



Annual Report 2011

B.F. MODARABA

Managed by:

E.A. MANAGEMENT (PVT) LTD.

(Registered under the Companies Ordinance 1984 & registered under
the Modaraba Companies and Modaraba Ordinance 1980)



B. F. MODARABA
23rd ANNUAL REPORT 2011

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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

M/s. Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants

LEGAL ADVISOR

Abdul Ghaffar Muhammad Gheewala

BANKERS

Al-Baraka Islamic Investment Bank
Bank Al-Habib Limited-Islamic
Habib Bank Limited
Habib Metropolitan Islamic Bank Limited
Burj 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
www.bfmodaraba.com.pk

SHARES REGISTRAR

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



**23rd ANNUAL REPORT OF THE DIRECTORS
OF THE MODARABA COMPANY
FOR THE YEAR ENDED JUNE 30, 2011**

Dear Certificate Holders.

Assalam-o-Aalikum,

In the name of ALLAH the most gracious and most merciful, your directors are pleased to present 23rd annual report of your Modaraba together with the Audited Financial Statements for the year ended June 30, 2011.

FINANCIAL RESULTS

Modaraba's Profitability witnessed record level and earned profit of Rs.17.491 million.

Financial results are summarized as follows:

	2011 Rupees	2010 Rupees
Revenue	<u>29,489,100</u>	<u>11,913,492</u>
Profit before charging management fee	22,632,041	6,244,365
Management fee	(2,263,204)	(624,437)
Profit before taxation	<u>20,368,837</u>	<u>5,619,928</u>
Provision for Worker Welfare Funds	-	(182,170)
Profit before taxation	<u>20,368,837</u>	<u>5,437,758</u>
Taxation		
For the year	(2,877,414)	(1,943,296)
Prior year	-	(91,755)
	<u>(2,877,414)</u>	<u>(2,035,051)</u>
Profit after taxation	<u>17,491,423</u>	<u>3,402,708</u>
Add: Unappropriated profit brought forward	2,077,285	6,527,351
	<u>19,568,708</u>	<u>9,930,059</u>
Appropriations:		
Transferred to statutory reserve @ 35% of profit (2010: 30%)	6,121,998	1,020,812
Reserve for issue of Bonus Certificates	-	6,831,962
Cash Dividend @ 15% (2010: Nil)	11,272,738	-
	<u>17,394,736</u>	<u>7,852,774</u>
	<u>2,173,972</u>	<u>2,077,285</u>
Earnings per certificate	<u>2.33</u>	<u>0.45</u>



REVIEW OF OPERATIONS

By the Grace of Almighty Allah, your Modaraba delivered strong financial results. Gross revenue during the year were Rs.29.489 million vis-à-vis Rs.11.913 million for the corresponding period of 2010, a hefty growth of 147%, mainly due to tremendous increase in trading income which is 48% of the total revenue. However, revenue from dividend, capital gain, and bank deposit and lease rentals also improved. Administrative expenses for the year grew by 17%, an expected rise considering the factor of inflation and growing cost of carrying out business. Thus, Pre-tax Profit stood at Rs. 20.368 million against a Pre-tax Profit of Rs. 5.619 million for the corresponding period of 2009-10. Consequently, earning per share has jumped to Rs.2.33 from Rs.0.45. Equities market continued its upward march and during the year under review the KSE-100 index breached the psychological barrier of 12,000 and this positive trend was reflected in our portfolio investment. Hence, unrealized gain in the value of investment in the marketable securities was Rs.15.552 million which has been reflected in the equity

PROFIT DISTRIBUTION

The Board in their meeting held on September 30, 2011 has decided to distribute 99% of the net earning of the Modaraba, approved cash dividend at the rate of 15% i.e Rs.1.5 per certificate.

FUTURE OUTLOOK

Due to unstable economy and prevailing law order situation, we are applying conservative approach while trading in equity market. We are trying to improve our Murabaha / Leasing business and during the period under review we have leased asset worth of Rs. 15.3 million. As of trading business, the price of commodity for which we have already made commitments rose to its highest level due to strong demand and we expect positive contribution next year. However, government policies, global & domestic economic forces and the money market would play a vital role in our decisions and ability to meet business objectives.

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, 2011 is annexed to the Annual report.

TRADING OF CERTIFICATE

During the year there was no trading in certificates of Modaraba by CEO, Directors, Company Secretary and their spouses and minor children.

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 Review I Meeting, being eligible, have offered themselves for re-appointment for the year ending June 30, 2012 subject to approval by the Registrar Modaraba Companies and Modarabas, the Board has confirmed their appointment.

ACKNOWLEDGEMENT

The Board of Directors, is grateful to the regulatory authorities for their guidance and support as also to the certificate holders for their continuing patronage and confidence in the Management of Modaraba company.

May Almighty Allah guide us in our efforts of the progress of Modaraba and reward with the blessing **AMEEN**.

