



*B. F. Modaraba*

Managed by:  
E.A. Management (Pvt) Ltd.

# Annual Report 2010

*(Registered under the companies ordinance 1984 & registered under  
Modaraba companies and Modaraba Ordinance 1980)*



## **B. F. MODARABA 22<sup>nd</sup> ANNUAL REPORT 2010**

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## **COMPANY PROFILE**

### **BOARD OF DIRECTORS DIRECTORS OF MODARABA MANAGEMENT COMPANY**

Mr. Ahmed Ali Mohammad Amin Bawany - Chairman  
Mr. Muhammad Omar Amin Bawany - Chief Executive  
Mr. Abdul Ghani Samad  
Mr. Abdul Wahid Jaliawala

### **AUDIT COMMITTEE**

Mr. Ahmed Ali Mohammad Amin Bawany - Chairman  
Mr. Abdul Ghani Samad - Member  
Mr. Abdul Wahid Jaliawala - Member

### **CFO & COMPANY SECRETARY**

Muhammad Ayub

### **MODARABA AUDITORS**

Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants

### **LEGAL ADVISOR**

Abdul Ghaffar Muhammad Gheewala

### **BANKERS**

Al-Baraka Islamic Investment Bank  
Bank Al-Habib Limited-Islamic Branch  
Habib Bank Limited  
Habib Metropolitan Islamic Bank Limited  
Dawood Islamic Bank Limited

### **REGISTERED OFFICE**

4th Floor, Bank House No. I,  
Habib Square, M.A. Jinnah Road,  
Karachi-74000, Pakistan.  
Phone : (92-21) 111 786 878, 32413240  
Fax : (92-21) 32421010

### **EMAIL & WEBSITE**

E-mail: [info@bfmodaraba.com.pk](mailto:info@bfmodaraba.com.pk)  
[www.bfmodaraba.com.pk](http://www.bfmodaraba.com.pk)

### **SHARES REGISTER**

C & K Management Associated (Pvt.) Ltd,  
404, Trade Tower, Abdullah Haroon Road,  
Near Metropole Hotel, Karachi-75530  
Tel: ( 92-21) 35687839 & 35685930



**22<sup>nd</sup> ANNUAL REPORT OF THE DIRECTORS  
OF THE MODARABA COMPANY  
FOR THE YEAR ENDED JUNE 30, 2010**

Dear Certificate Holders.

Assalam-o-Aalikum,

The Board of Directors of E. A. Management (Pvt.) Limited, the management company of B. F. Modaraba, has pleasure in presenting 22<sup>nd</sup> annual report of your Modaraba together with audited financial statements for the year ended June 30, 2010.

**FINANCIAL RESULTS**

Financial results are summarized as follows:

|                                                              | <b>2010<br/>Rupees</b>                                                  | <b>2009<br/>Rupees</b>                                                  |
|--------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Revenue                                                      | <u>11,913,492</u>                                                       | <u>14,473,483</u>                                                       |
| Profit before charging management fee                        | 6,244,365                                                               | 8,111,021                                                               |
| Management fee                                               | <u>(624,437)</u>                                                        | <u>(811,102)</u>                                                        |
| Profit before taxation                                       | 5,619,928                                                               | 7,299,919                                                               |
| Provision for Worker Welfare Funds                           | <u>(182,170 )</u>                                                       | <u>(236,181 )</u>                                                       |
| Profit before taxation                                       | 5,437,758                                                               | 7,063,738                                                               |
| Taxation                                                     |                                                                         |                                                                         |
| For the year                                                 | <span style="border: 1px solid black; padding: 2px;">(1,943,296)</span> | <span style="border: 1px solid black; padding: 2px;">(3,200,000)</span> |
| Prior year                                                   | <span style="border: 1px solid black; padding: 2px;">(91,755 )</span>   | <span style="border: 1px solid black; padding: 2px;">(184,751 )</span>  |
|                                                              | <u>(2,035,051)</u>                                                      | <u>(3,384,751)</u>                                                      |
| Profit after taxation                                        | 3,402,708                                                               | 3,678,987                                                               |
| Add: Unappropriated profit brought forward                   | <u>6,527,351</u>                                                        | <u>3,952,059</u>                                                        |
|                                                              | 9,930,059                                                               | 7,631,046                                                               |
| Appropriations:                                              |                                                                         |                                                                         |
| Transferred to statutory reserve @ 30% of profit (2009: 30%) | <span style="border: 1px solid black; padding: 2px;">1,020,812</span>   | <span style="border: 1px solid black; padding: 2px;">1,103,695</span>   |
| Reserve for issue of Bonus Certificates                      | <span style="border: 1px solid black; padding: 2px;">6,831,962</span>   | <span style="border: 1px solid black; padding: 2px;">-</span>           |
|                                                              | <u>7,852,774</u>                                                        | <u>1,103,696</u>                                                        |
|                                                              | <u>2,077,285</u>                                                        | <u>6,527,351</u>                                                        |
| Earnings per certificate                                     | <u>0.50</u>                                                             | <u>0.54</u>                                                             |



### ***REVIEW OF OPERATIONS***

Gross revenue during the year were Rs11.913 million vis-à-vis Rs. 14.473 million for the corresponding period of 2009, showing a decline of 17% mainly due to decrease in trading income. Major components of income were trading income of Rs.6.2 million, dividend income of Rs. 2.129 million and profit on bank deposit of Rs. 2.192 million. During the year under review, the stock market has recorded an appreciation of 36 % KSE 100 index closed at 9,771 at end of the year with a low of 7,162 and high of 10, 677 points resulted increased in our unrealized gain. The unrealized gain in the value of investment in marketable securities was Rs.7.759 million, which has been reflected in the equity. Impairment in marketable securities amounting to Rs.2.997 million was charged to profit loss account in accordance with SRO 150 (1) /2009, dated 13th February 2009. Thus, after tax Profit stood at Rs 3.402 million against after tax Profit of Rs.3.678 million for the corresponding period of 2008-09.

### ***PROFIT DISTRIBUTION***

The Board in its meeting held on September 30, 2010 has approved the Bonus of Modaraba certificates at the rate of 10 %, subject to approval from the Registrar Modaraba Companies and Modaraba and an amount of Rs.1.020 million has been transferred to Statutory Reserves in compliance with the Prudential Regulations for Modarabas

### ***FUTURE OUTLOOK***

The fiscal year 2010-11 has started on a disaster note for the country with one of worst ever floods. The recent catastrophic floods have serious implications for macroeconomics stability and growth prospects. Higher inflation, inevitable rupees depreciation, the severe energy shortages and sensitive security remain a major threat to the potential output of the economy. The B.F Modaraba finances its operation through its own equity. We utilize our funds in Murabaha / Ijarah financing, trading activities and investments in equity instruments. Hence, we, being cautious of the prevailing economic conditions, would continue with our strategy of achieving steady growth by taking exposure in selected avenues of investment following stringent risk management policies.

Your modaraba's investment portfolio is invested with prudence while seeking a modest return in line with market condition.

The price of commodity for which we have already made commitments rose to its highest level due to strong demand amid limited supplies, and we expect positive contribution from our trading activities.

### ***CORPORATE GOVERNANCE***

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

- A. The financial statements prepared by the management of the Modaraba present fairly its state of affairs, the result of its operations, cash flow 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 judgments.



- D. International Accounting Standards, as applicable in Pakistan have been followed in the preparation of financial statements.
- E. The system of internal control is sound and has been effectively implemented and monitored.
- F. There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- G. There is no material departure from best practices of corporate governance as detailed in the listing regulations of stock exchanges.

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

A statement setting out the status of the compliance with the best practices of corporate governance is annexed to the Annual Report.

***BOARD MEETINGS***

During the year under review 4 meetings of the Board of Directors were held. A statement showing number of meetings each of the Directors attended are annexed to the Annual Report.

***PATTERN OF CERTIFICATE HOLDERS***

A statement showing the pattern of holding of the certificates as at June 30, 2010 is annexed to the Annual report.

***TRADING OF CERTIFICATE***

Trades in shares of the company, carried out by its directors, CEO, CFO, Company Secretary and their spouses and minor children are as follows:

| <b><u>Description</u></b>               | <b><u>Purchase of Shares (No.)</u></b> | <b><u>Sales of Shares (No.)</u></b> |
|-----------------------------------------|----------------------------------------|-------------------------------------|
| Directors                               | -                                      | -                                   |
| CFO and Company Secretary               | -                                      | -                                   |
| Spouses and minor children of Directors | 210,000                                | -                                   |

***KEY OPERATING & FINANCIAL DATA***

A statement summarizing key operating and financial data for the last six years is annexed to the Annual Report.

***AUDITORS***

The present Auditors M/s. Rehman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants retiring on the date of Annual General Meeting, being eligible, have offered themselves for re-appointment for the year ending June 30, 2011 subject to the approval by the Registrar Modaraba companies and Modarabas, the Board has confirmed their appointment.

***ACKNOWLEDGEMENT***

We bow to Allah and pray for His blessing and guidance

On behalf of the Board

Muhammad Omar Amin Bawany  
Chief Executive

Karachi.  
Date September 30, 2010



## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet of **B.F. Modaraba** as at **June 30, 2010** 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 [E. A. Management (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

- a. in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of **B.F. Modaraba** as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- b. in our opinion:
  - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied except for the changes as stated in note 2.5 (a) resulted from initial application of standards, amendments or an interpretation to existing standards, with which we concur;
  - ii the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - iii the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;



- c. in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan ,and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at **June 30, 2010** and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and.
- d. in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ**  
**CHARTERED ACCOUNTANTS**  
Engagement Partner: **Muhammad Rafiq Dosani**

