



KASB Modaraba

An Islamic Financial Institution



ANNUAL REPORT 2009



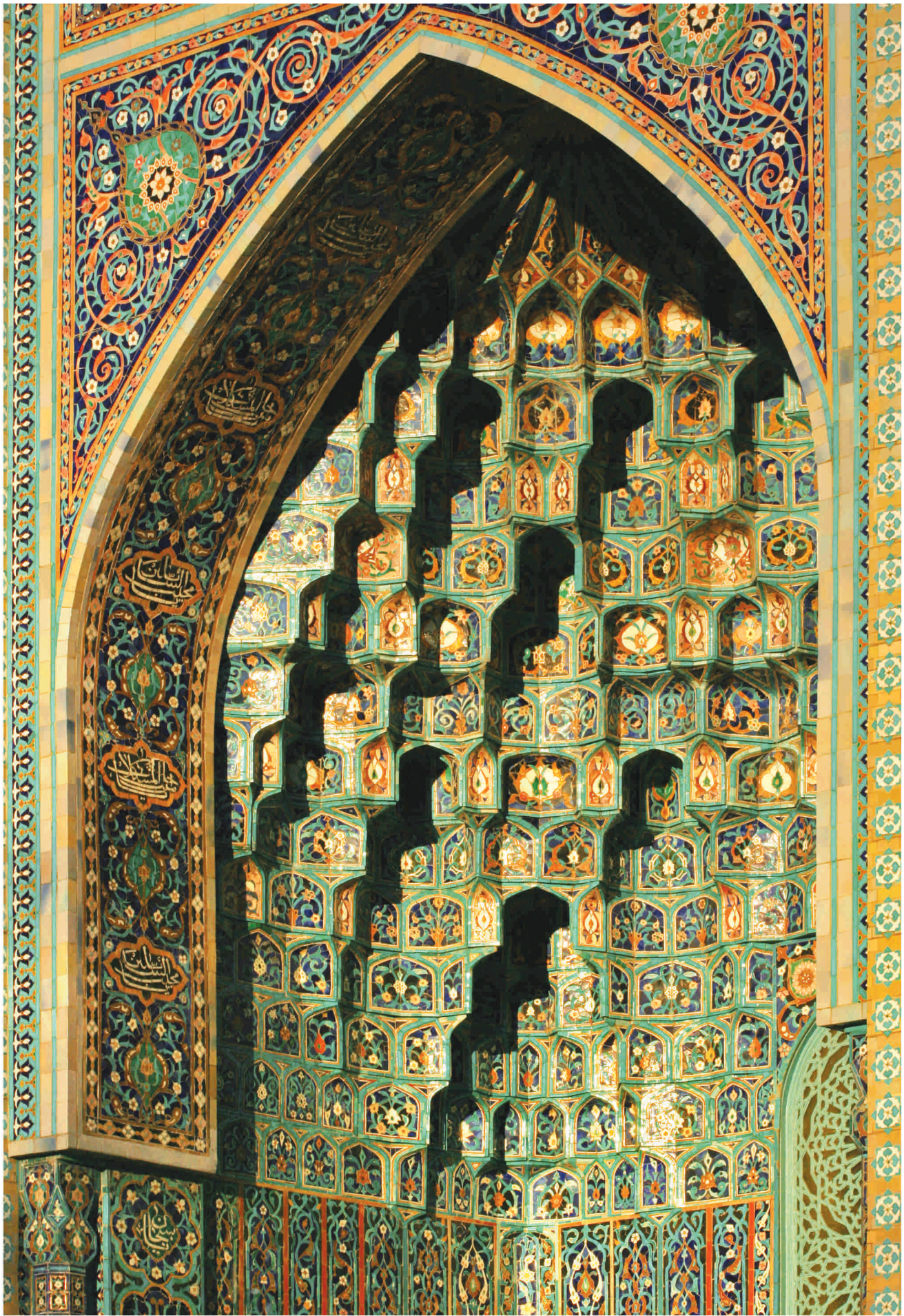
صاف اور شفاف آمدنی،  
سچا سکون ہے...



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Social values of Islam provide the faithful with a large measure of spiritual peace and serenity, and this contentment can be reaped while pursuing business aspirations within the confines of Islamic law. We visualize creating an institution where society can seek a just and fair advantage from the richness of Islamic system of trade finance.



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# CORPORATE INFORMATION

## Board of Directors

Syed Muhammad Rehmanullah  
Syed Majeedullah Husaini  
Mir Mujahid Ali Khan  
Syed Waseem-ul-Haq Haqqie

Chairman  
Chief Executive Officer  
Director  
Director

## Company Secretary & Chief Financial Officer

Ms. Faiqa Naz

## Management Company

KASB Modaraba Management (Private) Limited

## Auditors

A.F. Ferguson & Co.  
Chartered Accountants  
Member PriceWaterHouseCoopers

## Audit Committee

Mir Mujahid Ali Khan  
Syed Muhammad Rehmanullah  
Syed Waseem-ul-Haq Haqqie

Chairman  
Member  
Member

## Bankers

KASB Bank Limited  
Al-Baraka Islamic Bank  
Dawood Islamic Bank  
Meezan Bank  
MyBank Limited  
Bank Al-Falah Limited

## Registered Office

80-C, 24th Commercial Street,  
D.H.A. Phase II Extension, Karachi.  
Telephone: 5313939-43

## Certificate Transfer Office

C&K Management Associates (Private) Limited  
404, Trade Tower,  
Abdullah Haroon Road,  
Near Metropole Hotel  
Karachi – 75530  
Telephone: 5687839 – 5685930

## Legal Advisor

Ghulam Ali & Co.  
Ahmed & Qazi

## Branch Offices

### Gulshan-e-Iqbal Branch

Mezzanine Floor,  
Friends Paradise, SB-36,  
Block No. 13-B,  
University Road, Karachi.

### D.H.A. Branch

80-C, 24th Commercial Street,  
D.H.A. Phase II Extension, Karachi.

## Web Address

[www.kasbmodaraba.com](http://www.kasbmodaraba.com)

## E-mail

[info.modaraba@kasb.com](mailto:info.modaraba@kasb.com)





## DIRECTORS' REPORT



The Board of Directors of KASB Modaraba Management (Private) Ltd, the Management Company of KASB Modaraba (the Modaraba) is pleased to present the eighteenth annual report together with the audited financial statements of Modaraba for the year ended June 30, 2009 to the Certificate Holders.

The operating results are summarized as under:

<i>Description</i>	<i>June</i>	<i>June</i>
	<i>2009</i>	<i>2008</i>
	<i>Rupees</i>	<i>Rupees</i>
Income from Leasing Operations	20,514,852	5,728,699
Profit on Musharaka Finance	4,549,474	598,654
Profit on Murabaha Finance	4,580,067	301,258
Profit on Bank Deposit	10,700,559	3,188,861
Profit on Investments	2,465,075	302,720
Other Income	138,214	1,568,640
<b>Total Income</b>	<b>42,948,241</b>	<b>11,688,832</b>
<b>Administrative and Operating Expenses</b>	<b>(25,145,060)</b>	<b>(11,156,189)</b>
Expense for Right Issue	-	(7,960,913)
Modaraba Company Management Fee	(1,780,318)	-
Profit /(Loss) Before Taxation	16,022,863	(7,428,270)
Taxation	-	(650,000)
<b>Profit /(Loss) After Taxation</b>	<b>16,022,863</b>	<b>(8,078,270)</b>
Earning /(Loss) per Certificate	0.65	(1.10)



## OPERATIONS AND PERFORMANCE

### Profitability:

The modaraba and leasing industry was seriously affected by the recent economic downturn, however, KASB Modaraba adopted a steady approach towards business with stress on quality and safety, and as such the Modaraba recorded a profit of Rs. 16,022,863 with an Earning per Certificate of Rs. 0.65 and return on equity of 9.98%.