On behalf of the Board

Muhammad Omar Amin Bawany
Chief Executive

Karachi.
Date September 30, 2011



AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet of **B.F. Modaraba** as at **June 30, 2011** and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement 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;
 - 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, statement of changes in equity and cash flow statement 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, 2011** and of the profit, comprehensive income, changes in equity and its cash flows 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, 2011



**B. F. MODARABA
BALANCE SHEET
AS AT JUNE 30, 2011**

ASSETS	Note	2011 Rupees	2010 Rupees
Current Assets			
Cash and bank balances	4	17,644,607	8,007,972
Investments, available for sale	5	34,955,799	37,735,920
Loan, prepayments and other receivables	6	6,049,751	1,371,787
Trade debts - unsecured, considered good		-	27,660,000
Short term murabahas		-	11,481,657
Stock in trade		58,794,123	17,426,776
		117,444,280	103,684,112
Non-Current Assets			
Long term deposits		40,019	40,019
Fixed assets	7	14,954,860	935,139
		14,994,879	975,158
TOTAL ASSETS		<u>132,439,159</u>	<u>104,659,270</u>
LIABILITIES AND EQUITY			
Current Liabilities			
Accrued and other liabilities	8	388,399	767,450
Due to management company		2,263,204	624,437
Unclaimed dividend		278,583	278,583
Deferred murabaha income		-	171,036
Taxes payable - net		(1,024,709)	351,238
		1,905,477	2,192,743
Non-Current Liabilities			
Staff gratuity		244,775	161,150
Ijarah deposits	9	2,784,600	84,600
		3,029,375	245,750
		4,934,852	2,438,493
Certificate Holders' Equity			
Certificate capital	10	75,151,587	68,319,625
Reserves	11	36,801,001	26,141,541
Unrealized gain on available for sale investments		15,551,719	7,759,611
		127,504,307	102,220,777
TOTAL LIABILITIES AND EQUITY		<u>132,439,159</u>	<u>104,659,270</u>
Contingencies and Commitments	12	-	-

The annexed notes 1 to 28 form an integral part of these financial statements.

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, 2011**

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>Rupees</i>	
Revenue			
Ijarah rentals		5,822,820	219,168
Gain / (Loss) on sale of available for investments		1,939,935	(90,548)
Trading profit	13	14,023,000	6,282,300
Dividend - net of zakat	14	2,804,461	2,129,758
Murabaha income	15	1,214,980	679,976
Profit on bank deposits accounts		3,503,904	2,192,838
Other income	16	180,000	500,000
		29,489,100	11,913,492
Expenditure			
Operating expenses	17	2,955,435	2,522,999
Amortization of Ijarah assets		3,901,625	149,029
		6,857,060	2,672,028
Profit before impairment loss		22,632,041	9,241,464
Impairment loss on available for sale investments		-	(2,997,099)
		22,632,041	6,244,365
Profit before charging management fee		22,632,041	6,244,365
Provision for management fee		(2,263,204)	(624,437)
		20,368,837	5,619,928
Provision for workers' welfare fund		-	(182,170)
Profit before taxation		20,368,837	5,437,758
Taxation	18	(2,877,414)	(2,035,051)
Profit after taxation		17,491,422	3,402,708
Earnings per certificate-basic and diluted	19	2.33	0.45

The annexed notes 1 to 28 form an integral part of these financial statements.

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, 2011

	<i>2011</i>	<i>2010</i>
	<i>..... Rupees</i>	
Profit after tax for the year	17,491,422	3,402,708
Unrealized gain/(loss) on revaluation of available for sale investments	9,637,514	4,864,434
Gain on available for sale investments realised during the year	(1,845,406)	(658,432)
Impairment loss transferred to profit and loss account	-	2,997,099
	7,792,108	7,203,101
Total comprehensive income for the year	<u>25,283,530</u>	<u>10,605,809</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

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

Chairman

Chief Executive

Director



B. F. MODARABA
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011

	<i>2011</i>	<i>2010</i>
	<i>..... Rupees</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	20,368,837	5,437,758
Adjustments for		
Depreciation - own assets	94,854	118,299
Depreciation - Ijarah assets	3,901,625	149,029
Provision for gratuity	83,625	78,850
Provision for management fee	2,263,204	624,437
Provision for workers' welfare fund (WWF)	-	182,170
Gain / (Loss) on sale of investments	(1,939,935)	90,548
Amount transferred to profit and loss account from unrealised gain	-	658,433
Impairment loss on available for sale investments	-	2,997,099
Dividend income	(2,804,461)	(2,129,758)
	<u>1,598,912</u>	<u>2,769,107</u>
Operating profit before changes in working capital	21,967,749	8,206,865
(Increase)/decrease in current assets		
Stock in trade	(41,367,347)	19,906,760
Trade debts	27,660,000	(27,660,000)
Short term morabaha	11,481,657	(11,481,657)
Loan, prepayments and other receivables	(4,547,284)	4,828,550
	<u>(6,772,974)</u>	<u>(14,406,347)</u>
Increase/(decrease) in current liabilities		
Accrued and other liabilities	(239,725)	(2,587,313)
Deferred murabaha income	(171,036)	171,036
Management fee paid	(624,437)	(811,102)
	<u>(1,035,198)</u>	<u>(3,227,379)</u>
Net increase / (decrease) in working capital	(7,808,172)	(17,633,726)
WWF paid	(139,326)	(279,025)
Taxes paid	(4,253,361)	(4,004,512)
Net cash flow from operating activities	9,766,890	(13,710,398)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to fixed assets for own use	(16,200)	(524)
Additions to fixed assets for Ijarah asset	(18,000,000)	-
Deposits received against Ijarah assets	2,700,000	-
Purchase of available for sale investments	(858,419)	(14,177,985)
Proceeds from sale of available for sale investments	13,370,584	18,115,819
Proceeds from sale of vehicle	-	-
Dividends received	2,673,781	2,290,534
Net cash (used in) / generated from investing activities	(130,255)	6,227,844
Net increase / (decrease) in cash and cash equivalents	9,636,635	(7,482,555)
Cash and cash equivalents at the beginning of the year	8,007,972	15,490,527
Cash and cash equivalents at the end of the year	<u>17,644,607</u>	<u>8,007,972</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

