



KASB Modaraba

An Islamic Financial Institution



اسلامی مالیاتی ادارہ

ANNUAL REPORT 2017

صاف اور شفاف آمدنی،
سیچا سکون ہے...

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

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CORPORATE INFORMATION

Board of Directors

Syed Waseem-ul-Haq Haqqie
Aftab Afroz Mahmoodi
Syed Muhammad Rehmanullah
Farrukh S. Ansari

Chairman
Chief Executive Officer
Director
Director

CFO & Company Secretary

Syed Shahid Owais

Head of Internal Audit

Zia-ul-Haq

Management Company

KASB Invest (Private) Limited

Auditors

RSM Avais Hyder Liaquat Nauman
Chartered Accountants

Audit Committee

Farrukh S. Ansari
Syed Muhammad Rehmanullah
Syed Waseem-ul-Haq Haqqie

Chairman
Member
Member

Human Resource and Remuneration Committee

Farrukh S. Ansari
Syed Waseem-ul-Haq Haqqie
Syed Muhammad Rehmanullah
Aftab Afroz Mahmoodi

Chairman
Member
Member
Member

Bankers

Al-Baraka Islamic Bank
JS Bank Limited
Meezan Bank Limited
Bank Islami Pakistan Limited
Bank Al-Falah Limited
Soneri Bank Limited
Dubai Islamic Bank
Summit Bank Limited

Certificate Transfer Office

C&K Management Associates (Private) Limited
404, Trade Tower,
Abdullah Haroon Road,
Near Metropole Hotel
Karachi – 75530
Telephone: 021-35687839 – 021-35685930

Legal Advisor

Ahmed & Qazi
S&B Durrani Law Associates

Shariah Advisor

Mufti Abdul Sattar Laghari

Registered & Head Office

16-C, Bukhari Towers,
Main Khayaban-e-Bukhari Phase VI,
DHA, Karachi.
Telephone No.: 021-35171786-89

DHA Branch:

16-C, Bukhari Towers,
Main Khayaban-e-Bukhari Phase VI,
DHA, Karachi.
Telephone No.: 021-35171786-89

Lahore Branch:

Office No. 105, 1st Floor Ashrafiya Plaza,
Main Market Gulberg-2 Main Boulevard, Lahore.
Phone No.: 042-35790446 & 042-35790447

Islamabad Branch:

Basement, 90-91, Razia Sharif Plaza,
Jinnah Avenue, Blue Area F-7,
Islamabad
Phone No.: 051-2344422-24

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E-mail

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DIRECTORS' REPORT



The Board of Directors of KASB Invest (Private) Limited, the Management Company of KASB Modaraba is pleased to present the annual audited financial statements of the Modaraba for the year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

Financial highlights for the period under review are summarized as under:-

	June 30, 2017 Rs "000"	June 30, 2016 Rs "000"
BALANCE SHEET		
Cash and bank balance	22,604	48,705
Modaraba Finance	50,960	53,747
Musharaka Finance	12,900	14,100
Murabaha Finance	150,045	267,366
Diminishing Musharaka Finance	153,208	316,083
Receivable against sale of agricultural produce	18,200	18,200
Ijarah rental receivable	562	3,824
Ijarah Assets	32,493	52,765
Property acquired in satisfaction of financing facility	47,083	47,083
Total Assets	599,707	901,246
Net Assets	391,456	389,033

	June 30, 2017 Rs "000"	June 30, 2016 Rs "000"
PROFIT & LOSS ACCOUNT		
Gross Income	110,017	166,064
Operating & Financial Charges	(97,835)	(156,706)
Provision against doubtful receivables	(3,799)	-
Modaraba Management Company fee	457	948
Net Profit for the Year	4,570	8,245
Earning per Modaraba Certificate (Rupees)	0.10	0.17

OPERATIONS AND PERFORMANCE

By the Grace of the Almighty Allah, KASB Modaraba successfully completed its financial year under the strategy and philosophy of novation in the business thus capitalizing on non-traditional avenues.

Modaraba booked a gross profit of Rs.110.02 million, against which Operating and Financial Charges were Rs.97.84 million. Net profit was Rs.4.57 million. Earning per Certificate was Rs. 0.10. Margins shrunk as compared to the corresponding previous year because of limited liquidity available to the Modaraba for taking or increasing exposures on conventional as well as non-traditional businesses because of restriction imposed by Securities & Exchange Commission of Pakistan on mobilization of Certificates of Musharakah. The management is optimistic expects that the matter would be favorably considered by the Commission which would help to beefing up the resources.

The auditors in their report have expressed their concern over non provisioning against one of the short term Modaraba finance facility, in continuation to the opinion of the previous auditors who had expressed a modified opinion on the same matter in their report to the financial statements of the Modaraba for the year ended June 30, 2015. The amount is not doubtful as partial recovery is evidenced during the current period. Therefore the management believes that the remaining amount would be recovered in due course of time and no provision against the same is required.

CREDIT RATING

Despite all the hurdles, we are pleased to announce that the Credit Rating Agency PACRA has given a stable future outlook on the Modaraba with a long term entity rating of BBB+ and short term entity rating of A2 in their report as on May 26, 2017.

DIVIDEND

The Board of Directors is pleased to announce a final cash dividend for the year ended June 30, 2017 @ 0.7% i.e. Re. 0.07 per certificate. This is the result of the untiring efforts by the management, its unsheltered belief in the Sharia compliant business coupled with the blessings of the Almighty.



YEAR AT A GLANCE

Modaraba performed modestly with shrunk deposits and liquidity issues during the year. Our approach remained conservative towards financing projects. Our focus remained converged to Agriculture sector. Banola Seed Crushing project and Wheat straws were major areas of our attention. Finance cost declined substantially in line with reduction in deposits. The management remained vigilant for timely recovery of the deployed funds to develop room for further investments.

FUTURE PROSPECTS

With the aim and strategy of growing with Sharia compliant businesses, we would keep exploring and opting high yield businesses. We trust that we would keep going as per our short and longer term plans for the future and would endeavor to outperform our existing results and ratings with innovative approach that would result in better returns for the Certificate holders.

CORPORATE AND FINANCIAL REPORTING

The Board of Directors is fully aware of its duties and responsibilities under Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan. The following statements demonstrate the Board's philosophy and commitment towards maintaining high standards of Corporate Governance:

- The financial statements prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IASs) as applicable in Pakistan have been followed in preparation of Financial Statements and any departure there from has been adequately disclosed.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The Modaraba operates an unapproved unfunded gratuity scheme for its permanent employees, value of which is PKR. 4,753,720/- as at June 30, 2017.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2017 except as disclosed in the financial statements.
- None of the directors of Modaraba, CEO, CFO, Company Secretary and their spouses and minor children has carried out trading of certificates of the Modaraba.
- During the year, six meetings of the Board of Directors were held. Attendance by each director is as follows:

Name		No of Meetings Attended
Syed Waseem ul Haq Haqqie	Chairman	6
S. M. Rehmanullah	Director	6
Farrukh S. Ansari	Director	6
Aftab Afroz Mahmoodi	Chief Executive	1
Rashid Siddiqui	Ex-Chief Executive (Resigned with effect from Feb 28, 2017)	5

- " The pattern of holding of Certificates by the Certificate-holders is included in this annual report.

DIRECTORS' REPORT



COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Pakistan Stock Exchange in its Rule Book relevant for the year ended June 30, 2017 have been adopted by the Modaraba and have been duly complied with. A statement to this effect is annexed with the report.

HUMAN RESOURCES

The Board is confident that the management and employees of your Modaraba will continue to work with the integrity and zeal that has been their hallmark, and your Modaraba shall Insha'Allah continue to prosper. Investment in Human Resources is the cornerstone of our policy.

AUDITORS

The term of appointment of present auditors M/s. Avais Hyder Liaquat Nauman, Chartered Accountants is expiring on the date of the ensuing Annual Review Meeting of the Modaraba. On the recommendation of the Audit Committee, the Board has approved the reappointment of M/s. Avais Hyder Liaquat Nauman, Chartered Accountants, as auditors for the year ending June 30, 2018, subject to approval by the Registrar of Modaraba Companies and Modaraba.

ACKNOWLEDGEMENT

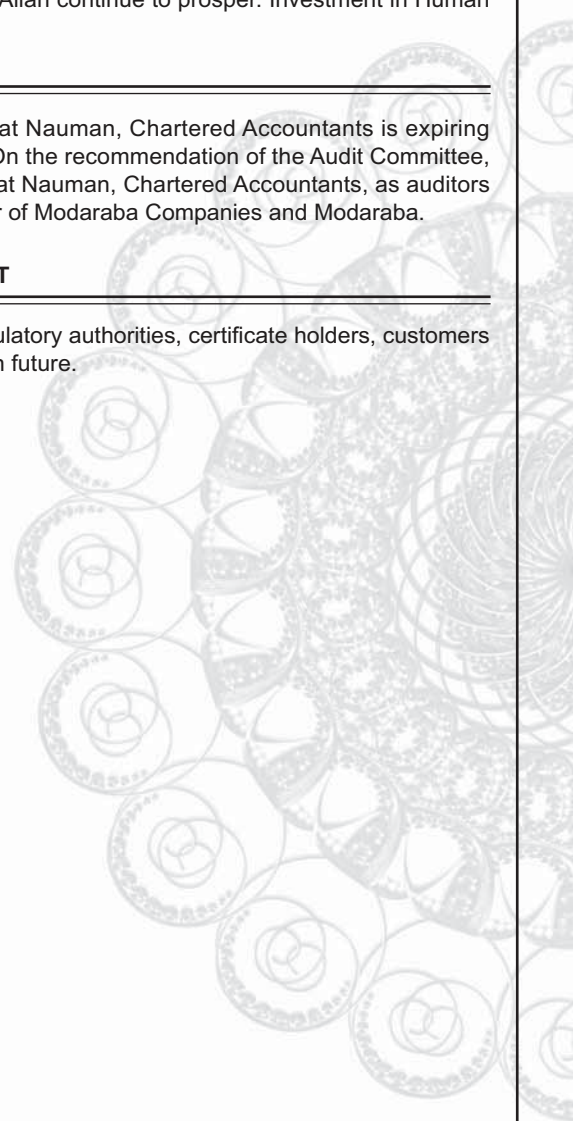
The Board greatly appreciates the support and co-operation of the regulatory authorities, certificate holders, customers and bankers and looks forward to their continued support and advice in future.

We pray to Almighty Allah for the success of your Modaraba.

For and behalf of Board of Directors

Syed Waseem-ul-HaqHaqqie

Chairman
October 06, 2017
Karachi



اجلاس میں شرکت کی تعداد	عہدہ	نام
6	چیرمین	سید وسیم الحق حقی
6	ڈائریکٹر	ایس ایم رحمن اللہ
6	ڈائریکٹر	فرخ ایس انصاری
1	چیف ایگزیکٹو	آفتاب افروز محمودی
5	سابق چیف ایگزیکٹو	راشد کے صدیقی

سرٹیفکیٹ ہولڈر کی جانب سے سرٹیفکیٹ رکھنے کا طریقہ کار اس سالانہ رپورٹ میں شامل ہے۔

کوڈ آف کارپوریٹ گورننس کی تعمیل

پاکستان اسٹاک ایکسچینج کی جانب سے اپنی ”رول بک“ میں مرتب کرہ، 30 June 2017 سے متعلق احکامات کو مضاربہ نے اختیار کیا ہے اور ان کی تعمیل بھی کی ہے اس سلسلے میں ایک بیان اس رپورٹ کے ساتھ منسلک ہے۔

ہومن ریورسز

بورڈ پر اعتماد ہے کہ آپ کے مضاربہ کی انتظامیہ اور ملازمین راست بازی اور جوش اور ولولے سے مسلسل کام کریں گے۔ آپ کا مضاربہ انشاء اللہ مسلسل فروغ پاتا رہے گا۔ بہترین انسانی وسائل میں سرمایہ کاری ہماری پالیسی کا بنیادی عنصر ہے۔

آڈیٹرز

موجودہ آڈیٹران میسرز اولیس حیدر لیاقت نعمان چارٹرڈ اکاؤنٹنٹس کی تقرری کی مدت مضاربہ کی سالانہ جائزہ اجلاس کی تاریخ پر ختم ہو رہی ہے۔ آڈٹ کمیٹی کی سفارش پر بورڈ نے میسرز اولیس حیدر لیاقت نعمان چارٹرڈ اکاؤنٹنٹس کو بحیثیت آڈیٹر 30 June 2018 تک دوبارہ تقرری کی منظوری دی ہے۔ جو رجسٹرڈ مضاربہ کی منظوری سے مشروط ہے۔