The total income of the Modaraba has increased from Rs. 11.7 million in 2008 to Rs. 42.9 million in the year ended June 2009. This remarkable growth in total income was on account of an overall increase in disbursements of Islamic finance. Although the business of Ijarah is the largest contributor to our revenue-stream, nevertheless, we have recorded an impressive rise in other areas of Islamic loans namely Musharaka, Murabaha and Modaraba Finance.

Total expenditure also increased from Rs.11 million in 2008 to Rs.25 million in the year ended June 2009. It is important to note that KASB Modaraba is a relatively new acquisition and important infrastructural allocation was a necessity to ensure the right base for supporting business and growth. Hence the rise in expenses is largely business oriented. The future growth in business volume will bring about economies of scale and improve productivity.

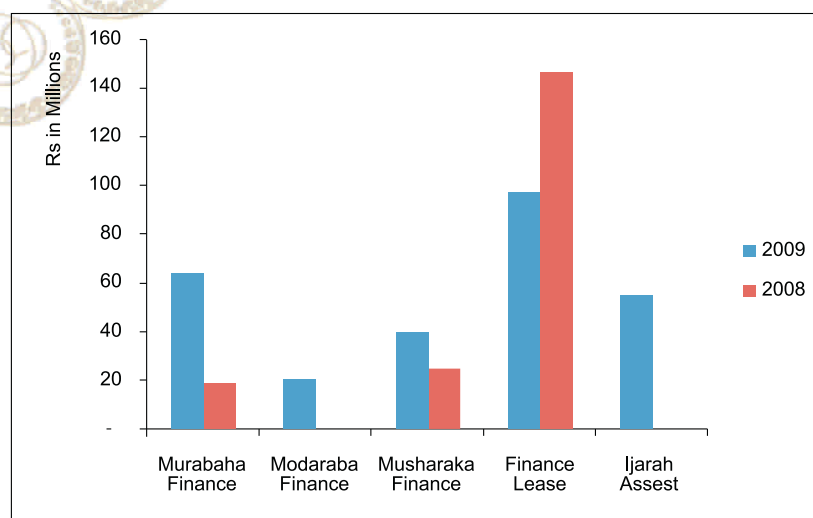
Expenses rose largely on account of the following:

- Financial expenses rose as a result of issuance of Certificate of Musharaka, a Shariah compliant liability product which is issued to customers to raise deposits.
- Salaries rose from Rs.2.955 million to Rs.9.083 million. This year in June 2009 we have a staff of 27 persons compared to last year's staff strength of only 19 persons. Our professional staff comprises of a qualified chartered accountant, a trade finance specialist, ICMA qualified accountants, MBA s, etc.
- Rise in other expenses like utilities, stationery, fees etc was also growth oriented as we opened two branches and acquired a new space for the head office.

It is our earnest opinion that economies of scale will improve profitability and returns as we gradually expand business.

### Balance sheet growth:

The balance sheet standing of the Modaraba in terms of total assets has improved by 91%, from Rs. 232.507 million in 2008 to Rs. 443.514 million in 2009. The growth figures shown in the chart below reflect a vigorous rise in business indicating potential in the Islamic market and our ability to take fair advantage in a short span of time.



Growth in Islamic Financing





## DIRECTORS' REPORT



### YEAR AT A GLANCE

During the last one year KASB Modaraba has shown substantial growth in all areas of Islamic Finance. The Modaraba added a number of asset products to its Islamic portfolio which include Musharaka, Modaraba and Murabaha finance. These products were also utilized to finance foreign trade which was an innovative step, and reflects our keenness to provide Islamic finance to the import and export sectors. As a result, a fairly diversified revenue stream was added, with income coming in from other non traditional sources and lessening our dependence on pure Ijarah. We will continue to look for innovative 'Shariah compliant' asset products in order to create a more substantive Islamic portfolio, and at the same time diversify risk.

The Board considered dividend for the year under review. However, it is decided not to recommend any dividend for the year 2009 which will enable the Modaraba to consolidate its reserves and raise our ability to generate better returns in the future.

### FUTURE PROSPECTS

KASB Modaraba will endeavor to raise its business portfolio in areas of trade finance and commodity financing. Moreover, it will strive to generate quality revenues with a good customer base. The management realizes that future growth of our Modaraba depends on product innovation and our adaptation to international developing trends in the field of Islamic finance.

### SIGNIFICANT EVENTS

One important feature added to this year's balance sheet is the issuance of Certificate of Musharaka. On the receipt of our rating from JCR VIS, the Securities and Exchange Commission of Pakistan permitted us the issuance of Certificate of Musharaka which helped us raise funds from the retail sector. This portfolio continues to grow, and would become, in the near future, an important source of funding. The Modaraba intends to keep this funding largely individual and retail, to ensure stable deposits.

In the month of April, this year, we opened our second branch in Defence Housing Authority, Karachi, located off Khayaban-e-Ittehad. KASB Modaraba is the first Modaraba to open a high street branch in Pakistan, where customers can walk in to avail all types of financial facilities based on the Islamic principles of Shariah.

During the year, KASB Bank Limited acquired KASB Capital which is the holding company of KASB Modaraba Management (Private) Limited. Consequently, KASB Bank Limited has now become the ultimate holding company of KASB Modaraba Management (Private) Limited.

### CREDIT RATING

JCR-VIS has reaffirmed long term entity rating of BBB and short term entity rating of A3 with a "stable" outlook to the Modaraba.

On June 16, 2008, Securities and Exchange Commission of Pakistan imposed a penalty of Rs 100,000 each on the previous directors of Modaraba Management Company and the Modaraba Management Company, due to non-compliance of provisions of Regulation 7(1) and 7(3) of Part-II (A), Regulation 2(1) of Part II (A) and Regulation 1 of Part-IV of Prudential Regulation of Modaraba and Rule 16(1) of Modaraba Rules, 1981. The penalty was paid on July 14, 2008.

During the current year, Registrar Modaraba (Specialized Companies Division) imposed a fine of Rs. 55,000/- each on the directors of Modaraba Management Company for non compliance of IAS-19 and violation of Regulation '7(3)' of the Prudential Regulation of Modaraba. KASB Modaraba, while recording its reservations on the penalty order, filed an appeal under section 32(2) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 against the above-mentioned order. Hearing of the said appeal was held in July 2009 and decision is still awaited.



### CORPORATE AND FINANCIAL REPORTING

The Board of Directors is fully aware of its duties and responsibilities under Code of Corporate Governance issued by Security and Exchange Commission of Pakistan. The following statements demonstrate the Board's philosophy and commitment towards maintaining high standards of Corporate Governance:

- The financial statements prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IAS), as applicable to Modaraba in Pakistan, have been followed in preparation of financial statements. During the year 2007, Islamic Financial Accounting Standard (IFAS) – 2 “Ijarah” was issued by the Institute of Chartered Accountants of Pakistan and the same was notified by the Securities and Exchange Commission of Pakistan (SECP) vide an SRO dated 22nd May 2007. Under the IFAS 2, the “Ijarah” transactions are required to be accounted for as operating leases. The IFAS is operative for financial statements covering the periods beginning on or after 1st July 2007 and is required to be followed on those Ijarah which commence on or after 1st July 2007. On the request of Modaraba Association of Pakistan, the SECP vide its letter # SC/M/RW/SCM/2009 date March 9, 2009 has decided that the Modaraba management companies may apply the accounting treatment only to the leasing (Ijarah) transactions executed on or after July 01, 2008. In view of this decision, in preparation of these financial statements the Modaraba has accounted for Ijarah transaction executed before July 01, 2008 as finance leases consistent with prior years and has treated the Ijarah transaction executed on or after July 01, 2008 as operating lease.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The Modaraba operates an unapproved unfunded gratuity scheme for its permanent employees, value of which is Rs.201,758/- as at June 30, 2009.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2009 except as disclosed in the financial statements.
- None of the directors of Modaraba, CEO, CFO, Company Secretary and their spouses and minor children has carried out trading of certificates of the Modaraba.
- During the year, five meetings of the Board of Directors were held. Attendance by each director is as follows:

Name of Directors	Number of Meeting Attended
Syed M. Husaini	05
Muhammad Hamidullah	04
Mir Mujahid Ali Khan	04
S. M. Rahmanullah	05

Leave of absence was granted to directors who could not attend the board meetings.

