your Modaraba wishes to put on record its appreciation of the directors for their valuable contribution in guiding management during these tiring times.

**AUDITORS' OBSERVATIONS:**

- In view of lack of information and documents available at the time of takeover by present management the auditor could not satisfy themselves on the opening balances as mentioned in their report.
- We refer to Note No. 11.1 of the Notes to the Accounts and emphasis of the Auditor in their report and hereby confirm that matter of Show Cause Notice is under discussion with the SECP and matter is likely to be decided by SECP shortly.



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## **INTERNAL CONTROL AND AUDIT FUNCTION:**

The Board is responsible for effective implementation of a sound internal control system including compliance with control procedures. At CSM, Audit Committee has established in-house Internal Audit Function (IA) for wider functions and role identified as below:

1. Review compliance with responsible for monitoring compliance with Relevant International Accounting Standards, Islamic Financial Accounting Standards, as applicable in Pakistan, provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies & Modaraba Rules, 1981 and compliance of the policies and procedures framed by the Board.
2. Review accounting and internal control system
3. Review the economy, efficiency and effectiveness of operations (Value for Money Audits / VFM Audits)
4. Examining financial and operational information.
5. Assisting with the identification of significant risks.
6. Special Assignments e.g. into suspected fraud or checking the costs estimates for a new project

At CSM, Internal Auditors have an independent, objective assurance and consulting role designed to add value and improve the Modaraba's operations. It helps accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It is a control which functions by examining and evaluating the adequacy and effectiveness of other controls.

Further, your Modaraba has appointed an Internal Shariah Auditor, Mufti Zeeshan Abdul-Aziz, from July 01, 2013, for adhering to the highest standards of Shariah Compliance.

## **CORPORATE SUSTAINABILITY AND SOCIAL RESPONSIBILITY:**

At CSM, We recognize that we have responsibilities not only towards our customers, employees and shareholders, but also the communities in which we operate

We believe that a sustainable company must be consistently profitable, but not solely concerned with making a profit. Success for CSM means providing our customers with the products and services they need and want, understanding and managing the impact we have on society and the environment, and investing in the future of our employees and the communities we serve. These measures help us to carry out our work in a way that is both commercially astute and ethically sound.



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### **HEALTH, SAFETY & ENVIRONMENT:**

Health, safety and environmental factors attach paramount importance to CSM irrespective to anybody or any institution attached. At CSM, it has been ensured at all times that no facility is made which is likely to affect human health, safety and working environment. CSM office premises have proper electric wiring, fire extinguishers and ready first aid to office inmates while maintaining smoking free environment.

CSM also provided group Takaful policy to all its employees for health and life.

### **PATTERN OF CERTIFICATE HOLDING:**

The pattern of certificate holding as on June 30, 2013 along with disclosure as required under the Code of Corporate Governance is annexed.

### **CONCLUSION & APPRECIATION:**

CSM is committed to adopting best practices in its endeavor to create certificate holders wealth and gain market-confidence. It is also committed to maintaining the smooth functioning of the Modaraba's operations. We appreciate the performance of our employees who worked diligently for the organization, our those customers who paid back their obligations and our regulators who guided us on every step of the way.

We reaffirm our commitment to all our stake-holders to continue our efforts for furthering the cause of the Modaraba.

On Behalf of the Board of Directors  
**B.R.R. Investments (Private) Limited**

Karachi.

October 31, 2013.

**Rafique Dawood**  
Chairman



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## **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013.**

### **Statement of Compliance with the Code of Governance (As Required by the Listing Regulations)**

This Statement is being presented to comply with the Code of Corporate Governance (the "Code") contained in Regulation No. 35 of listing regulations of Karachi Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed Modaraba is managed in compliance with the best practices of corporate governance.

Regardless of the fact that B.R.R Investments (Private) Limited, the modaraba management company of Crescent Standard Modaraba (the Modaraba) is a Private Limited Company, the Board of Directors of the modaraba management company are pleased that the Code of Corporate Governance is being complied with in all material respects.

Modaraba Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of directors. Elections were conducted during the year and at present the board includes.

|                               |  |
|-------------------------------|--|
| <b>Independent Director</b>   | <ul style="list-style-type: none"><li>• Mr. Shahid Murtaza (Resigned on 20 April 2013)</li><li>• Mr. Aftab Mustafa Khan (Appointed by the Board on 20 April 2013, Approved by Registrar Modaraba on 05 September 2013 and Resigned on 30 September 2013)</li><li>• Mr. Farooq Habib Rahimtoola (Resigned on 30 April 2013)</li><li>• Mr. Waqas Anwer Qureshi (Approved by Registrar Modaraba on 31 October 2013)</li></ul> |
| <b>Non-Executive Director</b> | <ul style="list-style-type: none"><li>• Mr. Rafique Dawood</li></ul>   |
| <b>Executive Director</b>     | <ul style="list-style-type: none"><li>• Mr. Ayaz Dawood</li></ul>  |

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

2. The directors of the Management Company of the modaraba have confirmed that none of them is serving as a director in more than seven listed companies, including this Modaraba (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Management Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution, or a Non Banking Financial Institution and none of them is a member of a Stock Exchange.
4. Election of directors was held during the year in which four directors were elected for a term of three years. Two casual vacancies have occurred during the year which were filled up by the Board within the stipulated time, subject to the approval of the Registrar of Modaraba Companies and Modarabas (the Registrar). The Registrar has given approval of one of the Director subsequent to the year end, while the approval of other director is pending with the Registrar.



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5. The Management Company has prepared a "Code of Conduct" which has been disseminated throughout the company. It has also been placed on the website of the company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of the employment of Chief Executive Officer and other executive directors have been taken by the Board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Majority of the Directors of the Board are having more than 14 years of education and more than 15 years of experience therefore they are exempted from the Director's training as prescribed by the Code of Corporate Governance. Further the Directors of the company have been provided with copies of the Listing Regulations, Code of Corporate Governance, Modaraba Rules, Company's Memorandum and Articles of Association, Modaraba Prospectus and all other relevant rules and regulations and hence are conversant of the relevant laws applicable to the Modaraba, its policies and procedures and provisions of memorandum and Articles of Association and of their duties and responsibilities.
10. The Board has approved the appointment of internal auditor including their remuneration, terms and conditions of employment. No new appointment of CFO or Company secretary has been made during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed and signed by the Chief Executive Officer and Chief Financial Officer before the approval of Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding / directors report.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprised of three members of whom two are independent while all are Non-Executive Directors. Two casual vacancies occurred during the year out of which one has been filled up subsequent to the year end. See 4 above.
16. The meetings of the Audit Committee were held four times during the year prior to approval of the interim and final results of the Modaraba as required by the code. The terms of reference of the committee have been formed and advised to the committee for compliance.





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17. The Board has formed an HR and Remuneration Committee. It comprised of three members, of whom two are independent while all are Non-Executive Directors and the chairman of the committee was independent non-executive director. Two casual vacancies occurred during the year out of which one has been filled up subsequent to the year end. See 4 above.
18. The board has formulated the in-house internal audit department and has also approved their terms and condition of appointment for the period starting from 01 July 2012. They are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Modaraba.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance to the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the Code have been complied.

On Behalf of the Board of Directors  
**B.R.R Investments (Private) Limited**

October 31, 2013

**Ayaz Dawood**  
Chief Executive Officer



Building a better  
working world

**Ernst & Young Ford Rhodes Sidat Hyder**  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O. Box 15541, Karachi 75530  
Pakistan

Tel: +9221 3565 0007-11  
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eyfrsh.khi@pk.ey.com  
ey.com/pk

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

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 30 June 2013 prepared by the Board of Directors of B.R.R. Investments (Private) Limited (the Management Company) of **Crescent Standard Modaraba** (the Modaraba) to comply with Listing Regulation No. 35 (Chapter XI) of The Karachi Stock Exchange (Guarantee) Limited, where the Modaraba is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company of the Modaraba. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Modaraba and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

Further, the Listing Regulations require the Management Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code in respect of the Modaraba for the year ended 30 June 2013.

**Chartered Accountants**

**Date: November 07, 2013**

**Karachi**



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Chartered Accountants  
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## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **Crescent Standard Modaraba** (the Modaraba) as at **30 June 2013** and the related profit and loss account, statement of cash flows and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Management Company's [B.R.R. Investments (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said 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:

- i. In the absence of supporting documents and required information, we were unable to verify the opening balances pertaining to the Cash and bank balances amounting to Rs.1.159 (2012: Rs.1.159) million against which a provision of Rs.1.159 (2012: Rs.1.159) million has been made (note 7.2), Murabaha finance amounting to Rs.1.902 (2012: Rs.1.902) million against which full provision has been made (note 9), Advances, deposits, prepayment and other receivables amounting to Rs.101.517 (2012: Rs.101.517) million against which full provision has been made (note 10), Advance tax amounting to Rs.0.162 (2012: Rs.0.162) million against which full provision has been made (note 12), Musharaka finance amounting to Rs.10.182 (2012: Rs.10.182) million against which full provision has been made (note 13) and Musharaka finance under mark-up arrangements amounting to Rs.22.454 (2012: Rs.22.454) million (note 16). Further, we were not provided with any supporting documents to verify the contingencies as disclosed in note 20 to the financial statements.

Owing to the non-availability of the supporting documents and required information, the effects on and / or adjustments in the accompanying financial statements cannot presently be determined.



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-: 2 :-

- (a) in our opinion, proper books of account have been kept by the Modaraba Management Company in respect of Crescent Standard Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied except for the changes as stated in note 4.1 to the financial statements, with which we concur;
  - (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, except for the possible effects of the matter described in paragraph (i) above and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 2013 and of the profit, its comprehensive income, 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.

We draw attention to note 11.1 to the accompanying financial statements which states that a show cause notice has been issued by the Securities and Exchange Commission of Pakistan (SECP) in respect of certain transactions, restricted under Regulation 7(3) of the Prudential Regulations for Modarabas. This matter is currently under discussion with the SECP.

Our opinion is not qualified in respect of the above matter.

