

First Fidelity Leasing Modaraba

Annual Report 2000

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COMPANY INFORMATION

Board of Directors

Chairman Mr. Javaid B. Sheikh
Chief Executive Mr. Wasim-UI-Haq Osmani
Directors Mr. Masood Akbar
Mr. Arshad I. Khan

Corporate Secretary Mr. Imran Hameed

Auditors Riaz Ahmad & Company
Chartered Accountants

Legal Advisor Cornelius, Lane & Mufti
Advocates & Solicitors

Bankers Muslim Commercial Bank Limited
Habib Bank A.G. Zurich
Union Bank Limited
Gulf Commercial Bank Limited

Modaraba Company Fidelity Capital Management (Private)
Limited (wholly owned subsidiary of
Fidelity Investment Bank Limited)

Principal Place of Business 97-A, Aziz Avenue, Canal Bank,
Lahore-54660

Registrars Hameed Majeed Associates
H.M. House, 7-Bank Square,
The Mall, Lahore.

NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that an Annual Review Meeting (ARM) of the certificate-holders of First Fidelity Leasing Modaraba will be held on Saturday, December 30, 2000 at 12:30 p.m. at 97-A, Aziz Avenue, Canal Bank, Lahore to:

1. Review the performance of the Modaraba during the year ended June 30, 2000.
2. Transact any other business with the permission of the Chairman.

By Order of the Board

Lahore
Dated: December 09,2000

IMRAN HAMEED
Company Secretary

NOTES:

1. The certificate transfer Books of the Modaraba will be closed from December 20, 2000 to December 30, 2000 (both days inclusive). All certificate holders whose names are entered in the Register of Certificate holders on December 19, 2000 shall be entitled to attend the meeting.
2. Any Individual entitled to attend the Meeting must bring his/her National Identity Card with him/

her to prove his/her identity. Representatives of corporate members should bring the usual documents required for such purpose.

DIRECTORS' REPORT

The Directors are pleased to present the 9th Annual Report of the Modaraba together with the audited accounts and the auditors' report for the year ended June 30, 2000.

BUSINESS ENVIRONMENT

The economic scenario has witnessed mixed reactions during the year 1999-2000. The political government was trying to win back international community-multilateral aid agencies support, which was curtailed as a result of detonation of atomic bomb by Pakistan, that in October 1999 it was taken over by the military. The reasons for military take-over were different than economic performance. Thus economic policies were not drastically altered however military government brought in people of good international repute so as to achieve the same objective of winning back international support.

The present government is lucky that it did achieve some international support as it was able to get restructuring of Pakistan sovereign bonds and other debts. GDP growth rate crossed 4 % in the current financial year as against 3.1% in the last financial year. The windfall in GDP growth came mainly through bumper cotton and wheat crops. The textile sector, backbone of Pakistan economy, therefore has witnessed a turn around after a long time. Apart from textile other industrial growth remained hampered primarily because of slow economy, fuelled by rising imports as a result of lowering of duties without a corresponding decrease in duties on import of raw materials.

The government was able to take certain difficult steps which a political government could not take like Survey of assets and Application of GST. The application of GST and survey of assets though tend to hamper economic growth, can be termed as first step towards documentation of the economy.

The change of government was received positively by stock market, as the barometer of the economy, the stock market index, reflected an overall improvement. It was obviously because of the economic agenda of the current regime and their resolve to stick to long term policies. The index at one point in time in April crossed 2000 points mark. However as bullish rally was not sustainable index closed at 1521 on June 30, 2000.

COMPANY'S PERFORMANCE

Despite subdued business environment, the Modaraba during the year earned a profit after taxation of Rs 26.20 million as compared to Rs 25.25 million earned in the corresponding period last year. The leased assets have increased from Rs 133.53 million to Rs 167.84 million registering a growth of 25.70% over last year. Adequate provisions have been made in the accounts against doubtful lease rentals which stand at Rs 20.34 million. Similarly adequate provisions have been made against capital market portfolio which stand at Rs 5.77 million. The provision is more than enough to absorb any effects of permanent diminution in the value of investments.

We would like to point out that SBP under government policies was instrumental in bringing down interest rates in the country. Such lowering of rates has put pressure on modarabas as they have not been able to reduce profit rates to the same level, commercial banks are able to do because of their low cost of funds. As such this has made morabaha & leasing by modarabas a bit difficult. Still we were able to operate in our niche market with certain reduction in the profit rates. Overall the Modaraba's performance during the year in the present economic scenario was satisfactory.

FUTURE OUTLOOK

The government has presented a three year development plan for 2000-2003 with a total outlay of Rs 700 billion aimed at rapid revival and acceleration of economic growth after three years of mismanagement and soaring level of foreign as well as domestic debt. GDP growth target is fixed at 6%. Export growth is projected at 13.8%, import is anticipated to increase by 5% only and current account deficit is estimated to be 0.5% of GDP. Foreign exchange reserves are expected to be around US \$ 3 billion equivalent to 12 weeks import. Though the targets are ambitious and difficult, these can be achieved through astute economic policies which should not be changed in the midway to render these ineffective.

