

*First Equity Modaraba is committed to
strive for excellence in all areas of its
activities.*

*We view our business objective of
providing distinctive financial products
and services that promote commerce and
industry within the context of our overall
objective of contributing to the nation's
prosperity.*

Contents

CORPORATE INFORMATION	2
TEN YEARS AT A GLANCE	3
PATTERN OF CERTIFICATE HOLDING	4
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE	6
REPORT OF THE DIRECTORS	8
SHARI'AH REVIEW REPORT	11
AUDITORS REVIEW ON STATEMENT OF COMPLIANCE	13
AUDITORS' REPORTS TO THE CERTIFICATE HOLDERS	14
BALANCE SHEET	16
PROFIT AND LOSS ACCOUNT	18
STATEMENT OF OTHER COMPREHENSIVE INCOME	19
CASH FLOW STATEMENT	20
STATEMENT OF CHANGES IN EQUITY	21
NOTES TO THE FINANCIAL STATEMENTS	22
NOTICE OF ANNUAL REVIEW MEETING	52
CONSOLIDATED FINANCIAL STATEMENTS	53



**FIRST EQUITY MODARABA
CORPORATE INFORMATION**

Modaraba Company
Premier Financial Services (Private) Limited

Board of Directors

Zahid Bashir
Nadeem Maqbool
Adil A. Ghaffar
(Chief Executive)

Audit Committee

Zahid Bashir
Nadeem Maqbool

Registered and Business Office

B-1004, 10th Floor
Lakson Square Building # 3,
Sarwar Shaheed Road,
Karachi
Tel: 35672815-8
Fax: 35686116
E-mail: info@firsequitymodaraba.com.pk

Room No. 503 - 504
5th Floor,
Karachi Stock Exchange
Building, Karachi.
Tel: 32446020-3
Fax: 32460766

Auditors

Avais Hyder Liaquat Nauman
Chartered Accountants
407, Progressive Plaza,
Beaumont Road, Karachi-75530
Tel: 92-21-35655975-6,
35656082
Fax: 92-21-35655977

Bankers

Faysal Bank Limited.
Bank Al-Habib Ltd.
Habib Metropolitan Bank Ltd.
MCB Bank Ltd.
National Bank of Pakistan.
KASB Bank Ltd.
NIB Bank Ltd.
The Bank of Khyber.
United Bank Ltd.
Bank Islami.
Meezan Bank.

FIRST EQUITY MODARABA

Registrar

THK Associates (Pvt.) Ltd.
Registrar
State Life Building # 3,
Dr. Ziauddin Ahmed Road, Karachi.
Tel: 111-000-322
Fax: 92-21-35655595

General Counsel

Moshin M. Tayebaly & Co.
Advocates & Legal Consultants

TEN YEARS AT A GLANCE

BALANCE SHEET	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014
Authorized Capital	300,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Issued, Subscribed & Paid-up-Capital	524,400	524,400	524,400	524,400	524,400	524,400	524,400	524,400	524,400	524,400
Reserves	250,890	48,096	66,096	75,573	75,689	74,975	75,156	81,834	110,463	134,700
Revaluation Reserve on Investments	(88,151)	(52,331)	(7,747)	(25,780)	(55,625)	(51,554)	(36,738)	(43,147)	(7,355)	(13,150)
Deferred liabilities	949	649	939	1,109	1,006	1,397	(1,607)	1,832	2,092	1,556
Creditors, accrued expenses and other liabilities	26,430	49,450	32,198	36,068	17,187	9,889	21,422	8,784	6,139	11,857
Profit Distribution	-	-	-	-	-	-	-	-	-	-
Unclaimed Profit Distribution	27,340	25,617	25,533	26,375	26,361	26,354	26,262	26,082	26,003	25,967
Provision for taxation	-	-	-	1,400	1,486	1,486	1,547	3,773	3,773	-
Tangible Assets	741,858	595,881	641,419	639,115	590,504	586,947	613,656	603,558	665,515	686,345
Intangible Assets	28,355	13,633	43,362	58,551	58,551	53,051	53,051	53,051	19,000	19,000
Deferred Costs	-	1,933	1,288	858	492	-	-	-	-	-
Investments	357,438	286,485	297,036	309,231	290,805	295,237	292,584	307,017	373,192	324,388
Morabaha/Musharakah Receivables	100,434	83,127	55,655	92,001	118,590	124,755	132,542	137,621	150,039	159,320
Advances, deposits, prepayments & other receivables	122,998	114,437	115,461	108,651	96,184	74,670	59,642	52,954	54,475	48,501
Cash and Bank balance	130,670	91,613	116,157	52,858	10,756	20,183	57,257	33,784	49,575	9,889
	741,858	595,881	641,419	639,115	590,504	586,947	613,656	603,558	665,515	686,345
PROFIT & LOSS ACCOUNT										
Income / (Loss)	8,000	(168,002)	40,248	28,606	23,612	29,256	18,423	30,393	53,722	46,938
Operating expenses	(37,818)	(31,042)	(20,439)	(21,041)	(20,967)	(16,148)	(16,567)	(20,500)	(25,093)	(22,242)
Provision for diminution in value of investments	-	-	-	-	(2,298)	(6,699)	(1,615)	-	-	-
Provision for non performing assets	-	-	-	-	-	(7,000)	-	-	-	-
Modaraba Company's management fee	-	-	-	-	-	-	-	(989)	-	(3,307)
Taxation	-	(3,749)	-	(198)	(200)	(123)	(60)	(2,226)	-	-
Profit / (loss) for the year	(29,818)	(202,793)	17,999	7,367	146	(714)	181	6,678	28,629	24,696
Cash Distribution	-	-	2,5%	-	-	-	-	-	-	3.75%
Earnings per certificate	(0.57)	(3.87)	0.34	0.14	0.003	(0.014)	0.003	0.127	0.546	0.471
Breakup value	13.11	9.91	11.11	10.95	10.57	10.45	10.73	10.74	11.97	12.33



**PATTERN OF HOLDING OF CERTIFICATES
BY THE CERTIFICATE HOLDERS AS AT JUNE 30, 2014**

Number of Certificate Holders	Certificate Holding		Total Certificates Held
	From	To	
1,847	1	100	103,948
1,064	101	500	269,105
1,146	501	1,000	789,444
789	1,001	5,000	1,794,631
183	5,001	10,000	1,440,697
76	10,001	15,000	998,529
37	15,001	20,000	685,244
20	20,001	25,000	454,489
30	25,001	30,000	827,229
10	30,001	35,000	334,917
8	35,001	40,000	303,109
6	40,001	45,000	246,876
17	45,001	50,000	831,354
8	50,001	55,000	420,110
6	55,001	60,000	343,372
2	60,001	65,000	122,550
4	65,001	70,000	263,620
3	70,001	75,000	224,100
3	75,001	80,000	233,931
2	80,001	85,000	165,334
3	90,001	95,000	279,041
5	95,001	100,000	493,830
5	100,001	105,000	510,307
1	105,001	110,000	107,200
3	110,001	115,000	336,940
2	115,001	120,000	234,042
1	120,001	125,000	123,000
1	125,001	130,000	128,875
5	145,001	150,000	743,356
1	150,001	155,000	152,812
2	155,001	160,000	316,016
2	160,001	165,000	325,125
1	170,001	175,000	171,630
1	185,001	190,000	187,500
1	190,001	195,000	191,195
1	195,001	200,000	198,194
3	200,001	205,000	608,762
1	205,001	210,000	205,994
1	220,001	225,000	221,500
1	225,001	230,000	227,916
1	250,001	255,000	251,000
1	255,001	260,000	258,500
1	285,001	290,000	289,081
1	290,001	295,000	292,214
1	305,001	310,000	308,197
1	310,001	315,000	310,426
2	315,001	320,000	639,835
2	340,001	345,000	688,000
1	380,001	385,000	383,050
1	395,001	400,000	400,000
1	410,001	415,000	411,184
1	425,001	430,000	429,000
1	430,001	435,000	434,500
1	440,001	445,000	442,500
1	550,001	555,000	552,233
1	750,001	755,000	753,698
1	900,001	905,000	903,300
1	905,001	910,000	907,135
1	960,001	965,000	964,038
1	1,060,001	1,065,000	1,061,000
1	1,115,001	1,120,000	1,116,000
1	1,140,001	1,145,000	1,142,000
1	1,170,001	1,175,000	1,174,000
1	1,320,001	1,325,000	1,321,804
1	2,495,001	2,500,000	2,500,000
1	3,095,001	3,100,000	3,100,000
1	3,430,001	3,435,000	3,433,197
1	5,240,001	5,245,000	5,244,000
1	6,110,001	6,115,000	6,114,284
5,333			52,440,000

FIRST EQUITY MODARABA

**PATTERN OF HOLDING OF CERTIFICATES
BY THE CERTIFICATE HOLDERS AS AT JUNE 30, 2014**

Page 5

Categories of Certificate Holders	Number of Certificate Holders	Certificates Held	Percentage %
DIRECTORS, CEO & CHILDREN	12	680,745	1.30
ASSOCIATE COMPANIES	4	203,912	0.40
NIT & ICP	2	1,700	0.01
BANKS, DFI & NBFI	7	2,016,187	3.84
INSURANCE COMPANIES	6	1,757,969	3.35
MODARABAS & MUTUAL FUNDS	4	33,550	0.06
GENERAL PUBLIC (LOCAL)	4,074	34,998,988	66.74
GENERAL PUBLIC (FOREIGN)	1,180	1,300,557	2.48
OTHERS	44	11,446,392	21.82
Total	5,333	52,440,000	100

DIRECTORS, CEO AND OTHER SPOUSE AND MINOR CHILDREN

Zahid Bashir	19,500
Nazia Maqbool	134,660
Ambreen Zahid Bashir	202,262
Nadeem Maqbool	152,356



**STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE**

The statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation 35 of Listing Regulations of Karachi Stock Exchange Limited, the Chapter XIII of Listing Regulations of Lahore Stock Exchange Limited and Chapter XI of Listing Regulations of the Islamabad Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

The Board of Directors of Premier Financial Services (Pvt) Ltd the manager of First Equity Modaraba (company) has applied the principles contained in the CCG in the following manner:

1. At present the board includes:

Category	Names
Non-Executive Directors	Mr Zahid Bashir
	Mr Nadeem Maqbool
Executive Directors	Mr Adil A Ghaffar

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 member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year casual vacancy occurring on the board.
5. The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Modaraba along with its supporting policies and procedures.
6. The Board has developed a vision/ statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Two of the Board members are certified directors and one enjoys the exemption from certification.
10. No appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment was made during the year.
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 Modaraba 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 certificate of the Modaraba 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 of non-executive directors.

**STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE**

Page 7

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises non-executive director and executive director / CEO.
18. The Board has set up an effective internal audit function that is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the company.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the 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 the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with except induction of independent director and head of internal audit for which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

On behalf of the Board

October 9, 2014
Karachi

Adil A Ghaffar
Chief Executive Officer



**REPORT OF THE DIRECTORS OF THE
MODARABA COMPANY**

The Directors of the Premier Financial Services (Private) Limited, the management company of the FIRST EQUITY MODARABA (FEM), are pleased to present their report and audited financial statements of the Modaraba together with the consolidated financial statements of the Modaraba and Equity Textiles Limited, a wholly owned subsidiary, for the year ended June 30, 2014.

Financial Results

The profit for the year amounted to Rs. 24.7 million as compared to Rs 28.4 million (re-stated) for the last year translated in an earning per certificate of Rs. 0.47 as compared to Rs. 0.541 (re-stated) last year. Break-up value per certificate amounted to Rs. 12.33 against Rs. 11.97 last year.

	Rupees
Income	46,224,523
Expenses	
Operating Expenses	(18,425,749)
Bank Charges	(5,695)
	(18,431,444)
Operating Profit	27,793,079
Other Income	713,980
	28,507,059
Management remuneration	(2,850,700)
Service sale tax on Management remuneration	(456,112)
	25,200,244
Provision for Worker Welfare Fund	504,005
Profit for the year	24,696,239
Earnings per certificate	0.47

Dividend Distribution

The directors is pleased to announce a cash dividend of Rs. 0.375 (3.75%) per certificate {2013: Rs. Nil} in its meeting held on October 09, 2014 for the year ended June 30, 2014.

The Certificate Share Transfer Book for the entitlement of profit distribution will remain closed from Saturday, November 15, 2014 to Thursday, November 27, 2014 (both days inclusive)

Over the last few years, our auditors consistently qualified their opinion based on non-compliance of certain international accounting standards relating to adjusting cost to fair value of marketable securities and any profit / loss should be taken / charge to profit and loss account for the year. Our principal stand for accepting auditors' qualification was based on the fact that, firstly, we do not foresee that these impairments are of permanent nature. Secondly, our Industry was established on the concept to distribute what it earns on yearly basis. Our regulators made it mandatory that to claim income tax exemption modarabas have to distribute 90% of profit for the year in the form of cash dividend to certificate holders. Therefore, adjusting cost to fair value would tantamount to distribution of either unrealized capital gain or recovery of cost.

FIRST EQUITY MODARABA

As reported in previous years that we received one Trading Right Entitlement Certificate (TREC) and 4,007,393 and 3,034,603 shares of Karachi and Islamabad Stock Exchanges Ltd, respectively. Our cost of Rs. 53 m was much lower than what we received in lieu of membership cards. We preferred to keep shares at par value i.e. Rs. 10 each and TREC at the values assigned by respective stock exchanges for base minimum capital, and booked the resultant gain of Rs. 36m as an extra ordinary item in financial statement for the year ended June 30, 2013. The Auditors qualified their report based on the Technical Opinion of Institute of Chartered Accountants of Pakistan.

Our Performance and Future Prospects

Alhamdulillah, our profit for the year as reflected in our financial statements is Rs. 24.7 m. Musharakah investment portfolio was stable. During the year stock market

**REPORT OF THE DIRECTORS OF THE
MODARABA COMPANY**

Page 9

continues its bull run and taking advantage of the trend. This performance, with the restrictions on investments in sharia compliant scripts, is cause for satisfaction.

The continuously decreasing rupee parity, increasing cost of living and adverse law & order situation resulted in fewer opportunities and has severely affected the local small and medium financial intermediaries due to non-performing assets and its realization. Against the globe, Regulators have tightened risk management and non conducive regulatory environment has and will gravely affect small capital base financial sector companies.

Alhamdulillah, ETL's book value increased from Rs. 21.55 in June 2013 to Rs. 24.66 in 2014. ETL was able to realize profit of Rs. 74.6 million as against Rs. 109.1 million translating earnings per share (EPS) of Rs. 2.98 from Rs 4.37 last year. We are positive that with the grace of Allah mighty we will soon be able to intact ETL's paid up capital.

As highlighted earlier, the practical difficulties in complying with Stock Exchange (Corporatization, Demutualization and Integration) Act 2012 as this Act restricts TREC to companies only as defined in Companies Ordinance, 1984. Our submission to SECP that Modaraba being regulated under its auspices and being a corporate legal entity, be considered as company for the purposes of this Act has not been accepted by the Regulators. Thereafter, we requested our prime regulator, Registrar Modaraba (RM) to allow us to create a company as our wholly owned subsidiary enabling us to protect and safe guard assets of the modaraba. Even though there is a precedent of FEM holding a wholly owned subsidiary (ETL), RM rejected our request. Thus having no other option, FEM filed a suit in the Honorable High Court of Sindh on April 20 2013 and Stay Order was granted. Subsequently, SECP issued brokerage renewal license in our favor.

As required under SCSAM, FEM's financial transactions were duly vetted and audited by the independent Shariah Advisor and his report is annexed.

Inspection

Registrar Modaraba initiated an inquiry in December 2006 through their in house inspection team. Inspection report was provided in September 2007 and a show cause notice was served in November 2007. After hearing of this show cause notice in February 2008, Registrar Modaraba again initiated an inquiry in May 2009, which was challenged in the High Court of Sindh and stay was granted by the Honorable Court.

Board of Directors

During the year under review, four board meeting were held and attend by the Directors as follows:-

	Name of Board Members	Meetings Attended
1	Mr. Zahid Bashir	4
2	Mr. Nadeem Maqbool	4
3	Mr. Adil A. Ghaffar	4

Code of Corporate Governance

As stated in previous years Report that the Board has decided to adopt voluntarily the code of corporate governance as issued by the Securities and Exchange Commission of Pakistan and made part of listing regulation

All activities are conducted as per the listing regulations of the stock exchanges. Vision & Mission statements, Core values and Code of Conduct have been prepared and approved by the Board and have been communicated to the employees. Significant policies as required under the Code of Corporate Governance have been framed and are periodically reviewed by the Board.



**REPORT OF THE DIRECTORS OF THE
MODARABA COMPANY**

As required by the Code of Corporate Governance, Directors are pleased to report that:

- a. The financial statements prepared by the management of the Modaraba present fairly its true state of affairs, the result of its operations, cash flows and changes in equity;
- b. Proper books of accounts of the Modaraba have been maintained;
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- d. International Financial Reporting Standards (IFRS), as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed in the Annual Report.
- e. The system of internal control is consistently applied though out the year and has been effectively implemented and monitored with ongoing efforts to improve it further;
- f. There is no doubt about the Modaraba's ability to continue as a going concern;
- g. There has been no material departure from the best practice of corporate governance as detailed in the listing regulation of the Stock Exchange.

Pattern of Shareholding - annexed

Key Operating and Financial Data - annexed

Staff Retirement Benefits

The Modaraba's service rules provide an unfunded gratuity scheme for the permanent employees.

Auditors

The present auditors M/s Avais Hyder Liaquat Nauman, Chartered Accountants have given their consent for reappointment. The Board has recommended their name for the formal approval by the Registrar Modaraba.

Acknowledgement

We acknowledge hard work with full dedication of our employees and are thankful to our business associates, clients and financial institutions for their confidence and support. We also appreciate the guidance and cooperation received from our regulators. They have our full support and good wishes in their efforts at reforms.

FIRST EQUITY MODARABA

Karachi
October 09, 2014

On behalf of the Board

Adil A Ghaffar
Chief Executive Officer

I have conducted the Shari'ah review of First Equity Modaraba (FEM) managed by Premier Financial Services (Private) Limited, the Modaraba Management Company for the year ended June 30, 2014 in accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism (SCSAM) for Modarabas and report that except the observations as reported hereunder, in my opinion:

- I. The Modaraba has introduced a mechanism which has strengthened the Shari'ah compliance, in letter and spirit and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles.
- ii. The agreements entered into by the Modaraba are Shari'ah compliant and the financing agreement have been executed on the formats as approved by the Religious Board and all the related conditions have been met.
- iv. To the best of information provided to me and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas
- v. The earnings that have been realized from the sources or by means of prohibited by Shari'ah have been credited to charity accounts.
- vi. The external auditors of the Modaraba after extensive testing have also not reported any diversion from the Shari'ah guideline.

Observations:

I have pointed out some issues to be settled in view of SECP Circular No. 8 of 2012 dated 03-02-2012, whereby Shari'ah Compliance and Audit Mechanism (SCSAM) was introduced.

With reference to the settlement of the issues:

1. As regard to the investment in shares and securities, it has been confirmed that First Equity Modaraba has only Shari'ah Compliant Shares in its portfolio except the four Non Shari'ah Compliant Shares which have been not divested yet. The list of the shares and the reason is mentioned as under:

S. No.	Non Shari'ah Compliant Shares	Reason for not being divested	Carrying value Rupees
1	First Dawood Mutual Fund	Trading is suspended	209,141
2	Javed Omer Vohra & Co	Trading is suspended	41,800
3	Dawood Money Market	Trading is suspended	847,188
	Callmate Telips	Business is in winding up process	1
		Total	1,098,130

2. It is has been observed that the Modaraba has not closed yet all its saving accounts at conventional banks. On my query, the management confirmed me that due to some regulatory issues, balance confirmation and because of their dormant in nature for over years, the accounts could not be closed. The balance as at reporting date was Rs 319,212 i.e 0.32% of total bank balances, the operation is suspended and the profit realized from saving accounts has been credited to charity account.
3. As regards insurance coverage facility, it has been noticed that Modaraba has availed conventional insurance coverage facility instead of Takaful Facility.
4. As regards, Musharakah agreements, they are on the formats as approved by the Religious Board. Two Musharakah agreements were terminated during the year. The sale proceeds/ profit of the projects has been shared according to the agreed ratio.
5. It has been noticed that no training and development was undertaken and attended by the staff during the year.



5. It has been observed that no any disbursement made to any charitable organization from the charity account during the year; whereas the SCSAM had provided the specific time period.

Recommendations:

1. Remaining Non Shari'ah Compliant Shares should be disposed off as early as possible.
2. The saving accounts at conventional banks should be closed at earliest.
3. Being an Islamic Financial Institution, it is highly desirable to convert their insurance coverage facility from conventional insurance companies to renowned Takaful Companies.
4. The staff should be encouraged by sending them into different training sessions, so that they may equip themselves with latest development in the Islamic finance industry and their understanding of the products will enhances accordingly.
5. The earnings credited into charity account should be disbursed to registered charitable organizations as early as possible.
6. The management should continue its endeavor to comply with the rulings of Shari'ah in its business operation and future transactions.
7. The Modaraba should focus on new innovations and explore the possibility of entering into more specialized Shari'ah compliant financing modes.

