



2006 Annual Report

FIRST FIDELITY LEASING MODARABA

Managed by:
Fidelity Capital Management (Private) Limited

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CORPORATE INFORMATION

Board of Directors

Fidelity Capital Management (Private) Limited.

Chairman	Siyid Tahir Nawazish
Chief Executive	Mr. Wasim-ul-Haq Osmani
Directors	Sheikh Muhammad Nasim Mr. Shahid Iqbal Chaudhry Mr. Imran Hameed

Corporate Secretary / CFO Mr. Muhammad Waheed

Auditors of Modaraba KPMG Taseer Hadi & Co.
Chartered Accountants

Audit Committee

Chairman	Siyid Tahir Nawazish
Members	Mr. Shahid Iqbal Chaudhry Mr. Imran Hameed
Secretary	Mr. Muhammad Arshad

Credit Committee

Chairman	Siyid Tahir Nawazish
Members	Mr. Wasim-ul-Haq Osmani Mr. Muhammad Waheed Mr. Muhammad Younis Chaudhry

Legal Advisor Salim & Baig (Advocates)

Bankers Crescent Commercial Bank Limited
MCB Bank Limited
PICIC Commercial Bank Limited

Registered Office Crescent Standard Tower
10-B, Block E-2, Gulberg-III
Lahore. Tel: 042-5783724-27 Fax: 042-5783761

Registrars Crescent Standard Business Management (Pvt.) Ltd.
Crescent Standard Tower
6th Floor, 10-B, Block E-2, Gulberg-III
Lahore. Tel: 111-912-912-27 Fax: 042-5875916

Vision

To excel in providing innovative Islamic financial services to customers in the best possible manner.

Mission

- To achieve a unique position in the Modaraba sector by developing products, foreseeing upcoming changes, endeavoring value addition, focusing economic and industrial growth of the country and seeking expansion in business activity.
- To offer attractive returns to stakeholders as per their expectations.
- To actively participate and support transformation of our mercantile and financial sector in accordance with Sharia.
- To build our institution with attributes of flexibility, innovation and foresight keeping intact prudence level and corporate discipline supported by dedicated management mindful of corporate and social obligation, maintaining high professional and ethical standards with eyes on the future.

KEY OPERATING DATA FOR LAST SIX YEARS

(Rupees in Millions)

	June 2006 Rupees	June 2005 Rupees	June 2004 Rupees	June 2003 Rupees	June 2002 Rupee	June 2001 Rupees
Operating results						
Revenues	130.86	142.91	129.95	135.31	108.06	137.53
Operating profit before management fee and taxation	32.79	21.10	27.96	34.89	25.85	27.11
Profit after taxation and management fee	27.83	24.01	25.35	31.72	23.50	24.65
Financial position						
Fixed assets (owned and leased out)	221.39	244.06	258.40	222.28	204.47	174.54
Total assets	577.43	662.07	588.02	438.81	395.07	438.10
Certificateholders equity	315.94	313.41	318.04	253.97	244.90	242.03
Paid up capital	264.13	264.13	206.33	206.33	206.33	206.33
Earning per certificate	1.05	0.91	0.89	1.540	1.14	1.19
Profit distribution (%)	10.00	10.00	10.00	11.50	10.00	10.00
Break-up value per certificate	12.00	11.86	12.14	12.30	11.86	11.73

NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the Annual Review Meeting (ARM) of First Fidelity Leasing Modaraba to review performance of the Modaraba during the year ended June 30, 2006 will be held on October 30, 2006 at 3:30 P.M. at Crescent Standard Tower, 10-B, Block E-2, Gulberg-III, Lahore.

Certificateholders whose names are entered in the register of certificateholders seven days before the date of ARM i.e. October 23, 2006 shall be entitled to attend the meeting.

By Order of the Board

Lahore
October 09, 2006

Muhammad Waheed
Corporate Secretary

DIRECTORS' REPORT

The Directors of Fidelity Capital Management (Private) Limited are pleased to present 15th Annual Report of First Fidelity Leasing Modaraba together with the audited financial statements and the auditors' report thereon for the year ended June 30, 2006.

Financial Results

The financial results of the Modaraba are summarized as follows.

	(Rupees in thousand)	
	2006	2005
Income	130,860	142,917
Expenses	(98,066)	(121,810)
Operating profit before provisions and taxation	32,793	21,107
(Provision) / reversal for doubtful receivables	(571)	3,469
Modaraba Company's management fee	(2,929)	(2,234)
Profit before taxation	29,293	22,342
Taxation	1,461	1,673
Profit after taxation	27,831	24,015

Appropriations

Unappropriated profit brought forward	4,163	8,747
Net profit for the year	27,831	24,015
Profit available for appropriation	31,995	32,762

Appropriated as follows:

Transferred to statutory reserve	(5,566)	(4,803)
Merger adjustment	-	2,618
Profit distribution	(26,414)	(26,414)
Un-appropriated profit carried forward	15	4,163

Earning Per Certificate

Earning per certificate stood at Rs. 1.05 (2005: Rs. 0.91).

Profit Distribution

The Directors are pleased to announce cash dividend for the year @ 10% i.e Re. 1 per certificate (2005 : @ 10% i.e Re. 1 per certificate). The certificate transfer books of the Modaraba will remain closed from October 31, 2006 to November 13, 2006 (both days inclusive) for determination of dividend entitlement.

DIRECTORS' REPORT

Review of Operations

The business environment remained conducive as economy sustained its solid economic upswing in 2005-06 with 6.6 per cent growth, making it 7 per cent per annum on average during the last four years. The robust growth during the year was especially satisfactory when assessed against the backdrop of rising energy prices and the massive destruction caused by the 8th October, 2005 earthquake. The key drivers of this year's growth have been the service sectors and industry. The service sector continued to perform strongly at 8.8 percent.

The above healthy economic environment and performance was reflected in the Pakistani capital markets. The KSE 100 index which started the year at 7450 touched its all time high level of 12274 and then closed at the year end at 9989 registering an increase of 34% of the initial index.

The Modaraba during the year earned after tax profit of Rs. 27.83 million as compared to Rs 24.01 million earned in the corresponding period. The core activities of the Modaraba remained conventional leases of vehicle and machinery and equity brokerage services. Revenues in brokerage services were lower as compared to last year largely because of low volumes traded at stock exchanges during the year. However lost margins were more than compensated by better return on leases and savings in administrative and general expenses.

Modaraba's share out of sale proceeds of Kohinoor Industries Limited surplus factory land was fully received during the year. The agreement for sale of LSE membership alongwith related business entered into with Crescent Leasing in the previous year was revoked with mutual consent as Creslease was barred from doing brokerage business under the draft NBFCs rules issued in April 2006. The revocation was effected before transfer of membership in the name of Creslease.

Corporate Governance Compliance

As required by the Code of Corporate Governance, directors are pleased to report that:

Corporate governance compliance

As required by the Code of Corporate Governance, directors are pleased to report that:

- (a) The financial statements prepared by the management of the Modaraba present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- (b) Proper books of account of the Modaraba have been maintained.
- (c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- (d) International accounting standards, as applicable in Pakistan have been followed in preparation of financial statements.
- (e) The system of internal control is sound and has been effectively implemented and monitored.
- (f) There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- (g) There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.
- (h) A statement setting out status of the compliance with the best practices of corporate governance is attached.

Key Operating and Financial Data

A statement summarizing key operating and financial data for the last six years is attached.

DIRECTORS' REPORT

Trading in Modaraba certificates by Directors Etc.

None of the directors, chief executive, executives, auditors of the Modaraba or their spouses and minor children carried out any trade in the certificates of the Modaraba.

Board Meetings

During the year under review 7 meetings of the Board of Fidelity Capital Management (Pvt) Limited were held, which were attended by the directors as follows:

Name of director	Meetings attended
Siyid Tahir Nawazish	7
Mr. Wasim-ul-Haq Osmani	7
Mr. S.M. Nasim	3
Mr. Shahid Iqbal Chaudhry	7
Mr. Imran Hameed	7

Credit Rating

PACRA has maintained Modaraba's long term rating of A- and short term of A2. These ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments. The ratings of the Modaraba reflect its sustained risk absorption capacity, emanating from substantially improved asset quality and adoption of low risk credit expansion with focus on investment strategy based on a low leveraged capital structure.

Value of Provident Fund and Gratuity Fund Investment

The Modaraba operates a contributory provident fund for all its permanent employees. Equal monthly contributions are made, both by the Modaraba and the employee to the fund @ 10% of basic salary. The value of its investment as at June 30, 2006 works out to Rs. 1,009,586.

Modaraba also operates an approved funded gratuity scheme for its management staff who complete the qualifying period of service. Provision in the books of account has been made in accordance with actuarial recommendations.

Pattern of Certificateholdings

The pattern of certificateholdings is annexed to this report.

