

## CONTENTS

---

- Mission and Vision Statement ..... 2
- Corporate Information ..... 3
- Directors’ Report ..... 4
- Key Operating & Financial Data ..... 7
- Statement of Compliance with the Code of Corporate Governance ..... 10
- Auditors’ Review report to the Members on Statement of Compliance with the Best Practices of Code of Corporate Governance ..... 12
- Auditors’ Report to the Members ..... 13
- Balance Sheet ..... 14
- Profit and Loss Account ..... 15
- Cash Flow Statement ..... 16
- Statement of Changes in Equity ..... 17
- Notes to the Financial Statements ..... 18
- Pattern of Certificate Holding ..... 48
- Categories of Certificate Holding ..... 49
- Notice of Annual Review Meeting ..... 50

## Mission Statement

---

The mission statement of the Management Company and Modaraba Al-Mali stems from its commitment to follow the Divine Commandment:

**“But Allah hath permitted trade and forbidden usury”**

Accordingly, the mandate it has set for itself is to seek investment, raise funds, trade and re-invest in accordance with Islamic principles and continuously endeavor to conduct business in conformity with Sharia to the maximum extent possible in the prevailing secular economic environment, which is not yet fully geared and ready to adopt Islamic financial set-up as a way of life.

## Our Vision

---

Our vision is to become vibrant organization of choice for our customers and investors, contribute in the development of national economy, and maximize profitability for sharing halal profits to our certificate holders and partners. The Management Company is committed to continuous, sustainable and impressive growth in the sphere of its activities.

The cornerstone of investment management philosophy is to grow through consortium effort entering into investment and technical collaboration with effort entering into investment and technical collaboration with interested organizations, sharing common objectives, who would like to invest and grow in Pakistan through their skills and equity. This approach is not a sideline at our organization. It is at the heart of our design for growth and in pursuit of excellence.

# Modaraba Al-Mali

---

## CORPORATE INFORMATION

Board of Directors	Mr. S. Iradat Husain	Chairman
	In alphabetical order	
	Mr. Gohar Iqbal Shaikh	Director
	Mr. Hasan Aziz Bilgrami	Director
	Mr. Muhammad Imran	Director
	Mr. Mujtaba Hussain Kazmi	Director
	Mr. Tariq Usman Bhatti	Director
	Mr. Zulfiqar Ali	Chief Executive
Audit Committee	Mr. S. Iradat Husain	Chairman
	Mr. Tariq Usman Bhatti	Member/Director
	Mr. Gohar Iqbal Shaikh	Member/Director
Management Team	Mr. Zulfiqar Ali	Chief Executive
	Syed Ahmed Asim	CFO/Company Secretary
	Mr. Tahir Zuberi	Senior Manager Mobile Tower
Company Secretary	Syed Ahmed Asim	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants First Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi.	
Bankers & Financers	BankIslami Pakistan Limited Al-Baraka Islamic Bank B.S.C. (E.C.) Allied Bank Limited MCB Bank Limited Meezan Bank Limited Bank Al-Falah Limited Faysal Bank Limited	
Registrar & Share Registration Office	Technology Trade (Pvt.) Limited Dagja House, 241-C, Block 2, P.E.C.H.S., Karachi.	
Registered Office	10th Floor, Progressive Square, Opposite Nursery, Sharea Faisal, Karachi. Phone: 4547521-5 Fax: 4547526 E-mail: <a href="mailto:info@jsfinance.net">info@jsfinance.net</a> URL: <a href="http://www.modarabaalmali.net">http://www.modarabaalmali.net</a>	

# Modaraba Al-Mali

---

## DIRECTORS' REPORT

On behalf of the Board of Directors of JS Finance Limited we take pleasure in presenting the 21<sup>st</sup> annual report of Modaraba Al-Mali together with Audited Accounts for the year ended June 30, 2007.

### 1. Operating Results

A summary of operating results for the year ended June 30, 2007 are presented as under:

	(Rs. In "000")	
	2007	2006
Total operating income	<u>57,841</u>	<u>62,439</u>
Net (loss) / profit before management fee & taxation	(11,727)	31,642
Less : Management fee	<u>-</u>	<u>(3,164)</u>
	(11,727)	28,478
Add : Un-appropriated profit brought forward	<u>28,508</u>	<u>16,680</u>
Profit available for appropriation	16,781	45,158
Final dividend for 2006 @ 12.50% (2005: 6%)	(23,030)	(10,954)
Appropriations;		
Statutory reserves – Nil – (2006:20%)	<u>-</u>	<u>(5,696)</u>
Un-appropriated (loss)/profit carried forward	<u>(6,249)</u>	<u>28,508</u>
(Loss)/earning per certificate of Rs. 10/- each	<u>(0.64)</u>	<u>1.56</u>

### 2. Profit distribution

Due to loss during the year, the Directors have not declared any dividend for the year ended June 30, 2007.

### 3. Statutory reserve

As per Prudential Regulations issued by Securities & Exchange Commission of Pakistan, Modarabas are required to transfer a minimum 20% and maximum 50% post-tax profit to statutory reserves. However, as the Modaraba has incurred loss during the year, no appropriation has been made towards statutory reserves.

### 4. Operational review

The Modaraba incurred loss of Re. 0.64 per certificate during the current financial year as compared to profit of Rs. 1.56 per certificate during the corresponding year ended June 30, 2006. The loss witnessed during the year was mainly due to hefty provisions made against the non-performing leases and morabahas, which are now fully provided leaving nothing in the backyard. The Modaraba continued its strategy of reducing size of its financing portfolio and focused on its innovative business of mobile tower renting. The excess liquidity was used in paying off the debt financing availed from various financial institutions. The Modaraba is now almost un-leveraged and offers a good opportunity for increasing returns through controlled leveraging.

# Modaraba Al-Mali

---

## 5. Future Prospects

Subsequent to the year-end, the Management of the Modaraba has been taken over by BankIslami Pakistan Limited. The new management is in the process of re-aligning the business of the Modaraba and intends to focus on its tower renting business and expand the same with the view to make the Modaraba as one of the best performing entity in the sector. With cleaning of the financing portfolio, there will be no further drainage of the profit on account of provisioning against NPLs. Rigorous efforts are under way for recovery of the stuck-up funds of the Modaraba, which is expected to result in reversal of the provisions. Your management is confident of coming up to your expectations in the years to come.

## 6. Corporate Governance

The modarabas are required to comply with various requirements of the Code of Corporate Governance (CCG) issued by the SECP and enforced through listing regulations of the Stock Exchanges in Pakistan. Your management has taken significant steps in line with the requirements formulating a vision and mission statement, over all corporate strategy, strengthened internal audit function, constituting an Audit Committee and adoption of Charter of Audit Committee.

The statutory auditors are also required to issue their review report over the compliance statement of the best practices, which is published with the financial statements.

The Board of Directors has reviewed the CCG and confirms that:

Financial statements present fairly the state of affairs, the results of its operations, cash flow and change in equity.

Proper books of account have been maintained.

Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes explained in financial statements and accounting estimates are based on reasonable and prudent judgment.

International Accounting Standards, as applicable to modarabas in Pakistan, have been followed in preparation of financial statements. The system of internal control is sound in design and has been effectively implemented and monitored.

There are no significant doubts upon the modaraba's ability to continue as a going concern.

There has been no material departure from the best practice of Corporate Governance applicable at 30 June 2007.

Key operating and financial data of last six years is annexed.

## 7. Pattern of certificate holding

Pattern of certificate holding is annexed to this report.

## 8. Audit Committee

The Board of Directors has established an Audit Committee, which presently comprises of the following directors:

- |    |                        |          |
|----|------------------------|----------|
| 1. | Mr. S. Iradat Husain   | Chairman |
| 2. | Mr. Tariq Usman Bhatti | Member   |
| 3. | Mr. Gohar Iqbal Shaikh | Member   |

# Modaraba Al-Mali

---

## 9. Attendance of Board Meetings

In all, four Board meetings of the Modaraba Company were held during the year. Attendance of each director is appended hereunder:

<u>Name of Directors</u>	<u>No. of Meetings</u>	<u>Leave of Absence</u>	<u>Remarks</u>
Mr. S. Iradat Husain	04	–	
In Alphanumeric Order			
Mr. Jahangir Siddiqui	04	01	(Resigned on August 30, 2007)
Mr. Muhammad Sajid	03	–	(Resigned on April 01, 2007)
Mr. Siraj Ahmed Dadabhoy	04	01	(Resigned on August 30, 2007)
Mr. Tariq Dada	04	01	(Resigned on August 30, 2007)
Mr. Tariq Usman Bhatti	04	–	
Mr. Zaid Moosa Randeree	04	04	(Resigned on August 30, 2007)
Mr. Zulfiqar Ali	01	–	(Appointed on May 2, 2007)

During the year Mr. Muhamad Sajid resigned as Chief Executive/Director of the Company and Mr. Zulfiqar Ali was appointed in his place. The Board placed on record its appreciation of his services and contribution towards management of modaraba.