#### **Chartered Accountants**

**Audit Engagement Partner: Shabbir Yunus**

**Date: November 07, 2013**

**Karachi**

## SHARI'AH ADVISOR'S REPORT

I have conducted the Shari'ah review of Crescent Standard Modaraba managed by B.R.R. Investments Pvt. Limited for six months period ended 30th June, 2013. In accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modaraba that except the observation as reported hereunder. In my opinion:

1. All agreement(s) entered into by the Modaraba are Shari'ah compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board and all the related conditions have been met;
2. To the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas
3. Profit Sharing ratios, profits and charging of losses (if any) relating to any deposit raising product conform to the basis and principles of Shari'ah
4. The earnings that have been realized from the sources or by means prohibited by Shari'ah have been credited to charity accounts on immediate basis

### Observation:

1. we observe that the modaraba having non compliant TFCs Escort investment bank limited as at June 30, 2013. While the management have intended to offload the said TFCs.
2. The Modaraba has received following Non-Shariah compliant dividend income during the period which should be transferred into the charity account.

| Name of Scripts  | Dividend Amount | Charity Amount |
|------------------|-----------------|----------------|
| PakGen power Ltd | 410,000         | 1,595          |

### Recommendation(s);

1. Non Shari'ah TFC should be divest on immediate basis
2. All Non Shari'ah Compliant portion of income should be Charity on immediate basis

### Conclusion

Based on the above mentioned facts I am of the view that the business operations of Crescent Standard Modaraba are Shari'ah Compliant up to the best of my knowledge.



**Mufti Syed Sabir Hussain**

Shari'ah Advisor

Date; September 13, 2013



**CRESCENT STANDARD MODARABA**  
(An Islamic Financial Institution)

**BALANCE SHEET  
AS AT JUNE 30, 2013**

|  | Note | June 30,<br>2013     | June 30,<br>2012   |
|--|------|----------------------|--------------------|
|  |      | ----- (Rupees) ----- |                    |
| <b>ASSETS</b>  |      |                      |                    |
| <b>Current assets</b>                                    |      |                      |                    |
| Cash and bank balances                                   | 7    | 59,447,452           | 34,243,587         |
| Short-term investments                                   | 8    | 12,891,443           | 23,429,777         |
| Murabaha finance   | 9    | -                    | -                  |
| Advances, deposits, prepayment and other receivables     | 10   | 3,035,458            | 3,058,388          |
| Trade debts  | 11   | 34,583,668           | 33,938,450         |
| Current portion of musharaka finance                     | 13   | 3,932,969            | 6,039,905          |
| Advance tax  | 12   | 483,776              | 427,330            |
|  |      | <u>114,374,766</u>   | <u>101,137,437</u> |
| <b>Non current assets</b>                                |      |                      |                    |
| Musharaka finance  | 13   | 18,914,644           | 21,686,782         |
| Property and equipment                                   | 14   | 27,286,036           | 35,095,921         |
| <b>Total assets</b>                                      |      | <u>160,575,446</u>   | <u>157,920,140</u> |
| <b>LIABILITIES</b>                                       |      |                      |                    |
| <b>Current liabilities</b>                               |      |                      |                    |
| Unclaimed profit distribution                            |      | 2,508,428            | 1,711,704          |
| Accrued expenses and other liabilities                   | 15   | 1,892,278            | 1,866,030          |
| Current portion of customers' security deposits          |      | 2,615,211            | -                  |
| Musharaka finance under mark-up arrangements             | 16   | 22,454,094           | 22,454,094         |
|  |      | <u>29,470,011</u>    | <u>26,031,828</u>  |
| <b>Non current liabilities</b>                           |      |                      |                    |
| Customers' security deposits                             | 17   | 6,333,949            | 9,727,620          |
| <b>Total liabilities</b>                                 |      | <u>35,803,960</u>    | <u>35,759,448</u>  |
| <b>Net assets</b>  |      | <u>124,771,486</u>   | <u>122,160,692</u> |
| <b>REPRESENTED BY:</b>                                   |      |                      |                    |
| Certificate capital                                      | 18   | 200,000,000          | 200,000,000        |
| Statutory reserve  | 19   | 15,874,298           | 13,362,798         |
| Accumulated loss   |      | (90,887,228)         | (91,220,374)       |
| Surplus on revaluation of available-for-sale investments |      | (215,584)            | 18,268             |
|  |      | <u>124,771,486</u>   | <u>122,160,692</u> |
| <b>Contingencies</b>                                     | 20   |                      |                    |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**For B.R.R. Investments (Private) Limited  
(Management Company)**

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director



**CRESCENT STANDARD MODARABA**  
(An Islamic Financial Institution)

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

|  | June 30,<br>2013     | June 30,<br>2012  |
|--|----------------------|-------------------|
| Note   | ----- (Rupees) ----- |                   |
| <b>INCOME</b>  |                      |                   |
| Income on musharaka and murabaha finance                 | 2,757,753            | 4,303,552         |
| Ijarah rentals   | 15,426,592           | 13,712,959        |
| Income on short-term investments - net                   | 5,447,515            | 1,842,066         |
| Income on bank balances                                  | 3,477,012            | 3,429,449         |
| Other income   | 194,931              | 480,049           |
|  | <u>27,303,803</u>    | <u>23,768,075</u> |
| <b>EXPENDITURE</b>                                       |                      |                   |
| Depreciation on Ijarah assets                            | 11,041,562           | 9,339,828         |
| Administrative and operating expenses                    | 7,646,100            | 5,493,800         |
| Investments written-off                                  | 2,685,276            | -                 |
| Provision against doubtful receivables                   | 173,368              | 126,632           |
| Bad debts written-off                                    | 448,258              | -                 |
| (Gain) / loss on disposal of Ijarah assets               | (303,230)            | 2,100,645         |
| Financial charges  | 601                  | 4,107             |
|  | <u>21,691,935</u>    | <u>17,065,012</u> |
|  | 5,611,868            | 6,703,063         |
| Reversal of impairment on debt securities                | 1,134,653            | 214,583           |
|  | 6,746,521            | 6,917,646         |
| Modaraba management company's fee                        | (674,652)            | (691,765)         |
| Sales tax on Modaraba Management Company fee             | (107,944)            | (110,682)         |
| Workers' Welfare Fund                                    | (119,279)            | (124,518)         |
| <b>PROFIT BEFORE TAXATION</b>                            | <u>5,844,646</u>     | <u>5,990,681</u>  |
| Provision for taxation                                   | -                    | -                 |
| <b>PROFIT FOR THE YEAR</b>                               | <u>5,844,646</u>     | <u>5,990,681</u>  |
| <b>OTHER COMPREHENSIVE INCOME</b>                        |                      |                   |
| Surplus on revaluation of available-for-sale investments | 233,852              | 1,018,945         |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>           | <u>6,078,498</u>     | <u>7,009,626</u>  |
| <b>EARNINGS PER CERTIFICATE - BASIC AND DILUTED</b>      | <u>0.29</u>          | <u>0.30</u>       |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**For B.R.R. Investments (Private) Limited  
(Management Company)**

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director





**CRESCENT STANDARD MODARABA**  
(An Islamic Financial Institution)

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2013**

|   | June 30,<br>2013     | June 30,<br>2012    |
|---|----------------------|---------------------|
| Note  | ----- (Rupees) ----- |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |                      |                     |
| Profit before taxation  | 5,844,646            | 5,990,681           |
| <b>Adjustments for non-cash items:</b>                            |                      |                     |
| Depreciation on Ijarah assets                                     | 11,041,562           | 9,339,828           |
| Depreciation on assets in own use                                 | 784,652              | 449,039             |
| (Gain) / loss on revaluation of held-for-trading investments      | (2,074,614)          | 2,153,248           |
| Gain on sale of investments                                       | (1,046,985)          | -                   |
| Income on debt securities   | (966,353)            | -                   |
| Dividend income   | (1,361,158)          | -                   |
| Bad debts written off   | 3,133,534            | -                   |
| (Reversal) / loss of impairment on available-for-sale investments | (1,134,653)          | 928,759             |
| Gain on disposal of property and equipment - Ijarah               | (303,230)            | 2,100,645           |
|   | <b>8,072,755</b>     | <b>14,971,519</b>   |
| <b>(Increase) / decrease in current assets</b>                    |                      |                     |
| Trade debts   | (645,218)            | 601,192             |
| Advances, deposits, prepayment and other receivables              | 22,930               | 6,853,006           |
| Advance tax   | (56,446)             | (70,729)            |
|   | <b>(678,734)</b>     | <b>7,383,469</b>    |
| <b>Increase / (decrease) in current liabilities</b>               |                      |                     |
| Accrued expenses and other liabilities                            | 26,248               | 291,531             |
| Profit paid to certificate holders                                | (2,203,276)          | (1,169,726)         |
| Net cash flows generated from operating activities                | <b>11,061,639</b>    | <b>27,467,474</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |                      |                     |
| Proceeds from sale / redemption of short-term investments         | 47,830,617           | 27,079,783          |
| Purchase of short-term investments                                | (35,435,469)         | (34,104,977)        |
| Proceeds from sale of property and equipment - Ijarah             | 7,871,917            | 460,634             |
| Additions to property and equipment - Ijarah                      | (10,874,400)         | (20,591,250)        |
| Additions to property and equipment - assets in own use           | (710,616)            | (1,516,225)         |
| Investments under musharaka finance                               | 4,879,074            | 11,253,359          |
| Dividend received   | 1,359,563            | -                   |
| Security deposits   | (778,460)            | 3,549,475           |
| Net cash flows (used in) / generated from investing activities    | <b>14,142,226</b>    | <b>(13,869,201)</b> |
| Net increase / (decrease) in cash and cash equivalents            | <b>25,203,865</b>    | <b>13,598,273</b>   |
| Cash and cash equivalents at beginning of the year                | <b>34,243,587</b>    | <b>20,645,314</b>   |
| <b>Cash and cash equivalents at end of the year</b>               | <b>59,447,452</b>    | <b>34,243,587</b>   |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**For B.R.R. Investments (Private) Limited  
(Management Company)**

