

Modaraba Al-Mali

Managed by
BankIslami Modaraba Investments Ltd.

Annual Report
2010



BankIslami Modaraba
I n v e s t m e n t s



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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.

CORPORATE INFORMATION

Board of Directors	In Alphabetical Order	
	Mr. Asad Alim	Director
	Mr. Hasan Aziz Bilgrami	Director
	Mr. Muhammad Hamid	Director
	Mr. Muhammad Imran	Director
	Mr. Mujtaba Hussain Kazmi	Director
	Mr. S. Shah Sajid Hussain	Director
	Mr. Tariq Usman Bhatti	Director
	Mr. Zulfiqar Ali	Chief Executive
Audit Committee	Mr. Tariq Usman Bhatti	Chairman
	Mr. Muhammad Hamid	Member
	Mr. S. Shah Sajid Hussain	Member
Management Team	Mr. Zulfiqar Ali	Chief Executive
	Mr. Muhammad Saad	Chief Operating Officer
	Syed Ahmed Asim	CFO/Company Secretary
	Mr. Tahir Zuberi	Head of Operations
Company Secretary	Syed Ahmed Asim	
Auditors	M.Yousuf Adil Saleem & Co Chartered Accountants A-35, Cawish Court Block # : 7&8, KCUSU, Karachi.	
Bankers & Financers	BankIslami Pakistan Limited Bank Alfalah Limited Meezan Bank Limited	
Registrar & Share Registration Office	Tecnology Trade (Pvt.) Limited Dagia House, 241-C, Block-2, P.E.C.H.S., Karachi.	
Registered Office	10th Floor, Progressive Square, Opposite Nursery, Sharea Faisal, Karachi Phone : 34547521-25, Fax: 34547526 E-mail: info@modarabaalmali.com URL: http://www.modarabaalmali.com	

DIRECTORS' REPORT

On behalf of the Board of Directors of BankIslami Modaraba Investments Limited we are presenting the 24th annual report of Modaraba Al-Mali together with Audited Accounts for the year ended June 30, 2010.

1. Operating Results

A summary of operating results for the year ended June 30, 2010 are presented as under:

	(Rs. in "000")	
	2010	2009
Total operating income	<u>61,498</u>	<u>38,535</u>
Net loss for the year	<u>(12,913)</u>	<u>(22,287)</u>
Appropriations:		
Final dividend for 2009 : Nil (2008 : 2.50%)	--	(4,606)
Statutory reserves @ 20%	--	--
	<u>(12,913)</u>	<u>(26,893)</u>
Un-appropriated loss brought forward	<u>(28,245)</u>	<u>(1,352)</u>
Un-appropriated loss carried forward	<u>(41,158)</u>	<u>(28,245)</u>
Loss per certificate of Rs. 10/- each	<u>(0.70)</u>	<u>(1.21)</u>

1. Profit distribution

Due to loss during the year, the Directors have not declared any dividend for the year ended 30th June 2010.

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 Rs. 0.70 per certificate during the current financial year as compared to loss of Rs. 1.21 per certificate during the corresponding year ended June 30, 2009. As submitted earlier through our quarterly reports, the mobile tower business remained the main cause for the loss. The gross revenue increased by 60% as compared to last year i.e. from 38.5 million to 61.5 million. However, this is not reflected in the bottom line due to substantial increase in the operational expenses mainly on account of initial setup cost of maintenance service business. On the operational side, the Modaraba successfully launched its maintenance service business, nine tower sites were rented to new customers and construction work on the fuel station was started during the year. These steps will lead to the generation of sustainable revenue for the Modaraba in the coming years.

5. Future Prospects

The management is making all efforts to take the Modaraba out of trouble. With the addition of new tenants, the mobile tower division has started to contribute positively towards the profitability of the Modaraba. The fuel station project has been started and it is expected to become operational in next few days. Negotiations are being held for getting maintenance

business from new customers. With all these developments, the management is hopeful that the Modaraba will become profitable from the fiscal year 2011.

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 2010.

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. Muhammad Hamid
2. Mr. S. Shah Sajid Hussain
3. Mr. Tariq Usman Bhatti

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:

Name of Directors	No. of Meetings attended	Leave of Absence	Remarks
In Alphabetical Order			
Mr. Asad Alim	04	-	
Mr. Hasan Aziz Bilgrami	03	01	
Mr. Muhammad Hamid	04	-	(Appointed on 5 th October 2009)
Mr. Muhammad Imran	04	-	
Mr. Mujtaba Hussain Kazmi	03	01	
Mr. S. Shah Sajid Hussain	04	-	
Mr. Tariq Usman Bhatti	02	02	
Mr. Zulfiqar Ali-CEO	04	-	

10. Credit Rating

Pakistan Credit Rating Agency (PACRA) has maintained long term entity rating of A- and short term rating of A2, of the Modaraba.

11. Online inspection by SECP

During the year, the SECP conducted an onsite inspection into the affairs of the Modaraba. Al Hamdolillah no violation of any applicable regulation was found during the inspection. However, we have been advised by Registrar Modaraba's office to put in more efforts to make the Modaraba profitable and to improve the Recovery and Internal Audit functions.

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

--Sd --

Zulfiqar Ali
Chief Executive

Karachi:
September 30, 2010

Modaraba Al-Mali

KEY OPERATING AND FINANCIAL DATA

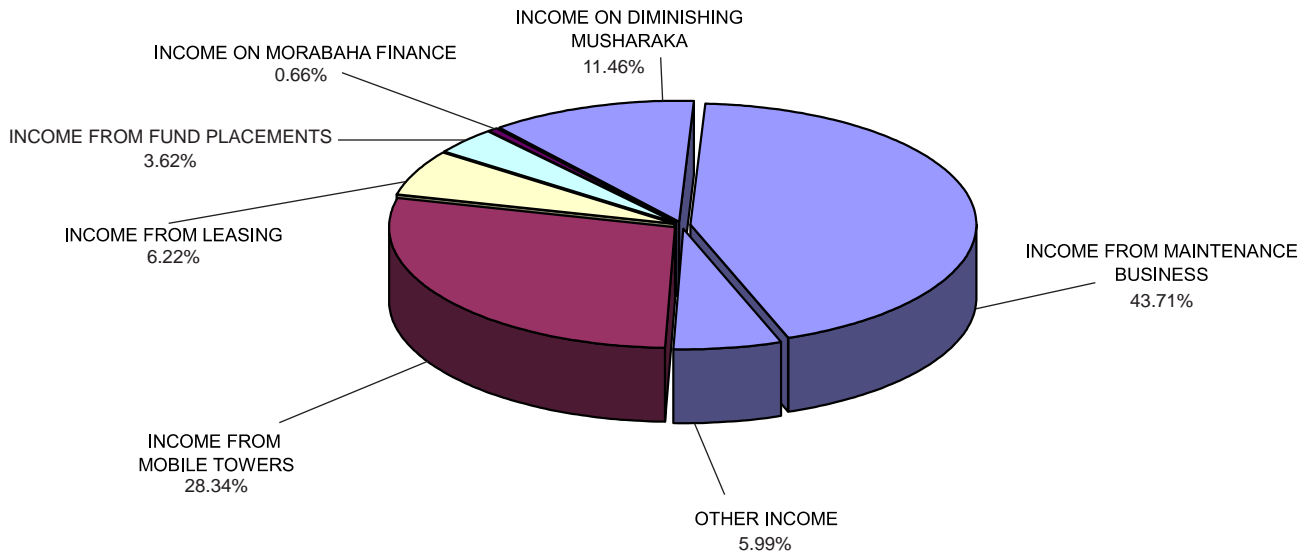
Balance Sheet Summary		(Rupees in Million)					
Year Ended June 30,		2005	2006	2007	2008	2009	2010
EQUITY							
Issued, subscribed and paid up capital		182.57	182.57	184.24	184.24	184.24	184.24
Statutory Reserves		48.53	54.23	54.23	55.45	55.45	55.45
Revenue Reserves and unappropriated profit		16.68	30.88	(5.70)	(0.30)	(27.73)	(40.65)
Total Equity		247.78	267.68	232.77	239.39	211.96	199.04
LIABILITIES							
Liability against Ijarah finances		-	24.09	21.08	12.40	5.07	-
Customer Security Deposit		26.65	22.49	33.95	9.10	9.24	10.46
Others		-	2.18	3.02	-	-	-
		26.65	48.76	58.05	21.50	14.31	10.46
Current Liabilities							
Short term Morabaha and Musharika		34.93	162.75	-	-	-	-
Other Current Liabilities		28.98	43.96	20.05	48.27	36.62	39.35
Total Current Liabilities		63.91	206.71	20.05	48.27	36.62	39.35
Total Liabilities		338.34	523.15	310.87	309.16	262.89	248.85
ASSETS							
Assets Leased Out		-	-	-	-	5.49	6.63
Net investment in Ijarah		87.62	74.08	33.28	7.35	0.69	-
Assets in Own Use		26.85	13.11	73.79	125.64	124.21	131.25
Long Term Morabaha and Musharika		7.53	9.96	0.51	0.06	32.82	8.79
Long Term Investment		-	17.95	-	27.54	33.10	22.27
Other Long Term Assets		32.14	65.55	20.67	3.15	3.15	1.49
		154.14	180.65	128.25	163.74	199.46	170.43
Current Assets							
Short Term Morabaha and Musharika		50.26	197.25	79.75	12.03	25.28	21.63
Current maturity of Net investment in Ijarah		60.48	55.52	34.51	22.43	5.83	3.82
Short Term Investment		19.98	11.90	5.03	5.50	-	12.50
Other Current Assets		31.50	70.44	18.29	33.17	21.82	39.35
Cash and Bank Balance		21.98	7.39	45.03	72.28	10.49	1.12
Total Current Assets		184.20	342.50	182.61	145.41	63.42	78.42
Total Assets		338.34	523.15	310.86	309.15	262.88	248.85
Lease Rentals Receivables Next 12 Months							