Subsequent to the year-end, Mr. Jahangir Siddiqui, Mr. Tariq Dada, Mr. Siraj Ahmed Dadabhoy and Mr. Zaid Moosa Randeree also resigned from the Board. The Board placed on record its appreciation of their services and contribution towards management of modaraba.

## 10. Credit Rating

During the current financial year, Pakistan Credit Rating Agency (PACRA) has maintained the modaraba's long term entity rating at A- and short term rating at A2.

## 11. Auditors

The present auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants retired and offered themselves for re-appointment.

The directors take this opportunity to extend their appreciation and thanks to the certificate holders for their trust in the Modaraba, to the Regulators for their guidance and to all members of management and staff for their hard work and commitment.

On behalf of the Board

Karachi:  
September 26, 2007

S. Iradat Husain  
Chairman  
Board of Director

# Modaraba Al-Mali

## KEY OPERATING AND FINANCIAL DATA

<b>Balance Sheet Summary</b>		<b>(Rupees in Million)</b>					
<b>Year Ended June 30,</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	
<b>EQUITY</b>							
Issued, subscribed and paid up capital	182.57	182.57	182.57	182.57	182.57	184.23	
Statutory Reserves	31.28	38.99	45.76	48.53	54.23	54.23	
Revenue Reserves and unappropriated profit	1.33	2.99	5.60	16.68	30.88	(5.70)	
<b>Total Equity</b>	<b>215.18</b>	<b>224.55</b>	<b>233.93</b>	<b>247.78</b>	<b>267.68</b>	<b>232.76</b>	
<b>LIABILITIES</b>							
Long Term Morabaha and Musharaka	9.10	1.05	–	–	–	–	
Liability against Ijarah finance	–	–	–	–	24.09	21.08	
Customer Security Deposit	24.99	22.12	24.04	26.65	22.49	33.95	
Others	–	–	–	–	2.18	3.02	
	34.09	23.17	24.04	26.65	48.76	58.05	
<b>CURRENT LIABILITIES</b>							
Current Maturity of Long Term Morabaha and Musharaka	11.38	8.05	1.05	–	–	–	
Short term Morabaha and Musharaka	–	–	–	34.93	162.75	–	
Other Current Liabilities	63.61	71.50	61.14	28.98	43.96	20.05	
<b>Total Current Liabilities</b>	<b>74.99</b>	<b>79.55</b>	<b>62.19</b>	<b>63.91</b>	<b>206.71</b>	<b>20.05</b>	
<b>Total Liabilities</b>	<b>324.26</b>	<b>327.27</b>	<b>320.16</b>	<b>338.34</b>	<b>523.15</b>	<b>310.86</b>	
<b>ASSETS</b>							
Assets Leased Out	240.83	223.02	–	–	–	–	
Net Investment in Ijarah	–	–	111.68	87.62	74.08	33.28	
Assets in Own Use	13.12	11.92	11.35	26.85	13.11	73.79	
Long Term Morabaha and Musharaka	4.63	6.24	11.02	7.53	9.96	0.51	
Long Term Investments	–	–	–	–	17.95	–	
Other Long Term Assets	0.30	0.15	0.08	32.14	65.55	20.67	
	258.88	241.33	134.13	154.14	180.65	128.25	
<b>CURRENT ASSETS</b>							
Short Term Morabaha and Musharaka	4.29	14.53	43.08	50.26	197.25	79.75	
Current maturity of Net investment in Ijarah	–	–	85.92	60.48	55.52	34.51	
Short Term Investments	34.66	47.77	29.60	19.98	11.90	5.03	
Other Current Assets	16.22	15.24	4.18	31.50	70.44	18.29	
Cash and Bank Balance	10.21	8.40	23.25	21.98	7.39	45.03	
<b>Total Current Assets</b>	<b>65.38</b>	<b>85.94</b>	<b>186.03</b>	<b>184.20</b>	<b>342.50</b>	<b>182.61</b>	
<b>Total Assets</b>	<b>324.26</b>	<b>327.27</b>	<b>320.16</b>	<b>338.34</b>	<b>523.15</b>	<b>310.86</b>	
Lease Rentals Receivables Next 12 Months	121.51	98.12	–	–	–	–	
<b>Income Statement Highlights</b>		<b>(Rupees in Million)</b>					
<b>Year Ended June 30,</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	
<b>INCOME</b>							
Lease	149.01	129.57	29.11	24.39	40.55	38.21	
Musharaka and Morabaha	2.09	3.82	3.23	10.09	16.47	18.54	
Capital Gain on Investments	1.95	18.52	6.86	(2.12)	5.30	–	
Dividend	1.65	3.16	1.81	2.00	0.11	0.16	
Certificate of Investments	0.17	0.29	0.06	–	–	–	
Other	0.43	1.62	1.20	2.48	25.18	2.54	
<b>Total Income</b>	<b>155.30</b>	<b>156.98</b>	<b>42.27</b>	<b>36.84</b>	<b>87.61</b>	<b>59.45</b>	
<b>EXPENSES</b>							
Operating	13.22	11.69	10.36	14.82	32.69	31.96	
Financial	4.21	2.74	0.75	1.24	11.32	10.86	
Amortization, Depreciation	103.91	96.64	1.59	1.70	8.30	9.32	
Provision for doubtful receivable	3.12	3.04	(8.03)	3.69	3.66	19.03	
Provision for Diminution in value of investment	–	–	–	–	–	–	
Management fee	3.08	4.29	3.76	1.54	3.16	–	
Profit Before Taxation	27.76	38.60	33.84	13.85	59.13	(11.72)	
Taxation	–	–	–	–	–	–	
<b>Net Profit</b>	<b>27.76</b>	<b>38.60</b>	<b>33.84</b>	<b>13.85</b>	<b>28.48</b>	<b>(11.72)</b>	
Total Dividend	22.82	29.21	24.65	10.95	22.82	–	
<b>APPROPRIATIONS</b>							
Statutory Reserves	5.55	7.72	6.76	2.77	5.70	5.70	
<b>VALUE OF INVESTMENT OF</b>							
Provident	0.83	–	–	–	–	–	
Gratuity	1.24	–	–	–	–	–	

Note: Above figures are based on respective audited accounts for the year ended June 30, 2006 of the funds

# Graph



# Graph

# Modaraba Al-Mali

---

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of the Karachi, Lahore & Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

JS Finance Limited (Management Company) is not listed, however, Modaraba Al-Mali (the Modaraba) is listed at Karachi, Lahore and Islamabad Stock Exchanges. The Board of Directors of the Modaraba Company is responsible for management of affairs of the Modaraba.

The Modaraba Al-Mali has applied principles contained in Code in the following manner:

1. All the Directors of the Management Company are non-executive directors, except the Chief Executive of the Management Company.
2. The Directors of the management company have confirmed that none of them are serving as a director in ten or more listed companies.
3. All the resident directors of the Management Company have confirmed that they are registered as tax payers and to the best of our knowledge none of them have defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non Banking Financial Company or, being a member of a Stock Exchanges, have been declared as a defaulter by the Stock Exchange.
4. The directors filled casual vacancies occurring in the Board within the stipulated time.
5. The Modaraba Management Company has prepared a 'Statement of Ethics and Business Practice' which have been signed by all the directors and employees of the Modaraba.
6. The Board has developed a vision & mission statement, overall corporate strategy and certain significant policies. Record of particulars of significant policies along with dates on which they were approved or amended has been maintained. Arrangements have been made for the preparation of other relevant significant policies. The management is in the process of preparing the materiality level of the Modaraba.
7. All the powers of board have been duly exercised within the defined management structure, performance tracking system and control mechanism. Decisions on material transactions, including the appointment and determination of remuneration and terms and conditions of the employment of the Chief Executive Officer have been taken by the board.
8. The meetings of the board were presided by the Chairman and the board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. An orientation course for the directors of the Management Company is planned to be shortly conducted. However the Board Members are fully aware of their duties and responsibilities under the relevant laws, including the Code of Corporate Governance. They are experienced individuals and few of them are also on the Board of other listed companies.
10. The Board has approved the appointment of the CFO and Company Secretary (both being the same person) including his remuneration and terms and conditions of employment, as determined by the CEO.