اعتراف

بورڈ ریگولیٹری اتھارٹی، حصہ داروں، کسٹمرز اور بینکران کی معاونت اور تعاون کو بہت سراہتا ہے اور مستقبل میں بھی ان کی معاونت اور مشورے کا منتظر رہے گا۔ ہم اللہ کے حضور آپ کے مضاربہ کی کامیابی کیلئے دعا گو ہیں۔ بورڈ آف ڈائریکٹرز کی جانب و توسط سے



سید وسیم الحق حقی
چیرمین

06 October 2017

کراچی۔

مستقبل کے امکانات

شریعت کے مطابق کاروبار کے ذریعے ترقی کرنے کے مقصد اور حکمت عملی کے ساتھ ہم اعلیٰ پیداواری اور منافع بخش کاروبار کی تلاش اور جستجو کرتے رہیں گے۔

ہم اس یقین کے ساتھ آگے بڑھتے رہیں گے کہ ہمارے قلیل المیعاد اور طویل المدت اہداف حاصل ہو جائیں۔ ہم جدید تر کاروبار کے ساتھ جدوجہد میں مصروف رہیں گے تاکہ موجودہ کاروباری نتائج اور درجہ بندی کے مقابلے میں بہتر نتائج حاصل کر سکیں۔ جس کے ذریعے حصہ داروں کو بہتر منافع پہنچا سکیں۔

کارپوریٹ اور مالیاتی رپورٹ

بورڈ آف ڈائریکٹرز سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کی جانب سے جاری کردہ کوڈ آف کارپوریٹ گورننس کے تحت اپنے فرائض اور ذمہ داریوں سے پوری طرح آگاہ ہیں۔ مندرجہ ذیل بیانات میں بورڈ کا فلسفہ بیان کیا گیا ہے۔ اور کارپوریٹ گورننس کے اعلیٰ معیارات کو برقرار رکھنے کا پابند رہنے کا اظہار کیا گیا ہے۔

- ☆ مضاربہ کی انتظامیہ کی جانب سے مالی گوشوارہ عمدگی سے پیش کیا گیا ہے جو اس کے آپریشنز، کیش فلوا اور ایکویٹی میں تبدیلیوں کا نتیجہ ہے۔
- ☆ مضاربہ کی باقاعدہ اکاؤنٹ کتابیں تیار کی گئی ہیں۔
- ☆ مالی گوشوارے کی تیاری میں مؤثر اکاؤنٹنگ پالیسی کو یکساں طور پر استعمال کیا گیا ہے۔ اور اکاؤنٹنگ تخمینہ جات مناسب اور عاقبت اندیش فیصلوں کی بنیاد پر کئے گئے ہیں۔
- ☆ مالی گوشواروں کی تیاری میں پاکستان میں قابل اطلاق بین الاقوامی اکاؤنٹنگ (IASs) معیارات پر عمل کیا گیا ہے۔ اور اس سے کسی رخصت کو مناسب طور پر ظاہر کیا گیا ہے۔
- ☆ انٹرنل کنٹرول کا انتظام مستحکم ہے اور موثر طور پر نفاذ و نگرانی کی جاتی ہے۔
- ☆ مضاربہ بناوٹ میں مالی طور پر مستحکم ہے اور موثر طور پر نفاذ و نگرانی کی جاتی ہے۔
- ☆ مضاربہ کی مالی و انتظامی صلاحیت کو کوئی خطرہ نہیں ہے اور اس سلسلے میں کوئی قابل تشویش بات نہیں ہے۔
- ☆ مضاربہ میں کارپوریٹ گورننس کے بہترین اصولوں کو مد نظر رکھا گیا ہے۔
- ☆ مضاربہ نے اپنے مستقل ملازمین کیلئے ایک غیر منظور شدہ انفنڈیڈ گریجویٹ اسکیم قائم کر رکھی ہے جس کی قدر 30 June 2017 کو -/4,753,720 روپے تھی۔
- ☆ پچھلے چھ سالوں کا مالیاتی گوشوارہ خلاصہ کی صورت میں اس سالانہ رپورٹ میں شامل کیا گیا ہے۔
- ☆ یہاں 30 June 2017 کو ٹیکس ڈیویڈنڈ جرمناں اور واجبات کی مد میں کوئی قانونی ادائیگیاں نہیں ہیں ماسوائے جیسا کہ مالیاتی گوشواروں میں ظاہر کیا گیا ہے۔
- ☆ مضاربہ کے ڈائریکٹرز، CFO، CEO، کمپنی سیکریٹری اور ان کے شریک حیات اور نابالغ بچوں نے مضاربہ کے سرٹیفیکٹ کی کوئی خرید و فروخت نہیں کی ہے۔
- ☆ سال کے دوران بورڈ آف ڈائریکٹرز کے 06 اجلاس منعقد ہوئے۔ ہر ڈائریکٹر کی شرکت درج ذیل ہے:

انتظامی کارکردگی

اللہ تعالیٰ کی مدد سے کے اے ایس بی مزاربہ نے اپنا مالی سال غیر روایتی سرمایہ کاری کے مواقع سے فائدہ اٹھاتے ہوئے جدت کے فلسفے اور حکمت عملی کے ساتھ مکمل کیا۔

مزاربہ کا حاصل شدہ مجموعی منافع 110.02 ملین روپے ہے جبکہ انتظامی و مالیاتی اخراجات 97.84 ملین روپے ہے خالص منافع 4.57 ملین روپے جبکہ فی حصہ منافع 0.10 روپے رہا۔ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کی طرف سے سٹوکیٹ آف مشارکہ (COM) کے اجراء پر عائد محدود پابندی کی وجہ سے یہ منافع پچھلے برس کے مقابلے میں کم رہا۔ تاہم کے اے ایس بی کی انتظامیہ ریگولیٹری اتھارٹی کے ساتھ مسلسل قریبی رابطے میں ہے۔ اور ہمیں امید ہے کہ یہ ادارہ ہمارے حق میں فیصلہ کر دے گا جس سے ہم دوبارہ اپنے اہداف کی طرف سفر شروع کر دیں گے۔

دوران مدت مزاربہ نے شعبہ زراعت میں ایک قدم اور آگے بڑھاتے ہوئے بنولہ تیل اور اسکی ذیلی مصنوعات کی پیداوار اور فروخت کیلئے ”بنولہ سیڈ کرشنگ پروجیکٹ“ کا آغاز کیا۔ اس پروجیکٹ نے مزاربہ کے لئے زراعت کے شعبے میں موجود منافع بخش کاروبار کے لامحدود دروازے کھول دے ہیں۔

آڈیٹران اپنی رپورٹ میں ایک قلیل المدت مزاربہ مالیت کی وصولی کے خلاف بندوبست نہ کرنے کے سلسلے میں اپنی تشویش کا اظہار کیا ہے۔ یہ معاملہ گذشتہ آڈیٹران کی مالی سال ۳۰ جون ۲۰۱۵ کے سلسلے میں شائع کی گئی رپورٹ کا تسلسل ہے۔ دوران مدت اس مالیت کی جزوی وصولی اس بات کا ثبوت ہے کہ یہ مشکوک نہیں ہے اور انتظامیہ کو یہ یقین ہے کہ وقت کے ساتھ ساتھ بقیہ رقم کی وصولی بھی ہو جائے گی۔ لہذا اس مالیت کے خلاف کوئی رزق مطلوب فراہم نہیں کیا گیا۔

کریڈٹ ریٹنگ

مزاربہ کو درپیش تمام تر مشکلات کے باوجود ہم انتہائی مسرت کے ساتھ اس بات کا اعلان کرتے ہیں کہ کریڈٹ ریٹنگ ایجنسی PACRA نے اپنی رپورٹ برائے 26 May 2017 میں مزاربہ کا مستقبل مستحکم ظاہر کیا ہے اور اس کی طویل المدت درجہ بندی BBB+ اور مختصر المدت درجہ بندی A-2 کی ہے۔

منافع منقسمہ

بورڈ آف ڈائریکٹرز انتہائی مسرت کے ساتھ مزاربہ کے حصہ داروں کے لئے اختتامی سال 30 June 2017 کیلئے حتمی منافع منقسمہ بحساب 0.7 فیصد (0.07 روپے فی حصہ) کا اعلان کرتے ہیں۔ یہ سب اللہ تعالیٰ کے کرم، انتظامیہ کا شریعت کے مطابق کاروبار پر غیر متزلزل ایمان اور اسکی انتھک محنت کا نتیجہ ہے۔

موجودہ مالی سال پر ایک سرسری نظر

دوران مدت مالی مسائل اور ذخائر کی کمی کے باوجود مزاربہ کی کارکردگی مناسب رہی فنانشنگ منصوبوں کی طرف ہمارا رویہ محتاط رہا۔ ہمارا محض نظر شعبہ زراعت رہا۔ بنولہ سیڈ کرشنگ پروجیکٹ اور ٹوٹی کا کاروبار ہماری توجہ کا اہم مرکز رہے۔ مالی ذخائر میں کمی کے باعث ہمارے مالیاتی اخراجات میں خاطر خواہ کمی آئی۔

جاری شدہ قرضہ جات کی بروقت وصولی کیلئے انتظامیہ پوری طرح چوکس اور مستعد رہی تاکہ اس کے ذریعے مزید منافع بخش سرمایہ کاری کیلئے راہ ہموار کی جائے۔

ڈائریکٹرز رپورٹ

کے اے ایس بی انویسٹ (پرائیوٹ) لمیٹڈ انتظامی کمپنی برائے کے اے ایس بی مزاربہ کے بورڈ آف ڈائریکٹرز انتہائی مسرت کے ساتھ مزاربہ کے ۳۰ جون ۲۰۱۷ کو اختتام پذیر ہونے والے مالی سال کا سالانہ آڈٹ شدہ مالیاتی گوشوارہ پیش کر رہا ہے۔

مالیاتی جھلکیاں

زیر جائزہ مدت کے لئے مالیاتی جھلکیاں درج ذیل ہیں:

June 30, 2016 Rs "000"	June 30, 2017 Rs "000"	بلینس شیٹ
48,705	22,604	نقد اور بینک بیلنس
53,747	50,960	مزاربہ مالیت
14,100	12,900	مشراکتی مالیات
267,366	150,045	مراجمہ مالیات
316,083	153,208	شرکت متناقصہ مالیات
18,200	18,200	وصولیابی زرعی پیداوار
3,824	562	اجارہ وصولیابی
52,765	32,493	اجارہ اثاثہ جات
47,083	47,083	قابل وصول قرضہ جات کی وصولی کے سلسلے میں حاصل کی گئی پراپرٹی
901,246	599,707	مجموعی اثاثہ جات
389,033	391,456	خالص اثاثہ جات

June 30, 2016 Rs "000"	June 30, 2017 Rs "000"	نفع و نقصان کا حساب
166,064	110,017	مجموعی آمدنی
(156,706)	(97,835)	انتظامی و مالیاتی اخراجات
-	(3,799)	مشکوک وصولی کے خلاف فراہمی
948	457	میجمنٹ کمپنی فیس
8,245	4,570	خالص سالانہ منافع
0.17	0.10	فی حصہ آمدنی

KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE



	2017	2016	2015	2014	2013	2012
	-----Rupees in Thousand-----					
Total Assets	599,707	901,245	982,728	1,305,559	1,516,092	1,636,965
Musharika Finance	12,900	14,100	45,490	93,777	98,161	82,207
Murabaha Finance	150,045	267,365	312,873	395,090	627,204	807,764
Modaraba Finance	50,960	53,746	22,739	36,236	83,696	77,455
Diminishing Musharaka	153,209	316,083	354,488	399,437	424,230	470,812
Ijarah Assets	32,493	52,765	34,525	72,363	47,368	66,459
Equity	391,456	389,033	385,234	289,672	265,717	330,221
Current Assets	488,336	591,031	680,456	1,004,538	1,175,724	1,164,791
Current Liabilities	137,637	295,207	345,046	846,682	1,187,542	1,189,717
Income	110,830	166,063	195,187	174,401	239,148	205,017
Taxation	-	-	-	-	-	-
Profit/(Loss) after Tax	4,570	8,244	11,155	23,994	(46,029)	40,678
Dividend (Rs.)	0.07	0.08	0.11	0.24	-	0.65
EPS (Rs.)	0.10	0.17	0.23	0.85	(1.63)	1.44

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE



This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 5.19 of the Listing of Companies and Securities Regulations of the Rule Book of Pakistan Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its board directors. At present the board includes:

Category	Names
Independent & Non- Executive Directors	Syed Waseem ul Haq Haqqie; Syed Muhammad Rehmanullah; and Mr. Farrukh Shauket Ansari
Executive Directors	Mr. Aftab Afroz Mahmoodi

The independent directors meet the criteria of independence under clause 5.19.1(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBF1 or, being a Broker of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the board during the period. However, the Chief Executive Officer (CEO) of the management company resigned during the period and the Board appointed new CEO who was duly approved by the Registrar Modaraba.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/shareholders.
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. All Directors have obtained certification under the Directors Training Program as required by the CCG, except one who is exempt for director's training program by virtue of his experience as prescribed under Regulation 15.19.7 of the Listing of Companies and Securities Regulations of the Rule Book of Pakistan Stock Exchange.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors and the chairman of the committee is an independent director.