Income Statement Highlights

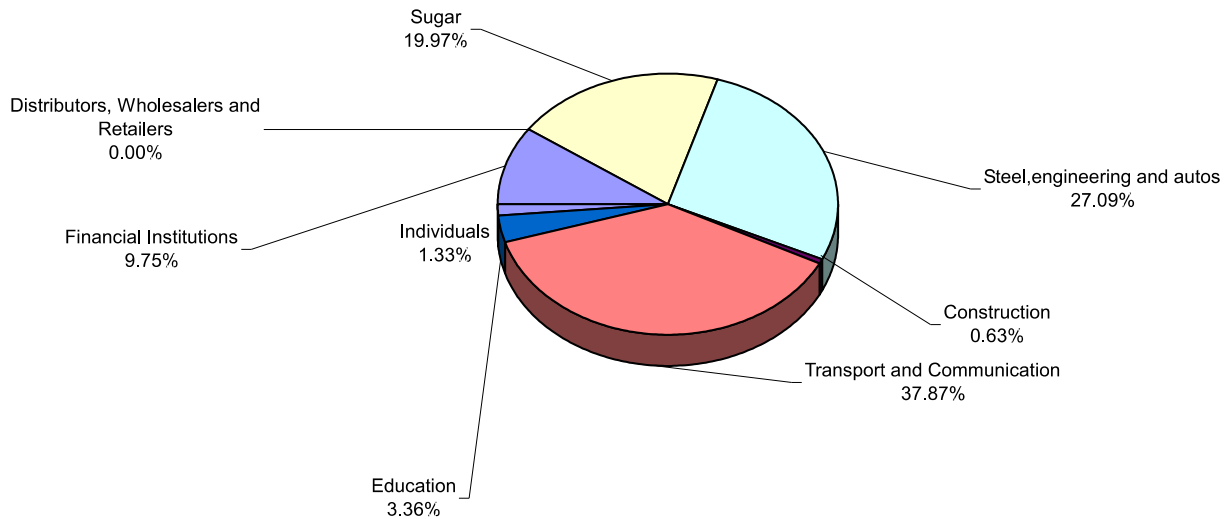
		(Rupees in Million)					
Year Ended June 30,		2005	2006	2007	2008	2009	2010
INCOME							
Lease		24.39	40.55	38.21	27.76	21.79	21.25
Musharika and Morabaha		10.09	16.47	18.54	8.74	7.80	7.45
Capital Gain on Investments		(2.12)	5.30	-	(0.06)	-	-
Dividend		2.00	0.11	0.16	0.17	-	-
Certificate of Investment		-	-	-	5.07	-	-
Maintenance services		-	-	-	-	-	26.89
Other		2.48	25.18	2.54	3.81	8.95	5.91
Total Income		36.84	87.61	59.45	45.49	38.54	61.50
EXPENSES							
Operating		14.82	32.69	31.96	28.92	39.65	68.94
Financial		1.24	11.32	10.86	2.79	2.25	1.14
Amortization, depreciation		1.70	8.30	9.32	9.88	1.67	2.84
Provision for doubtful receivables		3.69	3.66	19.03	(2.22)	17.25	1.49
Management fee		1.54	3.16	-	-	-	-
Profit / (loss) before taxation		13.85	28.48	(11.72)	6.12	(22.28)	(12.91)
Taxation		-	-	-	-	-	-
Net profit / (loss)		13.85	28.48	(11.72)	6.12	(22.28)	(12.91)
APPROPRIATIONS							
Total Dividend		10.95	22.82	-	4.61	-	-
Statutory Reserves		2.77	5.70	5.70	1.22	-	-
VALUE OF INVESTMENT OF							
Provident Fund	1.94						
Gratuity Fund	1.24						

Note: Above figures are based on respective audited accounts for the year ended June 30, 2009 of the funds

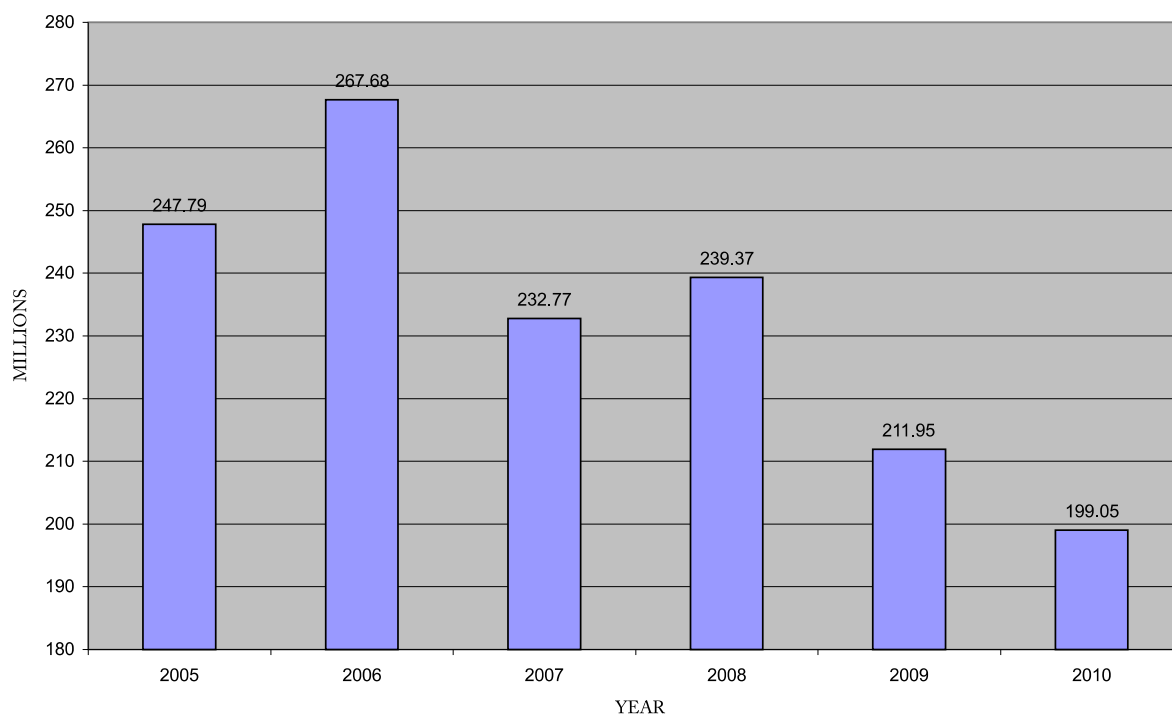
REVENUE ANALYSIS



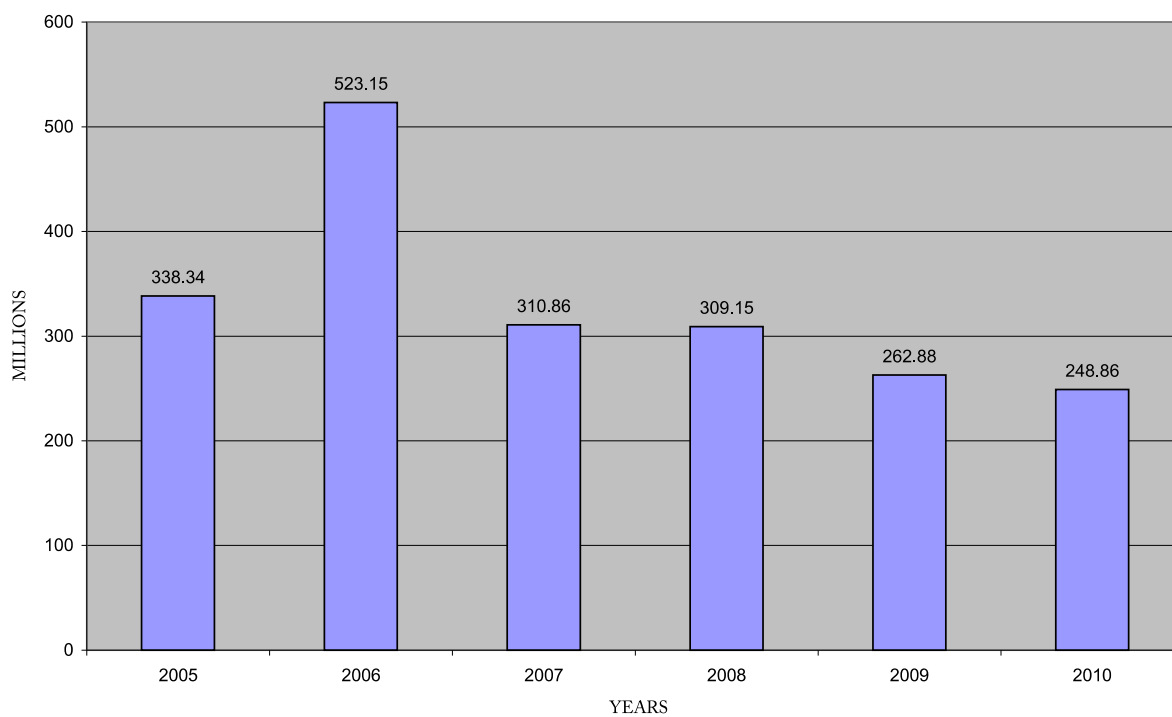
SECTOR WISE EXPOSURE



EQUITY GROWTH



BALANCE SHEET GROWTH



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.

BankIslami Modaraba Investments 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. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present all the directors of the Management Company are non-executive directors, except the Chief Executive of the Modaraba Company and there is no director representing minority interest.
2. The Directors of the Management Company have confirmed that none of them are serving as director in ten or more listed companies.
3. All the directors of the Management Company have confirmed that they are registered as tax payers and none of them have defaulted in payment of any loan to a banking company, a Development Financial Institution or an Non Banking Financial Company or, being a member of a Stock Exchanges, have been declared as a defaulter by the Stock Exchange.
4. A casual vacancy occurring in the Board on July 13, 2009 and was filled up by the directors on August 8, 2009.
5. The 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 has been maintained.
7. All the powers of Board have been duly exercised and 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. 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. There was no new appointment of the CFO and Company Secretary (both being the same person).
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 holdings.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the code.

