



## CONTENTS

Corporate Information .....	3
Director's Report .....	4
Six Years Financial Summary .....	8
Statement of Compliance .....	10
Review Report .....	12
Auditor's Report to the Certificate Holders .....	13
Balance Sheet .....	14
Profit & Loss Account .....	15
Statement of Changes in Financial Position (Cash Flow Statement) .....	17
Statement of Changes in Equity .....	19
Notes to the Financial Statements .....	20
Pattern of Certificate Holding .....	47





## **CORPORATE INFORMATION**

<b>MODARABA MANAGEMENT COMPANY</b>	<b>UDL Modaraba Management (Private) Limited</b>
<b>COMMENCED BUSINESS ON</b>	May 1991
<b>BOARD OF DIRECTORS</b>	S.M.Nasir Raza                      Chief Executive Rashid Abdulla                      Director Asad Abdulla                      Director
<b>COMPANY SECRETARY &amp; CFO</b>	Syed Aamir Hussain
<b>AUDIT COMMITTEE</b>	Rashid Abdulla S.M.Nasir Raza Asad Abdulla
<b>AUDITORS</b>	Anjum Asim Shahid Rahman Chartered Accountants
<b>BANKERS</b>	MCB Bank Limited RBS Bank National Bank of Pakistan Mybank Limited Habib Bank Limited Bank Al-Falah Limited
<b>REGISTRAR</b>	Gangjees Investment & Finance Consultants 513, Clifton Centre, Khayaban-e-Roomi, Kehkashan, Block-5, Clifton, Karachi.
<b>LEGAL CONSULTANT</b>	Mohsin Tyebaley & Co. 2nd Floor Dime Centre, BC-4, Block 9, Kehkashan, Clifton, Karachi- 75600.
<b>TAX CONSULTANT</b>	Ford Rhodes Sidat Hyder & Co. Chartered Accountants Progressive Plaza, Beaumont Road P.O.Box 15541, Karachi-75530
<b>REGISTERED OFFICE</b>	First Floor, NIC Building Abbasi Shaheed Road Off. Shahrah-e-Faisal, Karachi
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## DIRECTORS' REPORT

The Board of Directors of UDL Modaraba Management Private Ltd., the Management Company of First UDL Modaraba, has pleasure in presenting to the certificate holders the Annual Report of the Modaraba together with Audited Accounts for the year ended 30<sup>th</sup> June, 2010

### Financial Results

Financial results are summarized as under :

	Year ended 30.06.10	Year ended 30.06.09
	( Rupees in thousand)	
Net profit for the year	50,768	37,093
Add: Unappropriated profit brought forward	40,123	47,963
Profit available for appropriation	90,891	85,056
Appropriations:		
Statutory reserve	15,230	18,546
Profit distribution @ 12.5% (2009 @ 10%)	32,983	26,387
	48,213	44,933
Unappropriated profit carried forward	42,678	40,123
Earning per certificate	1.92	1.41

### Review of Operations:

The Modaraba has posted higher profitability resulting in an earning of Rs. 1.92 per certificate, during the current financial year, as compared to Rs. 1.41 last year, owing largely to sustained improvement in the yield of Ijarah and Musharaka portfolio. This level of profitability is achieved despite liberal provisions against impairment in the Ijarah and other risk portfolios. As such, Modaraba's performance during the year is considered highly satisfactory by the management particularly in the wake of unfavorable economic conditions prevailing in the country.

As planned for diversification, the Modaraba has entered into trading activities albeit on very small scale to begin with. Trading is a preferred mode of business under Shariah and will therefore be promoted after gaining required experience.

With a view to strengthening the financial base, the Modaraba continues to build statutory reserves out of the profit of each year, which has accumulated to Rs. 161.537 million as compared to Rs. 146.307 million at the end of preceding year.

### Corporate Governance:

The Modaraba has implemented all aspects of Code of Corporate Governance introduced by SECP.

- The financial statements prepared by the Management of Modaraba present fairly its state of affairs, the result of its operations, cash flows and changes in the equity.
- Proper books of accounts of Modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.



- International Accounting Standards, as applicable to Modaraba, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no doubts about Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices and Corporate Governance as detailed in the listing regulations.

**Audit Committee:**

An audit Committee of the Board has been established to be chaired by Mr. Rashid Abdulla. The following are the members of the Committee:-

- 1) Mr. Rashid Abdulla
- 2) Syed Nasir Raza
- 3) Mr. Asad Abdulla
- 4) Syed Aamir Hussain, Chief Financial Officer and Mr. Iqbal Ahmed, Internal Auditor also attended the meetings as per requirement of Code. Mr. Iqbal Ahmed is also the Secretary of the Committee.

**Attendance of Board Meetings:**

During the year under review, Four meetings of the Board of Directors were held which were attended by the directors as under:-

	Name of Director	Number of Meetings	No. of Meetings Attended	Leave of Absence
1)	Syed Nasir Raza	4	4	-
2)	Mr. Rashid Abdulla	4	4	-
3)	Mr. Asad Abdulla	4	4	-

**Operating Data for six years:**

The operating data of the Modaraba for 6 years is annexed to this report.

**Pattern of Certificate holding:**

The pattern of certificate holding as at June 30, 2010 is given below:-

Sr.#	Categories of Certificate holders	Certificate Holder	Certificate holding	Percentage %
1	Individuals	3,184	10,807,369	40.96
2	Investment Companies	2	7,390	0.03
3	Joint Stock Companies	40	11,467,427	43.45
4	Financial Institutions	11	3,167,825	12.00
5	Modaraba Companies	8	283,165	1.07
6	Insurance Companies	2	533,386	2.02
7	Foreign Companies	1	2,652	0.01
8	Others	5	117,375	0.46
	Total	3,253	26,386,589	100.00



The trading in certificates carried out by the Directors, CEO, CFO, Company Secretary, their spouses and minor children is reported as under;

Name	Purchase	Sales
Mrs Shakila Rashid w/o Mr. Rashid Abdulla	28,739	-

The detailed pattern of certificate holding as on 30/6/2010 is annexed to this report.

**a) Statement of Compliance with best practices**

The Board feels pleasure in stating that provisions of the Code relevant for the year ended June 30, 2010, have been duly complied with.

**b) Status of Compliance with the Code**

S. No.	Particulars	Clause
a)	Board of Directors clause.	(i) (b) & (c)
b)	Qualification and eligibility to act as a Director.	(iii), (iv) & (v)
c)	Tenure of office of Directors.	(vi)
d)	Responsibilities, Powers and Functions of Board of Directors.	(vii) (a) (b) (c) (d) (e) (f)
e)	Meeting of the Board of Directors and consideration of significant issues.	(x),(xi),(xii)&(xiii)
f)	Chief Financial Officer/ Company Secretary.	(xv),(xvi),(xvii)&(xviii)
g)	The Directors Report to the Certificate Holders.	(xix)
h)	Frequency of financial reporting.	(xx),(xxi),(xxii)&(xxiii)
i)	Responsibility for financial reporting and Corporate Compliance.	(xxiv),(xxv)
j)	Auditors not to hold shares.	(xxvii)
k)	Audit Committee	(xxx),(xxxi),(xxxii), (xxxiii) & (xxxiv)
l)	Internal Audit	(xxxv), (xxxvi)
m)	Compliance with the Code of Corporate Governance.	(xlv) & (xlvi)

**Staff Benefit Scheme:**

The Modaraba has gratuity & provident fund scheme for staff, the value of gratuity as per actuarial valuation as at June 30, 2010 based on its audited accounts is Rs. 1.153 M.

**Profit distribution:**

The Board of Directors has approved the distribution of Profit of Rs. 1.25 per certificate of Rs.10 each i.e. Rs. 32,983,236/- for the year ended June 30, 2010.

**The Economy and Future prospects:**

Pakistan has never been hit by such adverse shocks as in the past few years. All these have occurred in quick succession and their speed, intensity, duration and magnitude are unparalleled in the history of the country. The war on terrorism has caused enormous loss and it is still going on. The global economy has been in recession and has remained unhelpful in stimulating the domestic economy. There are thus hardly any expectations of economic recovery at this stage.

On the top of all this the catastrophic floods have played havoc to our economy. Both the direct loss of infrastructure & property from deluge and the collateral damage to the agricultural productivity is too huge for our country to cope with despite generous aid and assistance at local and international level. The cumulative



effects of these shocks on the economy are likely to persist over a fairly long period of time.

The way to tide over these extraordinary difficulties therefore requires some tough decisions at macro level which the government is in the process of taking. It requires a judicious blend of prudence and dynamic strategy for the micro managers to explore and identify the legitimate opportunities as said to be there in every adversity, for neutralizing the adverse impact.

The management of your Modaraba is accordingly resetting the priorities, working on various strategies with cautious approach and sound planning with a view to not only protecting but further improving the Modaraba's profitability for higher returns to the Certificate holders.

**Auditors**

The present auditors M/s. Anjum Asim Shahid Rahman, Chartered Accountants are due for retirement and are not eligible for re-appointment for having remained auditors for five consecutive years. The directors therefore propose M/s Avais Hyder Liaquat Nauman & Co. to be appointed as auditors of the Modaraba for the year 2010-11. (Subject to approval of the Registrar Modarabas).

**Acknowledgement:**

The Directors would like to take this opportunity to thank the Securities and Exchange Commission of Pakistan, for their continuous guidance and support.

The Board would also like to thank valued customers and investors for reposing trust and confidence in the Modaraba, and to members of Management and staff for their commitment and dedication.