16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and are advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises four members of whom three are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function. The Head of Internal audit is suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and 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. The company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other material principles enshrined in the CCG have been complied with.

For and on behalf of the Board

Syed Waseem-ul-HaqHaqqie
Chairman
Karachi

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

All praise is due to ALLAH, the Cherisher of the world
Peace and Blessings be upon the Prophet of ALLAH, on his family and all his companions, and
on those who follow him with Iman till the day of Aakhirah

Shariah Advisor's Report 2017

Alhamdulillah, I have conducted the Shariah audit & review of KASB Modaraba managed by (KASB Invest (Private) Limited), Modaraba Management Company for the year ended June 30, 2017, in accordance with the requirements of the Shariah Compliance and Shariah Audit Mechanism for Maodarabas and report that except the observations as reported hereunder, in my opinion;

- i. The systems, procedures and policies adopted by the KASB Modaraba during the period found in line with guidelines issued by SECP.
- ii. The agreement(s) entered into by the KASB Modaraba are approved by religious board of SECP and the financing agreements have been executed on these formats and it has been tried to meet all the related conditions.

Any Payment received over and above due payments due to delay:

- i. KASB Modaraba has collected and credited to charity account Rs. 553,983/- during the period.

Observations:

- i. KASB Modaraba has been reducing its COM due to regulatory requirement; hence it has affected its business to a larger scale.
- ii. The number of transactions during the year was very small as compare to previous years.

Recommendation:

- i. The Modaraba should continue its policy of expansion to spread Islamic financing and in this regard continue its focus on employees' training related to Islamic financing products and services offered by the Modaraba with specific focus on front line staff.
- ii. The Modaraba should focus more on further increasing its Asset base through direct financing to businesses and individuals through the use of approved Sharia compliant modes and efforts.

Conclusion:

Based on the extensive reviews of sample cases for each class of transaction, related documentation, processes, profit distribution mechanism for the depositors and management's representation made in this regard, in my opinion, the affairs, activities and transactions, performed by the Modaraba during the year comply with the rules and principles of Islamic Shariah in light of the guidelines and directives given by the Shariah Advisor and guidelines issued by office of the Registrar Modaraba, Security Exchange Commission of Pakistan (SECP).

And Allah Taala knows Better & Perfect.



Mufti Abdul Sattar Laghari
Shariah Advisor



RSM Avais Hyder Liaquat Nauman
Chartered Accountants
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REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed statement of compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of KASB Invest (Pvt.) Limited, the Management Company of KASB Modaraba for the year ended June 30, 2017 to comply with the requirements of clause 5.19 of chapter 5 of Pakistan Stock Exchange Rule Book issue by Pakistan Stock Exchange where the Modaraba is listed.

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all materials respects, which the best practices contained in the Code as applicable to the Modaraba, for the year ended June 30, 2017.

RSM Chartered Accountants
Karachi.
Dated: 06-October-2017

Engagement Partner: Adnan Zaman

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING



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AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet of **KASB Modaraba (The Modaraba)** as at June 30, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Avas Hyder Liaquat Nauman is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.



- (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 the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2017 and of the profit and other 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 8 of the financial statements where Rs. 6.71 million are outstanding against Modaraba finance which have been subsequently adjusted to the extent of Rs. 4.35 million. The remaining balance of Rs. 2.36 million should have been provided as per the Prudential Regulations, however this amount is not material in relation to the Financial Statements. Our opinion is not qualified in respect of this matter.


Chartered Accountants
Karachi.
Dated: 06-October-2017

Engagement Partner: Adnan Zaman

BALANCE SHEET

AS AT 30 JUNE 2017



ASSETS	Note	2017	2016
------(Rupees)-----			
Current assets			
Cash and bank balances	7	22,604,098	48,704,707
Modaraba finance	8	50,959,603	53,746,587
Musharaka finance	9	12,900,000	14,100,000
Current portion of long term murabaha finance - gross	10	136,607,391	174,380,177
Current portion of long term diminishing musharaka finance	11	108,016,846	168,567,091
Current portion of long term net investment in finance lease	12	-	28,756
Receivable against sale of agricultural produce	13	18,200,140	18,200,140
Ijarah rentals receivable	14	562,271	3,824,204
Other assets	15	36,173,465	-
Advances, prepayments and other receivables	16	55,228,925	62,396,463
Property acquired in satisfaction of financing facility	17	47,082,936	47,082,936
		488,335,675	591,031,061
Non-current assets			
Long-term murabaha finance - gross	10	13,438,136	92,985,970
Long-term diminishing musharaka finance	11	45,192,049	147,515,621
Long-term deposits		685,300	1,060,300
Ijarah assets	18	32,493,132	52,764,940
Fixed assets - owned	19	16,751,759	15,887,663
Capital work-in-progress	20	2,811,090	-
		111,371,466	310,214,494
TOTAL ASSETS		599,707,141	901,245,555
LIABILITIES			
Current liabilities			
Current portion of redeemable capital	21	73,105,000	225,860,000
Current portion of long-term finance	22	25,133,451	-
Current portion of long term security deposits	23	9,712,299	5,640,999
Current portion of long term deferred murabaha income	10	2,025,184	5,289,448
Creditors, accrued and other liabilities	24	25,554,967	55,473,002
Unclaimed profit distribution		2,105,731	2,943,902
		137,636,632	295,207,351
Non-current liabilities			
Long term portion of redeemable capital	21	27,100,000	199,090,000
Long-term finance	22	37,700,178	-
Long term security deposits	23	560,675	6,271,450
Long-term deferred murabaha income	10	499,930	6,075,981
Deferred liabilities - staff gratuity	25	4,753,720	5,567,634
		70,614,503	217,005,065
TOTAL LIABILITIES		208,251,135	512,212,416
NET ASSETS		391,456,006	389,033,139
REPRESENTED BY			
CAPITAL AND RESERVES			
Certificate capital			
Authorised:			
50,000,000 (June 30, 2016: 50,000,000) certificates of Rs. 10/- each		500,000,000	500,000,000
Issued, subscribed and paid-up capital	26	480,664,800	480,664,800
Discount on issuance of certificates		(98,960,400)	(98,960,400)
Statutory reserve	27	83,505,138	82,591,086
Accumulated loss		(73,753,533)	(75,262,346)
CONTINGENCIES AND COMMITMENTS	28	-	-
		391,456,006	389,033,139

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Invest (Private) Limited
(Management Company)

Chief Executive

Director

Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2017



	Note	2017	2016
		------(Rupees)-----	
Income from:			
- diminishing musharaka finance		41,759,676	59,293,080
- murabaha finance		22,774,728	45,846,666
- Ijarah finance - net	29	20,565,598	26,634,972
- musharaka finance		-	4,219,869
- modaraba finance - gross		-	3,704,611
- banola project - gross		-	1,060,000
- takaful commission income		-	435,865
- sukuk bonds		27,084	324,441
		<u>85,127,086</u>	<u>141,519,504</u>
Financial charges	30	(21,394,144)	(51,415,181)
Direct Cost:			
- Musharaka , Diminishing Musharaka, Murabaha Finance		(4,007,480)	(1,624,465)
- Modaraba finance		-	(1,818,205)
- Depreciation on assets under Ijarah arrangements	18.1	(19,719,145)	(24,076,383)
		<u>(45,120,769)</u>	<u>(78,934,234)</u>
		<u>40,006,317</u>	<u>62,585,270</u>
Other income	31	15,890,244	24,543,845
Waivers/Write offs		-	(4,102,627)
Reversal of provision against doubtful receivable - musharaka finance		9,000,000	-
Reversal of provision against Workers" Welfare Fund	34	813,550	-
Provision / suspension against potential losses -Modaraba		(3,799,928)	-
Administrative and operating expenses	32	(56,722,937)	(73,668,814)
		<u>5,187,246</u>	<u>9,357,674</u>
Modaraba management fee	33	(457,026)	(824,464)
Services sales tax		(68,554)	(123,670)
Provision for Sind Workers' Welfare Fund	34	(91,405)	(164,893)
		<u>4,570,261</u>	<u>8,244,647</u>
Profit before taxation			
Taxation	35	-	-
Net profit for the year		<u><u>4,570,261</u></u>	<u><u>8,244,647</u></u>
Earnings per certificate - basic and diluted	36	<u><u>0.10</u></u>	<u><u>0.17</u></u>

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Invest (Private) Limited
(Management Company)

Chief Executive

Director

Director

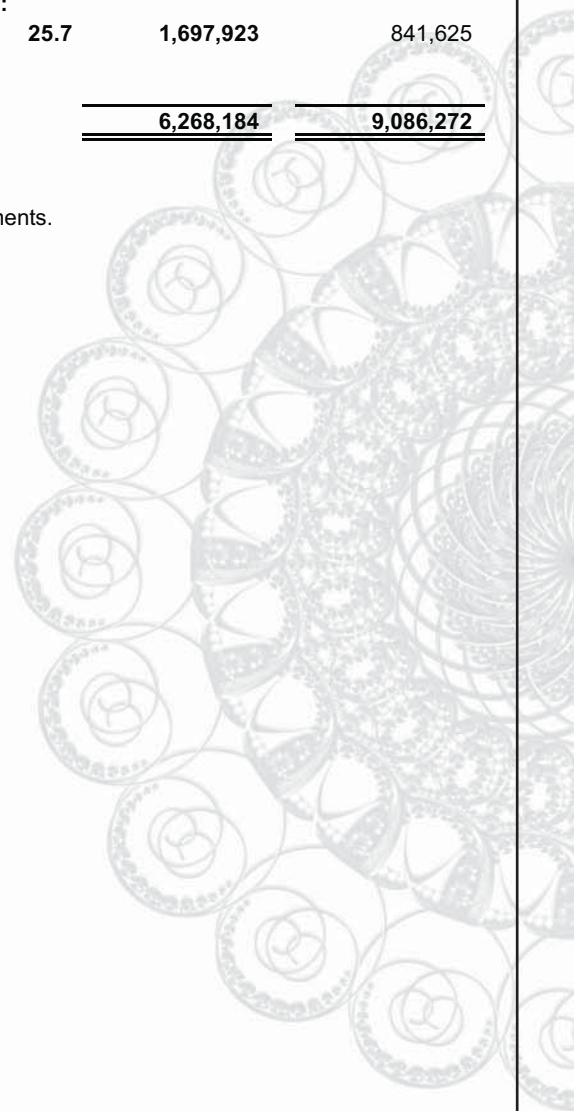


STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017



	Note	2017	2016
		------(Rupees)-----	
Net profit for the year		4,570,261	8,244,647
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(loss) on defined benefit plans	25.7	1,697,923	841,625
Total comprehensive income for the year		<u>6,268,184</u>	<u>9,086,272</u>

The annexed notes 1 to 44 form an integral part of these financial statements.