The Modaraba focus will remain on small borrowers to take benefit of low percentage of default by these borrowers. The Modaraba experience in this category is very good and we intend to pursue this more aggressively in the year 2001. In the case of one large stuck-up loan of modaraba, under the direction of NAB, the borrower has been allowed a time period upto February 2001 for sale of its surplus land and make repayment to its lenders. The lease has been adequately provided for, any amounts recovered will be available for reinvestment to earn extra profit and further improve financial health of the Modaraba. Given the improvement in overall economy as envisaged by the government, we foresee a good future for the Modaraba.

APPROPRIATION

The Board has made the following appropriations:

	<i>Rupees</i>
Net profit after taxation for the year	26,205,928
Un-appropriated profit brought forward	425,102

Profit available for appropriation	26,631,030

Transfer to statutory reserve	2,620,593
Transfer to Final Dividend payable account Rs 1.10 per certificate	22,696,739

	25,317,332

Un-appropriated profit carried forward	1,313,698
	=====
Earning per certificate	Rs 1.27

DECLARATION OF DIVIDEND

The Directors are pleased to announce a final dividend of 11% i.e. Rs 1.10 per certificate for the year ended June 30, 2000. The Certificate Transfer Books of the Modaraba will remain closed from December 20, 2000 to December 30, 2000 (both days inclusive) for determination of dividend entitlement.

AUDITORS

The present auditors Messrs. Riaz Ahmad & Co., Chartered Accountants, being due for retirement, have offered themselves for re-appointment for the year ending June 30, 2001. Subject to approval by the Registrar of Modaraba Companies & Modarabas, their appointment has been confirmed by the Board.

CERTIFICATE HOLDING PATTERN

A statement reflecting the pattern of certificate holding is attached to the Annual Report.

ACKNOWLEDGEMENT

In the end, I conclude by reaffirming Management's commitment to a prudent approach based on high standards of professional ethics and moral integrity with a note of thanks to all the staff members of the Modaraba for their commitment and dedication. On behalf of the Board of Directors, I wish to thank Securities and Exchange Commission of Pakistan for their guidance and support, and to our valuable clients for reposing trust and confidence in your Modaraba.

**For and on behalf of the
Board of Directors**

**JAVAI B. SHEIKH
Chairman**

Lahore
November 28, 2000

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet as at 30 June 2000 and the related Profit and Loss Account and Statement of Changes in Financial Position (Cash Flow Statement) together with the Notes to the Accounts for the year ended 30 June 2000 of FIRST FIDELITY LEASING MODARABA which are modaraba company's (Fidelity Capital Management [Private] Limited) representation and we state that we have obtained all the information and explanations which we required and, after due verification thereof, we report that:

- (a) in our opinion, proper books of account have been kept by the modaraba company in respect of First Fidelity Leasing Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and Modaraba Companies and Modaraba Rules, 1981; and
- (b) in our opinion, the Balance Sheet and the Profit and Loss Account have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and Modaraba Companies and Modaraba Rules, 1981; and
- (c) in our opinion and to the best of our information and according to the explanations given to us;
- i) the Balance Sheet and the related Profit and Loss Account and Statement of Changes in Financial Position (Cash Flow Statement), which are in agreement with the books of account, exhibit respectively a true and fair view of the state of the Modaraba's affairs as at 30 June 2000 and the Profit and the Changes in the Financial Position for the year ended on that date;

ii) zakat deductible at source under the Zakat and Ushr Ordinance, 1980, has been deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance; and

iii) the business conducted, investments made and expenditure incurred by the Modaraba are in accordance with the objects, terms and conditions of the Modaraba.

LAHORE
Dated: December 01, 2000

RIAZ AHMAD & COMPANY
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 2000

	<i>Note</i>	<i>2000 Rupees</i>	<i>1999 Rupees</i>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized capital			
30,000,000 Modaraba Certificates of Rupees 10 each		300,000,000	300,000,000
Issued, subscribed and paid up capital	3	206,333,990	206,333,990
Reserves and surplus			
Capital reserve	4	25,365,584	22,744,991
Revenue reserve		6,313,698	5,425,102
		238,013,272	234,504,083
NON-CURRENT LIABILITIES			
Finance under morabaha arrangement	5	30,464,222	17,062,089
Long term deposits	6	22,542,627	12,106,719
		53,006,849	29,168,808
CURRENT LIABILITIES			
Current portion of long term finance and deposits	7	8,406,461	5,746,375
Finance under musharika arrangement	8	31,700,000	--
Accrued and other liabilities	9	7,918,072	2,771,293
Dividend payable		22,696,739	20,633,399
		70,721,272	29,151,067
CONTINGENCIES AND COMMITMENTS			
		--	--
		361,741,393	292,823,958

The annexed notes form an integral part of these accounts.