Conclusion:

Based on the above mentioned facts, I am of the view that the business operations of First Equity Modaraba are Shariah Compliant, to the best of my knowledge.

May Allah give us courage to play active role in establishing the Riba free economic system.

Mufti Abdul Qadir
Shari'ah Advisor
Dated: September 28, 2014

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

Page 13

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 Premier Financial Services (Private) Limited (the Management Company) for the year ended June 30, 2014 to comply with the requirements of Regulation 35 of Listing Regulations of Karachi Stock Exchange Limited, the Chapter XIII of Listing Regulations of Lahore Stock Exchange Limited and Chapter XI of Listing Regulations of the Islamabad Stock Exchange Limited where First Equity Modaraba (the Modaraba) is listed.

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code as applicable to the Modaraba and its Management Company for the year ended June 30, 2014.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph 23 in the Statement of Compliance.

Description

The Management Company does not have any independent director and the Modaraba does not have head of internal audit.

October 9, 2014
Karachi.

Avais Hyder Liaquat Nauman
Chartered Accountants
Adnan Zaman
Engagement Partner



**AUDITORS' REPORT
TO THE CERTIFICATE HOLDERS**

We have audited the annexed balance sheet of **FIRST EQUITY MODARABA** (the Modaraba) as at June 30, 2014 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 Company's [Premier Financial Services (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) Management of the Modaraba in the financial statements for the year ended June 30, 2013, had assigned values to Trading Rights Entitlement Certificates (TREC) of Karachi Stock Exchange Limited (KSE) and Islamabad Stock Exchange Limited (ISE) Rs. 15 million and Rs. 4 million respectively that were based on the value assigned by KSE and ISE for base minimum capital requirement purposes applicable to the brokers of the stock exchange and had recognised 4,007,383 shares of KSE and 3,034,603 shares of ISE at their face values of Rs. 10/- each on exchange of membership card thereby the Modaraba recognized gain of Rs. 36.369 million which, in our opinion, was not in accordance with International Accounting Standards and technical opinion of The Institute of Chartered Accountants of Pakistan (ICAP) issued in this respect.
- (b) Modaraba has charged unrealised loss of Rs. 10.9 million, in respect of investment classified as financial asset at fair value through profit and loss, in other comprehensive income instead of profit and loss account as required under IAS 39.

Had the Modaraba recognized the intangible asset and shares of KSE and ISE in accordance with the Technical Opinion of ICAP, its equity, intangible asset and long term investments would have been lower by Rs. 36.369 million, Rs. 7.7 million and Rs. 28.6 million respectively and had the Modabra charged the unrealized loss to the profit and loss account, its profit for the year would have been lower by Rs. 10.9 million.

- (c) Except for the matter discussed in paragraph (a) and (b) above, 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;

Except for the matter discussed in paragraph (a) and (b) above, 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

**AUDITORS' REPORT
TO THE CERTIFICATE HOLDERS**

Page 15

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;
- (e) Except for the matter discussed in paragraph (a) and (b) above, 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 confirm with the 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 Modaraba's affairs as at June 30, 2014 and of its profit, its total comprehensive income, its cash flows and changes in equity for the year then ended;
- (f) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

October 9, 2014
Karachi.

Avais Hyder Liaquat Nauman
Chartered Accountants
Adnan Zaman
Engagement Partner



	Note	2014 Rupees	Restated 2013 Rupees
<i>Equity & Liabilities</i>			
<i>Capital and reserves</i>			
Authorized Certificate Capital			
60,000,000 (2013: 60,000,000) modaraba certificates of Rs. 10 each		600,000,000	600,000,000
Certificate holders' equity			
Certificate capital	6	524,400,000	524,400,000
Reserves	7	134,699,560	110,003,318
Remeasurement of defined benefit liability - Actuarial gain		815,245	459,654
Unrealised loss on remeasurment of investments		(13,149,967)	(7,354,696)
<i>Total certificates holders' equity</i>		646,764,838	627,508,276
<i>Non-current liabilities</i>			
Deferred liabilities	8	1,556,255	2,092,021
Security deposit		200,000	-
<i>Total non-current liabilities</i>		1,756,255	2,092,021
<i>Current liabilities</i>			
Creditors, accrued and other liabilities	9	11,856,701	6,138,303
Unclaimed profit distribution		25,966,768	26,003,219
<i>Total current liabilities</i>		37,823,469	32,141,522
<i>Total equity and liabilities</i>		686,344,562	661,741,819
<i>Contingencies and commitments</i>	10		

BALANCE SHEET AS AT JUNE 30, 2014

Page 17

	Note	2014 Rupees	Restated 2013 Rupees
<i>Assets</i>			
<i>Non-current assets</i>			
Fixed assets			
-tangible	11	15,777,617	19,233,655
-intangible	12	19,000,000	19,000,000
Investment property	13	2,071,667	-
Long term investments	14	324,387,730	333,209,730
Advances-considered good		2,510,000	2,510,000
Deposits		1,150,000	1,150,000
<i>Total non-current assets</i>		364,897,014	375,103,385
<i>Current Assets</i>			
Morabaha/Musharaka			
receivables-secured	15	159,320,497	150,039,060
Short term investments	16	107,396,243	39,981,789
Advances	17	1,422,588	1,661,729
Trade deposits and prepayments	18	14,981,918	15,026,617
Other receivables	19	24,533,228	26,961,373
Tax refunds due from government		3,903,578	3,392,847
Bank balances	20	9,889,496	49,575,019
<i>Total current assets</i>		321,447,548	286,638,434
<i>Total Assets</i>		686,344,562	661,741,819

The annexed notes 1 to 36 form an integral part of these financial statements.

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited



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

	Note	2014 Rupees	Restated 2013 Rupees
<i>Income</i>	21	46,224,523	16,621,402
<i>Expenditures</i>			
Operating expenses	22	(18,425,749)	(25,319,914)
Financial charges	23	(5,695)	(9,563)
		(18,431,444)	(25,329,477)
Operating profit		27,793,079	(8,708,075)
Other income	24	713,980	731,770
Extra Ordinary Item		-	36,368,860
		28,507,059	28,392,555
Management fee		(2,850,700)	-
Service Sales Tax on management remuneration		(456,112)	-
		25,200,247	28,392,555
Provision for Worker Welfare Fund		(504,005)	-
Profit before taxation		24,696,242	28,392,555
Taxation - current	25	-	-
<i>Profit for the year</i>		24,696,242	28,392,555
Earnings per certificate - basic and diluted	26	0.471	0.541

The annexed notes 1 to 36 form an integral part of these financial statements.

FIRST EQUITY MODARABA

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

STATEMENT OF OTHER COMPREHENSIVE INCOME *Page 19*
FOR THE YEAR ENDED JUNE 30, 2014

	2014	Restated
	Rupees	2013 Rupees
<i>Profit for the year</i>	24,696,242	28,392,555
Other comprehensive income		
Items that will be reclassified to profit & loss account on disposal		
Unrealized (loss)/gain on remeasurement of investments	(10,787,319)	9,911,495
Gain realized on disposal of investments	4,992,048	25,881,404
	(5,795,271)	35,792,899
Items that will not be reclassified to profit & loss account		
Remeasurement of defined benefit liability	355,591	236,322
Other comprehensive income	(5,439,680)	36,029,221
Total comprehensive income for the year	19,256,562	64,421,776

The annexed notes 1 to 36 form an integral part of these financial statements.

Adil A. Ghaffar
 Chief Executive Officer
 Premier Financial
 Services (Private) Limited

Zahid Bashir
 Director
 Premier Financial
 Services (Private) Limited

Nadeem Maqbool
 Director
 Premier Financial
 Services (Private) Limited



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

	Note	2014 Rupees	Restated 2013 Rupees
<i>Cash flows from operating activities</i>			
Profit before taxation		24,696,242	28,392,555
<i>Adjustments for:</i>			
Depreciation	11	1,651,506	1,661,456
Provision for gratuity	8	351,700	496,608
Adjustment of intangible asset		-	(36,368,860)
Loss on sale of fixed asset		34,844	-
Impairment		-	6,853,737
Dividend income	20	(3,789,318)	(3,806,611)
		(1,751,268)	(31,163,670)
Cash generated from / (used in) operations before working capital changes		22,944,974	(2,771,115)
Working Capital changes			
Decrease/(increase) in operating assets			
Morabaha/Musharaka receivables-secured		(9,281,437)	(12,417,461)
Advances		(271,590)	(14,750)
Trade deposits and prepayments		44,699	(179,398)
Other receivables		2,445,945	(818,608)
Increase/(decrease) in operating liabilities			
Creditors, accrued and other liabilities		5,918,398	(2,645,900)
		(1,143,985)	(16,076,117)
Staff retirement benefit-gratuity paid		(531,875)	-
Dividend paid		(36,451)	(79,644)
Taxes paid / adjusted		(2,051,150)	(510,732)
<i>Net cash (used in) / generated from operating activities</i>		21,232,663	(19,437,608)
Cash flows from investing activities			
Investments		(64,387,724)	33,184,592
Dividend received		3,771,518	3,806,611
Purchase of tangible assets		(301,980)	(1,763,134)
<i>Net cash (used in) generated from investing activities</i>		(60,918,186)	35,228,069
Net (decrease) / increase in cash and cash equivalents		(39,685,523)	15,790,461
Cash and cash equivalents at beginning of the year		49,575,019	33,784,558
Cash and cash equivalents at the end of the year	19	9,889,496	49,575,019

The annexed notes 1 to 36 form an integral part of these financial statements.

FIRST EQUITY MODARABA

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014**

Page 21

	Certificate Capital	Statutory reserve*	Certificate premium account	General reserve	Accumulated loss	Total reserves	Remeasurement of defined benefit liability	Unrealized loss on remeasurement of available for sale investments	Total
	Rupees								
Balance as at June 30, 2012 (restated)	524,400,000	137,691,162	131,100,000	27,120,000	(214,300,399)	81,610,763	223,332	(43,147,595)	563,086,500
Profit for the year	-	-	-	-	28,392,555	28,392,555	-	-	28,392,555
Other Comprehensive income for the year	-	-	-	-	-	-	236,322	35,792,899	36,029,221
Transfer to statutory reserve	-	5,725,775	-	-	(5,725,775)	-	-	-	-
Balance as at June 30, 2013 (restated)	524,400,000	143,416,937	131,100,000	27,120,000	(191,633,619)	110,003,318	459,654	(7,354,696)	627,508,276
Profit for the year	-	-	-	-	24,696,242	24,696,242	-	-	24,696,242
Other Comprehensive income for the year	-	-	-	-	-	-	355,591	(5,795,271)	(5,439,680)
Transfer to statutory reserve	-	4,939,250	-	-	(4,939,250)	-	-	-	-
Balance as at June 30, 2014	524,400,000	148,356,187	131,100,000	27,120,000	(171,876,627)	134,699,560	815,245	(13,149,967)	646,764,838

* In accordance with the Prudential Regulations for Modarabas, the Modaraba is required to transfer an amount not less than 20% and not more than 50% of its after tax profits to statutory reserve until the reserve funds equals the paid-up capital. Thereafter, a sum not less than 5% of the after tax profits is required to be transferred to the statutory reserve.

The annexed notes 1 to 36 form an integral part of these financial statements.

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited



1. *Legal status and nature of business*

First Equity Modaraba (the Modaraba) was formed in 1991 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Premier Financial Services (Private) Limited (the Modaraba Management Company), a company incorporated in Pakistan.

The Modaraba is a perpetual, multipurpose modaraba and is able to undertake a variety of fund and fee based activities. These include trading, manufacturing, equity investment and their financing and facilitation. The Modaraba is a member of the Karachi and Islamabad stock exchanges of Pakistan and is currently operating its brokerage activities in Karachi Stock Exchange.

The Modaraba is listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Modaraba is situated at B-1004, 10th floor, Lakson Square Building 3, Sarwar Shaheed Road, Karachi. The Modaraba is holding Equity Textiles Limited as a wholly owned subsidiary company.

2. *Statement of compliance*

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

2.2 The Securities and Exchange Commission of Pakistan (SECP) has issued directive (vide SRO 865 (I) / 2005) that Islamic Financial Accounting Standard 1 (IFAS-1) shall be followed in preparation of the financial statement by Companies and Modarabas while accounting for Morabaha transactions as defined by said Standard. The Modaraba has adopted the above said Standard.

2.3 The Securities and Exchange Commission of Pakistan (SECP) has issued directive (vide SRO 431 (I) / 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statement by Companies and Modarabas while accounting for Ijarah (Lease) transactions as defined by said Standard. The Modaraba has adopted the above said Standard.

2.4 The Securities and Exchange Commission of Pakistan (SECP) vide circular No. 10 of 2004 dated February 13, 2004 has deferred the application of IAS 17 "Leases" on modarabas till further orders.

FIRST EQUITY MODARABA

2.5 **New standards, interpretations and amendments to published approved accounting standards**

2.5.1 **Standards, amendments or interpretations which became effective during the year**

During the year, certain amendments to Standards or new interpretations became effective. However, the amendments or interpretations did not have any material effect on the financial statements of the modaraba.

2.5.2 **Amendments 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 as mentioned below against the respective

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

Page 23

standard or interpretation:

		Effective date (annual periods beginning on or after)
IFRS 9	Financial Instruments - Reissue to include requirements for the classification and measurement of financial liabilities and incorporating existing derecognition requirements.	January 01, 2015
IFRS 9	Financial Instruments- Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosure	January 01, 2015
IAS 32	Financial Instruments: Presentation - Amendments relating to the offsetting of assets and liabilities	January 01, 2014
IAS 36	Impairment of Assets - Amendments arising from Recoverable Amount Disclosures for Non Financial Assets Asset, Minimum Funding Requirements and their Interaction	January 01, 2014
IAS 39	Financial Instruments; Recognition and Measurements - Amendments arising for the novations of derivatives	January 01, 2014

2.5.3 Standards or interpretation not yet effective

The following International Financial Reporting Standards or Interpretations issued by IASB would be effective from the dates mentioned below against the respective standard or interpretation:

IFRS 10	Consolidated Financial statements	January 1, 2015
IFRS 11	Joint arrangements	January 1, 2015
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2015
IFRS 13	Fair Value Measurement	January 1, 2015
IAS 28	Investment in Associates and Joint Ventures	January 1, 2015

The Modaraba expects that the adoption of the above amendments and interpretations of the standards will not affect the Modaraba's financial statement in the period of initial application.

3 Basis of measurement

- 3.1 These financial statements have been prepared under the historical cost convention except for certain financial assets which are stated at fair value.
- 3.2 These financial statements have been prepared under the accrual basis of accounting except for cash flow information.

4 Use of estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical



experience, including expectations of future events that are believed to be reasonable under circumstances. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial estimates are as follows:

	Note
a) Useful life of depreciable assets/amortizable assets	5.1&5.2
b) Impairment of assets	5.1.2&5.3.1
c) Classification of investments	5.4
d) Income tax	5.6
e) Provision for staff gratuity	5.8
f) Provision for non performing assets	5.21

5. *Significant accounting policies*

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 Fixed assets

5.1.1 Tangible

Fixed assets are stated at cost less accumulated depreciation and identified impairment loss, if any.

Depreciation is charged to income applying the straight line method whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged at rates stated in note 11.

Depreciation on additions is charged from the month during which the asset is put to use. For disposals during the year, depreciation is charged up to the month preceding the month of disposal.

The assets' residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Expenditure incurred subsequent to the initial acquisition of assets are capitalised only when it meets the recognition criteria. The profit or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

The Modaraba assesses at each balance sheet date whether there is any indication that fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amounts, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful lives.

5.1.2 Intangible

Intangible assets are stated at cost less impairment, if any. The carrying amount is reviewed at each balance sheet date to assess whether it is in excess of its recoverable amount and where the carrying value exceeds estimated recoverable amount, it is written down to its estimated recoverable amount.

5.2 Investment property

Property held to earn rentals or for capital appreciation or for both is classified as investment property. The investment property of the Modaraba comprises of office premises and is valued using the cost method i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on office premises is charged to profit and loss account on the straight line method so as to write off the depreciable amount of office premises over its estimated useful life at the rate defined in note # 13. Depreciation on additions to investment property is charged from the month in which a property is acquired or capitalized while no depreciation is charged for the month in which the property is disposed off.

The Modaraba assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts exceed the respective recoverable amount, assets are written down to their recoverable amount and the resulting impairment loss is recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense

5.3 Deferred cost and amortization

The deferred cost is written off over a period not exceeding five years in accordance with the requirements of third schedule of Modaraba Companies and Modaraba Rules, 1981.

5.4 Financial instruments

Financial assets and financial liabilities are recognised when the Modaraba becomes a party to the contractual provisions of the financial instrument.

Initial recognition

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

All regular way of purchases and sale of financial instruments are recognized/derecognized on the trade date.

Subsequent measurement

Financial assets and financial liabilities are measured subsequently as described below.



5.4.1 Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held to maturity (the Modaraba does not have any such investments).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Following financial assets fall into this category of financial instruments:

- Deposits
- Advances
- Other receivables
- Cash and cash equivalents

Financial assets at fair value through profit or loss

Investment which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as 'financial assets at fair value through profit or loss'.

Financial assets in this category are measured at fair value with gains or losses recognised in profit and loss account. These investments are marked to market and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair value of these investments are taken to the profit and loss account for the year.

Available for sale financial assets

Investments intended to be held for 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 financial assets'. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale financial assets or are not classified as (a) loans and receivables (b) held to maturity investments (c) financial assets at fair value through profit or loss. Subsequent to initial recognition these investments are marked to market using the closing market rate and are carried on the balance sheet at fair value. Surplus/Deficit arising from re-measurement are taken to comprehensive income until the investments are sold/disposed-off or until the investments are determined to be impaired, at which time, cumulative surplus or deficit previously reported in the comprehensive income is included in the current year's profit and loss account.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured are measured at cost.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Musharika and morahaba receivables considered doubtful are provided for in accordance with the requirements of the Prudential Regulations for Modarabas.

An impairment loss on available for sale financial asset -equity instruments is reversed only on the disposal of financial asset. Reversal of provision on musharika and morahaba receivables are reversed in accordance with Prudential Regulations for Modaraba.

Derecognition of financial assets

These are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

5.4.2 Financial liabilities

The Modaraba's financial liabilities include unclaimed profit distribution, creditors accrued and other liabilities.

Derecognition of financial liabilities

These are derecognised when they are extinguished, discharged, cancelled or expired.

5.4.3 Investment in subsidiary

Investment in subsidiary is initially recognized at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognized as expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognized in the profit and loss account.

5.5 Revenue recognition

- (a) Income from Morabaha/Musharaka transactions is recognized on the basis of pro-rata accrual of the estimated profit earned during the year.
- (b) Dividend income is recognized when the right to receive dividend is established.
- (c) Brokerage commission and fee income is recognized when accrued.
- (d) Profit on PLS deposits is recognized on an accrual basis.
- (e) Capital gains or lossess arising on sale of investments are taken to income in the period in which they arise.

5.6 Taxation

Current

The charge for taxation is based on taxable income at current rates of taxation after taking into account tax credits and tax rebates available, if any or minimum tax under the provisions of the Income Tax Ordinance, 2001. For items covered under final tax regime, provision is made according to the final tax rate provided in the Income Tax Ordinance, 2001. The income of Modaraba other than trading income is exempt from tax under Clause 100 of Part I of the Second Schedule to the Income Tax Ordinance, 2001. Provided that not less than 90% of its total profits in the year as reduced by the amount transferred to a mandatory reserve, as required under the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 or the rules made thereunder, as are distributed amongst the certificate holders.

Deferred

Deferred tax is recognized using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the tax base. This is recognized on the basis of expected manner of the realization and the settlement of the carrying amount of assets



and liabilities using the tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

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

However, deferred tax is not accounted for as the management believes that the temporary differences will not reverse in the foreseeable future.

5.7 Foreign currency translation

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak rupees at exchange rate prevailing at the date of transaction. All non-monetary items are translated into rupees at exchange rate prevailing on the date of transaction or on the date when fair values are determined. Exchange differences are included in income currently.

5.8 Retirement benefits

The Modaraba operates an Unfunded Gratuity for its permanent employees who complete the qualifying period of service. Provision has been made in accordance with actuarial recommendations using the Projected Unit Credit Method. The results of current valuation are summarized in Note 8 of this financial statement. Actuarial gains / losses are recognized over the average lives of the employees.

5.9 Offsetting of financial assets and financial liabilities

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

5.10 Provisions

Provisions are recognized in the balance sheet when the Modaraba has a legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

5.11 Profit distribution to certificates holders

Profit distribution to certificates holders is recognized as liability in the period in which such distribution is announced.

5.12 Impairment

The carrying amount of Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impaired losses are recognized in the profit and loss account.

5.13 Segment reporting

A segment is a distinguishable component of the Modaraba that is engaged in business activities from which the Modaraba earns revenues and incur expenses and its results are regularly reviewed by the

Modaraba's Chief Operating Decision Maker to make decision about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each segment.

Based on internal management reporting structure, services provided and products produced and sold, the Modaraba is organized into the following four operating segments:

- Musharaka facility
- Brokerage operation
- Capital market
- Others

Management monitors the operating results of above mentioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

5.14 Related party transactions

All transactions with related party, if any, are recorded at an arm's length basis.