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director





**CRESCENT STANDARD MODARABA**  
(An Islamic Financial Institution)

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

|  | Certificate<br>capital | Statutory<br>reserve | Surplus /<br>(deficit) on<br>revaluation of<br>investments<br><br>(Rupees) | Accumulated<br>loss | Total              |
|--|------------------------|----------------------|--|---------------------|--------------------|
| <b>Balance as at July 01, 2011</b>   | 200,000,000            | 10,462,798           | (1,000,677)  | (91,911,055)        | 117,551,066        |
| Final profit distribution for the year ended June 30, 2011 @ Re.0.12 per certificate | -                      | -                    | -  | (2,400,000)         | (2,400,000)        |
| Profit for the year ended June 30, 2012  | -                      | -                    | -  | 5,990,681           | 5,990,681          |
| Other comprehensive income   | -                      | -                    | 1,018,945  | -                   | 1,018,945          |
| <b>Total comprehensive income</b>  | -                      | -                    | 1,018,945  | 5,990,681           | 7,009,626          |
| Transfer to statutory reserve  | -                      | 2,900,000            | -  | (2,900,000)         | -                  |
| <b>Balance as at June 30, 2012</b>   | <u>200,000,000</u>     | <u>13,362,798</u>    | <u>18,268</u>  | <u>(91,220,374)</u> | <u>122,160,692</u> |
| Final profit distribution for the year ended June 30, 2012 @ Re.0.15 per certificate | -                      | -                    | -  | (3,000,000)         | (3,000,000)        |
| Profit for the year ended June 30, 2013  | -                      | -                    | -  | 5,844,646           | 5,844,646          |
| Other comprehensive income   | -                      | -                    | (233,852)  | -                   | (233,852)          |
| <b>Total comprehensive income</b>  | -                      | -                    | (233,852)  | 5,844,646           | 5,610,794          |
| Transfer to statutory reserve  | -                      | 2,511,500            | -  | (2,511,500)         | -                  |
| <b>Balance as at June 30, 2013</b>   | <u>200,000,000</u>     | <u>15,874,298</u>    | <u>(215,584)</u>   | <u>(90,887,228)</u> | <u>124,771,486</u> |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**For B.R.R. Investments (Private) Limited  
(Management Company)**

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director



**CRESCENT STANDARD MODARABA**  
(An Islamic Financial Institution)

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

### **1. STATUS AND NATURE OF THE BUSINESS**

Crescent Standard Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Rules framed thereunder. Modaraba was managed by Financial Link Limited upto January 19, 2007, however, the Deputy Registrar, Modaraba Wing, SECP, vide order No. SC/M/RW/CSM2006-32 dated January 19, 2007 transferred management of Modaraba to Providence Modaraba Limited. During the year 2008, Providence Modaraba Limited merged with and into B.R.R. Investments (Private) Limited, and since then the Modaraba is under management of B.R.R. Investments (Private) Limited.

It is a perpetual and multipurpose Modaraba. It is engaged in making investment in equity and debt securities, musharaka and murabaha finance, etc. The certificates of the Modaraba are quoted on Karachi Stock Exchange Limited.

### **2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies & Modaraba Rules, 1981, Trust Deed and directives issued by the Securities and Exchange Commission of Pakistan (SECP) [the Modaraba Regulations] together with approved accounting standards as applicable in Pakistan to Modarabas. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) and Islamic Financial Accounting Standards (IFAS) as notified under the provisions of the Companies Ordinance, 1984 and made applicable to Modarabas under 'the Modaraba Regulations'. Wherever the requirements of 'the Modaraba Regulations' differ from the requirements of these standards, the requirements of 'the Modaraba Regulations' take precedence.

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

These financial statements have been prepared under the historical cost convention, except for certain investments which are classified as held-for-trading and available-for-sale which are stated at fair value.

### **4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described in note 4.1.

#### **4.1 New and amended standards and interpretations**

The Modaraba has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

- IAS 1- Presentation of Financial Statements – Presentation of items of comprehensive income
- IAS 12- Income Taxes (Amendments) – Recovery of underlying assets

The adoption of the above standards, amendments / improvements and interpretations did not have any material effect on the financial statements of the Modaraba.

The accounting policies followed in the preparation of these financial statements are set out below.

#### **4.2 Property and equipment**

##### **4.2.1 In own use**

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

Major renewals and improvements are capitalised whereas normal repairs and maintenance is charged to profit and loss account as and when incurred.

Gain and losses, if any, on disposal of fixed assets are taken to the profit and loss account.

##### **4.2.2 Under Ijarah arrangements**

The assets subject to Ijarah are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged on these assets using straight line method over the Ijarah period which is from date of delivery of respective assets to mustajir upto the date of maturity / termination of Ijarah agreement. In respect of the addition or deletion during the year, depreciation is charged proportionately to the period of Ijarah.



## CRESCENT STANDARD MODARABA

(An Islamic Financial Institution)

Allowance for non-performing Ijarah arrangements is made in accordance with Prudential Regulations for the Modarabas issued by the SECP and is charged to the profit and loss account.

### 4.3 Investments

All investments are initially recognised at cost, being the fair value of the consideration given, including the transaction costs associated with the investment, except in the case of held for trading investments in which case these transaction costs are charged off to the profit and loss account. After initial recognition these investments are categorised and accounted for as follows:

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

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

#### ii) Available-for-sale

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

#### iii) Held to maturity

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

#### iv) Loans and receivables

Loans and receivables are non-derivative investments with fixed or determinable payments that are not quoted on the active market. The Modaraba's loans and receivables comprise of cash and bank balances, Ijarah rental receivable, musharaka finance, advances, deposits, prepayments and other receivables and trade debts.

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

### 4.4 Musharaka and Murabaha transactions

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

Profit from murabaha finance is accounted for, on culmination of murabaha transaction. However, the profit on that portion of murabaha finance not due for payment is deferred and recorded as "Deferred Murabaha Income". The same is then recognised on a time proportion basis.

### 4.5 Provisions

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

### 4.6 Impairment

#### Financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the profit and loss account.

#### Impairment is determined as follows:

- (a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective rate of return.



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- (b) for assets carried at fair value, impairment is the difference between cost and fair value.
- (c) for assets carried at cost, impairment is present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available-for-sale investments, reversal of impairment losses are recorded as increases in cumulative changes in fair value through other comprehensive income.

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

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

### Non-financial assets

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

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

## 4.7 Revenue recognition

### i) Murabaha and musharaka transactions

Income from murabaha and musharaka transactions is recognised on the basis of pro rata accrual of the profit estimated for the transaction over the period.

### ii) Ijarah rental income

Modaraba adopts IFAS 2 'Ijarah' for all lease disbursements. Under this standard the unearned income i.e. the excess of aggregate Ijarah rentals (including residual value) over the cost of the asset under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah.

### iii) Dividend income

Dividend income is recognised as income when the right to receive is established.

### iv) Income on debt securities

Income on debt securities is accrued on a time proportion basis, by reference to the principal outstanding and at the effective profit rate applicable.

### v) Gain / losses on sale of investments

Gains and losses on sale of investments are accounted for when their commitment (trade date) for sale of security is made.

### vi) Income on bank balances

Income on bank balances are accounted on the basis of pro rata accrual of the profit estimated for the average balance over the period



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#### **4.8 Taxation**

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credit and tax rebates realisable, if any. Under clause 100 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, the non-trading income of modarabas is exempt from income tax, provided not less than 90% of its profits {after appropriation to statutory (mandatory) reserves as required under Modaraba Regulations} are distributed to the certificate holders.

#### **4.9 Foreign currencies translation**

The financial statements are presented in Pak Rupees, which is the Modaraba's functional and presentation currency. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange approximating to those prevalent on the balance sheet date. Foreign currency transactions are converted into Pak Rupees at the rate of exchange prevailing on the date of transactions. Exchange gains and losses on translation are recognised in profit and loss.

#### **4.10 Financial assets and financial liabilities**

All financial assets and financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to receive cash flows related to the assets expire. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income.

Financial assets include of investments, musharaka and murabaha finances, trade debts, deposits and other receivables, excluding taxation and bank balances. Musharaka, murabaha, trade debts, deposits and other receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities are classified according to the substance of contractual arrangements entered into. Significant financial liabilities are short-term borrowings, musharaka finance under mark-up arrangements and accrued and other liabilities.

#### **4.11 Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are carried in the balance sheet at cost.

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

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

#### **4.13 Staff Provident Fund**

The Modaraba contributes to an approved group fund scheme covering all its employees who are eligible under the scheme. Equal monthly contributions are made by the Modaraba and the employees to the Staff Provident Fund at 10% of the basic salary.

### **5. ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgments made by management in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustments are explained in the relevant accounting policies / notes to the financial statements.



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The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) classification of investments (note 4.3)
- ii) provision for doubtful receivables (note 4.5)
- iii) depreciation of property and equipment - Ijarah (note 4.2.2)
- iv) impairment of investments (note 4.6)

**6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE**

The following revised standards, interpretations and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards, interpretations and amendments:

| <b>Standard, interpretation or amendment</b>  | <b>Effective date (annual periods beginning on or after)</b> |
|---|--|
| IFRS 7 - Financial Instruments: Disclosures – (Amendments)<br>- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities | January 01, 2013   |
| IAS 19 Employee Benefits – (Amendment)  | January 01, 2013   |
| IAS 32 Offsetting Financial Assets and Financial Liabilities – (Amendment)  | January 01, 2014   |
| IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine  | January 01, 2013   |

The Modaraba expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Modaraba's financial statements in the period of initial application, except for certain additional disclosures.

