

ANNUAL REPORT 2007



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	Siyyid Tahir Nawazish
Chief Executive	Mr. Wasim-ul-Haq Osmani
Directors	Sheikh Muhammad Nasim Mr. Shahid Iqbal Chaudhry Mr. Imran Hameed
Company Secretary / CFO	Mr. Muhammad Waheed
Auditors of Modaraba	KPMG Taseer Hadi & Co. Chartered Accountants
Audit Committee	
Chairman	Siyyid Tahir Nawazish
Members	Mr. Shahid Iqbal Chaudhry Mr. Imran Hameed
Secretary	Mr. Muhammad Arshad
Credit Committee	
Chairman	Siyyid 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
Website e-mail	www.fidelitymodaraba.com fidelity@xcross.net.pk
Registrars	Crescent Standard Business Management (Pvt.) Ltd. Crescent Standard Tower 4th Floor, 10-B, Block E-2, Gulberg-III Lahore. Tel: 111-912-912 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 2007 Rupees	June 2006 Rupees	June 2005 Rupees	June 2004 Rupees	June 2003 Rupees	June 2002 Rupee
Operating results						
Revenues	82.61	130.86	142.91	129.95	135.31	108.06
Profit after taxation and management fee	33.21	27.83	24.01	25.35	31.72	23.50
Financial position						
Fixed assets (owned and leased out)	158.93	221.39	244.06	258.40	222.28	204.47
Total assets	501.30	577.43	662.07	588.02	438.81	395.07
Certificateholders equity	348.72	315.94	313.41	318.04	253.97	244.90
Paid up capital	264.13	264.13	264.13	206.33	206.33	206.33
Earning per certificate	1.26	1.05	0.91	0.89	1.540	1.14
Profit distribution (%)	10.00	10.00	10.00	10.00	11.50	10.00
Break-up value per certificate	13.20	12.00	11.86	12.14	12.30	11.86

NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the Annual Review Meeting of First Fidelity Leasing Modaraba to review the performance of Modaraba during the year ended June 30, 2007 will be held on October 31, 2007 at 3:30 P.M. at 2nd Floor, 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 Annual Review Meeting i.e. October 24, 2007 shall be entitled to attend the meeting.

Lahore
October 09, 2007

Muhammad Waheed
(Company Secretary)

DIRECTORS' REPORT

The Board of Directors of Fidelity Capital Management (Private) Limited is pleased to present 16th Annual Report of First Fidelity Leasing Modaraba together with the audited financial statements and the auditors' report thereon for the year ended June 30, 2007.

Financial Results

The financial results of the Modaraba are summarized as follows.

	Rupees in '000'	
	2007	2006
Income	82,615	130,860
Expenses	(73,299)	(98,066)
Operating profit before provisions and taxation (Provision) / reversal for doubtful receivables	9,316	(571)
27,581		
Modaraba Company's management fee	(3,689)	(2,929)
Profit before taxation	33,208	29,293
Taxation	-	1,461
Profit after taxation	33,208	27,831

Appropriations

Appropriated as follows:

Transferred to statutory reserve	(6,641)	(5,566)
Profit distribution	(26,414)	(26,414)

Earnings Per Certificate

Earnings per certificate stood at Rs. 1.26 (2006: Rs. 1.05).

Profit Distribution

The Board of Directors is pleased to announce cash dividend for the year @ 10% i.e Re. 1 per certificate (2006: @ 10% i.e Re. 1 per certificate). The certificate transfer books of the Modaraba will remain closed from November 01, 2007 to November 14, 2007 (both days inclusive) for determination of dividend entitlement.

Review of Operations

The economy grew at a robust growth rate of 7% during the financial year 2006-07 which is in line with growth rate in the last 4 years. The State Bank of Pakistan managed to restrict inflation at 7.8% in terms of CPI. However, the trade deficit exceeded its target and exports fell slightly short of their target.

The Financial Year 2006-07 was a healthy year for Pakistan capital markets. The KSE-100 index started the year at 9989 and closed at 13772 depicting a vigorous gain of 37.87%. It had a steady bullish trend through the year. However these peaks were in narrow volume bands as indicated by the average volumes traded during the year at 200 million shares per day as compared to 350 million shares per day during the year 2005-06. The low volume phenomenon was basically due to stricter risk control measures introduced by the SECP and Stock exchanges. Although these risk control measures are good for the investors' confidence people will take time to start working within new parameters.

DIRECTORS' REPORT

The Modaraba earned a pre-tax profit of Rs.33.208 Million during the year as compared to Rs.29.293 million earned in the corresponding period. Although the profit earned is higher than previous year it is subdued by lower contribution on account of low brokerage due to low volumes and non engagement of certain resources earmarked for envisaged diversified activities described in future outlook. The Modaraba recovery efforts were satisfactory as it was able to receive old stuck up amounts and hold back new infections to the minimum.

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.

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 except that the chairman purchased 3,500 certificates of the Modaraba during the year.

Board Meetings

During the year under review 5 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
Siyyid Tahir Nawazish	5
Mr. Wasim-ul-Haq Osmani	5
Mr. S.M. Nasim	3
Mr. Shahid Iqbal Chaudhry	5
Mr. Imran Hameed	5

DIRECTORS' REPORT

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, 2007 works out to Rs. 1,200,000.

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, 2007. They being eligible have offered themselves for re-appointment for the year ending June 30, 2008. The Audit Committee has recommended their re-appointment. Subject to approval by the Registrar Modaraba, their appointment has been approved by the Board.

Future Outlook

The coming year is year of general elections. Due to political uncertainties, stock markets have lately showed wavered response. If the incoming government continues the same fiscal and economical policies, the economy has strong potential to keep itself on the path of accelerated growth. The expected work on the Iran-Pakistan gas pipeline is good omen for the economic stability. There has not only been consolidation in the banking sector creating stiff competition for small financial institutions, they are aggressively entering into hitherto niches for Islamic financial institutions like Modarabas, leasing companies etc. It is inevitable that by virtue of their resources and outreach banks will be the most beneficiary of economic growth and will leave shrunken markets and hence diminished spreads for those other institutions.