For KASB Invest (Private) Limited
(Management Company)

Chief Executive

Director

Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017



	2017	2016
	-----Rupees-----	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	4,570,261	8,244,647
Adjustments for non-cash charges and other items:		
Gain on disposal of Ijarah assets	(62,317)	(1,103,458)
Depreciation	22,959,416	27,160,118
Amortisation	300,625	195,000
Reversal of provision for Workers' Welfare Fund	(813,550)	-
Provision for Sind Workers' Welfare Fund	91,405	164,893
Provision for gratuity	2,013,639	1,712,021
	29,059,479	36,373,221
(Increase) / decrease in assets		
Modaraba finance	2,786,984	(31,007,087)
Musharaka finance	1,200,000	31,390,042
Murabaha finance	117,320,620	(1,576,304)
Diminishing musharaka finance	162,873,817	38,405,795
Net investment in finance lease	28,756	70,000
Ijarah rentals receivable	3,261,933	(1,285,057)
Advances, prepayments and other receivables	7,167,538	(16,881,960)
Receivable against sale of Agricultural produce	-	(18,200,140)
Other assets	(36,173,465)	-
Capital work in progress	(2,811,090)	-
Long-term deposits	375,000	(375,000)
	256,030,093	540,289
Increase / (decrease) in liabilities		
Security deposits	(1,639,475)	5,811,051
Deferred murabaha income	(8,840,315)	(5,858,532)
Creditors, accrued and other liabilities	(29,195,889)	17,669,971
	(39,675,679)	17,622,490
Profit distribution paid	(4,683,489)	(4,180,687)
Staff gratuity paid	(1,129,630)	(75,967)
	(5,813,119)	(4,256,654)
Net cash generated from operating activities	239,600,774	50,279,346
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(4,404,992)	(4,846,460)
Purchase of Ijarah assets	(2,267,500)	(55,363,219)
Sales proceeds from disposal of Ijarah assets	2,882,480	14,150,572
Investments - net	-	3,609,452
Net cash (used in) from investing activities	(3,790,012)	(42,449,655)
CASH FLOW FROM FINANCING ACTIVITIES		
Term Financing-net	62,833,629	-
Certificate of musharaka - net	(324,745,000)	(104,970,000)
Net cash (used in) from financing activities	(261,911,371)	(104,970,000)
Net (decrease) in cash and cash equivalents	(26,100,609)	(97,140,309)
Cash and cash equivalents at the beginning of the year	48,704,707	145,845,016
Cash and cash equivalents at the end of the year	22,604,098	48,704,707

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Invest (Private) Limited
(Management Company)

Chief Executive

Director

Director



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017



	Certificate capital	Discount on Issuance of certificates	Statutory reserve	Accumulated loss	Total
----- (Rupees) -----					
Balance as at 30 June 2015 (audited)	480,664,800	(98,960,400)	78,468,762	(74,938,981)	385,234,181
Net profit for the year	-	-	-	8,244,647	8,244,647
Other comprehensive income	-	-	-	841,625	841,625
Profit distribution for the year ended June 30, 2015 @Rs. 0.11 per certificate	-	-	-	(5,287,314)	(5,287,314)
Transfer to statutory reserve at 50%	-	-	4,122,324	(4,122,324)	-
Balance as at 30 June 2016	<u>480,664,800</u>	<u>(98,960,400)</u>	<u>82,591,086</u>	<u>(75,262,346)</u>	<u>389,033,139</u>
Net profit for the year	-	-	-	4,570,261	4,570,261
Other comprehensive income	-	-	-	1,697,923	1,697,923
Profit distribution for the year ended June 30, 2016 @Re. 0.08 per certificate	-	-	-	(3,845,318)	(3,845,318)
Transfer to statutory reserve at 20%	-	-	914,052	(914,052)	-
Balance as at 30 June 2017	<u>480,664,800</u>	<u>(98,960,400)</u>	<u>83,505,138</u>	<u>(73,753,533)</u>	<u>391,456,005</u>

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

During the year, the Modaraba has transferred an amount of Rs. 914,052/- which represents 20% of the profit after tax.

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Invest (Private) Limited
(Management Company)

Chief Executive

Director

Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the rules framed thereunder and is managed by KASB Invest (Private) Limited (the Management Company), a company incorporated in Pakistan. The registered office of the Modaraba is located at 16-C, Main Khayaban-e-Bukhari, Phase-VI, DHA, Karachi.

The Modaraba is a multipurpose perpetual modaraba and is primarily engaged in ijarah financing, musharaka financing, murabaha financing, modaraba financing, diminishing musharaka and investing in sukuk bonds, mutual funds and listed securities. The Modaraba is listed on the Pakistan Stock Exchange.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the repealed Companies Ordinance, 1984, Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, Prudential Regulations for Modaraba and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Islamic Financial Accounting Standards (IFASs), Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, Prudential Regulations for Modaraba, and directives issued by SECP differ with the requirements of IFRS, the requirements of the Islamic Financial Accounting Standards (IFASs), Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Prudential Regulations for Modaraba, Modaraba Companies and Modaraba Rules, 1981 or the directives issued by SECP shall prevail.

3. BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost basis, except for available for sale financial assets that are carried at fair value and certain staff retirement benefits that are carried at present value of defined benefit obligation.

These financial statements are presented in Pak Rupees, which is Modaraba's functional and presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

4.1 Cash and cash equivalents

These comprise cash in hand and balances with banks in current and deposit accounts.

4.2 Financial assets

4.2.1 Classification

The Modaraba classifies its financial assets in accordance with the requirements of IAS 39 - Financial Instruments: Recognition and Measurement as 'fair value through profit or loss', 'loans and receivables', 'held to maturity' and 'available-for-sale'.

At fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices are classified under 'financial assets at fair value through profit or loss' category.

Loans and receivables

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity which the Modaraba has positive intent and ability to hold till maturity.

Available-for-sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available-for-sale'. Available-for-sale financial instruments are those non-derivative financial assets that are not classified as held to maturity and financial assets at fair value through profit or loss.

4.2.2 Initial recognition and measurement

Financial assets are initially measured at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially measured at fair value and transaction costs associated with these financial assets are taken directly to the profit and loss account.

4.2.3 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

'Financial asset at fair value through profit or loss' and 'available-for-sale'

The investment in listed equity securities are marked to market using the closing market rates and are carried on the balance sheet at fair value.

Gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the profit and loss account.

Net gains and losses arising from the excess of value determined in accordance with the above mentioned criteria over the carrying amount in respect of 'available for sale' financial assets are recognised in other comprehensive income until the 'available-for-sale' investment is derecognised. At this time, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit and loss account.

'Loans and receivables' and 'held to maturity'

Loans and receivables and held to maturity financial assets are carried at amortised cost.

4.2.4 Regular way contracts

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Modaraba commits to purchase or sell the assets.

4.2.5 Impairment

The management assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired.

i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, provision for impairment is made at each reporting date in accordance with the requirements of Prudential Regulations for Modaraba issued by the SECP.

ii) Financial assets classified as 'available-for-sale'

In the case of equity securities classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for 'available-for-sale' financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from comprehensive income and recognised in the

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



profit and loss account. Impairment losses recognised on equity instruments are not reversed through profit and loss.

4.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Modaraba has transferred substantially all the risks and rewards of ownership.

4.3 Net Investment in Finance lease

Leasing transactions entered into by the Modaraba prior to 1 July 2008 whereby assets are provided under leasing arrangements are included in the financial statements as "Net investment in finance lease" at an amount equal to the present value of the lease payments, including estimated residual value. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the lease and is amortised over the term of the lease so as to produce a constant rate of return on net investment in lease. Allowance for non-performing leases are made in accordance with the Prudential Regulations for Modarabas issued by SECP and is charged to the profit and loss account currently.

4.4 Receivable from terminated / matured contracts

These are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Modarabas issued by the SECP or based on the judgment of management, whichever is higher. Receivables that becomes irrecoverable are written off.

4.5 Inventories held-for-sale

Inventories held-for-sale are valued principally at the lower of cost determined on the weighted average basis and net realizable value. Cost comprises invoice value and other cost incurred in bringing the inventories to their present location and condition.

Net realizable value comprises of the estimated selling price in the ordinary course of business less costs which are necessarily incurred in order to make the sale.

4.6 Ijarah rentals , murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance

Ijarah rentals receivables, murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance receivables are stated net of provisions and suspense income. Provision is recognised for non performing receivables in accordance with Prudential Regulations for Modaraba. Receivables that becomes irrecoverable are written off.

4.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

4.8 Financial liabilities

All financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

4.9 Fixed assets - Tangible

4.9.1 Owned assets

Assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written-off

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal.

Repairs and maintenance are charged to income as and when incurred.

4.9.2 Capital work-in-progress

Capital work-in-progress, if any, is stated at cost less accumulated impairment losses, if any, and represents expenditure on fixed assets in the course of construction and installation and advances for capital expenditure. Transfers are made to the relevant category of fixed assets / ijarah assets as and when the assets are available for intended use.

4.9.3 Ijarah assets

Ijarah assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the lease period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged on monthly basis from the date of commencement of lease. While no depreciation is charged in the month of maturity / termination.

4.9.3.1 Change in accounting estimate

During the year the Modaraba has reviewed the useful life of Plant & Machinery as required by International Accounting Standard 16 "Property, Plant and Equipment". This review has resulted in upward revision of the useful life of the Plant & Machinery. This revision has been accounted for as a change in accounting estimate in accordance with the requirements of International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of this change in accounting estimate has been recognized prospectively in the profit and loss account from the current year. Had there been no change in the accounting estimate, the carrying amount of these assets, and profit for the year and equity as at June 30, 2017 would have been lowered by Rs. 11.04 million.

4.9.4 Gain or loss on disposal

Gains / losses on disposal of fixed assets / ijarah assets are charged to the profit and loss account currently.

4.9.5 Impairment

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

4.9.6 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 19.2 to these financial statements after taking into account residual value, if any. The residual values, useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed of, it is charged till the month preceding the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less accumulated impairment losses, if any. These assets are not amortised as they are expected to have an indefinite life and are marketable.

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

4.10 Loans, advances and other receivables

These are stated at cost less estimates made for doubtful receivables based on a review of all outstanding amounts at the balance sheet date. Balances considered bad and irrecoverable are written off when identified.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



4.11 Earnings per certificate

The Modaraba presents basic and diluted earnings / loss per certificate for its certificate holders. Basic earnings / loss per certificate is calculated by dividing the profit or loss attributable to the certificate holders of the Modaraba by the weighted average number of certificates outstanding during the year.

4.12 Taxation

Current

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. Under clause 100 of Part - I of the Second Schedule to the Income Tax Ordinance, 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90 percent of their profits are distributed to the certificate holders.

Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method arising between the amounts attributed to assets and liabilities for financial reporting purposes and financial statements used for taxation purposes. However, deferred tax liability has not been provided in these financial statements as the management believes that the future income of Modaraba will not be taxable in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption through profit distribution to the extent of 90 percent of distributable profit.

4.13 Creditors, accrued and other liabilities

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

4.14 Provisions

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

4.15 Staff retirement benefits

Unfunded gratuity scheme

The Modaraba operates an unfunded gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. Annual provision is made on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit or loss in subsequent periods.

4.16 Revenue recognition

4.16.1 Finance Lease

The Modaraba follows the finance method for recognising income on Finance lease. Under this method the unearned income i.e. the excess of aggregate lease rentals (including residual value) over the net investment (cost of finance lease) outstanding is deferred and then amortised over the term of the lease, so as to produce a constant periodic rate of return on net investment in the lease. Documentation charges, front-end fee and other lease income are recognised as income on receipt basis.

4.16.2 Ijarah

Income on Ijarah is recognised on an accrual basis. In case of ijarah arrangements with staggered rentals, the income is recognised on a straight line basis over the ijarah term.

4.16.3 Musharaka Finance

Profit on Musharaka arrangements is recognised on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of the transaction after determination of the actual rate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017



4.16.4 Murabaha Finance

The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the unearned income i.e. the excess of aggregate murabaha installments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.

4.16.5 Modaraba Finance

Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio where as actual gain / loss on transaction is computed upon termination / completion of transaction.

4.16.6 Diminishing Musharaka

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

4.16.7 Non-performing financing arrangements

Unrealised income in respect of non-performing financing arrangements is held in suspense account, where necessary, in accordance with the requirements of Prudential Regulations for Modarabas issued by the SECP.

4.16.8 Dividend Income

Dividend income is recognised when the Modaraba's right to receive the dividend is established.

4.17 Proposed profit distribution to modaraba certificate holders

Profit distribution and other appropriations of profit are recognized in the year in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations as may be required by law are recognized in the period to which these relate.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgment in application of the Modaraba's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

The Modaraba reviews its loan portfolio of Ijarah, Musharaka and Murabaha financing to assess amount of non-performing contracts and provision required there against on a regular basis. The provision is made in accordance with the Prudential Regulations issued by the SECP. 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 and valuation of investments (notes 4.2)
- ii) Provision for non-performing finance lease (notes 4.3 and 12.1)
- iii) Provision for non-performing finance arrangements (notes 4.5, 8, 9, 10 and 11)
- iv) Determining the residual values and useful lives of fixed assets (notes 4.8, 18 and 19)
- v) Accounting for staff retirement benefits (notes 4.14 and 25)
- vi) Accounting Policies, Changes in Accounting Estimates and Errors (note 4.8.2.1)

The above mentioned estimates and assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



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

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

Standard or Interpretation	Effective (annual periods Beginning on or
IFRS 2 Share-based Payments - Amendments to clarify the classification and measurement of share-based payment transactions	January 01,2018
IFRS 9 Financial Instruments - Amendments for incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition	January 01,2018
IFRS 15 Revenue from Contracts with Customers (Superseded IAS 11), To recognize revenue for the transfer of promised goods or services to the customer under the contract	January 01,2018
IFRS 16 Leases (Superseding IAS 17), To report all lease assets and lease liabilities on the balance sheet, initially measured at the present value of future lease payments as it eliminated classification of leases as Operating or Finance Leases for lessee	January 01,2019
IAS 7 Statement of Cash Flows - Amendments resulting from the disclosure initiative	January 01,2017
IAS 12 Income Taxes - Amendment regarding the recognition of deferred tax assets for unrealized losses	January 01,2017

The above standards and amendments are not expected to have any material impact on the Modaraba's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB on September 2014. Such improvement are generally effective for accounting periods beginning on or after 01 January 2016. The Mod araba expects that such improvement to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application.