5.15 Cash and cash equivalents

For the purposes of cash flow statement, Cash and cash equivalents comprise cash in hand and cash with banks.

5.16 Functional and reporting currency

Items include in the financial statements are measured using the currency of primary economic environment in which the Modaraba operates. The financial statements are presented in Pakistani Rupees, which is the Modaraba's functional and presentation currency.

5.17 Capital Risk Management

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

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

5.18 Change in Accounting Policy

Adoption of amendments in IAS 19 'Employee Benefits'

IAS 19 'Employee Benefits' (revised 2011) which become effective for the annual periods commencing on or after January 01, 2013, amends the accounting for the defined benefit plan. The revised standard has been applied retrospectively in accordance with the transition provisions of the said standard and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The impact of adaption of IAS 19 (revised 2011) has been in the following areas:

- I) The standard requires that all actuarial gains /loss should be recognized immediately in other comprehensive income (OCI).
- II) The standard has also removed the option of Corridor approach and the standard requires immediate recognition of past service cost in profit and loss statement. There is no impact of these requirements in the current year as Modaraba has not opted for corridor approach neither it has unrecognized past service costs at the time of adoption of the said standard.



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

5.18.1 The quantitative impacts arising from amendments in IAS 19 (revised 2011) on the items of financial statements are as follows:

	2014 Rupees	2013 Rupees	2012 Rupees
<i>Impact on balance sheet:</i>			
Decrease in reserves	351,700	236,322	223,332
Increase in remeasurement of defined benefit liability	355,591	236,322	223,332
<i>Impact on profit & loss account:</i>			
Increase in salaries, allowances and benefits-gratuity expense	351,700	236,322	223,332
<i>Impact on other comprehensive income:</i>			
Increase in gain on remeasurement of defined benefit liability	351,700	236,322	223,332
<i>Impact on cash flow statement:</i>			
Decrease in profit before taxation	351,700	236,322	223,332
Increase in adjustments relating to provision for gratuity	351,700	236,322	223,332
<i>Impact on statement of changes in equity:</i>			
Increase in unappropriated losses/ decrease in profit	351,700	236,322	223,332
Increase in remeasurement of defined benefit liability	351,700	236,322	223,332

5.18.2 The Modaraba's policy for Staff Retirement Benefits and disclosure relating thereto have been amended to comply with the requirements of IAS 19 (revised 2011).

6: *Certificate capital*

	2013 No. of Certificate	2014 No. of Certificate		2014 Rupees	2013 Rupees
FIRST EQUITY MODARABA			Modaraba certificates of Rs. 10 each fully paid-up in cash	462,220,000	462,220,000
	46,220,000	46,220,000	Modaraba certificates of Rs. 10 each issued as fully paid-up bonus certificates	6,220,000	62,220,000
				62,220,000	62,220,000
	<u>52,440,000</u>	<u>52,440,000</u>		<u>524,400,000</u>	<u>524,400,000</u>

6.1 Certificates held by management company 5,532,296 (2013: 5,532,296)
Certificates held by associated companies and undertakings 1,126,412 (2013: 489,000).

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

Page 31

7. *Reserves*

	Capital Reserve			Revenue Reserve			(Restated)	
	Statutory* reserve	Certificate Premium Account	Total Capital Reserve	Accumulated loss	General reserve	Total Revenue Reserves	Total Reserves 2014	Total Reserves 2013
Opening balance	143,416,937	131,100,000	274,516,937	(191,633,619)	27,120,000	(164,513,619)	110,003,318	81,610,763
Transfer from profit and loss account	-	-	-	24,696,242	-	24,696,242	24,696,242	28,392,555
Transfer to statutory reserve	4,939,250	-	4,939,250	(4,939,250)	-	(4,939,250)	-	-
Closing balance	148,356,187	131,100,000	279,456,187	(171,876,627)	27,120,000	(144,756,627)	134,699,560	110,003,318

— Rupees —

* In accordance with the Prudential Regulations for Modarabas, the modaraba is required to transfer an amount not less than 20% and not more than 50% of its after tax profits to statutory reserve until the reserve funds equals the paid-up capital. Thereafter, a sum not less than 5% of the after tax profits is required to be transferred to the statutory reserve.



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

	Note	2014 Rupees	2013 Rupees			
8. <i>Deferred liabilities</i>						
Staff gratuity	8.1	1,556,255	2,092,021			
8.1 General description						
Employees, after completion of one year of service, shall be entitled for gratuity on leaving the company's employment. Gratuity shall be paid on the basis of one month's last drawn monthly gross salary for each completed year of service.						
Annual provision is based on actuarial valuation, which was carried out as at June 30, 2014 on August 21, 2014 using the Projected Unit Method.						
8.2 Amount recognized in the balance sheet are as follow:						
Present value of defined benefit obligation		1,556,255	2,092,021			
Fair value of plan assets		-	-			
Total defined benefit		1,556,255	2,092,021			
8.3 Movement in defined benefit obligation						
Opening balance		2,092,021	1,831,735			
Charge for the defined benefit plan						
Current service cost		141,700	267,641			
Net interest		210,000	228,967			
	8.4	351,700	496,608			
Remeasurement of defined benefit liability						
Due to financial assumptions		(179,422)	-			
Due to demographic assumptions		1,650	-			
Due to experience adjustments		(177,819)	(236,322)			
		(355,591)	(236,322)			
Benefits paid		(531,875)	-			
Closing balance		1,556,255	2,092,021			
8.4 Actuarial assumptions		Rate per annum				
Valuation discount rate		13.25%	11.50%			
Salary increase rate -Short term (period of next one year)		0.00%	10.50%			
Salary increase rate- long term		12.25%	10.50%			
8.5 Sensitivity analysis of principal assumptions						
<i>Impact on obligation of change in assumptions</i>						
	Change in assumption	Increase in obligation	Decrease in obligation			
Discount rate	1%	1,623,021	1,495,006			
Salary Increase rate	1%	1,624,560	1,492,527			
Withdrawal rate	1%	1,556,496	1,556,012			
8.6 Expected maturity analysis of undiscounted defined obligation for the gratuity scheme is as follows:						
As at June 30, 2014	Year 1	Year 2	Year 3	Year 4	Year 5	Over 5 Year
Gratuity	902,214	15,196	15,972	73,892	15,284	2,200,849

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

Page 33

- 8.7 Following risks are associated with Defined benefit plans:
Longevity risks: The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.
Salary increase risk: The most common type of retirement benefit is one where the benefit is linked with the final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.
Withdrawal risk: The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of liability can go either way.
- 8.8 The disclosure made in notes 8.5 to 8.7 are based on the information included in the actuarial valuation report of the Modaraba as of June 30, 2014.

	Note	2014 Rupees	2013 Rupees
<i>9. Creditors, accrued and other liabilities</i>			
Payable to clients		3,797,346	3,833,231
Accrued expenses		1,301,347	1,201,919
Charity payable	9.1	255,420	227,393
Other liabilities	9.2	6,502,588	875,760
		11,856,701	6,138,303

<i>9.1 Charity Payable - Reconciliation</i>			
Opening balance		227,393	-
Addition		28,027	227,393
Disbursement		-	-
Closing Balance		255,420	227,393

- 9.2 This includes Rs 5,754,180 (2013 : Rs 127,352) payable to Premier Financial Services (Private) Limited.
- 10. Contingencies and commitments*
 Modaraba has filed a suit against Samba Bank Ltd for the recovery of deposit amounting Rs 21 million alongwith mark up. The matter is pending before the Honourable High Court of Sindh. Management of the Modaraba and its legal advisor are of the opinion that modaraba has reasonable chance and it appear unlikely that modaraba may suffer any loss from the same.



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

FIRST EQUITY MODARABA

11. Tangible

Particulars	2014					Book Value as at June 30, 2014 Rupees	Rate %
	As at July 1, 2013 Rupees	Cost Addition/ (Deletion) *Transfer Rupees	As at June 30, 2014 Rupees	As at July 1, 2013 Rupees	Accumulated Depreciation Charged during the year / (transfer) / (disposal) Rupees		
Office Premises	23,204,134	(2,400,000)*	20,804,134	5,443,385	1,150,207 (318,333)*	14,528,875	5
Furniture & Fixtures	196,509	-	196,509	196,500	-	9	20
Motor Vehicles	5,434,438	(899,000)	4,535,438	4,135,389	389,821 (898,999)	909,227	20
Computers	578,255	73,800	652,055	545,812	52,257	53,986	33
Office Equipment	997,005	228,180 (169,500)	1,055,685	855,600	49,219 (134,654)	285,520	20
2014	30,410,341	(3,166,520)	27,243,821	11,176,686	289,518	15,777,617	

Particulars	2013					Book Value as at June 30, 2013 Rupees	Rate %
	As at July 1, 2012 Rupees	Cost Addition/ (Deletion) *Transfer Rupees	As at June 30, 2013 Rupees	As at July 1, 2012 Rupees	Accumulated Depreciation Charged during the year Rupees		
Office Premises	21,470,000	1,734,134	23,204,134	4,307,375	1,136,010	17,760,749	5
Furniture & Fixtures	196,509	-	196,509	196,500	-	9	20
Motor Vehicles	5,434,438	-	5,434,438	3,745,568	389,821	1,299,049	20
Computers	578,255	-	578,255	470,253	75,559	32,443	33
Office Equipment	968,005	29,000	997,005	795,534	60,066	141,405	20
2013	28,647,207	1,763,134	30,410,341	9,515,230	1,661,456	19,233,655	

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

Page 35

	Note	2014	2013
		Rupees	Rupees
12. <i>Intangible</i>		19,000,000	19,000,000

This represents Trading Right Entitlement Certificate (TREC) received from Karachi and Islamabad Stock Exchange Limited after the demutualization.

In Stock Exchange (Corporatization, Demutualization and Integration) Act 2012 the prerequisite for TREC holder to register as Broker should be a company as defined in Companies Ordinance, 1984. Our submission to SECP that Modaraba although not a company but being regulated under its auspices and a corporate legal entity, has not been accepted by the Regulators. Thereafter, we have requested our prime regulator, Registrar Modaraba to allow us to create a wholly owned subsidiary enabling us to protect and safe guard assets of the modaraba. The Registrar Modaraba did not understand our challenge and concern, we have left with no other option but to file a suit in the Honorable Sindh High Court and got a stay order against the cancellation of Broker registration.

13. *Investment Property*

Particulars	2014							Book Value as at June 30, 2014 Rupees	Rate %
	Cost			Accumulated Depreciation					
	As at July 1, 2013 Rupees	Transfer	As at June 30, 2014 Rupees	Transferred from tangible asset Rupees	Charged during the year Rupees	As at June 30, 2014 Rupees			
Office Premises	-	2,400,000	2,400,000	318,333	10,000	328,333	2,071,667	5	

During the year, the Modaraba has transferred one of its office premises to investment property. Modaraba will generate rental income on this property from next year.

Fair value of the investment property, based on the valuation carried out by Maricon Consultants (Private) Limited, as at June 30, 2014 is Rs. 15 million.

14. *Long term investments*

Investment in subsidiary	14.1	250,000,000	250,000,000
		250,000,000	250,000,000
Investment classified as available-for-sale financial assets			
Listed securities	14.2.1	2,167,869	10,989,869
Unlisted securities	14.2.2	72,219,861	72,219,861
		74,387,730	83,209,730
		324,387,730	333,209,730

14.1 *Investment in subsidiary*

The holdings are in ordinary shares of Rs. 10 each.

	2013	2014		2014	2013
	Number	Number		Rupees	Rupees
25,000,000		25,000,000	Equity Textile Limited 14.1.1	250,000,000	250,000,000



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

14.1.1 Equity Textiles Limited is a wholly owned subsidiary of the Modaraba. Net assets value per share of Equity Textiles Limited is Rs. 24.66 (2013: Rs. 21.55) as per audited financial statements as at June 30, 2014.

14.2 Investment classified as available-for-sale financial assets

14.2.1 Listed securities

The holding is in ordinary shares/units of Rs. 10 each of listed companies, unless otherwise stated:

2013 Number	2014 Number		Note	2014 Rupees	2013 Rupees
		Open-end mutual funds			
11,968	11,968	Dawood Income Fund (Unit of Rs. 100 each)	14.2.1.1	847,188	847,188
		Chemicals			
166,000		- Fauji Fertilizer Bin Qasim Limited			- 6,231,640
6,645		- ICI Pakistan Limited			- 1,107,425
9,400		- Sitara Peroxide Limited			- 119,662
		Construction and materials			
		Maple Leaf Cement Factory Limited			- 153,510
		Automobile and parts			
1,043		- Indus Motor Company Limited			- 324,373
		Fixed line telecommunication			
50,000	42,000	Pakistan Telecommunication Company Limited		1,069,740	1,109,500
		Gas water and multiutilities			
42,155		Sui Northern Gas Pipelines Limited			- 845,630
		Financial services			
22,000	22,000	Javed Omer Vohra & Company Limited	14.2.1.2	41,800	41,800
		Equity investment instruments			
735,000	735,000	First Dawood Mutual Fund	14.2.1.1	209,141	209,141
			& 14.2.1.2		
				2,167,869	10,989,869

14.2.1.1 There was no trading on these scrips on June 30, 2014. Their last quoted/traded value is taken for valuation.

14.2.1.2 Investment was made at inception and the carrying value was Rs 5,145,000. SECP took action against the management and as a result the Trustee (Central Depository Company of Pakistan Ltd) sold its investment and made the partial payment to share holders. The Modaraba received Rs 4,935,859 in this matter.

14.2.2 Unlisted securities

The holding is in ordinary shares of Rs. 10 each.

50,000	50,000	Sapphire Power Generation Ltd	14.2.2.1	1,800,000	1,800,000
4,007,383	4,007,383	Karachi Stock Exchange Ltd	14.2.2.2	40,073,830	40,073,830
3,034,603	3,034,603	Islamabad Stock Exchange Ltd	14.2.2.2	30,346,030	30,346,030
78,150	78,150	Callmate Telips Telecom Ltd	14.2.2.3	1	1
				72,219,861	72,219,861

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

Page 37

- 14.2.2.1 Net assets value per share of Sapphire Power Generation Limited is Rs. 85.67 (2012: Rs. 72.84) as per financial statements as at June 30, 2013 audited by Riaz Ahmad, Saqib, Gohar & Company, Chartered Accountants.
- 14.2.2.2 Net assets value per share of Karachi Stock Exchange Ltd and Islamabad Stock Exchange Ltd is Rs. 10.08 and Rs 10.68 as per financial statements as at June 30, 2013 audited by Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants and BDO Ebrahim & Company, Chartered Accountants respectively.
- 14.2.2.3 The company is in the process of winding up, hence Net assets value per share is not available.

	Note	2014 Rupees	2013 Rupees
<i>15. Morabaha/Musharaka receivables-secured</i>			
Musharaka - considered good	15.2	159,320,497	150,039,060
Morabaha - considered doubtful		17,380,055	17,380,055
		176,700,552	167,419,115
Provision for non performing assets		(17,380,055)	(17,380,055)
		159,320,497	150,039,060

- 15.1 The Modaraba has entered into Morabaha and Musharaka agreements under which the Modaraba has provided funds for working capital requirements on profit and loss sharing basis. These are secured against pledge, hypothecation of stock and receivables, demand promissory notes, personal guarantee of directors / proprietors and mortgage of property. Expected rate of profit on Musharaka transactions during the year range between 12% to 16 % per annum (2013: 12% to 16% per annum).
- 15.2 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.

16 Short term investments

- 16.1 Investment classified as financial asset at fair value through profit or loss
- | | | | | |
|-------|--|------|-------------|------------|
| | | 16.1 | 107,396,243 | 39,981,789 |
| <hr/> | | | | |
| 16.1 | Listed securities | | | |
| | The holding is in ordinary shares/units of Rs. 10 each of listed companies, unless otherwise stated: | | | |

	2013 Number	2014 Number	2014 Rupees	2013 Rupees
Oil and Gas				
-	58,400	Attock Refinery Ltd	12,397,736	-
-	24,800	Mari Petroleum Company Ltd	9,261,064	-
-	19,800	National Refinery Ltd	4,264,326	-
-	57,800	Pakistan Petroleum Ltd	12,966,852	-
3,720		- Pakistan State Oil Company Ltd	-	1,191,814
10,000	21,900	Shell Pakistan Ltd	6,050,532	1,431,700
Foods				
47,500	1,000	Engro Foods Ltd	102,530	6,686,575
50,000	-	Quice Food Industries Ltd	-	432,000
Chemicals				
-	4,100	AkzoNobel Pakistan Ltd	692,736	-



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

2013 Number	2014 Number		2014 Rupees	2013 Rupees
140,000	40,500	Lotte Chemical Pakistan PTA Limited	291,195	1,066,800
45,000	-	- Sitara Peroxide Ltd	-	572,850
25,000	-	- Ghani Glass Ltd	-	624,500
		Construction and materials		
-	10,500	D.G. Khan Cement Company Ltd	923,580	-
-	75,500	Fauji Cement Company Ltd	1,452,620	-
-	14,500	Cherat Cement Company Ltd	949,170	-
36,000	54,000	Fecto Cement Ltd	2,700,000	1,728,360
140,000	-	- Fly Cement Ltd	-	617,400
225,500	643,500	Lafarge Pakistan Cement Ltd	10,283,130	1,914,495
66,000	-	- Maple Leaf Cement Factory Ltd	-	1,447,380
-	50,000	Pioneer Cement Ltd	2,333,000	-
		Personal goods		
-	38,300	Nishat Mills Limited	4,286,536	-
		Household goods		
-	16,500	Tariq Glass Industries Ltd	518,100	-
		Pharma and biotech		
39,200	-	- IBL Healthcare Limited	-	1,538,600
47,000	20,400	The Searle Pakistan Limited	3,560,616	3,712,060
30,000	-	- Glaxosmithkline Pakistan Ltd	-	3,639,900
		Engineering		
1,967	-	- Millat Tractors Ltd	-	1,032,655
		Automobile and parts		
-	79,000	Honda Atlas Car (Pakistan) Ltd	7,354,110	-
30,000	-	The General Tyre & Rubber Company Pakistan Ltd	-	1,266,000
		Fixed line telecommunication		
-	525,500	Pakistan Telecommunication Company Limited	13,384,485	-
-	98,000	Netsol Technologies Ltd	2,870,420	-
300,000	-	- TeleCard Ltd	-	1,554,000
632,500	-	- Worldcall Telecom Limited	-	1,897,500
		Electricity		
-	1,089,500	K-Electric Limited	9,249,855	-
		Gas water and multiutilities		
352,000	-	- Sui Northern Gas Pipelines Limited	-	7,061,120
29,000	-	- Sui Southern Gas Limited	-	566,080
		Banks		
-	152,500	Bank Islami Pakistan Ltd	1,503,650	-
			107,396,243	39,981,789

FIRST EQUITY MODARABA

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

Page 39

	Note	2014 Rupees	2013 Rupees
<i>17. Advances - considered good</i>			
Employee	17.1	710,856	1,149,987
Advance tax		711,732	510,731
Other		-	1,011
		1,422,588	1,661,729

17.1 The maximum aggregate amount due from employees at the end of any month during the year was Rs.1,136,358 (2013: Rs. 1,261,737). These are secured against the property documents retained by the Modaraba.

	Note	2014 Rupees	2013 Rupees
<i>18. Trade deposits and prepayments</i>			
Deposits		14,767,556	14,767,556
Prepayments		214,362	259,061
		14,981,918	15,026,617

<i>19. Other receivables</i>			
Sale proceeds of investments		327,979	371,226
Receivable from clients	19.1 & 19.2	23,226,360	25,971,457
Dividend		17,800	-
Others	19.2	961,089	618,690
		24,533,228	26,961,373

19.1 Receivable from clients

Considered good		23,226,360	25,971,457
Considered doubtful		12,500,000	12,500,000
		35,726,360	38,471,457
Less: Provision for doubtful debts		(12,500,000)	(12,500,000)
		23,226,360	25,971,457

19.2 Receivable from clients and others include receivable from related parties amounting to Rs. 26,817 (2013: Rs. 259,158).

	2014 Rupees	2013 Rupees
<i>20. Bank balance</i>		
-in current accounts	1,795,379	1,748,851
-in saving accounts	319,212	156,927
-in Islamic bank investment accounts	7,774,905	47,669,241
	9,889,496	49,575,019



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

21. *Income*

Profit on musharaka	18,162,477	17,811,866
Brokerage commission	2,473,689	1,379,972
Capital gain / (loss)	21,799,039	(6,715,718)
Dividend	3,789,318	3,806,611
Commission and fees	-	338,671
	46,224,523	16,621,402

	Note	2014 Rupees	Restated 2013 Rupees
<i>22. Operating expenses</i>			
Salaries, allowances and benefits	22.1	4,360,627	4,563,369
Traveling, conveyance and entertainment		634,018	690,711
Telephone and postage		265,587	485,326
Electricity		465,274	477,302
Insurance		279,212	240,438
Printing, stationery and advertising		287,696	59,087
Fees and subscriptions		1,061,422	1,063,154
Vehicle running and maintenance		1,608,570	1,528,596
Depreciation	11	1,651,506	1,661,456
Facilities and services		4,508,452	4,344,996
Repair and maintenance		1,000,378	954,962
Investment Write Off		-	6,853,737
Annual Review Meeting		62,500	28,490
Auditors' remuneration	22.3	318,145	268,579
Legal and professional		405,919	1,545,184
Training and development		1,000	131,000
Shariah Advisor		131,250	140,000
KSE & SECP Charges		360,946	159,405
Withholding & CVT tax		951,576	58,453
Others		71,671	65,669
		18,425,749	25,319,914

22.1 *Remuneration of officers and other employees*

The aggregate amount charged in the financial statements for remuneration, including benefits to 10 (2013 : 10) employees of the modaraba is:

FIRST EQUITY MODARABA

	2014		2013	
	Officers	Other employees	Officers	Other employees
	----- Rupees -----		----- Rupees -----	
Salaries and allowances	1,932,000	1,412,765	1,932,000	1,412,765
Gratuity and leave fare	303,430	186,455	244,245	115,791
Expenses reimbursed:				
- Medical	86,105	142,750	116,791	203,005
	2,321,535	1,741,970	2,293,036	1,731,561

27. *Risk management policies and objectives*

Financial risk management

The board of directors of the Modaraba Management Company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework. The Modaraba has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit and concentration risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises 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 the Modaraba's performance to developments affecting a particular industry.