Auditors

M/s KPMG Taseer Hadi & Co., Chartered Accountants were auditors of the Modaraba for the year ended June 30,2006. They being eligible have offered themselves for re-appointment for the year ending June 30, 2007. The Audit Committee has recommended their re-appointment. Subject to approval by the Registrar Modaraba, their appointment has been approved by the Board.

DIRECTORS' REPORT

Future Outlook

Future outlook of the economy is encouraging. The only negative factor that could mar economic growth may be extraordinary rise in the oil prices. The government has rightly emphasized on domestic oil and gas exploration. Continued reforms in the financial sector would help in financial discipline and growth of the financial sector. Mega financial institutions are likely to emerge due to government encouraged amalgamations in the sector. The Modaraba sector is facing competition from such institutions in traditional Islamic financing. The government should encourage diversification in the activities of Modarabas.

The management had foreseen these developments and embarked upon diversification process by applying for permissions to undertake housing finance and real estate development activities in 2004. A meeting of the Religious Board was held first on April 18, 2005 to consider Modaraba's proposed business activities. The Religious Board after due consideration in its meeting held on January 23, 2006 approved insertion of said business clauses in its Prospectus subject however to taking written approval of the Registrar Modaraba before undertaking the business. The Modaraba has received approval for undertaking housing finance from the Registrar Modaraba. However approval for development activities, though approved by the Religious Board, is pending with the Registrar Modaraba for want of promulgation of rules in this regard. The Modaraba model for housing finance is essentially linked with development of its own projects. Development of own projects not only provides prospects for higher returns, but also has greater flexibility of selling some units on outright basis, and some on deferred payment basis. Given limited resources of Modarabas, in the case of own projects, the chances of getting refinance on the projects increase manifold. Therefore till permission to undertake development activities by the Registrar Modaraba, the housing finance activities may not be undertaken at desired level. The management is hopeful that rules would be formulated early, enabling Modaraba to accomplish its desired goals of providing better return to its certificateholders.

Acknowledgement

The Board wishes to place on record its appreciation for the continued support, guidance and necessary measures taken by the Registrar Modaraba, Securities and Exchange Commission of Pakistan, Modaraba Association of Pakistan and other Regulators.

At the same time the Board appreciates the commitment, dedication and hard work put in by the management and staff members of the Modaraba and looks forward to their continued commitment in the coming years.

For and on behalf of the
Board of Directors

Lahore
October 7, 2006

Wasim ul Haq Osmani
Chief Executive

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of Stock Exchanges.

Fidelity Capital Management (Private) Limited is the Management Company of First Fidelity Leasing Modaraba and is a private limited company. The Code of Corporate Governance is not applicable to the Management Company. However, First Fidelity Leasing Modaraba listed at all Stock Exchanges, comes under the ambit of the Code. First Fidelity Leasing Modaraba being a Modaraba does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Modaraba.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors. Board presently comprises five directors and all are non-executive directors. The Management Company not being a listed company does not have any minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBFC or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy occurred in the Board of Management Company is filled up by the directors within 30 days thereof.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all directors and employees of the Management Company and Modaraba.
6. The Management Company has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The terms of appointment and remuneration package of the CEO and directors are not approved by the Board.
8. The meetings of the Board were presided over by the Chairman or CEO (in case of absence of Chairman) and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working paper were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Management Company arranged orientation course for its directors to apprise them of their duties and responsibilities.
10. The Board has approved appointments of Chief Financial Officer, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the Chief Executive.

11. The report of the directors of the Management Company on the financial statement of the Modaraba of this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. CEO and CFO duly endorsed the financial statements of the Modaraba before approval of the Board.
13. The directors, chief executive and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificateholdings.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code with respect to Modaraba.
15. The Board has formed an audit committee, which comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed and advised to the Committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Modaraba had confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all of its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Lahore
October 07, 2006

Wasim ul Haq Osmani
Chief Executive

REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Fidelity Capital Management (Private) Limited (“the Modaraba Company”) in respect of First Fidelity Leasing Modaraba (“the Modaraba”) to comply with the listing regulations of the stock exchanges where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Modaraba Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Modaraba’s compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Modaraba personnel and review of various documents prepared by the Modaraba to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board’s statement on internal control covers all controls and the effectiveness of such internal controls.

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 Modaraba for the year ended 30 June, 2006.

Lahore
October 07, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants

AUDITORS' REPORT TO THE CERTIFICATEHOLDERS

We have audited the annexed balance sheet of First Fidelity Leasing Modaraba ("the Modaraba") as at 30 June 2006 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, 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 (Fidelity Capital Management (Private) Limited) responsibility which 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 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 Modaraba Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Modaraba Company in respect of Modaraba as required by Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- (b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with 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 30 June 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Lahore
October 07, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants

BALANCE SHEET

AS AT 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
ASSETS			
Current assets			
Cash and bank balances	3	15,467,646	32,378,231
Short term placements	4	-	4,138,679
Short term investments	5	1,146,400	8,493,992
Finances under musharika arrangements	6	46,500,000	47,500,000
Finances under morabaha arrangements	7	69,343,440	40,920,000
Advances, deposits, prepayments and other receivables	8	54,673,807	111,903,159
Current maturities of long term investments	9	4,393,670	2,788,018
		191,524,963	248,122,079
Non current assets			
Long term investments	9	24,551,823	28,945,493
Deferred cost	10	332,952	665,892
Investment properties	11	116,493,232	117,099,765
Cards and rooms	12	23,177,950	23,177,950
Fixed assets	13	221,392,153	244,063,545
		385,948,110	413,952,645
Total assets		577,473,073	662,074,724
LIABILITIES			
Current Liabilities			
Finances under musharika arrangements	14	10,000,000	20,000,000
Creditors, accrued and other liabilities	15	106,207,907	169,695,439
Profit distribution		26,413,804	26,413,804
Current maturities of non-current liabilities	16	47,104,713	23,764,892
		189,726,424	239,874,135
Long term and deferred liabilities			
Security deposits from lessees	17	45,853,013	67,306,176
Refinance facility	18	25,384,300	34,434,152
Finances under morabaha arrangements	19	-	6,666,664
Employee benefits	20	562,960	375,836
		71,800,273	108,782,828
Total liabilities		261,526,697	348,656,963
Net assets		315,946,376	313,417,761
Financed by			
Certificate capital	21	264,138,040	264,138,040
Reserves	22	51,808,336	49,279,721
Contingencies and Commitments			
	23	-	-
		315,946,376	313,417,761

The annexed notes 1 to 40 form an integral part of these financial statements.

Chief Executive
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
Income			
Lease rentals		94,798,127	96,748,284
Profit on morabaha/musharika finances		6,345,448	1,934,694
Return on investments	24	5,141,998	4,047,899
Brokerage commission		18,214,652	28,131,094
Other income	25	8,696,008	11,946,597
Profit/(loss) on operations of ISP Division	26	(2,335,894)	108,774
		130,860,339	142,917,342
Expenses			
Amortization of assets leased out		62,549,878	77,368,659
Administrative and general expenses	27	25,457,452	30,595,655
Stock exchange and CDC charges		2,480,699	3,070,954
Financial and other charges	28	7,578,625	10,775,115
		98,066,654	121,810,383
Operating profit before provisions and taxation		32,793,685	21,106,959
(Provision)/reversal of provision for doubtful receivables	34	(571,153)	3,468,823
		32,222,532	24,575,782
Modaraba Company's management fee		2,929,321	2,234,162
Profit before taxation		29,293,211	22,341,620
Taxation	29	1,461,826	(1,673,421)
Profit after taxation		27,831,385	24,015,041
Unappropriated profit brought forward		4,163,937	8,747,392
Profit available for appropriation		31,995,322	32,762,433
Appropriations			
Transferred to statutory reserve		(5,566,277)	(4,803,008)
Merger adjustment		-	2,618,316
Profit distribution @ 10% (2005: @ 10%)		(26,413,804)	(26,413,804)
		(31,980,081)	(28,598,496)
Unappropriated profit carried forward		15,241	4,163,937
Earnings per share-basic and diluted	30	1.05	0.91

The annexed notes 1 to 40 form an integral part of these financial statements.