- The pattern of holding of Certificates by the Certificate-holders is included in this annual report.





## DIRECTORS' REPORT



### COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its listing regulations relevant for the year ended June 30, 2009 have been adopted by the Modaraba and have been duly complied with. A statement to this effect is annexed with the report.

### THE BOARD OF DIRECTORS AND AUDIT COMMITTEE

The following changes have taken place in Board of Directors since the Directors' report for the year ended June 30, 2008:

- The Board of Directors has appointed Syed Muhammad Rahmanullah as Chairman of the Board in place of Syed Majeedullah Husaini.
- Muhammad Hamidullah has resigned from the office of Director and Mr. Syed Waseem-ul-Haq Haqqie has been appointed as director.

The following changes have taken place in Audit Committee since the Directors' report for the year ended June 30, 2008:

- The Committee has appointed Mr. Fahad Abbas as Secretary of Audit Committee.

The Board wishes to place on record its appreciation and gratitude to the outgoing director for the valuable services rendered by him.

### HUMAN RESOURCES

The Board is confident that the management and employees of your Modaraba will continue to work with the integrity and zeal that has been their hallmark, and your Modaraba shall Insha'Allah continue to prosper. Investment in Human Resources is the cornerstone of our policy.

### STATUTORY RESERVES

The Board has transferred 20% of net profit after tax amounting Rs. 3,204,573 to its statutory reserve as per the requirement of Rule 2 of Part III of Prudential Regulation for Modarabas as issued by Security and Exchange Commission of Pakistan through Circular No. 4 of 2004 dated January 28, 2004.

### AUDITORS

On the recommendation of the Audit Committee, the Board has approved the re-appointment of the present auditors Messrs. A. F. Ferguson & Co., Chartered Accountants, as auditors for the year ending June 30, 2010, subject to approval by the Registrar of Modaraba Companies and Modaraba.

### ACKNOWLEDGEMENT

The Board would like to take this opportunity to thank the Securities and Exchange Commission of Pakistan, Registrar Modaraba Companies, valued customers and Certificate Holders, all of whom have made our task so pleasant.

We pray to Almighty Allah for the success of your Modaraba.

**For and behalf of**

**Board of Directors**

**Syed Muhammad Rehmanullah**

Chairman

Dated: August 29, 2009

Karachi

## KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE



	2009	2008	2007	2006	2005	2004
----- Rupees in Thousand -----						
Total Assets	443,514	232,507	54,764	52,360	77,714	48,703
Musharaka Finance	39,594	24,969	640	6,367	2,410	-
Murabaha Finance	63,893	19,014	-	-	-	-
Modaraba Finance	20,774	-	-	-	-	-
Ijarah Assets	55,337	-	-	-	-	-
Investment in Lease	97,718	146,916	1,776	5,884	2,999	2,524
Equity	258,322	62,674	52,873	50,684	51,435	46,544
Current Assets	302,422	125,037	53,111	48,050	72,963	46,264
Current Liabilities	159,906	80,309	1,398	1,010	24,912	1,597
Income	42,948	11,689	5,329	2,328	7,809	3,769
Taxation	-	(650)	(180)	44	58	-
Profit/(Loss) after Tax	16,023	(8,078)	2,227	(814)	4,916	1,511
Dividend	-	-	0.25	-	-	-
EPS (Rs)	0.65	(1.10)	0.30	(0.11)	0.67	0.21

KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE

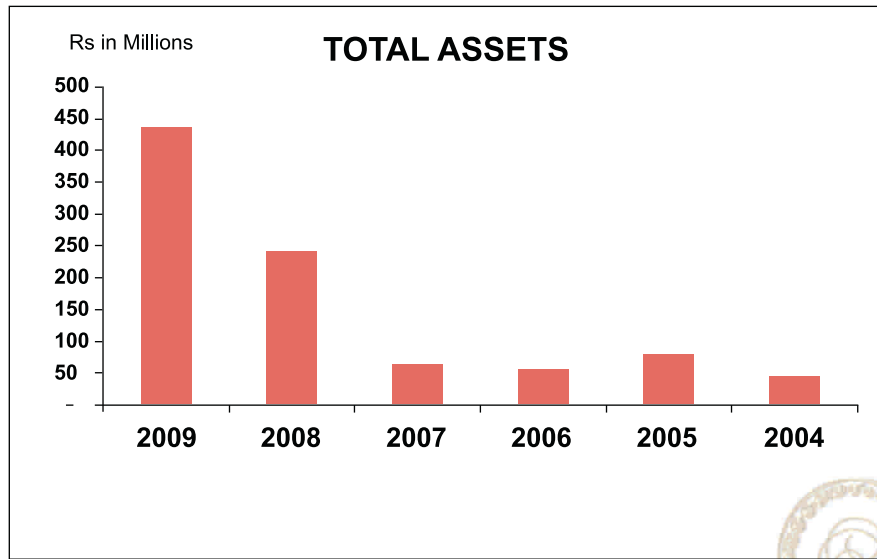


Table showing comparison of total assets for last six years

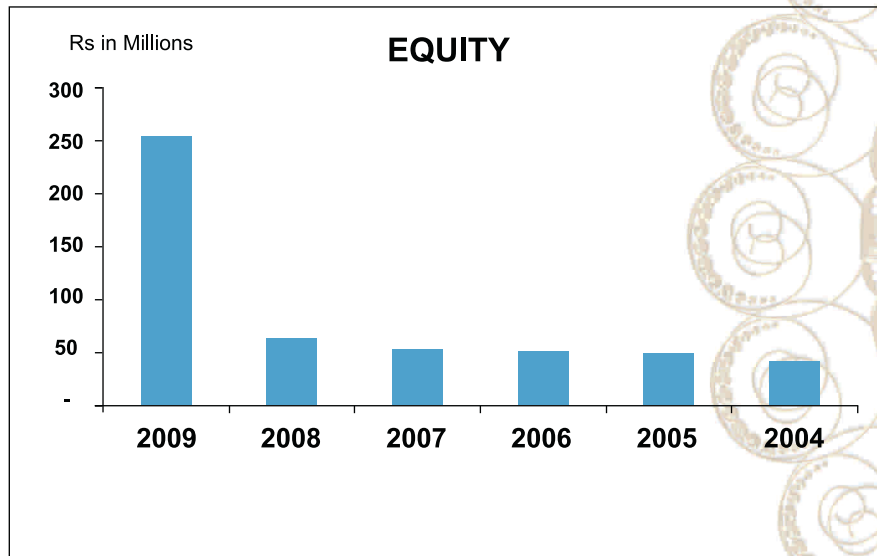


Table showing movement in equity for last six years

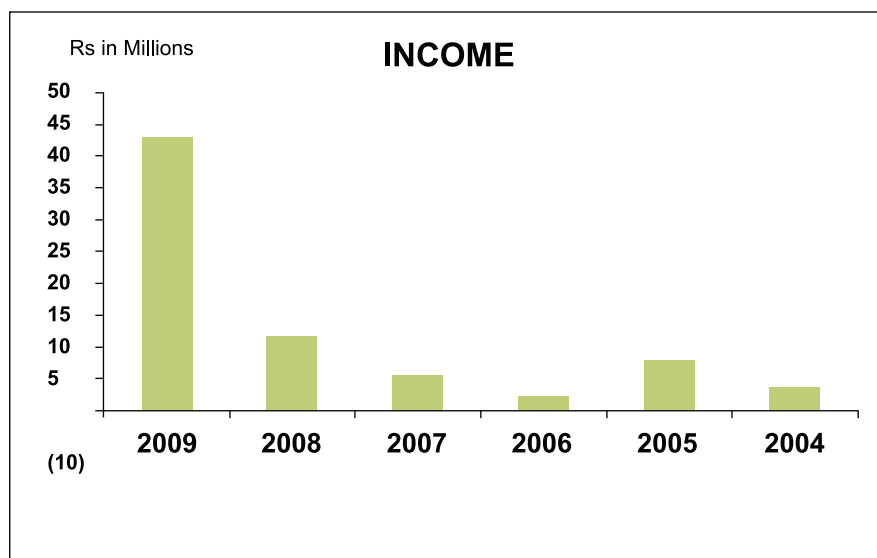


Table showing movement in total income for last six years



## KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE

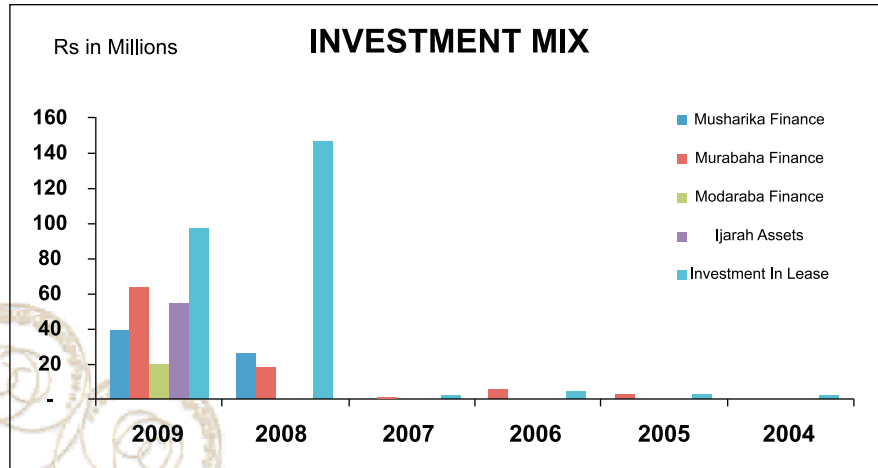


Table showing change in investment mix for last six years

\*The apparent fall in investment in Lease is due to adoption of Islamic Financial Accounting Standard - 2 for treatment of transaction executed on or after July 01, 2008 as operating lease.

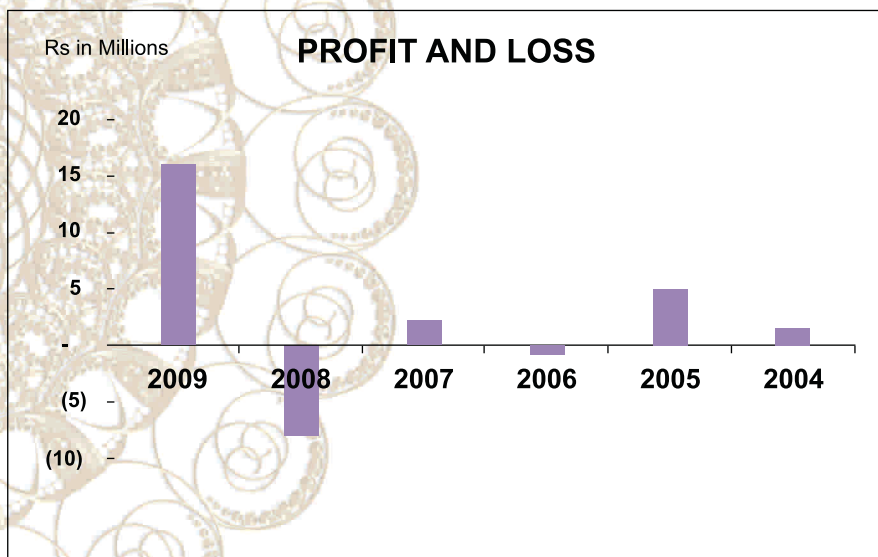


Table showing movement in profit / (loss) for last six years



## STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE



This statement is being presented to comply with Code of Corporate Governance contained in Regulation No. 35 of listing regulations of the Karachi Stock Exchange (Guarantee) Limited and chapter XIII of the Lahore Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed Modaraba is managed in compliance with the best practices of corporate governance.

Regardless of the fact that KASB Modaraba Management (Private) Limited, the management company of the KASB Modaraba, is a Private Limited Company, the Board of Directors of management company are pleased to confirm that the code of corporate governance is being complied with in all material respects.

Modaraba Management Company (hereafter referred as Company) has applied the principles contained in the Code in the following manner.

1. The Board comprises of four directors including three non-executives.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this company.
3. All the directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year the Board of directors resigned and casual vacancies were duly replaced by the new board according to applicable laws & regulations.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Modaraba at the time of their appointment. In addition list for annual approval of directors and employee has been prepared and circulated.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies is maintained with relevant department of the Modaraba.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman of the Board. The Board of Directors has met five times in the year and notices of meetings, along with agenda and related papers are always endeavored to be circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Although no orientation courses were held, the directors have been provided with the copies of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, Listing Regulation, Code of Corporate Governance, Companies Ordinance 1984, Prudential Regulation, Modaraba's Prospectus and all other relevant rules and regulations and the directors are conversant with relevant laws applicable to the Modaraba, its policies and procedures and provision of the prospectus and are aware of their duties and responsibilities.
10. The Board has approved appointment of CFO and Company Secretary including remuneration and terms and conditions of employment as determined by CEO.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. CEO and CFO have duly endorsed the financial statements of the Modaraba before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the Certificates of Modaraba.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee that also ensures the independence of the internal audit function and the independence and objectivity of the external auditors.

## STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE



16. The Audit Committee of the Board comprises of three members who are non-executives directors, including chairman of the committee.
17. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The term of reference of the committee have been formed, approved by the Board and advised to the committee for compliance.
18. The related party transactions have been placed before the audit committee and approved by the board of directors with justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in arm's length transactions only if such terms can be substantiated.
19. The Board has set-up an effective internal audit function which has been outsourced to a firm of chartered accountants who are involved in the internal audit function.
20. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guideline on the code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
21. The Statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regards.
22. We confirm that all other material principles contained in the Code have been complied with.

Karachi  
August 29, 2009

For and on behalf of the Board

Syed M. Husaini  
CEO



**AUDITORS' REVIEW REPORT ON COMPLIANCE OF CORPORATE GOVERNANCE**



**A.F.FERGUSON & CO.**

A member firm of



A.F.Ferguson & Co  
Chartered Accountants  
State Life Building No. 1-C  
I.I.Chundrigar Road, P.O.Box 4716  
Karachi-74000, Pakistan  
Telephone: (021) 2426682-6 / 2426711-5  
Facsimile: (021) 2415007 / 2427938

**REVIEW REPORT ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE 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 KASB Modaraba (the Modaraba), to comply with the Listing Regulation number 35 of the Karachi Stock Exchange 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. 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's personnel and review of various documents prepared by the Modaraba to comply with the Code.