# Modaraba Al-Mali

---

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 the Chief Executive and the Chief Financial Officer before the approval of the board.
13. The Directors, Chief Executive Officer and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.
14. The modaraba has complied with all the corporate and financial reporting requirements of the code.
15. The Board has formed an Audit Committee. It comprises three members, of whom all are non-executive directors of the Management Company, including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of the interim and final results of the Modaraba, as required by the Code. The terms of reference of the Committee have been formed and advised to the committee for compliance.
17. The Board of Directors of the Management Company has outsourced the internal audit function to Mehmood Idrees Qamar & Co., Chartered Accountants who are considered suitably qualified and experienced for our purposes and are conversant with the policies and procedures of the Modaraba. Their representatives work and report in accordance with an agreed scope and time frame.
18. The statutory auditors of the modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, 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 the compliance with International Federation of Accounts (IFAC) guidelines on code of ethics as adopted by the 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 regulations and the auditors have confirmed that they have observed IFAC guidelines in this regards.
20. We confirm that all material principles contained in the code have been complied with.

On behalf of the Board

Zulfiqar Ali  
Chief Executive

Karachi: September 26, 2007

# Modaraba Al-Mali

---

## REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH THE 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 JS Finance Limited (Management Company) in respect of Modaraba Al-Mai (the Modaraba) to comply with the listing regulation of the Karachi, Lahore and Islamabad Stock Exchanges where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Modaraba. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Modaraba'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 Modaraba personnel and review of various documents prepared by the Modaraba to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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 control.

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 at 30 June 2007

Karachi: September 26, 2007

KPMG Taseer Hadi & Co.  
Chartered Accountants

# Modaraba Al-Mali

---

## Auditors' Report to the Certificate Holders

We have audited the annexed balance sheet of Modaraba Al-Mali ("the Modaraba") as at 30 June 2007 and the related profit and loss account, 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 [JS Finance 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 Modaraba Al-Mali 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 accordance with the accounting policies consistently applied, except for the changes indicated in note 5.14 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, 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, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) In our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in central Zakat Fund established under section 7 of that Ordinance.

Date:  
Karachi: September 26, 2007

KPMG Taseer Hadi & Co.  
Chartered Accountants

# Modaraba Al-Mali

## Balance Sheet As at 30 June 2007

	Note	2007	2006
<b>ASSETS</b>			
Cash and bank balances	6	45,038,032	7,389,663
Short-term investments	7	5,036,711	11,899,325
Morabaha finances	8	79,175,044	197,247,490
Current maturity of net investment in Ijarah	9	34,519,737	55,521,228
Advances, deposits, prepayments and other receivables	10	18,829,664	70,439,961
<b>Total current assets</b>		<b>182,599,188</b>	<b>342,497,667</b>
Net investment in Ijarah	9	33,282,508	74,084,507
Long term morabaha finances	8	510,344	9,963,319
Long term investment	11	17,520,169	17,952,354
Long term deposits	12	3,156,465	3,156,465
Fixed assets	13	73,794,304	75,494,696
<b>Total non-current assets</b>		<b>128,263,790</b>	<b>180,651,341</b>
<b>Total assets</b>		<b>310,862,978</b>	<b>523,149,008</b>
<b>LIABILITIES</b>			
Morabaha borrowings	14	-	96,250,000
Certificate of Musharika borrowings		-	66,500,000
Current maturity of liability against Ijarah Finance	15	5,243,087	3,069,193
Creditors, accrued and other liabilities	16	13,688,086	22,771,239
Current maturity of security deposits	17	16,579,210	12,354,834
Unclaimed profit distribution		6,359,364	5,765,159
<b>Total current liabilities</b>		<b>41,869,747</b>	<b>206,710,425</b>
Liability against Ijarah finance	15	18,851,907	24,094,994
Security deposits	17	17,374,329	22,486,477
Net assets of Modaraba Al-Tijarah (due to merger)		-	2,176,859
<b>Total non-current liabilities</b>		<b>36,226,236</b>	<b>48,758,330</b>
<b>Total liabilities</b>		<b>78,095,983</b>	<b>255,468,755</b>
<b>NET ASSETS</b>	Rupees	<b>232,766,995</b>	<b>267,680,253</b>
<b>FINANCED BY</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital			
Authorised - 30,000,000 (2006: 30,000,000)			
Modaraba certificates of Rs.10/- each	Rupees	300,000,000	300,000,000
Issued, subscribed and paid-up	18	184,239,450	182,574,000
Reserves			
Certificate premium		511,409	-
Statutory reserve		54,228,762	54,228,762
	7.1.1	36,711	2,369,575
Unappropriated (loss)/profit		(6,249,337)	28,507,916
		48,527,545	85,106,253
	Rupees	<b>232,766,995</b>	<b>267,680,253</b>
Contingencies and Commitments	19		

The annexed notes from 1 to 35 form an integral part of these financial statements

Chief Executive  
JS Finance Limited  
Modaraba Management Company

Director  
JS Finance Limited  
Modaraba Management Company

Chairman  
JS Finance Limited  
Modaraba Management Company

# Modaraba Al-Mali

---

## Profit and Loss Account For the year ended 30 June 2007

	Note	2007	2006
Income from leasing	20	38,212,246	40,555,683
Profit on morabaha		18,545,267	16,475,974
Other operating income	21	1,083,967	5,407,474
		<hr/>	<hr/>
		57,841,480	62,439,131
Profit distribution on borrowings	22	10,896,812	11,321,669
Operating costs	23	41,264,874	40,990,297
		<hr/>	<hr/>
		52,161,686	52,311,966
		<hr/>	<hr/>
		5,679,794	10,127,165
Impairment loss - net	24	(19,023,069)	(3,615,880)
		<hr/>	<hr/>
		(13,343,275)	6,511,285
Other income	25	2,048,138	25,178,750
Share of loss of an associate	11	(432,185)	(47,646)
		<hr/>	<hr/>
		(11,727,322)	31,642,389
Modaraba company's management fee		-	(3,164,239)
(Loss) / profit for the year	Rupees	<hr/> <hr/> (11,727,322)	<hr/> <hr/> 28,478,150
(Loss) / earnings per certificate - basic & diluted	27	<hr/> <hr/> (0.64)	<hr/> <hr/> 1.56

The annexed notes from 1 to 35 form an integral part of these financial statements

Chief Executive  
JS Finance Limited  
Modaraba Management Company

Director  
JS Finance Limited  
Modaraba Management Company

Chairman  
JS Finance Limited  
Modaraba Management Company

# Modaraba Al-Mali

## Cash Flow Statement For the year ended 30 June 2007

	Note	2007	2006
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net (loss)/profit for the year		(11,727,322)	28,478,150
Adjustment of non-cash and other items	28	38,877,306	677,044
		<u>27,149,984</u>	<u>29,155,194</u>
(Increase) / decrease in operating assets			
Advances, deposits, prepayments and other receivables		50,646,063	(38,393,525)
Short term investments		4,529,750	(7,093,452)
Short term morabaha finance		116,183,295	(147,960,775)
		<u>171,359,108</u>	<u>(193,447,752)</u>
Increase/(decrease) in operating liabilities			
Creditors, accrued and other liabilities		(7,180,442)	8,087,928
		<u>191,328,650</u>	<u>(156,204,630)</u>
Profit distribution on borrowings		(12,799,523)	(9,745,351)
Income taxes refund / (paid) - net		313,904	(348,102)
Net investment in Ijarah		45,319,902	17,925,811
(Increase) / decrease in long term morabaha finance		9,452,975	(2,394,801)
(Increase) / decrease in long term deposits		-	(3,118,965)
Customers' security deposits received - net		(887,772)	(4,211,902)
		<u>232,728,136</u>	<u>(158,097,940)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(9,930,223)	(54,964,910)
Proceeds from sale of fixed assets		2,941,000	52,685,500
Dividend received		164,375	107,586
		<u>(6,824,848)</u>	<u>(2,171,824)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Short term morabaha borrowings - net		(96,250,000)	61,316,000
Short term certificate of musharika borrowings		(66,500,000)	66,500,000
Long term Ijarah Finance - net		(3,069,193)	27,164,187
Profit distribution		(22,435,726)	(10,857,919)
		<u>(188,254,919)</u>	<u>144,122,268</u>
Net cash flow from financing activities			
Net increase in cash and cash equivalents		37,648,369	(16,147,496)
Cash and cash equivalents at beginning of the year		7,389,663	23,537,159
		<u>45,038,032</u>	<u>7,389,663</u>
Cash and cash equivalents at end of the year	Rupees		

The annexed notes from 1 to 35 form an integral part of these financial statements