Credit risk of the Modaraba arises principally from the investments, musharaka/morahaba receivables, advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk, the Modaraba has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful for recovery.

Business	2014		2013	
	Rupees	%	Rupees	%
Open-end mutual funds	847,188	0.13	847,188	0.15
Oil and Gas	44,940,510	7.07	2,623,514	0.46
Chemicals	983,931	0.15	9,722,877	1.71
Construction and materials	18,641,500	2.93	5,861,145	1.03
Personal goods	254,804,636	40.08	250,000,000	43.86
Automobile and parts	7,354,110	1.16	2,623,028	0.46
Pharma and biotech	3,560,616	0.56	8,890,560	1.56
Fixed line telecommunication	17,324,645	2.73	4,561,000	0.80
Electricity	11,049,855	1.74	1,800,000	-
Food	102,530	0.02	7,118,575	1.25
Gas water and multiutilities	-	-	10,272,830	1.80
Banks	1,503,650	0.24	-	-
Financial services	41,800	0.01	41,800	0.01
Equity investment instruments	209,141	0.03	209,141	0.04
Stock Exchange	70,419,860	11.08	70,419,860	12.35
Engineering	13,819,560	2.17	13,912,099	2.44
Others	190,098,672	29.90	181,636,881	32.09
	635,702,204	100	570,540,298	100

The Carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

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

Page 43

	2014	2013
	Rupees	Rupees
Investment	431,783,973	373,191,519
Morabaha/Musharaka receivables-secured	159,320,497	150,039,060
Advances-considered good	3,932,588	4,171,729
Trade deposits and prepayments	16,131,918	16,176,617
Other receivables	24,533,228	26,961,373
	635,702,204	570,540,298

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

	2014			Total
	Less than one year	Over one year but less than five years	Over five years	
	----- Rupees -----			
Assets				
Long term investments	-	74,387,730	250,000,000	324,387,730
Morabaha & musharaka receivables	159,320,497	-	-	159,320,497
Short term investments	107,396,243	-	-	107,396,243
Advances	1,422,588	2,510,000	-	3,932,588
Trade deposits	14,767,556	1,150,000	-	15,917,556
Other receivables	24,533,228	-	-	24,533,228
Tax refunds due from government	3,903,578	-	-	3,903,578
Bank balances	9,889,496	-	-	9,889,496
	321,233,186	78,047,730	250,000,000	649,280,916
Liabilities				
Deferred liabilities	-	1,556,255	-	1,556,255
Security Deposit	-	200,000	-	200,000
Creditors, accrued and other liabilities	11,856,701	-	-	11,856,701
Unclaimed profit distribution	25,966,768	-	-	25,966,768
	37,823,469	1,756,255	-	39,579,724
Net balance	283,409,717	76,291,475	250,000,000	609,701,192



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

	2013			Total
	Less than one year	Over one year but less than five years	Over five years	
----- Rupees -----				
Assets				
Long term investments	-	83,209,730	250,000,000	333,209,730
Morabaha & musharaka receivables	150,039,060	-	-	150,039,060
Short term investments	39,981,789	-	-	39,981,789
Advances	1,661,729	2,510,000	-	4,171,729
Trade deposits	14,767,556	1,150,000	-	15,917,556
Other receivables	26,961,373	-	-	26,961,373
Tax refunds due from government	3,392,847	-	-	3,392,847
Bank balances	49,575,019	-	-	49,575,019
	286,379,373	86,869,730	250,000,000	623,249,103
Liabilities				
Deferred liabilities	-	2,092,021	-	2,092,021
Creditors, accrued and other liabilities	6,138,303	-	-	6,138,303
Unclaimed profit distribution	26,003,219	-	-	26,003,219
	32,141,522	2,092,021	-	34,233,542
Net balance	254,237,851	84,777,709	250,000,000	589,015,560

Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a 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.

Operational Risk

Operational Risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Modaraba's operations either internally within the Modaraba or externally at the Modaraba's service providers, and from external; factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Modaraba's activities.

The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the Management Company. This responsibility encompasses the controls in the following areas:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

28. *Fair value of financial instruments*

The Modaraba is of the view that the fair market value of most of the financial assets and financial liabilities are not significantly different from their carrying amounts.

	2014 Rupees	2013 Rupees
28.1 Financial instruments by category		
Financial assets		
loans and receivables		
Morabaha/Musharaka receivables	159,320,497	150,039,060
Advances	3,932,588	3,660,998
Trade deposits	15,917,556	15,917,556
Other receivables	24,533,228	26,961,373
Bank balances	9,889,496	49,575,019
Financial assets at fair value through profit or loss		
Short term investments	107,396,243	39,981,789
<i>Available-for-sale financial assets</i>		
Long term investments	74,387,730	83,209,730
	395,377,338	369,345,525
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
Creditors, accrued and other liabilities	11,856,701	6,138,302
Unclaimed profit distribution	25,966,768	26,003,219
	37,823,469	32,141,521
On balance sheet gap	357,553,869	337,204,004



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

29. *Maturities of assets and liabilities*

The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.

	2014				Total
	Upto one month	Over one month to one year	Over one year to five years	Over five years	
----- Rupees -----					
Assets					
Tangible assets	-	-	-	15,777,617	15,777,617
Intangible assets	-	-	-	19,000,000	19,000,000
Intangible assets	-	-	-	2,071,667	2,071,667
Long term investments	-	-	324,387,730	-	324,387,730
Morabaha & musharaka receivables	21,229,559	138,090,938	-	-	159,320,497
Short term investments	-	107,396,243	-	-	107,396,243
Advances	-	1,422,588	2,510,000	-	3,932,588
Trade deposits and prepayments	150,000	14,831,918	1,150,000	-	16,131,918
Other receivables	-	24,533,228	-	-	24,533,228
Tax refunds due from government	-	3,903,578	-	-	3,903,578
Bank balances	-	9,889,496	-	-	9,889,496
	21,379,559	300,067,989	328,047,730	36,849,284	686,344,562
Liabilities					
Deferred liabilities	-	-	1,556,255	-	1,556,255
Security Deposit	-	-	200,000	-	200,000
Creditors, accrued and other liabilities	4,193,498	7,663,203	-	-	11,856,701
Unclaimed profit distribution	-	25,966,768	-	-	25,966,768
	4,193,498	33,629,971	1,756,255	-	39,579,724
Net balance	17,186,061	266,438,018	326,291,475	36,849,284	646,764,838

	2013				Total
	Upto one month	Over one month to one year	Over one year to five years	Over five years	
----- Rupees -----					
Assets					
Tangible assets	-	-	-	19,233,655	19,233,655
Intangible assets	-	-	-	19,000,000	19,000,000
Long term investments	-	-	333,209,730	-	333,209,730
Morabaha & musharaka receivables	13,912,099	133,442,029	2,684,932	-	150,039,060
Short term investments	-	39,981,789	-	-	39,981,789
Advances	-	1,661,729	2,510,000	-	4,171,729
Trade deposits and prepayments	150,000	14,876,617	1,150,000	-	16,176,617
Other receivables	-	26,961,373	-	-	26,961,373
Tax refunds due from government	-	3,392,847	-	-	3,392,847
Bank balances	-	49,575,019	-	-	49,575,019
	14,062,099	269,891,403	339,554,662	38,233,655	661,741,819
Liabilities					
Deferred liabilities	-	-	2,092,021	-	2,092,021
Creditors, accrued and other liabilities	1,030,377	5,107,925	-	-	6,138,302
Unclaimed profit distribution	-	26,003,219	-	-	26,003,219
	1,030,377	31,111,144	2,092,021	-	34,233,542
Net balance	13,031,722	238,780,259	337,462,641	38,233,655	627,508,277

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

Page 47

30. *Hold/Profit rate risk exposure*

DESCRIPTION	Effective yield / profit risk % age	2014						2014 Total
		Yield / profit bearing maturing		Non yield / profit bearing maturing		Sub-total	Sub-total	
		With 1 year	After 1 year	With 1 year	After 1 year			
Rupees								
Financial assets								
Long term investments		-	74,387,730	74,387,730	-	-	74,387,730	
Morabaha/Musharika receivables	12% to 16%	159,320,497	-	159,320,497	-	-	159,320,497	
Short term investments		107,396,243	-	107,396,243	-	-	107,396,243	
Advances		-	-	-	1,422,588	2,510,000	3,932,588	
Trade deposits		-	-	-	14,767,556	1,150,000	15,917,556	
Other receivables		-	-	-	24,533,228	-	24,533,228	
Bank balances	5% to 7%	8,094,117	-	8,094,117	1,795,379	-	9,889,496	
		274,810,857	74,387,730	349,198,587	42,518,751	3,660,000	395,377,338	
Financial Liabilities								
Creditors, accrued and other liabilities		-	-	-	11,856,701	-	11,856,701	
Unclaimed profit distribution		-	-	-	25,966,768	-	25,966,768	
		-	-	-	37,823,469	-	37,823,469	
On balance sheet gap		274,810,857	74,387,730	349,198,587	4,695,282	3,660,000	357,553,869	

- The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.

- Yield risk is the risk of decline in earning due to adverse movement of the yield curve.

- Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.



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

FIRST EQUITY MODARABA

DESCRIPTION	Effective yield / profit risk % age	2013						2013 Total
		Yield / profit bearing maturing		Non yield / profit bearing maturing		Sub-total	Sub-total	
		With 1 year	After 1 year	With 1 year	After 1 year			
Rupees								
Financial assets								
Long term investments		-	83,209,730	83,209,730	-	-	83,209,730	
Morabaha/Musharika receivables	12% to 20%	150,039,060	2,684,932	152,723,992	-	-	152,723,992	
Short term investments		37,296,857	-	37,296,857	-	-	37,296,857	
Advances		-	-	-	1,661,729	2,510,000	3,660,998	
Trade deposits		-	-	-	14,767,556	1,150,000	15,917,556	
Other receivables		-	-	-	26,961,373	-	26,961,373	
Bank balances	5% to 7%	47,826,168	-	47,826,168	1,748,851	-	49,575,019	
		187,492,844	85,894,662	273,387,506	44,628,778	3,660,000	321,676,284	
Financial Liabilities								
Creditors, accrued and other liabilities		-	-	-	6,138,302	-	6,138,302	
Unclaimed profit distribution		-	-	-	26,003,219	-	26,003,219	
		-	-	-	32,141,521	-	32,141,521	
On balance sheet gap		187,492,844	85,894,662	273,387,506	12,487,257	3,660,000	289,534,763	

- The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.

- Yield risk is the risk of decline in earning due to adverse movement of the yield curve.

- Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.

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

Page 49

31. Segment information

The Modaraba has three primary source of revenue i.e. musharaka facility, brokerage operations and capital market based on the nature of business and related risk associated with each type of business segment which are not deemed by the management to the sufficiently significant to disclose as separate items are reported under others. Segment assets and liabilities included all assets and liabilities related to the segment relevant proportion of the assets and liabilities allocated to the segment on reasonable basis. Segment revenue and expenses included all revenue and expenses related to the segment and relevant proportion of the revenue and expenses allocated to the segment on reasonable basis.

	2014				2013	
	Musharaka facility	Brokerage operation	Capital market	Others	TOTAL	TOTAL
Segment revenues	18,162,477	2,473,689	25,588,357	713,980	46,938,503	17,353,172
Segment result	18,162,477	(3,098,107)	25,588,357	713,980	41,366,707	47,827,302
Unallocated cost						
Operating expenses					(12,859,648)	(12,821,010)
Management fee					(2,850,700)	-
Service sales tax on management remuneration					(456,112)	-
WWF					(504,005)	-
Other charges					-	(6,613,737)
Profit before taxation					24,696,242	28,392,555
Taxation					-	-
Profit / (Loss) for the year					24,696,242	28,392,555
Other information						
Segment assets	159,320,497	45,081,172	109,581,912	-	313,983,581	486,232,944
Unallocated assets	-	-	-	-	372,360,981	175,508,875
Total assets					686,344,562	661,741,819
Segment liabilities	-	3,950,979	-	-	3,950,979	3,833,231
Unallocated liabilities	-	-	-	-	35,628,745	30,400,312
Total liabilities					39,579,724	34,233,543



32. *Transactions with related parties*

The related parties of the Modaraba comprise the Modaraba Management Company, subsidiary company, staff retirement funds, directors of the Modaraba Management Company and key management personnel. Transactions with related parties are entered into at arm's length. Transactions with related parties other than remuneration and benefits to officers and employees under the terms of their employment are as follows:

	2014 Rupees	2013 Rupees
32.1 Balance outstanding at year end		
Modaraba Management Company		
- Current account payable	5,754,180	127,352
Subsidiary company		
- Investment in Equity Textiles Limited	250,000,000	250,000,000
Receivable from associated company	349,099	15,700
Other related parties (other than key management personnel)		
- Deferred liability staff gratuity	1,556,255	2,092,021
- Brokerage house client receivable	26,817	259,158
32.2 Transactions during the year		
Modaraba Management Company		
- remuneration with service sales tax	3,306,812	-
- reimbursement	4,508,452	4,344,996
Other related parties (other than key management personnel)		
- Contribution to staff gratuity fund	351,700	260,286
- Vehicle given to employee at net book value as per service rules	1	-
	Relationship	
Dividend income	Associated company	-
Services acquired	Associated company	247,155
Brokerage commission earned	Associated company	69,704
		31,816

33. *Number of employees*

Total number of employees of the Modaraba as at June 30, 2014 are 8 (2013: 10).

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

Page 51

34. Corresponding Figures

34.1 Figures have been rounded off to the nearest rupee.

35. Authorization for issue

These financial statements were authorized for issue in accordance with a resolution of the Board of Directors on October 09, 2014.

35.1 The Board of Directors of the Management Company has approved dividend at the rate of Re. 0.375 per certificate (2013: nil) for the year ended June 30, 2014, resulting in a total distribution of profit amounting to Rs. 19,665,000 (2013: nil), in its meeting held on October 09, 2014, which is more than 90% of the net profit for the year ended June 30, 2014, after appropriation to the statutory (mandatory) reserve as required under the Modaraba Regulations.

36. General

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

36.2 The corresponding figures, wherever necessary, have been re-arranged /re-classified for the purpose of comparison.

36.3 Prior year figures have been reclassified for the purpose of better presentation and comparison.

Reclassification from	Reclassified to	Amount
Tax refunds due from government	Advances - Advance income tax	510,731
Provision for taxation	Tax refunds due from government	3,772,849

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited



**NOTICE FOR BOOK CLOSURE
& ANNUAL REVIEW MEETING**

*Auditors Report and
Consolidated Financial Statements
of
First Equity Modaraba
and
Equity Textiles Ltd.
for the year ended June 30, 2014*



**AUDITOR'S REPORT TO THE
CERTIFICATE HOLDERS**

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of FIRST EQUITY MODARABA (the Modaraba) and its subsidiary company as at June 30, 2014 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended. We have also expressed separate opinion on the financial statements of Modaraba. The financial statements of subsidiary company were audited by another auditor, whose report has been furnished to us and our opinion, in so far as its relates to the amounts included for the subsidiary company, is based solely on the report of such other auditors who expressed an unqualified opinion.

These consolidated financial statements are the Modaraba Company's [Premier Financial Services (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), Modaraba Companies and Modaraba Rules, 1981 and the Companies Ordinance, 1984. Our responsibility is to express an opinion on these consolidated financial 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 consolidated 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) Management of the Modaraba in the financial statements for the year ended June 30, 2013, had assigned values to Trading Rights Entitlement Certificates (TREC) of Karachi Stock Exchange Limited (KSE) and Islamabad Stock Exchange Limited (ISE) Rs. 15 million and Rs. 4 million respectively that were based on the value assigned by KSE and ISE for base minimum capital requirement purposes applicable to the brokers of the stock exchange and had recognised 4,007,383 shares of KSE and 3,034,603 shares of ISE at their face values of Rs. 10/- each on exchange of membership card thereby the Modaraba recognized gain of Rs. 36.369 million which, in our opinion, was not in accordance with International Accounting Standards and technical opinion of The Institute of Chartered Accountants of Pakistan (ICAP) issued in this respect.

(b) Modaraba has charged unrealised loss of Rs. 10.9 million, in respect of investment classified as financial asset at fair value through profit and loss, in other comprehensive income instead of profit and loss account as required under IAS 39.

Had the Modaraba recognized the intangible asset and shares of KSE and ISE in accordance with the Technical Opinion of ICAP, its equity, intangible asset and long term investments would have been lower by Rs. 36.369 million, Rs. 7.7 million and Rs. 28.6 million respectively and had the Modabra charged the unrealized loss to the profit and loss account, its profit for the year would have been lower by Rs. 10.9 million.

In our opinion, except for the matters stated in paragraph (a) and (b) above, the consolidated financial statements examined by us, present fairly the financial position of First Equity Modaraba and its subsidiary company as at June 30, 2014 and the results of their operations, comprehensive income, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

FIRST EQUITY MODARABA

October 9, 2014
Karachi.

Avais Hyder Liaquat Nauman
Chartered Accountants
Adnan Zaman
Engagement Partner

CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2014

Page 55

	Note	2014 Rupees	Restated 2013 Rupees
<i>Equity & Liabilities</i>			
<i>Capital and reserves</i>			
Authorized Certificate Capital			
60,000,000 (2013: 60,000,000) modaraba certificates of Rs. 10 each		600,000,000	600,000,000
<hr/>			
Certificate holders' equity			
Certificate capital	6	524,400,000	524,400,000
Reserves	7	94,551,341	(48,368,315)
Remeasurement of defined benefit liability - Actuarial gain		810,741	465,956
Unrealised loss on remeasurement of investments		(13,149,967)	(7,354,696)
<i>Total certificates holders' equity</i>		606,612,115	469,142,945
Surplus on revaluation of fixed assets	8	420,140,893	467,622,569
 <i>Non-current liabilities</i>			
Subordinated loan	9	40,000,000	40,000,000
Long term financing	10	510,782,766	494,544,991
Deferred markup	11	49,537,448	73,537,448
Deferred liabilities	12	252,876,218	287,094,085
Security deposit		200,000	-
<i>Total non-current liabilities</i>		853,396,432	895,176,524
 <i>Current liabilities</i>			
Short term borrowings	13	59,286,520	99,197,767
Current portion of long term liabilities	14	57,428,186	132,012,591
Creditors, accrued and other liabilities	15	137,864,786	155,721,594
Accrued mark up	16	19,925,020	25,555,115
Unclaimed profit distribution		25,966,768	26,003,219
<i>Total current liabilities</i>		300,471,280	438,490,286
<hr/>			
<i>Total equity and liabilities</i>		2,180,620,720	2,270,432,324
<hr/>			
<i>Contingencies and commitments</i>	17		



CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2014

	Note	2014 Rupees	Restated 2013 Rupees
<i>Assets</i>			
<i>Non-current assets</i>			
Fixed assets			
-tangible	18	1,268,537,035	1,332,311,219
-intangible	19	19,000,000	19,000,000
Investment property	20	2,071,667	-
Long term investments	21	74,387,730	83,209,730
Advances		2,510,000	2,510,000
Deposits		1,150,000	1,150,000
<i>Total non-current assets</i>		1,367,656,432	1,438,180,949
<i>Current Assets</i>			
Store and spares	22	26,392,239	25,511,752
Stock-in-trade	23	197,654,563	291,348,176
Trade debts	24	161,835,541	115,505,726
Morabaha/Musharaka			
receivables-secured	25	159,320,497	150,039,060
Short term investments	26	131,772,758	68,251,675
Advances	27	38,451,880	36,354,477
Trade deposits and prepayments	28	26,327,143	26,327,675
Other receivables	29	28,886,955	29,418,699
Tax refunds from government authorities	30	24,387,804	22,618,015
Tax-net	31	1,334,370	7,293,439
Cash and bank balances	32	16,600,538	59,582,681
<i>Total current assets</i>		812,964,288	832,251,375
<i>Total Assets</i>		2,180,620,720	2,270,432,324

The annexed notes 1 to 49 form an integral part of these consolidated financial statements.