Karachi.  
Dated: September 30, 2010





**B. F. MODARABA  
BALANCE SHEET  
AS AT JUNE 30, 2010**

|                                                   | <i>Note</i> | <b>2010</b>        | <b>2009</b>       |
|---------------------------------------------------|-------------|--------------------|-------------------|
|                                                   |             | ..... Rupees ..... |                   |
| <b>ASSETS</b>                                     |             |                    |                   |
| <b>Current Assets</b>                             |             |                    |                   |
| Cash and bank balances                            | 4           | 8,007,972          | 15,490,527        |
| Investments, available for sale                   | 5           | 37,735,920         | 38,216,733        |
| Loan, prepayments and other receivables           | 6           | 1,371,787          | 6,361,113         |
| Trade debts - unsecured, considered good          |             | 27,660,000         | -                 |
| Short term murabahas                              | 7           | 11,481,657         | -                 |
| Stock in trade                                    |             | 17,426,776         | 37,333,536        |
|                                                   |             | 103,684,112        | 97,401,909        |
| <b>Non Current Assets</b>                         |             |                    |                   |
| Long term deposits                                |             | 40,019             | 40,019            |
| Fixed assets                                      | 8           | 935,139            | 1,201,943         |
|                                                   |             | 975,158            | 1,241,962         |
| <b>TOTAL ASSETS</b>                               |             | <u>104,659,270</u> | <u>98,643,871</u> |
| <b>LIABILITIES AND EQUITY</b>                     |             |                    |                   |
| <b>Current Liabilities</b>                        |             |                    |                   |
| Accrued and other liabilities                     | 9           | 767,450            | 3,451,618         |
| Due to management company                         |             | 624,437            | 811,102           |
| Unclaimed dividend                                |             | 278,583            | 278,583           |
| Deferred murabaha income                          |             | 171,036            | -                 |
| Taxes payable - net                               |             | 351,238            | 2,320,700         |
|                                                   |             | 2,192,743          | 6,862,003         |
| <b>Non-Current Liabilities</b>                    |             |                    |                   |
| Staff gratuity                                    |             | 161,150            | 82,300            |
| Lease deposits                                    | 10          | 84,600             | 84,600            |
|                                                   |             | 245,750            | 166,900           |
|                                                   |             | 2,438,493          | 7,028,903         |
| <b>Certificate Holders' Equity</b>                |             |                    |                   |
| Certificate capital                               | 11          | 68,319,625         | 68,319,625        |
| Reserves                                          | 12          | 26,141,541         | 22,738,833        |
| Unrealized gain on available for sale investments |             | 7,759,611          | 556,510           |
|                                                   |             | 102,220,777        | 91,614,968        |
| <b>TOTAL LIABILITIES AND EQUITY</b>               |             | <u>104,659,270</u> | <u>98,643,871</u> |
| <b>Contingencies and Commitments</b>              | 13          | -                  | -                 |

The annexed notes 1 to 29 form an integral part of these financial statements. Note 5,3 reflects the effect of departure from the requirement of IAS 39 'Financial Instruments : Recognition and Measurement' in respect of impairment of available for sale investments.

**For E.A Management (Private) Limited**

(Management Company)

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director



**B. F. MODARABA  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2010**

|                                                   | <i>Note</i> | <i>2010</i>   | <i>2009</i> |
|---------------------------------------------------|-------------|---------------|-------------|
|                                                   |             | <i>Rupees</i> |             |
| <b>Revenue</b>                                    |             |               |             |
| Lease rentals                                     |             | 219,168       | 219,168     |
| Loss on sale of available for investments         |             | (90,548)      | -           |
| Trading profit                                    | 14          | 6,282,300     | 9,097,344   |
| Dividend - net of zakat                           | 15          | 2,129,758     | 1,709,569   |
| Murabaha income                                   | 16          | 679,976       | -           |
| Profit on bank deposits accounts                  |             | 2,192,838     | 1,738,523   |
| Other Income                                      | 17          | 500,000       | 1,708,879   |
|                                                   |             | 11,913,492    | 14,473,483  |
| <b>Expenditure</b>                                |             |               |             |
| Operating expenses                                | 18          | 2,522,999     | 2,201,361   |
| Amortization of leased assets                     |             | 149,029       | 128,622     |
|                                                   |             | 2,672,028     | 2,329,983   |
| Profit before impairment loss                     |             | 9,241,464     | 12,143,500  |
| Impairment loss on available for sale investments | 5.3         | (2,997,099)   | (4,032,479) |
|                                                   |             | 6,244,365     | 8,111,021   |
| Profit before charging management fee             |             | (624,437)     | (811,102)   |
| Provision for management fee                      |             | 5,619,928     | 7,299,919   |
|                                                   |             | (182,170)     | (236,181)   |
| Provision for workers' welfare fund               |             | 5,437,758     | 7,063,738   |
| <b>Profit before taxation</b>                     |             | 5,437,758     | 7,063,738   |
| Taxation                                          | 19          | (2,035,051)   | (3,384,751) |
| <b>Profit after taxation</b>                      |             | 3,402,708     | 3,678,987   |
| <b>Earnings per certificate-basic and diluted</b> | 20          | 0.50          | 0.54        |

The annexed notes 1 to 29 form an integral part of these financial statements. Note 5.3 reflects the effect of departure from the requirement of IAS 39 'Financial Instruments : Recognition and Measurement' in respect of impairment of available for sale investments

**For E.A Management (Private) Limited**  
(Management Company)

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director



**B. F. MODARABA**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|                                                                         | <i>Note</i> | <i>2010</i>               | <i>2009</i>        |
|-------------------------------------------------------------------------|-------------|---------------------------|--------------------|
|                                                                         |             | ..... <i>Rupees</i> ..... |                    |
| <b>Profit after tax for the year</b>                                    |             | 3,402,708                 | 3,678,987          |
| Unrealized gain/(loss) on revaluation of available for sale investments |             | 4,864,434                 | (9,408,925)        |
| Gain on available for sale investments realised during the year         |             | (658,432)                 | -                  |
| Impairment loss transferred to profit and loss account                  | 5.3         | 2,997,099                 | 4,032,479          |
|                                                                         |             | 7,203,101                 | (5,376,446)        |
| <b>Total comprehensive income for the year</b>                          |             | <u>10,605,809</u>         | <u>(1,697,459)</u> |

The annexed notes 1 to 29 form an integral part of these financial statements. Note 5.3 reflects the effect of departure from the requirement of IAS 39 'Financial Instruments : Recognition and Measurement' in respect of impairment of available for sale investments

**For E.A Management (Private) Limited**

(Management Company)

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director



**B. F. MODARABA**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|                                                                       | 2010                | 2009                |
|-----------------------------------------------------------------------|---------------------|---------------------|
|                                                                       | ..... Rupees .....  |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |                     |                     |
| Profit before taxation                                                | 5,437,758           | 7,063,738           |
| <b>Adjustments for</b>                                                |                     |                     |
| Depreciation - own assets                                             | 118,299             | 160,709             |
| Depreciation - leased assets                                          | 149,029             | 128,622             |
| Provision for gratuity                                                | 78,850              | 46,380              |
| Provision for management fee                                          | 624,437             | 811,102             |
| Provision for workers' welfare fund (WWF)                             | 182,170             | 236,181             |
| Loss on sale of investments                                           | 90,548              | -                   |
| Amount transferred to profit and loss account<br>from unrealised gain | 658,433             | -                   |
| Impairment loss on available for sale investments                     | 2,997,099           | 4,032,479           |
| Gain on sale of vehicle                                               | -                   | (228,879)           |
| Dividend income                                                       | (2,129,758)         | (1,709,569)         |
|                                                                       | <u>2,769,107</u>    | <u>3,477,025</u>    |
| <b>Operating profit before changes in working capital</b>             | <u>8,206,865</u>    | <u>10,540,763</u>   |
| <b>(Increase)/decrease in current assets</b>                          |                     |                     |
| Stock in trade                                                        | 19,906,760          | (37,333,537)        |
| Trade debts                                                           | (27,660,000)        | 6,021,000           |
| Short term morabaha                                                   | (11,481,657)        | -                   |
| Loan, prepayments and other receivables                               | 4,828,550           | 18,863,587          |
|                                                                       | <u>(14,406,347)</u> | <u>(12,448,950)</u> |
| <b>Increase/(decrease) in current liabilities</b>                     |                     |                     |
| Accrued and other liabilities                                         | (2,587,313)         | 2,713,733           |
| Deffered Murabaha income                                              | 171,036             | -                   |
| Management fee paid                                                   | (811,102)           | (847,363)           |
|                                                                       | <u>(3,227,379)</u>  | <u>1,866,370</u>    |
| <b>Net increase / (decrease) in working capital</b>                   | <u>(17,633,726)</u> | <u>(10,582,580)</u> |
| WWF paid                                                              | (279,025)           | -                   |
| Taxes paid                                                            | (4,004,512)         | (1,265,512)         |
| <b>Net cash flow from operating activities</b>                        | <u>(13,710,398)</u> | <u>(1,307,329)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |                     |                     |
| Additions to fixed assets for own use                                 | (524)               | (4,550)             |
| Purchase of available for sale investments                            | (14,177,985)        | (10,301,344)        |
| Proceeds from sale of available for sale investments                  | 18,115,819          | -                   |
| Proceeds from sale of vehicle                                         | -                   | 285,000             |
| Dividends received                                                    | 2,290,534           | 1,709,569           |
| <b>Net cash (used in) / generated from investing activities</b>       | <u>6,227,844</u>    | <u>(8,311,325)</u>  |
| Net decrease in cash and cash equivalents                             | (7,482,554)         | (9,618,654)         |
| Cash and cash equivalents at the beginning of the year                | <u>15,490,527</u>   | <u>25,109,181</u>   |
| Cash and cash equivalents at the end of the year                      | <u>8,007,972</u>    | <u>15,490,527</u>   |

The annexed notes 1 to 29 form an integral part of these financial statements. Note 5.3 reflects the effect of departure from the requirement of IAS 39 'Financial Instruments : Recognition and Measurement' in respect of impairment of available for sale investments

**For E.A Management (Private) Limited**

(Management Company)

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director



**B. F. MODARABA**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|                                         | Share Capital     | Reserves          |                        | Unrealized gain/(loss) on available for sale investments | Total              |
|-----------------------------------------|-------------------|-------------------|------------------------|----------------------------------------------------------|--------------------|
|                                         |                   | Statutory Reserve | Unappropriated Profits |                                                          |                    |
| Rupees                                  |                   |                   |                        |                                                          |                    |
| Balance as at July 1, 2008              | 63,553,140        | 15,107,786        | 8,718,545              | 5,932,956                                                | 93,312,427         |
| Total comprehensive income for the year | -                 | -                 | 3,678,987              | (5,376,446)                                              | (1,697,459)        |
| Transfer to statutory reserve           | -                 | 1,103,696         | (1,103,696)            | -                                                        | -                  |
| Issue of bonus certificates             | 4,766,485         | -                 | (4,766,485)            | -                                                        | -                  |
|                                         | 4,766,485         | 1,103,696         | (2,191,194)            | (5,376,446)                                              | (1,697,459)        |
| Balance as at June 30, 2009             | <b>68,319,625</b> | <b>16,211,482</b> | <b>6,527,351</b>       | <b>556,510</b>                                           | <b>91,614,968</b>  |
| Balance as at July 1, 2009              | 68,319,625        | 16,211,482        | 6,527,351              | 556,510                                                  | 91,614,968         |
| Total comprehensive income for the year | -                 | -                 | 3,402,708              | 7,203,101                                                | 10,605,809         |
| Transfer to statutory reserve           | -                 | 1,020,812         | (1,020,812)            | -                                                        | -                  |
|                                         | -                 | 1,020,812         | 2,381,896              | 7,203,101                                                | 10,605,809         |
| Balance as at June 30, 2010             | <b>68,319,625</b> | <b>17,232,294</b> | <b>8,909,247</b>       | <b>7,759,611</b>                                         | <b>102,220,777</b> |

The annexed notes 1 to 29 form an integral part of these financial statements. Note 5.3 reflects the effect of departure from the requirement of IAS 39 'Financial Instruments : Recognition and Measurement' in respect of impairment of available for sale investments.