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 01, 2013. The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

| <b>Standard</b>  | <b>Effective date (annual periods beginning on or after)</b> |
|--|--|
| IFRS 9 – Financial Instruments: Classification and Measurement | January 01, 2015   |
| IFRS 10 – Consolidated Financial Statements                    | January 01, 2013   |
| IFRS 11 – Joint Arrangements                                   | January 01, 2013   |
| IFRS 12 – Disclosure of Interests in Other Entities            | January 01, 2013   |
| IFRS 13 – Fair Value Measurement                               | January 01, 2013   |



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**7. CASH AND BANK BALANCES**

|                                 | Note | June 30,<br>2013     | June 30,<br>2012 |
|---------------------------------|------|----------------------|------------------|
|                                 |      | ----- (Rupees) ----- |                  |
| Cash in hand                    |      |                      |                  |
| With banks in:                  |      |                      |                  |
| PLS savings account             |      | 3,100                | 3,600            |
| Current accounts                | 7.1  | 58,520,819           | 32,573,452       |
| Provision for doubtful balances | 7.2  | 2,082,782            | 2,825,784        |
|                                 |      | (1,159,249)          | (1,159,249)      |
|                                 |      | 923,533              | 1,666,535        |
|                                 |      | 59,447,452           | 34,243,587       |

7.1 These carry mark-up at the rate ranging from 8.65 to 10.85% (2012:11.50%) per annum.

7.2 This includes (a) a sum of Rs.1.090 (2012: Rs.1.090) million against which a claim has been lodged by a commercial bank as referred to in note 20.1 and (b) a sum of Rs.0.069 (2012: Rs.0.069) million representing balance in a dividend account with a commercial bank. The Modaraba has made full provision against the above balances.

**8. SHORT-TERM INVESTMENTS**

|                                | Note | June 30,<br>2013     | June 30,<br>2012 |
|--------------------------------|------|----------------------|------------------|
|                                |      | ----- (Rupees) ----- |                  |
| Held-for-trading               | 8.1  | 10,092,931           | 9,993,140        |
| Available-for-sale             | 8.2  | 3,082,329            | 14,855,107       |
|                                |      | 13,175,260           | 24,848,247       |
| Less: Provision for impairment | 8.3  | (283,817)            | (1,418,470)      |
|                                |      | 12,891,443           | 23,429,777       |

**8.1 Held-for-trading**

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

| No. of shares |         | Name of investee                            | June 30,<br>2013     | June 30,<br>2012 |
|---------------|---------|---|----------------------|------------------|
| 2013          | 2012    |   | ----- (Rupees) ----- |                  |
|               |         | <b>Electricity</b>                          |                      |                  |
| -             | 27,500  | Karachi Electric Supply Company             | -                    | 89,100           |
|               |         | <b>Power generation</b>                     |                      |                  |
| -             | 263,000 | Pakgen Power Limited                        | -                    | 3,363,770        |
|               |         | <b>Personal goods - (Textile)</b>           |                      |                  |
| -             | 6,500   | Nishat Mills Limited                        | -                    | 309,270          |
|               |         | <b>Multiutilities (Gas and Water)</b>       |                      |                  |
| 210,000       | 210,000 | Sui Southern Gas Company Limited            | 4,099,200            | 4,095,000        |
|               |         | <b>Construction and material - (Cement)</b> |                      |                  |
| -             | 20,000  | Fauji Cement Company Limited                | -                    | 72,600           |
| -             | 300     | Lucky Cement Limited                        | -                    | 34,616           |



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| No. of shares                         |        | Name of investee                     | June 30,             | June 30,         |
|---------------------------------------|--------|--------------------------------------|----------------------|------------------|
| 2013                                  | 2012   |                                      | 2013                 | 2012             |
|                                       |        |                                      | ----- (Rupees) ----- |                  |
| <b>Oil and gas</b>                    |        |                                      |                      |                  |
| -                                     | 3,000  | Pakistan State Oil Company Limited   | -                    | 707,520          |
| 2,000                                 | -      | Pakistan Petroleum Limited           | 423,160              | -                |
| 17,000                                | -      | Shell Pakistan Limited               | 2,433,890            | -                |
| 7,500                                 | -      | National Refinery Limited            | 1,804,350            | -                |
| <b>Chemicals</b>                      |        |                                      |                      |                  |
| -                                     | 10,000 | Descon Oxychem Limited               | -                    | 38,800           |
| 2,000                                 | 7,500  | Fauji Fertilizer Company Limited     | 214,860              | 832,875          |
| -                                     | 21,500 | Sitara Peroxide Limited              | -                    | 212,850          |
| -                                     | 10,601 | United Distributors Pakistan Limited | -                    | 99,439           |
| 1,450                                 | -      | Thal Limited                         | 184,861              | -                |
| 7,150                                 | -      | GlaxoSmithKline Pakistan Limited     | 867,510              | -                |
| <b>Banks</b>                          |        |                                      |                      |                  |
| 10,000                                | -      | BankIslami Pakistan Limited          | 65,100               | -                |
| <b>Software and computer services</b> |        |                                      |                      |                  |
| -                                     | 10,000 | Netsol Technologies Limited          | -                    | 137,300          |
|                                       |        |                                      | <u>10,092,931</u>    | <u>9,993,140</u> |

**8.2 Available-for-sale**

|                        |       |                  |                   |
|------------------------|-------|------------------|-------------------|
| Listed Ordinary shares | 8.2.1 | -                | 1,960,000         |
| Debt securities        | 8.2.2 | 3,082,329        | 12,895,107        |
|                        |       | <u>3,082,329</u> | <u>14,855,107</u> |

**8.2.1 Listed ordinary shares**

| No. of shares / certificates |         | Name of investee                          | June 30,             | June 30,         |
|------------------------------|---------|---|----------------------|------------------|
| 2013                         | 2012    |   | 2013                 | 2012             |
|                              |         |   | ----- (Rupees) ----- |                  |
| <b>Financial services</b>    |         |   |                      |                  |
| -                            | 875,000 | Dawood Equities Limited - a related party | -                    | 1,960,000        |
|                              |         |   | <u>-</u>             | <u>1,960,000</u> |

**8.2.2 Debt securities**

**Sukuk Certificates**

|       |       |                      |                  |                  |
|-------|-------|----------------------|------------------|------------------|
| 1,267 | 1,267 | Eden Housing Limited | 2,374,374        | 3,680,970        |
|       |       |                      | <u>2,374,374</u> | <u>3,680,970</u> |

**Term Finance Certificates**

|   |       |  |                  |                   |
|---|-------|--|------------------|-------------------|
| - | 1,013 | Avari Hotels Limited                   | -                | 4,187,203         |
| - | 1,000 | Trust Investment Bank Limited          | -                | 1,768,698         |
| - | 400   | Invest Capital Investment Bank Limited | -                | 1,500,000         |
| - | 200   | Pace (Pakistan) Limited                | -                | 422,847           |
| - | 1,499 | Escort Investment Bank Limited         | 707,955          | 1,335,389         |
|   |       |  | <u>707,955</u>   | <u>9,214,137</u>  |
|   |       |  | <u>3,082,329</u> | <u>12,895,107</u> |





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**8.2.3 Details of particulars of Term Finance Certificates / Sukuk Certificates**

| Name of Company           | Profit    |                        | Face value per certificate Rupees | Original maturity date | Secured / unsecured  |
|---------------------------|-----------|------------------------|-----------------------------------|------------------------|--|
|                           | Frequency | Rate per               |                                   |                        |  |
| <b>Sukuk Certificates</b> |           |                        |                                   |                        |  |
| Eden Housing Limited      | Quarterly | 3 months KIBOR + 2.50% | 1,874                             | June 29, 2014          | Secured against hypothecated assets and mortgaged property |
|                           |           |                        |                                   | <b>June 30, 2013</b>   | <b>June 30, 2012</b>                                       |
|                           |           |                        |                                   | ----- (Rupees) -----   |  |

**8.3 Particulars of provision**

|                          |                |                  |
|--------------------------|----------------|------------------|
| Opening balance          | 1,418,470      | 1,633,053        |
| Charge for the year      | -              | -                |
| Reversal during the year | (1,134,653)    | (214,583)        |
|                          | (1,134,653)    | (214,583)        |
| Closing balance          | <u>283,817</u> | <u>1,418,470</u> |

**9. MURABAHA FINANCE**

|  |             |             |
|--|-------------|-------------|
| Considered doubtful - unsecured          | 1,902,053   | 1,902,053   |
| Less: Provision for doubtful receivables | (1,902,053) | (1,902,053) |
|  | -           | -           |

**10. ADVANCES, DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES**

**Considered good**

**Advances**

|   |           |   |
|---|-----------|---|
| Advance against purchase of securities from Dawood Equities Limited - a related party | 579,615   | - |
| Advance to staff against salary   | 520,000   | - |
|   | 1,099,615 | - |

**Prepayment**

|           |         |         |
|-----------|---------|---------|
| Insurance | 134,187 | 160,714 |
|-----------|---------|---------|

**Other receivables**

Accrued profit on:

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Bank balances             | 999,086          | 922,710          |
| Sukuk certificates        | 82,131           | 152,468          |
| Term Finance Certificates | 122,872          | 1,271,058        |
| Musharaka finance         | 597,567          | 551,438          |
|                           | <u>1,801,656</u> | <u>2,897,674</u> |
|                           | 3,035,458        | 3,058,388        |



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|   | June 30,<br>2013              | June 30,<br>2012 |
|---|-------------------------------|------------------|
|   | ----- (Rupees) -----          | -----            |
| <b>Considered doubtful</b>                  |                               |                  |
| <b>Advances</b>                             |                               |                  |
| Advance for purchases                       | 90,387,701                    | 90,387,701       |
| <b>Deposits</b>                             |                               |                  |
| Security deposit                            | 25,000                        | 25,000           |
| <b>Other receivables</b>                    |                               |                  |
| Accrued profit                              | 7,715,387                     | 7,715,387        |
| Sales tax receivable                        | 3,350,922                     | 3,350,922        |
| Other receivables                           | 37,592                        | 37,592           |
|   | <b>101,516,602</b>            | 101,516,602      |
| Less: Provision for doubtful receivables    | <b>(101,516,602)</b>          | (101,516,602)    |
|   | <b>3,035,458</b>              | 3,058,388        |
|   | <b>=====</b>                  | <b>=====</b>     |
| <b>11. TRADE DEBTS</b>                      |                               |                  |
| <b>Secured and considered good</b>          |                               |                  |
| Ijarah rentals                              | 11.1 773,267                  | 128,049          |
| Others                                      | 11.2 33,810,401               | 33,810,401       |
|   | <b>34,583,668</b>             | 33,938,450       |
| <b>Secured and considered doubtful</b>      |                               |                  |
| Ijarah rentals                              | -                             | 126,632          |
| Trade debt - gross                          | 34,583,668                    | 34,065,082       |
| Less: Provision for doubtful Ijarah rentals | 11.3 -                        | (126,632)        |
|   | 11.2 & 11.4 <b>34,583,668</b> | 33,938,450       |
|   | <b>=====</b>                  | <b>=====</b>     |

11.1 As at June 30, 2013, the Modaraba has outstanding balance of Rs.0.181 million (2012: Rs.Nil) outstanding from Dawood Family Takaful Limited (DFTL), a related party in respect of Ijarah facilities granted during the year aggregating to Rs.12.824 million.