This has further necessitated that the Modaraba pursue its envisaged business diversification more quickly while keeping its existing operations at a reasonable level. The most important amongst new businesses is real estate development activities. We have reported in prior year that after approval of subject business avenue by Religious Board, the business commencement is pending for want of promulgation of Real Estate Investment Trusts (REIT) regulations by SECP. At Modaraba a number of projects have been identified and are under preliminary studies. We hope the Registrar Modaraba will give approval to commence real estate development activities in near future. With the envisaged diversification in place the future prospects of your Modaraba are bright.

The ownership of Modaraba Management Company since 2004 was with Crescent Standard Business Management (Pvt) Limited- a Crescent Group Company. In March 2007 it entered into an agreement to sell its entire holding to the Management Group comprising Chief Executive of the Modaraba and associates. The Registrar Modaraba vide its letter SC/M/RWFCML/2007-229 dated June 11, 2007 has given its approval for such sale. Although this change doesn't manifest any change in the management team of the Modaraba, the induction of new sponsors is likely to provide a more focused approach in future business strategies.

DIRECTORS' REPORT

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.

Finally the Board extends its gratitude and appreciation to the certificateholders who remained committed to the Modaraba.

For and on behalf of the Board of Directors

Lahore
October 8, 2007

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 is 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 two of them are executive directors and three 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. No casual vacancy occurred in the Board of Management Company during the year.
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 Board. The Term of appointment and determination of remuneration and terms and conditions of employment of the CEO and directors are 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.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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, it comprises of three members, of home, one is executive director, who is the Chairman of the Committee and others are non-executive directors.
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 of Directors

Lahore
October 08, 2007

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, 2007.

Lahore
October 08, 2007

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 2007 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's (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 2007 and of the profit or loss, 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 08, 2007

KPMG Taseer Hadi & Co
Chartered Accountants

BALANCE SHEET AS AT 30 JUNE 2007

ASSETS	<i>Note</i>	2007 Rupees	2006 Rupees
Current assets			
Cash and bank balances	3	40,429,392	15,467,646
Short term investment	4	716,500	1,146,400
Finances under musharika arrangements	5	45,000,000	46,500,000
Finances under morabaha arrangements	6	74,168,500	69,343,440
Lease rentals receivable	7	5,505,535	1,847,096
Advances, deposits, prepayments and other receivables	8	33,227,290	52,826,711
Current maturities of long term investments	9	4,393,670	4,393,670
		<u>203,440,887</u>	<u>191,524,963</u>
Non current assets			
Long term investments	9	20,158,153	24,551,823
Deferred cost	10	-	332,952
Investment properties	11	95,597,324	116,493,232
Cards and rooms	12	23,177,950	23,177,950
Fixed assets	13	158,927,605	221,392,153
		<u>297,861,032</u>	<u>385,948,110</u>
Total assets		<u>501,301,919</u>	<u>577,473,073</u>
LIABILITIES			
Current liabilities			
Finances under musharika arrangements	14	30,000,000	10,000,000
Creditors, accrued and other liabilities	15	48,658,701	106,207,907
Current maturities of non-current liabilities	16	21,897,977	47,104,713
		<u>100,556,678</u>	<u>163,312,620</u>
Long term and deferred liabilities			
Security deposits from lessees	17	34,415,130	45,853,013
Refinance facility	18	17,006,817	25,384,300
Finances under morabaha arrangements	19	-	-
Employee benefits	20	599,144	562,960
		<u>52,021,091</u>	<u>71,800,273</u>
Total liabilities		<u>152,577,769</u>	<u>235,112,893</u>
Net assets		<u>348,724,150</u>	<u>342,360,180</u>
Financed by			
Certificate capital	21	264,138,040	264,138,040
Reserves	22	84,586,110	78,222,140
Contingencies and commitments	23	-	-
		<u>348,724,150</u>	<u>342,360,180</u>

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 ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
Income			
Lease rentals		64,071,855	104,559,647
Profit on morabaha/musharika finances		6,945,930	6,345,448
Return on investments	24	2,632,381	5,141,998
Brokerage commission		8,352,515	18,214,652
Other income	25	2,369,428	(1,065,512)
Profit/(loss) on operations of ISP Division	26	(1,756,305)	(2,335,894)
		82,615,804	130,860,339
Expenses			
Amortization of assets leased out		44,397,436	64,128,914
Administrative and general expenses	27	22,105,732	23,878,416
Stock exchange and CDC charges		1,054,485	2,480,699
Financial and other charges	28	5,741,861	7,578,625
		73,299,514	98,066,654
Operating profit before provisions and taxation		9,316,290	32,793,685
(Provision)/reversal of provision for doubtful receivables	34	27,581,126	(571,153)
		36,897,416	32,222,532
Modaraba Company's management fee		3,689,742	2,929,321
Profit before taxation		33,207,674	29,293,211
Taxation	29	-	1,461,826
Profit after taxation		33,207,674	27,831,385
Earnings per certificate - basic and diluted	30	1.26	1.05

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 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
Cash flow from operating activities			
Cash generated from operations	38	32,521,932	62,026,669
Financial charges paid		(6,668,416)	(7,749,986)
Profit received on morabaha/musharika finances		6,640,610	5,383,876
Profit received on TFCs		2,736,927	2,656,500
Profit on bank deposits		1,120,662	140,142
Return on placements		-	2,116,437
Retirement benefits paid		(355,616)	(579,100)
Income tax paid		(1,373,198)	(1,356,028)
Net cash generated from operating activities		34,622,901	62,638,510
Cash flow from investing activities			
Dividend received		-	130,924
Lessees security deposits		(30,645,274)	755,404
Proceeds from transfer of fixed assts - Leased out		55,087,474	41,940,762
Fixed assets acquired - Leased out		(34,411,891)	(80,299,685)
Investments		4,393,671	9,016,757
Short term placements		-	4,138,679
Proceeds from sale of own assets		170,602	1,524,696
Fixed assets acquired - Own use		(3,771,100)	(5,737,495)
Investment properties acquired		(3,802,500)	(972,500)
Proceeds from sale of investment properties		23,000,000	-
Net cash generated from (used in) investing activities		10,020,982	(29,502,458)
Cash flow from financing activities			
Finances under musharika arrangements		20,000,000	(10,000,000)
Finances under morabaha arrangement		(6,666,664)	(6,666,668)
Refinance facility		(7,912,550)	(7,918,594)
Profit distribution		(25,102,923)	(25,461,375)
Net cash (used in) financing activities		(19,682,137)	(50,046,637)
Net increase/(decrease) in cash and cash equivalents		24,961,746	(16,910,585)
Cash and cash equivalents at the beginning of the year		15,467,646	32,378,231
Cash and cash equivalents at the end of the year		40,429,392	15,467,646