FIRST EQUITY MODARABA

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT *Page 57*
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 Rupees	Restated 2013 Rupees
<i>Income</i>	33	221,646,648	351,113,464
<i>Expenditures</i>			
Operating expenses	34	(36,028,548)	(37,295,238)
Distribution and selling expenses	35	(15,117,068)	(16,337,970)
		(51,145,616)	(53,633,208)
Operating profit		170,501,032	297,480,256
Financial charges	36	(76,568,945)	(99,577,774)
		93,932,087	197,902,482
Extra ordinary Item		-	36,368,860
Other income	37	1,281,706	1,536,419
		95,213,793	235,807,761
Other charges	38	(5,544,585)	(17,503,101)
Management fee		(2,850,700)	-
Service Sales Tax on management remuneration		(456,112)	-
Share of (loss) / profit in associated company		(2,901,431)	454,000
Profit before taxation		83,460,965	218,758,660
Taxation	39		
- current		(20,996,096)	(10,442,931)
- prior		(708,990)	-
- Deferred		33,682,101	(71,285,115)
		11,977,015	(81,728,046)
Profit for the year		95,437,980	137,030,614
Earnings per certificate	40		
- basic and diluted		1.82	2.61

The annexed notes 1 to 49 form an integral part of these consolidated financial statements.

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited



**CONSOLIDATED STATEMENT OF
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2014**

	2014	Restated 2013
	Rupees	Rupees
<i>Profit for the year</i>	95,437,980	137,030,614
Other comprehensive income		
Items that will be reclassified to profit and loss accounts on disposal		
Unrealized (loss) / gain on remeasurement of investments	(10,787,319)	9,911,495
Gain realised on disposal of investments	4,992,048	25,881,404
	(5,795,271)	35,792,899
Items that will not be reclassified to profit and loss accounts		
Remeasurement of defined benefit liability	355,591	236,322
Share of (loss) / gain on remeasurement of defined benefit liability in associated company	(10,805)	6,302
Other comprehensive (loss) / income	(5,450,485)	36,035,523
Total comprehensive income for the year	89,987,495	173,066,137

The annexed notes 1 to 49 form an integral part of these consolidated financial statements.

FIRST EQUITY MODARABA

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

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

Page 59

	2014	Restated 2013
	Rupees	Rupees
<i>Cash flows from operating activities</i>		
Profit before taxation	83,460,965	218,758,660
<i>Adjustments for:</i>		
Depreciation	134,151,011	96,444,160
Provision for gratuity	351,700	496,608
Share of profit / (loss) in associated company	2,901,431	(454,000)
Dividend income	(3,789,318)	(3,806,611)
Gain / (loss) on sale of asset	34,844	(221,473)
Extraordinary Item	-	(36,368,860)
Impairment	-	6,853,737
Provision for doubtful debts	396,066	3,331,749
Financial charges	76,568,945	99,577,774
	210,614,679	165,853,084
Cash generated from operations before working capital changes		
	294,075,644	384,611,744
Working Capital changes		
(Increase)/Decrease in operating assets		
Store, Spares and Loose tools	(880,487)	(7,112,005)
Stock-in-trade	93,693,613	(67,726,339)
Trade debts	(46,329,815)	(10,692,704)
Morabaha/Musharaka receivables	(9,281,437)	(12,417,461)
Advances	(2,097,403)	5,436,949
Trade deposits and prepayments	532	(11,465,998)
Other receivables	531,744	(1,343,079)
Increase/(decrease) in operating liabilities		
Short term borrowing	(39,911,247)	(45,596,069)
Creditors, accrued and other liabilities	(17,656,808)	28,548,525
	(21,931,308)	(122,368,181)
Staff retirement benefit-gratuity paid	(531,875)	-
Financial charges paid	(94,193,345)	(107,102,760)
Dividend paid	(36,451)	(79,644)
Taxes paid/adjusted	(19,774,107)	(22,707,502)
<i>Net cash generated from operating activities</i>	157,608,558	132,353,657
Cash flows from investing activities		
Investments	(64,387,724)	33,184,592
Proceed from sale of tangible assets	-	515,000
Dividend received	4,752,652	4,787,745
Purchase of tangible assets	(70,608,999)	(32,917,140)
<i>Net cash (used in)/from investing activities</i>	(130,244,071)	5,570,197



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

	2014	2013
	Rupees	Rupees
<i>Cash flows from financing activities</i>		
Long term financing	(70,346,630)	(121,779,045)
Net cash generated from financing activities	(70,346,630)	(121,779,045)
Net (decrease)/increase in cash and cash equivalents	(42,982,143)	16,144,809
Cash and cash equivalents at beginning of the year	59,582,681	43,437,872
Cash and cash equivalents at the end of the year	16,600,538	59,582,681

The annexed notes 1 to 49 form an integral part of these consolidated financial statements.

FIRST EQUITY MODARABA

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *Page 61*
FOR THE YEAR ENDED JUNE 30, 2014

	Certificate Capital	Statutory reserve*	Certificate premium account	General reserve	Accumulated loss	Total reserves	Remeasurement of defined benefit liability	Unrealized loss on remeasurement of available for sale investments	Total
	Rupees								
Balance as at June 30, 2012 (restated)	524,400,000	137,691,162	131,100,000	27,120,000	(513,926,405)	(218,015,243)	223,332	(43,147,595)	263,460,494
Total Comprehensive income for the year	-	-	-	-	137,030,614	137,030,614	242,624	35,792,899	173,066,137
Incremental depreciation on revaluation surplus net off deferred tax	-	-	-	-	22,269,811	22,269,811	-	-	22,269,811
Reclassification of intangible assets	-	-	-	-	10,346,503	10,346,503	-	-	10,346,503
Transfer to statutory reserve	-	5,725,775	-	-	(5,725,775)	-	-	-	-
Balance as at June 30, 2013	524,400,000	143,416,937	131,100,000	27,120,000	(350,005,252)	(48,368,315)	465,956	(7,354,696)	469,142,945
Total Comprehensive income for the year	-	-	-	-	95,437,980	95,437,980	344,786	(5,795,271)	89,987,495
Incremental depreciation on revaluation surplus net off deferred tax	-	-	-	-	47,481,676	47,481,676	-	-	47,481,676
Transfer to statutory reserve	-	4,939,250	-	-	(4,939,250)	-	-	-	-
Balance as at June 30, 2014	524,400,000	148,356,187	131,100,000	27,120,000	(212,024,846)	94,551,341	810,741	(13,149,967)	606,612,115

* In accordance with the Prudential Regulations for Modarabas, the Modaraba is required to transfer an amount not less than 20% and not more than 50% of its after tax profits to statutory reserve until the reserve funds equals the paid-up capital. Thereafter, a sum not less than 5% of the after tax profits is required to be transferred to the statutory reserve.

The annexed notes 1 to 50 form an integral part of these financial statements.

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited



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

1. *Legal status and nature of business*

The group

The group consist of First Equity Modaraba (the Modaraba) and its subsidiary, Equity Textiles Limited (ETL) (subsidiary company).

1.1 **First Equity Modaraba**

The Modaraba was formed in 1991 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Premier Financial Services (Private) Limited (the Modaraba Management Company), a company incorporated in Pakistan.

The Modaraba is a perpetual, multipurpose modaraba and is able to undertake a variety of fund and fee based activities. These include trading, manufacturing, equity investment and their financing and facilitation. The Modaraba is a member of the Karachi and Islamabad stock exchanges of Pakistan and is currently operating its brokerage activities in Karachi Stock Exchange.

The Modaraba is listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Modaraba is situated at B-1004, 10th floor, Lakson Square Building 3, Sarwar Shaheed Road, Karachi. The Modaraba is holding Equity Textile Limited as a wholly owned subsidiary company.

1.2 **Equity Textiles Limited**

Equity Textiles Limited (ETL) was incorporated in Pakistan on May 31, 2005 as a public limited company under the Companies Ordinance, 1984. The registered office of ETL is situated at 3rd Floor, Cotton Exchange Building, I.I. Chundrigar Road, Karachi. The principal activities of ETL is manufacturing and sale of textile products. ETL commenced commercial operations on April 1, 2007.

1.3 **Consolidation procedure**

Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights or the parent - subsidiary relationship meet the definition as given in section 3 of the Companies Ordinance, 1984. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account.

Transactions eliminated on consolidation

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated.

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

Functional and reporting currency of group

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the group operates. The consolidated financial statements are presented in Pakistani Rupees which is the functional and presentation currency of all the group companies.

1.4 Basis of consolidation

These consolidated financial statements include the accounts of group [First Equity Modaraba and its subsidiary company Equity Textiles Limited - (100% - Holding)]. Financial Statements of subsidiary company have been consolidated on a line-by-line basis.

All material inter-company balances, transactions and resulting unrealized profit and losses have been eliminated.

2. Statement of compliance

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

2.2 The Securities and Exchange Commission of Pakistan (SECP) has issued directive (vide SRO 865 (I) / 2005) that Islamic Financial Accounting Standard 1 (IFAS-1) shall be followed in preparation of the financial statement by Companies and Modarabas while accounting for Morabaha transactions as defined by said Standard. The Modaraba has adopted the above said Standard

2.3 The Securities and Exchange Commission of Pakistan (SECP) has issued directive (vide SRO 431 (I) / 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statement by Companies and Modarabas while accounting for Ijarah (Lease) transactions as defined by said Standard. The Modaraba has adopted the above said Standard.

2.4 The Securities and Exchange Commission of Pakistan (SECP) vide circular No. 10 of 2004 dated February 13, 2004 has deferred the application of IAS 17 "Leases" on modarabas till further orders.

2.5 New standards, interpretations and amendments to published approved accounting standards

2.5.1 Standards, amendments or interpretations which may become effective during the year



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

During the year, certain amendments to the Standards or new interpretation become effective. However, the amendments or interpretations did not have any material effect on the financial statement of modaraba.

2.5.2 Amendments not yet effective

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

		Effective date (annual periods beginning on or after)
IAS 32	Financial Instruments: Presentation - Amendments relating to the offsetting of assets and liabilities	January 1, 2014
IAS 36	Impairment of Assets - Amendments arising from Recoverable Amount Disclosure for Non-Financial Assets	January 1, 2014
IAS 39	Financial Instruments - Recognizing and Measurements - Amendments arising for the novation of derivatives	January 1, 2014
IFRS 2	Share-based Payment - Amendments resulting from Annual Improvements 2010-2012 Cycle (definition of 'vesting condition')	July 1, 2014
IFRS 3	Business Combinations - Amendments resulting from Annual Improvements 2010-2012 Cycle (accounting for contingent consideration) and 2011-2013 Cycle (scope exception for joint ventures)	July 1, 2014
IFRS 7	Financial Instruments: Disclosures - Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	January 1, 2018
IFRS 8	Operating Segments - Amendments resulting from Annual Improvements 2010-2012 Cycle (aggregation of segments, reconciliation of segment assets)	July 1, 2014
IFRS 9	Financial Instruments - Reissued to include requirements for the classification and measurement of financial liabilities and incorporating existing derecognition requirements	January 1, 2015
IFRS 9	Financial Instrument: Deferred of mandatory effective date of IFRS 9 and amendments to transaction disclosure	January 1, 2015

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

Page 65

		Effective date (annual periods beginning on or after)
IFRS 9	Financial Instruments - Reissue to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9	January 1, 2018
IFRS 9	Financial Instruments - Reissue to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements	January 1, 2018
IFRS 9	Financial Instruments - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	January 1, 2018
IFRS 10	Consolidated Financial Statements - Amendments for investment entities	January 1, 2014
IFRS 12	Disclosure of Interests in Other Entities - Amendments for investment entities	January 1, 2014
IFRS 13	Fair Value Measurement - Amendments resulting from Annual Improvements 2011-2013 Cycle (scope of the portfolio exception in paragraph 52)	July 1, 2014
IAS 16	Property, Plant and Equipment - Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)	July 1, 2014
IAS 16	Amendments regarding the clarification of acceptable methods of depreciation and amortisation and amendments bringing bearer plants into the scope of IAS 16	January 1, 2016
IAS 19	Employee Benefits - Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	July 1, 2014
IAS 24	Related Party Disclosures - Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities)	July 1, 2014
IAS 27	Separate Financial Statements - Amendments for investment entities	January 1, 2014
IAS 32	Financial Instruments - Presentation - Amendments relating to the offsetting of assets and liabilities	January 1, 2014
IAS 36	Impairment of Assets - Amendments arising from recoverable amount disclosures for non financial assets	January 1, 2014

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

		Effective date (annual periods beginning on or after)
IAS 38	Intangible Assets - Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)	July 1, 2014
IAS 38	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	January 1, 2016
IAS 39	Financial Instruments: Recognition and Measurement - Amendments for novations of derivatives	January 1, 2014
IAS 39	Financial Instruments: Recognition and Measurement: Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception	January 1, 2018
IAS 40	Investment Property - Amendments resulting from Annual Improvements 2011-2013 Cycle (interrelationship between IFRS 3 and IAS 40)	July 1, 2014
IAS 41	Amendments bringing bearer plants into the scope of IAS 16	January 1, 2016

2.5.3 Standards or interpretations not yet effective

The following International Financial Reporting Standards or interpretations issued by IASB would be effective from the dates mentioned below against the respective standard or interpretation:

IFRS 9	Financial Instruments	January 1, 2018
IFRS 10	Consolidated Financial Statements	January 1, 2015
IFRS 11	Joint Arrangements	January 1, 2015
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2015
IFRS 13	Fair Value Measurement	January 1, 2015
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
IFRS 15	Revenue from Contracts with Customers	January 1, 2017
IAS 27	Separate Financial Statements	January 1, 2015
IAS 28	Investments in Associates and Joint Ventures	January 1, 2015
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2015
IFRIC 21	Levies	January 1, 2014

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

Page 67

**Effective date
(annual periods beginning
on or after)**

2.5.3 Amendments that are effective in current year but not relevant to the Modaraba

The Modaraba has adopted the amendments to the following accounting standards which became effective during the year:

IFRS 1	First-time Adoption of International Financial Reporting Standards - Amendments for government loan with a below-market rate of interest when transitioning to IFRSs and amendments resulting from Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs)	January 1, 2013
IFRS 7	Financial Instruments Disclosures - Amendments related to the offsetting of assets and liabilities	January 1, 2013
IFRS 10	Consolidated Financial Statements - Amendments to transitional guidance	January 1, 2013
IFRS 11	Joint Arrangements - Amendments to transitional guidance	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities - Amendments to transitional guidance	January 1, 2013
IAS 1	Presentation of Financial Statements - Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information)	January 1, 2013
IAS 16	Property, Plant and Equipment - Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment)	January 1, 2013
IAS 19	Employee Benefits - Amended standard resulting from the post-employment benefits and termination benefits projects	January 1, 2013
IAS 32	Financial Instruments: Presentation - Amendments resulting from Annual Improvements 2009-2011 Cycle (tax effect of equity distributions)	January 1, 2013
IAS 34	Interim Financial Reporting - Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets)	January 1, 2013

3. *Basis of measurement*

- 3.1 These financial statements have been prepared under the historical cost convention except for certain financial assets which are stated at fair value and subsidiary's fixed assets which have been stated at revalued amounts.
- 3.2 These financial statements have been prepared under the accrual basis of accounting except for cash flow information.



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

4. *Use of estimates*

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under circumstances. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial estimates are as follows:

	Note
a) Useful life of depreciable assets/amortizable assets	5.1&5.2
b) Impairment of assets	5.1.2&5.3.1
c) Classification of investments	5.4
d) Income tax	5.12
e) Provision for staff gratuity	5.14
f) Provision for non performing assets	5.19

5. *Significant accounting policies*

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 **Fixed assets**

5.1.1 *Tangible*

Fixed assets are stated at cost/revalued amount less accumulated depreciation and any identified impairment loss, if any. Capital work-in-progress is stated at cost. Cost of operating fixed assets comprises historical cost, borrowing cost and other expenditure pertaining to the acquisition, construction, erection and installation of these assets. The Parent company charges depreciation on the straight line method and subsidiary company charge depreciation on reducing balance method, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged at rates stated in note 17. Full Depreciation is charged on additions, except major additions or extensions to production, facilities which are depreciated on pro-rata basis for the duration of use during the year. Parent company charges depreciation on additions from the month during which the asset is put to use. For disposals during the year, depreciation is charged up to the month preceding the month of disposal but subsidiary charge no depreciation on assets deleted during the year. The Modaraba accounts for impairment, where indication exists, by reducing the carrying value to the estimated recoverable amount. The assets residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

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

Page 69

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Expenditure incurred subsequent to the initial acquisition of assets are capitalised only when it meets the recognition criteria. The profit or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

The group assesses at each balance sheet date whether there is any indication that fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful lives.

5.1.2 *Capital work-in-progress*

Capital work-in-progress are stated at cost and consist of expenditure incurred, advances made and other costs directly attributable to operating fixed assets in the course of their construction and installation. Cost also includes applicable borrowing costs. Transfers are made to relevant operating fixed assets category as and when assets are available for use intended by the management.

5.1.3 *Intangible*

Intangible assets are stated at cost less impairment, if any. The carrying amount is reviewed at each balance sheet date to assess whether it is in excess of its recoverable amount and where the carrying value exceeds estimated recoverable amount, it is written down to its estimated recoverable amount.

5.2 *Investment property*

Property held to earn rentals or for capital appreciation or for both is classified as investment property. The investment property of the Modaraba comprises of office premises and is valued using the cost method i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on office premises is charged to profit and loss account on the straight line method so as to write off the depreciable amount of office premises over its estimated useful life at the rate defined in note # 18. Depreciation on additions to investment property is charged from the month in which a property is acquired or capitalized while no depreciation is charged for the month in which the property is disposed off.

The Modaraba assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount.



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

Where carrying amounts exceed the respective recoverable amount, assets are written down to their recoverable amount and the resulting impairment loss is recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

5.3 *Deferred cost and amortization*

The deferred cost is written off over a period not exceeding five years in accordance with the requirements of third schedule of Modaraba Companies and Modaraba Rules, 1981.

5.4 *Financial instruments*

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument.

Initial recognition

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

All regular way of purchases and sale of financial instruments are recognized/derecognized on the trade date.

Subsequent measurement

Financial assets and financial liabilities are measured subsequently as described below.

Subsidiary Company

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instruments. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Any gain or loss on de-recognition of the financial assets and financial liabilities is taken to profit and loss account currently.

5.4.1 *Financial assets*

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held to maturity (the Group does not have any such investments).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Following financial assets fall into this category of financial instruments:

- Deposits
- Advances
- Other receivables
- Cash and cash equivalents

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

Page 71

Financial assets at fair value through profit or loss

Investments which are acquired principally for the purpose of generating profit from short term fluctuations in prices are also classified as 'financial assets at fair value through profit or loss'.

Financial assets in this category are measured at fair value with gains or losses recognised in profit and loss account. These investments are marked to market and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair value of these investments are taken to the profit and loss account for the year.

Available-for-sale financial assets

Investments intended to be held for 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 financial assets'. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale financial assets or are not classified as (a) loans and receivables (b) held to maturity investments (c) financial assets at fair value through profit or loss. Subsequent to initial recognition these investments are marked to market using the closing market rate and are carried on the balance sheet at fair value. Surplus/Deficit arising from re-measurement are taken to comprehensive income until the investments are sold/disposed-off or until the investments are determined to be impaired, at which time, cumulative surplus or deficit previously reported in the comprehensive income is included in the current year's profit and loss account.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured are measured at cost.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Musharika and morahaba receivables considered doubtful are provided for in accordance with the requirements of the Prudential Regulations for Modarabas.

An impairment loss on available for sale financial asset-equity instruments is reversed only on the disposal of financial asset. Reversal of provision on musharika and morahaba receivables are reversed in accordance with Prudential Regulations for Modaraba.

Derecognition of financial assets

These are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

5.4.2 Financial liabilities

The Modaraba's financial liabilities include unclaimed profit distribution, creditors, accrued expenses and other liabilities.

Derecognition of financial liabilities

These are derecognised when they are extinguished, discharged, cancelled or expired.



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

5.4.3 *Investment in associate*

Associated companies, where the Modaraba holds 20% or more of the voting power of the investee company and where the company has significant influence, but not control, over the financial and operating policies, are accounted for using the equity method.

Investment in associate is stated in consolidated financial statements using the equity method of accounting. Under the equity method, investments in associate is carried in the balance sheet at cost as adjusted for post acquisition changes in the modaraba's share of net assets of the associate, less any impairment in the value of individual investment. When the modaraba's share of losses in an associate equals or exceeds its interest in the associate including any other unsecured receivables if any, the modaraba does not recognise further losses, unless it has incurred obligations or made payments on behalf of associate.

5.5 *Stores, spares and loose tools*

These are valued at weighted average cost except for items in transit, which are valued at cost comprising invoice value, plus other charges paid thereon. Provision is made for slow moving and obsolete items.

5.6 *Stock-in-trade*

These are valued at the lower of cost and net realizable value except waste, which is valued at net realizable value determined on the basis of contract price. Cost and net realized value are determined as under:

Raw materials	Weighted average cost
Work-in-progress and finished goods	Weighted average manufacturing cost including a proportion of production overhead
Waste	Net realizable value

Net realizable value represents estimated selling prices in the ordinary course of business less expenses incidental to make the sale.

5.7 *Trade debts*

Trade debts are carried at the amounts billed / charged which is fair value of consideration to be received in the future. An estimate is made for doubtful receivables based on review of outstanding amounts at the year end, if any. Provision is made against those having no activity during the current period and are considered doubtful by the management. Balances considered bad and irrecoverable are written off when identified.