For E.A Management (Private) Limited  
 (Management Company)

\_\_\_\_\_  
 Chairman

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

\_\_\_\_\_  
 Director



## **B. F. MODARABA NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010**

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

- 1.1** B. F. Modaraba (The Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the rules framed thereunder. The Modaraba is managed by E. A. Management (Pvt.) Limited. The registered office of the Modaraba is situated at Habib Square, M. A. Jinnah Road, Karachi. The Modaraba is listed on all Stock Exchanges in Pakistan.
- 1.2** It is a perpetual multi-purpose Modaraba and is primarily engaged in leasing, investments, trading, musharika and morabaha transactions.

### **2. BASIS OF PREPARATION**

#### **2.1 Statement of Compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Flotation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and the directives issued by the Securities & Exchange Commission of Pakistan (SECP) (the Modaraba Regulations). Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984 and made applicable to Modaraba's under the Modaraba Regulations. Wherever the requirements of the Modaraba Regulations differ with the requirements of these standards, the requirements of the Modaraba Regulations take precedence.

#### **2.2 Basis of Preparation**

These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets which are stated at fair value.

#### **2.3 Functional and presentation currency**

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

#### **2.4 Use of estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.



Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgments were exercised in application of accounting policy are as follows:

|                                                         | <b>Note</b> |
|---------------------------------------------------------|-------------|
| (a) Provision against non-performing loans and advances |             |
| (b) Current and deferred taxation                       | 3.5         |
| (c) Impairment of non-financial assets                  | 3.7         |
| (b) Impairment of financial assets                      | 3.13.5      |

## **2.5 Initial application of standards, amendments or an interpretation to existing standards**

### **a) Standards, amendments to published standards and interpretations that are effective in 2009 and are relevant to the Modaraba**

- IAS 1 (revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

The Modaraba has preferred to present two statements; a profit and loss account (income statement) and a statement of other comprehensive income. Comparative information has also been represented so that it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on profit for the year.

- IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). In accordance with new requirements, disclosures equivalent to those for value-in-use calculation should be made where fair value less costs to sell is calculated on the basis of discounted cash flows. Adoption of the amendment is not expected to have any effect on the Modaraba's financial statements.
- IAS 23 (amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing



those borrowing costs is removed. The Modaraba's current accounting policy is in compliance with this amendment, and therefore there is no effect on the Modaraba's financial statements.

- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective from January 1 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of the fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on profit for the year.
- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Modaraba will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Modaraba's financial statements.
- Number of other amendments in other IFRS and IAS which were part of the International Accounting Standards Board's (IASB's) annual improvements project, published in April 2009.

**b) Standards, amendments to published standards and interpretations that are effective in 2009 but not relevant to the Modaraba**

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 are considered not to be relevant or to have any significant effect on the Modaraba's financial reporting and operations.

**c) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Modaraba**

Following new standards, amendments and interpretation to existing standards have been issued but are not effective for the financial year beginning July 1, 2009 and have not been early adopted by the Modaraba:

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Modaraba will apply IAS 1 (amendment) from July 1, 2010. It is not expected to have a material impact on the Modaraba's financial statements.





- Prepayments of a minimum funding requirement (amendments to IFRIC 14), effective from January 1, 2011. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The Modaraba's does not have any defined benefit plan, hence, these amendments will have no impact on the Modaraba's financial statements.
- IAS 24 (revised), 'Related Party Disclosures', effective from January 1, 2011. The revised standard supersedes IAS 24, 'Related party disclosures', issued in 2003. Application of the revised standard will only impact the format and extent of disclosures presented in the Modaraba's financial statements.
- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Modaraba will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in any impact on the Modaraba's financial statements.
- IAS 39 (amendment); 'Cash flow hedge accounting'. This amendment provides clarification when to recognise gains or losses on hedging instruments as a reclassification adjustments in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. The Modaraba will apply IAS 39 (Amendment) from July 1, 2010. It is not expected to have any affect on the Modaraba's financial statements.
- IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions' In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of the Modaraba's arrangements that were not covered by that interpretation. The new guidance is not expected to have any material impact on the Modaraba's financial statements.
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The



Modaraba will apply IFRS 5 (amendment) from July 1, 2010. It is not expected to have a material impact on the Modaraba's financial statements.

- IFRS 9, 'Financial Instruments', effective from January 1, 2013. IFRS 9 addresses the classification and measurement of financial assets. The Modaraba is yet to assess the full impact of IFRS 9.
- IFRIC 18, 'Transfers of assets from customers' (effective for periods beginning on or after July 1, 2009). The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. This interpretation is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This interpretation is not expected to have any impact on the Modaraba's financial statements.
- IFRIC 19 (interpretation), 'Extinguishing Financial Liabilities with Equity Instruments', effective from annual periods beginning on or after July 1, 2010. The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Modaraba has not offered its shares to the creditors, therefore, this interpretation will have no impact on the Modaraba's financial statements.
- There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in April 2009 and May 2010 (not addressed above). These amendments are unlikely to have any impact on the Modaraba's financial statements and therefore have not been analysed in detail.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1 Staff retirement benefits**

The Modaraba operates an unfunded gratuity scheme for its employees eligible under the scheme. Provision is made annually based on the last drawn salary to cover the obligation under the scheme.

#### **3.2 Compensated absences**

The Modaraba provides for compensated absences of its employees on unavailed balance of leave in the period in which the leave is earned.

#### **3.3 Accrued and other liabilities**

Accrued and other liabilities are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the Modaraba or not.

#### **3.4 Provisions**

Provisions are recognized when the Modaraba has a present, legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to



settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### **3.5 Taxation**

#### **Current**

The charge for current taxation is based on taxable income as per Schedule II para 2 clause 18 @ 25% of Income Tax Ordinance 2001.

The income of a modaraba from non-trading activities is exempt from tax provided that not less than 90 % of its profits, as reduced by the amount transferred to a mandatory reserve, are distributed to 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 amounts of assets and liabilities in the financial statements and their tax base. This recognized on the basis of the expected manner of the realization and the settlement of the carrying amount of assets and liabilities using the tax rates to the extent that it is probable enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized to the extent that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

At the reporting date, there were no material temporary differences, therefore, no deferred tax has been recognised in these financial statements.

### **3.6 Fixed Assets**

#### **Fixed Assets in own use**

Fixed assets held for own use are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to income applying the reducing balance method at the rates specified in note No. 7. Depreciation is charged from the quarter of acquisition of the respective assets upto the quareter of disposal.

Maintenance and normal repairs are charged to the income as and when incurred. Major renewals and replacement are capitalized and assets so replaced, if any, are retired.

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

Gain or loss on disposal of assets is accounted for in the year in which it arises.

#### **Fixed Assets leased out**

Assets leased out are stated at cost less accumulated amortization. Amortization is charged to income applying the annuity method whereby



the depreciable values of assets are amortized over the lease period. In respect of additions and transfers during the year, amortization is charged proportionately to the period of lease.

### **3.7 Impairment of non-financial assets**

The Modaraba assess at each balance sheet date the carrying value of assets subject to depreciation or amortization whether there is any indication that 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 profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

### **3.8 Murabaha transaction**

Murabaha transaction are reflected as receivable. Actual sale and purchase are not reflected as the goods are purchased by the customer as agent of the Modaraba and all documents relating to purchase are in customer name as agent of the modaraba. Recognition of profit on that portion of the sales revenue not due for payment is deferred by recording a debit to "Unearned Murabaha Income" account and a corresponding credit to "Deferred Murabaha Income" account.

### **3.9 Stock in trade**

Stock in trade is valued at lower of cost and net realizable value. Net realizable value signifies the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cost is determined on weighted average method.

### **3.10 Trade debts and other receivables**

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

### **3.11 Creditors, accrued and other liabilities**

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

### **3.12 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks.



### **3.13 Financial assets**

#### **3.13.1 Classification**

The Modaraba classifies its financial assets in accordance with the requirements of International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and Measurement in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

- The financial assets included in loans and receivables classification are cash and bank balances , Murabaha Finance, Trade debtors and Advances deposits, prepayments and other receivables.
- The financial assets classified as at available for sale investments include investments in listed securities.

##### **a) Loans and receivables**

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

##### **b) Available for sale financial assets**

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

#### **3.13.2 Regular way contracts**

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Modaraba commits to purchase or sell the asset.

#### **3.13.3 Initial recognition and measurement**

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

#### **3.13.4 Subsequent measurement**

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

##### **a) 'Financial asset as available for sale'**

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

Net gains and losses arising from the excess of value determined in accordance with the above mentioned criteria over the carrying amount



in respect of available for sale financial assets are taken to equity until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

**b) 'Loans and receivables'**

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

**3.13.5 Impairment of financial assets**

The management assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity to profit and loss account. Impairment losses recognised on equity instruments are not reversed through profit and loss. For loans and receivables, a provision for impairment is established when there is objective evidence that the Modaraba will not be able to collect all amounts due according to the original terms.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. In addition, the Modaraba follows the requirements of Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan.

**3.13.6 Derecognition**

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

**3.13.7 Offsetting of financial assets and liabilities**

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

**3.13.8 Financial liabilities**

All financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument.

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



### 3.14 Provision for doubtful recoveries

Provision for doubtful debts are made after review of outstanding lease rental and morabaha receivables on the basis of Prudential Regulations for Modaraba issued by Securities and Exchange Commission of Pakistan. Other doubtful debts are provided for on the basis of their possible realization.