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 2007**

	Certificate capital Rupees	Capital Reserve		Revenue reserve	Total Rupees
		Statutory Rupees	Fair value Rupees	Un-appropriated profit Rupees	
Balance as at 30 June 2005	264,138,040	47,345,671	(2,229,886)	30,577,740	339,831,565
Net profit for the year	-	-	-	27,831,385	27,831,385
Transfer to statutory reserve during the year	-	5,566,277	-	(5,566,277)	-
Profit distribution for the year ended 30 June, 05 @ 10%	-	-	-	(26,413,804)	(26,413,804)
Unrealized gain on available for sale investment	-	-	1,111,034	-	1,111,034
Balance as at 30 June 2006	264,138,040	52,911,948	(1,118,852)	26,429,044	342,360,180
Net profit for the year	-	-	-	33,207,674	33,207,674
Transfer to statutory reserve during the year	-	6,641,535	-	(6,641,535)	-
Profit distribution for the year ended 30 June, 06 @ 10%	-	-	-	(26,413,804)	(26,413,804)
Unrealized loss on available for sale investment	-	-	(429,900)	-	(429,900)
Balance as at 30 June 2007	264,138,040	59,553,483	(1,548,752)	26,581,379	348,724,150

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 2007

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 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 Financial Reporting Standards (IFRSs) 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.

Profit distribution to certificate holders is recognized as liability in the period such distribution is announced. Previously profit distribution to certificate holders was being recognised as a liability in the period to which these distributions related although approved and announced in the subsequent period.

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.

Securities and Exchange Commission of Pakistan vide S.R.O. 865(1)/2005 dated 24 August 2005 has notified for adoption the Islamic Financial Accounting Standard 1 (IFAS 1) issued by Institute of Chartered Accountants of Pakistan relating to accounting for Morabaha transactions for financial periods beginning on or after 1 January 2006. This standard has not been adopted by the Modaraba on the basis that SECP has not issued any circular for its applicability on Modarabas and the IFAS itself mentions the applicability on Financial Statement of Banks.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

2.2.2 Significant estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying 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)	Useful life and residual value of fixed assets	Note 2.3
b)	Defined benefit plans	Note 2.11
c)	Provisions for taxation	Note 2.15
d)	Accrued liabilities	Note 2.10
e)	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

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.

Fully depreciated assets are being shown at a token value of Re. 1 each.

In respect of acquisition and disposal of an asset during the year, depreciation is charged from the month in which asset are put to use upto the month preceding the month of disposal.

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 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

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 the rate of 2.5-10 percent per annum.

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.

In respect of acquisition and disposal of an asset during the year, depreciation is charged from the month in which asset are put to use upto the month proceeding the month of disposal.

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.

Held to maturity

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

Available for sale

Investments intended to be held for an indefinite 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 or 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 financial assets at fair value through profit or loss.

All "regular way" purchases and sales of listed shares are recognized on the trade date, i.e. the date, 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: Financial assets at fair value through profit or loss and Investments Available for Sale for which active market exists, are measured at their market value while Investments Held to Maturity are stated/measured at amortized cost using the effective interest rate method.

Any surplus or deficit on revaluation of Financial assets at fair value through profit or loss 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

2.8 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 saving accounts and short term placements with financial institutions.

2.9 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.

2.10 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.

2.11 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 upto 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 2007

Actuarial valuation was carried out on 30 June 2007 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	10%
Expected rate of increase in salary	9%
Average number of leaves utilized	17 days

Gratuity

The Modaraba operates an approved funded gratuity scheme for its management staff. Actuarial valuation was carried out on 30 June 2007 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	10%
Expected rate of return on plan assets	9%
Expected rate of increase in salary	9%

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.

2.12 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.
- 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.

2.13 Borrowing cost

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

2.14 Deferred cost

Deferred cost is amortized over maximum period of five years.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

2.15 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 distributes 90 percent of its profit to the certificate holders and the management intends to continue to avail the tax exemption. Therefore, no provision is made for current and deferred tax during the year.

2.16 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.

	<i>Note</i>	2007 Rupees	2006 Rupees
3 Cash and bank balances			
Cash in hand		193,423	62,122
Cash at bank			
Current account		2,049,612	125,123
Saving account	3.1	38,186,357	15,280,401
		40,235,969	15,405,524
		40,429,392	15,467,646

3.1 Rate of return on these accounts range from 2% to 3% (2006: 1.5% to 2%) per annum.

	<i>Note</i>	2007 Rupees	2006 Rupees
4 Short term investment			
Quoted shares - available for sale	4.1	716,500	1,146,400

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

4.1 Particulars of shares available for sale

	2007		
	Shares Number	Cost Rupees	Market value Rupees
Hamid Textile Mills Limited	573,200	2,265,252	716,500
Fair value reserve		(1,548,752)	-
		716,500	716,500
	2006		
	Shares Number	Cost Rupees	Market value Rupees
Hamid Textile Mills Limited	573,200	2,265,252	1,146,400
Fair value reserve		(1,118,852)	-
		1,146,400	1,146,400
All shares have face value of Rs. 10 each.			
	<i>Note</i>	2007	2006
		Rupees	Rupees

5 Finances under musharika arrangements

Unsecured and considered good

Associated companies

International Asset Management Company Limited - 1,500,000

Others

Crescent Standard Investment Bank Limited		45,000,000	45,000,000
Less: Provision for the year	5.1	-	-
		45,000,000	45,000,000
		45,000,000	46,500,000

5.1 This represents balance receivable from erstwhile Crescent Standard Investment Bank Limited (CSIBL). CSIBL by virtue of scheme of merger between itself and Innovative Investment Bank Limited (IIBL) approved by their members and duly sanctioned by SECP now stands merged with and into IIBL - the emerging entity. The sponsors of IIBL have put in Rs. 800 million fresh equity in the bank and have pledged to pay to all of its creditors as per schedules agreed prior to merger. The sponsors of IIBL have also entered into an agreement with Crescent Group - the sponsors of erstwhile CSIBL to settle all group receivables, payables and to sell group investment in shares to them. The receivable amount of Rs 45 million was also made part of the said settlement agreement. Resultantly the Modaraba is to receive its musharika finance of Rs 45 million in the shape of assets in due course of time.