5.8 *Other receivables*

Other receivables are recognized at nominal amount which is fair value of the consideration to be received in the future.

5.9 *Creditors, accrued and other liabilities*

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

5.10 *Revenue recognition*

- (a) Income from Morabaha/Musharaka transactions is recognized on the basis of pro-rata accrual of the estimated profit earned during the year.
- (b) Dividend income is recognized when the right to receive dividend is established.
- (c) Brokerage commission and fee income is recognized when accrued.
- (d) Profit on PLS deposits is recognized on an accrual basis.

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

Page 73

- (e) Capital gains or losses arising on sale of investments are taken to income in the period in which they arise.
- (f) Sales are recognized on dispatch of goods to customers, when risk and rewards of ownership are transferred. Waste sales are recognized when delivery is made to customers.
- (g) Profit on investment accounts with Islamic banks is recognized on accrual basis.

5.11 *Borrowing cost*

Financing and borrowings are recorded at the amounts received. Financial charges are accounted for on accrual basis. Financial charges on long term financing is capitalized up to the date of commissioning of respective property, plant and equipment acquired out of the proceeds of such long term financing. Other financial charges are charged to profit and loss account in the year in which they are incurred.

5.12 *Taxation*

Parent company

Current

The charge for taxation is based on taxable income at current rates of taxation after taking into account tax credits and tax rebates available, if any or minimum tax under the provisions of the Income Tax Ordinance, 2001. For items covered under final tax regime, provision is made according to the final tax rate provided in the Income Tax Ordinance, 2001. The income of Modaraba other than trading income is exempt from tax under Clause 100 of Part I of the Second Schedule to the Income Tax Ordinance, 2001. Provided that not less than 90% of its total profits in the year as reduced by the amount transferred to a mandatory reserve, as required under the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 or the rules made thereunder, as are distributed amongst the certificate holders.

Deferred

Deferred tax is recognized using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the tax base. This is recognized on the basis of expected manner of the realization and the settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

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

However, deferred tax is not accounted for as the management believes that the temporary differences will not reverse in the foreseeable future.

Subsidiary company

Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.



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

Deferred taxation is accounted for using the balance sheet liability method providing for temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary timing differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

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

Deferred tax is calculated based on the rates that have been enacted or substantively enacted upto the balance sheet date and are expected to apply to the period when the difference arises.

5.13 *Foreign currency translation*

Parent company

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak rupees at exchange rate prevailing at the date of transaction. All non-monetary items are translated into rupees at exchange rate prevailing on the date of transaction or on the date when fair values are determined. Exchange differences are included in income currently.

Subsidiary company

Assets and liabilities in foreign currencies are translated at the rates of exchange prevailing at balance sheet date or at the contracted rates while foreign currency transactions are recorded at the rates of exchange prevailing at the transaction date or at the contracted rates. Exchange gains and losses are charged to income currently.

5.14 *Retirement benefits*

Parent company

The Modaraba operates an Unfunded Gratuity for its permanent employees who complete the qualifying period of service. Provision has been made in accordance with actuarial recommendations using the Projected Unit Credit Method. The results of current valuation are summarized in Note 12 of this financial statement. Actuarial gains / losses are recognized over the average lives of the employees.

Subsidiary company

Defined contribution plan

The Company operates a funded employees' provident fund scheme for its permanent employees. Equal monthly contributions at the rate of 6 percent of basic pay are made both by the Company and employees to the Fund.

Employee compensated absences

Compensated absences are accounted for in the period in which the absences are earned.

5.15 *Offsetting of financial assets and financial liabilities*

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

5.16 *Derivative financial instruments*

The Company enters in to derivative financial instruments. These are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Any resulting gain or loss is recognized in current year

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

Page 75

income. Derivatives with positive market values are included in other receivables and derivatives with negative market values are included in other liabilities in the balance sheet.

5.17 Provisions

Provisions are recognized in the balance sheet when the Modaraba has a legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

5.18 Profit distribution to certificate holders

Profit distribution to certificate holders is recognized as liability in the period in which such distribution is announced.

5.19 Impairment

The carrying amount of Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impaired losses are recognized in the profit and loss account.

5.20 Segment reporting

A segment is a distinguishable component of the Modaraba that is engaged in business activities from which the Modaraba earns revenues and incur expenses and its results are regularly reviewed by the Modaraba's Chief Operating Decision Maker to make decision about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each segment.

Based on internal management reporting structure, services provided and products produced and sold, the Modaraba is organized into the following four operating segments:

- Musharaka facility
- Brokerage operation
- Capital market
- Textile Business
- Others

Management monitors the operating results of above mentioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

5.21 Related party transactions

Parent

All transactions with related parties, if any, are recorded at an arm's length basis.

Subsidiary Company

Transactions and contracts with the related parties are based on the policy that all transactions between the Company and related parties are carried out at an arm's length. These prices are determined in accordance with the methods prescribed in the Companies Ordinance, 1984.

5.22 Cash and cash equivalents

For the purposes of cash flow statement, Cash and cash equivalents comprise cash in hand and cash with banks net of borrowing considered as being in the nature of financing activities.

5.23 Functional and reporting currency

Items include in the financial statements are measured using the currency of primary economic environment in which the Modaraba operates. The financial statements are presented in Pakistani Rupees, which is the Modaraba's functional and presentation currency.

5.24 Capital Risk Management

The Modaraba's objective when managing capital is to safeguard the Modaraba's ability to continue as a going concern so that it can provide



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

returns for certificate holders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses.

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

5.24 *Change in Accounting Policy*

5.24.1 Adoption of amendments in IAS 19 'Employee Benefits'

IAS 19 'Employee Benefits' (revised 2011) which become effective for the annual periods commencing on or after January 01, 2013, amends the accounting for the defined benefit plan. The revised standard has been applied retrospectively in accordance with the transition provisions of the said standard and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The impact of adaption of IAS 19 (revised 2011) has been in the following areas:

- (I) The standard requires that all actuarial gains /loss should be recognized immediately in other comprehensive income (OCI).
- (II) The standard has also removed the option of Corridor approach and the standard requires immediate recognition of past service cost in profit and loss statement. There is no impact of these requirements in the current year as Modaraba has not opted for corridor approach neither it has unrecognized past service costs at the time of adoption of the said standard.

5.24.2 The quantitative impacts arising from amendments in IAS 19 (revised 2011) on the items of financial statements are as follows:

	2014 Rupees	2013 Rupees	2012 Rupees
<i>Impact on balance sheet:</i>			
Decrease in reserves	351,700	236,322	223,332
Increase in remeasurement of defined benefit liability	355,591	236,322	223,332
<i>Impact on profit & loss account:</i>			
Increase in salaries, allowances and benefits-gratuity expense	351,700	236,322	223,332
<i>Impact on other comprehensive income:</i>			
Increase in gain on remeasurement of defined benefit liability	351,700	236,322	223,332
<i>Impact on cash flow statement:</i>			
Decrease in profit before taxation	351,700	236,322	223,332
Increase in adjustments relating to provision for gratuity	351,700	236,322	223,332
<i>Impact on statement of changes in equity:</i>			
Increase in unappropriated losses/ decrease in profit	351,700	236,322	223,332
Increase in remeasurement of defined benefit liability	351,700	236,322	223,332

5.24.3 The Modaraba's policy for Staff Retirement Benefits and disclosure relating thereto have been amended to comply with the requirements of IAS 19 (revised 2011).

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

Page 77

5.25 *Subsidiary accounting judgment and critical estimates / assumptions*

The preparation of financial statements in conformity with approved accounting standards requires the management to:-

- exercise its judgment in process of applying the Company's accounting policies, and
- use of certain critical accounting estimates and assumptions concerning the future.

These involve critical accounting estimates and significant assumptions concerning the future are discussed below:-

a) *Income taxes*

The Company takes into account relevant provisions of the prevailing income tax laws while providing for current and deferred taxes as explained in note 4.6 to these financial statements.

b) *Property, plant and equipment*

Management has made estimates of residual values, useful lives and recoverable amounts of certain items of property, plant and equipment. Any change in these estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with corresponding effect on the depreciation charge and impairment loss.

c) *Stores and spares*

Management has made estimates for realizable amount of slow moving and obsolete stores and spares items to determine provision for slow moving and obsolete items. Any future change in the estimated realizable amounts might affect carrying amount of stores and spares with corresponding affect on amounts recognized in profit and loss account as provision / reversal.

6. *Certificate capital*

2013 No. of Certificate	2014 No. of Certificate		2014 Rupees	2013 Rupees
		Modaraba certificates of Rs. 10 each fully paid-up in cash	462,200,000	462,220,000
46,220,000	46,220,000			
		Modaraba certificates of Rs. 10 each issued as fully paid-up bonus certificates	62,200,000	62,220,000
6,220,000	6,220,000			
52,440,000	52,440,000		524,400,000	524,400,000

- 6.1 Certificates held by management company 5,532,296 (2013: 5,532,296).
Certificates held by associated companies and undertakings 1,126,412
(2013: 489,000).



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

FIRST EQUITY MODARABA

7. *Reserves*

	Capital Reserve		Revenue Reserve		Restated 2013 Rupees			
	Statutory* reserve	Certificate Premium Account	Accumulated (loss)	General reserve		Total reserves		
	Rupees							
Opening balance - restated	143,416,937	131,100,000	274,516,937	(350,005,252)	27,120,000	(322,885,252)	(48,368,315)	(218,015,243)
Transfer from profit and (loss) account	-	-	-	95,437,980	-	95,437,980	95,437,980	137,030,614
Transfer to statutory reserve	4,939,250	-	4,939,250	(4,939,250)	-	(4,939,250)	-	-
Incremental depreciation on revaluation surplus net off deferred tax	-	-	-	47,481,676	-	47,481,676	47,481,676	22,269,811
Reclassification of intangible asset	-	-	-	-	-	-	-	10,346,503
Closing balance	148,356,187	131,100,000	279,456,187	(212,024,846)	27,120,000	(184,904,846)	94,551,341	(48,368,315)

* In accordance with the Prudential Regulations for Modarabas, the modaraba is required to transfer an amount not less than 20% and not more than 50% of its after tax profits to statutory reserve until the reserve funds equals the paid-up capital. Thereafter, a sum not less than 5% of the after tax profits is required to be transferred to the statutory reserve.

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

Page 79

8. *Surplus on revaluation of fixed assets*

	2014 Rupees	2013 Rupees
Opening balance	719,419,337	342,612,483
Revaluation during the year	-	411,068,102
Less: transfer to unappropriated profit in respect of incremental depreciation charged during the year- (net of deferred tax)	47,481,676	22,269,811
Related deferred tax liability	24,460,257	11,991,437
Closing balance	71,941,933	34,261,248
	647,477,404	719,419,337
Related deferred tax on :		
Opening balance	251,796,768	119,914,369
Add: Revaluation during the year	-	143,873,836
Less: incremental depreciation charged during the year transferred to the profit and loss account.	(24,460,257)	(11,991,437)
Closing balance	227,336,511	251,796,768
Net closing balance	420,140,893	467,622,569



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

FIRST EQUITY MODARABA

<i>9. Subordinated Loan</i>	Note	2014 Rupees	2013 Rupees
9.1	9.1	40,000,000	40,000,000
<p>This loan has been obtained from a sponsor of the subsidiary company subordinated to the repayments of other financing facilities availed by the subsidiary company. This loan carries mark-up at the rate of one month KIBOR, plus 2% payable on quarterly basis.</p>			
<i>10. Long term financing</i>	Note	2014 Rupees	2013 Rupees
Secured - Financial institution			
	10.1	24,500,000	46,343,389
	10.2	519,710,952	568,214,193
		544,210,952	614,557,582
		(33,428,186)	(120,012,591)
		510,782,766	494,544,991
Less: Current portion shown under current liabilities			
Habib Bank Limited - Demand Finance			
10.1	10.1.1	-	20,926,724
	10.1.2	-	9,666,665
	10.1.3	5,250,000	15,750,000
	10.1.4	19,250,000	-
		24,500,000	46,343,389

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

Page 81

- 10.1.1 This finance is secured against first pari passu hypothecation charge on present and future plant and machinery, first pari passu equitable mortgage charge on present and future land and building, equitable mortgage over personal property and personal guarantee so fall the directors of the Company. The finance carries mark up at 6 month KIBOR plus 1.50% per annum on quarterly basis. The facility is repayable in 8 equal semi annual installments, commencing from July 2010.
- 10.1.2 This finance is secured against first pari passu hypothecation charge on present and future plant and machinery, first pari passu equitable mortgage charge on present and future land and building, equitable mortgage over personal property and personal guarantees of all the directors of the Company. The finance carries mark up at 6 month KIBOR plus 1.50% per annum on quarterly basis. The facility is repayable in 6 equal semi annual installments, commencing from January 2011.
- 10.1.3 This finance is secured against first pari passu hypothecation charge on present and future plant and machinery, first pari passu equitable mortgage charge on present and future land and building, equitable mortgage over personal property and personal guarantees of all the directors of the Company. The finance carries mark up at 3 month KIBOR plus 1.50% per annum on quarterly basis. The facility is repayable in 16 equal quarterly installments, commencing from February 2011.
- 10.1.4 This finance is obtained for the construction of grid station and is secured against first pari passu hypothecation charge on present and future plant and machinery, first pari passu equitable mortgage charge on present and future land and building, equitable mortgage over personal property and personal guarantees of all the directors of the Company. The finance carries mark up at 6 month KIBOR plus 2% per annum on quarterly basis. The facility is repayable in 12 equal quarterly installments, commencing from July 2014

	2014	2013
	Rupees	Rupees
10.2 <i>The Bank of Punjab</i>		
Demand finance I	464,231,998	497,933,998
Demand finance II	55,478,954	64,211,000
LTF – EOP	-	6,069,195
	519,710,952	568,214,193



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

FIRST EQUITY MODARABA

- 10.2.1 The financing facilities from The Bank of Punjab had been rescheduled vide restructuring proposal dated April 21, 2010.
- 10.2.2 This amount is payable against demand finance as a sub limit of import letter of credit sight/DA 720 days opened with Bank of Punjab for import of plant and machinery. This facility is secured against existing first pari passu charge of Rs. 643.72 million on all present and future fixed assets of the Company with 25% margin duly registered with SECP. The loan was rescheduled and the Company's old facilities of running finance and PAOA was merged with demand finance. As per the revised terms, the facility is additionally secured with equitable mortgage of project building and personal guarantee of three directors of the Company. The charge over the said project ranks pari passu with the charge registered with Habib Bank Limited. The finance carries mark up at the rate of 3 month KIBOR plus 200 bps with a floor of 11% per annum payable on quarterly basis. The loan is now repayable in 43 quarterly installments commencing from April 15, 2010.
- 10.2.3 The facility is created against conversion of accrued markup upto September 30, 2009 on all facilities except LTF-EOP loan. The facility is secured against equitable mortgage of project building and personal guarantee of three directors of the Company. The charge over the said project ranks pari passu with the charge registered with Habib Bank Limited. The loan was rescheduled on March 31, 2014 and the Company's old facilities of running finance and PAOA was merged with demand finance. This loan is repayable in 39 quarterly installments commencing from April 15, 2010.
- 10.2.4 This is a term finance facility under SBP scheme of LTF-EOP as a sub limit of import L/C sight/DA 720 days opened with Bank of Punjab for import of plant and machinery. This facility is secured against existing first pari passu charge of Rs. 643.72 million on all present and future fixed assets of the Company with 25% margin duly registered with SECP. This finance carries SBP rate of refinance plus 200 bps. This loan is repayable in twenty four quarterly installments, commencing from May 2008.

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

Page 83

	2014	2013
	Rupees	Rupees
<i>11. Deferred markup</i>		
Deferred markup	73,537,448	85,537,448
Less: Current portion shown under current liabilities	24,000,000	12,000,000
	49,537,448	73,537,448
<i>12. Deferred liabilities</i>		
Deferred taxation liability	251,319,963	285,002,064
Staff gratuity	1,556,255	2,092,021
	252,876,218	287,094,085
<i>12.1 Deferred taxation liability/asset</i>		
The net balance for deferred taxation is in respect of the following temporary difference:		
Deferred tax liabilities		
Accelerated tax depreciation allowance	106,000,972	110,444,767
Revaluation of operating fixed assets	220,142,317	251,796,768
	326,143,289	362,241,535
<i>Deferred tax assets</i>		
Losses carried forward	(3,540,175)	(28,262,354)
Turnover tax	(71,283,151)	(48,977,117)
	251,319,963	285,002,064



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

	Note	2014 Rupees	2013 Rupees
12.2 Staff gratuity		1,556,255	2,092,021

12.2.1 General description

Employees, after completion of one year of service, shall be entitled for gratuity on leaving the company's employment. Gratuity shall be paid on the basis of one month's last drawn monthly gross salary for each completed year of service.

Annual provision is based on actuarial valuation, which was carried out as at June 30, 2014 on August 21, 2014 using the Projected Unit Method.

12.2.2 Amount recognized in the balance sheet are as follow:

Present value of defined benefit obligation	1,556,255	2,092,021
Fair value of plan assets	-	-
Total defined benefit	1,556,255	2,092,021

12.2.3 Movement in defined benefit obligation

Opening balance	2,092,021	1,831,735
Charge for the defined benefit plan		
Current service cost	141,700	267,641
Net interest	210,000	228,967
Remeasurement of defined benefit liability ^{8.4}	351,700	496,608
Due to financial assumptions	(179,422)	-
Due to demographic assumptions	1,650	-
Due to experience adjustments	(177,819)	(236,322)
	(355,591)	(236,322)
Benefits paid	(531,875)	-
Closing balance	1,556,255	2,092,021

12.2.4 Actuarial assumptions

	Rate per annum	
Valuation discount rate	13.25%	11.50%
Salary increase rate -Short term (period of next one year)	0.00%	10.50%
Salary increase rate- long term	12.25%	10.50%

12.2.5 Sensitivity analysis of principal assumptions

Impact on obligation of change in assumptions

	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	1%	1,623,021	1,495,006
Salary Increase rate	1%	1,624,560	1,492,527
Withdrawal rate	10%	1,556,496	1,556,012

12.2.6 Expected maturity analysis of undiscounted defined obligation for the gratuity scheme is as follows:

As at June 30, 2014	Year 1	Year 2	Year 3	Year 4	Year 5	Over 5 Year
Gratuity	902,214	15,196	15,972	73,892	15,284	2,200,849

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

Page 85

12.2.7 Following risks are associated with defined benefit plans:

Longevity risks: The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk: The most common type of retirement benefit is one where the benefit is linked with the final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

Withdrawal risk: The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of liability can go either way.

12.2.8 The disclosure made in notes 12.2.5 to 12.2.7 are based on the information included in the actuarial valuation report of the Modaraba as of June 30, 2014.

			2014	2013
	Note		Rupees	Rupees
13.		<i>Short term borrowings</i>		
		<i>Secured - financial institutions (Running finance arrangements)</i>		
		Habib Bank Limited - Pledge	13.1 49,888,158	89,720,771
		Habib Bank Limited		
		- Hypothecation	13.2 9,398,362	9,476,996
			59,286,520	99,197,767

13.1 The facility is obtained for import / purchase of raw cotton bales and to finance working capital inventory. This facility is secured against pledge of raw cotton with 10% margin and pledge of cotton / blended yarn with 15% margin. The finance carries mark-up at the rate of 1 month KIBOR+125 basis points to be calculated on monthly basis. The total sanctioned limit is Rs. 250 million (2013: Rs. 250 million).

13.2 The facility is obtained for working capital requirements. This facility is secured against first pari passu charge of Rs. 57 million on stocks and receivables of the Company. The finance carries mark up at the rate of 1 month KIBOR plus 125 basis points to be calculated on monthly basis. The total sanctioned limit is Rs.10 million (2013 : Rs. 10 million).

			2014	2013
			Rupees	Rupees
14.		<i>Current portion of long term liabilities</i>		
		Secured – Financial institution		
		Habib Bank Limited Demand Finance	5,250,002	41,093,396
		Bank of Punjab Demand Finance	22,928,184	72,850,000
		Bank of Punjab LTF – EOP	5,250,000	6,069,195
			33,428,186	120,012,591
		Deferred markup	24,000,000	12,000,000
			57,428,186	132,012,591



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

	Note	2014 Rupees	2013 Rupees
<i>15. Creditors, accrued and other liabilities</i>			
Creditors	15.1	49,991,689	85,679,386
Accrued expenses		65,143,408	44,408,200
Charity		255,420	227,393
Payable to clients		3,797,346	3,833,231
Advance from customer		1,682,355	1,262,688
Retention money payables		2,984,508	1,979,754
Sales tax payable		2,292,273	2,173,335
Withholding tax payable		59,750	21,752
Workers Profit Participation Fund		3,365,590	12,112,723
Workers Welfare Fund		1,789,859	3,895,780
Other liabilities	15.2	6,502,588	127,352
		137,864,786	155,721,594

15.1 This includes Rs. 13.214 million (2013: Rs.5.816 million) due to associated undertakings.

15.2 This includes Rs 5,754,180 (2013 : Rs 127,352) payable to Premier Financial Services (Private) Limited.

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

Page 87

	2014 Rupees	2013 Rupees
<i>Accrued markups</i>		
Accrued markup	15,571,857	23,045,386
Financial institutions	4,353,163	2,509,729
Sponsors	19,925,020	25,555,115

16. *Contingencies and commitments*
Contingencies
There is a contingent liability in respect of bank guarantees issued by the Company's banker in the ordinary course of business in favor of Sui Southern Gas Company Limited and HESCO aggregating to Rs. 24,556 million (2013: Rs. 12,708 million).
During the year, two separate cases have been decided in the International Court of Arbitration against the Company of liabilities aggregating to US\$ 611,523. The plaintiffs through their legal advisor served the Company with a notice to pay the amount as per the award and filed a suit against the Company in the Honorable High Court of Sindh for enforcement of award. No provision has been made in the financial statements for the liability that may arise in the event of a decision against the Company as the management is of the opinion, based on advice of legal advisor, that the decision is likely to be in the favor of the Company.
Modaraba has filed a suit against Samba Bank Ltd for the recovery of deposit amounting Rs 21 million alongwith mark up. The matter is pending before the Honourable High Court of Sindh. Management of the Modaraba and its legal advisor are of the opinion that Modaraba has reasonable chance and it appear unlikely that Modaraba may suffer any loss from the same

Commitments
Commitment in respect of letters of credit as at the balance sheet date amounted to Rs. 34,169 million (2013: Rs. 29,252 million).