Chief Executive
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	2006 Rupees	2005 Rupees
Cash flow from operating activities		
Cash generated from operations	38 62,026,669	107,943,711
Financial charges paid	(7,749,986)	(9,984,020)
Profit received on morabaha/musharika finances	5,383,875	830,181
Profit received on TFC,s	2,656,500	1,096,340
Profit on bank deposits	140,142	3,744,660
Return on placements	2,116,437	2,029,466
Deferred cost	-	(998,834)
Retirement benefits paid	(579,100)	(1,324,637)
Income tax paid	(1,356,028)	(2,398,266)
Net cash generated from operating activities	62,638,509	100,938,601
Cash flow from investing activities		
Dividend received	130,924	-
Lessees security deposits	755,404	4,183,414
Proceeds from sale of fixed assets - Leased out	41,940,762	47,389,150
Fixed assets acquired - Leased out	(80,299,685)	(91,172,103)
Investments	9,016,757	(4,482,968)
Short term placements	4,138,679	32,344,006
Proceeds from sale of own assets	1,524,696	3,815,191
Fixed assets acquired - Own use	(5,737,495)	(25,937,834)
Investment properties acquired	(972,500)	(108,986,861)
Proceeds from sale of investment properties	-	20,450,000
Rooms and membership cards	-	(1,970,000)
Net cash (used in) investing activities	(29,502,458)	(124,368,005)
Cash flow from financing activities		
Finances under musharika arrangements	(10,000,000)	(16,600,000)
Finances under morabaha arrangement	(6,666,668)	(15,276,615)
Refinance facility	(7,918,594)	42,045,583
Profit distribution	(25,461,375)	(20,045,209)
Net cash (used in) financing activities	(50,046,637)	(9,876,241)
Net (decrease) in cash and cash equivalents	(16,910,586)	(33,305,645)
Cash and cash equivalents at the beginning of the year	32,378,231	65,683,876
Cash and cash equivalents at the end of the year	15,467,645	32,378,231

The annexed notes 1 to 40 form an integral part of these financial statements.

Chief Executive
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Certificate Capital	Statutory	Reserve Fair Value	Amalgamation	Unappropriated Profit	Total
Balance as at 30 June 2004	206,333,990	42,542,663	-	60,422,366	8,747,392	318,046,411
Net profit for the year	-	-	-	-	24,015,041	24,015,041
Excess of net capital acquired in First Hajveri Modaraba	-	-	-	(2,618,316)	2,618,316	-
Issued to certificate holders of First Hajveri Modaraba under scheme of amalgamation	57,804,050	-	-	(57,804,050)	-	-
Transfer during the year	-	4,803,008	-	-	(4,803,008)	-
Profit distribution @ 10%	-	-	-	-	(26,413,804)	(26,413,804)
Fair value gain realized during the year	-	-	(2,229,887)	-	-	(2,229,887)
Balance as at 30 June 2005	264,138,040	47,345,671	(2,229,887)	-	4,163,937	313,417,761
Net profit for the year	-	-	-	-	27,831,385	27,831,385
Transfer during the year	-	5,566,277	-	-	(5,566,277)	-
Profit distribution @ 10%	-	-	-	-	(26,413,804)	(26,413,804)
Revaluation gain/(loss)	-	-	1,111,034	-	-	1,111,034
Balance as at 30 June 2006	264,138,040	52,911,948	(1,118,853)	-	15,241	315,946,376

The annexed notes 1 to 40 form an integral part of these financial statements.

Chief Executive
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

1 Legal status and nature of business

First Fidelity Leasing Modaraba (“the Modaraba”) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed there under and is managed by Fidelity Capital Management (Private) Limited. The registered office of the Modaraba is situated at Crescent Standard Tower, 10-B, Block E-2, Gulberg-III, Lahore. The Modaraba commenced its business operations from 5 December 1991. The Modaraba is listed on all the stock exchanges in Pakistan.

The Modaraba is a perpetual, multipurpose and multidimensional modaraba and is primarily engaged in the business of leasing, musharika and morabaha financing, equity investment, brokerage and other related business. The Modaraba is a corporate member of the Lahore Stock Exchange (Guarantee) Limited, Islamabad Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited.

2 Summary of significant accounting policies

2.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for available for sale investments, which have been recognized at fair value. These financial statements have been prepared under the historical cost convention except for available for sale investments, which have been recognized at fair value and recognition of certain staff retirement benefits at present value.

2.2 Statement of compliance and estimates

2.2.1 Statement of compliance

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

The SECP vide Circular No. 10 of 2004 dated 13 February 2004 has deferred, till further orders, the applicability of the IAS 17 “Leases” with effect from 01 July 2003. Accordingly, this IAS has not been taken into consideration for the purposes of preparation of these financial statements.

2.2.2 Significant estimates

The preparation of financial statements in conformity with approved account-

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

ing standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying companies accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) Defined benefit plans
- b) Provisions for taxation
- c) Accrued liabilities
- d) Provision for doubtful debts

2.3 Fixed assets

Assets in own use and depreciation

These are stated at cost less accumulated depreciation and impairments, if any. Depreciation is charged using "Straight line method" so as to write off the historical cost of an asset over its estimated useful life at the following rates:

	Rate in %
Furniture and fixture	10
Computer and equipment	10 - 20
Motor vehicles	20

During the year as a result of revision in International Accounting Standard 16- "Property, Plant and Equipment", the Company has changed its accounting method of charging depreciation whereby depreciation is charged from the month in which assets are put to use upto the month before the disposal of asset. Previously the Company charged full year's depreciation on additions, while no depreciation was charged in the year of disposal. Such change, being a change in accounting estimate, has been accounted for prospectively. Had there been no change in the estimate, the profit for the year and unappropriated profit would have been higher by Rs.165,951.

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

Normal repairs and maintenance are charged to income as and when incurred. Major improvements and modifications are capitalized and the assets so replaced, if any, are retired.

Profit or loss on disposal of operating fixed assets represented by the difference between the sale proceeds and the carrying amount of the asset is included in income.

Asset leased out and amortisation

Assets leased out are stated at cost less amortization. Amortization is charged to

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

income applying the annuity method whereby the depreciable value of assets is amortized over the lease period. In respect of additions and transfers during the year, amortization is charged proportionately to the period of lease.

2.4 Impairment

The carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impairment losses are recognized.

2.5 Cards and rooms

These are stated at cost less impairments, if any.

2.6 Investment properties

Properties held to earn rentals and for capital appreciation are classified as investment properties. Investment properties are initially measured at cost, being the fair value of the consideration given. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and impairment, if any, except for land, which is stated at cost. Depreciation is charged on building using "Straight line method" so as to write off the historical cost of an asset over its estimated useful life at 2.5-10 percent per annum.

During the year as a result of revision in International Accounting Standard 16 - "Property, Plant and Equipment", the Company has changed its accounting method of charging depreciation whereby depreciation is charged from the month in which assets are put to use upto the month before the disposal of asset. Previously the Company charged full year's depreciation on additions, while no depreciation was charged in the year of disposal. Such change, being a change in accounting estimate, has been accounted for prospectively. Had there been no change in the estimate, the profit for the year and unappropriated profit would have no effect.

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

Normal repairs and maintenance are charged to income as and when incurred. Major improvements and modifications are capitalized and the assets so replaced, if any, are retired.

Profit or loss on disposal of investment properties represented by the difference between the sale proceeds and the carrying amount of the asset is included in income.

2.7 Investments

The Modaraba classifies its investments as held to maturity, available for sale or held for trading.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

Held to maturity

Investments with fixed maturity where management has both the intent and ability to hold to maturity are classified as held to maturity.

Available for sale

Investments intended to be held for an unidentified period of time, which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as available for sale.

Financial assets at fair value through profit and loss

Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in price or dealer's margin are classified as held for trading.

All "regular way" purchases and sales of listed shares are recognized on the trade date, i.e. the date that the Modaraba commits to purchase/sell the asset.

All investments are initially recognized at cost, being the fair value of the consideration given. Subsequent to initial recognition, in accordance with the requirements of IAS-39; Financial Instruments: Investments held for Trading and Investments Available for Sale for which active market exists, are measured at their market value while Investments Held till Maturity are stated/measured at amortized cost using the effective interest rate method.

Any surplus or deficit on revaluation of Held for Trading Investments are charged to income currently, while in case of Available for Sale Investments the resulting surplus/ (deficit) is charged to the shareholders' equity. At the time of disposals the respective surplus or deficit is transferred to income currently.

2.8 Securities under reverse repurchase agreements

Transactions of reverse repurchase of investment securities are entered into at contracted rates for specified periods of time and are accounted for as follows:

Reverse repurchase agreements

Investments purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the balance sheet. Amounts paid under these agreements are recorded as fund placements. The difference between purchase and resale price is treated income from reverse repurchase transactions of listed shares and accrued over the life of the reverse repo agreement.

2.9 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 in hand and cash with banks in current and deposit accounts and short term placements with financial institutions.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

2.10 Financial instruments

Financial assets

Financial assets are cash and bank balances, placements, investments, financing and other receivables. Finances and receivable from clients are stated at their nominal value as reduced by provision for doubtful finances and receivables, while other financial assets are stated at cost except for investments, which have been revalued as per accounting policy.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include borrowings, trade and other payables. Mark-up based financial liabilities are recorded at gross proceeds received. Other liabilities are stated at their nominal value.

Recognition and derecognition

All the financial assets and financial liabilities are recognized at the time when the Modaraba becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Modaraba loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

Offsetting of financial assets and financial liabilities

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

2.11 Provisions

Provisions are recorded when the Modaraba has a present legal or constructive obligation as a result of a 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 obligation.