For and on Behalf of the Board

Syed Nasir Raza  
Chief Executive

07-10-2010

**SIX YEARS' FINANCIAL SUMMARY  
BALANCE SHEET SUMMARY**

(Rs. in million)

Year Ended June 30,	2005	2006	2007	2008	2009	2010
<b>EQUITY</b>						
Issued, subscribed & paid up capital	263.87	263.87	263.87	263.87	263.87	263.87
Statutory Reserve	62.00	75.71	97.61	127.76	146.31	146.31
Revenue Reserve and Unappropriated profit	40.46	42.13	61.78	46.52	40.15	49.27
<b>Total Equity</b>	<b>366.33</b>	<b>381.71</b>	<b>423.26</b>	<b>438.15</b>	<b>450.32</b>	<b>475.16</b>
<b>LIABILITIES</b>						
Customer Security Deposit	8.82	2.52	8.49	14.85	20.21	18.80
Other Deferred Liabilities	105.29	105.02	105.07	104.79	104.95	105.17
<b>CURRENT LIABILITIES</b>						
Current maturity of Long term Security Deposit	6.07	10.44	2.46	4.26	7.25	7.01
Other Current Liabilities	29.62	21.58	21.39	26.14	31.22	34.15
<b>Total Current Liabilities</b>	<b>35.69</b>	<b>32.02</b>	<b>23.85</b>	<b>30.40</b>	<b>38.47</b>	<b>41.16</b>
<b>Total Liabilities</b>	<b>516.13</b>	<b>521.27</b>	<b>560.67</b>	<b>588.19</b>	<b>613.95</b>	<b>640.29</b>
<b>ASSETS</b>						
Assets Leased Out	58.31	37.78	49.13	86.66	107.01	93.51
Assets in own Use	0.58	0.38	1.19	1.63	0.28	2.70
Long Term Investment	50.19	49.47	62.56	55.96	72.64	87.19
Other Long Term Assets	0.23	0.18	0.07	0.08	0.07	0.07
	109.31	87.81	112.95	144.33	180.01	183.47
<b>Current Assets</b>						
Short term Morabaha & Musharaka	167.69	44.00	192.12	193.26	330.66	327.69
Short Term Investments	1.56	12.66	14.94	15.19	9.91	16.85
Other Current Assets	17.56	16.83	20.30	8.89	33.64	50.94
Cash & Bank Balances	220.01	359.97	220.36	226.52	59.74	61.34
<b>Total Current Assets</b>	<b>406.82</b>	<b>433.46</b>	<b>447.72</b>	<b>443.86</b>	<b>433.94</b>	<b>456.82</b>
<b>Total Assets</b>	<b>516.13</b>	<b>521.27</b>	<b>560.67</b>	<b>588.19</b>	<b>613.95</b>	<b>640.29</b>





## INCOME STATEMENT HIGHLIGHTS

(Rs. in million)

Year Ended June 30,	2005	2006	2007	2008	2009	2010
<b>INCOME</b>						
Lease	38.61	34.33	27.41	29.04	42.51	54.25
Musharaka & Morabaha	22.15	9.06	17.87	17.53	26.71	44.09
Capital Gain on Investment	30.79	1.95	0.35	0.17	0.36	0.29
Dividend	1.23	2.82	1.25	0.07	0.07	0.15
COI	1.46	-	-	-	-	-
Other	8.61	31.05	24.64	24.76	20.52	7.18
<b>Total Income</b>	<b>102.85</b>	<b>79.21</b>	<b>71.52</b>	<b>71.58</b>	<b>90.16</b>	<b>105.95</b>
<b>EXPENSES</b>						
Operating	9.52	7.60	9.59	11.11	14.71	15.44
Financial	18.96	0.55	0.01	0.00	0.00	0.00
Amortisation, Depreciation	31.56	23.05	21.72	19.95	31.54	53.10
Provision for Doubtful Receivable	(4.12)	(8.60)	(13.27)	(11.98)	-	-
Provision for diminution in value of Investment	0.47	15.44	(2.17)	(0.26)	15.42	-
Impairment loss on investment	-	-	-	-	6.79	-
<b>Total Expenses</b>	<b>56.39</b>	<b>38.04</b>	<b>15.89</b>	<b>18.83</b>	<b>68.46</b>	<b>68.54</b>
Share of Profit from associates	-	-	3.38	9.57	19.51	16.94
Unrealized gain on investments	-	-	-	-	-	2.06
Profit /(Loss) before Management Fee	<b>46.46</b>	<b>41.17</b>	<b>59.02</b>	<b>62.32</b>	<b>41.22</b>	<b>56.41</b>
Less:- Management Fee	3.56	4.12	5.69	6.23	4.12	5.64
Profit before Taxation	42.90	37.05	53.33	56.09	37.09	50.77
Less:- Taxation	10.90	-	-	-	-	-
<b>Net Profit</b>	<b>32.00</b>	<b>37.05</b>	<b>53.33</b>	<b>56.09</b>	<b>37.09</b>	<b>50.77</b>
<b>APPROPRIATIONS</b>						
Final Dividend	20.45	21.11	26.39	26.39	26.39	32.98
Statutory Reserves	9.60	13.71	21.90	28.05	18.55	15.23
<b>SIGNIFICANT RATIOS</b>						
Break-up value per certificates (Rs.)	13.11	14.46	16.04	16.60	17.07	18.00
Market Price on 30th June (Rs.)	5.70	6.50	-	4.77	3.51	5.9
Dividend per Certificate (Rs.)	0.77	0.80	1.00	1.00	1.00	1.25
Earning per certificate (Rs.)	1.21	1.40	2.02	2.13	1.41	1.92
Total Assets / net worth	1.51	1.36	1.32	1.42	1.55	1.54
Debt leverage (X)	0.51	0.28	0.27	0.27	0.28	0.26
Current ratio (X)	2.73	13.53	18.77	14.60	11.28	11.12
Net profit Margin (%)	31.12	46.77	70.35	78.36	41.14	47.91
Return on Equity (%)	9.25	9.70	12.10	12.80	8.24	7.87
Return on Investment (%)	6.12	7.11	9.13	9.54	6.04	0.52
Financial Charges /Total Expenses (%)	31.57	2.41	0.03	0.02	0.00	0.00
Dividend payout (%)	63.88	56.98	51.53	47.04	71.14	64.97



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being prepared to comply with the code of corporate governance contained in listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a Modaraba is managed in compliance with the best practices of corporate governance.

- 1) The Modaraba encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes three independent non-executive directors and no director representing minority certificate holders.
- 2) The directors have confirmed that none of them is serving as a director in more than 10 listed companies including this Modaraba.
- 3) All the resident directors of the Modaraba are registered as taxpayer and none of them has defaulted in payment of any loan to a Bank, Modaraba, DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
- 4) There was no casual vacancy occurred in the Board during the year.
- 5) The Modaraba Management Company and Modaraba have prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the employees of the Modaraba Management Company & Modaraba.
- 6) The Board has developed an overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- 7) All powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other directors, have been taken by the Board.
- 8) The meetings of the Board were presided over the Chairman and, in his absence, Vice Chairman or a Director elected by the Board, along with agenda and working papers, circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
- 9) The Board members participated in courses during the year to apprise themselves of their duties and responsibilities.
- 10) The Board has approved appointment of CFO, Modaraba Secretary and head of Internal Audit, including their remuneration, terms and conditions of employment, as determined by the CEO.
- 11) The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- 12) The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.



- 13) The Directors, CEO and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.
- 14) The Modaraba has complied with all the corporate and financial reporting requirement of the Code.
- 15) The Audit Committee comprises of three members including the Chairman.
- 16) The meetings of the audit committee were held once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
- 17) The Board has set-up an effective internal audit function.
- 18) The Statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the Quality Control review 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 compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by Institute of Chartered Accountants of Pakistan.
- 19) The statutory auditor or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guideline in this regard.
- 20) We confirm that all other material principles contained in the Code have been complied with.



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

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of UDL Modaraba Management (Private) Limited (the Company) representing First UDL Modaraba (Islamic Financial Institution) [The Modaraba] to comply with the Listing Regulations No. 37 (Chapter XI), No. 43 (Chapter XIII) and No. 36 (Chapter XI) of the Karachi, Lahore and Islamabad Stock Exchanges respectively where the Modaraba is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Modaraba's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Modaraba's personnel and review of various documents prepared by the company 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Modaraba's corporate governance procedures and risks.

Further, Sub- Regulation (xiii) of Listing Regulations 37 notified by Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Modaraba to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in 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 determine whether the related party transactions were undertaken at arm's length price or not.

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

**Karachi**

Date: October 07, 2010.

**Anjum Asim Shahid Rahman**  
Chartered Accountants



## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First UDL Modaraba** (the modaraba) 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 (UDL Modaraba Management (Private) Limited) responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

- (a) in our opinion, proper books of accounts have been kept by the modaraba company in respect of the modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**Anjum Asim Shahid Rahman**  
Chartered Accountants  
Muhammad Shaukat Naseeb

Date: October 07, 2010.  
Karachi

**BALANCE SHEET  
AS AT JUNE 30, 2010**

	Note	2010	2009
<b>R U P E E S</b>			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets - tangible	6	<b>96,218,466</b>	107,289,854
Long term investments	7	<b>87,196,454</b>	72,642,308
Long term advances and deposits	8	<b>74,100</b>	74,100
<b>Total non-current assets</b>		<b>183,489,020</b>	180,006,262
<b>Current assets</b>			
Stock-in-trade	9	<b>10,277,223</b>	-
Ijarah rental receivables	10	<b>4,871,199</b>	5,044,731
Musharaka receivables - secured	11	<b>327,686,408</b>	330,658,906
Financial assets	12	<b>16,851,545</b>	9,905,993
Advances	13	<b>5,454,459</b>	279,463
Prepayments and other receivables	14	<b>30,328,072</b>	28,311,517
Bank balances	15	<b>61,337,661</b>	59,740,384
<b>Total current assets</b>		<b>456,806,567</b>	433,940,994
<b>Total assets</b>		<b>640,295,587</b>	613,947,256
<b>EQUITY AND LIABILITIES</b>			
<b>Certificate holders' equity</b>			
Certificate capital	16	<b>263,865,890</b>	263,865,890
Statutory reserves	17	<b>161,537,656</b>	146,307,138
Unrealized gain on re-measurement of available for sale investments		<b>486,614</b>	24,301
Unappropriated profit		<b>49,274,690</b>	40,123,405
<b>Total equity</b>		<b>475,164,850</b>	450,320,734
<b>Non-current Liabilities</b>			
Long term security deposits	18	<b>18,797,073</b>	20,206,479
Deferred liabilities	19	<b>105,169,767</b>	104,949,600
<b>Total non-current liabilities</b>		<b>123,966,840</b>	125,156,079
<b>Current Liabilities</b>			
Current maturity of security deposits	18	<b>7,010,600</b>	7,254,369
Payable to management company	20	<b>13,731,113</b>	9,672,039
Accrued and other liabilities	21	<b>20,422,184</b>	21,544,035
<b>Total current liabilities</b>		<b>41,163,897</b>	38,470,443
<b>Total liabilities and equity</b>		<b>640,295,587</b>	613,947,256
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

The annexed notes from 1 to 39 form an integral part of these financial statements.