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

Standard or Interpretation

IFRS 1	First Time Adoption of International Financial Reporting Standards
IFRS 9	Financial Instruments
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

7. CASH AND BANK BALANCES

	Note	2017 ------(Rupees)-----	2016
Cash at bank in :			
- current accounts		4,235,654	2,936,985
- saving accounts	7.1	18,181,250	45,557,869
		22,416,904	48,494,854
Cash in hand		97,498	140,157
Stamp papers		89,696	69,696
		<u>22,604,098</u>	<u>48,704,707</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



7.1 The expected profit rates on these accounts range between 4.00% and 6.10% (2016: 4.0% and 6.40%).

8. MODARABA FINANCE

The Modaraba has provided funds under modaraba arrangements on profit and loss sharing basis to various entities. The profit/loss is to be shared in pre-agreed ratios. Modaraba arrangements are secured against pledge of stocks and personal guarantees.

Modaraba Finance includes an aggregate outstanding balance of Rs. 6.71 million on account of a modaraba transaction with customer. Due to the financial difficulty of the said customer, the underlying asset was sold in prior year to settle this transaction and the postdated cheques of Rs. 2.1 million were also received from the customer. During year Rs. 1.5 million were received and Rs. 4.35 million were recovered subsequently. The management believes that the remaining balance will also be recovered in due course.

	2017	2016
	------(Rupees)-----	
9. MUSHARAKA FINANCE		
Musharaka finance - considered doubtful	28,502,297	38,702,297
Less: provision for non-performing musharaka arrangements	<u>(15,602,297)</u>	<u>(24,602,297)</u>
	<u>12,900,000</u>	<u>14,100,000</u>

9.1 The Modaraba has provided funds under musharaka arrangements on profit and loss sharing basis. As per agreement rate of profit was 17.50% (2016: 17.50 %) per annum. Musharaka arrangements are secured against mortgage of property and personal guarantees.

During the period there was an out of court settlement with the a client according to which client will pay Rs. 24 million to the Modaraba as per the agreed schedule. The Modaraba has received Rs. 10.2 million during the period.

10. MURABAHA FINANCE

Murabaha finance - considered good and secured	150,045,527	267,366,147
- considered doubtful	<u>44,327,865</u>	<u>44,327,865</u>
	194,373,392	311,694,012
Less: provision for non-performing murabaha arrangements	<u>(44,327,865)</u>	<u>(44,327,865)</u>
	150,045,527	267,366,147
Murabaha finance - due after one year	<u>(13,438,136)</u>	<u>(92,985,970)</u>
Current portion of murabaha finance	<u>136,607,391</u>	<u>174,380,177</u>

10.1 Deferred murabaha income

Deferred murabaha income	2,525,114	11,365,429
Deferred murabaha income - due after one year	<u>(499,930)</u>	<u>(6,075,981)</u>
Current portion of deferred murabaha income	<u>2,025,184</u>	<u>5,289,448</u>

10.2 The profit rates on these murabaha arrangements range between 0.37% and 20.00% (2016: 12.50% and 20.00%).

11. DIMINISHING MUSHARAKA FINANCE

Diminishing musharaka finance - gross	173,551,526	374,819,656
Unearned Income	<u>(20,342,631)</u>	<u>(58,736,944)</u>
	153,208,895	316,082,712
Diminishing musharaka due after one year	<u>(45,192,049)</u>	<u>(147,515,621)</u>
Current portion of diminishing musharaka	<u>108,016,846</u>	<u>168,567,091</u>

11.1 The profit rates on these diminishing musharaka arrangements range between 9.51% and 21.00% (2016: 9.51% and 21.00%). All diminishing musharaka arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



12. NET INVESTMENT IN FINANCE LEASE

	2017			2016		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	----- (Rupees) -----					
Minimum lease payments receivable	174,612	-	174,612	203,442	-	203,442
Unearned finance income	-	-	-	(74)	-	(74)
Allowance for non-performing leases	(174,612)	-	(174,612)	(174,612)	-	(174,612)
Present value of minimum lease payments	-	-	-	28,756	-	28,756

12.1 As at 30 June 2017, leases with outstanding principal of Rs. 0.174 million (2016: Rs. 0.174 million) have been classified as non-performing as per the requirements of Prudential Regulations for Modarabas issued by the SECP.

13. RECEIVABLE AGAINST SALE OF AGRICULTURE PRODUCE

KASB Modaraba (KASBM) & First Prudential Modaraba (FPrM) entered into a joint project for crushing of banola seed and sale of oil cake (Khal) in the market. M/s Pakistan Phutti International Limited was engaged as seller & service provider responsible for sale of agriculture produce. Subsequently, natural cyclical shortage in productivity of cotton crop affected the availability of the banola seed and therefore the project was prudently discontinued by the management to safeguard the interest of the Modaraba. As per settlement agreement dated April 27, 2016, advance for purchase of banola seed was converted into ijarah finance (secured) leaving a balance of Rs. 18.20 million receivable against sale of agriculture produce. Receivable amount is secured against Registered Mortgage on Property of service provider. After continuous default of payment the management of Modaraba has filed recovery suits in the Banking Courts. The details are as under :-

Description	KASBM	FPrM	Total
Initial Investment	51,000,000	81,000,000	132,000,000
Add: Gain on sale of Agriculture Produce	1,060,000	1,590,000	2,650,000
Less: Receipt against sale of Agriculture Produce	(14,353,590)	(14,473,432)	(28,827,022)
Less: converted to Ijarah Financing	(19,311,320)	(40,000,000)	(59,311,320)
Less Consultancy Charges	(194,950)	(305,050)	(500,000)
	18,200,140	27,811,518	46,011,658

14. IJARAH RENTALS RECEIVABLE

	2017	2016
	----- (Rupees) -----	
Considered good	562,271	3,824,204
Considered doubtful	23,960,664	8,837,192
	24,522,935	12,661,396
Less: Provision for doubtful receivables	(23,960,664)	(8,837,192)
	562,271	3,824,204

15. Other Assets

Inventories held for sale under morabaha financing arrangement	36,173,465	-
--	------------	---

16. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Advances to:		
- executives	16.1	927,785
- employees	16.1	1,265,750
Advances to suppliers		22,570,769
Prepayments		7,793,178
Short term security deposits		630,000
Accrued profit	16.2	10,231,685
Advance tax		1,874,223
Others		9,935,539
		55,228,929
		11,852,433
		62,396,463

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



16.1 This represents short term non mark-up bearing advances to executives and employees of the Modaraba, for domestic purposes which is secured against their gratuity balances.

	Note	2017	2016
------(Rupees)-----			
16.2 Accrued Profit			
Accrued profit on modaraba		-	2,558,802
Accrued profit on Sukuk Bonds		-	671,506
Accrued profit on bank deposits		195,508	394,187
Accrued profit on musharaka arrangements		712,678	1,573,867
Accrued profit on murabaha arrangements		9,164,505	7,808,421
Accrued income on takaful		158,994	227,556
		<u>10,231,685</u>	<u>13,234,339</u>

17. PROPERTY ACQUIRED IN SATISFACTION OF FINANCING FACILITY

This represents real state property at SITE Karachi acquired by the Modaraba in satisfaction of murabaha finance facility. The assessed market value of the said property is Rs. 55 million. As per settlement agreement, the borrower has an option to buy back the property within a period of 3 years.

18. IJARAH ASSETS

Equipment		2,484	42,918
Plant and machinery		27,948,277	41,799,087
Motor vehicles		4,542,371	10,922,935
	18.2	<u>32,493,132</u>	<u>52,764,940</u>

18.1 Future minimum ijarah rentals receivable

Within one year		13,471,007	36,406,504
After one year but not more than five years		882,048	14,353,055
		<u>14,353,055</u>	<u>50,759,559</u>

	Cost			Accumulated Depreciation			Book value	Rate of depreciation %
	As at 01 July 2016	Additions/ Deletions	As at 30 June 2017	As at 01 July 2016	Charge for the year	As at 30 June 2017	As at 30 June 2017	
------(Rupees)-----								
Equipment	403,600	-	107,600	360,682	35,271	105,116	2,484	20 - 66
		(296,000)			(290,837)			
Plant and machinery	58,791,219	-	58,791,219	16,992,132	13,850,810	30,842,942	27,948,277	14 - 33
		-			-			
Motor vehicles	30,101,186	2,267,500	11,096,000	19,178,251	5,833,064	6,553,629	4,542,371	20 - 50
		(21,272,686)			(18,457,686)			
	<u>89,296,005</u>	<u>2,267,500</u>	<u>69,994,819</u>	<u>36,531,065</u>	<u>19,719,145</u>	<u>37,501,687</u>	<u>32,493,132</u>	
		<u>(21,568,686)</u>			<u>(18,748,523)</u>			

	Cost			Accumulated Depreciation			Book value	Rate of depreciation %
	As at 01 July 2015	Additions/ Deletions	As at 30 June 2016	As at 01 July 2015	Charge for the year	As at 30 June 2016	As at 30 June 2016	
------(Rupees)-----								
Equipment	403,600	-	403,600	263,591	97,091	360,682	42,918	20 - 66
		-			-			
Plant and machinery	13,752,000	47,791,219	58,791,219	10,828,654	8,640,278	16,992,132	41,799,087	14 - 33
		(2,752,000)			(2,476,800)			
Motor vehicles	60,716,035	7,572,000	30,101,186	29,254,172	15,339,014	19,178,251	10,922,935	20 - 50
		(38,186,849)			(25,414,935)			
	<u>74,871,635</u>	<u>55,363,219</u>	<u>89,296,005</u>	<u>40,346,417</u>	<u>24,076,383</u>	<u>36,531,065</u>	<u>52,764,940</u>	
		<u>(40,938,849)</u>			<u>(27,891,735)</u>			

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



19.2 Intangible asset:

	2017							Rate of amortization %
	Cost		Accumulated Amortization			Book value		
	As at 01 July 2016	Additions/ Deletions	As at 30 June 2017	As at 01 July 2016	Charge for the year	As at 30 June 2017	As at 30 June 2017	
Computer software	2,795,000	-	2,795,000	1,870,237	300,625	2,170,862	624,138	30 - 33

	2016							Rate of amortization %
	Cost		Accumulated Amortization			Book value		
	As at 01 July 2015	Additions/ Deletions	As at 30 June 2016	As at 01 July 2015	Charge for the year	As at 30 June 2016	As at 30 June 2016	
Computer software	1,870,000	925,000	2,795,000	1,675,237	195,000	1,870,237	924,763	30 - 33

20. CAPITAL WORK-IN-PROGRESS

20.1 This represents advance for office renovation expense that will be transferred to the fixed assets after the completion of renovation work.

21. REDEEMABLE CAPITAL- PARTICIPATORY

	Note	2017	2016
Certificates of Musharaka	21.1	100,205,000	424,950,000
Less: Long term portion of redeemable capital		(27,100,000)	(199,090,000)
		<u>73,105,000</u>	<u>225,860,000</u>

21.1 The estimated share of profit payable on Certificate of Musharaka ranges between 6.00% and 8.50% (2016: 7.25% and 11.75%) per annum.

22. LONG TERM BORROWING

	Note	2017	2016
Due within one year	22.1	25,133,451	-
Due after one year		37,700,178	-
		<u>62,833,629</u>	<u>-</u>

22.1 The Modaraba has availed finance facility under Risk Participation Agreement from JS Bank Limited (Bank). As per terms of the agreement, bank participates in the facilities extended by the modaraba to various customers under musharaka and ijarah arrangement to the aggregate amount of Rs. 100 million. The facility is repayable in thirty six monthly instalments with markup at one month KIBOR plus 3.65% per annum. As per interim arrangement facility is secured by way of hypothecation ranking charge on all present and future assets of the modaraba and lien on the bank account maintained with JS Bank Ltd. Subsequently, charge shall be upgraded to a first exclusive charge over the specific leased/ musharaka assets.