Modaraba Al-Mali

15. The Board has formed an Audit Committee. It comprises three members, all of whom 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 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 a firm of Chartered Accountants who are considered suitably qualified and experienced for our purposes and are conversant with the policies and procedures of the Modaraba. Their representative 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 and the auditors have confirmed that they have observed IFAC guidelines in this regards.
20. The related party transactions have been placed before the audit committee and approved by the Board of directors as per pricing method approved by the Board of directors with necessary justifications for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
- 21 We confirm that all material principles contained in the code have been complied with.

On Behalf of the Board

--Sd --

Karachi:
September 30, 2010

Zulfiqar Ali
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 **BankIslami Modaraba Investments Limited** (the Modaraba Company) in respect of **Modaraba Al Mali** (the Modaraba) to comply with the Listing Regulations 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 Modaraba Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Modaraba's compliance with the provisions of the Code 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 controls.

Further, Listing Regulations of the Stock Exchanges where the Modaraba is listed, require the Modaraba to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price 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 the audit committee. We have not carried out any procedures to enable us to express an opinion as to determine whether the related party transactions were under taken at arm's length price.

Based on our review, except for the matters noted in the previous paragraph, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2010.

Chartered Accountants

--- Sd ---

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner
Mushtaq Ali Hirani

Karachi
Date: 30 September 2010

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet of **Modaraba Al Mali** as at June 30, 2010 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 [Bank Islami Modaraba Investments 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.

The financial statements of the Modaraba for the year ended June 30, 2009 were audited by another firm of Chartered Accountants whose report dated October 3, 2009 expressed an unqualified opinion.

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 account 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 the related 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 account 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 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, 2010 and of the profit, its cash flows and changes in equity for the year then ended, and
- d) in our opinion, no Zakat is deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

--- Sd ---

M. Yousuf Adil Saleem & Co
Chartered Accountants
Engagement Partner
Mushtaq Ali Hirani

Karachi
Date: 30 September 2010

BALANCE SHEET

As At June 30, 2010

ASSETS	Note	2010	2009
		------(Rupees)-----	
Current Assets			
Bank balances	5	1,115,190	10,489,533
Current portion of diminishing musharaka finance	6	21,629,688	16,146,000
Current portion of long term investments	7	12,499,980	5,416,660
Current portion of investment in Ijarah finance	8	3,824,008	5,836,305
Morabaha finance	9	-	3,718,685
Receivable against operating lease rentals and maintenance service	10	20,854,931	7,751,862
Advances, deposits, prepayments and other receivables	11	15,683,755	14,048,472
Stores and Consumables	12	2,823,623	-
Total current assets		78,431,175	63,407,517
Non-current Assets			
Diminishing musharaka finance	6	8,791,536	32,820,691
Long term investment	7	22,270,189	33,103,509
Investment in ijarah finance	8	-	694,238
Property and equipment	13	131,245,167	124,211,460
Property and equipment under ijarah arrangement	14	6,627,564	5,490,226
Long term deposits		1,492,206	3,156,465
Total non-current assets		170,426,662	199,476,589
Total assets		248,857,837	262,884,106
LIABILITIES			
Current Liabilities			
Creditors, accrued and other liabilities	15	21,767,163	17,342,705
Current portion of liability against Ijarah finance	16	7,190,082	7,454,252
Current portion of security deposits	17	3,824,007	5,224,007
Unclaimed profit distribution		6,567,310	6,600,650
Total current liabilities		39,348,562	36,621,614
Non-Current Liabilities			
Liability against ijarah finance	16	-	5,067,941
Security deposits	17	10,464,100	9,236,287
Total non-current liabilities		10,464,100	14,304,228
Total liabilities		49,812,662	50,925,842
NET ASSETS		199,045,175	211,958,264
REPRESENTED BY			
CAPITAL AND RESERVES			
Certificate capital			
Authorized - 30,000,000 (2009: 30,000,000)			
Modaraba certificates of Rs.10/- each			
		300,000,000	300,000,000
Issued, subscribed and paid-up	18	184,239,450	184,239,450
Reserves			
Accumulated loss		55,964,329	55,964,329
		(41,158,604)	(28,245,515)
		14,805,725	27,718,814
		199,045,175	211,958,264
Contingencies and Commitments	19		

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

Chief Executive
BankIslami Modaraba Investments Limited
Modaraba Management Company

Director
BankIslami Modaraba Investments Limited
Modaraba Management Company

Director
BankIslami Modaraba Investments Limited
Modaraba Management Company

PROFIT AND LOSS ACCOUNT

For The Year Ended June 30, 2010

	Note	2010	2009
		------(Rupees)-----	
INCOME			
Income on maintenance services		26,879,414	-
Income from Ijarah finance		21,253,808	21,791,535
Profit on investments in sukuk certificate		2,227,562	2,920,591
Profit on diminishing musharaka finance		7,045,432	5,805,608
Profit on morabaha finance		406,555	1,996,275
Other operating income - net	20	3,685,671	6,020,860
		<u>61,498,442</u>	<u>38,534,869</u>
EXPENDITURE			
Profit on ijarah finance		1,137,365	2,253,509
Ijarah lease rentals	21	201,122	-
Depreciation on property and equipment - Ijarah		2,840,065	1,662,674
Operating expenses	22	68,743,382	39,654,767
		<u>72,921,934</u>	<u>43,570,950</u>
		(11,423,492)	(5,036,081)
Provision for impairment loss against doubtful recoveries	23	(1,489,597)	(17,250,743)
		<u>(12,913,089)</u>	<u>(22,286,824)</u>
Modaraba company's management fee	24	-	-
Loss for the year before taxation		<u>(12,913,089)</u>	<u>(22,286,824)</u>
Taxation	25	-	-
Loss for the year after taxation		<u>(12,913,089)</u>	<u>(22,286,824)</u>
OTHER COMPREHENSIVE INCOME			
Reversal of revaluation on available for sale investments		-	25,000
Total loss after other comprehensive income		<u>(12,913,089)</u>	<u>(22,261,824)</u>
Earnings per certificate - basic and diluted	26	<u>(0.70)</u>	<u>(1.21)</u>

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

Chief Executive
BankIslami Modaraba Investments Limited
Modaraba Management Company

Director
BankIslami Modaraba Investments Limited
Modaraba Management Company

Director
BankIslami Modaraba Investments Limited
Modaraba Management Company

CASH FLOW STATEMENT

For The Year Ended June 30, 2010

	2010	2009
	------(Rupees)-----	
(A) CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(12,913,089)	(22,286,824)
Adjustments of non-cash and other items		
Depreciation - property and equipment- owned	11,774,026	9,867,343
Gain on disposal property and equipment - owned	(586,342)	(302,528)
Depreciation on property and equipment - Ijarah	2,840,065	1,662,674
Provision for impairment loss against doubtful receivables	1,489,597	17,250,743
Profit on ijarah finance	1,137,365	2,253,509
Gain on sale of short term investments	-	(664,778)
	3,741,622	7,780,139
(Increase) / decrease in operating assets		
Diminishing musharaka finances	18,545,467	(54,383,351)
Net investment in Ijarah finance	2,706,535	15,525,007
Morabaha finance	4,211,762	3,691,682
Receivable against operating lease rentals and maintenance service	(15,280,688)	(4,687,000)
Advances, deposits, prepayments and other receivables	880,593	8,526,109
Stores and Consumables	(2,823,623)	-
	8,240,046	(31,327,553)
Increase / (decrease) in operating liabilities		
Creditors, accrued and other liabilities	4,223,336	702,086
Customers' security deposits received - net	(172,187)	(13,442,418)
	4,051,149	(12,740,332)
	16,032,817	(36,287,746)
Income taxes paid	(2,320,931)	(480,381)
Profit paid on ijarah finance	(936,243)	(2,253,509)
Net cash flows generated from/ (used in) operating activities	12,775,643	(39,021,636)
(B) CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment- Ijarah	(3,977,403)	-
Purchase of property and equipment - own	(19,228,301)	(5,935,342)
Proceeds from disposal of property and equipment	1,006,910	(2,196,756)
Redemption of long term investments	3,750,000	-
Proceeds from sale of short term investments	-	5,664,778
Purchase of investments	-	(9,583,340)
Net cash flows used in investing activities	(18,448,794)	(12,050,660)
(C) CASH FLOWS FROM FINANCING ACTIVITIES		
Long term deposit	1,664,259	-
Liability against Ijarah finance-paid	(5,332,111)	(6,381,706)
Profit distribution to the certificate holders	(33,340)	(4,334,484)
Net cash flows used in financing activities	(3,701,192)	(10,716,190)
Net decrease in cash and cash equivalents	(9,374,343)	(61,788,486)
Cash and cash equivalents at beginning of the year	10,489,533	72,278,019
Cash and cash equivalents at end of the year	1,115,190	10,489,533

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

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Modaraba Management Company

STATEMENT OF CHANGES IN EQUITY

For The Year Ended June 30, 2010

	Certificate capital	Capital reserves			Reserves		Total
		Certificate premium	Statutory reserve *	Unrealized gain on remeasurement of available for sale investments	Revenue reserve (Accumulated loss)	Total reserves	
Balance as at June 30, 2008	184,239,450	511,409	55,452,920	528,618	(1,352,705)	55,140,242	239,379,692
Loss for the year ended June 30, 2009					(22,286,824)	(22,286,824)	(22,286,824)
Transfer to profit and loss account on account on disposal of available for sale investments				(503,618)	(503,618)	(503,618)	(503,618)
Reversal of revaluation on available for sale investments				(25,000)	(25,000)	(25,000)	(25,000)
Final dividend for the year ended June 30, 2008 @ Re. 0.25/- per certificate					(4,605,986)	(4,605,986)	(4,605,986)
Balance at June 30, 2009	184,239,450	511,409	55,452,920	-	(28,245,515)	27,718,814	211,958,264
Loss for the year ended June 30, 2010					(12,913,089)	(12,913,089)	(12,913,089)
Balance at 30 June 2010	184,239,450	511,409	55,452,920	-	(41,158,604)	14,805,725	199,045,175

* The statutory reserve represents profits set aside in accordance with the provisions of prudential regulations for modarabas promulgated by the Securities and Exchange Commission of Pakistan.