Under the Modaraba Regulation this financing is overdue by more than 365 days and a provision for doubtful financing of Rs 22.5 million is required in the current year. However, no provision has been made in these financial statements. Fidelity Capital Management (Private) Limited, the modaraba management company, however, has undertaken that any principal loss on this financing shall be borne by the management company.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
Finances under morabaha arrangements			
Secured - considered good		72,376,500	56,343,440
Considered doubtful		203,497,968	242,566,968
Less: Provision for doubtful finances	<i>6.1</i>	201,705,968	229,566,968
		1,792,000	13,000,000
		74,168,500	69,343,440

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. Modaraba is carrying provision of Rs. 201,705,968 in respect of classified 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.

	<i>Note</i>	2007 Rupees	2006 Rupees
6.1 Provision for doubtful finances			
Opening balance		229,566,968	237,516,968
Charge for the year		208,000	-
Less: Reversals made during the year		(28,069,000)	(7,950,000)
Net reversal		(27,861,000)	(7,950,000)
Closing balance		201,705,968	229,566,968

Lease rentals receivable

Secured, considered good		5,505,535	1,847,096
Considered doubtful		10,891,718	10,913,856
Less: Provision for doubtful debts	<i>7.1</i>	10,891,718	10,913,856
		-	-
		5,505,535	1,847,096

7.1 Provision for doubtful lease rentals receivable

Opening balance		10,913,856	2,258,925
Charge for the year		5,680	8,654,931
Less: Reversals		(27,818)	-
Net (reversal)/charge		(22,138)	8,654,931
Closing balance		10,891,718	10,913,856

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
8 Advances, deposits, prepayments and other receivables			
Advances to employees-considered good	<i>8.1</i>	623,888	380,587
Securities and deposits		3,036,412	2,538,027
Prepayments		647,471	361,537
Advance to suppliers		-	270,000
Profit on musharika and morabaha finances		2,371,406	2,066,086
Profit receivable on bank deposits		84,060	48,502
Other advances and profit receivable on deposit with court		308,520	1,921,319
Profit receivable on Term Finance Certificates		1,187,770	1,292,316
Income tax refundable		3,994,304	2,621,106
Receivable from clients	<i>8.2</i>	8,165,143	27,625,365
Hajveri Modaraba Management Company (Private) Limited	<i>8.3</i>	5,576,032	5,576,032
Receivable against sale of land	<i>8.4</i>	5,133,900	5,133,900
Miscellaneous receivables - considered good		2,098,384	2,991,934
		33,227,290	52,826,711

8.1 The maximum aggregate amount due from staff at the end of any month during the year was Rs. 623,888 (2006: Rs. 386,801).

	2007 Rupees	2006 Rupees
8.2 Receivable from clients - secured		
Considered good	8,165,143	27,625,365
Considered doubtful	2,217,424	1,915,412
Less: Provision against doubtful receivables	2,217,424	1,915,412
	-	-
	8,165,143	27,625,365

These comprise of receivables generated as a consequence of carrying on the business by brokerage and ISP divisions.

8.3 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

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

	2007	2006
	Rupees	Rupees
9 Long term investments		
Term finance certificates - held to maturity		
Dewan Cement Limited (DCL) (Formerly Pakland Cement Limited) (PCL)		
Series "A"	12,802,520	15,626,128
Series "B"	2,822,677	2,822,677
	<u>15,625,197</u>	<u>18,448,805</u>
Dewan Hattar Cement Limited (DHCL) (Formerly Saadi Cement Limited) (SCL)		
Series "A"	7,090,326	8,660,388
Series "B"	1,836,300	1,836,300
	<u>8,926,626</u>	<u>10,496,688</u>
	<u>24,551,823</u>	<u>28,945,493</u>
Less: Current maturity	<u>(4,393,670)</u>	<u>(4,393,670)</u>
	<u><u>20,158,153</u></u>	<u><u>24,551,823</u></u>

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.

	<i>Note</i>	2007	2006
		Rupees	Rupees
10 Deferred cost			
Opening balance		332,952	665,892
Charge for the year	27	(332,952)	(332,940)
Closing balance		<u><u>-</u></u>	<u><u>332,952</u></u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

11 Investment properties

	Cost			Depreciation			value as at 30 June 2007	Market value	
	As at 01 July 2006	Additions	(Deletion)	As at 30 June 2007	As at 01 July 2006	For the year			As at 30 June 2007
	Rupees			Rupees	Rupees	Rupees			Rupees
Land	67,517,480	-	(23,000,000)	44,517,480	-	-	-	44,517,480	113,518,390
Building	48,133,818	3,802,500	-	51,936,318	2,358,066	1,298,408	3,656,474	48,279,844	101,186,231
Electrical installation	4,000,000	-	-	4,000,000	800,000	400,000	1,200,000	2,800,000	8,090,879
2007	119,651,298	3,802,500	(23,000,000)	100,453,798	3,158,066	1,698,408	4,856,474	95,597,324	222,795,500
2006	118,678,798	972,500	-	119,651,298	1,579,033	1,579,033	3,158,066	116,493,232	153,592,500

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.ft.s 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 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.

11.3 Value of land included 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. Last year the Banking Court has set aside the decree passed against the judgment debtors. MCB the decree holder being an aggrieved party filed an appeal in the Lahore High Court against the decision of the Banking Court. The matter was decided against MCB. During the year the Modaraba filed application before the Honourable Banking Court for the release of Rs. 23 million alongwith profit to date. Modaraba has received an amount of Rs. 24.987 million including profit.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
12 Cards and rooms			
Corporate membership of Lahore Stock Exchange		8,510,000	8,510,000
Corporate membership of Islamabad Stock Exchange		5,750,000	5,750,000
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	<i>13.1</i>	124,256,253	187,630,864
Assets in own use	<i>13.2</i>	11,671,352	10,761,289
		135,927,605	198,392,153
Work-in-progress - property in course of construction	<i>13.3</i>	23,000,000	23,000,000
		158,927,605	221,392,153