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, 2011

	Share Capital	Reserves		Unrealized gain/(loss) on available for sale investments	Total
		Statutory Reserve	Unappropriated Profits		
Rupees					
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 30%	-	1,020,812	(1,020,812)	-	-
	-	1,020,812	2,381,896	7,203,101	10,605,809
Balance as at June 30, 2010	68,319,625	17,232,294	8,909,247	7,759,611	102,220,777
Balance as at July 1, 2010	68,319,625	17,232,294	8,909,247	7,759,611	102,220,777
Total comprehensive income for the year	-	-	17,491,422	7,792,108	25,283,530
Transfer to statutory reserve @ 35%	-	6,121,998	(6,121,998)	-	-
Issue of bonus certificates	6,831,962	-	(6,831,962)	-	-
	6,831,962	6,121,998	4,537,463	7,792,108	25,283,530
Balance as at June 30, 2011	75,151,587	23,354,292	13,446,709	15,551,719	127,504,307

The annexed notes 1 to 28 form an integral part of these financial statements.

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, 2011

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 (Modaraba Management Company). 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 murabaha 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:

	Note
(a) Current and deferred taxation	3.5
(b) Impairment of non-financial assets	3.7
(c) 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 2010 and are relevant to the Modaraba

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment was 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. It did not have a material impact on the Modaraba's financial statements...
- IAS 7 (amendment), 'Statement of Cash Flows' effective for periods beginning on or after January 1, 2010. The amendment provides clarification that only expenditure that results in a recognized asset in the balance sheet can be classified as a cash flow from investing activity. The clarification results in an improvement in the alignment of the classification of cash flows from investing activities in the cash flow statement and the presentation of recognized assets in the balance sheet. The application of the amendment does not affect the results or net assets of the modaraba as it is only concerned with presentation and disclosures..
- IAS 39 (amendment); 'Cash flow hedge accounting' effective from July 1, 2010. This amendment provides clarification when to recognize 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. It did not have any affect on the Modaraba's financial statements.



- IAS 36 (amendment), 'Impairment of Assets', effective from January 1, 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The application of the amendment does not have any material impact on 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. 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 application of this amendment has no material impact on the Modaraba's financial statements.
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale' effective from July 1, 2010. 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. It is not expected to have a material 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 IFRS 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 share certificates to the creditors, therefore, this interpretation could not have any 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 analyzed in detail.

b) Standards, amendments to published standards and interpretations that are effective in 2010 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, 2010 are considered not to be relevant or to have any significant effect on the Modaraba's financial reporting and operations and therefore have not been analyzed in detail.



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, 2010 and have not been early adopted by the Modaraba:

- IAS 1 'Presentation of financial statements' (Amendment) effective for annual periods beginning on or after July 1, 2012. This brings changes to the disclosure of items presented in other comprehensive income (OCI) in the 'Statement of Comprehensive Income'. The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in future. The amendment will affect the presentation of the OCI items in the Modaraba's financial statements.
- IAS 19 Employee benefits (Amendment) effective for periods beginning on or after January 1, 2013. The amendment makes significant changes to the recognition and measurement of defined pension expense and termination benefits, and to disclosure for all employee benefits.
- 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 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.
- 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 an entity'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 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.



IFRS 10, 'Consolidation financial statements', effective for periods beginning on or after January 1, 2013. This standard replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements' and SIC 12, 'Consolidation - separate purpose entities'. This standard is not expected to have any impact on the Modaraba's financial statements.

- IFRS 11, 'Joint arrangements', effective for annual periods beginning on or after January 1, 2013. This standard brings in changes in definition of joint arrangements and reduces the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. This standard is not expected to have any impact on the Modaraba's financial statements.
- IFRS 12, 'Disclosure of interests in other entities', effective for annual periods beginning on or after January 1, 2013. This standard set out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11; it replaces the disclosure requirements currently found in IAS 28, 'Investments in associates'; and requires entities to disclose information that helps users to evaluate the nature, risks and financial effects associated with the entity's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. This standard is not expected to have any impact on the Modaraba's financial statements.
- IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after January 1, 2013. This standard explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. This standard is not expected to have any impact on the Modaraba's financial statements.

2.6 Islamic Financial Accounting Standard - 1

The Securities and Exchange Commission of Pakistan (SECP) notified the Islamic Financial Accounting Standard 1 (IFAS-1) issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transaction undertaken by a bank / financial institution, effective for financial periods beginning on or after January 1, 2006. The standard had not been adopted by the Modaraba pending resolutions of certain issues, e.g. invoicing of goods, recording of inventories, etc. During the current year, the Modaraba has adopted IFAS-1 after obtaining certain clarifications in respect of the afore-mentioned issues. However, the adoption of the above standard does not have any impact on the Modaraba's financial statements for the year ended June 30, 2011 as the Modaraba does not have any such transaction outstanding as at June 30, 2011..

2.7 Islamic Financial Accounting Standard - 2

During the year ended June 30, 2008, Islamic Financial Accounting



Pakistan which was notified by the SECP vide an SRO 431(1)/2007 dated May 5, 2007 was adopted. Under the above IFAS 2, the 'Ijarah' transactions are accounted for in the following manner.