Chief Executive  
JS Finance Limited  
Modaraba Management Company

Director  
JS Finance Limited  
Modaraba Management Company

Chairman  
JS Finance Limited  
Modaraba Management Company



# Modaraba Al-Mali

## Statement of Changes in Equity For the year ended 30 June 2007

	Note	Capital reserve		Reserve			Total reserves	Total
		Certificate Capital	Certificate Premium	Capital (statutory reserve)*	Revenue reserve	Unrealised gain on remeasurement of available for sale investments		
Balance as at 01 July 2005		182,574,000	-	48,533,132	-	16,679,836	65,212,968	247,786,968
Changes in equity for the year ended 30 June 2006								
Unrealised gain on available-for-sale investment securities (recognized directly in equity)		-	-	-	2,369,575	-	2,369,575	2,369,575
Net profit for the year		-	-	-	-	28,478,150	28,478,150	28,478,150
Total recognised income for the year					2,369,575	28,478,150	30,847,725	30,847,725
Final dividend for the year ended 30 June 2005		-	-	-	-	(10,954,440)	(10,954,440)	(10,954,440)
Transfer to statutory reserve during the year		-	-	5,695,630	-	(5,695,630)	-	-
Balance as at 30 June 2006		182,574,000	-	54,228,762	2,369,575	28,507,916	85,106,253	267,680,253
Changes in equity for the year ended 30 June 2007								
Issuance of Modaraba certificates to the certificate holders of Modaraba Al-Tijarah in accordance with the scheme of merger	1.2	1,665,450	511,409	-	-	-	-	2,176,859
Unrealised gain on available-for-sale investment securities (recognized in equity)		-	-	-	36,711	-	36,711	36,711
Transfer to profit and loss account on disposal of available-for-sale investments		-	-	-	(2,369,575)	-	(2,369,575)	(2,369,575)
Net loss for the year		-	-	-	-	(11,727,322)	(11,727,322)	(11,727,322)
Total recognised loss for the year		-	-	-	(2,332,864)	(11,727,322)	(14,060,186)	(14,060,186)
Final dividend for the year ended 30 June 2006		-	-	-	-	(23,029,931)	-	(23,029,931)
Balance as at 30 June 2007		<u>184,239,450</u>	<u>511,409</u>	<u>54,228,762</u>	<u>36,711</u>	<u>(6,249,337)</u>	<u>71,046,067</u>	<u>232,766,995</u>

Chief Executive  
JS Finance Limited  
Modaraba Management Company

Director  
JS Finance Limited  
Modaraba Management Company

Chairman  
JS Finance Limited  
Modaraba Management Company

# Modaraba Al-Mali

---

## Notes to the Financial Statements For the year ended 30 June 2007

### 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Modaraba Al-Mali ("the Modaraba") is a multipurpose, perpetual Modaraba floated in Pakistan on 8 July 1987 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and the rules framed there under. The Modaraba has its registered office at 10th floor, Progressive Square, Shakra-e-Faisal, Karachi and is managed by JS Finance Limited, a Company registered under the Companies Ordinance 1984. It is engaged in the business of leasing, morabaha, musharika financing and renting of mobile towers and other related business. The Modaraba is listed on the Karachi, Lahore and Islamabad Stock Exchanges.
- 1.2 A scheme of arrangement (the 'Scheme') was executed on October 10, 2005 and was approved by the Honourable High Court of Sindh for the merger of Modaraba Al-Tijarah into Modaraba Al-Mali on 1 June 2006. The merger was effective from July 1, 2005. As per the Scheme, 166,545 modaraba certificates of Modaraba Al-Mali of the nominal value of Rs. 10 each were issued to the certificate holders of Modaraba Al-Tijarah in lieu of its 7577815 certificates on 5 August 2006. Amount of Rs. 511,409 representing excess of net assets of Modaraba Al-Tijarah merged over the nominal value of certificates issued has been credited to certificate premium account.
- 1.3 Subsequent to year end, the 100% share holding in JS Finance Limited (the Modaraba's Management Company) was acquired by BankIslami Pakistan Limited.

### 2. STATEMENT OF COMPLIANCE

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

### 3. BASIS OF MEASUREMENT

#### 3.1 Accounting convention

These financial statements have been prepared under the "historical cost convention", except that certain investments, are measured at fair value.

#### 3.2 Functional and presentation currency

These financial statements are presented in Pakistani Rupees, which is the functional currency of the Modaraba.

#### 3.3 Critical accounting estimates and judgment

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, 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 the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are discussed below:

#### Provision against non-performing leasing portfolio and morabaha finances

The Modaraba reviews its loan portfolio of lease / Ijarah finance and morabaha financing to assess amount of non-performing portfolio and provision required there against on a regular basis. The provision is made in accordance with the requirements of the Prudential Regulations for Modarabas. Forced sales values of the mortgaged properties wherever available, are also considered for the purpose of determining of provision required against the above non-performing portfolio ( in accordance with the requirements of prudential regulations). The forced sales values are determined by the independent valuers.

#### Income taxes

The income of non-trading modaraba is exempt from tax provided that not less than 90% of its profits as reduced by the amount transferred to statutory reserves are distributed to certificate holders.

For the purposes of estimating the income tax currently payable by the Modaraba (if so required), the management considers the current income tax laws and the decisions of the appellate authorities on certain issues.

#### Investments stated at fair value

Management has determined fair value of certain investments by using quotations from the active market. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and judgement (e.g. valuation, interest rates, etc.) and therefore, cannot be determined with precision.

#### Classification of investments

- In classifying investments as 'held to maturity', the Modaraba follows the guidance given in the approved accounting standard on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the Modaraba evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading', 'as at fair value through profit or loss upon initial recognition', or 'held to maturity', are classified as 'available for sale'. These essentially are those investments that are held for an undefined period and may be sold in response to the need for liquidity or changes in market rates.

#### Depreciation and amortisation of operating fixed assets

In making estimates of the depreciation / amortisation method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Modaraba. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

## 4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after 1 January 2007 and are not expected to have a significant effect on Modaraba's financial statements or not relevant to the Modaraba, other than certain increased disclosures in certain cases.

- IAS 1 (Amendment), Presentation of Financial Statements Capital Disclosures;
- IAS 23 Borrowing cost-Amendment relating to mandatory capitalization of borrowing costs relating to qualifying assets.
- IAS 41 Agriculture
- IFRS 2 Share Based Payments
- IFRS 3 Business Combinations
- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 8 Scope of IFRS 2 Share Based Payments
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 Group and Treasury Share Transactions
- IFRIC 12 Services Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

During the year a Islamic Financial Accounting Standard (IFAS) – 2 'Ijarah' was issued by the Institute of Chartered Accountants of Pakistan and promulgated by the Securities and Exchange Commission of Pakistan (SECP) vide an SRO dated 22 May 2007. As per the above SRO, this IFAS has to be followed for the purposes of the preparation of the financial statements of the Modarabas while accounting for the 'Ijarah' (lease) transactions. Ijarah has been defined in the above IFAS as 'a contract whereby the owner of an asset other than consumable, transfers its usufruct to another person for an agreed period for an agreed consideration'. These transactions have to comply with the shariah essentials in order to qualify as an 'Ijarah' arrangement.

Under the above IFAS 2, the 'Ijarah' transactions shall be accounted for in the following manner in the books and records of the Modaraba:

- 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 leased asset is diminished.

Similar accounting practices have been prescribed for the accounting of Ijarah arrangements in the books and records of the Musta'jir (lessees), i.e. the assets subject to Ijarah transactions would not be recognized as asset and accordingly no depreciation would need to be charged thereon. Instead the rental payments should be recognized as an expense in the profit and loss account.

The above IFAS is operative for financial statements covering the period beginning on or after 1 July 2007 and is required to be followed on those Ijarahs which commences after the above mentioned date.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Employees' benefits

#### 5.1.1 Staff gratuity

The Modaraba participates in an approved group funded gratuity scheme for all its employees, who have completed minimum qualifying period of service. The group comprises of JS Finance Limited and Modaraba Al-Mali. Consolidated fund is being maintained for the employees of the group. Contributions to the fund are made on the basis of actuarial recommendation normally carried out on a yearly basis. The latest valuation was carried out as at 30 June 2007 under the projected unit credit method. Unrecognised actuarial gains / losses exceeding ten percent of the greater of the present value of defined benefit obligation or the fair value of plan assets are recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan.

#### 5.1.2 Staff provident fund

The Modaraba contributes to an approved group fund scheme covering all its employees who are eligible under the scheme. Equal monthly contributions are made by the Modaraba and the employees to the fund at 8.33% of the basic salary.

#### 5.1.3 Staff compensated absences

The Modaraba also makes provision in the financial statements for its liability towards compensated absences based on the leaves accumulated up to the balance sheet date in accordance with the service rules.

### 5.2 Fixed assets

#### 5.2.1 Tangible - in own use

##### Owned

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

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and disposals during the year, depreciation is charged proportionately to the period of use.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account currently.

##### Leased

Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation and impairment losses, if any. Finance charge on lease obligation is recognised in the profit and loss account over the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding balance.

Depreciation on assets subject to finance lease is recognised in the same manner as owned assets.

## 5.2.2 Operating Lease

Leases which do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as "operating lease". The Modaraba has leased out mobile towers to certain operators under operating lease arrangements (refer note 13.2).