JAVAID B. SHEIKH
Chairman

WASIM-UL-HAQ OSMANI
Chief Executive

BALANCE SHEET AS AT JUNE 30, 2000

	<i>Note</i>	<i>2000 Rupees</i>	<i>1999 Rupees</i>
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets	10	169,556,700	134,031,365
Investments	11	41,825,867	35,925,297
		211,382,567	169,956,662
CURRENT ASSETS			
Finances under morabaha arrangements	12	68,500,000	36,618,009
Advances, deposits, prepayments and other receivables	13	53,961,581	27,724,427
Cash and bank balances	14	27,897,245	58,524,860
		150,358,826	122,867,296
		361,741,393	292,823,958

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ARSHAD I. KHAN
Director

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2000**

	<i>Note</i>	<i>2000 Rupees</i>	<i>1999 Rupees</i>
REVENUES			
Lease rentals		67,225,009	46,960,444
Profit on morabaha finances		13,487,731	7,442,404
Other income	15	5,903,112	11,537,202
		-----	-----
		86,615,852	65,940,050
OPERATING COST			
Depreciation on assets leased out	10.1	41,688,758	30,714,299
Administrative and general expenses	16	5,814,272	4,803,029
Financial and other charges	17	10,049,620	3,632,297
		-----	-----
		57,552,650	39,149,625
		-----	-----
		29,063,202	26,790,425
MODARABA COMPANY'S MANAGEMENT FEE		2,642,109	2,435,493
		-----	-----
PROFIT BEFORE TAXATION		26,421,093	24,354,932
PROVISION FOR TAXATION	18	215,165	(891,640)
		-----	-----
PROFIT AFTER TAXATION		26,205,928	25,246,572
UNAPPROPRIATED PROFIT BROUGHT FORWARD		425,102	861,243
		-----	-----
PROFIT AVAILABLE FOR APPROPRIATION		26,631,030	26,107,815
APPROPRIATIONS			
Transferred to statutory reserve		2,620,593	5,049,314
Final dividend Rs.1.10 per certificate (1999: Rs. 1 per certificate)		22,696,739	20,633,399
		-----	-----
		25,317,332	25,682,713
		-----	-----
UNAPPROPRIATED PROFIT CARRIED FORWARD		1,313,698	425,102
		=====	=====
EARNING PER CERTIFICATE	20	1.27	1.22

The annexed notes form an integral part of these accounts.

JAVAID B. SHEIKH
Chairman

WASIM-UL-HAQ OSMANI
Chief Executive

ARSHAD I. KHAN
Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT)
FOR THE YEAR ENDED JUNE 30, 2000**

	<i>2000 Rupees</i>	<i>1999 Rupees</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	(17,452,672)	8,286,744
Lease rentals	49,100,089	42,592,423
Profit paid on morabaha finances	(8,066,831)	(3,073,932)
Profit received on morabaha finances	12,518,423	7,462,564
Income tax paid	(24,734)	(14,146)
	-----	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES	36,074,275	55,253,653
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received	2,789,312	1,073,967

Sale proceeds from sale of shares/certificates	1,615,734	390
Lessees security deposits	8,590,423	2,018,666
Proceeds from sale of leased assets	4,242,255	2,738,353
Proceeds from sale of own assets	--	1,000
Fixed assets acquired - Own use	(1,640,500)	(472,800)
Fixed assets acquired - Leased out	(80,238,668)	61,761,960)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(64,641,444)	56,402,384)
CASH FLOWS FROM FINANCING ACTIVITIES		
Finances under morabaha arrangement - Obtained	24,286,768	24,692,000
Finances under morabaha arrangement - Repaid	(6,379,064)	(4,062,836)
Dividend paid	(19,968,150)	(22,581,470)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(2,060,446)	(1,952,306)
NET (DECREASE) IN CASH AND CASH EQUIVALENT	(30,627,615)	(3,101,037)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	58,524,860	61,625,897
	-----	-----
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	27,897,245	58,524,860
	=====	=====

**STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT)
FOR THE YEAR ENDED JUNE 30, 2000**

	2000	1999
	Rupees	Rupees
CASH GENERATED FROM OPERATIONS		
Profit before taxation	26,421,093	24,354,932
Adjustment for non-cash charges and other items:		
Provision for diminution in the value of investments, doubtful lease rentals and other receivables	(6,434,267)	251,492
Depreciation	42,111,580	30,836,039
Profit paid on morabaha finances	8,873,155	3,265,649
Dividend income	(2,789,312)	(1,073,967)
Profit on morabaha finances given	(13,487,731)	(7,442,404)
Loss on sale of fixed assets	--	6,117
(Gain) on sale of shares/certificates	--	(390)
Lease rentals	(67,225,009)	(46,960,444)
	-----	-----
Working capital changes	(4,922,181)	5,049,720
	-----	-----
	(17,452,672)	8,286,744
	=====	=====
WORKING CAPITAL CHANGES		
(Increase)/decrease in operating assets		
Finances under morabaha arrangements	(31,881,991)	5,600,000
Advances, deposits, prepayments and other receivables	(8,415,396)	(22,850)
	-----	-----
	(40,297,387)	5,577,150
Increase/(decrease) in operating liabilities		
Musharika finances	31,700,000	--
Accrued and other liabilities	3,675,206	(527,430)
	-----	-----
	35,375,206	(527,430)
	-----	-----
	(4,922,181)	5,049,720
	=====	=====