Subsequent to the year end, upon examination of the quarterly accounts of Modaraba for the period ended March 31, 2013, the Securities and Exchange Commission of Pakistan of Pakistan has issued a show cause notice under Section 32 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 whereby the said Ijarah facility to DFTL is considered as a violation as the Modaraba is not allowed to extend finance facilities of any kind to its associated undertakings under Regulation 7(3) of the Prudential Regulations for Modaraba.

The management and legal advisor are of the view that Modaraba has not violated the provisions of Regulation 7(3). This matter is currently under active debate with the SECP. Further, in this respect no penalty has been imposed on the Modaraba to date.

11.2 It is secured against pledge of stock (jute) valuing Rs.33.957 (2012: Rs.33.957) million.

|  | June 30,<br>2013     | June 30,<br>2012 |
|--|----------------------|------------------|
|  | ----- (Rupees) ----- | -----            |
| <b>11.3 Particulars of provision for doubtful Ijarah rentals</b> |                      |                  |
| Opening balance  | 126,632              | -                |
| Charge for the year  | -                    | 126,632          |
| Reversals  | -                    | -                |
|  | -                    | 126,632          |
| Amount written off   | <b>(126,632)</b>     | -                |
| Closing balance  | -                    | 126,632          |
|  | <b>=====</b>         | <b>=====</b>     |



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|   | Note   | June 30,<br>2013     | June 30,<br>2012  |
|---|--------|----------------------|-------------------|
|   |        | ----- (Rupees) ----- |                   |
| <b>11.4 The aging of trade debts is as follows:</b> |        |                      |                   |
| Neither past due nor impaired                       | 11.4.1 | 773,267              | 128,049           |
| Past due but not impaired - over 180 days           |        | 33,810,401           | 33,810,401        |
| Past due and impaired                               |        | -                    | 126,632           |
|   |        | <u>34,583,668</u>    | <u>34,065,082</u> |

11.4.1 This includes amount receivable from a related party amounting to Rs.0.181 million outstanding for less than 30 days which was cleared subsequent to year end. The said balance is not classified as impaired.

**12. ADVANCE TAX**

|  |  |                  |                  |
|--|--|------------------|------------------|
| Considered good                          |  | 483,776          | 427,330          |
| Considered doubtful                      |  | 161,820          | 161,820          |
|  |  | <u>645,596</u>   | <u>589,150</u>   |
| Less: Provision for doubtful receivables |  | <u>(161,820)</u> | <u>(161,820)</u> |
|  |  | <u>483,776</u>   | <u>427,330</u>   |

**13. MUSHARAKA FINANCE - Secured**

|  |      |                     |                     |
|--|------|---------------------|---------------------|
| Considered good                          | 13.1 | 22,847,613          | 27,726,687          |
| Considered doubtful                      |      | 10,182,339          | 10,182,339          |
|  |      | <u>33,029,952</u>   | <u>37,909,026</u>   |
| Less: Provision for doubtful receivables |      | <u>(10,182,339)</u> | <u>(10,182,339)</u> |
| Current portion of Musharaka finance     |      | <u>(3,932,969)</u>  | <u>(6,039,905)</u>  |
|  |      | <u>18,914,644</u>   | <u>21,686,782</u>   |

13.1 The Modaraba has entered into musharaka investment agreements with different parties on profit and loss sharing basis. The expected profit on these arrangements ranges from 11.35% to 17.03% (2012: 13.94% to 16.95%) per annum. The arrangement is secured against mortgage charge on property and hypothecation charge on stocks and receivables of the customers as well as a lien on cash deposited with a financial institution. These musharaka finances are receivable on various dates latest by April 13, 2022.

**13.2 The ageing of musharaka finance is as follows:**

|   |  |                   |                   |
|---|--|-------------------|-------------------|
| Neither past due nor impaired             |  | 21,312,538        | 26,986,572        |
| Past due but not impaired - over 180 days |  | 1,535,075         | 740,115           |
| Past due and impaired                     |  | 10,182,339        | 10,182,339        |
|   |  | <u>33,029,952</u> | <u>37,909,026</u> |

**14. PROPERTY AND EQUIPMENT**

|                          | Rate of<br>depreciation /<br>lease term | Cost                      |  |                           | Depreciation                          |   |                                       | Book value<br>as at June 30,<br>2013 |
|--------------------------|---|---------------------------|--|---------------------------|---------------------------------------|---|---------------------------------------|--------------------------------------|
|                          |   | As at<br>July 01,<br>2012 | Additions /<br>(disposals)               | As at<br>June 30,<br>2013 | Accumulated<br>as at July 01,<br>2012 | For the<br>year / (on<br>disposal)      | Accumulated<br>as at June 30,<br>2013 |                                      |
|                          |   | ----- (Rupees) -----      |  |                           |                                       |   |                                       |                                      |
| <b>Assets in own use</b> |   |                           |  |                           |                                       |   |                                       |                                      |
| Vehicle                  | 20%                                     | 3,508,718                 | 710,616 *                                | 4,219,334                 | 705,639                               | 784,652                                 | 1,490,291                             | 2,729,043                            |
| <b>Ijarah assets</b>     |   |                           |  |                           |                                       |   |                                       |                                      |
| Machinery                | 3 - 5 years                             | 9,511,050                 | 1,213,000<br>(1,135,000)                 | 9,589,050                 | 3,958,056                             | 2,687,077<br>(900,000)                  | 5,745,133                             | 3,843,917                            |
| Vehicles                 | 3 - 5 years                             | 31,974,015                | 8,275,500<br>(12,051,000)                | 28,198,515                | 7,186,242                             | 7,264,285<br>(4,717,313)                | 9,733,214                             | 18,465,301                           |
| Computer and equipment   | 3 years                                 | 2,400,000                 | 1,385,900                                | 3,785,900                 | 447,925                               | 1,090,200                               | 1,538,125                             | 2,247,775                            |
| <b>June 30, 2013</b>     |   | <u>47,393,783</u>         | <u>11,585,016</u><br><u>(13,186,000)</u> | <u>45,792,799</u>         | <u>12,297,862</u>                     | <u>11,826,214</u><br><u>(5,617,313)</u> | <u>18,506,763</u>                     | <u>27,286,036</u>                    |



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\* This represents purchase of vehicles from B.R.R. Guardian Modaraba - a related party.

|                          | Rate of depreciation / lease term | Cost                |   | Depreciation        |                                 |  |                                 | Book value as at June 30, 2012 |
|--------------------------|-----------------------------------|---------------------|---|---------------------|---------------------------------|--|---------------------------------|--------------------------------|
|                          |                                   | As at July 01, 2011 | Additions / (disposals)                 | As at June 30, 2012 | Accumulated as at July 01, 2011 | For the year / (on disposal)           | Accumulated as at June 30, 2012 |                                |
|                          |                                   |                     |   | (Rupees)            |                                 |  |                                 |                                |
| <b>Assets in own use</b> |                                   |                     |   |                     |                                 |  |                                 |                                |
| Vehicle                  | 20%                               | 1,992,493           | 1,516,225                               | 3,508,718           | 256,600                         | 449,039                                | 705,639                         | 2,803,079                      |
|                          |                                   |                     | -                                       |                     |                                 | -                                      |                                 |                                |
| <b>Ijarah assets</b>     |                                   |                     |   |                     |                                 |  |                                 |                                |
| Machinery                | 3 - 5 years                       | 9,445,300           | 65,750                                  | 9,511,050           | 1,380,924                       | 2,577,132                              | 3,958,056                       | 5,552,994                      |
|                          |                                   |                     | -                                       |                     |                                 | -                                      |                                 |                                |
| Vehicles                 | 3 - 5 years                       | 18,237,515          | 18,125,500<br>(4,389,000)               | 31,974,015          | 2,173,546                       | 6,314,771<br>(1,302,075)               | 7,186,242                       | 24,787,773                     |
| Computer and equipment   | 3 years                           | -                   | 2,400,000                               | 2,400,000           | -                               | 447,925                                | 447,925                         | 1,952,075                      |
| <b>June 30, 2012</b>     |                                   | <b>29,675,308</b>   | <b>22,107,475</b><br><b>(4,389,000)</b> | <b>47,393,783</b>   | <b>3,811,070</b>                | <b>9,788,867</b><br><b>(1,302,075)</b> | <b>12,297,862</b>               | <b>35,095,921</b>              |

|   | Note | June 30, 2013     | June 30, 2012     |
|---|------|-------------------|-------------------|
|   |      | (Rupees)          |                   |
| <b>15. ACCRUED EXPENSES AND OTHER LIABILITIES</b>       |      |                   |                   |
| Management fee payable                                  | 26   | 674,652           | 691,765           |
| Sales tax on management fee payable                     | 26   | 107,944           | 110,682           |
| Provision for Workers' Welfare Fund                     | 27   | 501,263           | 381,984           |
| Advance Ijarah rentals                                  |      | 37,429            | 171,825           |
| Accrued expenses  |      | 569,395           | 509,774           |
| Charity payable   |      | 1,595             | -                 |
|   |      | <u>1,892,278</u>  | <u>1,866,030</u>  |
| <b>16. MUSHARAKA FINANCE UNDER MARK-UP ARRANGEMENTS</b> |      |                   |                   |
| Opening balance   | 16.1 | <u>22,454,094</u> | <u>22,454,094</u> |

16.1 These represent funds received under musharaka arrangements on profit and loss sharing basis. Pending complete information and documents, no accrual has been made for profit payable, if any, on this amount.

**17. SECURITY DEPOSITS**

These deposits are received under Ijarah arrangements and are adjustable at the expiry of the lease period.