- Muj`ir (lessors) shall present the assets subject to Ijarah in their balance sheet according to the nature of the asset, distinguished from the assets in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognized as an expense.
- Ijarah income shall be recognized in income on an accrual basis as and when the rental becomes due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the Ijarah asset is diminished.

SECP, vide its letter No. SC/M/RW/SCM/2009 dated March 9, 2009, SECP allowed that in case of Modarabas, IFAS-2 shall be applied for Ijarah transactions executed on or after July 1, 2008.

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.

Deffered

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 is 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 7. Depreciation is charged from the quarter of acquisition of the respective assets upto the quarter 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.

Ijarah Assets

Ijarah assets 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



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. of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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 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, carrying values of financial assets are remeasured 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 Modaraba 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 a 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.

Financial liabilities are initially recognised at their fair values and subsequently carried at amortized cost using effective interest method.



3.14 Provision for doubtful recoveries

Provision for doubtful debts are made after review of outstanding Ijarah rental and murabaha 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. Ijarah 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>2011</i>	<i>2010</i>
	..... Rupees	
4 CASH AND BANK BALANCES		
Cash	22,464	22,259
Balance with Banks		
In current accounts	492,480	427,031
In savings account	17,129,663	7,558,682
4.1	17,622,143	7,985,713
	17,644,607	8,007,972

4.1 The effective rate of profit on savings account ranges from 5% to 11% (2010: 5% to 11%)..

	<i>2011</i>	<i>2010</i>
	..... Rupees	
5 INVESTMENTS		
Available for sale		
Investment in shares and close end units	5.1 29,501,674	21,160,574
Investment in open end units	5.2 5,454,125	16,575,346
	34,955,799	37,735,920



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.

June 30, 2010	June 30, 2011	NAME OF COMPANY/ INSTITUTION	June 30, 2011 Rupees	June 30, 2010 Rupees
Number of Shares/Certificate				
MUTUAL FUND				
-	100,000	Meezan Balanced Fund	940,000	-
164,000	-	Pakistan Premier Fund	-	1,328,400
164,000	100,000	Total	940,000	1,328,400
MODARABAS				
117,636	117,636	Standard Chartered Modaraba	1,184,596	1,082,253
100,000	100,000	First Habib Bank Modaraba	800,000	503,000
72,900	72,900	First Punjab Modaraba	72,171	80,919
19,360	19,360	First Tri Star Modaraba	36,784	35,429
13,000	13,000	First UDL Modaraba	94,250	76,700
322,896	322,896	Total	2,187,801	1,778,301
INVESTMENT COMPANIES/BANKS				
16,875	16,875	Jahangir Siddique & Company Ltd.	109,350	213,300
TEXTILE WEAVING				
200	200	Service Fabric Ltd.	177	97
9,000	9,000	Reliance Weaving Mills Ltd.	101,250	81,000
9,200	9,200	Total	101,427	81,097
SUGAR & ALLIED				
2,507	-	Bawany Sugar Mills Ltd.	-	2,658
5,000	5,000	Habib ADM Ltd.	61,300	70,050
7,507	5,000	Total	61,300	72,708
CEMENT				
5,300	5,300	Cherat Cement Ltd.	47,700	48,866
12,000	12,000	Fauji Cement Ltd.	49,440	54,600
17,300	17,300	Total	97,140	103,466
FUEL AND ENERGY				
100,000	100,000	Hub Power Company Ltd.	3,750,000	3,196,000
11,000	11,000	Sui Northern Gas Pipeline Ltd.	219,120	305,690
21,780	26,136	Pak Petroleum Ltd.	5,411,981	4,010,133
132,780	137,136	Total	9,381,101	7,511,823
AUTO & ALLIED				
4,455	4,455	Pak Suzuki Motors Company Ltd.	278,661	353,149
CHEMICALS & PHARMACEUTICALS				
22,764	22,764	Bawany Air Products Ltd.	153,658	262,014
-	2,250	Fatima Fertilizer Company Ltd.	37,441	-
81,504	101,880	Fauji Fertilizer Company Ltd.	15,317,655	8,400,616
104,268	126,894	Total	15,508,754	8,662,630
TECHNOLOGY AND COMMUNICATION				
57,000	57,000	Pakistan Telecommunication Company Ltd.	810,540	1,014,600
10,000	10,000	TRG Pakistan Ltd.	25,600	41,100
67,000	67,000	Total	836,140	1,055,700
846,281	806,756		29,501,674	21,160,574



5.2 MUTUAL FUNDS-OPEN ENDED

June 30, 2010	June 30, 2011	NAME OF COMPANY/ INSTITUTION	June 30, 2011 Rupees	June 30, 2010 Rupees
111,695	-	Meezan Islamic Income Fund	-	5,793,600
208,585	109,016	Meezan Cash Fund	5,454,125	10,781,746
<u>320,280</u>	<u>109,016</u>		<u>5,454,125</u>	<u>16,575,346</u>

6 LOANS, PREPAYMENTS AND OTHER RECEIVABLES

	<i>2011</i>	<i>2010</i>
	.....Rupees.....	
Prepayments	124,992	20,531

Other receivables

Profit on bank deposits	1,885,346	523,282
Ijarah rental receivable	803,106	-
Loan to staff	-	12,000
Sales tax	3,005,877	716,224
Dividend receivable	230,430	99,750
	<u>5,924,759</u>	<u>1,351,256</u>
	<u>6,049,751</u>	<u>1,371,787</u>