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**Chief Executive**

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**Director**

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**Director**



**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2010**

	Note	2010	2009
<b>R U P E E S</b>			
<b>Income</b>			
- Ijarah operations	23	54,251,802	42,511,313
- Musharaka receivables		44,087,676	26,707,420
- Investments	24	547,011	444,584
- Other sources	25	7,067,595	20,500,749
		<b>105,954,084</b>	90,164,066
<b>Expenses</b>			
Operating	26	15,441,986	13,804,083
Amortization on assets leased out under Ijarah		53,097,555	32,442,003
Financial charges	27	3,819	2,732
		<b>68,543,360</b>	46,248,818
<b>Operating profit</b>		<b>37,410,724</b>	43,915,248
Unrealized gain / (loss) on re-measurement of investments at fair value through profit or loss		2,061,507	(15,420,724)
Impairment loss on investments classified as available for sale		-	(6,790,881)
Share of profit from associates (unrealized)		16,937,093	19,510,897
		<b>56,409,324</b>	41,214,540
Modaraba company's management fee		(5,640,932)	(4,121,454)
<b>Profit for the year</b>		<b>50,768,392</b>	37,093,086
Earnings per certificate - basic and diluted	29	1.92	1.41

The annexed notes from 1 to 39 form an integral part of these financial statements.

Chief Executive

Director

Director



**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2010**

Note	2010	2009
<b>R U P E E S</b>		
<b>Profit for the year</b>	<b>50,768,392</b>	37,093,086
<b>Other comprehensive income</b>		
Unrealised gain on remeasurement of available for sale investment	462,313	24,301
Reversal of impairment on available for sale investments	-	1,436,066
	<b>462,313</b>	1,460,367
Taxation relating to component of other comprehensive income	-	-
Other comprehensive income	<b>462,313</b>	1,460,367
<b>Total comprehensive income</b>	<b>51,230,705</b>	38,553,453

The annexed notes from 1 to 39 form an integral part of these financial statements.





**CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2010**

	Note	2010	2009
<b>R U P E E S</b>			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Profit before taxation</b>		<b>50,768,392</b>	37,093,086
<b>Adjustment of non cash items:</b>			
Depreciation on own assets	6	<b>505,769</b>	487,525
Unrealised (gain) / loss on re-measurement of investments at fair value through profit or loss		<b>(2,061,507)</b>	15,420,724
Impairment loss on investments classified as available for sale		-	6,790,881
Amortization of assets leased out under ijarah	6	<b>53,097,555</b>	32,442,003
Gain on sale of investments	24	-	(354,662)
Share of profit from associates		<b>(16,937,093)</b>	(19,510,897)
Gain on sale of fixed assets			
- own assets	6	<b>(109,100)</b>	(15,890)
- assets leased out under ijarah		<b>(28,133)</b>	(22,318)
Provision for staff gratuity		<b>220,163</b>	156,714
Dividend income	24	<b>(151,441)</b>	(74,032)
Financial charges	27	<b>3,819</b>	2,732
<b>Operating profit before working capital changes</b>		<b>85,308,424</b>	72,415,866
<b>Changes in working capital:</b>			
<b>(Increase) in current assets</b>			
Stock-in-trade		<b>(10,277,223)</b>	-
Ijarah rental receivables		<b>173,532</b>	(1,398,284)
Musharaka receivables		<b>2,972,498</b>	(137,400,000)
Advances		<b>(5,174,996)</b>	85,420
Prepayments & other receivables		<b>(2,016,555)</b>	(23,435,257)
		<b>(14,322,744)</b>	(162,148,121)
<b>Increase in current liabilities</b>			
Management fee payable		<b>4,059,074</b>	981,739
Accrued and other liabilities		<b>(1,121,851)</b>	3,069,638
		<b>2,937,223</b>	4,051,377
Financial charges paid		<b>(3,819)</b>	(2,732)
<b>Net cash generated from / (used in) operating activities</b>		<b>73,919,084</b>	(85,683,610)



	Note	2010	2009
<b>RUPEES</b>			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets			
- own assets		(2,225,900)	(42,000)
- assets leased out under ijarah		(50,418,165)	(54,098,148)
Long-term investment available for sale		-	(3,902,278)
Financial assets		(11,203,462)	(10,129,973)
Proceeds from sale of investments		7,769,431	354,662
Proceeds from sale of fixed assets			
- own assets		310,000	20,000
- assets leased out under ijarah		8,489,362	2,232,239
Dividends received		2,996,691	1,477,986
<b>Net cash used in investing activities</b>		<b>(44,282,043)</b>	<b>(64,087,512)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividend paid		(26,386,589)	(25,359,209)
Long-term security deposits		(1,653,175)	8,347,063
<b>Net cash used in financing activities</b>		<b>(28,039,764)</b>	<b>(17,012,146)</b>
Net increase / (decrease) in cash and cash equivalents		1,597,277	(166,783,268)
Cash and cash equivalents at the beginning of the year		59,740,384	226,523,652
<b>Cash and cash equivalents at the end of the year</b>	30	<b>61,337,661</b>	<b>59,740,384</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

Chief Executive

Director

Director



**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2010**

	Certificate Capital	*Statutory Reserve	Unrealized gain/(loss) on remeasurement of available for sale investment	Unappropriated profit	Total certificate holders' equity
	R U P E E S				
<b>Balance as at June 30, 2008</b>	<b>263,865,890</b>	<b>127,760,595</b>	<b>(1,436,066)</b>	<b>47,963,453</b>	<b>438,153,872</b>
Total comprehensive income for the year ended June 30, 2009	-	-	1,460,367	37,093,086	38,553,453
Profit distribution in cash	-	-	-	(26,386,591)	(26,386,591)
Transfer to statutory reserve	-	18,546,543	-	(18,546,543)	-
<b>Balance as at June 30, 2009</b>	<b>263,865,890</b>	<b>146,307,138</b>	<b>24,301</b>	<b>40,123,405</b>	<b>450,320,734</b>
Other comprehensive income for the year ended June 30, 2010	-	-	462,313	50,768,392	51,230,705
Profit distribution in cash	-	-	-	(26,386,589)	(26,386,589)
Transfer to statutory reserve	-	15,230,518	-	(15,230,518)	-
<b>Balance as at June 30, 2010</b>	<b>263,865,890</b>	<b>161,537,656</b>	<b>486,614</b>	<b>49,274,690</b>	<b>475,164,850</b>

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

The annexed notes from 1 to 39 form an integral part of these financial statements.

**Chief Executive**

**Director**

**Director**



## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010**

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

First UDL Modaraba (the Modaraba) was formed in 1991 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under, having its registered office at 1st floor, N.I.C. Building, Abbasi Shaheed Road, off Shahrah-e-Faisal, Karachi and is managed by UDL Modaraba Management (Private) Limited, a company incorporated in Pakistan. It is a perpetual, multipurpose and multidimensional Modaraba and is engaged in providing finance on Murabaha and Musharaka arrangements, Ijarah, commodity trading and trading in listed and non-interest bearing securities. The Modaraba is listed on Karachi, Islamabad and Lahore Stock Exchanges.

### **2 STATEMENT OF COMPLIANCE**

**2.1** These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Ordinance, 1984, provisions of and directives issued under the Modaraba Companies Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984 shall prevail.

**2.1.1** The Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 10 of 2004 dated 13 February has deferred, till further orders, the applicability of International Accounting Standard (IAS) 17 "Leases" on Modarabas with effect from 1st July 2003 and advised the management companies of Modarabas that they may continue to prepare the financial statements of the Modarabas with out applying the requirements of said IAS to the Modarabas. However, the requirements of above IAS have been considered for the purpose of preparations of these financial statements.

#### **2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year**

**2.2.1** The following amendments to standards are mandatory for the first time for the financial year beginning July 01, 2009 which affect these financial statements:

- During the year, International Accounting Standard 1 (Revised), 'Presentation of Financial Statements' (Revised IAS-1) became effective from the annual period beginning on or after January 1, 2009. The application of this standard has resulted in certain increased disclosures.

The revised IAS-1 prohibits the presentation of items of income and expenses in the statement of changes in equity and requires non owners changes in equity to be shown in a separate statement.

The Modaraba under the given circumstances has a choice of presenting one statement (Statement of comprehensive income) or two separate statements (Profit and Loss account and Statement of comprehensive income). The Modaraba has opted to present two statements. As this change only impacts presentation aspects, there is no impact on profit for the year.



- Revised IAS 23 'Borrowing Costs' (amendment) effective from January 01, 2009, removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

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

- IFRS 8, 'Operating segments' replaces IAS 14 effective from January 01, 2009, requires an entity to determine and present operating segments based on the information that is provided internally to the Chief Operating Decision Maker who is responsible for allocating resources and assessing performance of the operating segments. Adoption of this standard has not resulted in any change in the reportable segments.

**2.2.2** During the year, other standards, amendments to standards and interpretations also became applicable. However, these are either not relevant or do not affect financial statements of the Modaraba.