23. SECURITY DEPOSITS

Ijarah deposits	10,272,974	11,912,449
Less: adjustable after one year	560,675	6,271,450
Current portion of security deposits	<u>9,712,299</u>	<u>5,640,999</u>

23.1 This represent sums received under ijarah lease arrangements, adjustable at the expiry of the lease period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



	Note	2017	2016
		------(Rupees)-----	
24. CREDITORS, ACCRUED AND OTHER LIABILITIES			
Management fee payable	24.1	1,092,797	948,134
Sundry creditors		7,098,242	22,495,602
Accrued expenses		1,218,958	1,710,892
Accrued financial charges	24.2	7,168,154	12,679,545
Charity payable		530,138	294,155
Insurance premium received in advance		5,057,626	10,291,613
Advance rentals		1,404,939	1,585,781
Other liabilities		1,984,113	5,467,280
		<u>25,554,967</u>	<u>55,473,002</u>

24.1 This includes Sales Tax Payable amounting to Rs 798,896 for the year ended 30 June 2017. Pursuant to Order of Sindh Revenue Board (SRB), the Modaraba has recorded a provision in respect of Sindh sales tax on Management Company's remuneration at the rate of 15% (2016 : 15%) per annum with effect from November 1, 2011 which is pending adjudication.

Considering the view that the amount is a profit sharing rather than a fixed fee against rendering of management services by the Management Company up to the 10% of Modarabas profit as provided in the Modaraba Ordinance, in case of loss in Modaraba venture the Management Company is not entitled to claim any remuneration, the NBF and Modaraba Association, on behalf of various Modarabas, has filed a constitutional petition in Honorable High Court of Sindh (SHC) and challenged said levy. Subsequently, the SHC in its judgement dated February 02, 2015 directed to seek remedy from Appellate Tribunal of SRB which has been recently constituted.

24.2 Amounts due to related party as at 30 June 2017 aggregated to Rs. 340 (2016: Rs. 41,527).

25. STAFF RETIREMENT BENEFIT SCHEME

25.1 Staff Gratuity Scheme

As disclosed in note 4.14, the Modaraba operates an unapproved, unfunded gratuity scheme for its permanent employees. The latest actuarial valuation was carried out by actuaries as at 30 June 2017, using the Projected Unit Credit Method. The benefits under the gratuity scheme are payable on cessation of service as under:

Number of years of eligible service completed	Amount of gratuity payable
Less than 3 years	Nil
Equal to 3 years	0.6 times of last drawn basic salary for each year of service
Equal to 4 years	0.8 times of last drawn basic salary for each year of service
Greater than or equal to 5 years	1 times last drawn basic salary for each year of service

25.2 Principal actuarial assumptions used:

The following significant assumptions have been used for the valuation of this scheme:

25.3 Significant Actuarial Assumptions

Financial Assumptions

- Valuation discount rate	7.75%	7.25%
- Expected rate of increase in salaries	9.75%	9.25%

Demographic Assumptions

Mortality rates (for death in service)	SLIC(2001-05)	SLIC(2001-05)
Rates of employee turnover	High	High

25.4 Statement of Financial Position

	2017	2016
		------(Rupees)-----
Present value of defined benefit obligation	4,753,720	5,567,634

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



	2017	2016
	------(Rupees)-----	
25.5 Movement in the defined benefit liability		
Balance accrued as at the beginning of the year	5,567,634	4,773,205
Periodic benefit cost for the year ended	2,013,639	1,712,021
Benefits paid during the year	(1,129,630)	(75,967)
Amount of remeasurements losses recognised in Other Comprehensive Income during the year	(1,697,923)	(841,625)
Balance accrued as at the end of the year	<u>4,753,720</u>	<u>5,567,634</u>
25.6 Defined Benefit Cost for the Year		
Cost recognised in Profit and Loss Account for the year		
Current service cost	1,680,945	1,250,337
Interest Cost on defined benefit obligation	332,693	461,684
	<u>2,013,638</u>	<u>1,712,021</u>
Re-measurements recognised in Other Comprehensive Income during the year		
Actuarial (gain)/loss on obligation	(1,697,923)	(841,625)
Total defined benefit cost recognised in Profit & Loss Account and Other Comprehensive Income	<u>315,715</u>	<u>870,396</u>
25.7 Remeasurements recognised in Other Comprehensive (Income) / expense during the year		
<i>Actuarial gain / (loss) on obligation</i>		
Loss due to change in financial assumptions	-	652,846
Loss due to change in demographic assumptions	-	-
(Gain) due to change in experience adjustments	(1,697,923)	-
- Due to actual salary increase	-	(1,494,471)
- Due to other reasons	-	-
	-	(1,494,471)
Total actuarial (gain)/loss on obligation	<u>(1,697,923)</u>	<u>(841,625)</u>
25.8 Maturity profile of the defined benefit obligation		
Distribution of timing of benefit payments within the next 12 months (next annual reporting period)	807,124	874,116
between 2 and 5 years	1,579,079	1,627,360
between 5 and 10 years	1,919,810	3,141,629
Beyond 10 years	5,047,565	4,405,623
	<u>9,353,578</u>	<u>10,048,728</u>
25.9 Sensitivity Analysis on significant actuarial assumptions: Actuarial Liability		
Discount Rate +1%	4,442,378	5,216,221
Discount Rate -1%	5,106,109	5,965,282
Long Term Salary Increases +1%	5,117,085	5,979,734
Long Term Salary Increases -1%	4,426,826	5,196,574
Withdrawals Rates +10%	4,753,720	5,514,811
Withdrawals Rates -10%	4,753,720	5,626,385
1 Year Mortality age set back	4,753,720	5,570,460
1 Year Mortality age set forward	4,753,720	5,564,819
25.10		
Based on actuarial advice, the Modaraba estimates a gratuity expense of Rs. 1,344,026/- during the year ending 30 June 2018.		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



26. CERTIFICATE CAPITAL

Authorised certificate capital

2017	2016		2017	2016
Number of certificates			------(Rupees)-----	
<u>50,000,000</u>	<u>50,000,000</u>	Modaraba Certificates of Rs. 10/- each	<u>500,000,000</u>	<u>500,000,000</u>

Issued, subscribed and paid-up capital

24,958,400	24,958,400	Modaraba Certificates of Rs. 10/- each fully paid in cash	249,584,000	249,584,000
3,316,000	3,316,000	Modaraba Certificates of Rs. 10/- each issued as fully paid bonus certificates	33,160,000	33,160,000
19,792,080	19,792,080	Modaraba Certificates of Rs. 10/- each issued at 50% discount as right certificates	197,920,800	197,920,800
<u>48,066,480</u>	<u>48,066,480</u>		<u>480,664,800</u>	<u>480,664,800</u>

26.1 As at 30 June 2017, the Management Company held 23,930,973 (2016: 23,930,973) certificates .

27. STATUTORY RESERVE

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

28. CONTINGENCIES AND COMMITMENTS

28.1 There were no contingencies and commitments as at 30 June 2017.

29. INCOME FROM IJARAH FINANCE - NET

	2017	2016
	------(Rupees)-----	
Ijarah rentals - gross		
Plant and machinery	28,891,297	9,888,946
Motor vehicle	6,683,420	18,522,743
Other	52,036	-
Gain on disposal of ijarah assets	62,317	1,103,458
	35,689,070	29,515,147
Less:		
Direct cost associated with ijarah assets	-	2,000
Suspended income	15,123,472	2,878,175
	<u>15,123,472</u>	<u>2,880,175</u>
	<u>20,565,598</u>	<u>26,634,972</u>

30. FINANCIAL CHARGES

	2017	2016
	------(Rupees)-----	
Profit on Certificates of Musharaka	18,013,939	51,314,820
Bank charges	106,405	100,361
Profit on Term Finance Facility	3,273,800	-
	<u>21,394,144</u>	<u>51,415,181</u>

31. OTHER INCOME

Documentation income	36,957	553,487
Insurance income	333,594	5,971,217
Bank deposits	2,218,644	8,553,772
Rental income on property acquired in satisfaction of financing facility	3,766,636	2,824,976
Others	9,534,413	6,640,393
	<u>15,890,244</u>	<u>24,543,845</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



	Note	2017 ------(Rupees)-----	2016
32. ADMINISTRATIVE AND OPERATING EXPENSES			
Salaries and benefits	32.1	32,449,124	46,719,324
Utilities		2,354,940	3,518,266
Insurance		3,269,880	2,579,765
Vehicle running and maintenance		95,270	1,520,795
Postage		344,273	284,791
Repairs and maintenance		553,648	924,616
Entertainment		678,964	828,510
Printing and stationery		710,121	735,326
Travelling and conveyance		466,485	860,614
Fee and subscriptions		1,451,355	1,555,536
Auditors' remuneration	32.2	534,000	534,000
Legal and professional charges		3,127,019	3,451,223
Depreciation		3,240,271	3,083,735
Amortization		300,625	195,000
Advertisements		87,330	345,414
Rent, rate and taxes		4,693,311	4,128,870
Generator expenses		69,885	173,516
Newspapers and periodicals		158,313	16,798
CIB charges		84,614	40,309
Verysis charges		6,000	11,525
Security services		1,499,117	1,068,083
Training and seminar		24,500	98,195
Outsource expense		-	-
Others		523,892	994,603
		<u>56,722,937</u>	<u>73,668,814</u>

32.1 REMUNERATION TO OFFICERS AND OTHER EMPLOYEES

	2017		2016	
	Officers	Other Employees	Officers	Other Employees
	----- (Rupees) -----		----- (Rupees) -----	
Managerial remuneration	13,472,190	5,804,953	15,823,942	12,421,675
Medical allowance	1,347,221	580,493	1,582,394	1,242,202
House rent allowance	4,041,659	1,741,491	4,810,826	3,726,507
Utility allowance	1,347,225	580,522	1,582,406	1,242,159
Employee benefits	2,702,000	532,370	3,042,986	615,867
EOBI contribution	91,000	208,000	23,190	86,170
Bonus	-	-	90,000	429,000
	<u>23,001,295</u>	<u>9,447,829</u>	<u>26,955,744</u>	<u>19,763,580</u>
Number of persons	<u>18</u>	<u>36</u>	<u>13</u>	<u>75</u>

32.1.1 The total number of employees as at June 30 2017 are 36. (2016: 50) and the average number of employees during the year equates to 41 (2016: 65).

	2017 ------(Rupees)-----	2016
32.2 Auditors' Remuneration		
Annual audit fee	325,000	325,000
Review of interim financial statements	95,000	95,000
Out of pocket expenses	114,000	114,000
	<u>534,000</u>	<u>534,000</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



33. MODARABA MANAGEMENT COMPANY FEE

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

34. REVERSAL OF PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008, introduced an amendment to the Worker's Welfare Fund Ordinance, 1971 (WWF Ordinance). Through these amendments Workers Welfare Fund (WWF) was payable @ 2% of the profit before taxation or taxable income whichever is higher. The legality of the above amendments were challenged in Sindh, Lahore and Peshawar High Courts. Due to variable judgments from the aforesaid Courts, the matter was forwarded to the Honorable Supreme Court of Pakistan. The Honorable Supreme Court has decided the matter on November 10, 2016, and Para 21 of its judgment states that the levy of WWF is in the nature of fee and the law could not be amended by a money bill and as such the amendments made in the year 2006 and 2008 are unlawful and ultravires to the Constitution. In terms of judgment by the Honorable Supreme Court of Pakistan, WWF under WWF Ordinance, is no more payable by the Modaraba and provision made against WWF up till June 30, 2014 is reversed during the period.

Subsequently the Sindh Assembly passed a bill on May 4, 2015 and notified Sindh Worker's Welfare Act 2014 on June 4, 2015. As per the said Act the applicability of the Sindh Workers Welfare Fund is effective from the financial year of the entities ended on or after December 31, 2013. Accordingly, provision has been made at the rate of 2% of profit before taxation or taxable income, whichever is higher, effective after June 30, 2014.

35. TAXATION

The income of the Modaraba is exempt from tax subject to the condition that not less than ninety per cent of its total profits in the year as reduced by the amount transferred to a mandatory reserve, required under the provisions of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) are distributed amongst the shareholders.

No provision for current and deferred taxation has been made in these financial statements in accordance with the accounting policy of the Modaraba as disclosed in note 4.12 to the financial statements.