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

Further, Sub-Regulation (xiiiia) of Listing Regulation 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide notice KSE/N-269 dated January 19, 2009 requires the Modaraba to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. All such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2009.

  
Chartered Accountants  
Karachi

Dated: August 29, 2009

Lahore Office: 505-509, 5<sup>th</sup> Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan Tel: (92-42) 6285078-85 Fax: (92-42) 6285088  
Islamabad Office: PIA Building, 3<sup>rd</sup> Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924  
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel : (93-799) 315320-203424

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS



**A.F. FERGUSON & CO.**

A member firm of

**PRICEWATERHOUSECOOPERS**

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State Life Building No. 1-C  
11 Chundrigar Road, P.O. Box 4716  
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Telephone: (021) 2426682-6 / 2426711-5  
Facsimile: (021) 2415007 / 2427938

### AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **KASB Modaraba** as at June 30, 2009 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 management company's responsibility [KASB Modaraba Management (Private) Limited] who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of accounts have been kept by the management company in respect of KASB Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon, have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

  
Chartered Accountants  
Engagement Partner: Rashid A. Jafer  
Dated: 29 AUG 2009  
Karachi

Lahore Office: 505-509, 5<sup>th</sup> Floor, Alfalah Building, P.O. Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan Tel: (92-42) 6285078-85 Fax: (92-42) 6285088  
Islamabad Office: PIA Building, 3<sup>rd</sup> Floor, 49 Blue Area, Fazl-ul-Iqbal Road, P.O. Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924  
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

**BALANCE SHEET**

AS AT JUNE 30, 2009



	Note	June 30, 2009	June 30, 2008
------(Rupees)-----			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	5	128,714,414	33,845,102
Short-term Investments	6.1	4,256,334	3,950,889
Current portion of murabaha finance	7	55,892,966	19,014,375
Modaraba finance	8	20,774,248	-
Musharaka finance	9	39,594,329	24,968,800
Current portion of net investment in finance lease	10	44,753,495	41,275,094
Ijarah rentals receivable	11	810,667	-
Advances, deposits, prepayments and other receivables	12	5,644,579	1,046,800
Accrued profit	13	1,240,907	265,312
Taxation recoverable	14	739,682	671,171
<b>Total current assets</b>		<b>302,421,621</b>	<b>125,037,543</b>
<b>Non-current assets</b>			
Long-term deposits		128,000	25,000
Long-term investment	6.2	17,020,000	-
Long-term portion of Murabaha finance	7	8,000,000	-
Long-term portion of net investment in finance lease	10	52,964,055	105,641,031
Ijarah assets	15	55,336,939	-
Fixed assets	16	7,643,188	1,803,427
<b>Total non-current assets</b>		<b>141,092,182</b>	<b>107,469,458</b>
<b>Total Assets</b>		<b>443,513,803</b>	<b>232,507,001</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Certificate of musharaka	17	150,625,000	-
Short-term finance		-	75,000,000
Current maturity of security deposits	18	874,750	50,000
Creditors, accrued and other liabilities	19	7,929,592	4,781,889
Unclaimed profit distribution		476,790	477,068
<b>Total current liabilities</b>		<b>159,906,132</b>	<b>80,308,957</b>
<b>Non-current liabilities</b>			
Long-term finance		-	70,000,000
Security deposits	18	25,083,668	19,310,262
Deferred liabilities - staff gratuity	20	201,758	214,000
<b>Total non-current liabilities</b>		<b>25,285,426</b>	<b>89,524,262</b>
<b>Total Liabilities</b>		<b>185,191,558</b>	<b>169,833,219</b>
<b>NET ASSETS</b>		<b>258,322,245</b>	<b>62,673,782</b>
<b>REPRESENTED BY</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital			
Authorised:			
50,000,000 (June 30, 2008: 50,000,000) certificates of Rs 10/- each			
		<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid-up capital			
	21	282,744,000	83,160,000
Statutory reserve	22	11,938,132	8,733,559
Accumulated loss		(36,359,887)	(49,178,177)
Right certificates subscription money		-	19,958,400
<b>CONTINGENCIES AND COMMITMENTS</b>	23	<u>-</u>	<u>-</u>
		<u>258,322,245</u>	<u>62,673,782</u>

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

For KASB Modaraba Management (Private) Limited  
(Management Company)

Chief Executive

Director

Director



**CASH FLOW STATEMENT**

FOR THE YEAR ENDED JUNE 30, 2009



	June 30, 2009	June 30, 2008
	-----Rupees-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit/ (loss) before taxation	16,022,863	(7,428,270)
<b>Adjustments for non-cash charges and other items:</b>		
Dividend income	(94,000)	(5,811)
Loss/ (gain) on sale of marketable securities - net	750,855	(1,176,419)
Unrealised diminution on remeasurement of investments classified as 'financial assets at fair value through profit or loss'	69,309	386,397
Reversal of unrealised appreciation of Term Finance Certificates on redemption	-	210,563
Gain on disposal of fixed assets	(278,256)	(180,000)
Loss on disposal of Ijarah assets	86,867	-
Deferred income	-	(26,873)
Depreciation	6,344,287	283,222
Amortisation	69,082	35,999
Intangible written-off	-	13,502
Gratuity expense	(12,242)	112,668
Financial charges	7,026,981	3,656,123
Provision for potential Ijarah & Musharaka losses	-	944,538
	<u>29,985,746</u>	<u>(3,174,361)</u>
<b>(Increase) / decrease in assets</b>		
Net investment in finance lease	49,198,575	(145,444,458)
Musharaka finance	(14,625,529)	(24,968,800)
Murabaha finance	(44,878,591)	(19,014,375)
Modaraba finance	(20,774,248)	-
Ijarah rentals receivable	(810,667)	-
Advances, deposits, prepayments and other receivables	(4,597,779)	986,948
Accrued profit	(975,595)	(13,258)
Long-term deposits	(103,000)	90,000
	<u>(37,566,834)</u>	<u>(188,363,943)</u>
<b>Increase / (decrease) in liabilities</b>		
Security deposits on lease contracts	6,598,156	18,785,012
Creditors, accrued and other liabilities	2,360,457	3,372,445
	<u>8,958,613</u>	<u>22,157,457</u>
Taxes paid	(68,511)	(251,395)
Dividend paid	(278)	(1,916,404)
Financial charges paid	(6,239,735)	(2,608,523)
Gratuity paid	-	(26,675)
	<u>(6,308,524)</u>	<u>(4,802,997)</u>
<b>Net cash used in operating activities</b>	<u>(4,930,999)</u>	<u>(174,183,844)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(6,901,295)	(1,860,440)
Sales proceeds from disposal of fixed assets / Ijarah assets	1,887,608	510,000
Purchase of Ijarah assets	(62,315,911)	(26,080,044)
Deposit received	-	-
Dividends received	94,000	5,811
Proceeds from sale of investments - net	(18,214,691)	28,185,134
<b>Net cash (outflow) / inflow from investing activities</b>	<u>(85,450,289)</u>	<u>760,461</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Short-term finance	(75,000,000)	75,000,000
Right certificates subscription money received	179,625,600	19,958,400
Long-term finance	(70,000,000)	70,000,000
Certificate of Musharaka	150,625,000	-
Repayment of liabilities against assets subject to finance lease	-	(485,262)
<b>Net cash inflow from financing activities</b>	<u>185,250,600</u>	<u>164,473,138</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<u>94,869,312</u>	<u>(8,950,245)</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>33,845,102</u>	<u>42,795,347</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>128,714,414</u></u>	<u><u>33,845,102</u></u>

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

For KASB Modaraba Management (Private) Limited  
(Management Company)