### **2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

**2.3.1** The following standards, amendments and interpretations of International Financial Reporting Standards will be effective for accounting periods beginning on or after the dates specified below:

- IFRS 5 (amendment), ' Measurement of non-current assets (or disposal groups) classified as held-for-sale' (effective for annual periods beginning on or after January 1, 2010). The interpretation is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. It is not expected to have a material impact on the Modaraba's financial statements.
- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. It is not expected to have a material impact on the Modaraba's financial statements.
- IFRIC 15, 'Agreement for the Construction of the Real Estate' (effective for annual period beginning on or after October 01, 2009, clarifies the recognition of the revenue by the real estate developers for sale of units such as apartments or houses, "off plan", that is, before the sale is completed. It is not expected to have a material impact on the Modaraba's financial statements.
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Modaraba's financial statements.

**2.3.2** There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be



relevant or to have any significant effect on the Modaraba's operations and are therefore not detailed in these financial statements.

### **3 BASIS OF PREPARATION**

**3.1** These financial statements comprise balance sheet, profit and loss, statement of comprehensive income, statement of cash flows, statement of changes in equity and explanatory notes and have been prepared under the historical cost convention except for: investments - available for sale and investment - at fair value through profit or loss have been recognised at fair value and staff benefit have been recognised at value determined by the actuary.

**3.2** These financial statements have been prepared using the accrual basis of accounting except for the cash flow information.

### **4 USE OF ESTIMATES**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the modarabas accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial estimates are as follows:

	Note
- Useful lives of depreciable assets	5.1
- Provision for income taxes	5.7
- Staff retirement benefits - gratuity	5.8
- Accrued liabilities	5.12
- Impairment of assets	5.17

### **5 SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statement are set out below. These policies have been consistently applied to all the years presented.

#### **5.1 Fixed assets - tangible**

##### **5.1.1 Assets in own use and depreciation**

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

Depreciation is charged to income applying the straight line method whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged at rates stated in note 6.

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



The assets residual value and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

The profit or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized.

#### **5.1.2 Assets leased out under Ijarah and depreciation**

Assets leased out under ijarah are stated at cost less accumulated depreciation and impairment, if any. Depreciation on 'Assets leased out under Ijarah' is charged using straight line method over the lease term.

#### **5.2 Investment in associates**

Investment in associates which are entities over which the modaraba has significant influence but not control, are carried using equity method.

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

#### **5.3 Financial instruments**

Financial assets and liabilities are recognized when the modaraba becomes a party to the contractual provisions of the instruments and de-recognized when the modaraba loses control of the contractual rights that comprise the financial asset and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled and expired.

##### **Initial recognition**

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

##### **Subsequent measurement**

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

##### **5.3.1 Financial assets**

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

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

##### **Loans and receivables**

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



- Long term advances and deposits
- Ijarah rental receivables
- Musharaka receivables
- Advances
- Other receivables
- Cash and cash equivalents

#### **Financial assets at fair value through profit or loss**

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

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

#### **Held-to-maturity investments**

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

#### **Available for sale**

Investments intended to be held for indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held to maturity investments (c) financial assets at fair value through profit or loss. Subsequent to initial recognition these investments are marked to market using the closing market rate and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair value of these investments are taken to other comprehensive income.

#### **Derecognition of financial assets**

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.

#### **Impairment of financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

### **5.3.2 Financial liabilities**

The Modaraba's financial liabilities include:

- long term security deposits
- Accrued profit on IFC income notes
- Accrued and other liabilities



**Offsetting of financial assets and liabilities**

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

**5.4 Stock-in-trade**

Stock is valued principally at the lower of cost determined on the first in first out basis and net realizable value. Cost of raw materials and trading stock comprises the invoice values and other charges paid thereon. Cost of work in process and finished goods include prime cost and appropriate portion of manufacturing overheads. Items in transit are stated at invoice value plus other incidental charges paid thereon up to the balance sheet date.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated cost of completion and costs necessarily to be incurred to make the sales.

**5.5 Musharaka finance**

Musharaka finance is recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, this is stated at original cost less repayments.

**5.6 Revenue recognition**

Revenue from sale of goods is recognized on dispatch of goods to customers.

Profit on Musharaka receivables and finances are accounted for on the basis of expected rate of profit. The effect of adjustments, if any, between actual rate and expected rate of profit is accounted for at the time of determinations of the actual rate. Unrealized Musharaka income is excluded from profit on Musharaka receivables in accordance with the requirement of Prudential Regulations for Modarbas issued by SECP.

Return on investment and deposits with banks are recognized on an accrual basis.

Ijarah / lease rental income is recognized on an accrual basis.

Dividend income is recognized when the right to receive the payment is established.

Capital gains or losses arising on sale of investments are taken to income in the period in which they arise.

Profit on term finance certificates TFCs are accrued when due. Unrealized term finance certificates' income is excluded from profit on TFCs receivables in accordance with the requirement of Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan (SECP).

**5.7 Taxation****5.7.1 Current**

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders. The Modaraba has decided to continue availing tax exemption and hence no provision has been made in these financial statements for tax liability for the current year.

**5.7.2 Deferred**

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

However, deferred tax is not accounted for 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.

**5.8 Staff retirement benefits - Gratuity**

The Modaraba operates an unfunded gratuity scheme covering all its permanent employees with one or more years of service with the Modaraba. Provision for gratuity has been made to cover obligation under the scheme in respect of employees who have completed the minimum qualifying period. Actuarial valuation is conducted in accordance with International Financial Reporting Standards and actuarial (unrecognized) gains and losses are recognised in accordance with actuary report. Latest actuarial valuation was conducted as at June 30, 2010.

**5.9 Borrowings and their costs**

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of that asset.

**5.10 Provisions**

Provisions are recognized when the modaraba has a present obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**5.11 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash at bank and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**5.12 Accrued and other payables**

Liabilities for accrued and other payables are measured at cost which is the fair value of the consideration to be paid in future for goods and services.

**5.13 Functional and presentation currency**

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

**5.14 Foreign currency translation**

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

**5.15 Transactions with related parties**

All transactions with related parties are carried out by the modaraba at arm's length prices.

**5.16 Profit distribution to certificates holders**

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

**5.17 Impairment of non financial assets**

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

**5.18 Segment reporting**

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

Based on internal management reporting structure, services provided and products produced and sold, the Modaraba is organised into 'Musharaka', 'Ijarah' and 'Investment' segments.

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

**5.19 Capital risk management**

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

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



**6. FIXED ASSETS - tangible**

Particulars	COST		DEPRECIATION			Book Value As at June 30, 2010	Depreciation Rate per annum
	As at July 1, 2009	Additions / (Deletions)	As at June 30, 2010	As at July 1, 2009	Charge for the year / (Deletions)		
<b>R U P E E S</b>							
<b>Assets own use</b>							
Furniture and fittings	2,538,644	-	2,538,644	2,477,094	18,612	2,495,706	10
Vehicles	3,061,000	2,225,900 (844,900)	4,442,000	2,021,195	452,067 (644,000)	1,829,262	20
Computer equipment	2,038,687	-	2,038,687	1,954,947	35,090	1,990,037	20
Office equipment and appliances	697,397	-	697,397	697,363	-	697,363	20
<b>Sub total</b>	<b>8,335,728</b>	<b>2,225,900</b> <b>(844,900)</b>	<b>9,716,728</b>	<b>7,150,599</b>	<b>505,769</b> <b>(644,000)</b>	<b>7,012,368</b>	<b>2,704,360</b>
<b>Assets leased out under ijarah</b>							
Machinery and equipments	56,647,898	13,254,665 (10,050,000)	59,852,563	25,194,745	14,198,324 (8,600,000)	30,793,069	25-33
Vehicles	117,346,067	37,163,500 (43,885,957)	110,623,610	42,694,495	38,899,231 (35,424,728)	46,168,998	25-33
<b>Sub total</b>	<b>173,993,965</b>	<b>50,418,165</b> <b>(53,935,957)</b>	<b>170,476,173</b>	<b>67,889,240</b>	<b>53,097,555</b> <b>(44,024,728)</b>	<b>76,962,067</b>	<b>93,514,106</b>
<b>Total</b>	<b>182,329,693</b>	<b>52,644,065</b> <b>(54,780,857)</b>	<b>180,192,901</b>	<b>75,039,839</b>	<b>53,603,324</b> <b>(44,668,728)</b>	<b>83,974,435</b>	<b>96,218,466</b>
<b>Detail of disposals</b>							
<b>Assets own use</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Written down value</b>	<b>Sale proceeds</b>	<b>Gain / (Loss) on disposal of fixed assets</b>	<b>Mode of disposal</b>	<b>Particular of purchasers</b>
	<b>Rupees</b>	<b>Rupees</b>	<b>Rupees</b>	<b>Rupees</b>	<b>Rupees</b>		
<b>Vehicle</b>							
Daihatsu Coure	399,000	399,000	-	100,000	100,000	Negotiation	Mr. Kamran
Honda	445,900	245,000	200,900	210,000	9,100	Negotiation	Mr. Waheed
<b>Total disposals</b>	<b>844,900</b>	<b>644,000</b>	<b>200,900</b>	<b>310,000</b>	<b>109,100</b>		



**FIXED ASSETS - tangible**

Particulars	COST		DEPRECIATION		Book Value As at June 30, 2009	Depreciation Rate per annum %	
	As at July 1, 2008	Additions / (Deletions)	As at June 30, 2009	Charge for the year / (Deletions)			As at June 30, 2009
<b>R U P E E S</b>							
<b>Assets own use</b>							
Furniture and fittings	2,538,644	-	2,538,644	20,287	2,477,094	10	
Vehicles	3,060,000	42,000 (41,000)	3,061,000	422,298 (36,890)	2,021,195	20	
Computer equipment	2,038,687	-	2,038,687	44,940	1,954,947	20	
Office equipment and appliances	697,397	-	697,397	-	697,363	20	
Sub total	8,334,728	42,000 (41,000)	8,335,728	487,525 (36,890)	7,150,599	1,185,129	
<b>Assets leased out under ijarah</b>							
Machinery and equipments	37,121,674	19,599,148 (72,924)	56,647,898	8,337,782 (65,632)	25,194,745	31,453,153	
Vehicles	86,477,667	34,499,000 (3,630,600)	117,346,067	24,104,465 (1,427,971)	42,694,495	74,651,572	
Sub total	123,599,341	54,098,148 (3,703,524)	173,993,965	32,442,003 (1,493,603)	67,889,240	106,104,725	
Total	131,934,069	54,140,148 (3,744,524)	182,329,693	32,929,528 (1,530,493)	75,039,839	107,289,854	
<b>Detail of disposals</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Written down value</b>	<b>Sale proceeds</b>	<b>Gain / (Loss) on disposal of fixed assets</b>	<b>Mode of disposal</b>	<b>Particular of purchasers</b>
	Rupees	Rupees	Rupees	Rupees	Rupees		
<b>Assets own use</b>							
<b>Vehicle</b>							
Motorcycle	41,000	(36,890)	4,110	20,000	15,890	Negotiation	Star Autos
<b>Total disposals</b>	<b>41,000</b>	<b>(36,890)</b>	<b>4,110</b>	<b>20,000</b>	<b>15,890</b>		