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

	2017	2016
Profit / (loss) for the year (Rupees)	<u>4,570,261</u>	<u>8,244,647</u>
Weighted average number of certificates (Number)	<u>48,066,480</u>	<u>48,066,480</u>
Earnings / (loss) per certificate -basic and diluted	<u>0.10</u>	<u>0.17</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



	2017	2016
	------(Rupees)-----	
37. FINANCIAL INSTRUMENTS BY CATEGORY		
Financial assets as per balance sheet		
Loans and receivables		
Cash and bank balances	22,604,098	48,704,707
Murabaha finance	150,045,527	267,366,147
Modaraba finance	50,959,603	53,746,587
Musharaka finance	12,900,000	14,100,000
Diminishing musharaka finance	153,208,895	316,082,712
Net investment in finance lease	-	28,756
Receivable against sale of agricultural produce	18,200,140	18,200,140
Ijarah rental receivable	562,271	3,824,204
Advances and other receivables	43,123,021	30,068,825
Accrued profit	10,231,685	13,234,339
Long-term deposits	685,300	1,060,300
	<u>462,520,540</u>	<u>766,416,717</u>
Financial liabilities as per balance sheet		
Amortized Cost		
Redeemable capital	100,205,000	424,950,000
Finance facility	62,833,629	-
Security deposits	10,272,974	11,912,449
Creditors, accrued and other liabilities	25,554,967	55,473,002
Unclaimed profit distribution	2,105,731	2,943,902
Deferred liabilities - staff gratuity	4,753,720	5,567,634
Deferred morabaha income	2,525,114	11,365,429
	<u>205,726,021</u>	<u>500,846,987</u>

38. FINANCIAL RISK MANAGEMENT

The Modaraba finances its operations mainly through equity, borrowing and deposits. The Modaraba utilises funds in ijarah financing, modaraba financing, musharaka financing, diminishing musharaka and murabaha financing. These activities are exposed to a variety of financial risks that are market risk, credit risk and liquidity risk.

The Board of Directors of the Management Company has the overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

38.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market interest rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk namely currency risk, profit rate risk and price risk.

38.1.1 Currency risk

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

38.1.2 Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market profit rates. The Modaraba has adopted appropriate policies to minimise its exposure to this risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



Yield / profit rate sensitivity position for, on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

Effective yield / profit rate %	2017					
	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk
------(Rupees)-----						
Assets						
Cash and bank balances	4.00% - 6.40%	22,604,098	18,181,250	-	-	4,422,848
Murabaha finance	0.37%-20%	150,045,527	2,003,959	45,759,265	69,416,364	19,427,803
Modaraba Finance	-	50,959,603	-	-	-	50,959,603
Musharaka finance	-	12,900,000	-	-	-	12,900,000
Diminishing musharaka finance	9.51%-21%	153,208,896	19,454,633	21,338,005	67,224,209	-
Receivable against sale of agricultural produce	-	18,200,140	-	-	-	18,200,140
Ijarah rentals receivable	-	562,271	-	-	-	562,271
Advances, prepayments and other receivables	-	43,123,021	-	-	-	43,123,021
Accrued profit	-	10,231,685	-	-	-	10,231,685
Long-term Deposit	-	685,300	-	-	-	685,300
Total		462,520,541	39,639,842	67,097,270	136,640,573	160,512,671
Liabilities						
Redeemable capital	6.00% - 8.50%	100,205,000	24,240,000	2,650,000	46,215,000	-
Security deposits	-	10,272,974	-	-	-	10,272,974
Creditors, accrued and other liabilities	-	25,554,967	-	-	-	25,554,967
Unclaimed profit distribution	-	2,105,731	-	-	-	2,105,731
Long-term finance	-	62,833,629	-	-	-	-
Deferred murabaha income	-	2,525,114	-	-	-	2,525,114
Deferred Liabilities - staff gratuity	-	4,753,720	-	-	-	4,753,720
Total		208,251,135	24,240,000	2,650,000	46,215,000	45,212,506
Total yield / profit risk sensitivity gap			15,399,842	64,447,270	90,425,573	31,530,185
Cumulative yield / profit risk sensitivity gap			15,399,842	79,847,112	170,272,685	201,802,870

Effective yield / profit rate %	2016					
	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk
------(Rupees)-----						
Assets						
Cash and bank balances	4.00% - 6.40%	48,704,707	45,557,869	-	-	3,146,838
Murabaha finance	12.50%-20.00%	267,366,147	29,008,697	46,586,906	31,950,251	66,834,323
Modaraba Finance	-	56,746,587	-	-	-	56,746,587
Musharaka finance	-	14,100,000	-	-	-	14,100,000
Diminishing musharaka finance	13.00%-21.00%	316,082,712	12,407,208	47,657,978	105,018,997	-
Net investment in Ijarah finance	-	28,756	-	-	-	28,756
Receivable against sale of agricultural produce	-	18,200,140	-	-	-	18,200,140
Ijarah rentals receivable	-	3,824,204	-	-	-	3,824,204
Advances, prepayments and other receivables	-	30,068,825	-	-	-	30,068,825
Accrued profit	-	13,234,339	-	-	-	13,234,339
Long-term Deposit	-	1,060,300	-	-	-	1,060,300
Total		769,416,717	86,973,774	94,244,884	136,969,248	207,244,312
Liabilities						
Redeemable capital	7.25% - 11.75%	424,950,000	27,300,000	123,830,000	74,730,000	199,090,000
Security deposits	-	11,912,449	-	-	-	11,912,449
Creditors, accrued and other liabilities	-	55,473,002	-	-	-	55,473,002
Unclaimed profit distribution	-	2,943,902	-	-	-	2,943,902
Deferred Liabilities - staff gratuity	-	5,567,634	-	-	-	5,567,634
Total		500,846,987	27,300,000	123,830,000	74,730,000	75,896,987
Total yield / profit risk sensitivity gap			59,673,774	(29,585,116)	62,239,248	44,894,499

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



Sensitivity analysis for financial instruments

The sensitivity of the net income for the year is the effect of the assumed changes in profit rates on the floating rate financial instruments held at the year end. The following table demonstrates the sensitivity of the Modaraba's income for the year to a reasonably possible change in profit rates, with all other variables held constant.

	Impact on profit or loss	
	2017	2016
	------(Rupees)-----	
Changes in basis point		
+100	769,090	1,210,584
-100	(769,090)	(1,210,584)

In practice, the actual results may differ from the sensitivity analysis shown above.

38.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

38.2 Credit risk

38.2.1 Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Modaraba is exposed to credit risk in respect of net investment in finance lease, musharaka, murabaha, modaraba, diminishing musharaka and ijarah rental receivables.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of an entity's performance to developments affecting a particular industry.

The Modaraba attempts to control credit risk by diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or businesses, monitoring credit exposures, limiting transactions to specific counterparties and continually assessing the credit worthiness of counterparties. It also obtains securities when appropriate.

The Modaraba follows two sets of guidelines. It has its own operating policy and the management of the Modaraba also adheres to the regulations issued by the SECP. The operating policy defines the extent of fund and non-fund based exposures with reference to a particular sector or group.

38.2.2 The analysis below summarises the credit quality of the Modaraba's financial assets:

Bank balances	Short Term	Long Term	2017	2016
			------(Rupees)-----	
HBL Islamic Banking Limited	A-1+	AAA	260,680	1,654,204
Soneri Bank	A-1+	AA-	4,046,170	21,070,492
JS Bank Limited	A-1+	AA-	2,242,506	-
Albaraka Bank (Pakistan) Limited	A1	A+	1,140,598	1,109,836
Bank Islami Pakistan	A-1	A+	692,795	783,603
Summit Bank Limited	A-1	A-	14,034,155	23,876,719

38.2.3 An analysis of the age of significant financial assets that are past due but not required to be impaired by applicable laws are as under:

	2017		2016	
	Total outstanding amount	Payment overdue (in days)	Total outstanding amount	Payment overdue (in days)
Ijarah rentals receivable	562,271	1 - 90 Days	178,705	1 - 90 Days
Murabaha Finance	27,452,010	1 - 90 Days	27,539,331	1 - 90 Days
Diminishing Musharaka Finance	1,868,780	1 - 90 Days	1,868,119	1 - 90 Days
Modaraba Finance	5,884,055	1 - 90 Days	4,500,000	1 - 90 Days

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



	2017				Total
	OAEM	Substandard	Doubtful	Loss	
	-----Rupees-----				
Net investment in finance lease	-	-	-	28,756	28,756
Ijarah rentals receivable	562,271	-	12,543,322	-	13,105,593
Murabaha Finance	-	812,901	26,550,000	44,327,865	71,690,766
Diminishing Musharaka Finance	2,641,273	271,870	5,010,120	1,329,186	9,252,449

	2016				Total
	OAEM	Substandard	Doubtful	Loss	
	-----Rupees-----				
Net investment in finance lease	-	-	-	127,650	127,650
Ijarah rentals receivable	-	33,162	5,533,260	-	5,566,422
Murabaha Finance	32,038,548	-	-	33,064,558	65,103,106
Musharaka Finance	-	-	-	38,702,297	38,702,297
Diminishing Musharaka Finance	2,250,180	-	5,011,038	1,444,186	8,705,404

38.2.5 Concentration of credit risk

38.2.5.1 Net Investment in Finance Lease

	2017		2016	
	(Rupees)	%	(Rupees)	%
Individuals	-	-	28,756	100.00
	-	-	28,756	100.00

38.2.5.2 Ijarah Assets

	2017		2016	
	(Rupees)	%	(Rupees)	%
Fuel and energy	-	-	2,001,261	6.16
Travel and transport	1,482,754	4.56	5,079,755	15.63
Textile	26,969,090	82.97	23,391,911	71.97
Individuals	-	-	2,862,139	8.81
Others	4,051,288	12.47	19,429,874	59.78
	32,503,132	100.00	52,764,940	162.35

38.2.5.3 For Musharaka, Murabaha, Modaraba and Diminishing Musharaka Finance

	2017		2016	
	(Rupees)	%	(Rupees)	%
Textile and allied	61,201,272	16.67	105,920,891	16.26
Trading	8,094,612	2.20	73,004,278	11.21
Leather	24,157,260	6.58	43,550,000	6.69
Pharmaceutical and chemicals	22,376,825	6.10	25,727,994	3.95
Food and beverage	4,289,229	1.17	10,773,517	1.65
Construction	3,844,120	1.05	11,191,398	1.72
Fuel and energy	6,231,521	1.70	16,069,153	2.47
Financial institutions	23,347,971	6.36	61,390,825	9.43
Paper and board	-	-	7,312,500	1.12
Sugar and allied	5,705,483	1.55	8,590,360	1.32
Distribution	-	-	4,000,000	0.61
Travel and transport	71,055,524	19.36	72,051,741	11.06
Dairy and poultry	25,573,514	6.97	34,204,233	5.25
Technology and telecommunication	25,816,301	7.03	42,586,451	6.54
Electrical and engineering	8,457,064	2.30	15,477,519	2.38
Steel and allied	20,515,462	5.59	19,810,431	3.04
Others	56,447,868	15.38	99,634,155	15.30
	367,114,025	100.00	651,295,446	100.00

38.2.5.4 Finance arrangements

	2017		2016	
	-----Rupees-----			
Murabaha finance	150,045,527		267,366,147	
Musharaka finance	12,900,000		14,100,000	
Diminishing Musharaka finance	153,208,895		316,082,712	
Modaraba finance	50,959,603		53,746,587	
	367,114,025		651,295,446	



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



38.3 Liquidity risk

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

The table below analyses the Modaraba's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	2017			
	Total	Upto three months	More than three months and upto one year	More than one year
	Rupees			
Liabilities				
Redeemable capital	100,205,000	26,890,000	46,215,000	27,100,000
Security deposits	10,272,974	9,712,299	-	560,675
Creditors, accrued and other liabilities	25,554,967	25,554,967	-	-
Unclaimed profit distribution	2,105,731	-	-	2,105,731
Long-term finance	62,833,629	6,283,363	18,850,088	37,700,178
Deferred liabilities - staff gratuity	4,753,720	-	-	4,753,720
Total liabilities	205,726,021	68,440,629	65,065,088	72,220,304
	2016			
	Total	Upto three months	More than three months and upto one year	More than one year
	Rupees			
Liabilities				
Redeemable capital	424,950,000	151,130,000	74,730,000	199,090,000
Security deposits	11,912,449	5,640,999	-	6,271,450
Creditors, accrued and other liabilities	55,473,002	55,473,002	-	-
Unclaimed profit distribution	2,943,902	-	-	2,943,902
Deferred liabilities - staff gratuity	5,567,634	-	-	5,567,634
Total liabilities	500,846,987	212,244,001	74,730,000	213,872,986

38.4 Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or 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.