Chief Executive

Director

Director



**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED JUNE 30, 2009



	Certificate capital	Statutory reserve	Right certificates subscription money	Unrealised appreciation / (diminution) on remeasurement of investment classified as 'Available for Sale'	Accumulated loss	Total
	(Rupees)					
Balance as at June 30, 2007	83,160,000	8,733,559	-	-	(39,020,907)	52,872,652
Profit distribution for the year ended June 30, 2007 @ Rs 0.25 per certificate	-	-	-	-	(2,079,000)	(2,079,000)
Loss for the year ended June 30, 2008	-	-	-	-	(8,078,270)	(8,078,270)
Transfer to statutory reserve	-	-	-	-	-	-
Right share subscription money	-	-	19,958,400	-	-	19,958,400
Balance as at June 30, 2008	83,160,000	8,733,559	19,958,400	-	(49,178,177)	62,673,782
Right share subscription money	-	-	179,625,600	-	-	179,625,600
Issue of right shares	199,584,000	-	(199,584,000)	-	-	-
Profit for the year ended June 30, 2009	-	-	-	-	16,022,863	16,022,863
Transfer to statutory reserve	-	3,204,573	-	-	(3,204,573)	-
Balance as at June 30, 2009	<u>282,744,000</u>	<u>11,938,132</u>	<u>-</u>	<u>-</u>	<u>(36,359,887)</u>	<u>258,322,245</u>

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

For KASB Modaraba Management (Private) Limited  
(Management Company)

Chief Executive

Director

Director



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009



### 1 LEGAL STATUS AND NATURE OF BUSINESS

KASB Modaraba was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the rules framed thereunder and is managed by KASB Modaraba Management Company (Private) Limited, a company incorporated in Pakistan. The address of its registered office is 80-C, 13th Commercial Street, DHA Phase-II, Extension, Karachi. The Management Company is a subsidiary of KASB Bank Limited, which holds 3,985,000 shares out of total issued capital of 4,000,000 shares of KASB Modaraba Management Company (Private) Limited.

The Modaraba is a multipurpose perpetual modaraba and is primarily engaged in ijarah financing, finance leasing, musharaka financing, murabaha financing, modaraba financing and investing in listed securities. The Modaraba is listed on the Karachi and Lahore Stock Exchanges.

### 2 SIGNIFICANT EVENT DURING THE YEAR

During the current year the Modaraba has issued 240% right certificates to the existing certificate holders. The right issue was approved by the Board of Directors of the Modaraba in their meeting held on February 23, 2008.

### 3 BASIS OF PREPARATION

#### 3.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Rules, 1981 and directives issued by SECP differ with the requirements of IFRS, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Rules, 1981 or the directives issued by SECP prevail.

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

During the year ended June 30, 2009, IFRS 7 'Financial Instruments: Disclosures' became effective. IFRS 7 has superseded IAS 30 and the disclosure requirements of IAS 32. Adoption of this standard has only resulted in additional disclosures which have been set out in note 32 and note 33 to these financial statements.

During the year ended June 30, 2009, IFRIC Interpretation 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' became effective. The interpretation provides guidance on assessing the limit in IAS 19 - 'Employee Benefits' on the amount of the surplus that can be recognised as an asset. It also explains how the gratuity asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Modaraba's financial statements as the Modaraba's gratuity fund has a deficit and is not subject to any minimum funding requirements.

There are other standards, amendments and interpretations that were mandatory for accounting periods beginning on or after July 1, 2008 but were considered not to be relevant or did not have any significant effect on the Modaraba's operations.

#### 3.3 Standards, interpretations and amendments to published accounting standards that are not yet effective

IAS 1 (Revised), 'Presentation of financial statements' (effective for annual periods beginning on or after January 1, 2009), was issued in September 2007. The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) will be required to be presented separately from owner changes in equity, either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). When the entity applies an accounting policy retrospectively or makes retrospective statement or reclassifies items in the financial statements, they will be required to present a restated financial position (balance sheet) as at beginning of comparative period in addition to the current requirement to present the balance sheet as at the end of the current and the comparative period. The adoption of this standard will only impact the presentation of the financial statements.



The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. Adoption of the amendment is not expected to have any effect on the Modaraba's financial statements.

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. Adoption of the amendment is not expected to have any effect on the Modaraba's financial statements.

The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The adoption of this amendment will only impact the presentation of the financial statements.

IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). As per the new requirements, disclosures equivalent to those for value-in-use calculation should be made where fair value less costs to sell is calculated on the basis of discounted cash flows. Adoption of the amendment is not expected to have significant effect on the Modaraba's financial statements.

IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent with IAS 37.

IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. This amendment is not expected to have a significant effect on the Modaraba's financial statements.

IFRS 7 (Amendment), 'Financial Instruments: Disclosure'. There are a number of minor amendments to IFRS 7 in respect of enhanced disclosures about liquidity risk and fair value measurements. These amendments are unlikely to have an impact on the Modaraba's financial statements and have therefore not been analysed in detail.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or do not have any significant effect on the Modaraba's operations and are therefore not detailed in these financial statements.

#### 3.4 Applicability of International Accounting Standard 17 'Leases'

SECP vide its circular No. 10 of 2004 dated February 13, 2004 has deferred, till further orders, the applicability of International Accounting Standard (IAS) 17 "Leases" on Modarabas with effect from July 1, 2003 and advised the management companies of Modarabas that they may continue to prepare the financial statements of the Modarabas without applying the requirements of the said IAS to the Modarabas. However, the requirements of the above IAS were considered for the purpose of preparation of these financial statements upto June 30, 2008. From July 1, 2008 all new leases are being accounted for in accordance with the requirements of IFAS 2 as explained in note 3.6. As allowed by the SECP, leases which were accounted for as finance lease in accordance with IAS 17 till June 30, 2008 continue to be accounted for as finance leases.

#### 3.5 Islamic Financial Accounting Standard - 1

During the year ended June 30, 2005, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transaction undertaken by a bank / financial institution, effective for financial periods beginning on or after January 1, 2006. The Modaraba adopted this standard effective from July 1, 2006.

#### 3.6 Islamic Financial Accounting Standard - 2

During the year ended June 30, 2008, Islamic Financial Accounting Standard 2 'Ijarah' issued by the Institute of Chartered Accountants of Pakistan which was notified by the Securities and Exchange Commission of Pakistan vide an SRO 431(1)/2007 dated May 5, 2007. Under the above IFAS 2, the 'Ijarah' transactions shall be accounted for in the following manner:

- Muj'ir (lessors) shall present the assets subject to Ijarah in their balance sheet according to the nature of the asset, distinguished from the assets in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognized as an expense.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2009



- Ijarah income shall be recognized in income on an accrual basis as and when the rental becomes due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the leased asset is diminished.

The above IFAS was operative for financial statements covering the period beginning on or after July 1, 2007 and was required to be followed on those Ijarahs which commences after the above mentioned date.

During the current year, SECP vide its letter No. SC/M/RW/SCM/2009 dated March 9, 2009 has directed that IFAS 2 shall be used for Ijarah transaction executed on or after July 1, 2008.

Consequently, in preparation of these financial statements the Modaraba has accounted for Ijarah transactions executed before July 01, 2008 as finance leases consistent with prior years and has treated the Ijarah transaction executed on or after July 01, 2008 in accordance with the requirements of IFAS 2. Had the Modaraba continued to account for these transactions as finance leases the income for the year would have been lower by Rs 3,841,669.

**3.7 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgment in application of the Modaraba's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by management in the application of accounting policies are disclosed in note 37 to these financial statements.

**3.8 Accounting convention**

These financial statements have been prepared under the historical cost convention except that certain investments have been marked to market.

**3.9 Functional and Presentation Currency**

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**4.1 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 balances with banks on current and deposit accounts.