These leased out assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged on these assets in the same manner as assets in own use. Subsequent additions to these assets, normal repairs and maintenance and gain on the sale of these assets are also accounted for in the same manner as the above assets in own use.

## 5.3 Investments

### 5.3.1 Investments in associates - equity method of accounting

Entities in which the modaraba has significant influence and which are neither its subsidiary nor joint ventures are associates and are accounted for under the equity method of accounting.

These investments are initially recognised at cost, thereafter the modaraba's share of the changes in the net assets of the associates are accounted for at the end of each reporting period / year. Share of profit and loss of associates is accounted for in the modaraba's profit and loss account, whereas changes in the associate's equity which has not been recognized in the associates profit and loss account, are recognised directly in the equity of the modaraba.

The equity method of accounting is followed up to the date the investee company is considered to be an associate. Thereafter, if these are still held by the Modaraba, these are classified as available-for-sale securities (provided these do not become a subsidiary or a joint venture).

### 5.3.2 Other investment

Investments in securities are initially recognised at cost, being the fair value of the consideration given, including the transaction costs associated with the investment, except in case of held for trading investments ( if any) in which case these transaction costs are charged off to the profit and loss account. All regular way of purchases and sale of investments are recognised / derecognised on the trade date. After initial recognition these are classified and measured as follows:

#### Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity which the Modaraba has the positive intent and ability to hold to maturity. These are measured at amortized cost.

#### Held for trading

Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading. After initial recognition, the above investments are remeasured at fair value determined with reference to the year-end rates quoted on the respective stock exchanges . Gains or losses on investments on remeasurement of these investments are recognised in the profit and loss account currently.

#### Available-for-sale

These are the investments that are held for an undefined period that may be sold in response to the need for liquidity or changes in market rates. After initial recognition, these investments are remeasured at fair value. Surplus / deficit arising from re-measurement are taken to equity until the investments are sold/disposed-off or until the investments are determined to be impaired, at which time, the cumulative gain or loss previously reported in the equity is included in the current year's profit and loss account.

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

## 5.4 Net investment in Ijarah finance

Assets owned by the Modaraba but subject to finance lease are included in the financial statements as "Net investment in Ijarah finance" at an amount equal to the present value of the lease payments, including estimated residual value. Allowance for non-performing leases is made in accordance with Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan and is charged to the profit and loss account currently.

## 5.5 Receivable from terminated / matured contracts

These are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Modarabas issued by the SECP or based on the judgement of management, whichever is higher. Bad debts are written off when identified.

## 5.6 Revenue recognition

### 5.6.1 Ijarah finance

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

### 5.6.2 Income on debt investment securities and bank deposits

Income on above assets is recognised on a time proportion basis under the effective yield method.

### 5.6.3 Morabaha finance

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

### 5.6.4 Dividend income

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

### 5.6.5 Gains / Losses on sale of investments

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

### 5.6.6 Unrealised income on non-performing assets

Unrealized income is suspended, where necessary, on non-performing assets (including non-performing net investment in Ijarah and morabaha finances), in accordance with the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan. The unrealised suspended income is recognised in income on receipt basis.

### 5.6.7 Operating lease income

Leases in which a significant portion of the risk and reward is retained by the Modaraba are classified as operating lease. Income from operating lease is recognized when it becomes due on a time proportion basis.

## 5.7 Taxation

### Current

Provision for current taxation is made on taxable income at current rates of tax after taking into account available tax credits, if any. The income of a non-trading modaraba is exempt from tax provided that not less than 90% of its profits as reduced by the amounts transferred to statutory reserves, are distributed to the certificate-holders

### Deferred taxation

Deferred tax is recognised using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their tax base. This is recognised on the basis of the expected manner of the realisation and the settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised to the extent that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liability or asset is not recognised if the management expects to continue to distribute at least 90% of its profit in future years (due to which no tax would be payable as explained above).

## 5.8 Off-setting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and the Modaraba intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 5.9 Cash and cash equivalents

Cash in hand and at banks and short-term bank deposits are carried at cost. For the purposes of cash flow statement, cash and cash equivalents consist of cash in hand and bank balances including term deposits.

## 5.10 Provisions

Provisions are recognised when the Modaraba has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

## 5.11 Financial instruments

All the financial assets and liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instruments. All financial assets and liabilities are initially measured at fair value and are subsequently measured at fair value or amortised cost as the case may be. The Modaraba derecognises the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments. Any gain or loss on derecognition of financial assets and financial liabilities is taken to Profit and Loss Account directly.



## 5.12 Impairment

The carrying amount of the Modaraba's assets other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

## 5.13 Segment reporting

A business segment is a distinguishable component of the Modaraba that is engaged in providing related products or services and which is subject to risks and rewards that are different from those of other segments. The Modaraba's primary format for segment reporting is based on 'business segments' as the Modaraba conducts its operations only in Pakistan.

## 5.14 Morabaha borrowings and financing

Consequent to adoption of Islamic Financial Accounting Standards 1 - Morabaha, issued by the Institute of Chartered Accountants of Pakistan, the Modaraba has changed its accounting policy in respect of recording of morabaha transactions. Effective 1 July 2006, the Modaraba accounts for morabaha as follows:

- Funds disbursed for purchase of goods are recorded as 'Advance for morabaha'. On culmination of morabaha i.e. on sale of goods to the customers, morabaha financings are recorded at the deferred sale price net of profit. Previously, morabaha financings were recorded at the time of disbursement of funds.
- Goods purchased but remaining unsold at the balance sheet date are recorded as inventories. Previously, these were recorded as advance against future morabaha.
- Consistent with prior years, profit on morabaha is recognised on an accrual basis. However, profit for the period from the date of disbursement to the date of culmination of morabaha is recognised immediately upon the later date. Previously, profit on morabaha was recognised from the date of disbursement.

This change has been applied retrospectively to comply with the requirements of International Accounting Standard - 8 "Accounting Policies, Change in Accounting Estimates and Errors". There is no impact on the profit of the current period or the previous periods as a result of this change.

Due to this change the Morabaha balances are grossed up of unearned income portion and simultaneously the unearned portion is shown as a deduction from the grossed up Morabaha balance. This grossing up and deduction (presentation) is made in the notes to the financial statements (note 8.3). On a net basis, due to this change, there is no effect on the balance sheet.

## 5.15 Inventories

These represent inventories, if any, acquired under the Morabaha financing arrangements. The Modaraba values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase made by the Modaraba or by the customer as an agent on behalf of the Modaraba from the funds disbursed for the purposes of culmination of morabaha. The net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

## 5.16 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.



# Modaraba Al-Mali

	Notes	2007	2006
8. MORABAHA FINANCE - secured			
8.1 Long term			
Considered good		1,283,889	52,877,023
Current maturities shown under current assets		(773,545)	(42,913,704)
	Rupees	<u>510,344</u>	<u>9,963,319</u>
8.2 Short term			
Current maturities shown under current assets		773,545	42,913,704
Considered - good		78,401,499	154,333,786
- impaired balance		4,053,201	2,164,050
		<u>83,228,245</u>	<u>199,411,540</u>
Impairment loss against doubtful debts	24	(4,053,201)	(2,164,050)
	Rupees	<u>79,175,044</u>	<u>197,247,490</u>

8.3 The details of the gross balance and unearned income of Morabaha balances are as follows:

	2007		2006	
	Long term	Short Term	Long term	Short Term
Morabaha finance - gross	693,190	83,751,854	10,791,054	210,341,512
Deferred Morabaha Income	(181,167)	(3,966,717)	(827,735)	(10,254,725)
Profit receivable shown in other assets	(1,679)	(610,093)	-	(2,839,297)
	<u>510,344</u>	<u>79,175,044</u>	<u>9,963,319</u>	<u>197,247,490</u>
	Rupees			

8.4 The above represents amount receivable against Morabaha transactions i.e. sale of goods on a deferred payment basis at a specified profit margin ranging from 10 % to 24 % (2006: 10% to 24%) per annum. The facilities are secured by personal guarantees of the directors, equitable mortgage of property, pledge of shares and hypothecation of stock, etc. Long-term Morabaha finances will mature between July 2008 to March 2010, while short-term facilities are due between July 2007 to June 2008.

8.5 Above morabaha finance receivables include non-performing balances of Rs. 28.756 million (2006: Rs. 4.51 million) on which income is not being accrued in accordance with the Prudential Regulations for Modarabas.