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NOTES TO THE FINANCIAL STATEMENT

For The Year Ended June 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

Modaraba Al-Mali ("the Modaraba") is a multipurpose and perpetual Modaraba floated in Pakistan on July 8, 1987 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and Modaraba Companies and Modaraba Rules, 1981 and is managed by BankIslami Modaraba Investments Limited, a company registered under the Companies Ordinance, 1984. It is engaged in the business of leasing, morabaha, musharaka financing, trading and renting of mobile towers, maintenance services and other related business. The Modaraba is listed on the Karachi, Lahore and Islamabad Stock Exchanges. Its registered office is situated at Progressive Square, Shahr-e Faisal, Karachi, in the province of Sindh.

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

2. BASIS OF PREPARATION

2.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that staff retirement benefits are carried at present value.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgment was exercised in application of accounting policies are as follows: -

- i) classification of investments (Note 7)
- ii) provision for doubtful recoveries (Note 23)
- iii) depreciation on property and equipment - own/Ijarah (Note 13 & 14)
- iv) provision against non-performing leasing portfolio, investments, musharaka and morabaha finances and other receivables (Note 7-11)
- v) Staff retirement benefits (Note 20.1)

3. 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 & Modaraba Rules, 1981 Trust Deed and directives issued by the Securities and Exchange Commission of Pakistan (SECP) [the Modaraba Regulations] together with approved accounting standards as applicable in Pakistan to Modaraba's. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) and Islamic Financial Accounting Standards (IFAS) 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 from the requirements of these standards, the requirements of 'the Modaraba Regulations' take precedence.

The SECP has deferred the application of IAS 17 "Leases" and specific requirements of IAS 39 "Financial Instruments, Recognition and Measurement" for recognition of unrealized gain on "held for trading" investments for Modarabas.

3.1 Change in accounting policies and disclosures as result of adoption of new and amended accounting standards

In the current period, the Modaraba has adopted all new Standards issued by the IASB and as notified by the Securities and Exchange Commission of Pakistan that are relevant to its operations and effective for Moradaba's accounting period beginning on July 01, 2009.

Standards affecting presentation and disclosure

Effective for accounting period beginning on or after

IAS 1 (revised) - Presentation of Financial Statements

January 01, 2009

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the profit and loss account and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The Modaraba has applied IAS 1 (revised) from July 1, 2009, and has elected to present one statement (profit and loss). The adoption of the above standard does not have any significant impact on the presentation of the Modaraba's financial statements and does not require the restatement or reclassification of comparative information. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 8 - Operating Segments

January 01, 2009

IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard has no impact on the Modaraba's financial statement except certain additional disclosure. As given in note 31 to the financial statements.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7
Financial Instruments: Disclosures)

January 01, 2009

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The Modaraba has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

The amended standard requires additional disclosures about the fair value measurement and liquidity risk. Fair value measurement related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance of level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 29

As the change in above accounting policies only results in additional disclosures, there is no impact on earnings

3.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance	January 01, 2009
IAS 40 - Investment Property	January 01, 2009
IAS 23 - Borrowing Costs	January 01, 2009
IFRS 2 - Share-based Payment : Vesting Conditions and Cancellations	January 01, 2009
IFRS 3 - Business Combinations (Revised) and IAS 27 - Consolidated and Separate Financial Statements (Amended) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39	July 01, 2009
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	July 01, 2009
IAS 32- Financial Instruments : Presentation and IAS 1 Puttable Financial Instruments and Obligations arising on Liquidation	January 01, 2009
IAS 38 - Intangible Assets	January 01, 2009
IAS 39 - Financial Instruments : Recognition and Measurement - Eligible Hedged Items	July 01, 2009
Future payments for civil work	July 01, 2009
IFRIC 15 - Agreements for the Construction of Real Estate	January 01, 2009
IFRIC 17 - Distribution of Non-cash Assets to Owners	January 01, 2009
IFRIC 18 - Transfers of Assets from Customers	July 01, 2009

3.3 New accounting standards and IFRS interpretations that are not yet effective

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them

IFRS 9 - Financial Instruments	January 01, 2013
Amendments to IFRS 2 - Share based Payment	January 01, 2010
Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	January 01, 2010
Amendments to IAS 7 - Statement of Cash Flows	January 01, 2010
Amendments to IAS 24 - Related Party Disclosures	January 01, 2010

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Property, plant and equipment

4.1.1 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.

Depreciation method, useful lives and residual values are reassessed at least at each balance sheet date and changes, if any, are recognized prospectively.

4.1.2 Property and equipment under Ijarah arrangements

Modaraba adopted Islamic Financial Accounting Standard 2-Ijarah in the year June 2009 for all Ijarah contracts commencing on or after 1 July 2008. The assets subject to Ijarah commencing on or after 1 July 2008 are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged on these assets using straight line method over the period of the lease. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the corresponding assets.

Allowance for non-performing leases is made in accordance with Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account currently.

4.1.3 Capital work-in-progress

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

4.2 Investments

All investments 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 categorised and accounted for as follows:

4.2.1 Held for trading "at fair value through profit or loss"

These investments are initially recognised at fair value and subsequently measured at fair value. As per requirement of IAS-39 "Financial Instruments, Recognition and Measurement" the gain or loss on revaluation of investment held for trading is to be included in profit and loss account.

4.2.2 Available for sale

Investment securities held by the Modaraba which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognised at fair value plus transaction cost and subsequently measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognised directly in the other comprehensive income under fair value reserve until sold, collected, or otherwise disposed of, at which time the cumulative gain or loss previously recognised in the other comprehensive income is included in profit and loss account.

4.2.3 Held to maturity

These are investments with fixed or determinable payments and fixed maturity, and which, the Modaraba has positive intent and ability to hold till maturity. Held to maturity investments are initially recognised at fair value plus transaction cost and are subsequently measured at amortized cost using effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.

4.2.4 Derecognition

All investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Modaraba has transferred substantially all risks and rewards of ownership.

4.3 Investment in Ijarah Finance

Ijarah agreements commencing up to 30 June 2008 are accounted for as finance lease and 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 (Refer note 8).

4.4 Receivable from terminated / matured contracts

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

4.5 Stores and consumables

These are valued at the moving average cost less allowance for obsolete and slow moving items. Items in transit are valued at invoice values plus other charges incurred thereon.

4.6 Impairment

4.6.1 Financial Assets

Impairment is recognised by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modaraba and subjective evaluation carried out on an ongoing basis.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

4.6.2 Available-for-sale investments

For available-for-sale financial investments, the Modaraba assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account - is removed from equity and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the profit and loss account; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

4.6.3 Non-financial assets

The Modaraba assesses at each balance sheet date whether there is any indication that assets except deferred tax assets. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss for asset 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 recognised as income.

4.7 Revenue recognition

4.7.1 Ijarah income / Operating lease income

The Modaraba follows the finance method for recognising income on Ijarah contracts commencing prior to 30 June 2008 and are accounted for as finance leases. 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.

For Ijarah arrangements commencing on or after 1 July 2008, Ijarah rentals are recognized as income on accrual basis, as and when rentals become due on a time proportion basis.

Documentation charges, front-end fee and other Ijarah income are recognised as income on receipt basis. Unrealized lease income pertaining to non-performing leases is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations.

Leases in which a significant portion of the risk and reward is retained by the Modaraba are classified as operating lease. Rental income from operating leases is recognised on straight line under the time proportion basis (on an accrual basis).

4.7.2 Income on sukuk securities and bank deposits

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

4.7.3 Morabaha and musharaka finances

Profit from musharaka transactions is recognised on the basis of pro rata accrual of the profit estimated for the transaction over the period.

Profit from murabaha finance is accounted for on culmination of murabaha transaction. However, the profit on that portion of murabaha finance not due for payment is deferred by accounting for "Deferred Murabaha Income" with a corresponding credit to "Unearned Murabaha Income" which is recorded as a liability. The same is then recognised on a time proportion basis.

4.7.4 Dividend income

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

4.7.5 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.

4.7.6 Income on maintenance services

Income on maintenance services is recognised on accrual basis

4.7.7 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 and musharaka finances), in accordance with the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan. Unrealised suspended income is recognised in income on receipt basis.

4.8 Employees' benefits

4.8.1 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 BankIslami Modaraba Investments 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 2010 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.

4.8.2 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.

4.8.3 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.

4.9 Taxation

4.9.1 Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credit and tax rebates realizable, if any. Under clause 100 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, the non-trading income of modarabas is exempt from income tax, provided not less than 90% of its profits {after appropriation to statutory(mandatory) reserves as required under Modaraba Regulations} are distributed to the certificate holders. However, due to loss, no provision for taxation for the current year has been made in these financial statements.

4.9.2 Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method. However, deferred tax liability has not been recognised in these financial statements as the management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

4.10 Financial assets

Financial assets comprise of lease rentals receivable, investments, musharaka and morabaha finances, deposits, other receivables, excluding taxation. Lease rentals receivable, musharaka, morabaha and other receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.

4.11 Financial liabilities

Financial liabilities are classified according to the substance of contractual arrangements entered into. Significant financial liabilities are liabilities against ijarah finance, deposit on lease contracts and accrued and other liabilities.

4.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks on current, savings accounts, as well as balance held with the State Bank of Pakistan (SBP).

4.13 Provisions

Provisions are recognised when the Modaraba has a 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 of the amount of obligation. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

4.14 Trade and other payables

Liabilities for trade and other amounts payable are recognised and carried at cost which is the fairvalue of the consideration to be paid in the future.

4.15 Profit distribution to the certificate holders

Profit distributions to the certificate holders is recognised as a liability in the period in which the distributions are approved.