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|  | June 30,<br>2013              | June 30,<br>2012   |
|--|-------------------------------|--------------------|
| Note   | ----- (Rupees) -----          |                    |
| <b>18. CERTIFICATE CAPITAL</b>   |                               |                    |
| <b>Authorised</b>  |                               |                    |
| 25,000,000 Certificates of Rs.10 each  | <u>250,000,000</u>            | <u>250,000,000</u> |
| <b>Issued, subscribed and paid-up</b>  |                               |                    |
|  | <u>Number of certificates</u> |                    |
|  | 2013                          | 2012               |
|  | <u>20,000,000</u>             | <u>20,000,000</u>  |
| Modaraba certificates of Rs.10 each issued as fully paid in cash   | <u>200,000,000</u>            | <u>200,000,000</u> |
| Innovative Investment Bank Limited held 6,724,600 (33.62%) certificates of Rs.10 each as at June 30, 2013 (2012: 6,742,600 (33.62%) certificates).   |                               |                    |
| Ayaz Dawood and Amir Ilyas held 1,024,300 (5.12%) and 1,249,305 (6.25%) certificates of Rs.10 each as at June 30, 2013 (2012: 47,638 (0.06%) and 13,098,772 (16.78%) certificates).  |                               |                    |
| <b>19. STATUTORY RESERVE</b>   |                               |                    |
| Statutory reserve represents profit set aside to comply with the Prudential Regulations for Modarabas issued by the SECP. These regulations require the Modaraba to transfer not less than 20% and not more than 50% of its after tax profit till such time that reserve equals 100% of the paid-up capital. Thereafter, a sum not less than 5% of the after tax profits is to be transferred.   |                               |                    |
| During the year, the Modaraba has credited 42.97% of the profit to this reserve.   |                               |                    |
| <b>20. CONTINGENCIES</b>   |                               |                    |
| Following contingencies are related to period before the management of the Modaraba was transferred to the present management.   |                               |                    |
| <b>20.1</b> A commercial bank has lodged a claim of Rs.1.090 (2012: Rs.1.090) million on account of excess mark-up paid to the Modaraba during previous years which is not accepted by the Modaraba. The Modaraba has also lodged a claim before the banking tribunal against the said commercial bank for short payment of mark-up to the Modaraba to the extent of Rs.2.498 (2012: Rs.2.498) million. The proceedings under both cases are pending to-date. As a matter of abundant caution, full provision in respect of the said claim of the commercial bank has been made in these financial statements (refer note 7.2).  |                               |                    |
| <b>20.2</b> The Modaraba had received a legal notice from Innovative Investment Bank Limited (formerly: Crescent Standard Investment Bank Limited) which was addressed to previous Management Company (Financial Link Limited) of the Modaraba, wherein they had asked the Modaraba to settle an outstanding balance of short-term borrowing amounting to Rs.171.143 (2012: Rs.171.143) million alongwith the mark-up thereon on or before February 10, 2007. The management and the legal advisor of the Modaraba believe that the matter will be decided in favour of the Modaraba and, accordingly, no liability in respect of the above has been recognised in the financial statements. |                               |                    |
|  | June 30,<br>2013              | June 30,<br>2012   |
| Note   | ----- (Rupees) -----          |                    |
| <b>21. INCOME ON SHORT-TERM INVESTMENTS - NET</b>  |                               |                    |
| Profit on investment in debt securities  | 601,895                       | 2,366,249          |
| Profit on sale of investments  | 1,046,985                     | 554,838            |
| Gain / (loss) on revaluation of held-for-trading investments   | 2,074,614                     | (2,153,248)        |
| Profit on Sukuk certificates   | 364,458                       | -                  |
| Impairment loss on available-for-sale investments  | -                             | (1,143,342)        |
| Dividend income  | 1,359,563                     | 2,217,569          |
|  | <u>5,447,515</u>              | <u>1,842,066</u>   |



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| <b>22. ADMINISTRATIVE AND OPERATING EXPENSES</b> | <b>Note</b> | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2012</b> |
|--|-------------|--------------------------|--------------------------|
|  |             | ----- (Rupees) -----     |                          |
| Salaries, allowances and benefits                |             | 4,212,078                | 3,656,392                |
| Printing, postage and stationery                 |             | 216,349                  | 214,705                  |
| Fee and subscription                             |             | 690,802                  | 297,608                  |
| Commission and brokerage                         |             | 94,438                   | 84,039                   |
| Insurance  |             | 281,715                  | 142,640                  |
| Vehicle running expenses                         |             | 463,263                  | 18,552                   |
| Advertisement and entertainment                  |             | 22,300                   | 26,200                   |
| Auditors' remuneration                           | 22.1        | 346,250                  | 300,820                  |
| Legal and professional                           |             | 485,200                  | 252,000                  |
| Depreciation                                     |             | 784,653                  | 449,039                  |
| Others   |             | 49,052                   | 51,805                   |
|  |             | <u>7,646,100</u>         | <u>5,493,800</u>         |

**22.1 Auditors' remuneration**

|                          |                |                |
|--------------------------|----------------|----------------|
| Statutory audit fee      | 250,000        | 175,000        |
| Half yearly review fee   | 50,000         | 50,000         |
| Sundry advisory services | -              | 50,000         |
| Out of pocket expenses   | 46,250         | 25,820         |
|                          | <u>346,250</u> | <u>300,820</u> |

22.2 During the year, the Modaraba contributed Rs.0.163 (2012: Rs.0.019) million to the provident fund.

| <b>22.3 Disclosures relating to Provident Fund</b> | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2012</b> |
|--|--------------------------|--------------------------|
|  |                          | ----- (Rupees) -----     |

|                                |            |            |
|--------------------------------|------------|------------|
| Size of the fund               | 66,121,346 | 63,399,584 |
| Cost of investments made       | 62,728,856 | 37,755,700 |
| Percentage of investments made | 94.87%     | 59.55%     |
| Fair value of investments      | 72,209,728 | 50,443,453 |

**Break-up of investments**

|                               |            |            |
|-------------------------------|------------|------------|
| Government securities         | 39,000,000 | 5,000,000  |
| Term Finance Certificates     | 1,840,000  | -          |
| Investment in sukuk           | 12,407,984 | 14,101,351 |
| Investment in musharaka - BRR | -          | 9,000,000  |
| Un-listed securities          | 1,090,196  | 1,104,450  |
| Listed securities             | 1,674,924  | 1,374,924  |
| Mutual Funds                  | 6,715,752  | 7,174,975  |

**% age of size of the fund**

|                                |        |        |
|--------------------------------|--------|--------|
| <b>Break-up of investments</b> |        |        |
| Government securities          | 62.17% | 13.24% |
| Term Finance Certificates      | 2.93%  | -      |
| Investment in sukuk            | 19.78% | 37.35% |
| Investment in musharaka - BRR  | -      | 23.84% |
| Un-listed securities           | 1.74%  | 2.93%  |
| Listed securities              | 2.67%  | 3.64%  |
| Mutual Funds                   | 10.71% | 19.00% |



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The figures for 2013 are based on the un-audited financial statements of the Provident Fund. Investments out of Provident Fund have been made in accordance with the provisions of section 227 of the Companies Ordinance 1984 and the rules formulated for this purpose.

|                                      | <b>Note</b> | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2012</b> |
|--------------------------------------|-------------|--------------------------|--------------------------|
|                                      |             | ----- (Rupees) -----     |                          |
| <b>23. INVESTMENTS WRITTEN - OFF</b> |             |                          |                          |
| Debt securities                      |             | 2,622,360                | -                        |
| Equity securities                    |             | 62,916                   | -                        |
|                                      |             | <u>2,685,276</u>         | <u>-</u>                 |

**24. PROVISION / (REVERSAL) FOR DOUBTFUL RECEIVABLES**

**Charge for the year**

|                              |  |         |         |
|------------------------------|--|---------|---------|
| Provision on debt securities |  | 300,000 | -       |
| Provision on Ijarah finance  |  | -       | 126,632 |
|                              |  | 300,000 | 126,632 |

**Less: Reversal during the year**

|                                 |      |                |                |
|---------------------------------|------|----------------|----------------|
| Reversal of provision on Ijarah | 24.1 | (126,632)      | -              |
|                                 |      | <u>173,368</u> | <u>126,632</u> |

24.1 In addition, the management company has written-off an amount of Rs.0.127 pertaining to Ijarah rentals against which full provision had been made in the past.

|                              | <b>Note</b> | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2012</b> |
|------------------------------|-------------|--------------------------|--------------------------|
|                              |             | ----- (Rupees) -----     |                          |
| <b>25. FINANCIAL CHARGES</b> |             |                          |                          |
| Bank charges                 |             | 601                      | 4,107                    |
|                              |             | <u>601</u>               | <u>4,107</u>             |

**26. MODARABA MANAGEMENT COMPANY'S FEE**

In accordance with the Modaraba Companies and Modaraba Rules, 1981, management fee at the rate of 10% of annual profits is payable to the Management Company.

During the current year, an amount of Rs.0.108 (2012: Rs.0.111) million was charged on account of sales tax on management fee levied through Sindh Sales Tax on Services Act, 2011.

**27. WORKERS' WELFARE FUND**

The Finance Act, 2008 made certain changes to the Workers' Welfare Fund Ordinance, 1971. As a result of these amendments, Workers' Welfare Fund (WWF) is payable @ 2% of the profit before taxation as per the financial statements or taxable income as per the return of income, whichever is higher. During the current year, the management has made a provision of Rs.0.119 (2012: Rs.0.125) million in respect of this liability.

**28. PROVISION FOR TAXATION**

The income of non-trading modarabas is exempt from tax under Clause 100 of the Second Schedule to the Income Tax Ordinance 2001, provided not less than 90% of its profits (after appropriation to statutory (mandatory) reserves as required under Modaraba Regulations) is distributed to the certificate holders. The Modaraba intends to distribute 90% of its profits and, hence, no provision has been made in these financial statements for tax liabilities for the current year.