	Note	2010	2009
		R U P E E S	
<b>7 LONG TERM INVESTMENTS</b>			
Associated companies	7.1	<b>83,782,400</b>	69,690,557
<b>Available for sale</b>			
Listed companies	7.2	<b>3,414,054</b>	2,951,751
		<b>87,196,454</b>	72,642,308
<b>Held to maturity</b>			
Term finance certificates (TFCs) Series 'B'	7.3	<b>927,107</b>	927,107
Provision for non-performing assets		<b>(927,107)</b>	(927,107)
		<b>87,196,454</b>	72,642,308

**7.1 Associated companies**

**2010**

	Searle Pakistan Limited	United Distributors Pakistan Limited	United Brands Limited	IBL Healthcare Limited	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
Opening Balance	46,171,045	12,806,761	433,865	10,278,886	69,690,557
Share of profit of associate	19,179,707	(2,496,667)	10,361	243,692	16,937,093
Dividend Income	(2,181,681)	(663,569)	-	-	(2,845,250)
	<b>63,169,071</b>	<b>9,646,525</b>	<b>444,226</b>	<b>10,522,578</b>	<b>83,782,400</b>

**2009**

	Searle Pakistan Limited	United Distributors Pakistan Limited	United Brands Limited	IBL Healthcare Limited	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
Opening Balance	40,576,724	6,587,939	516,673	-	47,681,336
Additions during the year	3,902,278	-	-	-	3,902,278
Share of profit of associate	13,893,314	6,218,822	(77,308)	(523,931)	19,510,897
Specie dividend adjustment	(10,802,817)	-	-	10,802,817	-
Dividend Income	(1,398,454)	-	(5,500)	-	(1,403,954)
	<b>46,171,045</b>	<b>12,806,761</b>	<b>433,865</b>	<b>10,278,886</b>	<b>69,690,557</b>

**7.1.1 Basis of significant influence**

**Name of Associate**

**Basis of significant influence**

Searle Pakistan Limited	Common directorship
United Distributors Pakistan Limited	Common directorship
United Brands Limited	Common directorship
IBL Healthcare Limited	Common directorship



7.1.2 Summarized financial statements of associates as follows:

	<b>2010</b>			
	<b>Searle Pakistan Limited</b>	<b>United Distributors Pakistan Limited</b>	<b>United Brands Limited</b>	<b>IBL Healthcare Limited</b>
	—Rupees—			
Share capital - ordinary shares of Rs. 10 each	30,626,800	91,839,000	12,000,000	200,000,000
Total assets	2,886,884,000	935,283,806	198,694,498	371,393,000
Total liabilities	1,345,854,000	765,268,268	193,702,703	123,275,000
Net assets	1,541,030,000	170,015,538	4,991,795	248,118,000
Revenue	3,680,213,000	1,143,401,256	828,830,243	475,248,000
Profit / (Loss) for the year - after tax	357,164,000	(31,404,611)	2,252,300	9,093,000
Number of shares held	1,645,900	729,862	5,500	535,854
Ownership interest	5.37%	7.95%	0.46%	2.68%
Fair value per share as at June 30, 2010	59.00	15.00	35.56	7.00
Fair value of shares as at June 30, 2010	97,108,100	10,947,930	195,580	3,750,978
Financial results are based on latest the information available as on	<b>June 30, 2010</b>	<b>June 30, 2010</b>	<b>June 30, 2010</b>	<b>June 30, 2010</b>
	<b>2009</b>			
	<b>Searle Pakistan Limited</b>	<b>United Distributors Pakistan Limited</b>	<b>United Brands Limited</b>	<b>IBL Healthcare Limited</b>
	—Rupees—			
Share capital - ordinary shares of Rs. 10 each	26,632,000	8,349,000	1,200,000	20,000,000
Total assets	2,336,716,000	729,787,000	161,935,366	343,300,000
Total liabilities	1,112,902,000	520,017,851	180,269,555	104,275,000
Net assets	1,223,814,000	209,769,149	(18,334,189)	239,025,000
Revenue	2,708,974,000	773,324,221	678,688,550	414,882,000
Profit / (Loss) for the year - after tax	258,414,000	78,244,988	(16,867,281)	(19,555,000)
Number of shares held	1,431,837	663,569	5,500	535,854
Ownership interest	5.38%	7.95%	0.46%	2.68%
Fair value per share as at June 30, 2009	44.55	16.31	54.00	13.63
Fair value of shares as at June 30, 2009	63,788,338	10,822,810	297,000	7,303,690
Financial results are based on latest the information available as on	<b>June 30, 2009</b>	<b>June 30, 2009</b>	<b>June 30, 2009</b>	<b>June 30, 2009</b>



**7.2 Listed companies**

	<b>2010</b>	2009	<b>2010</b>	2009
	<b>Number of</b>	Number of	<b>Rupees</b>	Rupees
	<b>shares</b>	shares		
<b>Food and Personal Care Products</b>				
Gillette Pakistan Limited	<b>1,000</b>	1,000	<b>64,000</b>	51,600
<b>Chemicals</b>				
Nimir Industrial Chemicals Limited	<b>204,022</b>	204,022	<b>324,395</b>	281,560
<b>Leasing Company</b>				
Security Leasing Corporation Limited	<b>858,935</b>	858,935	<b>2,439,375</b>	1,700,691
<b>Textile Composite</b>				
International Knitwear	<b>72,025</b>	67,000	<b>586,284</b>	917,900
			<b>3,414,054</b>	2,951,751

The values of all shares / certificates are of the nominal value of Rs. 10 each.

**7.3** These TFCs have been issued against the outstanding lease amount receivable from Pakland Cement Limited (PCL). As per scheme of arrangement arrived at by the creditors with PCL and approved by the Honorable High Court, Sindh, Karachi, the outstanding exposure has been converted into TFCs. These are secured by pari passu charge / mortgage over the assets and securities of PCL created in favour of the Trustees appointed on behalf of the TFC holders/ creditors. Series 'A' TFCs have been paid in full whereas partial amounts have been received against Series 'B' TFCs. During the year, no payments have been received.

	<b>2010</b>	2009
	<b>R U P E E S</b>	
<b>8 LONG TERM ADVANCES AND DEPOSITS</b>		
Advances	<b>105,000</b>	105,000
Provision for non-performing assets	<b>(105,000)</b>	(105,000)
	-	-
Deposits	<b>74,100</b>	74,100
	<b>74,100</b>	74,100
<b>9 STOCK-IN-TRADE</b>		
Rice	<b>10,277,223</b>	-
<b>10 IJARAH RENTAL RECEIVABLES</b>		
Ijarah rental receivables	<b>15,566,669</b>	10,756,023
Income suspended	<b>(10,695,470)</b>	(5,711,292)
	<b>4,871,199</b>	5,044,731
<b>Ijarah future rental receivables</b>		
Not later than one year	<b>18,486,414</b>	21,156,180
Later than one year but not later than five years	<b>26,419,639</b>	24,197,706
Later than five years	-	-
	<b>44,906,053</b>	45,353,886

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





All the Ijarah rental receivables have been reviewed for indicators of impairment. Certain rentals were found to be impaired and consequently provision has been recorded in accordance with the requirements of Prudential Regulations for Modarabas.

<b>11 MUSHARAKA RECEIVABLES - secured</b>	<b>2010</b>	<b>2009</b>
	<b>R U P E E S</b>	
Musharaka receivables	<b>327,686,408</b>	330,658,906

**11.1** The Modaraba has entered into musharaka agreements under which the modaraba has provided funds for working capital requirements on profit and loss sharing basis and for the period of 365 days. These are secured against hypothecation of stocks and current assets, demand promissory notes, personal guarantee of directors and proprietors and mortgage of properties. The finance given is renewable on maturity. Expected rate of profit ranges from 11.25% to 20% (2009: 10% to 21%).

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

<b>12 FINANCIAL ASSETS - INVESTMENT</b>	Note	<b>2010</b>	<b>2009</b>
<b>- at fair value through profit or loss</b>		<b>R U P E E S</b>	
Associated company	12.1	<b>746,760</b>	-
Listed companies	12.2	<b>16,104,785</b>	9,905,993
		<b>16,851,545</b>	9,905,993

**12.1 Associated company**

**Personal Care Products**

United Brands Limited 21,000 shares (2009: Nil)	<b>746,760</b>	-
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<b>12.2 Listed companies</b>	<b>2010</b>	2009	<b>2010</b>	2009
	<b>Number of</b>	Number of	<b>Rupees</b>	Rupees
	<b>shares</b>	shares		
<b>Leasing Company</b>				
Al-Zamin Leasing Corporation Limited	<b>321</b>	321	<b>321</b>	600
<b>Textile Spinning</b>				
Hajra Textile Limited	<b>15,000</b>	15,000	<b>10,500</b>	28,500
Saif Textile Mills Limited	<b>31,461</b>	31,461	<b>77,709</b>	125,844
<b>Food and Personal Care Products</b>				
Nestle Pakistan Limited	<b>888</b>	888	<b>1,496,280</b>	969,924
Gillette Pakistan Limited	<b>170,000</b>	100,000	<b>10,880,000</b>	8,772,000
<b>Modaraba</b>				
Unicap Modaraba	<b>36,500</b>	36,500	<b>5,475</b>	9,125
<b>Chemical</b>				
Lotte Pakistan PTA Limited	<b>25,000</b>	-	<b>201,500</b>	-
<b>Construction and Material</b>				
Lafarge Pakistan Cement Limited	<b>200,000</b>	-	<b>548,000</b>	-
<b>Support Services</b>				
TRG Pakistan Limited	<b>100,000</b>	-	<b>411,000</b>	-
<b>Fixed Line Telecommunication</b>				
Pakistan Telecommunication Co. Ltd.	<b>75,000</b>	-	<b>1,335,000</b>	-
Telecard	<b>100,000</b>	-	<b>266,000</b>	-
WorldCall Telecom Limited	<b>300,000</b>	-	<b>873,000</b>	-
			<b>16,104,785</b>	9,905,993

The values of all shares / certificates are of the nominal value of Rs. 10 each.