### 3.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business as depicted below:

- i. Lease rental income is recognised on a systematic basis over the lease period.
- ii. Dividend income is recognised when right to receive dividend is established.
- iii. Capital gain or loss is accounted for in the year in which it arises.
- iv. Income from trading activities is recognized on issuance of invoice.
- v. The profit on Murabaha transactions is recognised over the period the payments become due. The unearned portion is reflected as "Deferred Murabaha Income".

|                                 | <i>2010</i>   | <i>2009</i> |
|---------------------------------|---------------|-------------|
|                                 | <i>Rupees</i> |             |
| <b>4 CASH AND BANK BALANCES</b> |               |             |
| Cash                            | 22,259        | 165,651     |
| Banks                           |               |             |
| In current accounts             | 427,031       | 325,907     |
| In savings account              | 7,558,682     | 14,998,969  |
| 4.1                             | 7,985,713     | 15,324,876  |
|                                 | 8,007,972     | 15,490,527  |

4.1 "The effective rate of profit on savings account ranges from 5% to 11% (2009: 5.03% to 15%)."

|                                          | <i>2010</i>    | <i>2009</i> |
|------------------------------------------|----------------|-------------|
|                                          | <i>Rupees</i>  |             |
| <b>5 INVESTMENTS</b>                     |                |             |
| <b>Available for sale</b>                |                |             |
| Investment in shares and close end units | 5.1 21,160,574 | 17,219,029  |
| Investment in open end units             | 5.2 16,575,346 | 20,997,704  |
|                                          | 37,735,920     | 38,216,733  |



## 5.1 INVESTMENTS AVAILABLE FOR SALE

The holdings are in ordinary shares / certificates of Rs. 10/- each except for Habib ADM Ltd. which are of Rs. 5/- each.

| Number of Shares/Certificate           |               | NAME OF COMPANY/<br>INSTITUTION         | June 30, 2010     | June 30, 2009     |
|----------------------------------------|---------------|-----------------------------------------|-------------------|-------------------|
| June 30, 2009                          | June 30, 2010 |                                         | Rupees            | Rupees            |
| <b>MUTUAL FUND</b>                     |               |                                         |                   |                   |
| 164,000                                | 164,000       | Pakistan Premier Fund                   | 1,328,400         | 672,400           |
| <b>MODARABAS</b>                       |               |                                         |                   |                   |
| 117,636                                | 117,636       | Standard Chartered Modaraba             | 1,082,253         | 1,099,897         |
| 100,000                                | 100,000       | First Habib Bank Modaraba               | 503,000           | 391,000           |
| 72,900                                 | 72,900        | First Punjab Modaraba                   | 80,919            | 123,930           |
| 19,360                                 | 19,360        | First Tri Star Modaraba                 | 35,429            | 79,182            |
| 13,000                                 | 13,000        | First UDL Modaraba                      | 76,700            | 45,630            |
| 322,896                                | 322,896       | <b>Total</b>                            | <b>1,778,301</b>  | <b>1,739,639</b>  |
| <b>INVESTMENT COMPANIES/BANKS</b>      |               |                                         |                   |                   |
| 73,186                                 | -             | Trust Investment Bank Ltd               | -                 | 727,469           |
| 40,898                                 | -             | Security Investment Bank Ltd.           | -                 | 122,285           |
| 6,875                                  | 16,875        | Jahangir Siddique & Company Ltd.        | 213,300           | 159,431           |
| 120,959                                | 16,875        | <b>Total</b>                            | <b>213,300</b>    | <b>1,009,185</b>  |
| <b>TEXTILE WEAVING</b>                 |               |                                         |                   |                   |
| 200                                    | 200           | Service Fabric Ltd.                     | 97                | 68                |
| 9,000                                  | 9,000         | Reliance Weaving Mills Ltd.             | 81,000            | 31,500            |
| 9,200                                  | 9,200         | <b>Total</b>                            | <b>81,097</b>     | <b>31,568</b>     |
| <b>SUGAR &amp; ALLIED</b>              |               |                                         |                   |                   |
| 2,507                                  | 2,507         | Bawany Sugar Mills Ltd.                 | 2,658             | 5,014             |
| 5,000                                  | 5,000         | Habib ADM Ltd.                          | 70,050            | 80,250            |
| 7,507                                  | 7,507         | <b>Total</b>                            | <b>72,708</b>     | <b>85,264</b>     |
| <b>CEMENT</b>                          |               |                                         |                   |                   |
| 531                                    | -             | Maple Leaf Cement Ltd.                  | -                 | 2,262             |
| 5,300                                  | 5,300         | Cherat Cement Ltd.                      | 48,866            | 71,709            |
| -                                      | 12,000        | Fauji Cement Ltd.                       | 54,600            | -                 |
| 5,831                                  | 17,300        | <b>Total</b>                            | <b>103,466</b>    | <b>73,971</b>     |
| <b>FUEL AND ENERGY</b>                 |               |                                         |                   |                   |
| 100,000                                | 100,000       | Hub Power Company Ltd.                  | 3,196,000         | 2,709,000         |
| 11,000                                 | 11,000        | Sui Northern Gas Pipeline Ltd.          | 305,690           | 351,450           |
| 18,510                                 | 21,780        | Pak Petroleum Ltd.                      | 4,010,133         | 3,440,151         |
| 10,000                                 | -             | Oil & Gas Development Company Ltd.      | -                 | 786,400           |
| 139,510                                | 132,780       | <b>Total</b>                            | <b>7,511,823</b>  | <b>7,287,001</b>  |
| <b>AUTO &amp; ALLIED</b>               |               |                                         |                   |                   |
| 4,455                                  | 4,455         | Pak Suzuki Motors Company Ltd.          | 353,149           | 302,495           |
| 68                                     | -             | Millat Tractors Ltd.                    | -                 | 18,988            |
| 500                                    | -             | Indus Motors Ltd.                       | -                 | 53,860            |
| 20                                     | -             | Agriauto industries Ltd.                | -                 | 653               |
| 5,043                                  | 4,455         | <b>Total</b>                            | <b>353,149</b>    | <b>375,996</b>    |
| <b>CHEMICALS &amp; PHARMACEUTICALS</b> |               |                                         |                   |                   |
| 22,764                                 | 22,764        | Bawany Air Products Ltd.                | 262,014           | 80,812            |
| 304                                    | -             | Fauji Fertilizer Bin Qasim Company Ltd. | -                 | 5,378             |
| 55,913                                 | 81,504        | Fauji Fertilizer Company Ltd.           | 8,400,616         | 4,861,635         |
| 78,981                                 | 104,268       | <b>Total</b>                            | <b>8,662,630</b>  | <b>4,947,825</b>  |
| <b>TECHNOLOGY AND COMMUNICATION</b>    |               |                                         |                   |                   |
| 57,000                                 | 57,000        | Pakistan Telecommunication Company Ltd. | 1,014,600         | 982,680           |
| 10,000                                 | 10,000        | TRG Pakistan Ltd.                       | 41,100            | 13,500            |
| 67,000                                 | 67,000        | <b>Total</b>                            | <b>1,055,700</b>  | <b>996,180</b>    |
| 920,927                                | 846,281       | <b>Total</b>                            | <b>21,160,574</b> | <b>17,219,029</b> |





## 5.2 MUTUAL FUNDS-OPEN ENDED

| Number of Units |                       | NAME OF COMPANY/<br>INSTITUTION | June 30, 2010            | June 30, 2009     |
|-----------------|-----------------------|---------------------------------|--------------------------|-------------------|
| June 30, 2009   | June 30, 2010         |                                 | Rupees                   | Rupees            |
| 497,480         | -                     | NAFA Islamic Income Fund        | -                        | 4,679,740         |
| 103,995         | <b>111,695</b>        | Meezan Islamic Income Fund      | <b>5,793,600</b>         | 5,398,366         |
| -               | <b>208,585</b>        | Meezan Cash Fund                | <b>10,781,746</b>        | -                 |
| 104,450         | -                     | United Islamic Income Fund      | -                        | 10,479,503        |
| 53,024          | -                     | Pakistan Capital M. Fund        | -                        | 440,095           |
| <u>758,949</u>  | <u><b>320,280</b></u> |                                 | <u><b>16,575,346</b></u> | <u>20,997,704</u> |

**5.3** Securities and Exchange Commission of Pakistan vide SRO 150(I)/2009 dated February 13, 2009 had allowed that impairment loss, if any, recognised as on December 31, 2008 due to valuation of listed equity investments held as "Available for sale" to quoted market price may be shown under the equity. The amount taken to equity including any adjustment /effect for price movement as a result of availing the option given in aforesaid SRO was taken to profit and loss account on quarterly basis during the calendar year ended on December 31, 2009. Under the aforesaid SRO the amount taken to equity at December 31, 2008 was to be treated as a charge to profit and loss account for the purpose of distribution as dividend. The Modaraba availed the option under the aforesaid SRO and recognised Rs. 1,171,308 during the quarter ended March 31, 2009, Rs. 2,861,171 during the quarter ended June 30, 2009, Rs. 1,272,585 during the quarter ended September 30, 2009 and Rs. 1,997,483 during the quarter ended December 31, 2009.

International Accounting Standard (IAS) 39 "Financial Instruments : Recognition and Measurement" requires that available for sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. Such impairment loss is required to be transferred from equity to profit and loss account under the aforesaid IAS. In view of the floor mechanism and current economic conditions in the country, the management believes that these are "rare circumstances" and the plunge in equity markets cannot be considered to be a fair reflection of equity values. Therefore recognition of impairment for "Available for Sale" equity securities through profit and loss account will not reflect the correct financial performance of the Modaraba.

Had the modaraba followed the requirements of IAS 39 in respect of the recognition of impairment loss, this would have had the following effect on the financial statements:

|                                                   | 2010                    | 2009               |
|---------------------------------------------------|-------------------------|--------------------|
|                                                   | ..... Rupees .....      |                    |
| Increase/ (decrease) in the profit for the period | <u><b>2,997,099</b></u> | <u>(7,177,721)</u> |
| Increase in earnings/ (loss) per certificate      | <u><b>0.44</b></u>      | <u>(1.05)</u>      |



5.4 The ratio of investment to equity of the modaraba slightly exceeded limit of 5% laid down in regulation 7(1) and 20% in 7(8) of Part II of Prudential Regulations for Modarabas partly due to rise in their market rates and receipt of bonus shares. The registrar modaraba vide their letter No. SC/M/RW/B.F/2006-150 has allowed relaxation of the said regulation for the modaraba.