4.16 Liabilities against assets acquired under Ijarah arrangements

Lease obligations against assets acquired under Ijarah arrangements before 1 July 2008 are accounted for by recording the asset and corresponding liability there against determined on the basis of discounted value of total minimum lease payment. Financial charges is recognised in the profit and loss account using the effective mark-up method (refer note 4.1.1 also).

4.17 Lease Rentals - assets under ijarah arrangements - after 1 July 2008

Assets acquired under ijarah arrangements after 1st July 2008 are treated as assets acquired under operating lease arrangements. Lease rentals are charged to profit and loss account on accrual basis.

4.18 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Modaraba has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Corresponding income on the assets and charge on the liability is also off- set.

	Note	2010	2009
		------(Rupees)-----	
5. BANK BALANCES			
With banks:			
in profit and loss sharing accounts	5.1	1,101,263	10,221,581
in current accounts		-	261,400
balance with State Bank of Pakistan		2,327	3,952
		<u>1,103,590</u>	<u>10,486,933</u>
On hand:			
Security stationary		11,600	2,600
		<u>1,115,190</u>	<u>10,489,533</u>

5.1 These carry profit ranging from 5.01% to 6.52% per annum. (2009: 4.90% to 5.47%)

6. DIMINISHING MUSHARIKA FINANCE

Considered good-secured	6.1	30,421,224	48,966,691
Receivable within one year		(21,629,688)	(16,146,000)
		<u>8,791,536</u>	<u>32,820,691</u>

6.1 Above facilities carry profit rates ranging from 15.37% to 16.55% (2009:18.34% to 19.44%)per annum. These facilities mature between January 2011 to January 2012. These are secured against the charge on specific assets which are motor vehicle and generators.

7. LONG TERM INVESTMENTS

Available-for-sale investments

Number of shares / certificates

		2010	2009		
Unlisted Shares					
	1,800,000	1,800,000			
				7.1	17,520,169
					17,520,169
Sukuk Certificates					
	2000	2000		7.2	1,000,020
					4,333,340
	3000	3000		7.3	3,750,000
					11,250,000
					<u>22,270,189</u>
					<u>33,103,509</u>

7.1 Al Hamra Hills (Private) Limited - Sukuk Certificate

The Securities and Exchange Commission of Pakistan vide its letter dated November 1, 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.

	2010	2009
	------(Rupees)-----	
7.2 New Allied Electronics Industries (Private) Limited - Sukuk Certificate		
Cost	10,000,000	10,000,000
Provision for impairment loss against doubtful recovery	(4,000,000)	(4,000,000)
	6,000,000	6,000,000
Current portion	(4,999,980)	(1,666,660)
	1,000,020	4,333,340

7.2.1 This represents Sukuk certificates of New Allied Electronics Industries (Private) Limited. Redemption / coupon representing the profit of Rs. 0.759 million due on 3 December 2008 was received on 17 December 2008. However, since then, the profit coupon due in June 2010 have not been received. The investee company is under financial crisis. Accordingly the Management Company had made a provision of Rs. 4 million against the gross exposure of Rs. 10 million last year, no further provision is made because the management considers it as sufficient keeping in view of available securities. No accrual of profit has been made on this investment.

7.2.2 These certificates carry profit at 3 months KIBOR +220 bps with floor of 7% and cap of 20% payable semi annually. The tenor of the instrument is for five years including a grace period of two years and is repayable in six equal consecutive semi annual installments from May 29, 2010 to November 29, 2012. These certificates are secured against first pari passu charge over all present and future fixed assets of the company, first pari passu charge over all present and future current assets of the company and personal guarantee of the sponsoring directors.

7.3 Sukuk Certificates of Haq Bahu Sugar Mills (Private) Limited

Cost	11,250,000	15,000,000
Current portion	(7,500,000)	(3,750,000)
	3,750,000	11,250,000

These certificates carry profit at 6 months KIBOR + 325 bps with floor of 11% and cap of 30% payable semi annually. The tenor of the instrument is for three years including a grace period of one year and is repayable in four equal consecutive semi annual installments from February 13, 2010 to February 12, 2013. These certificates are secured against first pari passu charge on all present and future assets of the company with 25% margin & personal guarantee of sponsoring directors. These certificates are not quoted and are being carried in the financial statements at cost.

2010 -----(Rupees)----- 2009

Note

8. INVESTMENT IN IJARAH FINANCE

Ijarah contracts commenced upto June 30, 2008
 - accounted for as finance leases
 Current portion

8.1	3,824,008	6,530,543
	(3,824,008)	(5,836,305)
	-	694,238

**8.1 Ijarah contracts commenced upto June 30, 2008
 -accounted for as finance lease**

	June 30, 2010		June 30, 2009	
	Not later than one year	Later than one and less than five years	Total	Total
Minimum lease payments receivable	41,602,952	-	41,602,952	42,284,567
Residual value of leased assets	3,824,008	-	3,824,008	5,224,007
Lease contracts receivable	45,426,960	-	45,426,960	47,508,574
Suspended lease income (including unearned income)	(7,742,184)	-	(7,742,184)	(7,805,501)
Provision for impairment loss against potential lease losses	(33,860,768)	-	(33,860,768)	(33,866,768)
	(41,602,952)	-	(41,602,952)	(41,672,269)
	3,824,008	-	3,824,008	5,836,305
				(10,262)
				(10,262)
				694,238
				6,530,543

8.1.1 The Modaraba has entered into certain lease agreements with profit rates ranging from 10% to 24% (2009: 10% to 24%) per annum. The agreements mature on January 2011. These are generally secured against leased assets, personal guarantees and promissory notes, etc given by the lessees. The above amount represents amount of security deposit which will be adjusted at the end of lease term.

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	Note	2010	2009
		------(Rupees)-----	
9. MORABAHA FINANCE			
Considered - good		-	3,718,685
Considered - doubtful		7,733,018	8,220,104
		7,733,018	11,938,789
Provision for impairment loss against doubtful finances.	23	(7,733,018)	(8,220,104)
		-	3,718,685
9.1	These represent 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% (2009: 10% to 24%) per annum.		
9.2	Above morabaha finance receivables include non-performing balances of Rs 7.73 million (2009: Rs 8.22 million) on which income is not being accrued in accordance with the Prudential Regulations for Modarabas.		
10. RECEIVABLES AGAINST OPERATING LEASE RENTALS AND MAINTENANCE SERVICE			
Unsecured			
Considered good			
- Operating lease rentals		9,244,167	7,751,862
- Maintenance fee		11,610,764	-
Considered doubtful			
- Operating lease rentals		10,194,320	8,016,701
		31,049,251	15,768,563
Provision for impairment loss against doubtful receivables	23	(10,194,320)	(8,016,701)
		20,854,931	7,751,862
11. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances - considered good			
- Advances income tax		5,233,797	2,912,866
- Advances - others		1,327,165	2,314,412
		6,560,962	5,227,278
Deposits		3,325,965	52,400
Prepayments		4,632,933	7,139,521
Other receivables - considered doubtful			
- Terminated leases		6,242,260	6,242,260
- Miscellaneous amount recoverable from the lessee		1,358,739	1,368,239
- Dividend receivable		16,275	16,275
- Receivable from brokers		22,422	22,422
- Others		303,220	488,665
		7,942,916	8,137,861
Provision for impairment loss against doubtful debts		(7,942,916)	(8,137,861)
		-	-
Others - considered good		228,312	329,368
Profit accrued on morabaha finances, sukuk investment certificates and diminishing musharaka finances		935,583	1,299,905
		15,683,755	14,048,472
12. STORES AND CONSUMEABLES			
Stores		602,667	-
Consumables		2,220,956	-
		2,823,623	-

13. PROPERTY AND EQUIPMENT

Operating property and equipment - in own use
Towers and allied equipments - held for operating lease
Capital work in progress

Note	2010	2009
	18,256,912	9,496,537
	42,624,866	50,302,493
	70,363,389	64,412,430
	131,245,167	124,211,460

13.1 Operating property and equipment - in own use
2010

	Cost			Depreciation		Carrying value at June 30, 2010	Depreciation Rate %
	At July 1, 2009	At June 30, 2010	Accumulated at July 1, 2009	For the year / (on disposals)	Accumulated at June 30, 2010		
Office premises - leasehold	12,546,257	12,546,257	6,804,011	627,313	7,431,324	5,114,933	5
Vehicles	4,238,283	13,768,770	1,973,446	1,653,518 (744,720)	2,882,244	10,886,526	20
Furniture & fixtures	1,991,175	2,343,714	1,648,140	67,682	1,715,822	627,892	10
Office equipments	2,830,003	3,572,052	1,944,698	580,663	2,525,361	1,046,691	10 to 50
Computers	1,969,451	2,572,730	1,708,337	283,523	1,991,860	580,870	33
	23,575,169	34,803,523	14,078,632	3,212,699 (744,720)	16,546,611	18,256,912	

2009

	Cost			Depreciation		Carrying value at June 30, 2009	Depreciation Rate %
	At July 1, 2008	At June 30, 2009	Accumulated at July 1, 2008	For the year / (on disposals)	Accumulated at June 30, 2009		
Office premises-leasehold	12,546,257	12,546,257	6,176,698	627,313	6,804,011	5,742,246	5
Vehicles	3,999,388	4,238,283	1,871,773	710,673 (609,000)	1,973,446	2,264,837	20
Furniture & fixtures	2,360,201	1,991,175	1,890,727	60,144 (302,731)	1,648,140	343,035	10
Office equipment	3,001,827	2,830,003	1,593,491	528,048 (176,841)	1,944,698	885,305	10 to 50
Computers	1,970,079	1,969,451	1,403,647	396,924 (92,234)	1,708,337	261,114	33
	23,877,752	23,575,169	12,936,336	2,323,102 (1,180,806)	14,078,632	9,496,537	