**4.2 Financial assets**

**4.2.1 Classification**

The Modaraba classifies its financial assets in accordance with the requirements of International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and Measurement in the following categories: at fair value through profit or loss, loans and receivables held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

- The financial assets included in loans and receivables classification are cash and bank balances, Murabaha finance, Musharaka Finance, Net investment in finance lease and Advances deposits, prepayments and other receivables.
- The financial assets included in held to maturity are investments in sukuk certificates.
- The financial assets classified as at fair value through profit or loss include investments in listed securities i.e. equity and term finance certificates.



**a) At fair value through profit or loss**

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as 'financial assets at fair value through profit or loss' category.

**b) Loans and receivables**

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

**c) Held to maturity**

These are investments with fixed or determinable payments and fixed maturity with the Modaraba having positive intent and ability to hold to maturity.

**d) Available for sale financial assets**

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held to maturity (c) financial assets at fair value through profit or loss.

**4.2.2 Regular way contracts**

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Modaraba commits to purchase or sell the asset.

**4.2.3 Initial recognition and measurement**

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs associated with these financial assets are taken directly to the profit and loss account.

**4.2.4 Subsequent measurement**

Subsequent to initial recognition, financial assets are valued as follows:

**a) 'Financial asset at fair value through profit or loss' & 'available for sale'**

The investment in listed securities i.e. equity and term finance certificates are market to market using the closing market rates and are carried on the balance sheet at fair value.

Gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from the excess of value determined in accordance with the above mentioned criteria over the carrying amount in respect of available for sale financial assets are taken to equity until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

**b) 'Loans and receivables' & 'held to maturity'**

Loans and receivables and held to maturity financial assets are carried at amortised cost.

**4.2.5 Impairment**

The management assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity to profit and loss account. Impairment losses recognised on equity instruments are not reversed through profit and loss. For loans and receivables, a provision for impairment is established when there is objective evidence that the Modaraba will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009



### 4.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Modaraba has transferred substantially all risks and rewards of ownership.

### 4.2.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

### 4.2.8 Financial liabilities

All financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

### 4.3 Net Investment in Finance lease

Assets owned by the Modaraba but subject to finance lease are included in the financial statements as "Net investment in finance lease" at an amount equal to the present value of the lease payments, including estimated residual value. Allowance for non-performing leases are made in accordance with the Prudential Regulations for Modarabas issued by SECP and is charged to the profit and loss account currently.

### 4.4 Receivable from terminated / matured contracts

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

### 4.5 Lease rentals , murabaha finance, musharaka finance and modaraba finance

Lease rentals , murabaha finance, musharaka finance and modaraba finance receivables are stated net of provisions and suspense income. Provision is recognised for lease rentals receivables, in accordance with Prudential Regulations for Modaraba. Bad debts are written off as and when identified.

### 4.6 Fixed assets - Tangible

#### 4.6.1 Owned assets

Assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written-off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal.

Repairs and maintenance are charged to income as and when incurred.

#### 4.6.2 Ijarah assets

Leased assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the lease period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged on monthly basis from the date of commencement of lease. While no depreciation is charged in the month of maturity / termination.

#### 4.6.3 Gain or loss on disposal

Gains / losses on disposal of fixed assets are charged to the profit and loss account currently.



#### 4.6.4 Impairment

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

#### 4.6.5 Intangible assets

Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

#### 4.7 Loans, advances and other receivables

These are stated at cost less estimates made for doubtful receivables based on a review of all outstanding amounts at the balance sheet date. Balances considered bad and irrecoverable are written off when identified.

#### 4.8 Taxation

##### Current

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

##### Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised 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 utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax asset and liability is measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

#### 4.9 Creditors, accrued and other liabilities

These are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services.

#### 4.10 Provisions

Provisions are recognised when the Modaraba has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

#### 4.11 Staff retirement benefits

##### Unfunded gratuity scheme

The Modaraba operates an unfunded gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. Annual contributions are made to the fund on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit method. Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the higher of the present value of the Modaraba's gratuity obligation and the fair value of the Modaraba's assets are amortised over the expected average remaining working lives of the employees.



**4.12 Revenue recognition**

**Finance Lease**

The Modaraba follows the finance method for recognising income on Finance lease. Under this method the unearned income i.e. the excess of aggregate lease rentals (including residual value) over the net investment (cost of finance lease) outstanding is deferred and then amortised over the term of the lease, so as to produce a constant periodic rate of return on net investment in the lease. Documentation charges, front-end fee and other lease income are recognised as income on receipt basis.

**Ijarah**

Income on Ijarah is recognised on accrual basis.

**Musharaka Finance**

Profit on Musharaka arrangements is recognised on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of the transaction after determination of the actual rate.

**Murabaha Finance**

The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the unearned income i.e. the excess of aggregate murabaha instalments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.

**Modaraba Finance**

Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio when actual gain / loss on transaction is computed upon termination / completion of transaction.

**Dividend Income**

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

**4.13 Proposed profit distribution to certificate holder**

Profit distribution to certificate holders is recognised as a liability in the period in which such distribution is announced.

**5. CASH AND BANK BALANCES**

	Note	2009	2008
----- (Rupees) -----			
With banks in current accounts	5.2	465,233	20,435,468
With banks in deposit account	5.1 & 5.2	99,119,848	13,381,159
With State Bank of Pakistan		12,012	15,836
Cash in hand		2,425	12,439
Redemption fund for Certificate of Musharaka		14,113,796	-
Term deposits receipts	5.3	15,000,000	-
Stamp Papers		1,100	200
		<u>128,714,414</u>	<u>33,845,102</u>

- 5.1 These deposits accounts carry profit at rates ranging from 5.15 % to 16.5% (2008: 11% to 12.5%).
- 5.2 Balances with banks include an amount of Rs 39,593,140 (2008: Rs 29,669,011) held with KASB Bank Limited which is a related party. The deposit accounts with related party carry profit at a rate of 12% to 14% (2008: 11%).
- 5.3 Term Deposit receipts include an amount of Rs 10,000,000 (2008: nil) held with KASB Bank Limited which is a related party. The deposit receipts with related party carry profit at a rate of 16% to 18% (2008: nil). Other deposit receipts carry profit at rates ranging from 14.5% to 18% (2008: nil).



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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6 INVESTMENTS	Note	2009	2008
------(Rupees)-----			
<b>6.1 Short-term investments</b>			
<b>'Financial assets at fair value through profit and loss' - held for trading</b>			
- Term Finance Certificates - listed	6.1.1	-	438,600
- Equity securities - listed	6.1.2	<u>2,296,334</u>	<u>3,512,289</u>
		2,296,334	3,950,889
<b>Held to maturity</b>			
Current portion of Sukuk Bonds - unlisted	6.2	<u>1,960,000</u>	-
		1,960,000	-
		<u>4,256,334</u>	<u>3,950,889</u>

**6.1.1 Term Finance Certificates - listed**

Name of investee company	Number of certificates				Profit / mark-up rate	Balance as at June 30, 2009		
	As at July 01, 2008	Purchases during the year	Matured during the year	As at June 30, 2009		Carrying cost	Market value	Appreciation/ (diminution)
Term Finance Certificate of Rs 5,000 each unless stated otherwise								
Al-Zamin Leasing Modaraba	258	-	258	-	8%	-	-	-
<b>Total listed Term Finance Certificates</b>						<u>-</u>	<u>-</u>	<u>-</u>