2.12 Staff retirement benefits

Employees compensated absences

Employees of Modaraba are entitled to take privileged leave of 30 days every year. Privileged leave can be accumulated up to a maximum of 90 days. An employee is entitled to encash the accumulated privileged leave subject to a maximum of 90 days at the time of leaving the service. An employee can encash the unutilized privilege leave accrued during the year over and above the maximum permissible accumulation at the discretion of the management.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2006

Actuarial valuation was carried out on 30 June 2006 to determine and adjust the liability on the balance sheet date. The actuary, for ascertaining the fair value of liabilities, has adopted the projected unit credit method.

Assumptions used for valuation for the scheme are as under:

	Per annum
Discount rate	9%
Expected rate of increase in salary	8%
Average number of leaves utilized	19 days

Gratuity

The Modaraba operates an approved funded gratuity scheme for its management staff. Actuarial valuation was carried out on 30 June 2006 to determine and adjust the liability on the balance sheet date. The actuary, for ascertaining the fair value of assets and liabilities, has adopted the projected unit credit method.

Assumptions used for valuation for the scheme are as under:

	Per annum
Discount rate	9%
Expected rate of return on plan assets	9%
Expected rate of increase in salary	8%

The Modaraba recognizes its actuarial gains and losses as income and expense if the net cumulative actuarial gains and losses at the end of previous reporting period exceeded the greater of:

- a) 10% of the present value of the defined benefit obligation at the date (before deducting plan assets); and
- b) 10% of the fair value of any plan assets at that date.

Provident fund

The Modaraba operates a recognized provident fund for all its regular employees. Equal monthly contributions are made to the fund both by the modaraba and the employees at the rate of 10% of the basic salary. The fund is administrated by the Trustees.

2.13 Revenue recognition

Lease rentals are recognized as income when lease installment becomes due over the lease period

Profit on morabaha and musharika finances is recognized on accrual basis.

Revenue from ISP Division is recognized at the time of sale of internet hours.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

Return on bank deposit and placements are recognized on time proportionate basis.

Brokerage commission is recognized when such services are provided.

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

2.14 Borrowing cost

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

2.15 Deferred cost

Deferred cost is amortized over maximum period of five years.

2.16 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, rebates and exemptions, if any.

Deferred

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

In accordance with clause 100 of Part-1 of Second Schedule of the Income Tax Ordinance, 2001, the Modaraba considers itself exempt from income tax application as it distribute 90 percent of its profit to the certificate holders and the management intends to continue to avail the tax exemption. Therefore, provision for current tax reflects presumptive tax on brokerage operation only. No provision is made for current and deferred tax on other operations.

2.17 Related party transactions

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods.

	Note	2006 Rupees	2005 Rupees
3. Cash and bank balances			
Cash in hand		62,122	37,542
Cash with banks			
Current account		125,123	7,715
Deposit account	3.1	15,280,401	32,332,974
		<u>15,405,524</u>	<u>32,340,689</u>
		<u>15,467,646</u>	<u>32,378,231</u>
3.1	Rate of return on these accounts range from 1.5% to 2% per annum (2005: 1.5% to 2% per annum).		
4. Short term placements			
Secured under reverse repurchase agreements		-	4,138,679
This represents secured placements carrying markup ranging from 15% to 20% per annum.			
5. Short term investments			
Quoted shares and certificates -Available for sale	5.1	1,146,400	8,493,992
		<u>1,146,400</u>	<u>8,493,992</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

5.1 Particulars of shares/certificates-Available for sale investments

All shares/ certificates have face value of Rs. 10 each.

Name	2006			2005		
	shares Number	Cost Rupees	Market Value Rupees	shares Number	Cost Rupees	Market Value Rupees
Banks						
National Bank of Pakistan Limited	-	-	-	10,400	1,248,904	1,120,600
PICIC Commercial Bank Limited	-	-	-	5,000	253,100	165,500
MCB Bank Limited	-	-	-	2,000	127,040	156,000
Bank Alfalah Limited	-	-	-	250	11,380	9,888
Askari Commercial Bank Limited	-	-	-	90	7,562	7,308
Modarabas						
First National Bank Modaraba	-	-	-	1,300	8,476	8,775
Textile						
Hamid Textile Mills Limited	573,200	2,265,252	1,146,400	583,200	2,304,752	699,852
Cement						
Pakistan Cement Company Limited	-	-	-	1,000	8,720	7,250
Fuel and Energy						
Oil and Gas Development Co. Limited	-	-	-	28,200	3,179,550	2,977,920
Attock Refinery Limited	-	-	-	10,000	1,700,200	1,590,000
Pakistan Petroleum Limited	-	-	-	1,500	366,630	321,525
Bosicor Pakistan Limited	-	-	-	1,000	16,620	12,950
Kot Addu Power Company Limited	-	-	-	500	24,060	18,875
KESC Limited	-	-	-	1,000	7,820	5,500
Sui Northern Gas Pipelines Limited	-	-	-	8,000	462,560	492,000
Transport and Communication						
Pakistan Telecommunication Company Limited	-	-	-	10,000	704,700	659,000
Fertilizer						
Fauji Fertilizers Bin Qasim Limited	-	-	-	3,000	90,060	80,850
Chemical and Pharmaceutical						
ICI Pakistan Limited	-	-	-	2,000	195,540	156,000
Synthetics						
Dewan Salman Fiber Limited	-	-	-	250	6,205	4,200
		2,265,252	1,146,400		10,723,879	8,493,992
Fair value reserve		(1,118,852)	-		(2,229,887)	-
		1,146,400	1,146,400		8,493,992	8,493,992

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
6. Finances under musharika arrangements			
unsecured			
Associated companies			
International Asset Management Company Limited		1,500,000	2,500,000
Related Parties			
Crescent Standard Investment Bank Limited	6.1	45,000,000	45,000,000
		46,500,000	47,500,000
6.1	Under the Modaraba Regulation this financing is overdue by more than 180 days and a provision for doubtful financing of Rs. 9 million is required in the current year. However, no provision has been made in view of a corporate undertaking from Fidelity Capital Management (Private) Limited, modaraba management company, whereby any principal loss on this financing will be borne by modaraba management company and will be offset against the amount payable to the modaraba management company as disclosed in note 15.		
6.2	These are unsecured finances under musharika arrangements on profit and loss sharing basis receivable in 3 to 6 months. The estimated share of profit of Modaraba ranges from 8.00% to 15.00 % per annum.		
7. Finances under morabaha arrangements - secured - considered good		56,343,440	22,370,000
Considered doubtful		242,566,968	256,066,968
Less: Provision for doubtful debts	7.1	229,566,968	237,516,968
		13,000,000	18,550,000
		69,343,440	40,920,000

These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin. These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. As a matter of prudence, Modaraba is carrying provision of Rs. 229,566,968 in respect of classified facilities. In respect of these facilities certain recovery suits are pending adjudication in the Lahore High Court and Banking Court, which are likely to be decided in Modaraba's favour, however, due to inadequate securities, chances of any substantial recovery are slim.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
7.1 Particulars of provision for doubtful finances			
Opening balance		237,516,968	243,562,579
Charge for the year		-	-
Less: Reversals		(7,950,000)	(6,045,611)
Net reversal		(7,950,000)	(6,045,611)
Closing balance		229,566,968	237,516,968
8. Advances, deposits, prepayments and other receivables			
Advances to employees-Considered good	8.1	380,587	537,716
Securities and deposits		2,538,027	3,071,048
Short term prepayments		361,537	390,564
Lease rentals receivable	8.2	1,847,096	11,064,211
Kohinoor Industries Limited	8.3	-	50,088,753
Advance to suppliers		270,000	-
Profit on musharika and morabaha finances		2,066,086	1,104,513
Profit accrued on bank deposits		48,502	-
Profit receivable on deposit with Court and other advances		1,921,319	-
Profit accrued on Term Finance Certificates		1,292,316	1,054,179
Income tax refundable/advance tax		2,621,106	2,726,904
Receivable from clients	8.4	27,625,365	24,903,101
Hajveri Modaraba Management Company (Private) Limited	8.5	5,576,032	5,576,032
Receivable against sale of land	8.6	5,133,900	5,133,900
Miscellaneous receivables - considered good		2,991,934	6,252,238
		54,673,807	111,903,159
8.1 The maximum aggregate amount due from staff at the end of any month during the year was Rs. 386,801 (2005: Rs. 537,716).			
8.2 Lease rentals receivable			
Lease rental/musharika profit receivables-secured, considered good		1,847,096	2,409,280
Considered doubtful		10,913,856	10,913,856
Less: Provision for doubtful debts	8.2.2	10,913,856	2,258,925
		-	8,654,931
		1,847,096	11,064,211

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	2006 Rupees	2005 Rupees
8.2.2 Provision for doubtful lease rental receivables		
Opening balance	2,258,925	3,058,618
Charge for the year	8,654,931	672,238
Less: Reversals/written off	-	(1,471,931)
Net charge/(reversal)	8,654,931	(799,693)
Closing balance	10,913,856	2,258,925

8.3 During the year Modaraba has received entire payment from Kohinoor Industries Limited (KIL).

8.4 Receivable from clients - Secured

Considered good	27,625,365	24,903,101
Considered doubtful	1,915,412	2,049,190
Less: Provision against doubtful receivables	1,915,412	2,049,190
	-	-
	27,625,365	24,903,101

8.4.1 These comprise of receivables generated as a consequence of carrying on the business of brokerage.

8.5 This represents amount withdrawn by previous management company of First Hajveri Modaraba from time to time during prior years out of Modaraba Fund on account of remuneration in violation of section 17 and 18 of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The present management has filed civil suit against the company for recovery of the amount which is pending adjudication. The Court has framed issues and has recorded evidence of Modaraba. Case has now been fixed for evidence of defendant company through Court appointed commission. The present management came in possession of 2,053,200 certificates of erstwhile First Hajveri Modaraba subsequently converted into 578,041 certificates of First Fidelity Leasing Modaraba consequent to amalgamation. The present management has prayed to the Court that these certificates be attached and sold for adjustment of claim of the Modaraba. In view of this no provision has been made in these financial statements against this receivable.