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**29. EARNINGS PER CERTIFICATE - basic and diluted**

|   |                                    |                   |
|---|------------------------------------|-------------------|
| Profit for the year                     | <u>5,844,646</u>                   | <u>5,990,681</u>  |
|   | ---- (number of certificates) ---- |                   |
| Weighted average number of certificates | <u>20,000,000</u>                  | <u>20,000,000</u> |
|   | ----- (Rupee) -----                |                   |
| Earnings per certificate                | <u>0.29</u>                        | <u>0.30</u>       |

**29.1** There were no convertible dilutive potential ordinary certificates outstanding on June 30, 2013 and 2012.

**30. REMUNERATION OF OFFICERS / EXECUTIVES**

|  |                  |                  |
|--|------------------|------------------|
| Remuneration and staff retirement benefits             | <u>3,264,856</u> | 2,306,639        |
| Medical expenses reimbursed                            | <u>37,500</u>    | 15,807           |
|  | <u>3,302,356</u> | <u>2,322,446</u> |
| Number of officers / executives at the end of the year | <u>3</u>         | <u>2</u>         |

The officers and executives are also provided with the free use of vehicles owned and maintained by the Modaraba.

**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Modaraba's objective in managing risk is the creation and protection of certificate holders' value. Risk is inherent in the Modaraba's activities, but it is managed through monitoring and controlling activities which are primarily setup to be performed, based on limits established by the Management Company, Modaraba's constitutive documents and the regulations and directives of the SECP. The Modaraba's activities expose it to a variety of financial risks: market risk (including profit rate risk, equity price risk and fair value risk), credit risk and liquidity risk. The Board of Directors of the Management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

The Modarabas overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Modaraba's financial performance.

The Modaraba primarily invests in Ijarah assets, musharaka, diversified portfolio of listed securities, sukuk certificates and term finance certificates. Such investments are subject to varying degrees of risk, which emanate from various factors that include but are not limited to market risk, liquidity risk and credit risk.

**31.1 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 interest rates, foreign exchange rates and equity prices.

**31.2 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 market profit rates. As of June 30, 2013, the Modaraba's exposure to the risk of changes in market profit rates relates primarily to bank balances in PLS saving accounts, musharaka finance and debt securities. The bank balances in PLS saving accounts are subject to profit rates as declared by the respective banks on periodic basis while, the debt securities are subject to floating profit rates. As at June 30, 2013, approximately 70.44% (2012:81.82%) of the Modaraba's financial assets are subject to floating profit rates. Management of the Modaraba estimates that an increase of 100 basis points in the market profit rate, with all other factors remaining constant, would increase the Modaraba's income by Rs.0.071 (2012: Rs.0.101) million and a decrease of 100 basis points would result in a decrease in the Modaraba's income by the same amount. However, in practice, the actual results may differ from the sensitivity analysis.

**31.2.1 Foreign currency risk**

Foreign 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 does not have any financial instrument in foreign currencies and hence is not exposed to such risk.





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**31.2.2 Equity price risk**

Equity price risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. The value of investments may fluctuate due to change in business cycles affecting the business of the company in which the investment is made, change in business circumstances of the company, its business sector, industry and / or the economy in general.

At the balance sheet date, the exposure to listed equity securities has increased to Rs.10.093 million from Rs.11.955 million in 2012. Management of the Modaraba estimates that 5% increase or decrease in the overall equity prices in the market with all other factors remaining constant would result in increase or decrease of Modaraba's net assets by Rs.0.505 (2012: Rs.0.598) million. However, in practice, the actual results may differ from the sensitivity analysis.

**31.3 Liquidity risk**

Liquidity risk is defined as the risk that the Modaraba will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Modaraba could be required to pay its liabilities earlier than expected. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Modaraba's reputation.

The table below summarizes the maturity profile of the Modaraba's financial liabilities based on contractual undiscounted payments.

|  | Upto one<br>month    | More than<br>one month<br>and upto<br>three<br>months | More than<br>three<br>months and<br>upto one<br>year | More than one<br>year | Total<br>contractual<br>cash flows |
|--|----------------------|---|--|-----------------------|------------------------------------|
|  | ----- (Rupees) ----- |   |  |                       |                                    |
| <b>June 30, 2013</b>                         |                      |   |  |                       |                                    |
| Musharaka finance under mark-up arrangements | 22,454,094           | -   | -  | -                     | 22,454,094                         |
| Accrued expenses and other liabilities       | 1,892,278            | -   | -  | -                     | 1,892,278                          |
| Security deposits                            | -                    | -   | 2,615,211  | 6,333,949             | 8,949,160                          |
| Unclaimed profit distribution                | -                    | 2,508,428   | -  | -                     | 2,508,428                          |
|  | <u>24,346,372</u>    | <u>2,508,428</u>                                      | <u>2,615,211</u>                                     | <u>6,333,949</u>      | <u>35,803,960</u>                  |
| <b>June 30, 2012</b>                         |                      |   |  |                       |                                    |
| Musharaka finance under mark-up arrangements | 22,454,094           | -   | -  | -                     | 22,454,094                         |
| Accrued expenses and other liabilities       | 1,866,030            | -   | -  | -                     | 1,866,030                          |
| Security deposits                            | -                    | -   | -  | 9,727,620             | 9,727,620                          |
| Unclaimed profit distribution                | -                    | 1,711,704   | -  | -                     | 1,711,704                          |
|  | <u>24,320,124</u>    | <u>1,711,704</u>                                      | <u>-</u>   | <u>9,727,620</u>      | <u>35,759,448</u>                  |

**31.4 Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Modaraba by failing to discharge its obligation. The Modaraba's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines, offering document and regulatory requirements. The table below analyses the Modaraba's maximum exposure to credit risk. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements at reporting date:



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|                                     | June 30,<br>2013     | June 30,<br>2012   |
|-------------------------------------|----------------------|--------------------|
|                                     | ----- (Rupees) ----- |                    |
| Bank balances                       | 59,444,352           | 34,239,987         |
| Investment in debt securities       | 3,082,329            | 12,895,107         |
| Musharaka finance                   | 22,847,613           | 27,726,687         |
| Trade debts                         | 34,583,668           | 33,938,450         |
| Advance against purchase of shares  | 579,615              | -                  |
| Accrued profit on debt securities   | 205,003              | 1,423,526          |
| Accrued profit on bank balances     | 999,086              | 922,710            |
| Accrued profit on Musharaka finance | 597,567              | 551,438            |
|                                     | <u>122,339,233</u>   | <u>111,697,905</u> |

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Modaraba's total credit exposure. The Modaraba's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk. The table below analyses the Modaraba's concentration of credit risk by industrial distribution:

|                                | %           | %              |
|--------------------------------|-------------|----------------|
| Banks                          | 50.47%      | 44.73%         |
| Other financial institutions   | 0.15%       | 0.11%          |
| Computer and software services | 0.34%       | 2.53%          |
| Sugar and allied               | 41.40%      | 44.38%         |
| Miscellaneous                  | 7.64%       | 8.25%          |
|                                | <u>100%</u> | <u>100.00%</u> |

**31.5 Fair value hierarchy**

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

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

|  | Level 1              | Level 2        | Level 3          |
|--|----------------------|----------------|------------------|
|  | ----- (Rupees) ----- |                |                  |
| <b>June 30, 2013</b>   |                      |                |                  |
| <b>Investments at fair value through profit or loss - held-for-trading</b> |                      |                |                  |
| - Listed Ordinary shares   | 10,092,931           | -              | -                |
| <b>Available-for-sale investments</b>                                      |                      |                |                  |
| - Debt securities  | -                    | 707,955        | 2,090,557        |
|  | <u>10,092,931</u>    | <u>707,955</u> | <u>2,090,557</u> |



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|  | <u>Level 1</u>              | <u>Level 2</u>   | <u>Level 3</u>   |
|--|-----------------------------|------------------|------------------|
|  | <u>----- (Rupees) -----</u> |                  |                  |
| <b>June 30, 2012</b>   |                             |                  |                  |
| <b>Investments at fair value through profit or loss - held-for-trading</b> |                             |                  |                  |
| - Listed Ordinary shares   | 9,993,140                   | -                | -                |
| <b>Available-for-sale investments</b>                                      |                             |                  |                  |
| - Listed Ordinary shares   | 1,960,000                   | -                | -                |
| - Debt securities  | -                           | 7,291,290        | 4,185,347        |
|  | <u>11,953,140</u>           | <u>7,291,290</u> | <u>4,185,347</u> |

There has been no transfer of investments from level 2 to level 1 or level 3.

|   | <u>June 30, 2013</u>        | <u>June 30, 2012</u> |
|---|-----------------------------|----------------------|
|   | <u>----- (Rupees) -----</u> |                      |
| Opening balance   | 4,185,347                   | 5,254,384            |
| Transfers into / (from) level 3                               | -                           | 1,922,847            |
| Sales / redemptions / write-offs                              | (3,229,443)                 | (3,206,467)          |
| Impairment reversal / (charge) recognised in income statement | 1,134,653                   | 214,583              |
| Closing balance   | <u>2,090,557</u>            | <u>4,185,347</u>     |

**32. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Modaraba is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of assets and liabilities date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value as the items are short term in nature.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

**33. CAPITAL RISK MANAGEMENT**

The Modaraba's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for certificate-holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of profit distributed to certificate-holders, issue new certificates or sell assets to reduce debt.

The Modaraba's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total Diminishing Musharaka Term Finance Certificates and borrowings less cash and bank balances.

The gearing ratio of the Modaraba at year end is as follows:

|  | <u>June 30, 2013</u>        | <u>June 30, 2012</u> |
|--|-----------------------------|----------------------|
|  | <u>----- (Rupees) -----</u> |                      |
| Musharaka finance under mark-up arrangements | 22,454,094                  | 22,454,094           |
| Cash and bank balances                       | (59,447,452)                | (34,243,587)         |
| Net debt                                     | <u>(36,993,358)</u>         | <u>(11,789,493)</u>  |
| Equity                                       | <u>124,771,486</u>          | <u>122,160,692</u>   |
| Net debt to equity ratio                     | <u>-</u>                    | <u>-</u>             |



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**34. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, directors, and key management personnel.

The Modaraba has related party relationship with its Management Company, Associated Undertakings and its Key Management Personnel.