# Modaraba Al-Mali

	Notes	2007	2006
<b>10. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Advances - considered good			
- Advances		1,412,161	1,605,153
- Advance tax		1,361,252	1,675,156
		<u>2,773,413</u>	<u>3,280,309</u>
Deposits		55,900	81,900
Prepayments	10.1	6,542,164	7,340,361
Other receivables			
- Terminated leases	10.2	1,000,000	-
- Miscellaneous amount recoverable from the lessees		2,063,811	2,534,332
- Impairment loss against doubtful debts	10.3	(1,385,648)	(1,167,398)
		<u>678,163</u>	<u>1,366,934</u>
Dividend receivable - doubtful		16,275	16,275
Impairment loss against doubtful debts	10.3	(16,275)	(14,475)
		<u>-</u>	<u>1,800</u>
Receivable against sale of shares		-	2,007,950
Profit accrued on morabaha finances		610,093	2,839,297
Receivable from brokers - considered doubtful		22,422	54,804
Impairment loss against doubtful debts	10.3	(22,422)	(22,422)
		<u>-</u>	<u>32,382</u>
Others	10.4	7,568,596	53,880,843
Impairment loss against doubtful debts	10.3	(398,665)	(391,815)
Balance considered good		7,169,931	53,489,028
		<u>9,458,187</u>	<u>59,737,391</u>
	Rupees	<u>18,829,664</u>	<u>70,439,961</u>

10.1 Prepayments includes prepaid rent of Rs. 5.34 million (2006: Rs. 5.15 million) in respect of sites hired for mobile towers installation.

10.2 Details of terminated leases are as follows:

Considered good		1,000,000	-
Considered doubtful		6,748,910	6,263,767
		<u>7,748,910</u>	<u>6,263,767</u>
Impairment loss against doubtful debts	10.3	(6,748,910)	(6,263,767)
Closing balance	Rupees	<u>1,000,000</u>	<u>-</u>

10.3 Total provision against these impaired debts at the year-end amounted to Rs. 8.51 million (2006 Rs. 7.86 million). The details of movement in impairment loss during the year is given in note 24 to these financial statements.

10.4 This includes an amount of Rs. 6.245 million (2006: Nil) due from the lessees in respect of the lease rentals under operating leases of 17 towers and other running expenses.

# Modaraba Al-Mali

		2007	2006
11. LONG-TERM INVESTMENT			
Available for sale investments - unlisted shares			
1,800,000 ordinary shares of Al Hamra Hills (Private) Limited (2.12% holding)	Rupees	<u>18,000,000</u>	<u>18,000,000</u>
Balance at start of year		17,952,354	18,000,000
Share of loss for the year		(432,185)	(47,646)
	Rupees	<u>17,520,169</u>	<u>17,952,354</u>

11.1 The Securities and Exchange Commission of Pakistan vide its letter dated 1 November 2004, has waived the applicability of regulation no. 7(7) of Part II of the Prudential Regulations on Modaraba Al-Mali relating to investment in unlisted companies. The above regulation, subject to certain conditions, restricts the investments by a Modaraba in the shares of unlisted companies, except in cases where the Modaraba is engaged in venture capital business. Since the prospectus of Modaraba Al-Mali allows it to engage in venture capital business, the Registrar Modaraba has waived the applicability of the above regulation.

11.2 Up to the previous year, the above investment was accounted for under the equity basis of accounting as the chief executive of the Modaraba's Management Company was on the Board of the above investee company. However during the year, the said chief executive of the Modaraba's management company had resigned from the management company and was replaced by another person. Accordingly, the Modaraba is of the view that due to this change, the Modaraba is not in a position to exercise any significance influence on the above investee company. As such this investee company is no more considered to be an associated company, and the equity method of accounting was applies during the year up to the date when the above investee company was an associate.

The Modaraba's share of loss in the operating results of the above investee company has been recognized up to 31 December 2006 based on the unaudited financial statements (the management is of the view that the results based on audited financial statements would not be significantly different).

## 12. LONG TERM DEPOSIT

This includes Rs. 3.018 million paid to a leasing company on account of sale and lease back of 8 mobile towers (refer note 15 for details).

## 13. FIXED ASSETS

Operating fixed assets (excluding towers and allied equipments)	13.1	13,109,292	13,108,625
Towers and allied equipments	13.2	60,074,132	62,386,071
Capital work in progress	13.4	610,880	-
	Rupees	<u>73,794,304</u>	<u>75,494,696</u>

13.1 Operating fixed assets

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

13.2 Towers and allied equipments

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**=====**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**=====**



# Modaraba Al-Mali

---

## 13.3 Operating lease rental receivables

_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
=====	=====	=====	=====	=====	=====	=====	=====

The Modaraba has entered into ten year operating lease agreements with Wireless Loop Operators. Fixed rentals are renewable after three years, where as variable rental are renewable after one year.

## 13.4 Capital work in progress

This represents advance payment for the purchase of certain equipments for the mobile tower business.

## 13.5 Details of disposal of fixed assets are as under:

---



# Modaraba Al-Mali

	Notes	2007	2006
<b>16. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Creditors	16.1	11,145,462	14,314,998
Accrued liabilities	16.2	1,859,432	2,528,044
Mark-up accrued on musharika and morabaha finance borrowings		–	1,902,711
Management fee payable		–	3,064,239
Others	16.3	626,533	245,927
Rentals received in advance		56,659	715,320
	Rupees	<u>13,688,086</u>	<u>22,771,239</u>

16.1 This includes Rs. 8.3 million payable in respect of the construction of mobile towers.

16.2 Included in this amount is the liability in respect of staff compensated absences which amounts to Rs. 520,237 (2006: Rs. 967,146).

16.3 This include late payment charges of Rs 0.312 million (2006: Nil) on rentals recovered from the customers of the Modaraba.

## 17. SECURITY DEPOSITS

Customers' security deposits		26,663,539	29,741,311
Current maturity shown under current liabilities		(16,579,210)	(12,354,834)
	17.1	10,084,329	17,386,477
Security deposits in respect of mobile towers		7,290,000	5,100,000
	Rupees	<u>17,374,329</u>	<u>22,486,477</u>

17.1 Represents sum received under Ijarah finance, repayable / adjustable at the expiry of the lease period.

## 18. CERTIFICATE CAPITAL

### 18.1 Issued, subscribed and paid up capital

13,569,000 (2006: 13,569,000) Modaraba Certificates of Rs.10 each fully paid in cash		135,690,000	135,690,000
4,688,400 (2006: 4,688,400) Modaraba Certificates of Rs. 10 each issued as fully paid bonus certificates		46,884,000	46,884,000
166,545 (2006: Nil) Modaraba Certificates of Rs. 10 each issued due to merger	18.2	1,665,450	–
	Rupees	<u>184,239,450</u>	<u>182,574,000</u>

# Modaraba Al-Mali

18.2 These certificates were issued to the certificate holders of Modaraba Al-Tijarah on account of its merger with the Modaraba( note 1.2). The Scheme of merger (the scheme) was executed on 10 October 2005 and was approved by the Honourable High Court of Sindh for the merger of Modaraba Al-Tijarah into Modaraba Al-Mali on 1 June 2006. The merger was effective as of 1 July 2005. As per the scheme, 166,545 modaraba certificates of Modaraba Al-Mali of the nominal value of Rs. 10 each were issued to the certificate holders of Modaraba Al-Tijarah in lieu of its 7,577,815 certificates.

18.3 Following certificates are held by associated undertakings:

Number of certificate		Name of the entity		
2007	2006		2007	2006
2,039,686	2,023,336	JS Finance Limited	20,396,860	20,233,360
-	48,000	E.F.U.General Assurance Limited	-	480,000
316,500	316,500	E.F.U. Life Assurance Limited	3,165,000	3,165,000
<u>2,356,186</u>	<u>2,387,836</u>		<u>23,561,860</u>	<u>23,878,360</u>

## 19. CONTINGENCIES AND COMMITMENTS

### 19.1 Contingencies

19.1.1 A suit has been filed against the Modaraba for Rs.6.48 million (2006: Rs.6.48 million) being a claim for refund of security deposit in respect of lease finance. The Modaraba is defending the claim as they have evidence of the repayment of the security deposit. The Modaraba is of the opinion that it stands a fairly good probability of a decision in its favour. Consequently, no provision has been made in these financial statements.

19.1.2 Included in advance tax is Rs. 0.590 million (2006: Rs. 0.590 million) which was paid under protest against the liability assessed by the Deputy Commissioner of Income-tax for the assessment year 1994-95 (corresponding accounting year ended 30 June 1994), the recovery of which depends on the outcome of appeal filed before the Honourable High Court. No provision there against has been made in these financial statements, as the management believes that the assessment made by the Deputy Commissioner of Income-tax will not be sustained in the appeal. However, 50% tax liability has been recovered from the musharika partner. Accordingly, the Modaraba's net exposure is Rs. 0.295 million (2006: Rs. 0.295 million only).