8.6 This represents receivable against sale of land, which was taken over by Modaraba as settlement of a morabaha facility.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
9. Long term investments			
Term finance certificates-Held to maturity			
Dewan Cement Limited (DCL) (Formerly Pakland Cement Limited) (PCL)			
Series "A"		15,626,128	17,417,859
Series "B"		2,822,677	2,822,677
		18,448,805	20,240,536
Dewan Hattar Cement Limited (DHCL) (Formerly Saadi Cement Limited) (SCL)			
Series "A"		8,660,388	9,656,675
Series "B"		1,836,300	1,836,300
		10,496,688	11,492,975
		28,945,493	31,733,511
Current maturity		(4,393,670)	(2,788,018)
		24,551,823	28,945,493

9.1 The Term Finance Certificates (TFCs) represent conversion of lease liabilities of former PCL and SCL under a revised second scheme of arrangement forwarded by Dewan Mushtaq Group of Companies, present owner of PCL and SCL in respect of TFCs approved by Honorable High Court of Sindh on 12 December 2004 under JM-41/200. Salient features of revised TFCs are:

9.1.1 These are secured by pari passu hypothecation charge on fixed assets including leased assets transferred by lessor, pledge of shares by sponsors and associates, personal guarantees of directors.

9.1.2 Series "A" TFCs carry mark-up rate of six months ASK KIBOR + 2.5% per annum. Repayment of principal and current mark-up is to be made in six monthly front loaded installments spread over a period of seven years starting January 2005 and ending July 2011.

9.1.3 Series "B" TFCs being 30% of original TFCs issued under first scheme of arrangement carry zero mark-up. Repayment is to be made in six monthly installments spread over a period of two years commencing from the date of last installment of series "A" TFCs.

	Note	2006 Rupees	2005 Rupees
10. Deferred cost			
Opening balance		665,892	19,180
Capitalized during the year	10.1	-	998,834
Amortization charged to income		(332,940)	(352,122)
Closing balance		332,952	665,892

10.1 This represents various expenses incurred in connection with the amalgamation of First Hajveri Modaraba and Fidelity Securities (Private) Limited with and into the Modaraba, which have been deferred as per Clause No. 3 of the Third Schedule of the Modaraba Companies and Modaraba Rules, 1981.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2006

11. Investment properties

	Cost			"Depreciation			Book value Rupees	Market value Rupees	
	As at 01 July 2005	Transfer from fixed assets	Additions/(transfers)	As at 30 June 2006	As at 01 July 2005	For the year/(On transfers)	As at 30 June 2006		
	-----Rupees-----								
Land	67,517,480	-		67,517,480	-	-	-	67,517,480	81,457,500
Building	47,161,318	-	972,500	48,133,818	1,179,033	1,179,033	2,358,066	45,775,752	72,135,000
Electrical installation	4,000,000	-	-	4,000,000	400,000	400,000	800,000	3,200,000	
2006	118,678,798	-	972,500	119,651,298	1,579,033	1,579,033	3,158,066	116,493,232	153,592,500
2005	-	26,821,150	108,986,861	118,678,798	1,979,033	1,579,033	1,579,033	117,099,765	153,592,500
			(17,129,213)						

- 11.1** Building includes a commercial property comprising basement, lower ground and second to sixth floors in Shafi Mansion, Montgomery Road, Lahore having covered area aggregating 27,073 sq.fts alongwith land right of 17 marlas at a total cost of Rs. 76,161,318. Modaraba has rented out this property to Telenor Pakistan (Private) Limited for 15 years at a monthly rent of Rs. 813,460 with 12% increase after every three years. This property has been mortgaged by Modaraba with International Housing Finance Limited against a refinance facility.
- 11.2** Building includes Rs 972,500 in respect of cost of boundary wall constructed on the land that is owned by the Modaraba in Kasur City.
- 11.3** Land includes a plot of land measuring 11 kanals and 11 marlas at main canal road near Jallo at cost of Rs. 14,312,250 acquired for development of physical infrastructural project. In October 2004 the owner of an adjacent land filed a Pre-emption (Haq Shufa) suit in the Civil Court on the ground that she wanted to build houses on her 19 kanals land and the land purchased by the Modaraba, for her son and daughters. The plaintiff has shown interest in buying the land at the price the Modaraba had paid for it. The case is malafide and has been filed with the intention to capitalize the increase in prices in the area. By virtue of the suit the plaintiff has got stay on the property. Modaraba is defending the suit and management is hopeful that it will be decided in Modaraba's favour.
- 11.4** Land also includes a commercial/industrial plot measuring 10 kanals and 10 marlas situated at Main Bund Road, Lahore acquired by the Modaraba for Rs. 23,000,000 in a Court auction by MCB Bank Limited ("MCB"). The auction price was paid to the Court and sale was to be confirmed by the Court through execution of a registered sale certificate in Modaraba's favour. Prior to issuance of the registered sale certificate, judgment debtors have filed an objection to the auction in the Court challenging the decree on the basis of non service of Court notices. At the request of Modaraba pending decision on the application of the judgment debtors the amount deposited by the Modaraba was placed by the Court in a profit bearing bank account. During the year the Banking Court has set aside the decree passed against the judgment debtors. MCB the decree holder being an aggrieved party has filed an appeal in the Lahore High Court against the decision of the Banking Court. The appeal is pending

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2006

for arguments. If MCB succeeds in appeal the auction in favour of Modaraba will be confirmed however, if the decision of the Banking Court is maintained in favour of the judgment debtors the Modaraba shall get back its money with profit from the Court.

	Note	2006 Rupees	2005 Rupees
12. Cards and rooms			
Corporate membership of Islamabad and Lahore Stock Exchanges		14,260,000	14,260,000
Membership of National Commodity Exchange Limited		1,010,000	1,010,000
Rooms		7,907,950	7,907,950
		23,177,950	23,177,950
13. Fixed assets			
Assets leased out	13.1	187,630,864	211,821,819
Assets in own use	13.2	10,761,289	13,741,726
		198,392,153	225,563,545
Work-in-progress - property in course of construction	13.3	23,000,000	18,500,000
		221,392,153	244,063,545

13.1 Assets leased out

	Cost			Depreciation			Book value As at 30 June 2006 Rupees
	As at 01 July 2005 Rupees	Additions/ (transfers) Rupees	As at 30 June 2006 Rupees	As at 01 July 2005 Rupees	For the year/(on transfers) Rupees	As at 30 June 2006 Rupees	
Plant and machinery	146,358,960	16,146,400 (39,957,028)	122,548,332	66,671,450	27,862,609 (30,821,441)	63,712,618	58,835,714
Vehicles	174,014,557	61,922,200 (64,659,287)	171,277,470	47,816,174	32,243,573 (34,043,206)	46,016,541	125,260,929
Office equipments	7,275,448	866,085 (2,395,270)	5,746,263	2,845,793	1,846,892 (1,682,614)	3,010,071	2,736,192
Household equipments	2,168,450	1,365,000 (2,272,616)	1,260,834	662,179	596,804 (796,178)	462,805	798,029
2006	329,817,415	80,299,685 (109,284,201)	300,832,899	117,995,596	62,549,878 (67,343,439)	113,202,035	187,630,864
2005	380,531,570	91,172,103 (141,886,258)	329,817,415	135,124,045	77,368,659 (94,497,108)	117,995,596	211,821,819

13.1.1 Transfers represent the assets disposed through negotiation after expiry/ termination of leases. However, in view of large number of disposals, detail of each disposal has not been given.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2006