7 FIXED ASSETS

Own use	7.1 399,145	477,799
Ijarah assets	7.2 14,555,715	457,340
	<u>14,954,860</u>	<u>935,139</u>



7.1 Own use

	Office equipments	Furniture & fixture	Computer & allied Rupees	Vehicles	Total
As at July 01, 2009					
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>
Year ended June 30, 2010					
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>
As at July 01, 2010					
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>
Year ended June 30, 2011					
Opening net book value	24,751	24,589	32,029	396,430	477,799
Additions during the year	-	7,700	8,500	-	16,200
Disposals / transfers					
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Depreciation for the year	(2,476)	(2,844)	(10,246)	(79,288)	(94,854)
Closing net book value	<u>22,275</u>	<u>29,445</u>	<u>30,283</u>	<u>317,142</u>	<u>399,145</u>
As at June 30, 2011					
Cost	145,575	146,603	290,240	1,588,000	2,170,418
Accumulated depreciation	(123,300)	(117,158)	(259,957)	(1,270,858)	(1,771,273)
Net book value	<u>22,275</u>	<u>29,445</u>	<u>30,283</u>	<u>317,142</u>	<u>399,145</u>
Annual rates of depreciation	<u>10%</u>	<u>10%</u>	<u>30%</u>	<u>20%</u>	



7.2 Ijarah assets

	Vehicles	
	Rupees	
As at July 01, 2009		
Cost	846,000	
Accumulated depreciation	(239,631)	
Net book value	<u>606,369</u>	
Year ended June 30, 2010		
Opening net book value	606,369	
Depreciation for the year	(149,029)	
Closing net book value	<u>457,340</u>	
As at July 01, 2010		
Cost	846,000	
Accumulated depreciation	(388,660)	
Net book value	<u>457,340</u>	
Year ended June 30, 2011		
Opening net book value	457,340	
Additions during the year	18,000,000	
Depreciation for the year	(3,901,625)	
Closing net book value	<u>(3,444,285)</u>	
As at June 30, 2011		
Cost	18,846,000	
Accumulated depreciation	(4,290,285)	
Net book value	<u>14,555,715</u>	
Annual rates of amortization	<u>11.25%</u>	
	2011	2010
	..... Rupees .....	..... Rupees

8 ACCRUED AND OTHER LIABILITIES

Insurance payable	-	47,155
Audit fee payable	380,000	370,000
Advance from customer	-	180,000
Workers' welfare fund	-	139,326
Others	8,399	30,969
	<u>388,399</u>	<u>767,450</u>



9 LONG TERM IJARAH DEPOSITS

This represents interest free security deposits received against Ijarah assets from lessees and is refundable / adjustable at the expiry of the respective Ijarah contracts.

10 CERTIFICATE CAPITAL		2011	2010
		.....<i>Rupees</i>	
2011	2010		
No. of Certificates			
Authorized certificate capital			
<u>10,000,000</u>	<u>10,000,000</u>	Modaraba Certificates of Rs. 10 each	<u>100,000,000</u> <u>100,000,000</u>
Issued,subscribed and paid-up capital			
3,000,000	3,000,000	Modaraba certificates of Rs.10/- each issued for cash	30,000,000 30,000,000
4,515,158	3,831,962	Modaraba certificates of Rs.10/- each issued as bonus certificates	45,151,587 38,319,625
<u>7,515,158</u>	<u>6,831,962</u>		<u>75,151,587</u> <u>68,319,625</u>
10.1 The reconciliation of ordinary shares is as follows:		2011	2010
		(Number of Certificates)	
Opening Balance		6,831,962	6,831,962
Add: Bonus shares issued during the year		683,196	-
		<u>7,515,158</u>	<u>6,831,962</u>
11 RESERVES			
Statutory reserve		11.1 23,354,292	17,232,294
Unappropriated profit		13,446,709	8,909,247
		<u>36,801,001</u>	<u>26,141,541</u>

11.1 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.6,121,998 (2010: Rs.1,020,812) which represents 35% of the profit after tax.

12 CONTINGENCIES AND COMMITMENTS

a) No provision for Workers' Welfare Fund has been made in these financial statements in the light of judgement laid down by High Court of Lahore in the case of E.P.C.T. (Pvt.) Ltd. Versus Federation of Pakistan, etc. (W.P. No.8763/2011). The Court has held that amendments made in Workers' Welfare Fund Ordinance, 1971 through Finance Acts, 2006 and 2008 were unconstitutional. Had the provision been made, the same would have been recorded at Rs. 407,377.

b) There are no known commitments as at June 30, 2011 (2010: Nil)

13 TRADING PROFIT		2011	2010
		.....<i>Rupees</i>	
Sales-Net	13.1	70,247,328	75,935,008
Cost of sales			
Opening stock		17,426,776	37,333,536
Purchases		97,591,675	49,745,948
Closing stock		(58,794,123)	(17,426,776)
		<u>56,224,328</u>	<u>69,652,708</u>
		<u>14,023,000</u>	<u>6,282,300</u>



2011 2010
.....Rupees

13.1 Sales - Net

Sale - Gross	72,396,000	79,932,000
Less : Sales Tax	(2,148,672)	(3,996,992)
	70,247,328	75,935,008

14 DIVIDEND

Dividend income	2,856,377	2,140,400
Less: Zakat deducted at source	(51,916)	(10,642)
	2,804,461	2,129,758

15 MORAHABA INCOME

Morabaha income	1,214,980	679,976
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15.1 This represent profit on murabahas as per Murabaha arrangement at a rate of KIBOR+ 1.5% and KIBOR+2% from July 01, 2010 on principal.