Notes 2007 2006

## 20. INCOME FROM LEASING

Leasing income	20.1	38,246,775	39,929,435
(Loss) / profit on termination of leases		(34,529)	626,248
	Rupees	<u>38,212,246</u>	<u>40,555,683</u>

20.1 This includes Rs. 28.74 million (2006: 23.345 million) under operating lease/licensing arrangements.

# Modaraba Al-Mali

	Notes	2007	2006
<b>21. OTHER OPERATING INCOME</b>			
Gain on sale of investments		919,592	5,301,688
Dividend income		164,375	105,786
	Rupees	<u>1,083,967</u>	<u>5,407,474</u>
<b>22. PROFIT DISTRIBUTION ON BORROWINGS</b>			
Profit on short term morabaha borrowings		5,193,196	6,339,578
Profit on certificate of musharika borrowings		2,542,138	3,368,943
Profit on Ijarah finance		3,161,478	1,613,148
	Rupees	<u>10,896,812</u>	<u>11,321,669</u>
<b>23. OPERATING COSTS</b>			
Salaries and allowances		10,528,956	11,448,914
Gratuity	23.1.2	312,000	260,004
Provident fund contribution		400,263	384,243
Compensated absences		425,831	610,365
Subscription		855,055	232,141
Legal and professional charges		1,186,835	1,566,358
Rent, rates and taxes		7,163,513	6,350,875
Printing and stationery		691,025	905,389
Telephone		764,985	950,728
Postage		268,714	217,547
Fuel and conveyance		1,342,519	1,255,460
Share registrar services		125,000	153,000
Repairs and maintenance		1,977,552	2,077,391
Travelling and accommodation		323,501	807,022
Security services charges		2,283,143	1,856,516
Advertisement		60,391	178,625
Insurance		579,899	580,587
Auditors' remuneration	23.2	322,436	318,379
Depreciation	13.1&13.2	9,321,294	8,301,686
Electricity		743,411	766,744
Miscellaneous expenses		1,588,551	1,768,323
	Rupees	<u>41,264,874</u>	<u>40,990,297</u>
<b>23.1 Defined benefit plan - gratuity</b>			
23.1.1 Present value of plan assets and present value of obligation:			
Present value of defined benefit obligation	23.1.4	910,000	1,578,000
Fair value of allocated plan assets	23.1.5 & 23.1.6	(1,236,000)	(1,752,000)
Surplus		(326,000)	(174,000)
Unrecognised actuarial gain		326,000	174,000
Net (asset) / liability recognised on the balance sheet	Rupees	<u>-</u>	<u>-</u>

# Modaraba Al-Mali

		2007	2006
23.1.2	Movement in amount payable to the defined benefit plan:		
	Opening balance	-	-
	Charge for the year	312,000	260,004
	Contribution to the fund during the year	(312,000)	(260,004)
	Closing balance	-	-
	Rupees		

## 23.1.3 Amount charged to the profit and loss account:

The following amounts have been charged to the profit and loss account during the current year in respect of this scheme:

Current service cost		327,000	278,004
Mark-up cost		142,000	117,000
Recognition of actuarial gain		-	(3,000)
Expected return on plan assets		(157,000)	(132,000)
	Rupees	312,000	260,004

## 23.1.4 Movement in the present value of defined benefit obligation is as follow:

Present value of defined benefit obligation		1,578,000	1,170,000
Current service cost		327,000	278,000
Mark-up cost		142,000	117,000
Benefit paid		(280,000)	-
Actuarial gain / (loss)		34,000	13,000
Liability in respect of the transferees		(891,000)	-
	Rupees	910,000	1,578,000

## 23.1.5 Movement in the fair value of plan assets is as follow:

Fair value of plan assets at beginning		1,752,000	1,345,000
Expected return on plan assets		157,000	132,000
Contributions		312,000	260,000
Benefit paid		(280,000)	-
Liability in respect of the transferees		(891,000)	-
Actuarial gain / (loss)		186,000	15,000
Fair value of plan assets at end	Rupees	1,236,000	1,752,000

## 23.1.6 Composition of plan assets

Debt instruments		811,000	1,153,000
Cash		425,000	599,000
	Rupees	1,236,000	1,752,000



# Modaraba Al-Mali

	Notes	2007	2006
25. OTHER INCOME			
Gain on disposal of fixed assets	13.5	631,679	22,504,051
Rent income		452,000	1,050,000
Profit on a Islamic bank saving account		647,774	190,677
Others		316,685	1,434,022
	Rupees	<u>2,048,138</u>	<u>25,178,750</u>

## 26. TAXATION

The income of non-trading modaraba is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders.

However, due to loss for the year, no provision for taxation has been made in these financial statements.

The income tax returns of the Modaraba have been filed for the financial year ended 30 June 2003, 30 June 2004, 30 June 2005 and 30 June 2006 which are deemed to be assessment order under the Self Assessment Scheme of the Income Tax Ordinance, unless selected for audit by the taxation authorities.

The income tax assessments of the Modaraba have been finalised up to and including the financial year ended 30 June 2006.

## 27. (LOSS) / EARNINGS PER CERTIFICATE - basic and diluted

(Loss) / profit after tax for the year	Rupees	<u>(11,727,322)</u>	<u>28,478,150</u>
Weighted average number of certificates outstanding during the year	Number	<u>18,410,066</u>	<u>18,257,400</u>
Basic (loss) / earnings per certificate		<u>(0.64)</u>	<u>1.56</u>

No figure for diluted (loss) / earnings per certificate has been presented as the Modaraba has not issued any instrument which would have an impact on (loss) / earnings per certificate when exercised.

## 28. ADJUSTMENTS FOR NON-CASH ITEMS

Depreciation		9,321,294	8,301,686
Impairment loss against doubtful debts		19,023,069	3,615,880
Gain on disposal of fixed assets		(631,679)	(22,504,051)
Profit distribution on borrowings		10,896,812	11,321,669
Share of loss of an associate		432,185	47,646
Dividend income		(164,375)	(105,786)
	Rupees	<u>38,877,306</u>	<u>677,044</u>



# Modaraba Al-Mali

---

## 29. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of JS Finance Limited being the Management Company, major certificate holders, directors of the Modaraba Management Company, key management personnel, the provident and gratuity funds and entities with common directors and common management.

The remuneration to the key management employees (executives), disclosed in note 30 to these financial statements, are determined in accordance with their terms of appointment. Contribution to the provident and gratuity funds are made in accordance with the services rules and actuarial advice respectively. Share of loss / profit in respect of investment in an associate undertaking is recognised under the equity basis of accounting. Other transactions with related parties are in accordance with the agreed terms.

Details of transactions with related parties as at the year end are as follows:

		2007	2006
Modaraba Management Company			
Management fee	Rupees	<u>          –</u>	<u>  3,164,239</u>
Associated undertakings			
Receipt and repayment of certificate of Musharika borrowings	Rupees	<u>  20,000,000</u>	<u>  11,000,000</u>
Financial charges on certificate of Musharika borrowings (at 11.5% per annum)	Rupees	<u>      700,010</u>	<u>      623,836</u>
Dividend paid	Rupees	<u>  2,422,116</u>	<u>  1,178,612</u>
Insurance expense	Rupees	<u>                  –</u>	<u>  2,347,770</u>
Brokerage paid	Rupees	<u>      77,260</u>	<u>      98,338</u>
Share of loss of an associated undertaking under the equity basis of accounting (Note 11)	Rupees	<u>      432,185</u>	<u>      47,646</u>
Other related parties (other than key management personnel)			
Contributions to staff provident fund	Rupees	<u>      440,640</u>	<u>      384,243</u>
Contribution to staff gratuity fund (23.1.2)	Rupees	<u>      312,000</u>	<u>      260,004</u>

The balances with the related parties have been discussed in the respective notes.

30. REMUNERATION OF EXECUTIVES AND OTHER EMPLOYEES

The aggregate amount charged in the financial statements for remuneration, including all benefits, to the executive staffs and other employees of the Modaraba were as follows:

_____	_____
_____	_____
_____	_____

_____	_____	_____	_____	_____	_____
=====	=====	=====	=====	=====	=====
=====	=====	=====	=====	=====	=====

Five officers of the modaraba are also provided with free use of cars maintained by the Modaraba.





## 32.2 Fair values of financial assets and liabilities

In the opinion of the Management, fair values of other financial assets and liabilities, other than those which are short term in nature, cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and reliable data regarding market rates for similar instruments. The Modaraba's short term financial instruments are expected to be settled in short term, hence their carrying amount is not considered to be materially different from their fair values.

## 32.3 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. To guard against this risk the Modaraba's assets are managed with liquidity in mind, maintaining a balance of financial assets. The maturity profile is monitored to ensure that adequate liquidity is maintained.

## 32.4 Market risk

The Modaraba recognises market risk as the exposure created by the potential changes in market prices and rates. The Modaraba manages this risk through continuous monitoring of the market prices, market mark-up / profit rates and its mark-up / profit rate sensitivity position.