13.2 Assets in own use

	Cost			Depreciation			Book value As at 30 June 2006 Rupees
	As at 01 July 2005	Additions/ (transfers)	As at 30 June 2006	As at 01 July 2005	For the year/(on transfers	As at 30 June 2006	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Vehicles	5,012,300	-	3,195,300	1,579,002	748,033 (527,175)	1,799,860	1,395,440
Computer and equipments	12,421,194	1,214,240 (92,870)	13,542,564	3,607,857	1,837,937 (33,867)	5,411,927	8,130,637
Furniture and fixtures	2,022,897	23,255 (99,800)	1,946,352	527,806	198,304 (14,970)	711,140	1,235,212
2006	19,456,391	1,237,495 (2,009,670)	18,684,216	5,714,665	2,784,274 (576,012)	7,922,927	10,761,289
2005	39,167,063	13,033,815 (32,744,487)	19,456,391	4,949,024	2,905,231 (2,139,590)	5,714,665	13,741,726

13.2.2 Detail of operating fixed assets disposed off during the year are as follows:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/ (Loss)	Mode of disposal	Sold/Transferred to
	Rupees						
Vehicles							
Honda CD 70 Motorcycle	68,500	68,500	-	22,128	22,128	As per policy	Mr. M. Iqbal, Lahore
Honda Civic	958,000	287,400	670,600	766,400	95,800	Negotiation	Crescent Leasing Corporation
Honda City	790,500	171,275	619,225	619,225	-	As per policy	Mr. M. Arshad - Employee
Furniture and fixtures							
Reception Table	4,500	675	3,825	3,150	(675)	Negotiation	Manzoor Hussain Contractor,Lhr
Chairs, Sofa Set etc.	95,300	14,295	81,005	55,430	(25,575)	Negotiation	Manzoor Hussain Contractor,Lhr
Equipments							
Lap Top	84,870	30,978	53,892	56,863	2,971	Negotiation	Crescent Leasing Corporation
Mobile Phone	8,000	2,889	5,111	1,500	(3,611)	Negotiation	Mobile Bank, Lahore

13.3 This represents advance paid to Rehman Construction Company under a Memorandum of Understanding (MOU) for construction of four villas in a project known as "Murree Holiday Resorts" at a value of Rs. 5 million each. The project is likely to be completed by June 2007.

14. Finances under musharika arrangements

These represent unsecured finances obtained from financial institutions, companies and other persons under musharika arrangements on profit and loss sharing basis repayable within one year. The estimated share of profit payable on these finances ranges from 8% to 11.75% per annum.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
15. Creditors, accrued and other liabilities			
Accrued financial charges		956,144	1,127,505
Lease rentals received in advance		437,411	395,143
Management fee payable		2,929,321	2,234,162
Due to customers		55,936,779	67,676,171
Fidelity Capital Management (Private) Limited	15.1	29,672,316	19,995,598
Accrued and other payables		4,605,492	17,548,845
Provision for Income Tax		305,659	305,659
Advance against sale of memberships	15.2	-	50,000,000
Unclaimed profit distribution		11,364,785	10,412,356
		106,207,907	169,695,439

15.1 This represents interest free advance from Modaraba Management Company. The maximum outstanding balance at the end of any month during the year was Rs. 29,807,767 (2005: Rs.19,995,598).

15.2 The Modaraba ("Seller") had entered into agreement to sell with Crescent Leasing Corporation Limited ("Buyer") dated 02 May 2005 pertaining to sale of membership rights of Lahore Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited together with trading rights and related fixed assets to the Buyer at a price of Rs 66.794 million comprising of Rs 50 million for sale of membership rights and Rs 16.794 million for other related assets. An amount of Rs 50 million was received by the Modaraba during the previous year and it was agreed between the seller and buyer that pending transfer of memberships the brokerage business will be carried through the seller. The net profit of brokerage was to be shared between buyer and seller in the ratio of 95:5 respectively on a monthly basis.

During the year due to proposed restriction on carrying brokerage business by NBFCs under the draft NBFCs rules issued on 28 April 2006, the buyer being an NBFC requested the Modaraba for rescinding of the agreement. Consequently, the buyer and seller entered into a settlement agreement dated 09 May 2006, whereby with mutual consent the parties agreed to terminate the agreement to sell dated 02 May 2005 and the seller resumed control and management of the brokerage business. It was further agreed that the seller would refund the amount already received and parties will have no further claim against each other. Consequent to this settlement agreement, the Modaraba has refunded all the monies received from the buyer.

16. Current maturities of non-current liabilities

Security deposits from lessees	17	31,695,360	9,486,793
Refinance facility	18	8,742,689	7,611,431
Finances under morabaha arrangements	19	6,666,664	6,666,668
		47,104,713	23,764,892

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
17. Security deposits from lessees			
Long term security deposits from lessees		77,548,373	76,792,969
Less: Current portion shown under current liabilities	16	31,695,360	9,486,793
		45,853,013	67,306,176
18. Refinance facility			
Refinance facility-Secured		34,126,989	42,045,583
Less: Current maturity	16	8,742,689	7,611,431
		25,384,300	34,434,152

This represents refinance facility obtained from International Housing Finance Limited against property owned by the Modaraba. The facility is payable in 60 equal monthly installments ending 31 December 2009 with expected markup rate of 10% p.a up to 31 December 2005 and thereafter, 6 months KIBOR+6% per annum.

19. Finances under morabaha arrangements

Finances under morabaha arrangements-secured		6,666,664	13,333,332
Less: Current maturity	16	6,666,664	6,666,668
		-	6,666,664

This represents finance obtained from a financial institution under morabaha arrangement whereby purchase price of morabaha goods is payable in equal quarterly installments over a period of three years on an expected profit margin of 6 months KIBOR+5% p.a. The finance is secured against hypothecation of specific leased out assets.

20. Employee benefits

Gratuity	20.1	355,616	146,999
Compensated absences	20.2	207,344	228,837
		562,960	375,836

20.1 Gratuity

The amounts recognized in the balance sheet are as follows:

Liability as at 01 July	146,999	1,198,826
Amount recognized during the year	355,616	181,094
Contribution made during the year	(146,999)	(1,232,921)
Liability as at 30 June	355,616	146,999
Present value of defined benefit obligations	825,782	723,485
Less: Fair value of plan assets	(415,214)	(575,491)
Unrecognized actuarial gains / (losses)	(54,952)	(995)
Liability as at 30 June	355,616	146,999

Actual return on plan assets of gratuity scheme was Rs. 4,901 (2005: Rs. 22,035)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	2006 Rupees	2005 Rupees
20.1.1 Amount charged to income is as follows:		
Current service cost	175,790	161,535
Interest cost	65,114	43,546
Amortization of non-vested past service cost	166,506	-
Expected return on plan assets	(51,794)	(23,030)
Actuarial (gain)/loss charge	-	(957)
	355,616	181,094
20.2 Compensated absences		
The amounts recognized in the balance sheet are as follows:		
Liability as at 01 July	228,837	144,077
Amount recognized during the year	410,608	176,476
Contribution made during the year	(432,101)	(91,716)
Liability as at 30 June	207,344	228,837
Present value of defined benefit obligations	207,344	228,837
21. Certificate capital		
Authorized certificate capital		
62,500,000 modaraba certificates of Rs.10 each.	625,000,000	625,000,000
Issued, subscribed and paid-up certificate capital		
16,656,491 modaraba certificates of Rs 10 each fully paid up in cash	166,564,910	166,564,910
3,976,908 modaraba certificates of Rs 10 each issued as fully paid bonus certificates	39,769,080	39,769,080
5,780,405 modaraba certificates of Rs 10 each issued to certificate holders of First Hajveri Modaraba in accordance with the Scheme of Amalgamation	57,804,050	57,804,050
	264,138,040	264,138,040
Fidelity Capital Management (Private) Limited, management company, holds 5,707,614 (2005: 4,617,114) modaraba certificates in the Modaraba.		
22. Reserves		
Capital reserve		
Statutory reserve	22.1 52,911,948	47,345,671
Fair value reserve - net	(1,118,853)	(2,229,887)
Revenue reserve		
Unappropriated profits	15,241	4,163,937
	51,808,336	49,279,721

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

22.1 This represents special reserve created in compliance with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan.

23. Contingencies and Commitments

Contingencies

23.1 In the case of erstwhile First Hajveri Modaraba (FHM), merged in the Modaraba, the taxation officer disallowed provisions against Morabaha Finances at Rs. 182.208 million, and also made some other add backs at Rs. 47.579 million in the assessment year 2001-02. Resultantly tax demand of Rs. 12.631 million was raised. The add backs were contested before Commissioner of Income Tax (Appeals) [CIT (A)] who upheld order of CIT (A). The Modaraba is in appeal before Income Tax Appellate Tribunal (ITAT) and the management is of the considered opinion that the demand will be reversed by the ITAT on the basis of factual positions as well as law on the subject. Consequently no provision is made in the accounts for this tax.