13.1 Assets leased out

	Cost		Depreciation		Book value		
	As at 01 July 2006	Additions/ (transfers)	As at 30 June 2007	As at 01 July 2006	For the year/(on transfers)	As at 30 June 2007	as at 30 June 2007
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Plant and machinery	122,548,332	3,157,800 (74,646,932)	51,059,200	63,712,618	14,168,479 (51,736,635)	26,144,462	24,914,738
Vehicles	171,277,470	30,150,400 (55,332,219)	146,095,651	46,016,541	27,047,721 (24,240,601)	48,823,661	97,271,990
Office equipments	5,746,263	920,191 (2,794,723)	3,871,731	3,010,071	1,274,072 (2,191,997)	2,092,146	1,779,585
Household equipments	1,260,834	183,500 (958,534)	485,800	462,805	208,756 (475,701)	195,860	289,940
2007	300,832,899	34,411,891 (133,732,408)	201,512,382	113,202,035	42,699,028 (78,644,934)	77,256,129	124,256,253
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

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 2007

13.2 Assets in own use

	Cost			Depreciation			Book value
	As at 01 July 2006	Additions (deletions)	As at 30 June 2007	As at 01 July 2006	For the year/(on deletions)	As at 30 June 2007	as at 30 June 2007
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Vehicles	3,195,300	3,366,650 (425,000)	6,136,950	1,799,860	1,082,813 (425,000)	2,457,673	3,679,277
Computer and equipments	13,542,564	404,450 (15,600)	13,931,414	5,411,927	1,572,445 (4,456)	6,979,916	6,951,498
Furniture and fixtures	1,946,352	-	1,946,352	711,140	194,635	905,775	1,040,577
		-			-		
2007	18,684,216	3,771,100 (440,600)	22,014,716	7,922,927	2,849,893 (429,456)	10,343,364	11,671,352
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

13.2.1 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	Rupees	Rupees	Rupees	Rupees		
Vehicles							
Suzuki Alto	425,000	425,000	-	169,402	169,402	As per policy	Mr. Ijaz Fazal
Equipments							
Mobile Phone	7,600	2,723	4,877	1,200	(3,677)	Negotiation	Mr. Naseer Ahmed
Mobile Phone	8,000	1,733	6,267	-	(6,267)	Lost	

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 2008.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 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 12% per annum.

	<i>Note</i>	2007 Rupees	2006 Rupees
15 Creditors, accrued and other liabilities			
Accrued financial charges		29,589	956,144
Lease rentals received in advance		267,652	437,411
Management fee payable		3,689,742	2,929,321
Due to customers		22,971,783	55,936,779
Fidelity Capital Management (Private) Limited	<i>15.1</i>	5,773,270	29,672,316
Accrued and other payables		2,945,340	4,605,492
Provision for Income Tax		305,659	305,659
Unclaimed profit distribution		12,675,666	11,364,785
		48,658,701	106,207,907

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. 34,138,090 (2006: Rs.29,807,767).

	<i>Note</i>	2007 Rupees	2006 Rupees
16 Current maturities of non-current liabilities			
Security deposits from lessees	<i>17</i>	12,487,969	31,695,360
Refinance facility	<i>18</i>	9,207,622	8,742,689
Finances under morabaha arrangements	<i>19</i>	-	6,666,664
Employee benefits	<i>20.2</i>	202,386	-
		21,897,977	47,104,713

17 Security deposits from lessees

Long term security deposits from lessees		46,903,099	77,548,373
Less: Current portion	<i>16</i>	12,487,969	31,695,360
		34,415,130	45,853,013

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
18 Refinance facility			
Refinance facility-Secured		26,214,439	34,126,989
Less: Current maturity	16	9,207,622	8,742,689
		17,006,817	25,384,300
		17,006,817	25,384,300

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.

	<i>Note</i>	2007 Rupees	2006 Rupees
19 Finances under morabaha arrangements			
Finances under morabaha arrangements-secured		-	6,666,664
Less: Current maturity	16	-	6,666,664
		-	-
		-	-

This represents finance obtained from a financial institution under morabaha arrangement whereby purchase price of morabaha goods was 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 was secured against hypothecation of specific leased out assets.

	<i>Note</i>	2007 Rupees	2006 Rupees
20 Employee benefits			
Staff gratuity	20.1	234,203	355,616
Leave encashment	20.2	364,941	207,344
		599,144	562,960
		599,144	562,960

20.1 Staff gratuity-net

The amounts recognised in the balance sheet are as follows:

Present value of defined benefit obligation	1,110,981	825,782
Less fair value of plan assets	(778,520)	(415,214)
Unrecognised actuarial (losses)/gains	(98,258)	(54,952)
	234,203	355,616
	234,203	355,616

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007**

	2007 Rupees	2006 Rupees
a) Change in present value of net staff gratuity		
Liability as at 01 July	355,616	146,999
Charge for the year	234,203	355,616
Contributions during the period	(355,616)	(146,999)
Liability as at 30 June	234,203	355,616
b) Movement in liability for defined benefit obligation		
Present value of defined benefit obligation as at 01 July	825,782	723,485
Current service cost	197,252	175,790
Interest cost	74,320	65,114
Benefits paid during the period	-	(312,177)
Loss on PVDBO due to settlements	-	166,506
Actuarial (gain)/loss on present value of defined benefit obligation	13,627	7,064
Present value of defined benefit obligation as at 30 June	1,110,981	825,782
c) Movement in fair value of plan assets		
Fair value of plan assets as at 01 July	415,214	575,491
Expected return on plan assets	37,369	51,794
Contributions during the year	355,616	146,999
Benefits paid during the year	-	(312,177)
Actuarial gain/(loss) on plan assets	(29,679)	(46,893)
Fair value of plan assets as at 30 June	778,520	415,214
d) Actual return on plan assets	7,690	4,901
e) Plan assets consist of the following:		
Debt instruments	700,000	-
Cash at Bank	78,520	415,214
	778,520	415,214
f) Movement in actuarial losses		
Un recognised actuarial losses as at 01 July	(54,952)	(995)
Actuarial losses arising during the year	(43,306)	(53,957)
Un recognised actuarial losses as 30 June	(98,258)	(54,952)

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007**

	2007	2006
	Rupees	Rupees
g) Charge for the year		
Current service cost	197,252	175,790
Interest cost	74,320	65,114
Loss on PVDBO due to settlements	-	166,506
Expected return on plan assets	(37,369)	(51,794)
	234,203	355,616

h) Historical Information

	2007	2006	2005	2004	2003
	Rupees	Rupees	Rupees	Rupees	Rupees
Present value of defined benefit obligation	1,110,981	825,782	723,485	544,320	527,390
Present value of defined benefit assets	(778,520)	(415,214)	(575,491)	N/A	N/A
Deficit in the plan	332,461	410,568	147,994	544,320	527,390
Experience adjustment arising on plan liabilities	13,627	7,064	46,478	(109,899)	42,064
Experience adjustment arising on plan assets	(29,687)	(46,893)	(21,395)	N/A	N/A

i) Assumptions used for valuation of the defined benefit schemes for management and non-management staff are as under:

	Per annum	
	2007	2006
Discount rate	10%	9%
Expected rate of increase in salary	9%	8%
Average expected remaining working life time of employee	15 years	14 years

j) The Company expects to pay Rs. 243,059 in contributions to defined benefit plan in 2008.