JAVAID B. SHEIKH
Chairman

WASIM-UL-HAQ OSMANI
Chief Executive

ARSHAD I. KHAN
Director

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2000**1. LEGAL STATUS AND NATURE OF BUSINESS**

First Fidelity Leasing Modaraba was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by Fidelity Capital Management (Private) Limited. The Modaraba commenced its business operations from 05 December, 1991. It is listed on all the stock exchanges in Pakistan.

The Modaraba is a perpetual, multi-purpose and multi-dimensional and is primarily engaged in the business of leasing, musharika and morabaha financing, investment in marketable securities and other related business.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

2.2 Tangible fixed assets**2.2.1 Assets in own use and depreciation**

Operating fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the reducing balance method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions while no depreciation is charged on assets disposed of during the year.

Maintenance and normal repairs are charged to income as and when incurred. Gain/loss on disposal of fixed assets are included in income currently.

2.2.2 Assets given on lease and depreciation

Leased assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying annuity method whereby the cost of an asset less salvage value is written off over its lease period. In respect of additions and disposals during the year, depreciation is charged proportionately to the period of the leases.

2.3 Accounts receivables

Provision for doubtful receivables is made/adjusted after a review of the outstanding portfolio at year end on the basis of Prudential Regulations for Modarabas and management's own judgement.

2.4 Investments

Long term investments are stated at cost. Full provision is made against permanent diminution in the value of investments. Short term investments are stated at lower of cost and market value determined on aggregate portfolio basis.

2.5 Revenue recognition

Lease rentals are recognized as income on accrual basis over the lease period. Front end fee is taken to income on receipt basis. Profit on morabaha and musharika finances is recognized on accrual basis, calculated on number of days for which funds were utilized. Profit or loss on sale of investments is accounted for in the year in which it arises. Dividend income is recognized when the right to receive is determined. Profit on bank deposit is recognized on time proportion basis taking into account period of deposit and rate of return applicable thereon.

2.6 Taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits receivable. The Modaraba accounts for deferred taxation on all major timing differences, using the liability method. After amendment in clause 102-E of Second Schedule of Part-I of the Income Tax Ordinance, 1979 made through Finance Act, 1998, the modaraba considers itself exempt from income tax application as it distribute 90 percent of its profit to the certificate holders.

	<i>2000</i> <i>Rupees</i>	<i>1999</i> <i>Rupees</i>
3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
16,656,491 modaraba certificates of Rupees 10 each fully paid up in cash	166,564,910	166,564,910
3,976,908 modaraba certificates of Rupees 10 each issued as fully paid bonus certificates	39,769,080	39,769,080
	-----	-----
	206,333,990	206,333,990
	=====	=====

3.1 2,877,614 (1999: 2,097,000) certificates are held by the management company.

4. CAPITAL RESERVE

This represents the statutory reserve created to comply Prudential Regulations for the Modarabas.

5. FINANCE UNDER MORABAHA ARRANGEMENT

Morabaha finance (Note 5.1)	38,536,868	20,629,164
Less: Current portion (Note 7)	8,072,646	3,567,075
	-----	-----
	30,464,222	17,062,089
	=====	=====

5.1 This represents finance obtained from Muslim Commercial Bank Limited under morabaha arrangement whereby purchase price of morabaha goods will be paid in equal quarterly installments over a period of five years on a specified profit margin of 18% per annum. The finance is secured against hypothecation of specific leased assets.

6. LONG TERM DEPOSITS

Lessees security deposits (Note 6.1)	22,876,442	14,286,019
Less: Current portion (Note 7)	333,815	2,179,300
	-----	-----
	22,542,627	12,106,719
	=====	=====

6.1 These represent the interest free security deposits (lease key money) received against lease contracts and are repayable/adjustable at the expiry/termination of the respective lease.

7. CURRENT PORTION OF LONG TERM FINANCE AND DEPOSITS

Finance under morabaha arrangement (Note 5)	8,072,646	3,567,075
Long term deposits (Note 6)	333,815	2,179,300
	-----	-----
	8,406,461	5,746,375
	=====	=====

8. FINANCE UNDER MUSHARIKA ARRANGEMENT

These represents finance obtained from individuals under musharika arrangement on profit and loss sharing basis and are unsecured. The estimated share of profit payable on these finances obtained is Rupees 0.465 per thousand rupees per day.