	Note	2006 Rupees	2005 Rupees
24. Return on investments			
Dividend income		130,924	-
Return on placements		2,116,437	2,029,466
Return on term finance certificates		2,894,637	2,018,433
		<u>5,141,998</u>	<u>4,047,899</u>
25. Other income			
Return on bank deposits		140,142	1,765,616
Fees, commission and other charges		3,267,191	1,403,753
Return on advances to employees		14,054	16,127
Rental income of investment property		9,761,520	6,507,680
Gain on sale of vehicles		-	347,998
Gain on sale of land		-	3,320,787
Share of profit of Crescent Leasing Corporation Limited in brokerage division	15.2	(4,577,937)	(1,446,808)
Gain on sale of fixed assets		91,038	31,444
		<u>8,696,008</u>	<u>11,946,597</u>
26. Profit/(loss) on operation of ISP division			
Net sales		6,790,650	10,419,294
Direct costs		(7,170,783)	(6,676,945)
Gross profit/(loss)		(380,133)	3,742,349
Operating expenses		(2,520,604)	(3,633,575)
Operating gain/(loss)		(2,900,737)	108,774
Other income		564,843	-
Profit/(loss) for the year		<u>(2,335,894)</u>	<u>108,774</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 Rupees	2005 Rupees
27. Administrative and other operating expenses			
Salaries, wages and other benefits	27.1	12,420,337	15,556,487
Legal and professional		805,500	1,358,114
Printing and stationery		1,252,156	1,536,109
Travelling, conveyance and vehicles' running		866,452	931,611
Insurance		626,769	767,881
Fee, subscription and taxes		558,392	845,409
Auditors' remuneration	27.2	296,000	241,105
Rent and taxes		944,479	535,325
Repair and maintenance		451,885	487,105
Electricity, water and gas		400,210	413,250
Entertainment		305,180	372,284
Zakat		2,111	485
Advertisement		89,340	101,590
Telephone and postage		1,214,066	1,420,203
Donation	27.3	114,500	-
Depreciation on fixed assets		4,363,310	4,484,265
Amortization of deferred cost		332,940	352,122
Miscellaneous		413,825	1,192,310
		25,457,452	30,595,655

27.1 Salaries and other benefits include Rs. 355,616 (2005: Rs. 181,094) in respect of gratuity and Rs. 452,032 (2005: Rs. 502,400) on account of provident fund contribution.

27.2 Auditors' remuneration included in above is as follows

Audit fee	110,000	100,000
Review of half yearly accounts	66,000	60,000
Certifications	65,000	30,000
Out of pocket expenses	5,000	51,105
	246,000	241,105

27.3 None of the Directors of the Modaraba Company or any of their spouses have any interest in or are otherwise associated with any of the recipients of donations made by the Modaraba.

	2006 Rupees	2005 Rupees
28. Financial and other charges		
Return on morabaha/musharika finances	7,464,102	10,662,082
Bank and other charges	86,772	113,033
Loss on sale of investment	27,751	-
	7,578,625	10,775,115

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	Rupees	Rupees
29. Taxation		
Reversal of provision for taxation – prior years	-	(3,686,871)
Presumptive tax – current	1,461,826	2,013,450
	<u>1,461,826</u>	<u>(1,673,421)</u>
30. Earnings per certificate-basic and diluted		
Profit for the year after taxation	Rupees 27,831,385	24,015,041
Weighted average number of ordinary certificates	Numbers 26,413,804	26,413,804
Earnings per certificate	Rupees 1.05	0.91
30.1	There is no dilution in earning per share as the Modaraba has not issued any instrument which would have an impact on its earnings per certificate.	
31. Future lease rental receivable		
Aggregate amount of future lease rentals receivable on the basis of agreements executed upto 30 June 2006, approximate to Rs. 104,337,143 (2005: Rs. 160,159,263). The amount of future lease rentals receivable and period during which they fall due are:		
Upto one year	50,537,912	75,153,340
Above one year and upto five years	53,799,231	85,005,923
32. Transactions with related parties		
The related parties and associated undertakings comprise of associated companies, Modaraba Company, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the term of employment are as follows:		
Associated companies:		
Transactions during the year		
Musharika finances (repaid)/obtained net	-	(30,000,000)
Musharika finances (disbursed)/repaid net	1,000,000	(47,500,000)
Lease rentals	-	218,844
Modaraba Company's management fee	2,929,321	2,234,162
Balance at year end		
Musharika finances receivable	46,500,000	47,500,000

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

33. Remuneration of officers and other employees

	2006		
	Officers Rupees	Other Rupees	Total Rupees
Remuneration	5,775,132	339,167	6,114,299
House rent	1,267,241	65,492	1,332,733
Gratuity	355,616	-	355,616
Provident fund contribution	431,259	20,773	452,032
Other allowances	4,072,702	92,955	4,165,657
	<u>11,901,950</u>	<u>518,387</u>	<u>12,420,337</u>
Number of employees at the year end	<u>29</u>	<u>5</u>	<u>34</u>
	2005		
	Officers Rupees	Other Rupees	Total Rupees
Remuneration	5,438,862	267,543	5,706,405
House rent	1,458,025	73,495	1,531,520
Gratuity	13,225	-	13,225
Provident fund contribution	479,132	23,268	502,400
Other allowances	7,641,228	161,709	7,802,937
	<u>15,030,472</u>	<u>526,015</u>	<u>15,556,487</u>
Number of employees at the year end	<u>32</u>	<u>8</u>	<u>40</u>
	2006 Rupees	2005 Rupees	

34. Statement of particulars of provision against non-performing receivables

Opening balance	241,825,083	3,058,618
Charge for the year	8,654,931	2,721,428
Reversed during the year	(8,083,778)	(7,517,542)
Net charge for the year	571,153	(4,796,114)
Transfer from merged entity	-	243,562,579
	<u>242,396,236</u>	<u>241,825,083</u>
34.1 Break up of balance		
Provision for classified morabaha facilities	229,566,968	237,516,968
Provision against doubtful receivables	1,915,412	2,049,190
Provision against doubtful rentals	10,913,856	2,258,925
	<u>242,396,236</u>	<u>241,825,083</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

35. Liquidity risk

Liquidity risk is the risk that the Modaraba will encounter difficulties in raising funds to meet commitments associated with financial instruments. Modaraba has diversified its funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The table below summarises the maturity profile of Modaraba's assets and liabilities:

	Within one year	One year and upto five year	Five years and above	2006 Total
	Rupees	Rupees	Rupees	Rupees
Assets				
Fixed assets	221,392,153	36,881,912	150,748,956	33,754,102
Investment properties	116,493,232	-	-	116,493,232
Cards and rooms	23,177,950	-	-	23,177,950
Deferred cost	332,952	332,952	-	-
Investments	30,091,893	5,540,070	24,551,823	-
Finances	115,843,440	102,843,440	13,000,000	-
Advances, deposits, prepayments and other receivables	54,673,807	46,512,974	7,697,551	-
Cash and bank balances	15,467,646	15,493,416	-	-
	577,473,073	207,604,764	195,998,330	173,425,284
Liabilities				
Deferred Liabilities	562,960	-	-	562,960
Refinance facility	34,126,989	8,742,689	25,384,300	-
Finances under morabaha arrangements	6,666,664	6,666,668	-	-
Security deposits from lessees	77,548,373	28,517,425	67,306,176	-
Finances under musharika arrangements	10,000,000	10,000,000	-	-
Creditors, accrued and other liabilities	106,207,907	101,061,210	10,305,659	-
Profit distribution	26,413,804	-	-	-
	261,526,697	154,987,992	102,996,135	562,960
Represented by: Certificate capital and reserves	315,946,376			

	Within one year	One year and upto five year	Five years and above	2005 Total
	Rupees	Rupees	Rupees	Rupees
Assets				
Fixed assets	244,063,545	16,853,162	208,710,387	18,499,996
Investment properties	117,099,765	-	-	117,099,765
Cards and rooms	23,177,950	-	-	23,177,950
Deferred cost	665,892	352,122	313,770	-
Investments	40,227,503	11,282,010	28,945,493	-
Placements	4,138,679	4,138,679	-	-
Finances	88,420,000	88,420,000	-	-
Advances, deposits, prepayments and other receivables	111,903,159	111,903,159	-	-
Cash and bank balances	32,378,232	32,378,232	-	-
	662,074,725	265,327,364	237,969,650	158,777,711
Liabilities				
Deferred Liabilities	375,836	-	-	375,836
Refinance facility	42,045,583	7,611,431	34,434,152	-
Finances under morabaha arrangements	13,333,332	6,666,668	6,666,664	-
Security deposits from lessees	76,792,969	9,486,793	67,306,176	-
Finances under musharika arrangements	20,000,000	20,000,000	-	-
Creditors, accrued and other liabilities	169,695,439	169,695,439	-	-
Profit distribution	26,413,804	26,413,804	-	-
	348,656,963	239,874,135	108,406,992	375,836
Represented by: Certificate capital and reserves	313,417,761			

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

36. CREDIT RISK EXPOSURE

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 management attempts to control credit risk through monitoring credit exposures, limiting transactions with specific counterparties, and continuous assessing of the credit worthiness of counterparties.