A number of transactions are entered into with related parties in the normal course of business.

The details of transactions with related parties and balances with them, apart from compensation to officers as disclosed in note 27, are given below:

| Relationship with<br>the company                    | Nature of transactions                                    | June 30,<br>2013     | June 30,<br>2012 |
|---|---|----------------------|------------------|
|   |   | ----- (Rupees) ----- | -----            |
| <b>Management Company</b>                           |   |                      |                  |
| B.R.R. Investments (Private) Limited                | Management fee accrued                                    | 674,652              | 691,765          |
| <b>Associated companies / other related parties</b> |   |                      |                  |
| B.R.R. Guardian Modaraba                            | Payment of sharing expenses<br>(see note 34.1)            | 2,416,666            | 3,335,624        |
| B.R.R. Guardian Modaraba                            | Purchase of vehicles                                      | 676,033              | -                |
| First Dawood Investment Bank Ltd.                   | Received against sale of debts<br>securities              | 4,165,917            | -                |
| First Dawood Investment Bank Ltd.                   | Payment of sharing expenses - paid<br>(see note 31.1)     | 12,666               | -                |
| First Dawood Investment Bank Ltd.                   | Payment of sharing expenses -<br>received (see note 31.1) | 12,666               | -                |
| First Dawood Investment Bank Ltd.                   | Purchase of vehicle                                       | 34,583               | -                |
| GlaxoSmithKline Pakistan Limited                    | Investment in shares                                      | 867,510              | -                |
| First Dawood Employees<br>Provident Fund            | Transfer to provident fund                                | 111,700              | 19,400           |
| Dawood Family Takaful Ltd.                          | Ijarah finance  | 4,768,500            | 8,055,000        |
| Dawood Family Takaful Ltd.                          | Security deposit received                                 | 476,850              | 805,500          |
| Dawood Family Takaful Ltd.                          | Rental received against Ijarah                            | 3,511,435            | 1,784,000        |
| Dawood Equities Ltd.                                | Brokerage and commission paid                             | 94,438               | 84,039           |
| Dawood Equities Ltd.                                | Receivable against sale<br>of securities                  | 579,615              | -                |
| Sui Southern Gas Co. Limited                        | Dividend received   | 472,500              | 500,000          |
| GlaxoSmithKline Pakistan Limited                    | Dividend received   | 26,000               | -                |



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**34.1 Group shared services**

The Modaraba has entered into an arrangement with its management company to share human resource costs on agreed terms.

**35. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company in their meeting held on October 31, 2013 have approved profit distribution at the rate of 1.5% i.e. Rs. 3,000,000 (2012: at the rate of 1.5% i.e. Rs.0.15 paisa per certificate) for the year ended June 30, 2013. These financial statements do not reflect this distribution.

**36. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on October 31, 2013 by the Board of Directors of the B.R.R. Investments (Private) Limited.

**37. NUMBER OF EMPLOYEES**

The detail of number of employees are as follows:

|   | <b>Number of employees</b> |          |
|---|----------------------------|----------|
| Average number of employees during the year | <u>4</u>                   | <u>2</u> |
| Number of employees                         | <u>6</u>                   | <u>2</u> |

**38. GENERAL**

Figures have been rounded off to the nearest rupee.

**For B.R.R. Investments (Private) Limited  
(Management Company)**

\_\_\_\_\_  
**Chairman**

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**



**CRESCENT STANDARD MODARABA**  
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**PATTERN OF CERTIFICATE HOLDING  
AS AT JUNE 30 2013**

| <b>Number Of<br/>Certificate Holders</b> | <b>Certificate Holding</b> |   |           | <b>Total Certificate<br/>Held</b> |
|--|----------------------------|---|-----------|-----------------------------------|
|  | <b>From</b>                |   | <b>To</b> |                                   |
| 90                                       | 1                          | - | 100       | 4,522                             |
| 1178                                     | 101                        | - | 500       | 572,954                           |
| 76                                       | 501                        | - | 1,000     | 72,893                            |
| 159                                      | 1,001                      | - | 5,000     | 493,510                           |
| 68                                       | 5,001                      | - | 10,000    | 591,158                           |
| 20                                       | 10,001                     | - | 15,000    | 258,237                           |
| 19                                       | 15,001                     | - | 20,000    | 348,455                           |
| 13                                       | 20,001                     | - | 25,000    | 297,320                           |
| 3  | 25,001                     | - | 30,000    | 82,500                            |
| 2  | 30,001                     | - | 35,000    | 61,640                            |
| 6  | 35,001                     | - | 40,000    | 229,700                           |
| 1  | 40,001                     | - | 45,000    | 44,500                            |
| 11                                       | 45,001                     | - | 50,000    | 541,301                           |
| 2  | 50,001                     | - | 55,000    | 109,000                           |
| 1  | 55,001                     | - | 60,000    | 55,500                            |
| 1  | 75,001                     | - | 80,000    | 75,703                            |
| 3  | 80,001                     | - | 85,000    | 252,191                           |
| 1  | 85,001                     | - | 90,000    | 90,000                            |
| 1  | 90,001                     | - | 95,000    | 92,000                            |
| 3  | 95,001                     | - | 100,000   | 300,000                           |
| 1  | 100,001                    | - | 105,000   | 100,023                           |
| 1  | 110,001                    | - | 115,000   | 115,000                           |
| 1  | 115,001                    | - | 120,000   | 120,000                           |
| 1  | 120,001                    | - | 125,000   | 120,001                           |
| 2  | 125,001                    | - | 130,000   | 255,001                           |
| 1  | 130,001                    | - | 135,000   | 131,101                           |
| 1  | 140,001                    | - | 145,000   | 145,000                           |
| 1  | 150,001                    | - | 155,000   | 151,575                           |
| 1  | 180,001                    | - | 185,000   | 180,122                           |
| 1  | 195,001                    | - | 200,000   | 200,000                           |
| 1  | 235,001                    | - | 240,000   | 240,000                           |
| 1  | 300,001                    | - | 305,000   | 300,500                           |
| 2  | 340,001                    | - | 345,000   | 688,000                           |
| 1  | 455,001                    | - | 460,000   | 458,500                           |
| 1  | 515,001                    | - | 520,000   | 518,886                           |
| 1  | 705,001                    | - | 710,000   | 705,002                           |
| 1  | 1,020,001                  | - | 1,025,000 | 1,024,300                         |
| 1  | 1,245,001                  | - | 1,250,000 | 1,249,305                         |
| 1  | 1,995,001                  | - | 2,000,000 | 2,000,000                         |
| 1  | 6,720,001                  | - | 6,725,000 | 6,724,600                         |
| <b>1680</b>                              |                            |   |           | <b>20,000,000</b>                 |



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| <b>S. No.</b> | <b>Categories Of Certificate holders</b> | <b>Number Of Certificate holders</b> | <b>Total Certificates Held</b> | <b>Percentage</b> |
|---------------|--|--------------------------------------|--------------------------------|-------------------|
| 1             | Individuals                              | 1642                                 | 9,617,968                      | 48.09             |
| 2             | Investment Companies                     | 6                                    | 7,190,600                      | 35.95             |
| 3             | Financial Institutions                   | 3                                    | 14,504                         | 0.07              |
| 4             | Joint Stock Companies                    | 23                                   | 1,109,201                      | 5.55              |
| 5             | Modarabas                                | 2                                    | 47,700                         | 0.24              |
| 6             | Insurance Company                        | 1                                    | 2,500                          | 0.01              |
| 7             | Modaraba Management Co.                  | 1                                    | 2,000,000                      | 10                |
| 8             | Others                                   | 2                                    | 17,527                         | 0.09              |
|               |  | <b>1680</b>                          | <b>20,000,000</b>              | <b>100</b>        |



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**ADDITIONAL INFORMATION**  
**AS AT JUNE 30, 2013**

| S. No.  | Categories of Certificates Holders   | Number | Certificates Held | % Age |
|---|--|--------|-------------------|-------|
| 1   | NIT & ICP<br>Investment Corporation of Pakistan  | 1      | 12,000<br>12,000  | 0.06  |
| 2   | Banks, DFIs, NBFIs, Insurance Companies, Modarabas<br>Joint Stock Companies and Mutual Funds | 37     | 10,370,032        | 51.85 |
| <b>Certificate Holders holding five percent or more in the Modaraba</b> |  |        |                   |       |
| <b>Paid Up Capital</b>  |  |        | <b>20,000,000</b> |       |
|   | Innovative Investment Bank Limited   |        | 6,724,600         | 33.62 |
|   | Financial Link Limited   |        | 2,000,000         | 10.00 |
|   | Amir Ilyas   |        | 1,249,305         | 6.25  |
|   | Ayaz Dawood  |        | 1,024,300         | 5.12  |





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## **SIX YEARS' FINANCIAL SUMMARY**

| <b>Particulars</b>        | <b>2013</b> | <b>2012</b>          | <b>2011</b> | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---------------------------|-------------|----------------------|-------------|-------------|-------------|-------------|
|                           |             | (Rupees in thousand) |             |             |             |             |
| Paid up Capital           | 200,000.00  | 200,000.00           | 200,000.00  | 200,000.00  | 200,000.00  | 200,000.00  |
| Equity                    | 124,771.48  | 122,160.69           | 117,551.06  | 115,030.26  | 110,271.00  | 107,829.00  |
| Current Liabilities       | 29,470.01   | 26,031.82            | 24,510.02   | 43,951.14   | 23,179.00   | 23,107.00   |
| Current Assets            | 114,374.77  | 101,137.43           | 148,239.23  | 159,131.60  | 133,451.00  | 130,618.00  |
| Operating Profit / (Loss) | 6,746.52    | 6,917.64             | 5,698.04    | 5,737.36    | 2,218.53    | (405.00)    |
| Profit for the Year       | 5,844.64    | 5,990.68             | 5,025.67    | 5,024.21    | 1,762.00    | 537.00      |
| Dividend                  | 3,000       | 3,000                | 2,400       | 2,400       | -           | -           |
| Earning per Certificate   | 0.29        | 0.30                 | 0.25        | 0.25        | 0.09        | 0.03        |

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