#### 6 LOANS, PREPAYMENTS AND OTHER RECEIVABLES

|                          | 2010               | 2009             |
|--------------------------|--------------------|------------------|
|                          | ..... Rupees ..... |                  |
| Prepayments              | 20,531             | 40,750           |
| <b>Other receivables</b> |                    |                  |
| Profit on bank deposits  | 523,282            | 1,033,373        |
| Loan to staff            | 12,000             | 36,000           |
| Sales tax                | 716,224            | 4,990,464        |
| Dividend receivable      | 99,750             | 260,526          |
|                          | <u>1,351,256</u>   | <u>6,320,363</u> |
|                          | <u>1,371,787</u>   | <u>6,361,113</u> |

#### 7 SHORT TERM MURABAHAS

This represent short term murabaha for a of 180 days. These are secured by way of pledge of stocks. The murabaha carries profit @ KIBOR + 1.5%. Subsequent to the balance sheet date full short term murabaha has been matured and all the amount has been realized alongwith profits.

|                       |     | 2010               | 2009             |
|-----------------------|-----|--------------------|------------------|
|                       |     | ..... Rupees ..... |                  |
| <b>8 FIXED ASSETS</b> |     |                    |                  |
| Own use               | 8.1 | 477,799            | 595,574          |
| Leased out            | 8.2 | 457,340            | 606,369          |
|                       |     | <u>935,139</u>     | <u>1,201,943</u> |



## 8.1 Own use

|                                     | Office equipments | Furniture & fixture | Computer & allied Rupees | Vehicles       | Total          |
|-------------------------------------|-------------------|---------------------|--------------------------|----------------|----------------|
| <b>As at July 01, 2008</b>          |                   |                     |                          |                |                |
| Cost                                | 145,575           | 133,829             | 281,740                  | 2,568,000      | 3,129,144      |
| Accumulated depreciation            | (115,021)         | (108,661)           | (216,378)                | (1,881,230)    | (2,321,290)    |
| Net book value                      | <u>30,554</u>     | <u>25,168</u>       | <u>65,362</u>            | <u>686,770</u> | <u>807,854</u> |
| <b>Year ended June 30, 2009</b>     |                   |                     |                          |                |                |
| Opening net book value              | 30,554            | 25,168              | 65,362                   | 686,770        | 807,854        |
| Additions during the year           | -                 | 4,550               | -                        | -              | 4,550          |
| Disposals / transfers               |                   |                     |                          |                |                |
| Cost                                | -                 | -                   | -                        | (980,000)      | (980,000)      |
| Accumulated depreciation            | -                 | -                   | -                        | 923,879        | 923,879        |
| Net book value                      | -                 | -                   | -                        | (56,121)       | (56,121)       |
| Depreciation for the year           | (3,055)           | (2,934)             | (19,609)                 | (135,111)      | (160,709)      |
| Closing net book value              | <u>27,499</u>     | <u>26,784</u>       | <u>45,753</u>            | <u>495,538</u> | <u>595,574</u> |
| <b>As at July 01, 2009</b>          |                   |                     |                          |                |                |
| Cost                                | 145,575           | 138,379             | 281,740                  | 1,588,000      | 2,153,694      |
| Accumulated depreciation            | (118,076)         | (111,595)           | (235,987)                | (1,092,462)    | (1,558,120)    |
| Net book value                      | <u>27,499</u>     | <u>26,784</u>       | <u>45,753</u>            | <u>495,538</u> | <u>595,574</u> |
| <b>Year ended June 30, 2010</b>     |                   |                     |                          |                |                |
| Opening net book value              | 27,499            | 26,784              | 45,753                   | 495,538        | 595,574        |
| Additions during the year           | -                 | 524                 | -                        | -              | 524            |
| Disposals / transfers               |                   |                     |                          |                |                |
| Cost                                | -                 | -                   | -                        | -              | -              |
| Accumulated depreciation            | -                 | -                   | -                        | -              | -              |
| Depreciation for the year           | (2,748)           | (2,719)             | (13,724)                 | (99,108)       | (118,299)      |
| Closing net book value              | <u>24,751</u>     | <u>24,589</u>       | <u>32,029</u>            | <u>396,430</u> | <u>477,799</u> |
| <b>As at June 30, 2010</b>          |                   |                     |                          |                |                |
| Cost                                | 145,575           | 138,903             | 281,740                  | 1,588,000      | 2,154,218      |
| Accumulated depreciation            | (120,824)         | (114,314)           | (249,711)                | (1,191,570)    | (1,676,419)    |
| Net book value                      | <u>24,751</u>     | <u>24,589</u>       | <u>32,029</u>            | <u>396,430</u> | <u>477,799</u> |
| <b>Annual rates of depreciation</b> | <u>10%</u>        | <u>10%</u>          | <u>30%</u>               | <u>20%</u>     |                |



**8.2 leased out**

|                                     | <b>Vehicles</b>       |
|-------------------------------------|-----------------------|
|                                     | <b>Rupees</b>         |
| <b>As at July 01, 2008</b>          |                       |
| Cost                                | 846,000               |
| Accumulated depreciation            | <u>(111,009)</u>      |
| Net book value                      | <u><u>734,991</u></u> |
| <b>Year ended June 30, 2009</b>     |                       |
| Opening net book value              | 734,991               |
| Depreciation for the year           | <u>(128,622)</u>      |
| Closing net book value              | <u><u>606,369</u></u> |
| <b>As at July 01, 2009</b>          |                       |
| Cost                                | 846,000               |
| Accumulated depreciation            | <u>(239,631)</u>      |
| Net book value                      | <u><u>606,369</u></u> |
| <b>Year ended June 30, 2010</b>     |                       |
| Opening net book value              | 606,369               |
| Depreciation for the year           | <u>(149,029)</u>      |
| Closing net book value              | <u><u>457,340</u></u> |
| <b>As at June 30, 2010</b>          |                       |
| Cost                                | 846,000               |
| Accumulated depreciation            | <u>(388,660)</u>      |
| Net book value                      | <u><u>457,340</u></u> |
|                                     | <u><u>11.25%</u></u>  |
| <b>Annual rates of amortization</b> |                       |

*2010                      2009*  
*..... Rupees .....*

**9 ACCRUED AND OTHER LIABILITIES**

|                       |                       |                         |
|-----------------------|-----------------------|-------------------------|
| Insurance payable     | <b>47,155</b>         | 78,751                  |
| Audit fee payable     | <b>370,000</b>        | 270,000                 |
| Salaries payable      | -                     | 92,753                  |
| Sales tax payable     | -                     | 739,328                 |
| Advance from customer | <b>180,000</b>        | 2,000,000               |
| Workers' welfare fund | <b>139,326</b>        | 236,181                 |
| Others                | <b>30,969</b>         | 34,605                  |
|                       | <u><u>767,450</u></u> | <u><u>3,451,618</u></u> |



## 10 LONG TERM LEASE DEPOSITS

This represent interest free security deposit received against lease from lessee and is refundable / adjustable at the expiry of the lease contract.

## 11 CERTIFICATE CAPITAL

|                                              | 2010                | 2009              |                                                                    | 2010               | 2009               |
|----------------------------------------------|---------------------|-------------------|--------------------------------------------------------------------|--------------------|--------------------|
|                                              | No. of Certificates |                   |                                                                    | Rupees             |                    |
| <b>Authorized certificate capital</b>        | <b>10,000,000</b>   | <b>10,000,000</b> | Modaraba Certificates of Rs. 10 each                               | <b>100,000,000</b> | <b>100,000,000</b> |
| <b>Issued,subscribed and paid-up capital</b> | <b>3,000,000</b>    | <b>3,000,000</b>  | Modaraba certificates of Rs.10/- each issued for cash              | <b>30,000,000</b>  | <b>30,000,000</b>  |
|                                              | <b>3,831,962</b>    | <b>3,831,962</b>  | Modaraba certificates of Rs.10/- each issued as bonus certificates | <b>38,319,625</b>  | <b>38,319,625</b>  |
|                                              | <b>6,831,962</b>    | <b>6,831,962</b>  |                                                                    | <b>68,319,625</b>  | <b>68,319,625</b>  |

## 12 RESERVES

|                       |      |                   |                   |
|-----------------------|------|-------------------|-------------------|
| Statutory reserve     | 12.1 | 17,232,294        | 16,211,482        |
| Unappropriated profit |      | 8,909,247         | 6,527,351         |
|                       |      | <b>26,141,541</b> | <b>22,738,833</b> |

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

During the current year the Modaraba has transferred an amount of Rs.1,020,812 (2009: Rs.1,103,696) which represents 30% of the profit after tax.

## 13 CONTINGENCIES AND COMMITMENTS

There are no known contingencies and commitments as at June 30, 2010 (2009:Nil)

|                                        |      | 2010                | 2009         |
|----------------------------------------|------|---------------------|--------------|
|                                        |      | Rupees              |              |
| <b>14 TRADING PROFIT</b>               |      |                     |              |
| <b>Sales-Net</b>                       | 14.1 | <b>75,935,008</b>   | 48,419,480   |
| <b>Cost of sales</b>                   |      |                     |              |
| Opening stock                          |      | <b>37,333,536</b>   | -            |
| Purchases                              | 14.2 | <b>49,745,948</b>   | 76,655,672   |
| Closing stock                          |      | <b>(17,426,776)</b> | (37,333,536) |
|                                        |      | <b>69,652,708</b>   | 39,322,136   |
|                                        |      | <b>6,282,300</b>    | 9,097,344    |
| <b>14.1 Sales -Net</b>                 |      |                     |              |
| Sale - Gross                           |      |                     |              |
| - Sugar                                |      | <b>79,932,000</b>   | 39,935,100   |
| - Viscose fiber                        |      | -                   | 13,338,357   |
|                                        |      | <b>79,932,000</b>   | 53,273,457   |
| Less: Commission on viscose fiber sale |      | -                   | (50,361)     |
| Less: Sales tax on Sugar               |      | <b>(3,996,992)</b>  | (4,803,616)  |
|                                        |      | <b>(3,996,992)</b>  | (4,853,977)  |
|                                        |      | <b>75,935,008</b>   | 48,419,480   |