2011 2010
.....Rupees

16 OTHER INCOME

Deposit forfeited	16.1	180,000		500,000
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16.1 These represent advance deposits forfeited by modaraba of various customers on default of contractual terms.

2011 2010
..... Rupees

17 OPERATING EXPENSES

Salaries and other benefits	17.1	1,796,732		1,597,591
Fee and subscription		450,902		278,096
Newspapers and periodicals		4,504		4,668
Printing and stationery		71,300		77,207
Repairs and maintenance		3,110		430
Traveling and conveyance		3,193		2,884
Postage and telephone		52,493		28,945
Auditors' remuneration	17.2	310,000		310,000
Vehicles running and maintenance		44,707		43,412
Insurance		50,753		41,942
Depreciation	7.1	94,854		118,299
Advertisement		43,870		10,800
Bank charges		2,061		1,672
Miscellaneous		26,956		7,053
		2,955,435		2,522,999

17.1 Remuneration of employees

Basic	948,163	835,235
House rent	390,896	345,764
Allowances	192,341	172,568
Others	265,332	244,024
	1,796,732	1,597,591
Number of employees	7	7



	<i>2011</i>	<i>2010</i>
	<i>..... Rupees</i>	
17.2 Auditors' remuneration	250,000	250,000
Audit fee	60,000	60,000
Half yearly review including other services	310,000	310,000
	<u> </u>	<u> </u>
18 TAXATION		
Current		
- for the year	2,877,414	1,943,296
- prior year	-	91,755
	2,877,414	2,035,051
	<u> </u>	<u> </u>
18.1 Income tax assessments of the Modaraba have been finalized upto tax year 2010, as these are deemed to have been finalized under section 120 of Income Tax Ordinance, 2001.		
18.2 Relation between tax expenses and accounting profit		
	<i>2011</i>	<i>2010</i>
	<i>..... Rupees</i>	
Accounting profit for the current year	20,368,837	5,437,758
Admissible differences	(2,865,211)	(191,445)
Inadmissible differences	4,080,104	1,719,966
	21,583,730	6,966,280
	<u> </u>	<u> </u>
Tax on income	5,395,932	1,741,570
Tax on FTR income	-	201,726
Tax effect off - exempt income	(2,518,518)	-
	2,877,414	1,943,296
	<u> </u>	<u> </u>
19 EARNING PER CERTIFICATE		
Basic		
Profit for the year	17,491,422	3,402,708
Average number of certificates outstanding (2010: Restated)	7,515,158	7,515,158
Earnings per certificate	2.33	0.45
	<u> </u>	<u> </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, 2010 and June 30, 2011 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.

20 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 certificate holders, associated concerns with or without common major certificate holders, the management company, directors of the management 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:

	2011	2010
	..... Rupees	
Associate Companies		
Insurance expenses	91,422	41,942
Purchases	97,591,675	49,745,948
Management company		
Modaraba Management fee	2,263,204	624,437
Balances outstanding at the balance sheet date, are as follows:		
Insurance payable	-	47,155
Due to management company	2,263,204	624,437

21. FINANCIAL INSTRUMENTS BY CATEGORY

	Held to maturity	Loans and receivables	Available for sale	Total
	..... 2011			
	..... Rupees			
ASSETS				
Cash and bank balances	-	17,644,607	-	17,644,607
Investments	-	-	34,955,799	34,955,799
Advances, deposits and other receivables	-	2,918,882	-	2,918,882
Trade debts	-	-	-	-
Short term morabahas	-	-	-	-
Long term deposits	-	40,019	-	40,019
			Liabilities at Other financial fair value	
	Held to maturity	liabilities at amortized cost	through profit or loss	Total
	..... 2011			
	..... Rupees			
LIABILITIES				
Accrued and other liabilities	-	388,399	-	388,399
Due to management company	-	2,263,204	-	2,263,204
Unclaimed dividend	-	278,583	-	278,583
Staff gratuity	-	244,775	-	244,775
Ijarah deposits	2,784,600	-	-	2,784,600
	Held to maturity	Loans and receivables	Available for sale	Total
	..... 2010			
	..... Rupees			
ASSETS				
Cash and bank balances	-	8,007,972	-	8,007,972
Investments	-	-	37,735,920	37,735,920
Advances, deposits and other receivables	-	635,032	-	635,032
Trade debts	-	27,660,000	-	27,660,000
Short term morabahas	11,481,657	-	-	11,481,657
Long term deposits	-	40,019	-	40,019



	Held to maturity	Other financial liabilities at amortized cost	Liabilities at fair value through profit or loss	Total
	2010			
	Rupees			
LIABILITIES				
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
Ijarah deposits	84,600	-	-	84,600

22 FINANCIAL RISK MANAGEMENT

The Modaraba finances its operations through equity & borrowings. The Modaraba utilises funds in morabaha financing, trading activities and investments in equity instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

22.1 Market Risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices. The Modaraba manages this risk through continuous monitoring of the market prices, market mark-up/profit rates and its mark-up/profit rates sensitivity position.

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

22.1.1 Currency risk

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

22.1.2 Price risk

Price risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest / mark up rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all or similar financial instruments traded in the market. The Modaraba is exposed to equity price risk since it has investments in quoted equity securities amounting to Rs. 34.955 million (2010: Rs. 37.735 million) at the reporting date. The Modaraba manages price risk by monitoring the exposure in quoted equity securities and implementing the strict discipline in internal risk management and investment policies.