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

FIRST EQUITY MODARABA

18.

Tangible

Operating fixed assets
Fixed assets in transit
Capital work in progress

	Note	2014 Rupees	2013 Rupees
	18.1	1,258,845,485	1,325,690,674
	18.2	9,691,550	6,620,545
		1,268,537,035	1,332,311,219

2014

Particulars	Cost			Accumulated depreciation			Book value As at June 30, 2014 Rupees	Rate %
	As at July 01, 2013 Rupees	Addition/ (transfer)/ (deletion) Rupees	Surplus on revaluation Rupees	As at June 30, 2014 Rupees	Charged during the year Rupees	As at June 30, 2014 Rupees		
Owned								
Leasehold land	40,140,000	-	-	2,726,896	374,131	3,101,027	37,038,973	1
Factory building	271,811,458	30,027,327	-	83,368,514	20,194,302	103,562,816	198,275,969	10
Colony building	58,423,768	-	-	19,051,411	3,937,236	22,988,647	35,435,121	10
Plant & machinery	1,380,130,738	37,444,337	-	1,417,575,075	93,822,642	565,814,564	851,760,511	10
Gas generator	110,674,827	-	-	39,687,891	7,098,694	46,786,585	63,888,242	10
Electric installations	82,204,318	-	-	29,491,617	5,271,270	34,762,887	47,441,431	10
Office premises	23,248,634	(2,400,000)	-	20,848,634	5,464,236	1,150,207	14,552,524	5&10
Office equipments	997,005	228,180	-	1,055,685	855,600	51,582	283,157	20
Factory equipment	4,719,915	(169,500)	-	4,719,915	1,558,369	3,16,157	2,845,389	20
Computers	1,058,455	628,690	-	1,760,945	966,940	2,58,586	535,419	33&20
		73,800	-					
Motor vehicles	16,894,948	1,010,000	-	17,005,948	9,987,980	1,612,404	6,304,563	20
Furniture & fixtures	1,201,234	(899,000)	-	1,201,234	663,250	53,798	484,186	20
2014	1,991,505,300	65,943,834	-	2,057,449,134	1,32,789,023	798,603,649	1,258,845,485	

18.1

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

Page 89

2013

Particulars	Cost			Accumulated depreciation			Book value As at June 30, 2013 Rupees	Rate %	
	As at July 01, 2012 Rupees	Addition/ (transfer) Rupees	Surplus on revaluation Rupees	As at June 30, 2013 Rupees	As at July 01, 2012 Rupees	Charged during the year Rupees			As at June 30, 2013 Rupees
Owned									
Leasehold land	40,140,000	-	-	40,140,000	2,348,986	377,910	2,726,896	37,413,104	1
Factory building	192,404,902	3,779,519	75,627,037	271,811,458	70,929,261	12,439,253	83,368,514	188,442,944	10
Colony building	42,622,622	-	15,801,146	58,423,768	16,432,388	2,619,023	19,051,411	39,372,357	10
Plant & machinery	1,082,063,378	17,606,087	280,461,273	1,380,130,738	403,157,290	68,834,632	471,991,922	908,138,816	10
Gas generator	88,751,873	-	21,922,954	110,674,827	34,236,338	5,451,553	39,687,891	70,986,936	10
Electric installations	65,925,010	-	16,279,308	82,204,318	25,443,462	4,048,155	29,491,617	52,712,701	10
Office premises	21,514,500	1,734,134	-	23,248,634	4,325,599	1,138,637	5,464,236	17,784,398	5&10
Office equipments	968,005	29,000	-	997,005	795,534	60,066	855,600	141,405	20
Factory equipment	3,743,532	-	976,383	4,719,915	1,315,573	242,796	1,558,369	3,161,546	20
Computers	1,038,455	-	-	1,038,455	866,065	100,875	966,940	91,515	33&20
Motor vehicles	14,787,591	3,147,855	-	16,894,948	9,663,465	991,657	9,987,980	6,906,968	20
Furniture & fixtures	1,201,234	(1,040,498)	-	1,201,234	603,476	(667,142)	59,774	663,250	20
2014	1,555,181,102	25,256,097	411,068,101	1,991,505,300	570,117,437	95,697,189	665,814,626	1,325,690,674	



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

	2014 Rupees	2013 Rupees
18.1.1 Depreciation for the year has been allocated as follows:		
<i>Modaraba business</i>		
Administrative expenses	1,661,456	1,661,456
<i>Textile Business</i>		
Cost of sales	94,093,151	94,093,151
Administrative expenses	689,553	689,553
	96,444,160	96,444,160

18.1.2 Had there been no revaluation, the net book value of the specific classes of property, plant and equipment would have been as follows:

Factory building	78,574,657	57,277,847
Colony building	13,292,730	14,769,700
Plant & machinery	386,026,777	391,474,304
Gas generator	27,848,427	30,942,697
Electric installations	20,679,379	22,977,088
Factory equipment	1,379,321	1,532,579
	527,801,291	518,974,215

18.2 Capital Work-In-Progress

This comprises of:

Civil works	9,125,170	-
Borrowing costs	566,380	-
	9,691,550	-

19. *Intangible* 19,000,000 19,000,000

19.1 These represents Trading Right Entitlement Certificates (TREC) of Karachi and Islamabad Stock Exchanges.

20. *Investment Property*

Particulars	2014							Book Value as at June 30, 2014 Rupees	Rate %
	Cost			Accumulated Depreciation					
	As at July 1, 2013 Rupees	Transfer	As at June 30, 2014 Rupees	Transferred from tangible asset Rupees	Charged during the year Rupees	As at June 30, 2014 Rupees			
Office Premises	-	2,400,000	2,400,000	318,333	10,000	328,333	2,071,667	5	

During the year, the Modaraba has transferred one of its office premises to investment property. Modaraba will generate rental income on this property from next year.

Fair value of the investment property, based on the valuation carried out by Maricon Consultants (Pvt) Ltd as at June 30, 2014 is Rs. 15 million.

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

Page 91

<i>21 Long term investments</i>	Note	2014 Rupees	2013 Rupees
<i>Investments classified as available-for-sale financial assets</i>			
Listed securities	21.1	2,167,869	10,989,869
Unlisted securities	21.2	72,219,861	72,219,861
		74,387,730	83,209,730

21.1 Listed securities

The holding is in ordinary shares/units of Rs. 10 each of listed companies, unless otherwise stated:

2013 Number	2014 Number	Note	2014 Rupees	2013 Rupees
			Open-end mutual funds	
11,968	11,968	21.1.1	847,188	847,188
			Dawood Income Fund (Unit of Rs. 100 each)	
			Chemicals	
166,000			-	6,231,640
6,645			-	1,107,425
9,400			-	119,662
			Construction and materials	
			Maple Leaf Cement Factory	
7,000			-	153,510
			Automobile and parts	
1,043			-	324,373
			Fixed line telecommunication	
50,000	42,000		1,069,740	1,109,500
			Pakistan Telecommunication Company Limited	
			Gas water and multiutilities	
			Sui Northern Gas Pipelines	
42,155			-	845,630
			Financial services	
22,000	22,000	21.1.1	41,800	41,800
			Javed Omer Vohra & Company Limited	
			Equity investment instruments	
735,000	735,000	21.1.1 & 21.1.2	209,141	209,141
			First Dawood Mutual Fund	
			2,167,869	10,989,869

21.1.1 There was no trading on these scrips on June 30, 2014. Their last quoted/traded value is taken for valuation.

21.1.2 Investment was made at inception and the carrying value was Rs 5,145,000. SECP took action against the management and as a result the Trustee (Central Depository Company of Pakistan Ltd) sold its investment and made the partial payment to share holders. The Modaraba received Rs 4,935,859 in this matter.



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

2013	2014	Note	2014	2013
Number	Number		Rupees	Rupees

21.2 Unlisted securities

The holding is in ordinary shares of Rs. 10 each.

50,000	50,000	Sapphire Power Generation Ltd	21.2.1	1,800,000	1,800,000
4,007,383	4,007,383	Karachi Stock Exchange Ltd		40,073,830	40,073,830
3,034,603	3,034,603	Islamabad Stock Exchange Ltd		30,346,030	30,346,030
78,150	78,150	Callmate Telips Telecom Ltd	21.2.2	1	1
				72,219,861	72,219,861

21.2.1 Net assets value per share of Sapphire Power Generation Limited is Rs. 85.67 (2012: Rs. 72.84) as per financial statements as at June 30, 2013 audited by Riaz Ahmad, Saqib, Gohar & Company, Chartered Accountants.

21.2.2 The company is in the process of winding up, hence Net assets value per share is not available.

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

Page 93

	Note	2014 Rupees	2013 Rupees
<i>22. Store and spares</i>			
- in hand		26,392,239	19,388,898
- in transit		-	6,122,854
		26,392,239	25,511,752
<i>23. Stock-in-trade</i>			
Raw material			
- in hand		103,135,168	246,327,928
- in hand		18,678,526	-
Work in Process		9,346,242	9,324,421
Finished goods		66,494,627	35,695,827
		197,654,563	291,348,176
<i>24. Trade debts</i>			
Secured - considered good		-	-
Unsecured - considered good		161,835,541	115,505,726
		161,835,541	115,505,726
Unsecured - considered doubtful		7,843,463	7,447,397
Less: Provision for bad debts against local debtors		(7,843,463)	(7,447,397)
		161,835,541	115,505,726
<i>25. Morabaha/Musharaka receivables-secured</i>			
Musharaka - considered good	25.1 & 25.2	159,320,497	150,039,060
Morabaha - considered doubtful		17,380,055	17,380,055
		176,700,552	167,419,115
Provision for non performing assets		(17,380,055)	(17,380,055)
		159,320,497	150,039,060

25.1 The Modaraba has entered into musharaka agreements under which the Modaraba has provided funds for working capital requirements on profit and loss sharing basis. These are secured against pledge, hypothecation of stock and receivables, demand promissory notes, personal guarantee of directors / proprietors and mortgage of property. Expected rate of profit on musharaka transactions during the year range between 12% to 16 % (2013: 12 % to 16%).

25.2 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.



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

	Note	2014 Rupees	2013 Rupees
26. <i>Short term investments</i>			
Investments in associated company	26.1	24,376,515	28,269,886
Investment classified as financial asset at fair value through profit or loss			
- Listed securities	26.2	107,396,243	39,981,789
		131,772,758	68,251,675

26.1. *Investments in associated company*

The holdings are in ordinary shares of Rs. 5 each.

2013 Number	2014 Number		2014 Rupees	2013 Rupees
981,134	981,134	Premier Insurance Limited	28,269,886	28,790,718
		Share of (loss) / profit	(2,912,237)	460,302
		Less: dividend income	(981,134)	(981,134)
			24,376,515	28,269,886

26.2 *Listed securities*

The holding is in ordinary shares/units of Rs. 10 each of listed companies, unless otherwise stated:

2013 Number	2014 Number		2014 Rupees	2013 Rupees
		Oil and Gas		
-	58,400	Attock Refinery Ltd	12,397,736	-
-	24,800	Mari Petroleum Company Ltd	9,261,064	-
-	19,800	National Refinery Ltd	4,264,326	-
-	57,800	Pakistan Petroleum Ltd	12,966,852	-
3,720	-	Pakistan State Oil Company Ltd	-	1,191,814
10,000	21,900	Shell Pakistan Ltd	6,050,532	1,431,700
		Foods		
47,500	1,000	Engro Foods Ltd	102,530	6,686,575
50,000	-	Quice Food Industries Ltd	-	432,000
		Chemicals		
-	4,100	AkzoNobel Pakistan Ltd	692,736	-
140,000	40,500	Lotte Chemical Pakistan PTA Limited	291,195	1,066,800
45,000	-	Sitara Peroxide Ltd	-	572,850
25,000	-	Ghani Glass Ltd	-	624,500
		Construction and materials		
-	10,500	D.G. Khan Cement Company Ltd	923,580	-
-	75,500	Fauji Cement Company Ltd	1,452,620	-
-	14,500	Cherat Cement Company Ltd	949,170	-
36,000	54,000	Fecto Cement Ltd	2,700,000	1,728,360
140,000	-	Fly Cement Ltd	-	617,400

FIRST EQUITY MODARABA

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

Page 95

2013	2014		2014	2013
Number	Number		Rupees	Rupees
225,500	643,500	Lafarge Pakistan Cement Ltd	10,283,130	1,914,495
66,000	-	- Maple Leaf Cement Factory Ltd	-	1,447,380
-	50,000	Pioneer Cement Ltd	2,333,000	-
		Personal goods		
-	38,300	Nishat Mills Limited	4,286,536	-
		Household goods		
-	16,500	Tariq Glass Industries Ltd	518,100	-
		Pharma and biotech		
39,200	-	- IBL Healthcare Limited	-	1,538,600
47,000	20,400	The Searle Pakistan Limited	3,560,616	3,712,060
30,000	-	- Glaxosmithkline Pakistan Ltd	-	3,639,900
		Engineering		
1,967	-	- Millat Tractors Ltd	-	1,032,655
		Automobile and parts		
-	79,000	Honda Atlas Car (Pakistan) Ltd	7,354,110	-
30,000	-	The General Tyre & Rubber Company Pakistan Ltd	-	1,266,000
		Fixed line telecommunication		
		Pakistan Telecommunication Company Limited	13,384,485	-
-	98,000	Netsol Technologies Ltd	2,870,420	-
300,000	-	- TeleCard Ltd	-	1,554,000
632,500	-	- Worldcall Telecom Limited	-	1,897,500
		Electricity		
-	1,089,500	K-Electric Limited	9,249,855	-
		Gas water and multiutilities		
352,000	-	- Sui Northern Gas Pipelines Limited	-	7,061,120
29,000	-	- Sui Southern Gas Limited	-	566,080
		Banks		
-	152,500	Bank Islami Pakistan Ltd	1,503,650	-
			107,396,243	39,981,789

	Note	2014 Rupees	2013 Rupees
27.	<i>Advances - considered good</i>		
	To employees	27.1 1,035,195	1,740,803
	To supplier of goods	37,372,542	34,473,766
	Against letter of credit	44,143	138,897
	Others	-	1,011
		38,451,880	36,354,477

27.1 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.



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

	Note	2014 Rupees	2013 Rupees
<i>28. Trade deposits and prepayments</i>			
Deposits		14,767,556	14,767,556
Margin deposit		11,345,225	11,301,058
Prepayments		214,362	259,061
		26,327,143	26,327,675

28.1 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.

	Note	2014 Rupees	2013 Rupees
<i>29. Other receivables</i>			
Sale proceeds of investments		327,979	371,226
Receivable from clients	29.1	23,226,360	25,971,457
Insurance claims	29.2	2,589,576	11,531
Dividend		17,800	-
Cotton claims		64,151	-
Others	29.3	2,661,089	3,064,485
		28,886,955	29,418,699

29.1 Receivable from clients

Considered good		23,226,360	25,971,457
Considered doubtful	29.1.1	12,500,000	12,500,000
		35,726,360	38,471,457
Less: Provision for doubtful debts		(12,500,000)	(12,500,000)
		23,226,360	25,971,457

29.1.1 Movement in provision for doubtful debts

Opening provision		12,500,000	12,500,000
Charge for the year		-	-
		12,500,000	12,500,000

29.2 The insurance claim is receivable from Premier Insurance Limited, an associated undertaking 64,151. (2013: 11,531)
Receivable from clients include receivable from related parties of Rs. 26,817 (2013: Rs. 259,158)

29.3 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.

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

Page 97

	Note	2014 Rupees	2013 Rupees
<i>30. Tax refund from government authorities</i>			
Sales tax refundable		11,839,314	12,758,194
Income tax refundable		12,548,490	9,859,821
		24,387,804	22,618,015
<i>31. Taxation-net</i>			
Advance income tax		22,330,466	17,736,370
Less : Provision for taxation		(20,996,096)	(10,442,931)
		1,334,370	7,293,439
<i>32. Cash and bank balance</i>			
Cash in Hand		753,817	261,659
Bank balances			
-in current accounts		7,752,604	11,494,854
-in Islamic banks		7,774,905	47,669,241
-in saving accounts	32.1	319,212	156,927
		16,600,538	59,582,681
<i>32.1 Effective mark-up rate in respect of PLS accounts ranges from 5% to 7% (2013: 5% to 7%) per annum.</i>			
<i>33. Income</i>			
Income from modaraba's business	33.1	46,224,523	16,621,402
Income from textile's business	33.2	175,422,125	334,492,062
		221,646,648	351,113,464
<i>33.1 Income from modaraba's business</i>			
Profit on musharaka		18,162,477	17,811,866
Brokerage commission		2,473,689	1,379,972
Capital gain		21,799,039	(6,715,718)
Dividends		3,789,318	3,806,611
Commission and fees		-	338,671
		46,224,523	16,621,402



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

	Note	2014 Rupees	2013 Rupees
33.2 Income from textile's business			
Sales			
- Local		2,383,380,286	2,341,005,201
- Exports		25,967,082	45,805,710
- Waste sales		50,278,570	22,610,977
		<u>2,459,625,938</u>	2,409,421,888
Commision to selling agent		(58,489,135)	(65,588,273)
		<u>2,401,136,803</u>	2,343,833,615
Cost of sale	33.3	(2,225,714,678)	(2,009,341,553)
		<u>175,422,125</u>	334,492,062
33.3 Cost of sale			
Raw material consumed	33.3.1	1,784,943,110	1,613,286,216
Store consumed		37,799,130	33,741,209
Packing material consumed		26,902,101	23,508,039
Salaries, wages and other benefits		106,855,832	89,589,454
Provident fund contribution		1,574,425	1,466,777
Fuel and power		150,291,578	128,538,800
Insurance		8,245,820	8,243,547
Repair & maintenance		6,907,711	3,825,593
Depreciation	18.1.1	131,078,293	94,093,151
Other manufacturing overheads		1,937,299	2,362,971
		<u>2,256,535,299</u>	1,998,655,757
Work in Process			
-opening stock		9,324,421	8,776,680
-closing Stock		(9,346,242)	(9,324,421)
Cost of goods manufactured		<u>2,256,513,478</u>	1,998,108,016
Finished goods			
-opening stock		35,695,827	46,929,364
-closing Stock		(66,494,627)	(35,695,827)
		<u>2,225,714,678</u>	2,009,341,553
33.3.1 Raw material consumed			
Opening stock		246,327,928	167,915,793
Purchased during the year		1,641,750,350	1,691,698,351
		<u>1,888,078,278</u>	1,859,614,144
Closing stock		(103,135,168)	(246,327,928)
		<u>1,784,943,110</u>	1,613,286,216

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

Page 99

	Note	2014 Rupees	2013 Rupees
34. <i>Operating expenses</i>			
Salaries, allowances and benefits	34.1	11,723,621	11,411,798
Provident fund contribution		262,161	237,230
Traveling, conveyance and entertainment		1,098,648	978,360
Telephone and postage		417,442	604,976
Rent, rates and taxes		118,400	100,000
Electricity		465,274	477,302
Insurance		632,163	516,414
Printing, stationery and advertising		534,616	753,064
Fees and subscriptions		1,579,836	1,167,898
Vehicle running and maintenance		2,521,035	2,319,283
Depreciation	18.1.1	3,072,718	2,351,009
Investment written off		-	6,853,737
Facilities and services		4,508,452	4,344,996
Repair and maintenance		1,288,284	1,562,390
Annual Review Meeting		62,500	28,490
Auditors' remuneration	34.3	488,145	418,579
Legal and professional		3,460,510	1,937,237
Shariah Advisor		131,250	140,000
Training and development		1,000	131,000
KSE & SECP Charges		360,946	159,405
Withholding & CVT tax		951,576	58,453
Donation		2,100,000	-
Cartage expense		112,098	245,928
Others		137,873	497,689
		36,028,548	37,058,916

The Company has pledged to The Aga Khan Hospital and Medical College Foundation, an approved institution to pay donation amounting to Rs. 6 million towards procurement of PET/CT Scanner out of which an amount of Rs. 2 million has been paid during the year.