|                                                                                                                                          | <i>2010</i>               | <i>2009</i>       |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------|
|                                                                                                                                          | <i>.....Rupees .....</i>  |                   |
| <b>14.2 Purchases</b>                                                                                                                    |                           |                   |
| Sugar                                                                                                                                    | <b>49,745,948</b>         | 61,727,048        |
| Viscose fiber                                                                                                                            | -                         | 14,928,624        |
|                                                                                                                                          | <u><b>49,745,948</b></u>  | <u>76,655,672</u> |
| <b>15 DIVIDEND</b>                                                                                                                       |                           |                   |
| Dividend income                                                                                                                          | <b>2,140,400</b>          | 1,763,596         |
| Less: Zakat deducted at source                                                                                                           | <b>(10,642)</b>           | (54,027)          |
|                                                                                                                                          | <u><b>2,129,758</b></u>   | <u>1,709,569</u>  |
| <b>16 MORAHABA INCOME</b>                                                                                                                |                           |                   |
| Morabaha income                                                                                                                          | <u><b>679,976</b></u>     | -                 |
| 16.1 This represent profit on murabahas as per Murabaha arrangement at a rate of KIBOR+ 1.5% on principal.                               |                           |                   |
| <b>17 OTHER INCOME</b>                                                                                                                   |                           |                   |
| Gain on disposal of vehicle                                                                                                              | -                         | 228,879           |
| Deposit forfeited                                                                                                                        | 17.1 <b>500,000</b>       | 1,441,000         |
| Other                                                                                                                                    | -                         | 39,000            |
|                                                                                                                                          | <u><b>500,000</b></u>     | <u>1,708,879</u>  |
| 17.1 These represent advance deposits forfeited by modaraba of various customers against sale of sugar, on default of contractual terms. |                           |                   |
|                                                                                                                                          | <i>2010</i>               | <i>2009</i>       |
|                                                                                                                                          | <i>..... Rupees .....</i> |                   |
| <b>18 OPERATING EXPENSES</b>                                                                                                             |                           |                   |
| Salaries and other benefits                                                                                                              | 18.1 <b>1,597,591</b>     | 1,316,348         |
| Fee and subscription                                                                                                                     | <b>278,096</b>            | 279,866           |
| Newspapers and periodicals                                                                                                               | <b>4,668</b>              | 4,668             |
| Printing and stationery                                                                                                                  | <b>77,207</b>             | 25,311            |
| Repairs and maintenance                                                                                                                  | <b>430</b>                | 6,100             |
| Traveling and conveyance                                                                                                                 | <b>2,884</b>              | 3,411             |
| Postage and telephone                                                                                                                    | <b>28,945</b>             | 24,367            |
| Auditors' remuneration                                                                                                                   | 18.2 <b>310,000</b>       | 210,000           |
| Vehicles running and maintenance                                                                                                         | <b>43,412</b>             | 62,591            |
| Insurance                                                                                                                                | <b>41,942</b>             | 62,702            |
| Depreciation                                                                                                                             | 8.1 <b>118,299</b>        | 160,709           |
| Advertisement                                                                                                                            | <b>10,800</b>             | 24,750            |
| Bank charges                                                                                                                             | <b>1,672</b>              | 3,948             |
| Miscellaneous                                                                                                                            | <b>7,053</b>              | 16,590            |
|                                                                                                                                          | <u><b>2,522,999</b></u>   | <u>2,201,361</u>  |
| <b>18.1 Remuneration of employees</b>                                                                                                    |                           |                   |
| Basic                                                                                                                                    | <b>835,235</b>            | 728,476           |
| House rent                                                                                                                               | <b>345,764</b>            | 273,293           |
| Allowances                                                                                                                               | <b>172,568</b>            | 140,544           |
| Others                                                                                                                                   | <b>244,024</b>            | 174,035           |
|                                                                                                                                          | <u><b>1,597,591</b></u>   | <u>1,316,348</u>  |
| Number of employees                                                                                                                      | <u><b>6</b></u>           | <u>6</u>          |



|                                                                                                                                                                                 | <i>2010</i>               | <i>2009</i>       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------|
|                                                                                                                                                                                 | <i>..... Rupees .....</i> |                   |
| <b>18.2 Auditors' remuneration</b>                                                                                                                                              | <b>250,000</b>            | 175,000           |
| Audit fee                                                                                                                                                                       | <b>60,000</b>             | 35,000            |
| Half yearly review including other services                                                                                                                                     | <b><u>310,000</u></b>     | <u>210,000</u>    |
| <b>19 TAXATION</b>                                                                                                                                                              |                           |                   |
| for the year                                                                                                                                                                    | <b>1,943,296</b>          | 3,200,000         |
| prior year                                                                                                                                                                      | <b><u>91,755</u></b>      | <u>184,751</u>    |
|                                                                                                                                                                                 | <b><u>2,035,051</u></b>   | <u>3,384,751</u>  |
| 19.1 Income tax assessments of the Modaraba have been finalized upto tax year 2009, on these are deemed to have been finalized under section 120 of Income Tax Ordinance, 2001. |                           |                   |
|                                                                                                                                                                                 | <i>2010</i>               | <i>2009</i>       |
|                                                                                                                                                                                 | <i>..... Rupees .....</i> |                   |
| 19.2 <b>Reconciliation of tax charge for the year</b>                                                                                                                           |                           |                   |
| Profit for the current year                                                                                                                                                     | <b>5,437,758</b>          | 7,063,738         |
| Admissible differences                                                                                                                                                          | <b>(191,445)</b>          | (102,155)         |
| Inadmissible differences                                                                                                                                                        | <b>1,719,966</b>          | 4,273,337         |
| Taxable income                                                                                                                                                                  | <b><u>6,966,280</u></b>   | <u>11,234,920</u> |
| Tax @ 25%                                                                                                                                                                       | <b>1,741,570</b>          | 2,808,730         |
| Tax on FTR income                                                                                                                                                               | <b><u>201,726</u></b>     | <u>391,270</u>    |
|                                                                                                                                                                                 | <b><u>1,943,296</u></b>   | <u>3,200,000</u>  |
| <b>20 EARNING PER CERTIFICATE</b>                                                                                                                                               |                           |                   |
| <b>Basic</b>                                                                                                                                                                    |                           |                   |
| Profit for the year                                                                                                                                                             | <b><u>3,402,708</u></b>   | <u>3,678,987</u>  |
| Average number of certificates outstanding                                                                                                                                      | <b><u>6,831,962</u></b>   | <u>6,831,962</u>  |
| Earnings per certificate                                                                                                                                                        | <b><u>0.50</u></b>        | <u>0.54</u>       |

**Diluted**

There is no dilutive effect on the basic earnings per share of the Modaraba, since there are no convertible instruments in issue as at June 30, 2009 and June 30, 2010 which would have any effect on the earnings per share if the option to convert is exercised. There is no dilutive effect on the basic earning per certificate of the Modaraba.

**21 TRANSACTIONS WITH RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over other party in making financial and operating decisions.

The related parties comprise of major certificateholders, associated companies with or without common directors, directors of the company and key management personnel. Transactions with other related parties are entered into at rates negotiated with them.



Details of transactions with related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

|                                                          | <b>2010</b>               | <b>2009</b> |
|----------------------------------------------------------|---------------------------|-------------|
|                                                          | ..... <i>Rupees</i> ..... |             |
| <b>Associate Companies</b>                               |                           |             |
| Insurance expenses                                       | <b>41,942</b>             | 62,702      |
| Purchases                                                | <b>49,745,948</b>         | 61,727,048  |
| <b>Management company</b>                                |                           |             |
| Modaraba Management fee                                  | <b>624,437</b>            | 811,102     |
| <b>Transaction outstanding at the balance sheet date</b> |                           |             |
| Insurance payable                                        | <b>47,155</b>             | 78,751      |
| Due to management company                                | <b>624,437</b>            | 811,102     |

## 22. FINANCIAL INSTRUMENTS BY CATEGORY

|                                          | <b>Held to maturity</b>   | <b>Loans and receivables</b> | <b>Available for sale</b> | <b>Total</b> |
|------------------------------------------|---------------------------|------------------------------|---------------------------|--------------|
|                                          | ..... <b>2010</b> .....   |                              |                           |              |
|                                          | ..... <i>Rupees</i> ..... |                              |                           |              |
| <b>ASSETS</b>                            |                           |                              |                           |              |
| Cash and bank balances                   | -                         | 8,007,972                    | -                         | 8,007,972    |
| Investments                              | -                         | -                            | 37,735,920                | 37,735,920   |
| Loans, prepayments and other receivables | -                         | 1,371,787                    | -                         | 1,371,787    |
| Trade debts                              | -                         | 27,660,000                   | -                         | 27,660,000   |
| Short term morabahas                     | 11,481,657                | -                            | -                         | 11,481,657   |
| Long term deposits                       | -                         | 40,019                       | -                         | 40,019       |

|                               | <b>Held to maturity</b>   | <b>Other financial liabilities</b> | <b>Liabilities at fair value through profit or loss</b> | <b>Total</b> |
|-------------------------------|---------------------------|------------------------------------|---------------------------------------------------------|--------------|
|                               | ..... <b>2010</b> .....   |                                    |                                                         |              |
|                               | ..... <i>Rupees</i> ..... |                                    |                                                         |              |
| <b>LIABILITIES</b>            |                           |                                    |                                                         |              |
| Accrued and other liabilities | -                         | 767,450                            | -                                                       | 767,450      |
| Due to management company     | -                         | 624,437                            | -                                                       | 624,437      |
| Unclaimed dividend            | -                         | 278,583                            | -                                                       | 278,583      |
| Deferred Murabaha Income      | -                         | 171,036                            | -                                                       | 171,036      |
| Staff gratuity                | -                         | 161,150                            | -                                                       | 161,150      |
| Lease deposits                | 84,600                    | -                                  | -                                                       | 84,600       |

|                                                       | <b>Held to maturity</b>   | <b>Loans and receivables</b> | <b>Available for sale</b> | <b>Total</b> |
|-------------------------------------------------------|---------------------------|------------------------------|---------------------------|--------------|
|                                                       | ..... <b>2009</b> .....   |                              |                           |              |
|                                                       | ..... <i>Rupees</i> ..... |                              |                           |              |
| <b>ASSETS</b>                                         |                           |                              |                           |              |
| Cash and bank balances                                | -                         | 15,490,527                   | -                         | 15,490,527   |
| Investments                                           | -                         | -                            | 38,216,733                | 38,216,733   |
| Advances, deposits, prepayments and other receivables | -                         | 6,361,113                    | -                         | 6,361,113    |
| Long term deposits                                    | -                         | 40,019                       | -                         | 40,019       |







### Sensitivity analysis

For the purpose of price risk sensitivity analysis it is observed that the benchmark KSE 100 Index has increased by 37.9% during the financial year. Subsequent to the balance sheet date and till the date of authorization of these financial statements a further increase of 1.42% in the KSE 100 Index has been observed.

The table below summarizes Modaraba's equity price risk as of 30 June 2010 and 2009 and shows the effects of a hypothetical 30% increase and a 30% decrease in market prices as at the year end reporting dates. The selected hypothetical change does not reflect what could be considered to be the best or worst case scenarios. Indeed, results could be worse because of the nature of equity markets and the aforementioned concentrations existing in Modaraba's equity investment portfolio.

|               |        | Fair value | Hypothetical price change    | Estimated fair value after hypothetical change in prices | Hypothetical increase (decrease) in shareholders' equity |
|---------------|--------|------------|------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| June 30, 2010 | Rupees | 37,735,920 | 30% increase<br>30% decrease | 49,056,696<br>26,415,144                                 | 11,320,776<br>(11,320,776)                               |
| June 30, 2009 | Rupees | 38,216,733 | 30% increase<br>30% decrease | 49,681,753<br>26,751,713                                 | 11,465,020<br>(11,465,020)                               |

#### 23.1.3 Interest rate risk

Interest / mark-up rate risk is the risk that value of a financial instrument or future cash flows of a financial instrument will fluctuate due to changes in the market interest / mark-up rates. Sensitivity to interest / mark up rate risk arises from mismatches of financial assets and liabilities that mature or re-price in a given period. The Modaraba manages these mismatches through risk management strategies where significant changes in gap position can be adjusted. The short term borrowing arrangements has variable rate pricing that is dependent on the Karachi Inter Bank Offer Rate (KIBOR) as indicated in respective notes.