9. ACCRUED AND OTHER LIABILITIES

Profit accrued on:		
Morabaha finance obtained	540,344	191,717
Musharika finance obtained	457,696	--
Lease rentals received in advance	423,057	147,349
Management fee payable	2,642,109	--
Accrued and other payables	1,299,759	542,369
Unclaimed dividend	2,555,107	1,889,856
	-----	-----
	7,918,072	2,771,293
	=====	=====

10. TANGIBLE FIXED ASSETS

Assets leased out (Note 10.1)	167,847,041	133,539,386
Assets in own use (Note 10.3)	1,709,659	491,979
	-----	-----
	169,556,700	134,031,365
	=====	=====

10.1 Assets Leased Out

Description	Cost		Accumulated Depreciation			Book value	Depreciation	
	As at 01 July 1999	Additions/ (Deletions)	As at 30 June 2000	As at 01 July 1999	Adjustments	As at 30 June 2000	as at 30 June 2000	charge for the year
Plant and machinery	145,994,568	34,631,000 (20,000,000)	160,625,568	50,537,385	(18,000,026)	60,997,953	99,627,615	28,460,594
Vehicles	38,624,039	44,163,268 (4,396,960)	78,390,347	6,467,065	(2,520,512)	15,027,706	63,362,641	11,081,153
Office equipments	4,285,600	957,800 (306,360)	4,937,040	1,250,816	(134,524)	2,261,914	2,675,126	1,145,622

Household equipments	3,489,236	486,600 (308,100)	3,667,736	598,791	(114,103)	1,486,077	2,181,659	1,001,389
2000 Rupees	192,393,443	80,238,668 (25,011,420)	247,620,691	58,854,057	(20,769,165)	79,773,650	167,847,041	41,688,758
1999 Rupees	139,134,733	61,761,960 (8,503,250)	192,393,443	33,904,655	(5,764,897)	58,854,057	133,539,386	30,714,299

10.2 Detail of leased out assets sold to lessees after expiry/termination of leases during the year under reference:

<i>Description</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Book Value</i>	<i>Sale Proceeds</i>	<i>Particulars of Lessees</i>
PLANT AND MACHINERY					
Crawler Crane	20,000,000	18,000,026	1,999,974	1,999,974	DESCON Engineering (Pvt.) Limited
VEHICLES					
Suzuki Margalla+Mitsubishi Lance	788,000	709,200	78,800	78,800	Union Bank Limited
Suzuki Khyber + Honda Civic	1,005,000	778,632	226,368	226,368	Union Bank Limited
Toyota Corolla	759,000	367,149	391,851	391,851	Ali Akbar Spinning Mills Limited
Honda Civic	1,146,000	519,041	626,959	626,959	Lahore School of Arts and Science
Suzuki Mehran	264,960	104,285	160,675	160,675	Lahore School of Arts and Science
Suzuki Khyber	434,000	42,205	391,795	391,795	Muslim Commercial Bank Limited
OFFICE EQUIPMENTS					
Stereo Music System	20,000	20,000	--	--	Mr. Hasnain Riaz
Air-conditioner	30,000	30,000	--	--	Mr. Khalid Ehsan
Computer	50,000	50,000	--	--	Kazi Mansoor Ahmad
Computer equipment	206,360	34,524	171,836	171,836	Hameed Majeed Associates (Pvt) Ltd.
HOUSEHOLD EQUIPMENTS					
Computer	50,000	24,025	25,975	25,975	Mr. Yasir Ali
Computer	150,000	59,900	90,100	90,100	Ms. Humaira Rasheed
Stereo + VCR	56,900	20,058	36,842	36,842	Mrs. Zarka Ijaz
Computer	51,200	10,120	41,080	41,080	Mr. Junaid Sadiq

10.3 Assets in Own Use

<i>Description</i>	<i>As at</i>		<i>Accumulated Depreciation</i>		<i>Book value</i>		<i>Depreciation</i>		
	<i>01 July 1999</i>	<i>Additions/ (Deletions)</i>	<i>As at 30 June 2000</i>	<i>As at 01 July 1999</i>	<i>Adjustment</i>	<i>As at 30 June 2000</i>	<i>as at 30 June 2000</i>	<i>Charge for the year</i>	<i>Rate %</i>
Vehicles	395,800	1,640,500	2,036,300	79,160	--	470,588	1,565,712	391,428	20
Computer and other office equipments	255,648	--	255,648	196,243	--	216,043	39,605	19,800	33.33
Furniture and fixtures	165,000	--	165,000	49,065	--	60,658	104,342	11,593	10
2000 Rupees	816,448	1,640,500	2,456,948	324,468	--	747,289	1,709,659	422,821	
1999 Rupees	426,248	(472,800) (82,600)	816,448	278,212	(75,483)	324,469	491,979	121,740	