13	ADVANCES	2010	2009
		R U P E E S	
	Advances to staff - considered good	454,459	279,463
	Advance against purchase of shares	5,000,000	-
		<u>5,454,459</u>	<u>279,463</u>

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

14	PREPAYMENTS AND OTHER RECEIVABLES	2010	2009
		R U P E E S	
	Prepayments	73,105	111,895
	Profit due on:		
	Musharaka receivable	29,670,560	24,967,241
	Receivable on certificate of investments (COIs)	458,735	458,735
	Provision against profit on certificate of investments (COIs)	(458,735)	(458,735)
		-	-
	Receivable against terminated leases	604,284	604,284
	Provision for non-performing assets	(604,284)	(604,284)
		-	-
	Others	584,407	3,232,381
		<u>30,328,072</u>	<u>28,311,517</u>

All the amounts are short term. The net carrying amount of other receivables and profit due is considered a reasonable approximation of fair value.

15	BANK BALANCES	Note	2010	2009
			R U P E E S	
	Current accounts		607,715	48,406
	PLS accounts	15.1	58,745,596	56,111,123
	Deposit accounts	15.2	1,984,350	3,580,855
			<u>61,337,661</u>	<u>59,740,384</u>

15.1 These account carry profit rate ranging from 5 % to 12 % (2009: 6 % to 13 %)

15.2 These account carry profit rate ranging from 6 % to 11 % (2009: 6 % to 12.2 %)

16	CERTIFICATE CAPITAL		2010 Rupees	2009 Rupees
	2010 Number of certificates	2009 Number of certificates		
	<u>50,000,000</u>	<u>50,000,000</u>		
			<b>Authorised certificate capital</b>	
			Modaraba certificates of	
			Rupees 10 each	<u>500,000,000</u>
			<b>Issued, subscribed and paid-up capital</b>	
			Modaraba certificates of Rupees 10	
			each fully paid-up in cash	<u>176,688,850</u>
	17,668,885	17,668,885		176,688,850
	8,717,704	8,717,704	Modaraba certificates issued	
			as fully paid-up bonus certificates	<u>87,177,040</u>
	<u>26,386,589</u>	<u>26,386,589</u>		<u>263,865,890</u>



<b>17 STATUTORY RESERVE</b>	<b>2010</b>	<b>2009</b>
	<b>R U P E E S</b>	
Balance at the beginning of the year	<b>146,307,138</b>	127,760,595
Transferred from profit and loss account	<b>15,230,518</b>	18,546,543
	<b><u>161,537,656</u></b>	<u>146,307,138</u>

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

#### **18 LONG TERM SECURITY DEPOSITS**

Long term security deposits	<b>25,807,673</b>	27,460,848
Less: current maturity	<b>7,010,600</b>	7,254,369
	<b><u>18,797,073</u></b>	<u>20,206,479</u>

#### **19 DEFERRED LIABILITIES**

Staff gratuity	19.1	<b>1,153,488</b>	933,325
Accrued profit on IFC income notes	19.2	<b>104,016,279</b>	104,016,275
		<b><u>105,169,767</u></b>	<u>104,949,600</u>

##### **19.1 Employees benefits - staff gratuity**

###### **Movement in liability recognised in the balance sheet**

Balance sheet liability as at June 30,	<b>933,325</b>	776,611
Expense recognised during the year	<b>220,163</b>	156,714
Balance sheet liability as at June 30,	<b><u>1,153,488</u></b>	<u>933,325</u>

###### **Charge to profit & loss account for the year**

Current service cost	<b>77,905</b>	60,466
Interest cost	<b>142,258</b>	96,248
<b>Total amount chargeable to profit and loss account</b>	<b><u>220,163</u></b>	<u>156,714</u>

###### **Balance sheet liability as at the year end**

Present value of defined benefit obligation	<b>1,383,234</b>	1,107,577
Net actuarial (loss) not recognized	<b>(229,746)</b>	(174,252)
	<b><u>1,153,488</u></b>	<u>933,325</u>

###### **Key actuarial assumptions:**

Valuation discount rate	<b>14.00%</b>	13.00%
Salary increase rate	<b>13.00%</b>	12.00%



- 19.2** This exemplifies the amount of accrued profit on IFC Income Notes. Out of total profit, Rs. 20 million shall be payable on the day the loan proceeds against IFCs local currency guarantee is received from the IFC. The remaining amount shall be payable in 12 equal quarterly installments commencing 90 days from the day the loan proceeds against IFCs local currency guarantee is received from the IFC.

## **20 PAYABLE TO MANAGEMENT COMPANY**

The management company is entitled to a remuneration for services rendered to modaraba under the provision of the Modaraba Company and Modarabas (Floatation and Control) Ordinance, 1980 up to a maximum of 10% per annum of the net annual profits of the modaraba.

The amount payable to the management company relates mainly to expenses incurred by management company on behalf of modaraba.

	2010	2009
	<b>R U P E E S</b>	
<b>21 ACCRUED AND OTHER LIABILITIES</b>		
Accrued expenses	<b>4,337,896</b>	4,196,079
Other Liabilities		
- Provision for taxation	<b>4,311,795</b>	4,376,755
- Unclaimed profit distributions	<b>9,039,939</b>	7,891,953
- Others	<b>2,732,554</b>	5,079,248
	<b>20,422,184</b>	21,544,035
<b>22 CONTINGENCIES AND COMMITMENTS</b>		
There are no contingencies and commitments as at June 30, 2010 (June 30, 2009: Nil).		
	2010	2009
<b>23 INCOME FROM IJARAH OPERATIONS</b>	<b>R U P E E S</b>	
Ijarah rentals	<b>54,081,670</b>	42,431,492
Documentation fee	<b>61,999</b>	57,503
Arrangement fee	<b>80,000</b>	-
Gain on disposal of ijarah assets	<b>28,133</b>	22,318
	<b>54,251,802</b>	42,511,313
<b>24 INCOME FROM INVESTMENTS</b>		
Dividend income	<b>151,441</b>	74,032
Gain on sale of securities	<b>286,470</b>	354,662
Gain on disposal of fixed assets	<b>109,100</b>	15,890
	<b>547,011</b>	444,584
<b>25 INCOME FROM OTHER SOURCES</b>		
Profit on deposits with banks	<b>7,066,551</b>	20,500,236
Miscellaneous	<b>1,044</b>	513
	<b>7,067,595</b>	20,500,749



26 OPERATING EXPENSES		2010	2009
		R U P E E S	
Salaries and other staff benefits	26.1	4,058,544	3,707,463
Traveling and conveyance		2,247,638	2,306,838
Vehicles upkeep		1,908,191	1,879,880
Communication		1,150,192	1,006,963
Printing and stationery		485,500	452,440
Rent, rates and taxes		845,225	879,515
Repair and maintenance		400,310	377,366
Legal and professional charges		636,258	423,836
Share custody charges		64,676	39,310
Insurance		25,437	129,865
Entertainment		453,799	452,509
Tax and consultancy		440,000	25,797
Fee and subscription		117,592	317,417
Auditors' remuneration	26.2	302,196	296,690
Advertisement		47,852	48,614
Depreciation	6	505,768	487,525
Povision for gratuity		220,163	156,714
Other expenses		1,532,645	815,341
		<b>15,441,986</b>	<b>13,804,083</b>

### 26.1 Remuneration to officers and employees

The aggregate amount of remuneration charged in these financial statements, including all benefits to officers and employees of the Modaraba are as under:

	2010			2009		
	Officers	Employees	Total	Officers	Employees	Total
Salaries & allowances	3,450,983	139,422	3,590,405	3,175,781	139,324	3,315,105
Retirement benefits	172,512	14,477	186,989	109,744	9,776	119,520
Bonus	97,741	8,065	105,806	83,172	8,065	91,237
Medical expenses	169,253	6,091	175,344	171,613	9,988	181,601
	<b>3,890,489</b>	<b>168,055</b>	<b>4,058,544</b>	<b>3,540,310</b>	<b>167,153</b>	<b>3,707,463</b>
Number of persons	<b>3</b>	<b>1</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>4</b>

Certain executives and officers are also provided with free use of vehicles maintained by the modaraba and petrol allowance.



	2010	2009
	R U P E E S	
<b>26.2 Auditors' remuneration</b>		
Audit fee	265,000	265,000
Out-of-pocket expenses	37,196	31,690
	<u>302,196</u>	<u>296,690</u>
<b>27 FINANCIAL CHARGES</b>		
Bank charges	<u>3,819</u>	<u>2,732</u>

**28 PROVISION FOR TAXATION**

The Finance Act, 1999 has exempted income of the modaraba, other than income from trading activities, provided it distributes 90% of its profits for the year to its certificate holders. Accordingly no provision for taxation has been made for the current year.