	2007	2006
	Rupees	Rupees
20.2 Leave encashment		
Opening balance	207,344	228,837
Expenses recognized	359,983	410,608
Payments made	-	(432,101)
	567,327	207,344
Payable within one year	(202,386)	-
Closing balance	364,941	207,344

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006			
	Rupees	Rupees			
a) Movement in liability for defined benefit obligation					
Present value of defined benefit obligation as at 01 July	207,344	228,837			
Current service cost	248,631	215,885			
Interest cost	18,661	20,595			
Increase in PVDBO due to settlement	-	167,396			
Benefits paid during the period	-	(432,101)			
Payable within one year	(202,386)	-			
Actuarial (gain)/loss on present value of defined benefit obligation	92,691	6,732			
Present value of defined benefit obligation as at 30 June	364,941	207,344			
b) Charge for the year					
Current service cost	248,631	215,885			
Interest cost	18,661	20,595			
Increase in PVDBO due to settlement	-	167,396			
Actuarial losses charge	92,691	6,732			
	359,983	410,608			
c) Historical information					
	2007	2006	2005	2004	2003
	Rupees	Rupees	Rupees	Rupees	Rupees
Present value of defined benefit obligation	364,941	207,344	228,837	144,077	150,659
Experience adjustment arising on plan liabilities	92,691	6,732	37,087	(55,548)	(7,307)
	Per annum				
	2007			2006	
Discount rate	10%			9%	
Expected rate of increase in salary	9%			8%	
Average Number of Leaves Utilized per annum	15 days			19 days	

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007**

	2007	2006
	Rupees	Rupees
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 5,820,614 (2006: 5,707,614) modaraba certificates in the Modaraba.

	<i>Note</i>	2007	2006
		Rupees	Rupees
22 Reserves			
Capital reserve			
Statutory reserve	<i>22.1</i>	59,553,483	52,911,948
Fair value reserve - net		(1,548,752)	(1,118,852)
Revenue reserve			
Unappropriated profits		26,581,379	26,429,044
		84,586,110	78,222,140

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

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 Taxation Officer. 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.

	2007 Rupees	2006 Rupees
24 Return on investments		
Dividend income	-	130,924
Return on placements	-	2,116,437
Return on term finance certificates	2,632,381	2,894,637
	2,632,381	5,141,998
25 Other income		
Return on bank deposits	1,156,220	140,142
Fees, commission and other charges	1,033,998	3,267,191
Return on advances to employees	19,752	14,054
Share of profit of Crescent Leasing Corporation Limited in brokerage division	-	(4,577,937)
Gain on sale of fixed assets	159,458	91,038
	2,369,428	(1,065,512)
26 Loss on operations of ISP Division		
Net sales	6,750,115	6,790,650
Direct costs	(6,927,706)	(7,170,783)
Gross loss	(177,591)	(380,133)
Operating expenses	(1,618,565)	(2,520,604)
Operating loss	(1,796,156)	(2,900,737)
Other income	39,851	564,843
Loss for the year	(1,756,305)	(2,335,894)

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007**

		2007 Rupees	2006 Rupees
27	Administrative and general expenses		
	Salaries, wages and other benefits	27.1 10,947,882	12,420,337
	Legal and professional	944,500	855,500
	Printing and stationery	940,482	1,252,156
	Travelling, conveyance and vehicles' running	946,335	866,452
	Insurance	588,481	626,769
	Fee, subscription and taxes	635,423	558,392
	Auditors' remuneration	27.2 286,500	246,000
	Rent and taxes	831,878	944,479
	Repair and maintenance	393,519	451,885
	Electricity, water and gas	427,778	400,210
	Entertainment	286,129	305,180
	Zakat	5,150	2,111
	Advertisement	111,258	89,340
	Telephone and postage	1,301,066	1,214,066
	Donation	27.3 -	114,500
	Depreciation on fixed assets	13.2 2,849,893	2,784,274
	Amortization of deferred cost	10 332,952	332,940
	Miscellaneous	276,506	413,825
		22,105,732	23,878,416

27.1 Salaries and other benefits include Rs. 234,203 (2006: Rs. 355,616) in respect of gratuity and Rs. 508,839 (2006: Rs. 452,032) on account of provident fund contribution.

	2007 Rupees	2006 Rupees
27.2	Auditors' remuneration	
	Audit fee	120,000
	Review of half yearly accounts	80,000
	Certifications	80,500
	Out of pocket expenses	6,000
		286,500

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.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	Rupees	Rupees
28 Financial and other charges		
Return on morabaha/musharika finances	5,689,012	7,464,102
Bank and other charges	52,849	86,772
Loss on sale of investment	-	27,751
	<u>5,741,861</u>	<u>7,578,625</u>
29 Taxation		
Presumptive tax – current	-	1,461,826
	2007	2006
30 Earnings per certificate-basic and diluted		
Profit for the year after taxation	<i>Rupees</i> <u>33,207,674</u>	<u>27,831,385</u>
Weighted average number of ordinary certificates	<i>Numbers</i> <u>26,413,804</u>	<u>26,413,804</u>
Earnings per certificate	<i>Rupees</i> <u>1.26</u>	<u>1.05</u>

30.1 There is no dilution in earning per certificate 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 2007, approximate to Rs. 99,424,115 (2006: Rs. 104,337,143). The amount of future lease rentals receivable and period during which they fall due are:

	2007	2006
	Rupees	Rupees
Upto one year	39,824,804	50,537,912
Above one year and upto five years	59,599,311	53,799,231

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

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	2007 Rupees	2006 Rupees
Transactions during the year		
Musharika finances received	1,500,000	1,000,000
Modaraba Company's management fee	3,689,742	2,929,321