## 33. CREDIT RISK AND CONCENTRATION OF CREDIT

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 attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

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

At 30 June 2007, financial assets of Rs. 219.575 million were expected to credit risk (2006: Rs. 416.127 million). The Modaraba seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. Concentration of credit risk on Ijarah receivables and morabaha financing with parties are indicated in the following table by the percentage of total balance receivable from these parties in the specified industries / sectors.

# Modaraba Al-Mali

Industry sector	2007		2006	
Financial Institutions	107,547	0.06	316,071	0.09
Brokerage House	-	-	64,949,222	19.28
Energy, Oil and Gas	-	-	88,500	0.03
Distributors, Wholesalers and Retailers	27,188,907	16.07	2,521,363	0.75
Food, Tobacco and Beverages	17,717,458	10.47	22,955,727	6.82
Chemical, Fertilizer and Pharama	1,193,043	0.71	2,344,844	0.70
Textile and Garments	6,853,794	4.05	9,076,420	2.69
Paper and Board	5,130,067	3.03	215,092	0.06
Steel, Engineering and Autos	430,250	0.25	549,057	0.16
Construction	7,776	0.00	2,418,321	0.72
Electronics and Electrical	-	-	20,344,691	6.04
Health Care	7,756,977	4.59	13,238,695	3.93
Media and Showbiz	-	-	457,000	0.14
Transport and Communication	2,610,317	1.54	35,570,989	10.56
Glass, Ceramics and Plastics	1,120,333	0.66	4,475,039	1.33
Individuals	99,049,479	58.55	157,295,513	46.70
	<u>169,165,948</u>	<u>100.00</u>	<u>336,816,544</u>	<u>100.00</u>

2007 2006

33.1 Break-up of the above exposure is as follows:

Net investment in Ijarah finance	67,802,245	129,605,735
Morabaha finances	79,685,388	207,210,809
Rupees	<u>147,487,633</u>	<u>336,816,544</u>

# Modaraba Al-Mali

## 34. INFORMATION ABOUT BUSINESS SEGMENTS

REVENUE	Rupees	<u>1,083,967</u>	<u>28,016,832</u>	<u>28,740,681</u>	<u>57,841,480</u>
RESULT					
Segment result		1,083,967	(19,334,735)	4,907,493	(13,343,275)
Other income		-	-	-	2,048,138
Share of loss of an associate		-	-	-	(432,185)
Modaraba company's management fee		-	-	-	-
Loss for the year					<u>(11,727,322)</u>
OTHER INFORMATION					
Capital expenditure		-	5,088,540	4,309,853	9,398,393
Depreciation and amortisation		-	2,699,502	6,621,792	9,321,294
Non cash expenses		-	19,023,069	-	19,023,069
ASSETS AND LIABILITIES					
Segment assets		22,556,880	146,532,930	71,423,301	240,513,111
Unallocated corporate assets		-	-	-	70,349,867
Consolidated total assets					<u>310,862,978</u>
Segment liabilities		-	26,606,880	39,695,352	66,302,232
Unallocated corporate liabilities		-	-	-	11,793,751
Consolidated total liabilities					<u>78,095,983</u>
REVENUE		<u>5,407,474</u>	<u>33,686,898</u>	<u>23,344,759</u>	<u>62,439,131</u>
RESULT					
Segment result		4,738,858	82,005	1,690,422	6,511,285
Other income		-	-	-	25,178,750
Share of loss of an associate		-	-	-	(47,646)
Modaraba company's management fee		-	-	-	(3,164,239)
Profit for the year					<u>28,478,150</u>
OTHER INFORMATION					
Capital expenditure		-	18,818,846	36,146,064	54,964,910
Depreciation and amortisation		-	2,439,469	5,862,217	8,301,686
Non cash expenses		-	3,615,880	-	3,615,880
ASSETS AND LIABILITIES					
Segment assets		13,939,657	369,709,240	72,604,858	456,253,755
Investment in associate		-	-	-	17,952,354
Unallocated corporate assets		-	-	-	48,942,899
Consolidated total assets					<u>523,149,008</u>
Segment liabilities		16,455,465	197,964,393	40,775,356	255,195,214
Unallocated corporate liabilities		-	-	-	273,541
Consolidated total liabilities					<u>255,468,755</u>

34.1 The above mentioned segments do not necessarily match with the organisational structure of the Modaraba.

## 35. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the board of directors of the Management Company on 26 September, 2007.

Chief Executive  
JS Finance Limited  
Modaraba Management Company

Director  
JS Finance Limited  
Modaraba Management Company

Chairman  
JS Finance Limited  
Modaraba Management Company

PATTERN OF CERTIFICATE HOLDING  
AS AT 30 JUNE 2007

Number of Certificate Holders	Certificate Holding		Total Certificate Held	Percentage %
	From	To		
2197	1	100	48,677	0.26
806	101	500	217,245	1.18
369	501	1000	295,220	1.60
654	1001	5000	1,540,648	8.36
173	5001	10000	1,311,350	7.12
60	10001	15000	770,524	4.18
23	15001	20000	407,118	2.21
18	20001	25000	422,647	2.29
17	25001	30000	463,844	2.52
6	30001	35000	192,677	1.05
4	35001	40000	150,013	0.81
5	40001	45000	216,521	1.18
9	45001	50000	437,611	2.38
4	50001	55000	208,423	1.13
4	55001	60000	227,586	1.24
4	60001	65000	252,521	1.37
2	65001	70000	136,500	0.74
4	70001	75000	293,838	1.59
1	80001	85000	83,324	0.45
1	85001	90000	85,500	0.46
1	90001	95000	93,000	0.50
4	95001	100000	395,250	2.15
4	100001	105000	414,047	2.25
1	110001	115000	114,660	0.62
6	120001	125000	736,864	4.00
1	125001	130000	128,772	0.70
1	140001	145000	144,310	0.78
1	145001	150000	148,652	0.81
1	165001	170000	166,000	0.90
3	175001	180000	535,029	2.90
2	195001	200000	397,282	2.16
1	200001	205000	205,000	1.11
1	245001	250000	248,500	1.35
1	290001	295000	294,800	1.60
1	305001	310000	310,000	1.68
1	315001	320000	316,500	1.72
1	375001	380000	379,500	2.06
1	410001	415000	410,486	2.23
1	485001	490000	487,401	2.65
1	695001	700000	700,000	3.80
1	770001	775000	772,460	4.19
1	1420001	1425000	1,421,250	7.71
1	1840001	1845000	1,842,395	10.00
4,398			18,423,945	100.00



# Modaraba Al-Mali

## CATEGORIES OF CERTIFICATE HOLDING AS AT 30 JUNE 2007

Catagories of Certificate Holders	Number	Certificates Held	Percentage %
Associated companies, undertakings and related parties			
JS Finance Limited	1	2,039,990	11.07
EFU Life Assurance Limited	1	316,500	1.72
Sub Total	2	2,356,490	12.79
N.I.T. & I.C.P.			
Investment Corporation of Pakistan Ltd.	1	1,292	0.01
National Bank of Pakistan - Trustee Department	1	292,962	1.59
Sub Total	2	294,254	1.60
Directors, Chief Executive, Spouses & Minor Children			
Mr. S. Iradat Hussain	1	8,553	0.05
Sub Total		8,553	0.05
Public Sector Companies & Corporations			
Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas & Mutual Funds	10	14,685	0.08
Non-Banking Financial Institutions, Insurance	12	1,717,930	9.32
Joint Stock Companies and others	70	1,055,734	5.73
Individuals	4,301	12,976,299	70.43
Sub Total	4,393	15,764,648	85.56
	4,398	18,423,945	100

# Modaraba Al-Mali

---

## NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the 8th Annual Review Meeting of certificate holders of Modaraba Al-Mali will be held on Friday the 26th October, 2007 at 12:15 p.m. at Pakistan American Culture Centre (PACC), 11 Fatima Jinnah Road, Karachi to review the performance of the Modaraba for the year ended June 30, 2007 in terms of clause 20 of the Prudential Regulations for Modarabas issued vide Circular number 4/2004 by Registrar Modaraba Companies and Modarabas.

Syed Ahmed Asim  
Company Secretary

Date: September 26, 2007

### Note:

1. The Modaraba Certificate transfer book shall remain closed from Saturday the October 19, 2007 to Saturday the October 26, 2007 (both days inclusive) to determine the names of Certificate Holders entitled to attend the Annual Review Meeting. Transfers received in order at the Registrar office of the Modaraba up to the close of the business on Friday the October 18, 2007 will be treated in time for the entitlement to attend Annual Review Meeting.
2. The certificate holders are advised to notify to the registrar of Modaraba Al-Mali, any change in their addresses.
3. CDC certificate holders desiring to attend the meeting are requested to bring their original NIC, Account and Participant's ID number, for identification purpose.