13.1.1 Details of disposal of property and equipment are as under:

Particulars	Cost	Accumulated depreciation	Carrying value	Sale proceed	Gain/(loss) on disposal	Mode of disposal	Particulars	Address
Vehicle	660,000	374,000	286,000	570,000	284,000	Negotiation	Mushtaq Muhammad	R-528/16 F.B.Area, Karachi
Vehicle	430,500	358,456	72,044	369,910	297,866	Negotiation	Muhammad Farooq	14/3 Modern Housing Society NewTown, Karachi
Vehicle	36,788	12,264	24,524	30,000	5,476	Insurance claim	Pak Qatar General Takaful Limited	102,105 Business Arcade Blok #:6 PECHS Shararea Faisal, Karachi
Vehicle	38,000	-	38,000	37,000	(1,000)	Insurance claim	Pak Qatar General Takaful Limited	102,105 Business Arcade Blok #:6 PECHS Shararea Faisal, Karachi
2010 Rupees	1,165,288	744,720	420,568	1,006,910	586,342			
2009 Rupees	1,318,478	1,180,806	137,672	440,200	302,528			

13.2 Towers and allied equipment - held for operating lease

2010

	Cost		Depreciation		Carrying value at June 30, 2010	Depreciation Rate %
	At July 1, 2009	At June 30, 2010	Accumulated at July 1, 2009	For the year June 30, 2010		
Owned						
Towers with allied equipment	27,056,838	313,250	4,547,362	1,360,851	21,461,875	5
Other allied equipment	20,573,646	570,450	10,679,752	5,403,979	5,060,365	20
Leased						
Towers with allied equipment	22,030,590	-	4,826,434	1,101,530	16,102,626	5
Other allied equipment	7,988,366	-	7,293,399	694,967	-	20
	77,649,440	883,700	27,346,947	8,561,327	35,908,274	
					42,624,866	

13.2.1 It includes three towers dismantled during the year in the month May 2010 and now is held temporarily idle asset having carrying value of Rs. 6.6 million.

For comparative period

	Cost		Depreciation		Carrying value at June 30, 2009	Depreciation Rate %
	At July 1, 2008	At June 30, 2009	Accumulated at July 1, 2008	For the year		
-----Rupees-----						
Owned						
Tower with allied equipments	26,414,338	27,056,838	3,464,312	1,083,050	4,547,362	5
Other allied equipments	17,017,743	20,573,646	7,665,153	3,014,599	10,679,752	20
Leased						
Tower with allied equipments	22,030,590	22,030,590	3,478,664	1,347,770	4,826,434	5
Other allied equipments	7,988,366	7,988,366	5,194,577	2,098,822	7,293,399	20
2009	73,451,037	77,649,440	19,802,706	7,544,241	27,346,947	50,302,493

13.2.1 Operating lease rental receivables

	2010		2009		Total
	Not later than one year	Later than one but not later than five years	Not later than one year	Later than one but not later than five years	
-----Rupees-----					
Minimum lease payments receivables	25,585,581	160,251,418	168,319,734	216,390,596	450,144,360

13.3 CAPITAL WORK IN PROGRESS

	2010		2009	
	Lease hold land	Civil work on lease hold land	Lease hold land	Civil work on lease hold land
Lease hold land	60,434,430	60,434,430	60,434,430	60,434,430
Civil work on lease hold land	9,928,959	9,928,959	2,310,000	2,310,000
Advance payments for the vehicles	13.3.1	70,363,389	62,744,430	62,744,430
		-	1,668,000	1,668,000
		70,363,389	62,744,430	62,744,430

13.3.1 This represents a lease hold land acquired by the Modaraba and construction on this land for setting up a petrol filling / service station and CNG / LPG facilities (filling / service station). The Modaraba has entered into an agreement dated July 29, 2008 with an oil marketing company ('Company') under which the Modaraba sub-leased the land for the purposes of setting up and operating the filling /service station. Initially the sub-lease is for 15 years, renewable for further period on a mutually agreed basis. Under a separate agreement dated August 17, 2008 the Company appointed the Modaraba as its retailer and licensee in respect of the filling / service station . According to agreements, the cost of the civil work for the setting up of the filling / service station is to be borne by the Modaraba while the equipment will be provided by the Company. The station is expected to be operational in October 2010.

14. PROPERTY & EQUIPMENT UNDER IJARAH ARRANGEMENT

14.1 Ijarah contracts commenced from July 01, 2008
-accounted for under IFAS2

The following is a statement of assets leased out: -

	2010		2009		Carrying value at June 30, 2010	Life (Years)
	At July 01, 2009	At June 30, 2010	At July 01, 2009	For the year		
	Cost		Accumulated Depreciation			
	At July 01, 2009	At June 30, 2010	At July 01, 2009	For the year	At June 30, 2010	Life (Years)
Generators	6,440,000	7,365,000	1,610,000	2,137,550	3,747,550	3
Vehicles	712,900	3,748,000	52,674	702,515 (17,303)	737,886	3
	7,152,900	11,113,000	1,662,674	2,840,065 (17,303)	4,485,436	6,627,564
	Cost		Accumulated Depreciation			
	At July 01, 2008	At June 30, 2009	At July 01, 2008	For the year	At June 30, 2009	Life (Years)
Generators	-	6,440,000	-	1,610,000	1,610,000	3
Vehicles	-	712,900	-	52,674	52,674	3
	-	7,152,900	-	1,662,674	1,662,674	5,490,226

14.1.1 Minimum future rentals-for contracts after July 01, 2008

	2010		2009		Total
	Due after one year but within five years	Due after five years but within ten years	Due after one year but within five years	Due after five years but within ten years	
Total Future rentals receivables	4,297,786	4,804,143	9,101,929	2,810,665	3,381,045
					6,191,710

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17	SECURITY DEPOSITS	Notes	2010	2009
			----- (Rupees) -----	
	Customer's security deposits	17.1	14,288,107	14,460,294
	Current portion		(3,824,007)	(5,224,007)
			10,464,100	<u>9,236,287</u>

17.1 Represents sum received under Ijarah finance/operating leases, repayable/adjustable on the expiry of the lease period

18. CERTIFICATE CAPITAL

Issued, subscribed and paid up capital

No of Certificates

2010	2009			
		Modaraba certificate of Rs 10/- each		
13,569,000	13,569,000	Fully paid in cash	135,690,000	135,690,000
4,688,400	4,688,400	Issued as fully paid bonus certificates	46,884,000	46,884,000
<u>166,545</u>	<u>166,545</u>	Issued on merger	1,665,450	<u>1,665,450</u>
<u>18,423,945</u>	<u>18,423,945</u>		184,239,450	<u>184,239,450</u>

18.1 Following certificates are held by associated undertakings

		Name of the entity		
		Bank Islami Modaraba		
2,342,490	2,342,490	Investments Limited	23,424,900	<u>23,424,900</u>

19. CONTINGENCIES AND COMMITMENTS

Contingencies

A suit was filed against the Modaraba in 1994 for Rs. 6.48 million being a claim for refund of security deposit in respect of lease finance. The case was decided by the Banking Court in favour of Plaintiff along with 10% mark-up. The Modaraba is now defending the case in honorable High Court of Sindh as the Modaraba has the evidence of the repayment of this amount. The management of the Modaraba based on the lawyer's opinion is of the view that it stands a fairly good chance for decision of the case in its favour and consequently no provision has been made in these financial statements against this claim.

A suit for specific performance of contract, permanent injunction, damages and compensation was been filed in the Honorable High Court at Islamabad against the Modaraba for Rs. 643 million (including Rs. 500 million against loss in business due to defamation). The Modaraba had moved an application under the Arbitration Act, 1940 for the stay of suit in view of the Arbitration clause in an agreement with the Plaintiff. In the year 2009, the Honorable High Court of Islamabad stayed the proceedings and directed that the dispute may be referred to arbitration. Subsequent to the above decision, the matter has not been referred for arbitration by the litigant. The management is of the view that, even if the proceedings are decided under the arbitration agreement, no additional liability would need to be recorded in this case and as such no provision for the above amount has been made in these financial statements.

The Additional Commissioner of Income Tax (ACIT) amended the assessment for the tax year 2007, dismissed the exemption claimed by Modaraba on the contention of non distribution of profit as per the provisions of the respective tax laws and created tax demand of Rs.1.93 million. The Modaraba has filed an appeal against the said order and is hopeful for a favorable outcome and therefore, no provision is made in these financial statements.

	2010	2009
	------(Rupees)----->	
Commitments		
Future rentals of Ijarah finance accounted for as finance lease	7,190,082	12,522,193
Future rental of Ijarah finance under IFAS 2 "Ijarah Finace"	8,001,406	-
Future payments for civil work	1,189,851	-
	<u>16,381,339</u>	<u>12,522,193</u>

20. OTHER OPERATING INCOME - Net

Profit on bank balances	275,356	643,267
Rental Income	2,652,000	1,691,700
Gain on disposal of fixed assets	586,342	302,528
Profit on term deposit receipts	-	2,520,930
Other	171,973	862,436
	<u>3,685,671</u>	<u>6,020,860</u>

21. Minimum future rentals

	2010		2009		Total
	Due after one year but within five years	Due after five years but within ten years	Due after one year but within five years	Due after five years but within ten years	
Total Future rentals payables	2,734,176	5,267,230	-	-	8,001,406