33 Remuneration of officers and other employees

	2007		
	Officers Rupees	Other Rupees	Total Rupees
Remuneration	5,621,980	307,566	5,929,546
House rent	1,447,246	77,904	1,525,150
Gratuity	234,203	-	234,203
Provident fund contribution	488,066	20,773	508,839
Other allowances	2,647,006	103,138	2,750,144
	10,438,501	509,381	10,947,882
Number of employees at the year end	26	11	37

	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
	11,901,950	518,387	12,420,337
Number of employees at the year end	29	5	34

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
34 Statement of particulars of provision against non-performing receivables			
Opening balance		242,396,236	241,825,083
Charge for the year		612,780	8,654,931
Reversed during the year		(28,193,906)	(8,083,778)
Net (reversal)/charge for the year		(27,581,126)	571,153
		214,815,110	242,396,236

34.1 Break up of balance

Provision for classified morabaha facilities	6.1	201,705,968	229,566,968
Provision against doubtful receivables	8.2	2,217,424	1,915,412
Provision against doubtful rentals	7.1	10,891,718	10,913,856
		214,815,110	242,396,236

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:

	Upto one year	Over one year to five years	Over five years	2007 Total
	Rupees	Rupees	Rupees	Rupees
Assets				
Fixed assets	16,832,366	142,095,239	-	158,927,605
Investment properties	-	-	95,597,324	95,597,324
Cards and rooms	7,020,000	-	16,157,950	23,177,950
Investments	5,110,170	15,499,176	4,658,977	25,268,323
Finances	105,212,500	13,956,000	-	119,168,500
Lease rental receivables	5,505,535	-	-	5,505,535
Advances, deposits, prepayments and other receivables	30,190,878	3,036,412	-	33,227,290
Cash and bank balances	40,429,392	-	-	40,429,392
	210,300,841	174,586,827	116,414,251	501,301,919
Liabilities				
Deferred liabilities	202,386	-	599,144	801,530
Refinance facility	9,207,622	17,006,817	-	26,214,439
Security deposits from lessees	12,487,969	34,415,130	-	46,903,099
Finances under musharika arrangements	30,000,000	-	-	30,000,000
Creditors, accrued and other liabilities	29,904,106	18,754,595	-	48,658,701
	81,802,083	70,176,542	599,144	152,577,769
Represented by:				
Certificate capital and reserves				348,724,150

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007**

	Upto one year Rupees	One year and upto five years Rupees	Over five years Rupees	2006 Total Rupees
Assets				
Fixed assets	36,889,095	150,748,956	33,754,102	221,392,153
Investment properties	-	-	116,493,232	116,493,232
Cards and rooms	-	-	23,177,950	23,177,950
Deferred cost	332,952			332,952
Investments	5,540,070	24,551,823	-	30,091,893
Finances	102,843,440	13,000,000	-	115,843,440
Lease rental receivables	1,847,096	-	-	1,847,096
Advances, deposits, prepayments and other receivables	52,826,711	-	-	52,826,711
Cash and bank balances	15,467,646	-	-	15,467,646
	<u>215,747,010</u>	<u>188,300,779</u>	<u>173,425,284</u>	<u>577,473,073</u>
Liabilities				
Deferred Liabilities	-	-	562,960	562,960
Refinance facility	8,742,689	25,384,300	-	34,126,989
Finances under morabaha arrangements	6,666,664	-	-	6,666,664
Security deposits from lessees	31,695,360	45,853,013	-	77,548,373
Finances under musharika arrangements	10,000,000	-	-	10,000,000
Creditors, accrued and other liabilities	95,902,248	10,305,659	-	106,207,907
	<u>153,006,961</u>	<u>81,542,972</u>	<u>562,960</u>	<u>235,112,893</u>
Represented by:				
Certificate capital and reserves				<u>342,360,180</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

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 2007 is as follows:

	Assets leased out	Morabaha finance	Musharika finance	2007 Total	% age
	Rupees	Rupees	Rupees	Rupees	
Energy, oil and gas	5,248,669	-	-	5,248,669	2.16
Engineering and engineering goods	85,928	-	-	85,928	0.04
Transport and communications	2,847,720	-	-	2,847,720	1.17
Textiles	17,006,390	7,362,000	-	24,368,390	10.01
Banks and financial institutions	304,432	-	45,000,000	45,304,432	18.60
Chemical and pharmaceutical	-	-	-	-	-
Legal and professional	11,694,891	30,766,500	-	42,461,391	17.44
Food and beverages	3,237,901	-	-	3,237,901	1.33
Computers and IT services	2,699,908	-	-	2,699,908	1.11
Electronics	4,608,016	-	-	4,608,016	1.89
Individuals	73,028,670	36,040,000	-	109,068,670	44.81
Miscellaneous	3,493,728	-	-	3,493,728	1.44
	<u>124,256,253</u>	<u>74,168,500</u>	<u>45,000,000</u>	<u>243,424,753</u>	<u>100.00</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	Assets leased out Rupees	Morabaha finance Rupees	Musharika finance Rupees	2006 Total Rupees	% age
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	-
Individuals	94,627,907	48,673,440	-	143,301,347	46.83
Miscellaneous	3,424,815	-	-	3,424,815	1.14
	<u>187,630,864</u>	<u>69,343,440</u>	<u>46,500,000</u>	<u>303,474,304</u>	<u>100.00</u>

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 2007

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:

	Profit bearing			Non profit bearing Rupees	2007 Total Rupees	2006 Total Rupees
	Within one year Rupees	Over one year to five years Rupees	Over Five years Rupees			
	Financial assets					
Investments	4,393,670	20,158,153	-	716,500	25,268,323	30,091,893
Finances under musharika arrangements	-	-	-	45,000,000	45,000,000	46,500,000
Finances under morabaha arrangements	39,154,000	2,456,000	-	32,558,500	74,168,500	69,343,440
Advances, deposits and other receivables	-	-	-	33,227,290	33,227,290	54,210,525
Cash and bank balances	-	-	-	40,429,392	40,429,392	15,493,416
	<u>43,547,670</u>	<u>22,614,153</u>	<u>-</u>	<u>151,931,682</u>	<u>218,093,505</u>	<u>215,639,274</u>
Financial liabilities						
Refinance facility	9,207,622	17,006,817	-	-	26,214,439	34,126,989
Finances under morabaha arrangements	-	-	-	-	-	6,666,664
Security deposits from lessees	-	-	-	46,903,099	46,903,099	77,548,373
Finances under musharika arrangements	30,000,000	-	-	-	30,000,000	10,000,000
Creditors, accrued and other liabilities	-	-	-	48,658,701	48,658,701	105,680,517
	<u>39,207,622</u>	<u>17,006,817</u>	<u>-</u>	<u>95,561,800</u>	<u>151,776,239</u>	<u>234,022,543</u>
Profit rate sensitivity gap	<u>4,340,048</u>	<u>5,607,336</u>	<u>-</u>	<u>56,369,882</u>	<u>66,317,266</u>	<u>(18,383,269)</u>
Cumulative profit rate sensitivity gap	<u>4,340,048</u>	<u>9,947,384</u>	<u>9,947,384</u>	<u>56,369,882</u>	<u>66,317,266</u>	<u>(18,383,269)</u>