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

Breakdown of credit risk exposure by class of business as at 30 June 2006 is as follows:

	Assets leased out Rupees	Morabaha Finance Rupees	Musharika Finance Rupees	2006 Total Rupees	Perce- tage %
Energy oil and gas	13,261,362	-	-	13,261,362	4.40
Engineering	268,154	-	-	268,154	0.09
Transport and communications	8,138,472	-	-	8,138,472	2.70
Textiles	26,651,789	8,420,000	-	35,071,789	11.64
Banks and financial institutions	530,304	-	46,500,000	47,030,304	15.61
Chemical and pharmaceutical	24,269,163	-	-	24,269,163	8.06
Legal and professional	11,162,082	-	-	11,162,082	3.71
Food and beverages	4,508,707	2,250,000	-	6,758,707	2.24
Computers and IT services	307,770	-	-	307,770	0.10
Steel and steel casting	82,418	-	-	82,418	0.03
Construction	384,037	10,000,000	-	10,384,037	3.45
Trading houses	13,884	-	-	13,884	0.00
Individuals	94,627,907	46,423,440	-	141,051,347	46.83
Miscellaneous	3,424,819	-	-	3,424,819	1.14
	187,630,868	67,093,440	46,500,000	301,224,308	100.00

	Assets leased out Rupees	Morabaha Finance Rupees	Musharika Finance Rupees	2005 Total Rupees	Perce- tage %
Energy, oil and gas	24,602,867	-	-	24,602,867	9.73
Engineering	553,661	-	-	553,661	0.22
Transport and communications	7,030,433	-	-	7,030,433	2.78
Textiles	29,556,429	2,000,000	-	31,556,429	12.49
Banks and financial institutions	1,261,497	-	47,500,000	48,761,497	0.50
Insurance	299,363	-	-	299,363	0.12
Chemical and pharmaceutical	33,899,006	-	-	33,899,006	13.41
Garments	118,135	3,520,000	-	118,135	1.44
Legal and professional	2,989,401	-	-	2,989,401	1.18
Food and beverages	13,180,250	8,000,000	-	13,180,250	8.38
Computers and IT services	6,462,662	-	-	6,462,662	2.56
Electronics	521,475	-	-	521,475	0.21
Steel and steel casting	179,205	-	-	179,205	0.07
Construction	79,670	-	-	79,670	0.03
Trading houses	90,600,085	27,400,000	-	118,000,085	46.69
Individuals	487,680	-	-	487,684	0.19
	211,821,819	40,920,000	47,500,000	288,721,823	100.00

36.1 All the credit risk exposure is on private sector and there is no exposure on Government/ Public Sector.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

37. Profit rate risk exposure

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

Total	2006				Non Profit bearing	2005
	Profit bearing			Total		
	Within One year	One year to Five years	Over Five years			

Rupees

Financial assets

Investments	4,393,670	24,551,823	-	1,146,400	30,091,893	40,227,503
Short term placements	-	-	-	-	-	4,138,679
Finances under musharika arrangements	46,500,000	-	-	-	46,500,000	47,500,000
Finances under morabaha arrangements	56,343,440	13,000,000	-	-	69,343,440	40,920,000
Advances, deposits and other receivables	-	-	-	54,210,525	54,210,525	108,785,691
Cash and bank balances	15,493,416	-	-	-	15,493,416	32,332,974
	122,730,526	37,551,823	-	55,356,925	215,639,274	273,904,847

Financial liabilities

Refinance facility	7,611,431	26,515,558	-	-	34,126,989	42,045,583
Finances under morabaha arrangements	6,666,664	-	-	-	6,666,664	13,333,332
Security deposits from lessees	-	-	-	77,548,373	77,548,373	76,792,969
Finances under musharika arrangements	10,000,000	-	-	-	10,000,000	20,000,000
Creditors, accrued and other liabilities	-	-	-	105,680,517	105,680,517	169,389,780
	24,278,095	26,515,558	-	183,228,890	234,022,543	321,561,664
Profit rate sensitivity gap	101,895,564	(16,814,300)	-	(132,738,082)	(47,656,818)	(47,656,817)
Cumulative profit rate sensitivity gap	101,895,564	85,081,264	85,081,264	(47,656,818)	224,401,274	1

37.1 Effective profit rates

	2006	2005
Financial assets		
Bank balances	1.5 to 2 percent per annum	1.5 to 2 percent per annum
Finances under musharika arrangements	8 to 14 percent per annum	12 to 8 percent per annum
Advances to employees	5 percent per annum	5 percent per annum
Investments	10 to 12 percent per annum	10 to 12 percent per annum
Financial liabilities		
Finances under musharika arrangements	8.00 percent per annum	8.00 to 14.00 percent per annum
Finances under morabaha arrangements	8 to 13 percent per annum	8 to 13 percent per annum
Refinance facility	10 to 14 percent per annum	10 to 12 percent per annum

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

37.2 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.

	2006 Rupees	2005 Rupees
38. Cash generated from operations		
Profit before taxation	29,293,211	22,341,620
Adjustment for non cash expenses and other items:		
Provision (reversed)/charged for doubtful debts and receivables	571,153	(3,468,823)
Depreciation/amortization	66,913,185	81,852,923
Financial charges	7,578,625	10,775,115
Profit on morabaha/musharika finances	(6,345,448)	(1,934,694)
Return on term finance certificates	(2,894,637)	(2,018,433)
Return on bank deposits	(140,142)	(1,765,616)
(Gain) / loss on sale of fixed assets	(91,038)	(31,444)
Gain on sale of investment property	-	(3,320,787)
Return on placements under reverse repo	(2,116,437)	(2,029,466)
Provision for retirement benefits	766,224	357,570
Amortization of deferred cost	332,940	352,122
Working capital changes	38.1 (31,840,967)	6,833,624
	<u>(62,026,669)</u>	<u>107,943,711</u>
38.1 Working capital changes		
(Increase)/decrease in operating assets		
Finances under musharika arrangements	1,000,000	(47,500,000)
Finances under morabaha arrangements	(27,672,980)	(6,240,000)
Advances, deposits, prepayments and other receivables	59,100,613	574,061
	<u>(32,427,633)</u>	<u>(53,165,939)</u>
Increase/(decrease) in operating liabilities		
Creditors, accrued and other liabilities	(64,268,600)	59,999,563
	<u>(31,840,967)</u>	<u>6,833,624</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2006

39. Date of authorization for issue

The financial statements of Modaraba were approved by the directors of Modaraba Management Company and authorized for issue on 7 October 2006.

40. General

Figures have been rounded off to the nearest rupee.

Chief Executive
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

PATTERN OF CERTIFICATEHOLDINGS

AS AT 30 JUNE 2006

No. of Certificateholders	Certificateholding		Total Certificates held
	From	To	
3,691	1	100	150,869
2,935	101	500	722,398
1,103	501	1,000	851,258
1,394	1,001	5,000	2,808,364
206	5,001	10,000	1,469,410
85	10,001	15,000	1,018,737
46	15,001	20,000	818,155
27	20,001	25,000	602,477
10	25,001	30,000	273,940
7	30,001	35,000	232,722
8	35,001	40,000	299,458
11	40,001	45,000	466,105
6	45,001	50,000	290,800
4	50,001	55,000	207,535
3	55,001	60,000	172,927
3	60,001	65,000	188,910
1	75,001	80,000	78,500
1	85,001	90,000	88,100
1	90,001	95,000	91,000
3	95,001	100,000	300,000
1	100,001	105,000	101,090
1	135,001	140,000	139,500
1	155,001	160,000	158,322
1	185,001	190,000	190,000
2	200,001	205,000	403,153
1	215,001	220,000	216,500
1	220,001	225,000	224,500
1	320,001	325,000	320,500
1	350,001	355,000	350,804
1	575,001	580,000	578,041
1	1,030,001	1,035,000	1,034,931
1	1,135,001	1,140,000	1,137,500
1	2,085,001	2,090,000	2,087,084
1	2,630,001	2,635,000	2,632,600
1	3,610,001	3,615,000	5,707,614
9,561	Total		26,413,804

CATEGORIES OF CERTIFICATEHOLDERS

AS AT 30 JUNE 2006

Categories of Certificateholders	Number of Certificates held	Percentage of total capital
Directors, Chief Executive Officer, their Spouse and Children		
Siyid Tahir Nawazish	21,052	0.08
Associated companies, Undertaking & Related Parties		
Crescent Leasing Corporation Limited	24,000	0.09
Fidelity Capital Management (Private) Limited	5,707,614	21.61
NIT & ICP (Name wise detail)		
Investment Corporation of Pakistan	20,673	0.08
Natioanl Bank of Pakistan, Trustee Deptt.	2,087,084	7.90
	2,107,757	7.98
Banks, DFIs, NBFCs	73,322	0.28
Insurance Companies	1,202,541	4.55
Modaraba and Mutual Funds	358	-
Other Companies	1,531,705	5.80
General Public	15,745,455	59.61
	<u>26,413,804</u>	<u>100</u>
Certificateholding more than 10%		
Fidelity Capital Management (Private) Limited	5,707,614	21.61