Financial assets and liabilities include balances of Rs. 19,040,339/- (2009: Rs. 14,998,969/-) and Rs. Nil (2009: Rs. Nil) respectively, which are subject to interest / markup rate risk. Applicable interest / mark-up rates for financial assets and liabilities have been indicated in respective notes.

- a) At the reporting date, the interest rate profile of the Modaraba's significant interest bearing financial instruments was as follows:

|                             | 2010                        |             | 2009 |        | 2010             |            | 2009 |
|-----------------------------|-----------------------------|-------------|------|--------|------------------|------------|------|
|                             | Effective interest rate (%) |             |      |        | Carrying amounts |            |      |
| <b>Financial assets</b>     |                             |             |      |        |                  |            |      |
| Short term murabahas        | 13.76% to 13.88%            | -           |      | Rupees | 11,481,657       | -          |      |
| Bank deposits - pls account | 5% to 11%                   | 5.3% to 15% |      | Rupees | 7,558,682        | 14,998,969 |      |

#### b) Sensitivity analysis

The Modaraba does not account for any fixed rate financial asset and liabilities at fair value through profit or loss. Therefore, a change in interest rate will not



effect fair value of any financial instrument. For cash flow sensitivity analysis of variable rate instruments it is observed that interest / mark-up rate in terms of KIBOR has substantially been decrease during the year by approximately 4%. Subsequent to the balance sheet date and till the date of authorization of these financial statements a further increase of 3.8% has been observed.

The following information summarizes the estimated effects of hypothetical increases and decreases in interest rates on cash flows from financial assets and financial liabilities that are subject to interest rate risk. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. The hypothetical changes in market rates do not reflect what could be deemed best or worst case scenarios. Variations in market interest rates could produce significant changes at the time of early repayments. For these reasons, actual results might differ from those reflected in the details specified below. The analysis assumes that all other variables remain constant.

|                                                      |               | <b>Profit and loss 100 bp</b> |                 |
|------------------------------------------------------|---------------|-------------------------------|-----------------|
|                                                      |               | <b>increase</b>               | <b>decrease</b> |
| <b>As at June 30, 2010</b>                           |               |                               |                 |
| Cash flow sensitivity-Variable rate financial assets | <i>Rupees</i> | <u>28,728</u>                 | <u>(28,728)</u> |
| <b>As at June 30, 2009</b>                           |               |                               |                 |
| Cash flow sensitivity-Variable rate financial assets | <i>Rupees</i> | <u>17,385</u>                 | <u>(17,385)</u> |

### 23.2 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Modaraba is exposed to credit risk in respect of Trade debtors and Murabaha transactions.

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

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

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

Out of the total financial assets of Rs 86.297 million (2009: Rs 55.424million) the financial assets which are subject to credit risk amounted to Rs 47.128 million (2009: Rs 15.324 million). The management believes that the Modaraba is not exposed to major concentration of credit risk.



Details of the sector wise composition of the net investment in operating lease and modaraba are disclosed in note 26.2.

23.2.1 The carrying amounts of the financial assets against which the Modaraba did not hold any collateral represent the maximum credit exposure, as specified below:

|                        | 2010              |                   | 2009              |                   |
|------------------------|-------------------|-------------------|-------------------|-------------------|
|                        | Carrying Amount   | Maximum Exposure  | Carrying Amount   | Maximum Exposure  |
| Rupees                 |                   |                   |                   |                   |
| Balance with banks     | 7,985,713         | 7,985,713         | 15,324,876        | 15,324,876        |
| Advances               | 1,351,256         | 1,351,256         | 6,320,363         | 6,320,363         |
| Other receivable       | 11,481,657        | 11,481,657        | -                 | -                 |
| Short term investments | 37,735,920        | 37,735,920        | 38,216,733        | 38,216,733        |
|                        | <u>58,554,546</u> | <u>58,554,546</u> | <u>59,861,972</u> | <u>59,861,972</u> |

### 23.2.2 Exposure by type of customer:

The maximum exposure to credit risk for the advances and other receivables at the reporting date by type of customer is as follows:

|           | 2010              | 2009     |
|-----------|-------------------|----------|
|           | Rupees            |          |
| Suppliers | 27,660,000        | -        |
| Others    | 11,481,657        | -        |
|           | <u>39,141,657</u> | <u>-</u> |

### 23.2.3 Impairment losses

There is no past due trade debtors as at the balance sheet date.

### 23.2.4 Credit quality

The credit quality of Modaraba's liquid funds can be assessed with reference to external credit ratings as follows:

|                                 | Rating     |           | Rating Agency | 2010             | 2009              |
|---------------------------------|------------|-----------|---------------|------------------|-------------------|
|                                 | Short term | Long term |               | Rupees           |                   |
| Al-barka Islamic Bank Limited   | A          | A         | JCR - VIS     | 12,284           | 11,906            |
| Bank Al-Habib Limited           | A-         | AA+       | PACRA         | 256,181          | 253,985           |
| Dawood Islamic Bank Limited     | A-         | A-        | JCR - VIS     | 713,462          | 658,507           |
| Habib Bank Limited              | A-         | AA+       | JCR - VIS     | 213,804          | 112,679           |
| Habib Metropolitan Bank Limited | A-         | AA+       | PACRA         | 6,789,982        | 14,287,799        |
|                                 |            |           |               | <u>7,985,713</u> | <u>15,324,876</u> |

### 23.3 LIQUIDITY RISK

Liquidity risk is the risk that the Modaraba will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of adequate funds through committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Modaraba finances its operations through equity, borrowings and



working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. The management aims to maintain flexibility in funding by keeping regular committed credit lines.

23.3.1 The following are the contractual maturities profile of financial liabilities, including estimated interest payments:

|                                             | Carrying Amount | 2010                   |                      |                   |
|---------------------------------------------|-----------------|------------------------|----------------------|-------------------|
|                                             |                 | Contractual cash flows | Twelve month or less | Two to Five years |
| Rupees                                      |                 |                        |                      |                   |
| <b>Non-Derivative Financial liabilities</b> |                 |                        |                      |                   |
| Lease Deposits                              | 84,600          | 84,600                 | -                    | 84,600            |
| Staff Gratuity                              | 161,150         | 161,150                | -                    | 82,300            |
| Accrued and other liabilities               | 767,450         | 767,450                | 767,450              | -                 |
| Due to Management Company                   | 624,437         | 624,437                | 624,437              | -                 |
| Unclaimed Dividend                          | 278,583         | 278,583                | 278,583              | -                 |
|                                             | 1,916,220       | 1,916,220              | 1,670,470            | 166,900           |

  

|                                             | Carrying Amount | 2009                   |                      |                   |
|---------------------------------------------|-----------------|------------------------|----------------------|-------------------|
|                                             |                 | Contractual cash flows | Twelve month or less | Two to Five years |
| Rupees                                      |                 |                        |                      |                   |
| <b>Non-Derivative Financial liabilities</b> |                 |                        |                      |                   |
| Lease Deposits                              | 84,600          | 84,600                 | -                    | 84,600            |
| Staff Gratuity                              | 82,300          | 82,300                 | -                    | 82,300            |
| Accrued and other liabilities               | 3,451,618       | 3,451,618              | 3,451,618            | -                 |
| Due to Management Company                   | 811,102         | 811,102                | 811,102              | -                 |
| Unclaimed Dividend                          | 278,583         | 278,583                | 278,583              | -                 |
|                                             | 4,623,603       | 4,708,203              | 4,541,303            | 166,900           |

### 23.3.2 Fair value estimate

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Modaraba are the current bid prices.

The carrying value less impairment provision of trade receivables and other receivables, and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Modaraba for similar financial instruments.

The classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 — inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).



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

The Modaraba held the following financial instruments measured at fair value :

| <b>June 30, 2010</b> | <b>Level 1</b>               | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|----------------------|------------------------------|----------------|----------------|--------------|
|                      | ..... Amount in Rupees ..... |                |                |              |

**Financial assets**

- financial assets available for sale

|                 |                   |   |   |                   |
|-----------------|-------------------|---|---|-------------------|
| Quoted equities | <u>37,735,920</u> | - | - | <u>37,735,920</u> |
|-----------------|-------------------|---|---|-------------------|

| <b>June 30, 2009</b> | <b>Level 1</b>               | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|----------------------|------------------------------|----------------|----------------|--------------|
|                      | ..... Amount in Rupees ..... |                |                |              |

**Financial assets**

- financial assets available for sale

|                 |                   |   |   |                   |
|-----------------|-------------------|---|---|-------------------|
| Quoted equities | <u>38,216,733</u> | - | - | <u>38,216,733</u> |
|-----------------|-------------------|---|---|-------------------|

**24 CAPITAL RISK MANAGEMENT**

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

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

Consistent with others in the industry, the Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total COM's and borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

|                        | <b>2010</b>               | <b>2009</b>        |
|------------------------|---------------------------|--------------------|
|                        | ..... Rupees .....        |                    |
| Cash and bank balances | <b>8,007,972</b>          | 15,490,527         |
| Total equity           | <u><b>102,220,777</b></u> | 91,614,968         |
| Total capital          | <u><b>110,228,749</b></u> | <u>107,105,495</u> |
| <b>Gearing ratio</b>   | <b>0.0%</b>               | 0.0%               |

**25 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial assets and financial liabilities is estimated to approximate their carrying amounts.



## 26 SEGMENT ANALYSIS

### 26.1 Geographical Segment

The Modaraba's assets are employed and its income is derived in Pakistan.

### 26.2 Segment by class of business for assets leased out

|                | 2010              |             | 2009           |             |
|----------------|-------------------|-------------|----------------|-------------|
|                | Rupees            | % of Total  | Rupees         | % of Total  |
| Sugar          | 457,340           | 4%          | 606,369        | 100%        |
| Partical board | <u>11,481,657</u> | <u>96%</u>  | -              | 0%          |
|                | <u>11,938,997</u> | <u>100%</u> | <u>606,369</u> | <u>100%</u> |

The above balances represent written down value of assets leased out.

## 27 NON ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The management of Modaraba declared bonus certificates @ 10% of the paid up capital (683,196 certificates amounting to Rs.6,831,962) for the year ended June 30, 2010 at their meeting held on September 30, 2010. These financial statements do not effect the above said issue.

## 28 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 30, 2010 by the Board of Directors of the Modaraba Management Company.

## 29 GENERAL

Figures have been rounded off to the nearest rupee.