37.1 Effective profit rates

Financial assets

	2007	2006
Bank balances	2 to 3 percent per annum	1.5 to 2 percent per annum
Finances under musharika/morabaha arrangements	8 to 17 percent per annum	8 to 17 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 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 14 percent per annum

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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

	<i>Note</i>	2007 Rupees	2006 Rupees
38 Cash generated from operations			
Profit before taxation		33,207,674	29,293,211
Adjustment for non cash expenses and other items:			
Provision (reversed)/charged for doubtful debts and receivables		(27,581,126)	571,153
Depreciation/amortization		47,247,329	66,913,185
Financial charges		5,741,861	7,578,625
Profit on morabaha/musharika finances		(6,945,930)	(6,345,448)
Return on term finance certificates		(2,632,381)	(2,894,637)
Return on bank deposits		(1,156,220)	(140,142)
(Gain) / loss on sale of fixed assets		(159,458)	(91,038)
Return on placements under reverse repo		-	(2,116,437)
Provision for retirement benefits	20	594,186	766,224
Amortization of deferred cost		332,952	332,940
Working capital changes	38.1	(16,126,955)	(31,840,967)
		32,521,932	62,026,669
38.1 Working capital changes			
(Increase)/decrease in operating assets			
Finances under musharika arrangements		1,500,000	1,000,000
Finances under morabaha arrangements		23,035,940	(27,672,980)
Lease rental receivables		(3,636,301)	562,184
Advances, deposits, prepayments and other receivables		20,906,939	58,538,429
		41,806,578	32,427,633
Increase/(decrease) in operating liabilities			
Creditors, accrued and other liabilities		(57,933,533)	(64,268,600)
		(16,126,955)	(31,840,967)
39 Profit distribution			
Subsequent to the year ended 30 June 2007 the Board of Directors of the management company have declared the final profit distribution of Re. 1/- per certificate, amounting to total profit distribution of Rs. 26.414 million (2006: Re.1/-) per certificate, amount to total profit distribution of Rs. 26.414 million) in their meeting held on 8 October 2007.			
40 General			
The financial statements of Modaraba were approved by the directors of Modaraba Management Company and authorized for issue on October 08, 2007.			
Figures have been rounded off to the nearest rupee.			
Corresponding figures have been re-arranged and reclassified, where necessary, for the purpose of comparison. However no significant change has been made.			

Chief Executive
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

PATTERN OF CERTIFICATEHOLDING
AS AT 30 JUNE 2007

No. of Certificateholders	Certificateholding		Total Certificates held
	From	To	
3,655	1	100	148,931
2,836	101	500	700,840
1,063	501	1,000	823,350
1,298	1,001	5,000	2,628,620
195	5,001	10,000	1,424,429
82	10,001	15,000	982,203
36	15,001	20,000	655,531
29	20,001	25,000	647,678
9	25,001	30,000	246,284
7	30,001	35,000	231,725
6	35,001	40,000	224,102
9	40,001	45,000	383,205
9	45,001	50,000	437,800
3	50,001	55,000	155,810
3	55,001	60,000	172,619
3	60,001	65,000	188,910
1	65,001	70,000	69,500
1	75,001	80,000	78,500
1	85,001	90,000	87,950
1	90,001	95,000	91,000
1	95,001	100,000	100,000
1	100,001	105,000	101,090
1	140,001	145,000	145,000
1	150,001	155,000	151,000
1	195,001	200,000	200,000
1	200,001	205,000	200,153
1	205,001	210,000	209,000
1	210,001	215,000	213,500
1	215,001	220,000	216,500
2	350,001	355,000	704,304
1	495,001	500,000	500,000
1	575,001	580,000	578,041
1	1,025,001	1,030,000	1,028,078
1	1,030,001	1,035,000	1,034,931
1	1,055,001	1,060,000	1,059,006
1	1,135,001	1,140,000	1,137,500
1	2,635,001	2,640,000	2,636,100
1	5,820,001	5,825,000	5,820,614
9,266	Total		26,413,804

CATEGORIES OF CERTIFICATEHOLDERS AS AT 30 JUNE 2007

Categories of Certificateholders	Number of Certificate held	Percentage of Total Capital
Directors		
Siyyid Tahir Nawazish (CDC)	24,552	0.09
	24,552	0.09
5.2 - Associated Companies, Undertakings & Related Parties		
Fidelity Capital Management Private Limited (CDC)	5,820,614	22.04
	5,820,614	22.04
5.3 - NIT & ICP (Name Wise Detail)		
Investment Corporation Of Pakistan	20,279	0.08
National Bank of Pakistan, Trustee Deptt. (CDC)	1,028,078	3.89
	1,048,357	3.97
5.4 - Banks, DFI's, NBFI's		
Banks, DFI's, NBFI's	14,183	0.05
Banks, DFI's, NBFI's (CDC)	1,117,547	4.23
	1,131,730	4.28
5.5 - Insurance Companies		
Insurance Companies	40	0.00
Insurance Companies (CDC)	1,044,179	3.95
	1,044,219	3.95
5.6 - Modaraba and Mutual Funds		
Modaraba and Mutual Funds	358	0.00
	358	0.00
5.7 - Other Companies		
Other Companies	639,633	2.42
Other Companies (CDC)	1,459,073	5.52
	2,098,706	7.95
5.9 - General Public		
A. Local	4,080,890	15.45
A. Local (CDC)	11,164,378	42.27
	15,245,268	57.72
	26,413,804	100.00
Shareholders More Than 10.00%		
Fidelity Capital Management (Private) Limited (CDC)	5,820,614	22.04