The estimated fair value of financial assets and liabilities is considered not significantly different from book values as the items are either short - term in nature or periodically repriced.

39. 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.

Consistent with others in the industry, 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 Certificate of Musharaka and borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



	2017	2016
	------(Rupees)-----	
Total borrowings and deposits	163,038,629	424,950,000
Cash and bank balances	(22,604,098)	(48,704,707)
Net debt	140,434,531	376,245,293
Total equity	391,456,006	389,033,139
Total capital	531,890,537	765,278,432
Gearing ratio	26.4%	49.2%

40. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise the modaraba management company [KASB Invest (Pvt.) Ltd.], modaraba under common management (First Prudential Modaraba & First Pak Modaraba), directors and key management personnel. Modaraba, in the normal course of business carries out transactions with these related parties at arm's length prices. Significant transactions with related parties are as follows:-

Relationship with Modaraha	Nature of Transactions	June 30,	June 30,
		2017	2016
		------(Rupees)-----	
Balances with related parties			
Modaraba management Company	Modaraba management fee payable	1,092,797	948,134
Modaraba management Company	Issue of certificates at discount	98,946,390	98,946,390
Modaraba under common management	Receivable against reimbursement of expenses	1,125,666	3,111,423
Other related parties			
Key management personnel	Redeemable capital	150,000	2,700,000
Key management personnel	Accrued mark-up payable	340	41,527
Expense/(Income) for the period			
Modaraba management company	Modaraba management fee	525,580	948,134
Modaraba under common management	Reimbursement of expenses	8,305,795	6,549,137
Payments/(Receipts) made during the period			
Modaraba management company	Modaraba management fee	982,633	1,154,475
Modaraba under common management	Reimbursement of expenses	(10,337,349)	(4,337,719)
Modaraba management company	Dividend paid	1,914,478	2,665,888
Other associated companies			
KASB Corporation	Rent expense	1,424,088	1,497,500
Other related parties			
Key management personnel	Salaries and other benefits	1,925,000	4,612,580
Key management personnel	Financial charges	82,758	919,576

41. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, whenever necessary, for the purposes of appropriate presentation. There have been no significant reclassifications in these financial statements.

42. NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors have approved dividend for the year ended June 30, 2017 of Re. 0.07 per certificate (2016: Re. 0.08 per certificate), amounting to Rs. 3,364,654 (2016: Rs. 3,845,318) at their meeting held on 06 October 2017. The financial statements for the year ended June 30, 2017 do not include the effect of the above which will be accounted for in the period in which it is declared.

43. GENERAL

Figures in these financial statements have been rounded off to the nearest Rupee.



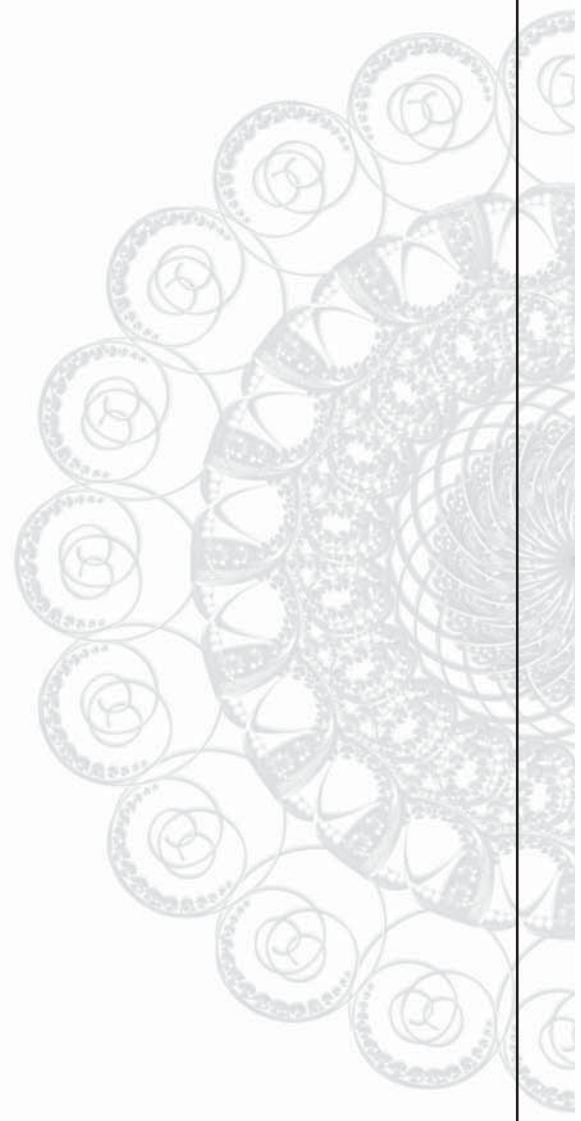
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017



44. DATE OF AUTHORISATION

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on 06 October 2017 .



For KASB Invest (Private) Limited
(Management Company)

Chief Executive

Director

Director

PATTERN OF CERTIFICATE HOLDING FORM "34"



SHAREHOLDERS STATISTICS AS AT JUNE 30, 2017

NO. OF SHOLD	SHARE HOLDING		TOTAL SHARES HOLD
	FROM	TO	
427	1	100	17,007
278	101	500	77,391
162	501	1000	132,740
180	1001	5000	403,998
49	5001	10000	360,454
16	10001	15000	207,135
13	15001	20000	224,275
5	20001	25000	115,496
5	25001	30000	145,345
5	30001	35000	62,200
8	35001	40000	297,300
5	40001	100000	366,877
1	100001	105000	101,000
2	105001	125000	235,923
1	125001	200000	166,320
2	200001	305000	529,389
3	305001	400000	1,063,947
1	400001	500000	480,000
1	500001	800000	795,980
1	800001	900000	858,500
1	1300001	1400000	1,375,733
2	3900001	4500000	7,905,963
1	10445001	10450000	10,446,767
1	10450001	25000000	21,696,740
1120		Total	48,066,480

PATTERN OF CERTIFICATE HOLDING FORM "34"

SHAREHOLDERS STATISTICS AS AT JUNE 30, 2017



SHAREHOLDERS STATISTICS AS AT JUNE 30, 2017

CATEGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
INDIVIDUALS	1,132	8,539,607	17.77%
JOINT STOCK COMPANIES**	15	4,158,277	8.65%
FINANCIAL INSTITUTIONS	11	10,472,584	21.79%
INSURANCE COMPANIES	4	797,380	1.66%
CHARITABLE TRUSTS	2	65,083	0.14%
MODARABA COMPANIES	2	30	0.00%
OTHERS	2	101,300	0.21%
LEASING COMPANIES	1	1,246	0.00%
MODARABA MANAGEMENT COMPANIES*	1	23,930,973	49.79%
Grand Total	1,170	48,066,480	100.00%

ASSOCITED COMPANIES

KASB CORPORATION	1	304,389	0.63%
KASB INVEST (PRIVATE LTD.)	1	23,930,973	49.79%
	2	24,235,362	50.42%

NIT AND ICP

NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT	2	65,083	0.14%
INVESTMENT CORPORATION OF PAKISTAN	1	8,002	0.02%
		73,085	0.15%

Directors CEO & their Spouse and Minor Childern

- -

Public Sector Companies and Corporations

Banks, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Fund

17 11,196,909 23.29%

Certificate - holders holding five percent or more certificates in the modaraba

AL-HOQANI SECURITIES & INVESTMENT CORPOR	1	3,949,963	8.22%
Sulaiman Ahmed Saeed Al-Hoqani	1	3,956,000	8.23%

NOTICE OF ANNUAL REVIEW MEETING



Notice is hereby given that the 26th Annual Review Meeting of certificate-holders of KASB Modaraba will be held on Monday, October 30, 2017 at 06:30 p.m. at KASBIT Auditorium, 84-B S.M.C.H.S Off. Shakra-e-Faisal, Karachi, to review the performance of the Modaraba for the year ended June 30, 2017.

By Order of the Board

Karachi
October 09, 2017

Syed Shahid Owais
Company Secretary

Notes

1. The certificate transfer books shall remain closed from October 24, 2017 to October 30, 2017 (both days inclusive). Transfers received in order at the office of the Registrar of KASB Modaraba i.e. M/s C&K Management Associates (Private) Limited., before the close of business hours on October 23, 2017 will be treated as in time for the purpose of entitlement to dividend to the transferees and to attend the Annual Review Meeting.
2. The Certificate holders are advised to notify change in their address, if any, to the Share Registrars, M/s C&K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, near Metropole Hotel, Karachi, Telephone No. 021-35687839-35685930,
3. For attending the Meeting:
 - i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original CNIC or original passport at the time of attending the Meeting.
 - ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting.
4. In terms of Securities and Exchange Commission of Pakistan's (SECP) S.R.O. 634 (1)/2014, the Annual Report for the year ended June 30, 2017 will also be placed on Modaraba's website simultaneously with the dispatch of the same to the certificate holders.

5. Deduction of withholding tax on the amount of Dividend

The Government of Pakistan through Finance Act, 2014 has made certain amendments in section 150 of the Income Tax Ordinance, 2001 whereby different rates are prescribed for deduction of withholding tax on the amount of dividend paid by the companies. Further, the Government of Pakistan through Finance Act, 2017 has revised the withholding tax rates for tax year 2017-2018 as under:

- (a) **Rate of tax deduction for the filer(s) of income tax returns: 15%**
- (b) **Rate of tax deduction for the non-filer(s) of income tax returns: 20%**

To enable the company to make tax deduction on the amount of cash dividend @ 15% instead of 20%, all the certificate holders whose names are not entered into the Active Tax-payers List (ATL) provided on the website of FBR, despite the fact that they are filers, are advised to make sure that their names are entered into ATL before the start of closed period (referred above)

NOTICE OF ANNUAL REVIEW MEETING



otherwise tax on their cash dividend will be deducted a 20% instead of 15%. For any query/problems information, the Certificate holders may contact the Share Registrar M/s C&K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, near Metropole Hotel, Karachi, Telephone No. 021-35687839-35685930,. The corporate certificate holders having CDC accounts are required to have their National Tax Number (NTN) updated with their respective participants, whereas corporate physical certificate holders should send a copy of their NTN certificate to the Company or its Share Registrar. The certificate holders while sending NTN or NTN certificates, as the case may be, must quote company name and their respective folio numbers. Certificate holders seeking exemption from deduction of income tax or are eligible for deduction at a reduced rate are requested to submit a valid tax certificate or necessary documentary evidence as the case may be. Certificate holders desiring non-deduction of zakat are also requested to submit a valid declaration for non-deduction of zakat

6. Dividend Mandate

As per Section 242 of the Companies Act, 2017 (the "Act"), the payment of cash dividend through electronic mode has now become mandatory. However, as per Circular No. 18/2017 dated August 01, 2017 the Securities and Exchange Commission of Pakistan has granted one time relaxation till October 31, 2017 to comply with the said requirement. Therefore, all the certificate holders of KASB Modaraba are hereby advised to provide dividend mandate of their respective banks in the "Dividend Mandate Form" available on Company's website. Certificate holders maintaining shareholding under Central Depository System (CDS) are advised to submit their bank mandate information directly to the relevant participant/CDC investor Account Service. For more information, you may contact our share registrar at C&K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, near Metropole Hotel, Karachi, Telephone No. 021-35687839-35685930.

7. Withholding tax on dividend in case of Joint Account Holders

All certificate holders who hold certificates jointly are requested to provide shareholding proportions of Principal certificate holder and Joint-holder(s) in respect of certificates held by them to our Share Registrar, in writing as follows:

Folio No /CDC Account No	Total Certificates	Principal Certificate holders		Joint Certificate holder(s)	
		Name and CNIC No.	Certificate holding Proportion (No. of Certificate)	Name and CNIC No.	Certificate holding Proportion (No. of Certificate)

The required information must reach our Share Registrar before the close of business on October 23, 2017. Otherwise it will be assumed that the certificates are equally held by Principal certificate holder and Joint-holder(s).

- As per the directives issued by the Securities and Exchange Commission of Pakistan ("SECP) vide S.R.O.787(1)2014 dated September 08, 2014, companies are allowed the circulation of Audited Financial Statements along with Notice of Annual Review Meeting to their certificate holders through email. Certificate holders who wish to receive Modaraba's Annual Report via email in future are requested to fill the consent form (available at KASB Modaraba website) and return it to our Share Registrar M/s C&K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, near Metropole Hotel, Karachi, Telephone No. 021-35687839-35685930,.

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