<i>2000</i>		<i>1999</i>	
<i>Cost Rupees</i>	<i>Market Value Rupees</i>	<i>Cost Rupees</i>	<i>Market Value Rupees</i>
INVESTMENTS			
Shares/certificates of listed companies/fund (Note 11.1)	47,595,409	30,124,748	49,212,143
Less: Provision for the diminution in the value of investments	5,770,542	--	13,266,846
	41,825,867	30,124,748	35,925,297
			15,976,560

11.1 Shares/Certificates of Listed Companies/Funds

	2000		Average Cost	1999	
	Cost Rupees	Market Value Rupees	Per Share Rupees	Cost Rupees	Market Value Rupees
D.G. Khan Cement Company Limited 187,000 (1999: 82,000) fully paid ordinary shares of Rupees 10 each	6,068,515	1,514,700	32.45	4,912,515	340,300
Nishat Mills Limited Nil (1999: 70,500) fully paid ordinary shares of Rupees 10 each	--	--	--	5,586,890	669,750
Muslim Commercial Bank Limited 465,500 fully paid ordinary shares of Rupees 10 each	15,865,204	14,337,400	34.08	15,779,004	9,333,275
First Leasing Corporation Limited 9,500 (1999: 75,500) fully paid ordinary shares of Rupees 10 each	160,173	25,650	16.86	1,274,018	396,375
Maple Leaf Electric Company Limited 1,300,000 fully paid ordinary shares of Rupees 10 each	20,000,000	10,400,000	15.38	20,000,000	4,745,000
ICP (S.E.M.F.) Mutual Fund Nil (1999: 41,000) certificates of Rupees 10 each	--	--	--	1,559,750	432,550
National Investment Trust 20,613 (1999: 6,675) units of Rupees 10 each	299,966	218,498	14.55	99,966	50,730
Fauji Fertilizer Company Limited 30,000 (1999: Nil) fully paid ordinary shares of Rupees 10 each	1,715,121	1,180,500	57.17	--	--
Ibrahim Fibres Limited 170,000 (1999: Nil) fully paid ordinary shares of Rupees 10 each	3,487,430	2,448,000	20.51	--	--
Bonus shares					
Al-Faysal Investment Bank Limited Nil (1999: 975) fully paid ordinary shares of Rupees 10 each	--	--	--	--	8,580
	47,596,409	30,124,748		49,212,143	15,976,560

12. FINANCES UNDER MORABAHA ARRANGEMENTS

These represent the finances provided under morabaha arrangements at profit margin ranging from 15.25 to 21 percent per annum. These finances are secured by pledge of shares of listed companies, bank guarantee, personal guarantees of directors, hypothecation of inventories and demand promissory notes.

	2000 Rupees	1999 Rupees
13. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances to employees-Considered good	729,206	175,196
Security deposit	300,000	300,000
Short term prepayments	140,231	242,902
Lease rentals receivable (Note 13.1)	42,380,390	24,687,509
Due from stock broker	8,041,460	--
Profit on morabaha finances	1,337,780	368,472
Profit accrued on bank deposits	6,369	758,132
Income tax refundable	764,116	954,547
Due from management company	--	188,845
Dividend receivable	180,000	--
	-----	-----
Advance for equity investments	650,000	--
Less: Provision thereagainst	6,500,001	--
	-----	-----
	--	--

Miscellaneous receivables - Considered good	82,029	48,824
	-----	-----
	53,961,581	27,724,427
	=====	=====

13.1 Lease Rentals Receivable

Due from lessees	62,721,761	44,596,841
Less: Provision for doubtful receivables	20,341,371	19,909,332
	-----	-----
	42,380,390	24,687,509
	=====	=====

14. CASH AND BANK BALANCES

Cash in hand	490,351	26,742
Cash with banks:		
Deposit accounts	--	55,832,735
PLS-Saving accounts	27,206,894	1,720,956
Current accounts	200,000	944,427
	-----	-----
	27,406,894	58,498,118
	-----	-----
	27,897,245	58,524,860
	=====	=====

15. OTHER INCOME

Profit on bank deposits	2,544,027	10,152,048
Dividend income	2,789,312	1,073,967
Fees, commission and other charges	529,387	299,469
Profit on advances to employees	40,386	11,328
Gain on sale of shares/certificates	--	390
	-----	-----
	5,903,112	11,537,202
	=====	=====

16. ADMINISTRATIVE AND GENERAL EXPENSES

Salaries and other benefits (Note 16.1)	3,309,688	3,098,361
Legal and professional	754,765	513,043
Printing and stationery	392,601	376,088
Travelling and vehicles' running	95,413	63,984
Insurance	40,536	85,296
Fee, subscription and taxes	502,807	281,194
Auditors' remuneration (Note 16.2)	59,380	49,380
Zakat	118,177	121,537
Advertisement	11,400	33,700
Depreciation on assets in own use	422,821	121,740
Miscellaneous	106,684	58,706
	-----	-----
	5,814,272	4,803,029
	=====	=====

16.1 The aggregate amount charged in the accounts for the year for remuneration, including certain benefits to the officers/employees of Modaraba is as under:

Remuneration	2,174,007	1,882,568
House rent	408,901	360,424
Other allowances and perquisites	726,780	855,369
	-----	-----
	3,309,688	3,098,361
	=====	=====

16.2 Auditors' Remuneration

Audit fee	50,000	45,000
Out of pocket expenses	9,380	4,380
	-----	-----
	59,380	49,380
	=====	=====

	Number	Number
16.3 Number of employees at the year's end	10	11
	=====	=====

16.4 Office space, utilities and related expenditures have been borne by the management company.

17. FINANCIAL AND OTHER CHARGES

Financial

Profit on morabaha/musharika finance	8,873,154	3,265,649
Bank charges, duties and commission	44,136	83,539
	-----	-----
	8,917,290	3,349,188

Others

Loss on sale of fixed assets	--	6,117
Loss on sale of investments	7,542,862	--
Provision for diminution in the value of investments		
-Reversed	(7,516,304)	--
Penalties levied by Excise and Taxation Department	20,433	--
Provision for doubtful lease rentals and other		
receivable	1,082,039	251,492
Donations (Note 17.1)	3,300	25,500
	-----	-----
	10,049,620	3,632,297
	=====	=====

17.1 None of directors or their spouses have any interest in the donees.

18. PROVISION FOR TAXATION

Current year (Note 18.1) -- --

Prior years

Current	215,165	108,360
Deferred	--	(1,000,000)
	-----	-----
	215,165	(891,640)
	-----	-----
	215,165	(891,640)
	=====	=====

18.1 After amendment in clause 102E of 2nd Schedule of Part-I of Income Tax Ordinance, 1979 made through Finance Act, 1998, the Modaraba considers itself exempt from income tax application as it, distributes 90 percent of its profits to certificate holders. Therefore, no provision with respect to current tax is required.

19. LEASE RENTALS RECEIVABLE

Aggregate amount of lease rentals receivable on the basis of lease agreements executed upto 30 June 2000 and as per revised terms and conditions, approximate to Rupees 201.773 million (1999: Rupees 194.419 million). The amount of future rentals and periods during which they fall due are:

	2000	1999
	Rupees	Rupees
Within one year	74,636,683	61,402,285
One year to five years	127,136,025	133,017,012

20. EARNING PER CERTIFICATE BASIC

There is no dilutive effect on the basic earnings per share of the modaraba, which is based on:

		2000	1999
Profit after taxation	Rupees	26,205,928	25,246,572
Number of ordinary certificates		20,633,399	20,633,399
Earnings per certificates	Rupees	1.27	1.22

21. STATEMENT OF CHANGES IN EQUITY

	Certificate Capital	Capital Reserve (Note 4)	REVENUE RESERVE		Sub Total	Total
	Rupees	Rupees	General Reserve	Unappropriated Profit	Rupees	Rupees
			Rupees	Rupees		
Balance as at 01 July 1998	206,333,990	17,695,677	5,000,000	861,243	5,861,243	229,890,910
Net profit for the year	--	--	--	25,246,572	25,246,572	25,246,572
Transferred during the year	--	5,049,314	--	(5,049,314)	(5,049,314)	--
Final dividend	--	--	--	(20,633,399)	(20,633,399)	(20,633,399)
	-----	-----	-----	-----	-----	-----
Balance as at 30 June 1999	206,333,990	22,744,991	5,000,000	425,102	5,425,102	234,504,083
Net profit for the year	--	--	--	26,205,928	26,205,928	26,205,928
Transferred during the year	--	2,620,593	--	(2,620,593)	(2,620,593)	--

Final dividend	--	--	--	(22,696,739)	(22,696,739)	(22,696,739)
Balance as at 30 June 2000	206,333,990	25,365,584	5,000,000	1,313,698	6,318,698	238,613,272

22. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

22.1 Profit Rate Risk Exposure

The Modaraba's exposure to profit rate risk and effective rates on its financial assets and financial liabilities are summarised as follows:

	<i>2000</i>			
	<i>Financial Instruments</i>	<i>Profit Bearing</i>		<i>Non- Profit Bearing</i>
		<i>Written One Year</i>	<i>One Year to Five years</i>	
	<i>Rupees</i>			
ASSETS				
Finances under morabaha arrange	68,500,000	68,500,000	--	--
Investments	41,825,867	--	--	41,825,867
Advances, deposits and other rec	52,877,234	729,206	--	52,148,028
Cash and bank balances	27,897,245	27,206,894	--	690,351
	191,100,346	96,436,100	--	94,664,246
LIABILITIES				
Finance under morabaha arrangem	38,536,868	8,072,646	30,464,222	--
Security deposits	22,876,442	--	--	22,876,442
Finance under musharika arrangem	31,700,000	31,700,000	--	--
Accrued and other liabilities	5,362,965	--	--	5,362,965
	98,476,275	39,772,646	30,464,222	28,239,407
Total profit rate sensitivity gap	92,624,071	56,663,454	(30,464,222)	66,424,839
Cumulative profit rate sensitivity g	--	56,663,454	26,199,232	92,624,071