<-----Rupees----->

21.1 These are ijarah contracts entered in to after 1st July 2008.

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	Note	2010	2009
		------(Rupees)-----	
22. OPERATING EXPENSES			
Salaries and allowances		16,328,029	7,989,627
Rent, rates and taxes		14,523,105	9,323,561
Depreciation		11,774,026	9,867,343
Expenditure on maintenance services		6,226,486	-
Repairs and maintenance		3,349,290	1,292,990
Security services charges		2,874,000	3,102,500
Fuel and conveyance		2,609,625	936,131
Legal and professional charges		1,896,416	1,665,841
Travelling and accommodation		1,607,430	390,284
Telephone		1,153,307	671,952
Printing and stationery		834,297	594,514
Electricity		666,075	473,781
Compensated absences		604,742	406,448
Insurance		549,289	494,973
Provident fund contribution		447,218	334,247
Auditors' remuneration	22.2	335,000	328,600
Gratuity	22.1.3	341,856	163,000
Subscription		291,605	201,437
Transportation		266,910	-
Share registrar services		190,920	189,760
Postage		147,690	235,507
Advertisement		41,935	75,600
Others		1,684,131	916,671
		68,743,382	39,654,767
22.1 Defined benefit plan - gratuity			
22.1.1 Present value of plan assets and present value of obligation:			
Present value of defined benefit obligation		2,377,706	1,573,180
Fair value of allocated plan assets		(2,175,275)	(1,834,858)
Surplus		202,431	(261,678)
Unrecognised actuarial gain		(202,431)	261,678
Net (asset) / liability recognised on the balance sheet		-	-
22.1.2 Movement in amount payable to the defined benefit plan:			
Opening balance		-	-
Charge for the year	21.1.3	341,856	163,000
Contribution to the fund during the year		(341,856)	(163,000)
Closing balance		-	-
22.1.3 Amount charged to the profit and loss account:			
Following amounts have been charged to the profit and loss account during the current year in respect of this scheme:			
Current service cost		376,753	231,000
Mark-up cost		209,372	142,000
Expected return on plan assets		(238,684)	(190,000)
Actuarial gain		(5,585)	(20,000)
		341,856	163,000

	2010	2009
	(Rupees)	
22.1.4 Movement in the present value of defined benefit obligation is as follow:		
Present value of defined benefit obligation at the beginning of the year	1,573,180	1,081,000
Current service cost	376,753	231,000
Mark-up cost	209,372	142,000
Benefit paid	-	-
Liability transferred in/(out) in respect of transferees	(63,177)	-
Unrecognised actuarial loss for the year	281,578	119,180
Present value of defined benefit obligation at the end of the year	2,377,706	1,573,180

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

Fair value of plan assets at the beginning of the year	1,834,858	1,514,000
Adjustment to opening balance	-	14,522
Expected return to plan assets	238,684	190,000
Contributions	341,856	163,000
Benefit paid	-	-
Liability transferred in/(out) in respect of transferees	(63,177)	-
Unrecognised actuarial loss for the year	(176,946)	(46,664)
Fair value of plan assets at the end of the year	2,175,275	1,834,858

22.1.6 Composition of plan assets

Debt instruments	-	251,657
Cash	2,159,941	1,569,687
Others	15,334	13,514
	2,175,275	1,834,858

22.1.7 Comparison of present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund for five year is as follow:

Gratuity Fund	2010	2009	2008	2007	2006	2005
	Rupees					
Present value of defined benefit obligation	2,377,706	1,573,180	1,081,000	910,000	1,578,000	1,170,000
Fair value of plan assets	(2,175,275)	(1,834,858)	(1,514,000)	(1,236,000)	(1,752,000)	(1,345,000)
(Surplus) / Deficit	202,431	(261,678)	(433,000)	(326,000)	(174,000)	(175,000)

Actuarial (gain) / loss on obligation

Experience adjustment	281,578	119,180	(210,000)	34,000	13,000	171,000
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Actuarial gain / (loss) on assets

Experience adjustment	(176,946)	(46,664)	(89,000)	186,000	15,000	200,000
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22.1.8 Actuarial assumptions

	in%	in%
Expected rate of increase in salary	12.75	12
Discount rate used to determine the actuarial present value of obligation	12.75	12
Expected return on plan assets	10	12

22.1.9 Expected accrual of expenses in respect of gratuity scheme in the next financial year on the advice of the actuary is Rs. 686,442/-

	2010	2009
	------(Rupees)-----	
22.2 Auditors' remuneration		
Statutory audit	250,000	175,000
Review report on statement of compliance with the Code of Corporate Governance	20,000	40,000
Review of the half yearly financial statements	50,000	50,000
Other certifications	10,000	10,000
Out of pocket expenses	5,000	53,600
	335,000	328,600

23. PROVISION FOR IMPAIRMENT LOSS AGAINST DOUBTFUL RECOVERIES

2010						
	Ijarah receivables	Morabaha finances	Investments	Operating Lease rentals	Others	Total
	----- Rupees -----					
Opening balance	33,866,768	8,220,104	4,000,000	8,016,701	8,137,861	62,241,434
Charged during the year	-	-	-	2,177,619	-	2,177,619
Reversed during the year	(6,000)	(487,077)	-	-	(194,945)	(688,022)
	(6,000)	(487,077)	-	2,177,619	(194,945)	1,489,597
Closing balance	33,860,768	7,733,027	4,000,000	10,194,320	7,942,916	63,731,031
2009						
	Ijarah receivables	Morabaha finances	Investments	Operating Lease rentals	Others	Total
	----- Rupees -----					
Opening balance	33,295,517	3,539,904	-	-	8,155,270	44,990,691
Charged during the year	972,757	4,882,307	4,000,000	8,016,701	-	17,871,765
Reversed during the year	(401,506)	(202,107)	-	-	(17,409)	(621,022)
	571,251	4,680,200	4,000,000	8,016,701	(17,409)	17,250,743
Closing balance	33,866,768	8,220,104	4,000,000	8,016,701	8,137,861	62,241,434

24. MODARABA COMPANY'S MANAGEMENT FEE

The Modaraba Management Company is entitled to remuneration for services rendered to the Modaraba under the provisions of the Modaraba Ordinance, 1980, up to a maximum of 10% per annum of the net annual profits of the Modaraba. No provision has been made in the current year due to loss for the year.

25. 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. During the year the Modaraba incurred loss.

		2010	2009
26. EARNINGS PER CERTIFICATE - BASIC AND DILUTED			
Loss after tax for the year	Rupees	(12,913,089)	(22,286,824)
Weighted average number of certificates outstanding during the year	Number	18,423,945	18,423,945
Earnings per certificate	Rupees	(0.70)	(1.21)

27. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of Bank Islami Modaraba Investments Limited being the Modaraba management company, BankIslami Pakistan Limited (being the parent company of the management company), major certificate holders and their family members, directors of the Modaraba management company and their close family members, key management personnel of the Modaraba and the management company and their close family members, the provident and gratuity funds and entities with common directors or under common management.

Remuneration to the key management employees (executives), disclosed in note 28 to these financial statements, are determined in accordance with their terms of employment. Contribution to the provident and gratuity funds are made in accordance with the services rules and actuarial advise respectively. Other transactions with related parties are in accordance with the agreed terms.

Details of transactions with related parties and balances with them as at the year-end, if not mentioned else where, are as follows:

		Note	2010	2009
------(Rupees)-----				
27.1 Balances outstanding at year end				
Relationship	Nature of Transaction			
BankIslami Pakistan Limited (parent company of the management company)	Bank deposits	4.1	<u>37,229</u>	<u>1,083,648</u>
	Receivable against share of expenses		<u>-</u>	<u>363,596</u>
	Amount payable for purchase of vehicle		<u>-</u>	<u>847,895</u>
	Amount payable in respect of Ijarah arrangement		<u>201,122</u>	<u>-</u>
	Amount receivable in respect of maintenance services		<u>10,151,964</u>	<u>-</u>

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		Note	2010	2009
			------(Rupees)-----	
27.2 Transactions during the year				
Relationship	Nature of Transaction			
Bank Islami Pakistan Limited (parent company of the management company)	Maintenance Services provided		<u>25,420,614</u>	<u>-</u>
	Profit on Islamic profit and loss sharing account		<u>105,568</u>	<u>391,884</u>
	Purchase of vehicle		<u>-</u>	<u>847,895</u>
	Rental income		<u>2,652,000</u>	<u>1,691,700</u>
	Bank charges paid		<u>500</u>	<u>500</u>
	Profit on term deposit earned		<u>-</u>	<u>1,352,573</u>
	Lease rentals - Ijarah paid		<u>201,122</u>	<u>-</u>
Bank Islami Modaraba Investments Limited (management company)	Management fee	24	<u>-</u>	<u>-</u>
Other Related Parties				
Other key management personnel	Contribution to staff provident fund		<u>447,218</u>	<u>334,887</u>
	Contribution to staff gratuity fund		<u>341,856</u>	<u>163,000</u>

28. REMUNERATION OF OFFICERS 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:

	2010			2009		
	Officers (key management personnel)	Other employees	Total	Officers (key management personnel)	Other employees	Total
----- Rupees -----						
Salaries	2,829,684	6,797,166	9,626,850	2,147,102	2,339,258	4,486,360
Retirement benefits						
Defined contribution plan - provident fund	236,355	210,863	447,218	178,849	155,398	334,247
Defined benefit plan - gratuity fund	100,552	241,034	341,586	59,010	103,990	163,000
House rent allowance	1,273,358	3,055,863	4,329,221	966,199	1,047,891	2,014,090
Conveyance and other allowances	851,592	2,125,378	2,976,970	530,066	1,365,559	1,895,625
	<u>5,291,541</u>	<u>12,430,304</u>	<u>17,721,845</u>	<u>3,881,226</u>	<u>5,012,096</u>	<u>8,893,322</u>
Number of persons at the end of the year	<u>4</u>	<u>64</u>	<u>68</u>	<u>4</u>	<u>20</u>	<u>24</u>

Four executives and two officers of the Modaraba are also provided with free use of vehicles owned and maintained by the Modaraba.

29. FINANCIAL RISK MANAGEMENT

The Modaraba's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Board of directors of the Modaraba management company has overall responsibility for the establishment and oversight of the Modaraba risk management framework.

The Modaraba's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Modaraba's financial performance.

The Modaraba's principal financial liabilities comprise finance lease liability, ijarah deposits, unclaimed dividends and creditor accrued and other liabilities. The Modaraba has morabaha finance, ijarah finance, diminishing musharaka finance, long term investments, receivables against operating lease rentals and maintenance fee and other receivables and cash and bank balances that arrive directly from its operations. The Modaraba also holds available-for-sale investments.