34.1 *Remuneration of officers and other employees*

The aggregate amount charged in the consolidated financial statements for remuneration, including benefits to 25 (2013 : 10) employees of the Modaraba is:

	2014		2013	
	Officers	Other employees	Officers	Other employees
	----- Rupees -----		----- Rupees -----	
Salaries and allowances	4,880,086	1,710,351	4,384,528	5,808,666
Gratuity and leave fare	303,430	186,455	424,641	299,366
Expenses reimbursed:				
- Medical	466,105	627,750	297,187	259,839
	5,649,621	2,524,556	5,106,356	6,367,871

34.2 Salaries, allowances and benefits include provision for gratuity of Rs. 351,700 (2013: Rs. 496,608). Officers are also provided with free use of Modaraba maintained cars.



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

	2014 Rupees	2013 Rupees
34.3 Auditor's remuneration		
Audit fee	130,000	280,000
Half yearly review	25,000	25,000
Other fees	113,576	113,579
	268,576	418,579
35. Distribution and Selling Expenses		
Freight loading and unloading	13,525,815	14,753,611
Clearing & forwarding - exports	1,392,316	1,037,080
Export development charges	71,022	98,517
Pressing comber noil	127,915	448,762
	15,117,068	16,337,970
36. Financial Charges		
Mark up / interest on :		
Long term loan - secured	53,107,481	70,520,604
Short term loan & running finance - secured	15,519,745	20,009,748
Interest on WPPF	-	178,024
Loan from directors	4,767,561	4,754,520
Bank charges	3,174,158	4,114,878
	76,568,945	99,577,774
37. Other income		
Profit on PLS deposits	748,824	731,770
Gain on sale of fixed assets	(34,844)	221,473
Interest income	461,568	583,176
Exchange gain	106,158	-
	1,281,706	1,536,419
38. Other charges		
Exchange loss - net	-	23,519
Provision for doubtful debts	396,066	3,331,749
Worker Welfare Fund	1,782,929	3,895,780
Workers Profit Participation Fund	3,365,590	10,252,053
	5,544,585	17,503,101
39. Taxation		
The charge for current tax is based on taxable income at current rates of taxation after taking into account tax credits and rebates available and minimum tax as applicable under the Income Tax Ordinance, 2001.		

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

Page 101

Assessments, in respect of First Equity Modaraba, upto and including the tax year 2009 have been finalized under section 120 of the Income Tax Ordinance, 2001 (the Ordinance) which is subject to audit under section 170 of the Ordinance.

	2014 Rupees	2013 Rupees
<i>40. Earnings per certificates - basic and diluted</i>		
Profit for the year	95,437,980	137,030,614
Weighted average number of certificates outstanding during the year	Number 52,440,000	Number 52,440,000
Profit per certificate - basic and diluted	Rupees 1.82	Rupees 2.61

40.1 There is no dilution effect on the basic earnings per share of the Modaraba as the modaraba has no such commitments.

41. Risk management policies and objectives

Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the Modaraba's risk management framework. The Modaraba has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit and concentration risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises 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 the Modaraba's performance to developments affecting a particular industry.

Credit risk of the Modaraba arises principally from the investments, musharaka/morahaba receivables, advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk, the Modaraba has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful for recovery.



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

Business	2014		2013	
	Rupees	%	Rupees	%
Open-end mutual funds	847,188	0.14	847,188	0.22
Oil and Gas	44,940,510	7.19	2,623,514	2.21
Chemicals	983,931	0.16	9,098,377	2.30
Construction and materials	18,641,500	2.98	5,861,145	0.47
Automobile and parts	7,354,110	1.18	3,247,528	0.32
Personal goods	4,804,636	0.77	-	0.00
Pharma and biotech	3,560,616	0.57	8,890,560	0.04
Fixed line telecommunication	17,324,645	2.77	4,561,000	0.18
Electricity	11,049,855	1.77	-	1.10
Food	102,530	0.02	-	0.00
Gas water and multiutilities	-	0.00	8,472,830	0.30
Banks	1,503,650	0.24	-	0.00
Non life insurance	10,792,475	1.73	7,849,073	7.66
Financial services	41,800	0.01	41,800	0.15
Equity investment instruments	209,141	0.03	209,141	1.02
Stock Exchange	70,419,860	11.27	-	0.00
Engineering	13,819,560	2.21	13,912,099	2.01
Others	418,246,497	66.96	447,146,485	80.13
	624,642,504	100	512,760,740	100

The Carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

	2014 Rupees	2013 Rupees
Investment	206,160,488	151,455,103
Trade debts	161,835,541	111,505,726
Morabaha/Musharaka receivables-secured	159,320,497	150,039,060
Advances-considered good	40,961,880	38,864,477
Trade deposits and prepayments	27,477,675	27,477,675
Other receivables	28,886,955	29,418,699
	624,642,504	512,760,740

FIRST EQUITY MODARABA

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

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

Page 103

	2014			Total
	Less than one year	Over one year but less than five years	Over five years	
----- Rupees -----				
Assets				
Long term investments	-	74,387,730	-	74,387,730
Trade debts	161,835,541	-	-	161,835,541
Morabaha & musharaka receivables	159,320,497	-	-	159,320,497
Short term investments	131,772,758	-	-	131,772,758
Advances	38,451,880	-	2,510,000	40,961,880
Trade deposits	26,112,781	1,150,000	-	27,262,781
Other receivables	28,886,955	-	-	28,886,955
Bank balances	16,600,538	-	-	16,600,538
	562,980,950	75,537,730	2,510,000	641,028,680
Liabilities				
Subordinated loan	-	40,000,000	-	40,000,000
Security deposit	-	200,000	-	200,000
Long term financing	-	510,782,766	-	510,782,766
Deferred markup	-	-	49,537,448	49,537,448
Current portion of long term liabilities	57,428,186	-	-	57,428,186
Short term borrowing	59,286,520	-	-	59,286,520
Creditors, accrued and other liabilities	137,864,786	-	-	137,864,786
Accrued markup	19,925,020	-	-	19,925,020
Unclaimed profit distribution	25,966,768	-	-	25,966,768
	300,471,280	550,982,766	49,537,448	900,991,494
Net balance	262,509,670	(475,445,036)	(47,027,448)	(259,962,814)
2013				
	Less than one year	Over one year but less than five years	Over five years	Total
----- Rupees -----				
Assets				
Long term investments	-	83,209,730	-	83,209,730
Trade debts	115,505,726	-	-	115,505,726
Morabaha & musharaka receivables	150,039,060	-	-	150,039,060
Short term investments	39,981,789	-	-	39,981,789
Advances	36,354,477	-	2,510,000	38,864,477
Trade deposits	26,068,614	1,150,000	-	27,218,614
Other receivables	29,418,699	-	-	29,418,699
Bank balances	59,582,681	-	-	59,582,681
	456,951,046	84,359,730	2,510,000	543,820,776
Liabilities				
Subordinated loan	-	40,000,000	-	40,000,000
Long term financing	-	494,544,991	-	494,544,991
Deferred markup	-	-	73,537,448	73,537,448
Current portion of long term liabilities	132,012,591	-	-	132,012,591
Short term borrowing	99,197,767	-	-	99,197,767
Creditors, accrued and other liabilities	155,721,594	-	-	155,721,594
Accrued markup	25,555,115	-	-	25,555,115
Unclaimed profit distribution	26,003,219	-	-	26,003,219
	438,490,286	534,544,991	73,537,448	1,046,572,725
Net balance	(18,460,760)	(450,185,261)	(71,027,448)	(502,751,949)



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

Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a 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.

Currency risk

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies.

42. Fair value of financial instruments

The Modaraba is of the view that the fair market value of most of the financial assets and financial liabilities are not significantly different from their carrying amounts.

	2014 Rupees	2013 Rupees
42.1 <i>Financial instruments by category</i>		
Financial assets		
<i>loans and receivables</i>		
Morabaha/Musharaka receivables	159,320,497	150,039,060
Trade debts	161,835,541	115,505,726
Advances	40,961,880	38,864,477
Trade deposits	27,262,781	27,218,614
Other receivables	28,886,995	29,418,699
Bank balances	16,600,538	59,582,681
<i>Financial assets at fair value through profit or loss</i>		
Short term investments	131,772,758	39,981,789
<i>Available-for-sale financial assets</i>		
Long term investments	74,387,730	83,209,730
	641,028,680	543,820,776
Financial liabilities		
Financial liabilities at amortised cost		
Subordinated loan	40,000,000	40,000,000
Security deposit	200,000	-
Long term financing	510,782,766	494,544,991
Short term loans	59,286,520	99,197,767
Deferred Mark up	49,537,448	73,537,448
Current portion of long term liabilities	57,428,186	132,012,591
Creditors, accrued and other liabilities	137,864,786	155,721,594
Accrued mark up	19,925,020	25,555,115
Unclaimed profit distribution	25,966,768	26,003,219
	900,991,494	1,046,572,725
On balance sheet gap	(259,962,814)	(502,751,949)

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

Page 105

43. *Maturities of assets and liabilities*

The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.

	2014				Total
	Upto one month	Over one month to one year	Over one year to five years	Over five years	
----- Rupees -----					
Assets					
Tangible assets	-	-	1,255,347,755	13,189,280	1,268,537,035
Intangible assets	-	-	-	19,000,000	19,000,000
Investment property	-	-	2,071,667	-	2,071,667
Long term investments	-	-	74,387,730	-	74,387,730
Store and spares	-	26,392,239	-	-	26,392,239
Stock-in-trade	-	197,654,563	-	-	197,654,563
Trade debts	-	161,835,541	-	-	161,835,541
Morabaha & musharaka receivables	63,820,497	95,500,000	-	-	159,320,497
Short term investments	-	131,772,758	-	-	131,772,758
Advances	35,644	38,416,236	2,510,000	-	40,961,880
Trade deposits and prepayments	11,476,050	14,851,093	1,150,000	-	27,477,143
Other receivables	38,781,851	(9,894,896)	-	-	28,886,955
Tax refunds due from government authorities	-	25,722,174	-	-	25,722,174
Bank balances	16,600,538	-	-	-	16,600,538
	130,714,580	682,249,708	1,335,467,152	32,189,280	2,180,620,720
Liabilities					
Subordinated loan	-	-	40,000,000	-	40,000,000
Security deposit	-	-	200,000	-	200,000
Long term financing	-	-	510,782,766	-	510,782,766
Deferred Mark up	-	-	-	49,537,448	49,537,448
Deferred liabilities	-	-	252,876,218	-	252,876,218
Short term loan	-	59,286,520	-	-	59,286,520
Current portion of long term liabilities	-	57,428,186	-	-	57,428,186
Creditors, accrued and other liabilities	27,634,401	110,230,385	-	-	137,864,786
Accrued mark up	-	19,925,020	-	-	19,925,020
Unclaimed profit distribution	25,966,768	-	-	-	25,966,768
	53,601,169	246,870,111	803,858,984	49,537,448	1,153,867,712
Net balance	77,113,411	435,379,597	531,608,168	(17,348,168)	1,026,753,008



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

	2013				Total
	Upto one month	Over one month to one year	Over one year to five years	Over five years	
	----- Rupees -----				
Assets					
Tangible assets	-	-	1,319,121,939	13,189,280	1,332,311,219
Intangible assets	-	-	-	19,000,000	19,000,000
Long term investments	-	-	83,209,730	-	83,209,730
Store and spares	-	25,511,752	-	-	25,511,752
Stock-in-trade	-	291,348,176	-	-	291,348,176
Trade debts	-	115,505,726	-	-	115,505,726
Morabaha & musharaka receivables	54,539,060	95,500,000	-	-	150,039,060
Short term investments	-	68,251,675	-	-	68,251,675
Advances	35,644	36,318,833	2,510,000	-	38,864,477
Trade deposits and prepayments	11,476,582	14,851,093	1,150,000	-	27,477,675
Other receivables	38,781,851	(9,363,152)	-	-	29,418,699
Tax refunds due from government authorities	-	29,911,454	-	-	29,911,454
Bank balances	59,582,681	-	-	-	59,582,681
	164,415,818	643,338,520	1,413,840,742	32,189,280	2,270,432,324
Liabilities					
Subordinated loan	-	-	40,000,000	-	40,000,000
Long term financing	-	-	494,544,991	-	494,544,991
Deferred Mark up	-	-	-	73,537,448	73,537,448
Deferred liabilities	-	-	287,094,085	-	287,094,085
Short term loan	-	99,197,767	-	-	99,197,767
Current portion of long term liabilities	-	132,012,591	-	-	132,012,591
Creditors, accrued and other liabilities	27,634,401	128,087,193	-	-	155,721,594
Accrued mark up	-	25,555,115	-	-	25,555,115
Unclaimed profit distribution	26,003,219	-	-	-	26,003,219
	53,637,620	384,852,666	821,639,076	73,537,448	1,333,666,810
Net balance	110,778,198	258,485,854	592,201,666	(41,348,168)	936,765,514

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

Page 107

44. *Yield/Profit rate risk exposure*

DESCRIPTION	Effective yield / profit risk % age	2014						2014 Total
		Yield / profit bearing maturing		Non yield / profit bearing maturing		Sub-total		
		With 1 year	After 1 year	With 1 year	After 1 year			
Rupees								
Financial assets								
Long term investments		-	74,387,730	74,387,730	-	-	74,387,730	
Trade debts			-	-	-	161,835,541	161,835,541	
Morabaha/Musharika receivables	12% to 16%	159,320,497	-	159,320,497	-	-	159,320,497	
Short term investments		131,772,758	-	131,772,758	-	-	131,772,758	
Advances		-	-	-	38,451,880	40,961,880	40,961,880	
Trade deposits		-	-	-	26,112,781	1,150,000	27,262,781	
Other receivables		-	-	-	28,886,955	-	28,886,955	
Bank balances	5% to 7%	8,094,117	-	8,094,117	8,506,421	-	16,600,538	
		299,187,372	74,387,730	373,575,102	263,793,578	3,660,000	641,028,680	
Financial Liabilities								
Security deposit		-	200,000	200,000	-	-	200,000	
Subordinated loan		-	-	-	-	40,000,000	40,000,000	
Long term financing		-	510,782,766	510,782,766	-	-	510,782,766	
Short term loan		59,286,520	-	59,286,520	-	-	59,286,520	
Current portion of long term liabilities		57,428,186	-	57,428,186	-	-	57,428,186	
Creditors, accrued and other liabilities		-	-	-	157,789,806	49,537,448	207,327,254	
Unclaimed profit distribution		-	-	-	25,966,768	-	25,966,768	
		116,714,706	510,982,766	627,497,472	183,756,574	89,537,448	273,294,022	
On balance sheet gap		182,472,666	(436,595,036)	(253,922,370)	80,037,004	(85,877,448)	(5,840,444)	

- The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.

- Yield risk is the risk of decline in earning due to adverse movement of the yield curve.

- Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.

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

FIRST EQUITY MODARABA

DESCRIPTION	Effective yield / profit risk % age	2013						2013	
		Yield / profit bearing maturing			Non yield / profit bearing maturing			Total	
		With 1 year	After 1 year	Sub-total	With 1 year	After 1 year	Sub-total		
Rupees									
Financial assets									
Long term investments		-	83,209,730	83,209,730	-	-	-	-	83,209,730
Trade debts		-	-	-	115,505,726	-	115,505,726	-	115,505,726
Morabaha/Musharika receivables	12% to 20%	150,039,060	-	150,039,060	-	-	-	-	150,039,060
Short term investments		39,981,789	-	39,981,789	-	-	-	-	26,918,313
Advances		-	-	-	36,354,477	2,510,000	38,864,477	-	38,864,477
Trade deposits		-	-	-	26,068,614	1,150,000	27,218,614	-	27,218,614
Other receivables		-	-	-	29,418,699	-	29,418,699	-	29,418,699
Bank balances	5% to 7%	47,826,168	-	47,826,168	11,756,513	-	11,756,513	-	59,582,681
		237,847,017	83,209,730	321,056,747	219,104,029	3,660,000	222,764,029	-	543,820,776
Financial Liabilities									
Subordinated loan		-	-	-	-	40,000,000	40,000,000	-	40,000,000
Long term financing		-	494,544,991	494,544,991	-	-	-	-	494,544,991
Short term loan		99,197,767	-	99,197,767	-	-	-	-	99,197,767
Current portion of long term liabilities		132,012,591	-	132,012,591	-	-	-	-	132,012,591
Creditors, accrued and other liabilities		-	-	-	181,276,709	85,537,448	254,814,157	-	254,814,157
Unclaimed profit distribution		-	-	-	26,003,219	-	26,003,219	-	26,003,219
		231,210,358	494,544,991	725,755,349	207,279,928	113,537,448	320,817,376	1,046,572,725	1,046,572,725
On balance sheet gap		6,636,659	(411,335,261)	(404,698,602)	11,824,101	(109,877,448)	(98,053,347)	(502,751,949)	(502,751,949)

- The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.

- Yield risk is the risk of decline in earning due to adverse movement of the yield curve.

- Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.

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

Page 109

45. *Segment information*

The Modaraba has four primary source of revenue i.e. musharaka facility, brokerage operations, textile unit and capital market based on the nature of business and related risk associated with each type of business segment which are not deemed by the management to the sufficiently significant to disclose as separate items are reported under others.

Segment assets and liabilities included all assets and liabilities related to the segment relevant proportion of the assets and liabilities allocated to the segment on reasonable basis.

Segment revenue and expenses included all revenue and expenses related to the segment and relevant proportion of the revenue and expenses allocated to the segment on reasonable basis.

	2014					2013	
	Musharaka facility	Brokerage operation	Capital market	Textile business	Others	TOTAL	TOTAL
Segment revenues	18,162,477	2,473,689	25,588,357	2,401,136,803	1,281,706	2,448,643,032	2,362,972,570
Segment result	18,162,477	(3,098,107)	25,588,357	175,422,125	1,281,706	217,356,558	347,847,537
Unallocated cost							
Operating expenses						(30,456,752)	(32,492,892)
Distribution and selling expenses						(15,117,068)	(16,337,970)
Financial charges						(76,568,945)	(99,577,774)
Other charges						(5,544,585)	(17,503,101)
Management fee with sales tax						(3,306,812)	-
Extraordinary item						-	36,368,860
Share of profit/(loss) in associated company						(2,901,431)	454,000
Loss before taxation						83,460,965	218,758,660
Taxation						11,977,015	(81,728,046)
Profit (loss) for the year						95,437,980	137,030,614
Other information							
Segment assets	159,320,497	45,081,172	109,581,912	1,719,094,626	-	2,033,078,207	2,205,939,655
Unallocated assets						147,542,513	64,492,669
Total assets						2,180,620,720	2,274,495,032
Segment liabilities	-	3,950,979	-	1,092,170,133	-	1,096,121,112	1,284,852,937
Unallocated liabilities						57,746,600	48,813,873
Total liabilities						1,153,867,712	1,333,666,810
						1,026,753,008	936,765,514



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

46. *Transactions with related parties*

The related parties of the Modaraba comprise management company, staff retirement funds, directors of the management company and key management personnel. Transactions with related parties other than remuneration and benefits to officers and employees under the terms of their employment are as follows:

	2014 Rupees	2013 Rupees
46.1 Balance outstanding at year end		
Modaraba Management Company		
- Current account payable	5,754,180	127,352
Receivable from associated company	349,099	15,700
Other related parties (other than key management personnel)		
- Deferred liability staff gratuity	1,556,255	2,092,021
- Brokerage house client receivable	26,817	259,158
Subordinated loan from sponsor	40,000,000	40,000,000
46.2 Transactions during the year		
Modaraba Management Company		
- reimbursement	4,508,452	4,344,996
Other related parties (other than key management personnel)		
- Contribution to staff gratuity fund	351,700	260,286
- Vehicle given to employee at net book value as per service rules	1	-
Dividend income	-	400
Services acquired	247,155	213,264
Brokerage commission earned	15,909	31,816
Purchases of goods and services	62,749,103	85,365,394
Sales of goods and services	5,549,530	37,095,804
Services rendered	18,470,356	17,841,499
Reimbursement	-	7,158,316
Contribution towards employees	1,836,586	1,707,007
Subordinated loan from Sponsor	4,767,561	4,754,520

FIRST EQUITY MODARABA

47. *Number of employees*

Total number of employees of the Modaraba as at June 30, 2014 are 25 (2013: 20).

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

Page 111

48. *Authorisation for issue*

These financial statements were authorized for issue in accordance with a resolution of the Board of Directors on October 09, 2014.

- 48.1 The Board of Directors of the Management Company has approved dividend at the rate of Re. 0.375 per certificate (2013: nil) for the year ended June 30, 2014, resulting in a total distribution of profit amounting to Rs. 19,665,000 (2013: nil), in its meeting held on October 09, 2014, which is more than 90% of the net profit for the year ended June 30, 2014, after appropriation to the statutory (mandatory) reserve as required under the Modaraba Regulations.

49. *General*

- 49.1 Figures in these financial statements have been rounded off to the nearest rupee.
- 49.2 The corresponding figures, wherever necessary, have been re-arranged for the purpose of comparison.
- 49.3 Prior year figures have been reclassified / restated for the purpose of better presentation and comparison.

Reclassification from	Reclassified to	Amount
Tax refunds from government	Tax-net: Advance income tax	510,731
Long term investments-investment in associated company	Short term investments-investment in associated company	28,269,886
Taxation net - provision for taxation	Tax refunds from government - income tax refundable	3,772,849

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