For E.A Management (Private) Limited

(Management Company)

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Director



**PATTERN OF CERTIFICATE HOLDING  
AS AT JUNE 30, 2010**

| <b>NO. OF CERTIFICATE<br/>HOLDERS</b> | <b>CERTIFICATE HOLDING</b> |   |        | <b>TOTAL<br/>CERTIFICATES HELD</b> |
|---------------------------------------|----------------------------|---|--------|------------------------------------|
| 244                                   | 1                          | - | 100    | 8,968                              |
| 249                                   | 101                        | - | 500    | 63,102                             |
| 91                                    | 501                        | - | 1000   | 65,582                             |
| 205                                   | 1001                       | - | 5000   | 415,651                            |
| 37                                    | 5001                       | - | 10000  | 249,317                            |
| 10                                    | 10001                      | - | 15000  | 122,558                            |
| 10                                    | 15001                      | - | 20000  | 172,806                            |
| 5                                     | 20001                      | - | 25000  | 107,685                            |
| 3                                     | 25001                      | - | 30000  | 85,043                             |
| 1                                     | 30001                      | - | 35000  | 34,158                             |
| 4                                     | 35001                      | - | 40000  | 154,271                            |
| 1                                     | 65001                      | - | 70000  | 65,550                             |
| 1                                     | 80001                      | - | 85000  | 81,996                             |
| 1                                     | 85001                      | - | 90000  | 89,170                             |
| 1                                     | 105001                     | - | 110000 | 105,204                            |
| 1                                     | 155001                     | - | 160000 | 155,114                            |
| 1                                     | 165001                     | - | 170000 | 165,541                            |
| 1                                     | 170001                     | - | 175000 | 170,798                            |
| 1                                     | 190001                     | - | 195000 | 193,231                            |
| 1                                     | 200001                     | - | 205000 | 203,647                            |
| 1                                     | 205001                     | - | 210000 | 207,191                            |
| 1                                     | 210001                     | - | 215000 | 214,523                            |
| 1                                     | 250001                     | - | 255000 | 254,707                            |
| 1                                     | 285001                     | - | 290000 | 289,194                            |
| 2                                     | 415001                     | - | 420000 | 834,756                            |
| 1                                     | 610001                     | - | 615000 | 614,209                            |
| 2                                     | 850001                     | - | 855000 | 1,707,990                          |
| <b>876</b>                            | <b>Total</b>               |   |        | <b>6,831,962</b>                   |





**CATEGORIES OF CERTIFICATE HOLDINGS  
AS AT JUNE 30, 2010**

|                                                                  | Number of<br>Certificate Holders | Total<br>Certificates Held | Percentage<br>% |
|------------------------------------------------------------------|----------------------------------|----------------------------|-----------------|
| <b>Directors CEO and their spouses<br/>&amp; minor children</b>  |                                  |                            |                 |
| Mr. Muhammad Omar Amin Bawany - Chief Executive                  |                                  | 26738                      | 0.3914          |
| Mrs. Rukhsana                                                    |                                  | 289194                     | 4.2330          |
| Miss. Rabeeah                                                    |                                  | 38941                      | 0.5700          |
| Mr. Ahmed Ali Bawany - Chairman                                  |                                  | 28332                      | 0.4147          |
| Mrs. Ambreen                                                     |                                  | 418029                     | 6.1187          |
| Miss. Alveena                                                    |                                  | 5315                       | 0.0778          |
| Mr. Muhammad Altamash                                            |                                  | 9301                       | 0.1361          |
|                                                                  | 7                                | 815,850                    | 11.9417         |
| <b>Associated companies, undertaking<br/>and related parties</b> |                                  |                            |                 |
| E.A Management (Pvt) Ltd.                                        |                                  | 853995                     | 12.5000         |
| Faran Sugar Mills Ltd.                                           |                                  | 853995                     | 12.5000         |
| Reliance Insurance Co. Ltd.                                      |                                  | 105204                     | 1.5399          |
|                                                                  | 3                                | 1,813,194                  | 26.5399         |
| <b>NIT and ICP</b>                                               |                                  |                            |                 |
| National Bank of Pakistan, Trustee Dept.                         |                                  | 416727                     | 6.10            |
| ICP                                                              |                                  | 5812                       | 0.09            |
| NIT LTD.                                                         |                                  | 10732                      | 0.16            |
| National Bank of Pakistan LTD.                                   |                                  | 39669                      | 0.58            |
| IDBP (ICP Unit)                                                  |                                  | 2982                       | 0.04            |
|                                                                  | 5                                | 475,922                    | 6.9661          |
| Individuals                                                      | 833                              | 2674247                    | 39.1432         |
| Investment Companies                                             | 5                                | 99743                      | 1.4599          |
| Insurance Companies                                              | 1                                | 170798                     | 2.5000          |
| Joint Stock Companies                                            | 11                               | 621114                     | 9.0913          |
| Financial Institutions                                           | 3                                | 103564                     | 1.5159          |
| Others                                                           | 7                                | 41591                      | 0.6088          |
| Charitable Trusts                                                | 1                                | 15,939                     | 0.2333          |
| <b>Total</b>                                                     | <b>876</b>                       | <b>6,831,962</b>           | <b>100</b>      |



| <b>July 2009-June 2010</b>            |                                   |
|---------------------------------------|-----------------------------------|
| <b>NUMBER OF BOARD MEETINGS</b>       |                                   |
| <b>Name of Director</b>               | <b>Number of Meeting Attended</b> |
| 1. Mr. Muhammad Omar Amin Bawany      | 4                                 |
| 2. Mr. Ahmed Ali Mohammad Amin Bawany | 4                                 |
| 3. Mr. Abdul Ghani Samad              | 4                                 |
| 4. Mr. Abdul Wahid Jaliawala          | 4                                 |

| <b>KEY OPERATING AND FINANCIAL DATA</b> |             |             |             |             |             | <b>Rs. 000's</b> |
|-----------------------------------------|-------------|-------------|-------------|-------------|-------------|------------------|
| <b>Year</b>                             | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> | <b>2005</b>      |
| Paid-up Capital                         | 68,319      | 68,319      | 63,553      | 59,119      | 51,408      | 51,408           |
| Equity                                  | 102,220     | 91,614      | 93,312      | 90,800      | 82,369      | 70,573           |
| Operating Revenue                       | 11,913      | 14,473      | 11,014      | 10,253      | 19,868      | 14,482           |
| Net Profit After Tax                    | 3,403       | 3,679       | 6,846       | 6,154       | 12,775      | 8,665            |
| Bonus                                   | 10%         | -           | 7.5%        | 7.5%        | 15%         | -                |
| Earning Per Certificate (Rs.)           | 0.50        | 0.54        | 1.08        | 1.04        | 2.16        | 1.69             |



**STATEMENT OF COMPLIANCE WITH THE  
CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a frame work of good governance, whereby a listed company is managed in compliance with the Best Practices of Corporate Governance.

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

1. The Modaraba Company through a private limited company, encourages representation of independent non-executive directors on its Board. At present the Board has two non-executive Directors out of a total of four Directors;
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company;
3. All the resident directors of the management company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFT or NBFIs or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange;
4. No causal vacancy in the Board occurred during the year.
5. The management company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors of the Modaraba Company and employees of the Modaraba;
6. The Board has developed a vision and mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained;



7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and condition of employment of the CEO and other executive directors, have been taken by the Board;
8. The meetings of the Board were presided over by the Chief Executive as chairman and, the Board meets 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. The directors are aware of their fiduciary responsibilities. However , whenever necessary the board arrange orientations courses for its directors in this respect;
30. The Board has approved appointment of CFO, company secretary and Head of internal audit, including their remuneration and terms and conditions of employment as determined by CEO.
11. The directors report for this year has been prepared in compliance with the requirements of the code and fully describes the salient matters required to be disclosed;
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board;
13. The directors, CEO and executives do not hold any interest in the shares of the Modaraba other than that disclosed in the pattern of shareholding;
14. The Modaraba has complied with all the corporate and financial reporting requirement of the code;
15. The Board has formed an audit committee. It comprises 3 members, of whom two are non-executive directors;
16. The meeting of the audit committee was held at least once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed, and advised to the committee for compliance;



17. The Board has set-up an effective internal audit function;
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan ;
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulation and the auditors have confirmed that they have observed IFAC guidelines in this regard; and
20. We confirm that all other material principles contained in the code have been compiled with.

For and on behalf of Board

Dated: September 30, 2010  
Karachi

**Muhammad Omar Amin Bawany**  
Chief Executive

## Statement of Compliance

with the Best Practices of Transfer Pricing

The company has fully complied with the best practices of Transfer Pricing as contained in the Listing Regulations of the Stock Exchanges.

For and on behalf of Board

Dated: September 30, 2010  
Karachi

**Muhammad Omar Amin Bawany**  
Chief Executive



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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **BF Modaraba** to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the 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 Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of the audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in the arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before 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 Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended **June 30, 2010**.

**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ  
CHARTERED ACCOUNTANTS**

Engagement Partner: **Muhammad Rafiq Dosani**

Karachi.

Dated: September 30, 2010



## NOTICE OF ANNUAL REVIEW MEETING

The 11th Annual Review meeting of the Certificate Holders of B.F. Modaraba will be held on Thursday October 28, 2010 at 3:00 p.m. at the Registered office of Modaraba at 4th Floor Bank House No. 1, Habib Square, M.A. Jiannah, Road, Karachi.

The Board, in its meeting held on September 30, 2010, has approved Bonus Modaraba Certificates @ 10%, subject to approval from the Registrar Modaraba Companies and Modaraba.

The Certificate Transfer Books of the Modaraba will remain closed from October 21, 2010 to October 28, 2010 (both days inclusive) to determine the names of certificate holders entitled to receive the Bonus Certificate and to attend the Annual review meeting.

Transfer received in order at the shares registrar office of the Modaraba M/s. C & K Management Associated (Pvt.) Ltd, 404, Trade Tower, Abdullah Haroon Road, Near Metropole Hotel, Karachi-75530, before the close of business hours on October 20, 2010, will be treated in time.

Dated: September 30, 2010

**Muhammad Ayub**  
*Company Secretary*

### NOTE

At the time of attending the meeting individual CDC account holders shall produce their original National Identity Cards and corporate entities shall produce the Board's Resolution/Power of Attorney with Specimen Signature of the nominees.



## **VISION**

To provide financial products translating and services within the spirit of Islamic Shariah and in accordance with the law to contribute in the promotion of the law and to contribute towards fulfilling our responsibilities in building a progressive society.

## **MISSION**

- \* To engage effectively, responsibly and profitability in providing financial products and services consistently seeking high standard of performance to maintain a long term success position in the competitive environment. This will be achieved by:
- \* Introducing a just and equitable financial system by being a good multipurpose financial institution;
- \* Providing a range of specialized services working on Shariah principles to sustain continuous earning growth through effective management of its existing resources and through selective investment and financing.

Providing for reasonable and just profit, prudent growth and pursuit of better efficiency.

- \* Focusing on serving our clients and customers building relationship with them based on trust and mutual benefit; and
- \* Fulfilling our responsibilities to satisfy the certificate holders, clients and the employees.