	2010	2009
	R U P E E S	
<b>29 EARNINGS PER CERTIFICATE - basic and diluted</b>		
Profit for the year	<u>50,768,392</u>	<u>37,093,086</u>
	<b>Number of certificates</b>	<b>Number of certificates</b>
Weighted average number of ordinary certificates outstanding during the year	<u>26,386,589</u>	<u>26,386,589</u>
Earnings per certificate - basic	<u>1.92</u>	<u>1.41</u>

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

**30 CASH AND CASH EQUIVALENTS**

Bank balances	<u>61,337,661</u>	<u>59,740,384</u>
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**31 TRANSACTION WITH RELATED PARTIES**

The related parties comprise related group companies, directors and close family members, executives, major certificate holders and staff retirement funds of the modaraba. These are the associated companies as they are either under the same management and / or with common directors. The modaraba has a policy whereby all transactions with related parties are entered into arm's length prices using the comparable uncontrollable method. The significant transactions with these associated companies are as follows:

Transactions	Relationship	2010	2009
		R U P E E S	
Management fee	Management company	<u>5,640,932</u>	<u>4,121,454</u>
Dividend received	Associates	<u>2,845,250</u>	<u>1,403,954</u>
Purchase of investments	Associates	<u>746,760</u>	<u>3,902,278</u>
<b>Balance as at the year end</b>			
Payable to Modaraba Management Company		<u>13,731,113</u>	<u>9,672,039</u>
Deferred liability - Gratuity payable (other than key management personnel)		<u>1,153,488</u>	<u>933,325</u>

**32 FINANCIAL INSTRUMENT AND RELATED DISCLOSURES****Financial risk management**

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

- Credit risk
- Liquidity risk
- Market risk

**32.1 Credit risk and concentration of credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The modaraba attempts to control credit risk by monitoring credit exposures, limiting transactions with various parties and continuous monitoring of credit worthiness of dealing parties. The management understands that the modaraba is not exposed to any major concentration of credit risk.

Concentration of credit risk on ijarah, musharikhah, investments are indicated in the following table by the percentage of the total balance receivable from these parties in the specified industries/sectors.

Business	2010		2009	
	Rupees	%	Rupees	%
Modaraba	203,878,368	45.39%	140,000,000	32.05%
Trading/distribution	55,453,425	12.34%	376,000	0.09%
Investment companies/bank	15,064,384	3.35%	64,500,000	14.76%
Chemical & Pharmaceuticals	525,895	0.12%	4,150,000	0.95%
Food & Beverages	15,566,669	3.47%	18,479,148	4.23%
Individual	701,614	0.16%	5,806,000	1.33%
Miscellaneous	158,007,278	35.18%	203,543,802	46.59%
	<b>449,197,633</b>	<b>100.00%</b>	<b>436,854,950</b>	<b>100.00%</b>

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

	Note	2010	2009
R U P E E S			
Long term investments	7.2	3,414,054	2,951,751
Long term advances and deposits	8	74,100	74,100
Ijarah rental receivables	10	4,871,199	5,044,731
Musharaka receivables - secured	11	327,686,408	330,658,906
Financial assets	12	16,104,785	9,905,993
Advances	13	5,454,459	279,463
Other receivables	14	584,407	3,232,381
Profit due on Musharika receivables	14	29,670,560	24,967,241
Bank balances	15	61,337,661	59,740,384
		<b>449,197,633</b>	<b>436,854,950</b>



### 32.2 Liquidity risk

The modaraba defines liquidity risk as the risk that funds will not be available to meet liabilities as they fall due.

A range of tools is used for the management of liquidity. These comprise commitment and under writings guidelines, key balance sheet ratios and medium-term funding requirements. Moreover, day-to-day monitoring of future cash flows takes place and suitable levels of liquid reserves are maintained by the business.

		2010			
		Upto one year	One year to five years	Over five years	Total
		Rupees			
<b>Financial assets</b>					
	Long term investments	-	3,414,054	-	3,414,054
	Long term advances and deposits	-	-	74,100	74,100
	Ijarah rental receivables	4,871,199	-	-	4,871,199
	Musharaka receivables	327,686,408	-	-	327,686,408
	Financial assets	16,104,785	-	-	16,104,785
	Advances	5,454,459	-	-	5,454,459
	Other receivables	584,407	-	-	584,407
	Profit due on musharaka receivables	29,670,560	-	-	29,670,560
	Bank balances	61,337,661	-	-	61,337,661
	<b>(a)</b>	<u>445,709,479</u>	<u>3,414,054</u>	<u>74,100</u>	<u>449,197,633</u>
<b>Financial liabilities</b>					
	Long term security deposits	7,010,600	18,797,073	-	25,807,673
	Deferred liabilities	-	105,169,767	-	105,169,767
	Payable to management company	13,731,113	-	-	13,731,113
	Accrued and other liabilities	20,422,184	-	-	20,422,184
	<b>(b)</b>	<u>41,163,897</u>	<u>123,966,840</u>	<u>-</u>	<u>165,130,737</u>
<b>On-balance sheet gap</b>	<b>(a) - (b)</b>	<u>404,545,582</u>	<u>(120,552,786)</u>	<u>74,100</u>	<u>284,066,896</u>
		2009			
		Upto one year	One year to five years	Over five years	Total
		Rupees			
<b>Financial assets</b>					
	Long term investments	-	2,951,751	-	2,951,751
	Long term advances and deposits	-	-	74,100	74,100
	Ijarah rental receivables	5,044,731	-	-	5,044,731
	Musharaka receivables	330,658,906	-	-	330,658,906
	Financial assets	9,905,993	-	-	9,905,993
	Advances	279,463	-	-	279,463
	Other receivables	3,232,381	-	-	3,232,381
	Profit due on musharika receivables	24,967,241	-	-	24,967,241
	Bank balances	59,740,384	-	-	59,740,384
	<b>(a)</b>	<u>433,829,099</u>	<u>2,951,751</u>	<u>74,100</u>	<u>436,854,950</u>
<b>Financial liabilities</b>					
	Long term security deposits	7,254,369	20,206,479	-	27,460,848
	Deferred liabilities	-	105,169,767	-	104,949,600
	Payable to management company	9,672,039	-	-	9,672,039
	Accrued and other liabilities	21,544,035	-	-	21,544,035
	<b>(b)</b>	<u>38,470,443</u>	<u>125,376,246</u>	<u>-</u>	<u>163,626,522</u>
<b>On-balance sheet gap</b>	<b>(a) - (b)</b>	<u>395,358,656</u>	<u>(122,424,495)</u>	<u>74,100</u>	<u>273,228,428</u>



**32.3 Market risk**

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

**32.4 Cash flow sensitivity analysis**

The Modaraba does not hold any financial asset or liability carrying variable interest rate, therefore, Modaraba is not exposed to cash flow sensitivity.

**33 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

	2010	2009
	<b>R U P E E S</b>	
<b>33.1 Financial instruments by category</b>		
<i>Loans and receivables</i>		
Long term advances and deposits	<b>74,100</b>	74,100
Ijarah rental receivables	<b>4,871,199</b>	5,044,731
Musharaka receivables	<b>327,686,408</b>	330,658,906
Advances	<b>5,454,459</b>	279,463
Other receivables	<b>584,407</b>	3,232,381
Profit due on musharaka receivables	<b>29,670,560</b>	24,967,241
Bank balances	<b>61,337,661</b>	59,740,384
<i>Financial assets at fair value through profit or loss</i>		
Short term investments - investments at fair value through profit or loss	<b>16,104,785</b>	9,905,993
<i>Available-for-sale financial assets</i>		
Long term investments	<b>3,414,054</b>	2,951,751
<b>(a)</b>	<b>449,197,633</b>	436,854,950
<b>Financial liabilities</b>		
<i>Financial liabilities at amortised cost</i>		
Long term security deposits	<b>25,807,673</b>	27,460,848
Accrued profit on IFC income notes	<b>104,016,275</b>	104,016,275
Payable to management company	<b>13,731,113</b>	9,672,039
Accrued and other liabilities	<b>20,422,184</b>	21,544,035
<b>(b)</b>	<b>163,977,245</b>	162,693,197
<b>(a) - (b)</b>	<b>285,220,388</b>	274,161,753

**33.2 Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect profit and loss account.



**34 YIELD / PROFIT RATE RISK EXPOSURE**

The information about modaraba's exposure to yield rate risk, based on contractual refinancing or maturity dates whichever is earlier, is as follows:

DESCRIPTION	Effective yield / Profit risk %	2010						TOTAL
		Yield / Profit Bearing Maturing			Non - Yield / Profit Bearing Maturing			
		Within one year	After one year	SUB TOTAL	Within one year	After one year	SUB TOTAL	
<b>Financial assets</b>								
Long term investments	-	-	3,414,054	3,414,054	-	-	3,414,054	
Long term advances and deposits	-	-	-	-	-	74,100	74,100	
Ijarah rental receivables	17% to 19%	4,871,199	-	4,871,199	-	-	4,871,199	
Musharaka receivables - secured	11.25% to 20%	327,686,408	-	327,686,408	-	-	327,686,408	
Financial assets	-	16,104,785	-	16,104,785	-	-	16,104,785	
Advances	-	-	-	5,454,459	-	5,454,459	5,454,459	
Profit due on musharaka receivables	-	-	-	29,670,560	-	29,670,560	29,670,560	
Other receivables	-	-	-	584,407	-	584,407	584,407	
Bank balances	6% to 13%	60,729,946	-	60,729,946	607,715	-	61,337,661	
	(a)	<b>409,392,338</b>	<b>3,414,054</b>	<b>412,806,392</b>	<b>36,317,141</b>	<b>74,100</b>	<b>449,197,633</b>	
<b>Financial liabilities</b>								
Long term security deposits	-	-	-	-	7,010,600	18,797,073	25,807,673	
Deferred liabilities	-	-	-	-	105,169,767	-	105,169,767	
Payable to management company	-	-	-	-	13,731,113	-	13,731,113	
Accrued and other liabilities	-	-	-	-	20,422,184	-	20,422,184	
	(b)	-	-	-	<b>146,333,664</b>	<b>18,797,073</b>	<b>165,130,737</b>	
<b>On-balance sheet gap</b>	(a)-(b)	<b>409,392,338</b>	<b>3,414,054</b>	<b>412,806,392</b>	<b>(110,016,523)</b>	<b>(18,722,973)</b>	<b>284,066,896</b>	
Non-financial assets							191,097,954	
Non-financial liabilities							-	
<b>Total net assets</b>							<b>475,164,850</b>	

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve.