The carrying value of investments subject to equity price risk is based on quoted market prices as of the reporting date. Market prices are subject to fluctuation and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amount realized in the sale of a particular security may be affected by the relative quantity of the security being sold.



Sensitivity analysis

For the purpose of price risk sensitivity analysis it is observed that the benchmark KSE 100 Index has increased by 29% during the financial year.

The table below summarizes Modaraba's equity price risk as of 30 June 2011 and 2010 and shows the effects of a hypothetical 29% increase and a 29% 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, 2011	Rupees	34,955,799	29% increase 29% decrease	45,092,981 24,818,617	10,137,182 (10,137,182)
June 30, 2010	Rupees	37,735,920	29% increase 29% decrease	48,679,337 26,792,503	10,943,417 (10,943,417)

22.1.3 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. 17,129,663/- (2010: Rs. 19,040,339/-) and Rs. Nil (2010: 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:

	2011		2010			2011		2010	
	Effective interest rate (%)		Effective interest rate (%)			Carrying amounts		Carrying amounts	
Financial assets									
Short term murabahas	13.76% to 15.61%	13.76% to 13.88%	Rupees	-	11,481,657				
Bank deposits - pls account	5% to 11%	5% to 11%	Rupees	17,129,663	7,588,682				

b) Sensitivity analysis

The Modaraba does not account for any fixed rate financial assets 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 increase during the year by approximately 1.25%. Subsequent to the balance sheet date and till the date of authorization of these financial statements a further decrease of 0.25% 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.

		Profit and loss 100 bp	
		increase	decrease
As at June 30, 2011			
Cash flow sensitivity-Variable rate financial assets	<i>Rupees</i>	47,189	(47,189)
As at June 30, 2010			
Cash flow sensitivity-Variable rate financial assets	<i>Rupees</i>	28,728	(28,728)

22.2 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 morabaha 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 55.559 million (2010: Rs 85.560 million) the financial assets which are subject to credit risk amounted to Rs 20.310 million (2010: Rs 47.128 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 25.2.

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

	2011		2010	
	Carrying Amount	Maximum Exposure	Carrying Amount	Maximum Exposure
Rupees				
Balance with banks	17,622,143	17,622,143	7,985,713	7,985,713
Advances	5,924,759	5,924,759	1,351,256	1,351,256
Other receivable	-	-	11,481,657	11,481,657
Short term investments	34,955,799	34,955,799	37,735,920	37,735,920
	<u>58,502,701</u>	<u>58,502,701</u>	<u>58,554,546</u>	<u>58,554,546</u>

22.2.2 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:

	2011	2010
	Rupees	
Suppliers	-	27,660,000
Others	-	11,481,657
	<u>-</u>	<u>39,141,657</u>

22.2.3 Impairment losses

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

22.2.4 Credit quality

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

	Rating		Rating Agency	2011	2010
	Short term	Long term		Rupees	
Al-Barka Islamic Bank Limited	A-1	A	JCR - VIS	12,189	12,284
Bank Al-Habib Limited	A1+	AA+	PACRA	211,554	256,181
Burj Bank Limited	A-2	A-	JCR - VIS	8,735	713,462
Habib Bank Limited	A-1+	AA+	JCR - VIS	279,252	213,804
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	17,110,413	6,789,982
				<u>17,622,143</u>	<u>7,985,713</u>

22.3 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.

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

	Carrying Amount	2011		
		Contractual cash flows	Twelve month or less	Two to Five years
Rupees				
Non-Derivative Financial liabilities				
Lease Deposits	2,784,600	2,784,600	84,600	2,700,000
Staff Gratuity	244,775	244,775	-	244,775
Accured and other liabilities	388,399	388,399	388,399	-
Due to Management Company	2,263,204	2,263,204	2,263,204	-
Unclaimed Dividend	278,583	278,583	278,583	-
	<u>5,959,561</u>	<u>5,959,561</u>	<u>3,014,786</u>	<u>2,944,775</u>

	Carrying Amount	2010		
		Contractual cash flows	Twelve month or less	Two to Five years
Rupees				
Non-Derivative Financial liabilities				
Lease Deposits	84,600	84,600	-	84,600
Staff Gratuity	161,150	161,150	-	161,150
Accured 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	-
	<u>1,916,220</u>	<u>1,916,220</u>	<u>1,670,470</u>	<u>245,750</u>

22.3.2 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 :

June 30, 2011	Level 1	Level 2	Level 3	Total
	..... Amount in Rupees			
Financial assets				
- financial assets available for sale				
Quoted equities	34,955,799	-	-	34,955,799

June 30, 2010	Level 1	Level 2	Level 3	Total
	..... Amount in Rupees			
Financial assets				
- financial assets available for sale				
Quoted equities	37,735,920	-	-	37,735,920

23 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.

	2011	2010
	..... Rupees	
Cash and bank balances	17,644,607	8,007,972
Total equity	<u>127,504,307</u>	102,220,777
Total capital	<u>145,148,914</u>	<u>110,228,749</u>
Gearing ratio	0.0%	0.0%

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

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



25 SEGMENT ANALYSIS

25.1 Geographical Segment

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

25.2 Segment by class of business for ijarah assets.

	2011		2010	
	Rupees	% of Total	Rupees	% of Total
Sugar	14,555,715	100%	457,340	4%
Partical board	-	-	11,481,657	96%
	<u>14,555,715</u>	<u>100%</u>	<u>11,938,997</u>	<u>100%</u>

The above balances represent written down value of ijarah assets.