22.2 Effective Profit Rates

Financial assets

Finances under morabaha arrangements	15.25 to 21 percent per annum
Bank balances	7 to 14 percent per annum

Financial liabilities

Finances under morabaha arrangements	18 percent per annum
Finances under musharika arrangements	17 percent per annum

22.3 Profit Rate Risk Exposure

The Modaraba's exposure to profit rate risk and effective rates on its financial assets and financial liabilities are summarised as follows:

	<i>1999</i>			
	<i>Financial Instruments</i>	<i>Profit Bearing</i>		<i>Non- Profit Bearing</i>
		<i>Written One Year</i>	<i>One Year to Five years</i>	
	<i>Rupees</i>			
ASSETS				
Finances under morabaha arrange	36,618,009	36,618,009	--	--
Investments	35,925,297	--	--	35,925,297
Advances, deposits and other rec	26,526,978	151,863	--	26,375,115
Cash and bank balances	58,524,860	58,298,118	--	226,742
	157,595,144	95,067,990	--	62,527,154
LIABILITIES				
Finance under morabaha arrangem	20,629,164	3,567,075	17,062,089	--
Security deposits	14,286,019	--	--	14,286,019
Accrued and other liabilities	881,435	--	--	881,435
	35,796,618	3,567,075	17,062,089	15,167,454

Total profit rate sensitivity gap	121,798,526	91,500,915	(17,062,089)	47,359,700
Cumulative profit rate sensitivity g	--	91,500,915	74,438,826	121,798,526

22.4 Effective Profit Rates

Financial assets

Finances under morabaha arrangements	19 to 21 percent per annum
Bank balances	7to 14 percent per annum
Financial liabilities	
Finance under morabaha arrangement	18 percent per annum

22.5 Fair Value of Financial Assets and Liabilities

The carrying value of financial assets and financial liabilities approximates their fair values as reflected in the financial statements except for investments stated in note No. 11 at cost less provision for diminution in value.

22.6 Credit Risk Exposure

The Modarabas credit risk exposure is not much different from that shown in annual accounts. The management has developed such procedures to efficiently monitor the credit risk exposure through initial credit approvals, monitoring of clients credit exposures and limits, adopting a prudent approach for collateral policy and conservative estimates of provisions for doubtful receivables.

The Modaraba avoids undue concentration of credit risk through diversification of its lendings to different sectors of the economy. Sector-wise break-up of lease portfolio and morabaha finances is as follows:

	2000			
	Lease Rentals Receivable	Morabaha Finance	Total	Percentage
	<i>Rupees</i>			
Cement	15,374,418	38,000,000	53,374,418	22.58
Energy, Oil and Gas	16,287,209	10,000,000	26,287,209	11.12
Engineering and Electrical	3,532,496	--	3,532,496	1.49
Transport and Communications	4,515,555	--	4,515,555	1.91
Textiles	46,713,578	20,500,000	67,213,578	28.44
Banks and Financial Institutions	39,189,726	--	39,189,726	16.58
Education	2,505,167	--	2,505,167	1.06
Chemicals	15,601,177	--	15,601,177	6.60
Garments	7,000,506	--	7,000,506	2.96
Legal and Professional	2,509,710	--	2,509,710	1.06
Individuals-others	14,617,499	--	14,617,499	6.18
	167,847,041	68,500,000	236,347,041	100.00

	1999			
	Lease Rentals Receivable	Morabaha Finance	Total	Percentage
	<i>Rupees</i>			
Sugar	--	14,218,009	14,218,009	8.36
Cement	21,193,305	--	21,193,305	12.46
Energy, Oil and Gas	19,954,766	--	19,954,766	11.73
Engineering and Electrical	7,172,299	--	7,172,299	4.22
Transport and Communications	4,072,788	--	4,072,788	2.39
Textiles	49,749,527	22,400,000	72,149,527	42.40
Banks and Financial Institutions	22,237,967	--	22,237,967	13.07
Education	3,152,323	--	3,152,323	1.85
Legal and Professional	2,747,484	--	2,747,484	1.61
Individuals-others	3,258,927	--	3,258,927	1.92
	133,539,386	36,618,009	170,157,395	100.00

23. CORRESPONDING FIGURES

Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison.

JAVAID B. SHEIKH
Chairman

WASIM-UL-HAQ OSMANI
Chief Executive

ARSHAD I. KHAN
Director

CATEGORIES OF CERTIFICATE HOLDERS

<i>Category Code</i>	<i>Description</i>	<i>Number of Certificate holders</i>	<i>Certificates Held</i>	<i>Percentage of T. Capital</i>
1	Individuals	5483	13,057,423	63.28
2	Investment Companies	9	147,247	0.71
3	Insurance Companies	4	1,043,253	5.06
4	Joint Stock Companies	33	3,615,198	17.52
5	Financial Institutions	12	2,610,234	--