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



**YIELD / PROFIT RATE RISK EXPOSURE**

The information about modaraba's exposure to yield rate risk, based on contractual refinancing or maturity dates whichever is earlier, is as follows:

DESCRIPTION	Effective yield / Profit risk %	2009						TOTAL
		Yield / Profit Bearing Maturing			Non - Yield / Profit Bearing Maturing			
		Within one year	After one year	SUB TOTAL	Within one year	After one year	SUB TOTAL	
<b>Financial assets</b>								
Long term investments	-	-	2,951,751	2,951,751	-	-	2,951,751	
Long term advances and deposits	-	-	-	-	74,100	74,100	74,100	
Ijarah rental receivables	14% to 19%	5,044,731	-	5,044,731	-	-	5,044,731	
Musharika receivables - secured	10% to 21%	330,658,906	-	330,658,906	-	-	330,658,906	
Financial assets	-	9,905,993	-	9,905,993	-	-	9,905,993	
Advances	-	-	-	279,463	-	279,463	279,463	
Profit due on musharaka receivables	-	-	-	24,967,241	-	24,967,241	24,967,241	
Other receivables	-	-	-	3,232,381	-	3,232,381	3,232,381	
Bank balances	6% to 13%	59,691,978	-	59,691,978	48,406	48,406	59,740,384	
	(a)	<b>405,301,608</b>	<b>2,951,751</b>	<b>408,253,359</b>	<b>28,527,491</b>	<b>74,100</b>	<b>436,854,950</b>	
<b>Financial liabilities</b>								
Long term security deposits	-	-	-	-	7,254,369	20,206,479	27,460,848	
Deferred liabilities	-	-	-	-	104,949,600	-	104,949,600	
Payable to management company	-	-	-	-	9,672,039	-	9,672,039	
Accrued and other liabilities	-	-	-	-	21,544,035	-	21,544,035	
	(b)	-	-	-	<b>143,420,043</b>	<b>20,206,479</b>	<b>163,626,522</b>	
<b>On-balance sheet gap</b>	<b>(a)-(b)</b>	<b>405,301,608</b>	<b>2,951,751</b>	<b>408,253,359</b>	<b>(114,892,552)</b>	<b>(20,132,379)</b>	<b>273,228,428</b>	
Non-financial assets							<b>177,092,306</b>	
Non-financial liabilities							-	
<b>Total net assets</b>							<b>450,320,734</b>	

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve.

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

**35 INFORMATION ABOUT BUSINESS SEGMENTS**

	<b>2010</b>			
	<b>Musharaka</b>	<b>Investments</b>	<b>Ijarah operations</b>	<b>Consolidated operations</b>
	<b>Rupees</b>			
<b>SEGMENT REVENUE</b>	<b>44,087,676</b>	<b>547,011</b>	<b>54,251,802</b>	<b>98,886,489</b>
<b>SEGMENT RESULT</b>				
Segment income	44,087,676	547,011	54,251,802	98,886,489
Other income	-	-	-	9,129,102
Operating expenses	-	-	(53,097,555)	(53,097,555)
Unallocated operating expenses	-	-	-	(15,445,805)
Modaraba company's management fee	-	-	-	(5,640,932)
Share of profit from associates	-	-	-	16,937,093
Profit for the year	-	-	-	50,768,392
<b>OTHER INFORMATION</b>				
Capital expenditure	-	-	50,418,165	50,418,165
Depreciation and amortisation	-	-	53,097,555	53,097,555
<b>ASSETS AND LIABILITIES</b>				
Segment assets	327,686,408	104,047,999	93,514,106	525,248,513
Unallocated assets	-	-	-	115,047,074
Consolidated total assets	-	-	-	640,295,587
Segment liabilities	-	-	25,807,673	25,807,673
Unallocated liabilities	-	-	-	139,323,064
Consolidated total liabilities	-	-	-	165,130,737

**35.1** The above mentioned segments do not necessarily match with the organizational structure of the modaraba.

**INFORMATION ABOUT BUSINESS SEGMENTS**

	<b>2009</b>			
	<b>Musharaka</b>	<b>Investments</b>	<b>Ijarah operations</b>	<b>Consolidated operations</b>
	<b>Rupees</b>			
<b>SEGMENT REVENUE</b>	<b>26,707,420</b>	<b>428,694</b>	<b>42,511,313</b>	<b>69,647,427</b>
<b>SEGMENT RESULT</b>				
Segment income	26,707,420	428,694	42,511,313	69,647,427
Other income	-	-	-	(1,694,966)
Operating expenses	-	-	(32,442,003)	(32,442,003)
Unallocated operating expenses	-	-	-	(13,806,815)
Modaraba company's management fee	-	-	-	(4,121,454)
Share of profit from associates	-	-	-	19,510,897
Profit for the year	-	-	-	37,093,086

**OTHER INFORMATION**

Capital expenditure	-	-	54,098,148	54,098,148
Depreciation and amortisation	-	-	32,442,003	32,442,003

**ASSETS AND LIABILITIES**

Segment assets	330,658,906	82,548,301	106,104,725	519,311,932
Unallocated assets				94,635,324
Consolidated total assets	-	-	-	613,947,256
Segment liabilities	-	-	27,460,848	27,460,848
Unallocated liabilities	-	-	-	136,165,674
Consolidated total liabilities	-	-	-	163,626,522

The above mentioned segments do not necessarily match with the organizational structure of the modaraba.

<b>36</b>	<b>NUMBER OF EMPLOYEES</b>	<b>2010</b>	<b>2009</b>
	As at year end	<u>4</u>	<u>4</u>

**37 DATE OF AUTHORIZATION FOR ISSUE**

The financial statements were approved by the board of directors of the Modaraba Company and authorized for issue on October 07, 2010.

**38 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE**

The Board of Directors have proposed dividend for the year ended June 30, 2010 of Rs. 1.25 per certificate (2009: Re. 1.0 per certificate), amounting to Rs. 32,983,236 (2009: Rs. 26,386,589) at their meeting held on October 07, 2010. The financial statements for the year ended June 30, 2010 do not include the effect of the above which will be accounted for in the period in which it is declared.

**39 GENERAL**

- The figures have been rounded off to the nearest rupee.
- Certain prior year's figure have been rearranged, wherever necessary for better presentation.

Chief Executive

Director

Director



**PATTERN OF CERTIFICATE HOLDING**  
**Held by the Certificate Holders as at June 30, 2010**

Number of Certificate	Certificate Holdings		Total Certificate Held
	From	To	
759	1	100	37,854
761	1	100	36,735
851	101	500	224,437
585	501	1000	466,401
761	1001	5000	1,609,550
121	5001	10000	914,874
37	10001	15000	470,921
40	15001	20000	695,013
15	20001	25000	342,785
12	25001	30000	331,520
7	30001	35000	264,200
8	35001	40000	345,122
6	40001	45000	290,315
2	45001	50000	108,010
4	50001	55000	234,500
5	55001	60000	308,697
1	60001	65000	68,500
5	65001	70000	368,710
1	70001	75000	77,253
2	75001	80000	166,313
1	80001	85000	90,122
1	95001	100000	98,500
1	100001	105000	100,985
1	105001	110000	110,007
1	120001	125000	117,000
2	125001	130000	243,784
1	130001	135000	145,600
2	145001	150000	334,437
1	165001	170000	184,193
4	170001	175000	749,811
1	185001	190000	202,000
1	195001	200000	210,942
1	205001	210000	228,120
2	245001	250000	493,700
1	265001	270000	269,600
1	330001	335000	304,500
1	550001	555000	331,386
1	1105001	1110000	366,894
1	1150001	1155000	587,530
1	1710001	1715000	1,036,986
1	1765001	1770000	1,714,625
1	4200001	4205000	4,202,016
1	4500001	4505000	6,939,995
<b>3,253</b>			<b>26,386,589</b>

**CATEGORIES OF CERTIFICATEHOLDERS  
AS AT JUNE 30, 2010**

<b>Categories of Certificateholders</b>	<b>Certificate Held</b>	<b>Percentage</b>
<b>Directors,CEO &amp; their Spouses &amp; Minor Children</b>		
Mr. Rashid Abdulla	191,121	0.72
Mrs.Shakila Rashid	292,960	1.11
	<b>484,081</b>	<b>1.83</b>
<b>Management Company</b>		
UDL Modaraba Management (Pvt.) Limited	4,202,016	15.92
	<b>4,202,016</b>	<b>15.92</b>
<b>Associated Companies, Undertakings &amp; Related Parties</b>		
International Brands (Pvt.) Limited	<b>6,944,373</b>	<b>26.32</b>
<b>NIT &amp; ICP (Name Wise Detail)</b>		
Investment Corporation of Pakistan	4,390	0.01
National Bank of Pakistan, Trustee Deptt.	1,714,725	6.50
	<b>1,719,115</b>	<b>6.51</b>
<b>Banks, DFI'S,NBFI'S</b>	<b>1,775,398</b>	<b>6.73</b>
<b>Insurance Companies</b>	<b>533,386</b>	<b>2.02</b>
<b>Modaraba and Mutual Funds</b>	<b>1,393,751</b>	<b>5.28</b>
<b>Other Companies</b>	<b>484,470</b>	<b>1.84</b>
<b>General Public</b>	<b>8,849,999</b>	<b>33.55</b>
<b>TOTAL</b>	<b>26,386,589</b>	<b>100</b>
<b>SHAREHOLDERS MORE THAN 10.00%</b>		
UDL MODARABA MANAGEMENT (PVT) LTD.	4,202,016	15.92
INTERNATIONAL BRANDS (PVT) LTD.	6,944,373	26.32
	<b>11,146,389</b>	<b>42.24</b>