26 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management Company in their meeting held on September 30, 2011 has approved cash dividend @ 15% i.e. Rs. 1.50 per certificate (2010: Stock dividend @10%). The financial statements of the Modaraba for the year ended June 30, 2011 do not include the effect of the final distribution which will be accounted for in the financial statements of the Modaraba for the year ending June 30, 2012.

27 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 30, 2011 by the Board of Directors of the Modaraba Management Company.

28 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 31, 2011**

NO. OF CERTIFICATE HOLDERS	CERTIFICATE HOLDING			TOTAL CERTIFICATES HELD
320	1	-	100	8,955
246	101	-	500	61,611
96	501	-	1000	69,082
205	1001	-	5000	414,522
38	5001	-	10000	260,252
7	10001	-	15000	89,988
11	15001	-	20000	190,051
6	20001	-	25000	135,311
2	25001	-	30000	55,939
1	30001	-	35000	31,165
1	35001	-	40000	37,573
3	40001	-	45000	129,037
1	70001	-	75000	72,105
1	85001	-	90000	89,195
1	115001	-	120000	115,724
1	170001	-	175000	170,625
1	180001	-	185000	182,095
1	185001	-	190000	187,877
1	210001	-	215000	212,554
1	225001	-	230000	227,910
1	280001	-	285000	280,303
1	315001	-	320000	318,113
1	330001	-	335000	334,339
1	365001	-	370000	368,135
2	455001	-	460000	918,280
1	675001	-	680000	675,629
2	935001	-	940000	1,878,788
953	TOTAL			7,515,158



**CATEGORIES OF CERTIFICATE HOLDINGS
AS AT JUNE 30, 2011**

	Number of Certificate Holders	Total Certificates Held	Percentage %
Directors CEO and their Spouses & Minor children			
Mr. Muhammad Omar Amin Bawany - Chief Executive		29411	0.3914
Mrs. Rukhsana		318113	4.2330
Miss. Rabeeah		42834	0.5700
Mr. Ahmed Ali Bawany - Chairman		31165	0.4147
Mrs. Ambreen		459831	6.1187
Miss. Alveena		5846	0.0778
Mr. Muhammad Altamash		10231	0.1361
	7	897431	11.9416
Associated Companies, Undertaking and Related Parties			
E.A Management (Pvt) Ltd.		939394	12.5000
Faran Sugar Mills Ltd.		939394	12.5000
Reliance Insurance Co. Ltd.		115724	1.5399
	3	1994512	26.5399
NIT and ICP			
National Bank of Pakistan, Trustee Dept.		458449	6.1003
ICP		5812	0.0773
NIT Ltd.		11805	0.1571
National Bank of Pakistan Ltd.		43635	0.5806
IDBP (ICP Unit)		4019	0.0535
	5	523720	6.9688
Individuals	913	3041327	40.4692
Investment Companies	4	109558	1.4578
Insurance Companies	1	187877	2.5000
Joint Stock Companies	9	681665	9.0705
Financial Institutions	3	15789	0.2101
Others	7	45747	0.6087
Charitable Trusts	1	17,532	0.2333
Total	953	7,515,158	100



July 2010-June 2011	
NUMBER OF BOARD MEETINGS	
Name of Director	Number of Meeting Attended
1. Mr. Muhammad Omar Amin Bawany	3
2. Mr. Ahmed Ali Mohammad Amin Bawany	4
3. Mr. Abdul Ghani Samad	4
4. Mr. Abdul Wahid Jaliawala	4

KEY OPERATING AND FINANCIAL DATA						Rs. 000's
Year	2011	2010	2009	2008	2007	2006
Paid-up Capital	75,151	68,319	68,319	63,553	59,119	51,408
Equity	127,504	102,220	91,614	93,312	90,800	82,369
Operating Revenue	29,489	11,913	14,473	11,014	10,253	19,868
Net Profit After Tax	17,491	3,403	3,679	6,846	6,154	12,775
Bonus	-	10%	-	7.5%	7.5%	15%
Cash Dividend	15%	-	-	-	-	-
Earning Per Certificate (Rs.)	2.33	0.45	0.54	1.08	1.04	2.16



**STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2011**

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;
10. 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, 2011
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** ("the Modaraba"), to comply with the Listing Regulations 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 Modaraba management company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the 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 Modaraba 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 are not required to consider whether the Modaraba management company Boards statement on internal control covers all risks and control, or to form an opinion on the effectiveness of such internal controls, the company corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited requires the company to place before the Board of Directors of the modaraba management company 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 Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended **June 30, 2011**.

Karachi.

Dated: September 30, 2011

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
CHARTERED ACCOUNTANTS



NOTICE OF ANNUAL REVIEW MEETING

The 12th Annual Review meeting of the Certificate Holders of B.F. Modaraba will be held on Tuesday October 25, 2011 at 2:00 p.m. at the Registered office of Modaraba at 4th Floor Bank House No. 1, Habib Square, M.A. Jiannah, Road, Karachi.

The Board of Director, in their meeting held on September 30, 2011, has approved Cash Dividend @ 15% i.e. Rs. 1.50 per Certificate.

The Certificate Transfer Books of the Modaraba will remain closed from October 18, 2011 to October 25, 2011 (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 17, 2011, will be treated in time.

Dated: September 30, 2011

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.