	2010	2009
	----- (Rupees) -----	
29.1 Financial instruments by Category		
Financial assets as per balance sheet		
Available for sale		
- Long term investments	34,770,169	38,520,169
Loans and receivables		
Diminishing musharaka finance	30,421,224	48,966,691
Investment in ijarah finance	3,824,008	6,530,543
Morabaha finance - short term	-	3,718,685
Receivable against operating lease rentals and maintenance service	20,854,931	7,751,862
Advances, deposits, prepayments and other receivables	15,683,755	14,048,472
	<u>105,554,087</u>	<u>119,536,422</u>
Financial liabilities as per balance sheet at amortised cost		
Liability against ijarah finance	7,190,082	12,522,193
Security deposits - Ijarah	14,288,107	14,460,294
Creditors accrued and other liabilities	21,767,163	17,342,705
	<u>43,245,352</u>	<u>44,325,192</u>

29.2 Liquidity Risk Management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Modaraba has minimal liquidity risk as it maintains sufficient cash and short-term investments for operations through prudent liquidity risk management. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

29.2.1 Liquidity and Interest Risk Table

The following tables detail the Modarabas's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Modaraba can be required to pay. The table includes both interest and principal cash flows.

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	Less than 6 months	6 months 1 year	1 - 5 years	More than 5 years	Total Contractual Cashflows
----- Rupees -----					
2010					
Liability against ijarah finance	7,267,603	-	-	-	7,267,603
Creditors, accrued and other liabilities	21,806,413	-	-	-	21,806,413
Security deposits	3,824,007	644,000	928,300	8,891,800	14,288,107
Unclaimed profit distribution	6,567,310	-	-	-	6,567,310
	<u>32,898,023</u>	<u>644,000</u>	<u>928,300</u>	<u>8,891,800</u>	<u>49,929,433</u>
2009					
Liability against ijarah finance	4,257,978	4,257,978	5,147,954	-	13,663,910
Creditors, accrued and other liabilities	17,305,121	-	-	-	17,305,121
Security deposits	4,568,507	655,500	9,236,287	-	14,460,294
Unclaimed profit distribution	6,600,050	-	-	-	6,600,050
	<u>32,731,656</u>	<u>4,913,478</u>	<u>14,384,241</u>	<u>-</u>	<u>52,029,375</u>

29.3 Credit Risk and Concentration of Credit

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Modaraba's management of counterparty and credit exposure is described below.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance sheet date is as follows;

	2010	2009
----- (Rupees) -----		
Morabaha finance	-	3,718,685
Net investment in Ijarah finance / assets under Ijarah arrangements	3,824,008	6,530,543
Diminishing musharaka	30,421,224	48,966,691
Long term investments	34,770,169	38,520,169
Receivable against operating lease rentals and maintenance fee	20,854,931	7,751,862
Other receivables	1,163,895	1,629,273
Cash and Bank Balance	1,115,190	10,489,533
	<u>92,149,417</u>	<u>117,606,756</u>

The Modaraba has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Modaraba uses other publicly available financial information and its own trading records to rate its major customers. The Modaraba's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management authorities.

Credit risk from balances with banks and financial institutions is managed by finance department in accordance with the Modaraba's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors.

Detail of the industrial sector analysis of Ijarah(Cost), murabaha and musharika(original Principal) portfolio

Sector	2010		2009	
	Rupees	%	Rupees	%
Financial Institutions	5,849,956	9.75%	13,791,166	
Distributors, wholesalers and retailers	-	0.00%	140,298	0.14%
Sugar	11,986,208	19.97%	15,989,778	15.63%
Steel, engineering and autos	16,258,359	27.09%	23,796,691	23.26%
Construction	375,472	0.63%	3,663,197	3.58%
Transport and communication	22,725,550	37.87%	42,670,811	41.71%
Education	2,017,309	3.36%	-	0.00%
Individuals	798,446	1.33%	2,246,891	2.20%
	60,011,300	100.00%	102,298,832	86.52%

29.4 Market Risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Modaraba incurs financial liabilities to manage its market risk. The Modaraba is exposed to interest rate and currency risks.

29.4.1 Interest Rate Risk

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks and short term deposits with banks. At the balance sheet date the interest rate risk profile of the Modaraba's interest bearing financial instruments is:

	2010	2009
	------(Rupees)-----	
Interest bearing financial instruments		
Bank balances	1,101,263	10,221,581
Morabaha finance	-	3,718,685
Net investment in Ijarah finance / assets under Ijarah arrangements	3,824,008	6,530,543
Diminishing musharaka	30,421,224	48,966,691
Long term investments	17,250,000	21,000,000
Liability against ijarah finance	(7,190,082)	(12,522,193)

Fair value sensitivity analysis for interest bearing financial instruments

The Modaraba does not hold any of the above financial assets at fair value through profit and loss.

29.4.2 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Currently Modaraba does not face any risk as none of the financial assets or liabilities are listed on stock exchange or face the risk of change in market price.

29.5 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of the financial assets and financial liabilities approximate their fair values except for murabaha and musharika receivable at fixed rate of return. The fair values these financial assets/liability cannot be reasonably estimated due to absence of market for such assets/liability.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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).

June 30, 2010	Level 1	Level 2	Level 3
	----- Rupees -----		
Assets carried at fair value			
Available for sale investments			34,770,169
June 30, 2009			
Assets carried at fair value			
Available for sale investments			38,520,169

30. CAPITAL RISK MANAGEMENT

The Modaraba manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders.

Currently the Modaraba is fully financed by equity instruments. The Modaraba manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. It is the Modaraba practice to distribute at least 90% of the profit earned during the period to its certificate holders in order to avail tax exemption under clause 100 of Part I of the Second Schedule to Income Tax Ordinance 2001. However in order to maintain or adjust the capital structure, the Modaraba may adjust the amount of profit distributable to certificate holders or issue new certificates.

The Modaraba is not subject to externally imposed capital requirements.

32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the board of directors of the Management Company on 30 September 2010.

33. GENERAL

33.1 Reclassification

Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purposes of comparison. Significant reclassifications made are as follows:

Receivable against operating lease rental-net of Rs.7,751,862 are reclassified from advances, deposits, prepayments and other receivables to receivable against operating lease rentals and maintenance services.

33.2 Figures

Figures have been rounded off to the nearest Rupee.

PATTERN OF CERTIFICATE HOLDING

As at June 30, 2010

Number of Certificate Holding	Certificate Holding		To Certificate Held	Percentage %
	From	To		
2061	1	100	44,810	0.24
714	101	500	195,753	1.06
336	501	1,000	264,713	1.44
558	1,001	5,000	1,267,002	6.88
156	5,001	10,000	1,167,643	6.34
56	10,001	15,000	703,634	3.82
21	15,001	20,000	360,535	1.96
12	20,001	25,000	270,127	1.47
13	25,001	30,000	358,710	1.95
10	30,001	35,000	322,784	1.75
4	35,001	40,000	149,443	0.81
4	40,001	45,000	172,420	0.94
3	45,001	50,000	142,283	0.77
3	50,001	55,000	156,000	0.85
5	55,001	60,000	283,228	1.54
4	60,001	65,000	248,627	1.35
4	65,001	70,000	271,875	1.48
4	70,001	75,000	294,838	1.60
2	80,001	85,000	164,824	0.89
2	85,001	90,000	172,776	0.94
2	90,001	95,000	187,000	1.01
3	95,001	100,000	291,168	1.58
2	100,001	105,000	207,047	1.12
2	110,001	115,000	226,660	1.23
4	120,001	125,000	490,148	2.66
2	125,001	130,000	255,988	1.39
1	140,001	145,000	144,310	0.78
1	155,001	160,000	158,500	0.86
1	165,001	170,000	166,000	0.90
1	175,001	180,000	175,029	0.95
1	195,001	200,000	200,000	1.09
1	210,001	215,000	212,500	1.15
1	245,001	250,000	249,732	1.36
1	250,001	255,000	250,500	1.36
1	265,001	270,000	265,500	1.44
1	370,001	375,000	371,808	2.02
1	375,001	380,000	379,500	2.06
1	395,001	400,000	400,000	2.17
1	410,001	415,000	410,486	2.23
1	480,001	485,000	484,500	2.63
1	485,001	490,000	489,581	2.66
1	495,001	500,000	499,782	2.71
1	575,001	580,000	575,300	3.12
1	1,055,001	1,060,000	1,057,236	5.74
1	1,420,001	1,425,000	1,421,250	7.71
1	1,840,001	1,845,000	1,842,395	10.00
4007			18,423,945	100

PATTERN OF CEARTIFICATE HOLDING

As at June 30, 2010

Categories of Ceartificate Holders	Number	Certificate Held	Percentage %
Associated Companies, Undeartakings, and Related Parties.			
Bankislami Modaraba Investments Ltd.,	1	2,342,490	12.714
Sub Total	1	2,342,490	12.714
N.I.T. & I.C.P.			
Invesment Corporation of Pakistan	1	794	0.004
National Bank of Pakistan Trustee Department	1	144,310	0.783
IDBP (ICP Unit)	1	498	0.003
Sub Total	3	145,602	0.790
Public Sestor Company & Corporation			
Banks, Development Finance Institutions, Non-Banking Financial Institutions, Insurance Companies, Modaraba's Joint Stock Companies & Others	15	1,571,133	8.528
	49	1,059,336	5.750
Individuals	3,939	13,305,384	72.218
Sub Total	4,003	15,935,853	86.495
Total	4,007	18,423,945	100

NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the 11th Annual Review Meeting of certificate holders of Modaraba Al-Mali will be held on Friday, the 29th October 2010 at 7:30 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, 2010 in terms of clause 20 of the Prudential Regulations for Modaraba issued vide Circular number 4/2004 by Registrar Modaraba Companies and Modarabas.

On behalf of the Board

--- Sd ---
Syed Ahmed Asim
Company Secretary

Date: September 30, 2010

Note:

1. The Modaraba Certificate transfer book shall remain closed from Friday, 22nd October 2010 to Friday, 29th October 2010 (both days inclusive) to determine the names of Certificate Holders entitled to attend the Annual Review Meeting. Transfers received in order at the registrar's office of the Modaraba up to the close of the business on Thursday, 21st October 2010 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.