**6.1.2 Equity Securities - listed**

Name of investee company	Number of shares				As at June 30, 2009	Balance as at June 30, 2009		
	As at July 01, 2008	Purchases during the year	Bonus / right issue	Sales during the year		Carrying cost	Market value	Appreciation/ (diminution)
Fully paid ordinary shares of Rs 10 each unless stated otherwise								
Saleem Denim Industries Limited	19,200	-	-	-	19,200	28,800	28,800	-
Crescent Jute Products Limited	1,021	-	-	-	1,021	2,859	1,531	(1,328)
Engro Chemical Pakistan Limited	11,000	64,400	-	59,000	16,400	2,166,484	2,106,253	(60,231)
Sui Northern Gas Pipelines Limited	-	5,000	-	-	5,000	167,500	159,750	(7,750)
Engro Polymer & Chemicals Limited	-	5,000	-	5,000	-	-	-	-
Fauji Cement Company Limited	-	10,000	-	10,000	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	8,000	-	8,000	-	-	-	-
Fauji Fertilizer Company	-	2,000	-	2,000	-	-	-	-
Hub Power Company Limited	-	14,000	-	14,000	-	-	-	-
ICI Pakistan Limited	-	2,000	-	2,000	-	-	-	-
Lucky Cement Limited	4,000	10,000	-	14,000	-	-	-	-
Maple Leaf Cement limited	-	15,000	-	15,000	-	-	-	-
Nishat Mills	-	17,500	-	17,500	-	-	-	-
Oil & Gas Development Corporation Limited	-	38,000	-	38,000	-	-	-	-
PICIC Energy Fund	-	15,000	-	15,000	-	-	-	-
Pakistan Oilfields Limited	-	19,000	-	19,000	-	-	-	-
Pakistan Petroleum Limited	-	8,000	-	8,000	-	-	-	-
Pakistan State Oil Company Limited	-	2,000	-	2,000	-	-	-	-
Pakistan Telecommunication Company Limited	-	20,000	-	20,000	-	-	-	-
Sui Southern Gas Company Limited	-	5,000	-	5,000	-	-	-	-
<b>Total listed equity securities</b>						<u>2,365,643</u>	<u>2,296,334</u>	<u>(69,309)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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6.2 Long Term Investment

Held to maturity

Sukuk bonds - unlisted

Name of investee company	Number of certificates				Profit / mark-up rate	Carrying out	
	As at July 01, 2008	Purchases during the year	Sales during the year	As at June 30, 2009		Balance as at June 30, 2009	Balance as at June 30, 2008
Sukuk bonds of Rs.5,000 each unless stated otherwise							
Kohat Cement Company Limited	-	2,000	-	2,000	14.71% (6M KIBOR + 1.80%)	8,980,000	-
Maple Leaf Cement Factory Limited	-	2,000	-	2,000	15.44% (6M KIBOR + 1.70%)	10,000,000	-
Total Sukuk Bonds						18,980,000	-
Less: Current portion of sukuk bonds						(1,960,000)	-
						17,020,000	-

7 MURABAHA FINANCE

Murabaha receivables - gross		
Less: unearned income		
Less: provision for non-performing assets		
Murabaha finance - due after one year		
Current portion of Murabaha Finance		

Note 2009 2008  
----- (Rupees) -----

7.1	70,777,104	20,231,001
	6,884,138	1,216,626
	63,892,966	19,014,375
	-	-
	63,892,966	19,014,375
	8,000,000	-
	55,892,966	19,014,375

7.1 The profit rates on these murabaha arrangements range from 14.5% to 19% (2008: 14.36% to 17.93%)

8 MODARABA FINANCE

Modaraba finance

2009 2008  
----- (Rupees) -----

20,774,248	-
------------	---

The Modaraba has provided funds under modaraba arrangements on profit and loss sharing basis to various entities. The profit / loss is to be shared in pre-agreed ratios. On termination date, the accounts of the modaraba shall be drawn up in accordance with accepted accounting principles and the profit / loss if any shall be worked out and paid in proportion specified.

9 MUSHARAKA FINANCE

Musharaka receivables		
Provision for non-performing assets		
Musharaka finance - due after one year		
Current portion of Musharaka Finance		

2009 2008  
----- (Rupees) -----

40,234,329	25,608,800
(640,000)	(640,000)
39,594,329	24,968,800
-	-
39,594,329	24,968,800

9.1 The Modaraba has provided funds under Musharaka arrangements for working capital requirements on profit and loss sharing basis. Expected rate of profit ranges from 16.28% to 18.3% (2008: 12.8% to 28.76%) per annum. All musharaka arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**10 NET INVESTMENT IN FINANCE LEASE**

Note	2009			2008		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	(Rupees)					
Minimum lease payments receivable	55,182,592	40,387,949	95,570,541	57,832,300	99,123,494	156,955,794
Add: Residual value	874,750	16,243,467	17,118,217	50,000	19,310,262	19,360,262
	56,057,342	56,631,416	112,688,758	57,882,300	118,433,756	176,316,056
Less: Unearned finance income	(10,567,095)	(3,667,361)	(14,234,456)	(16,298,692)	(12,752,798)	(29,051,490)
Suspended income	(432,214)	-	(432,214)	(43,903)	-	(43,903)
Allowance for potential lease losses	10.3 (304,538)	-	(304,538)	(264,611)	(39,927)	(304,538)
	10.1 44,753,495	52,964,055	97,717,550	41,275,094	105,641,031	146,916,125

	2009	2008
	(Rupees)	
10.1 Total receivable	97,717,550	146,916,125
Later than one year	52,964,055	105,641,031
Less than one year	44,753,495	41,275,094

10.2 There are no Ijarah contracts receivable over five years. The Modaraba's implicit rate of return on Ijarah finance ranges from 12.75% to 28.02% per annum (2008: 7.51% to 28.01%).

**10.3 Allowance for potential lease losses**

Note	2009	2008
	(Rupees)	
Provision and write offs	304,538	304,538
Reversal of provision against lease rental	-	-
	304,538	304,538

**11 IJARAH RENTAL RECEIVABLES**

Lease rental accrued	810,667	-
Suspended lease rentals	-	-
	810,667	-

**12 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

Loan and advances to:		
- Executives	173,609	161,904
- Employees	336,418	13,000
Advances to suppliers and others	520,000	471,608
Advances against Ijarah assets	1,809,000	-
Prepayments	1,070,063	390,288
Others	1,735,489	10,000
Overdue Ijarah rentals	11,076	11,076
	5,655,655	1,057,876
Less: provision in respect of overdue Ijarah rental	(11,076)	(11,076)
	5,644,579	1,046,800

**13 ACCRUED PROFIT**

Accrued profit on Term Finance Certificates	-	683
Accrued profit on Sukuk Certificates	154,635	-
Accrued profit on bank accounts	13.1 501,213	185,102
Accrued profit on musharaka arrangements	792,040	194,739
Less: provision in respect of accrued profit on musharaka arrangements	(206,981)	(115,212)
	585,059	79,527
	1,240,907	265,312

13.1 Accrued profit on bank accounts include an amount of Rs 352,119 receivable from KASB Bank Limited.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**14 TAXATION**

14.1 No provision for current taxation has been made as the Modaraba has accumulated tax losses of approximately Rs.15.454 million as at June 30, 2009.

14.2 As at June 30, 2009 the Modaraba has net deferred tax liability amounting to Rs 5,317,385 which has not recognized in these financial statements as the Modaraba intends to avail the tax exemption available to all non-trading modarabas as referred to in note 4.8 by distributing at least 90% of its income every year in future.

**15 IJARAH ASSETS**

	Note	2009	2008
------(Rupees)-----			
Plant & Machinery	15.1	28,572,809	-
Motor Vehicles	15.1	26,751,530	-
Computers	15.1	12,600	-
		<u>55,336,939</u>	<u>-</u>

15.1 The following is a statement of ijarah assets:

	Year ended June 30, 2009			Total
	Ijarah Assets			
	Plant & Machinery	Motor vehicles	Computers and accessories	
------(Rupees)-----				
<b>At July 01, 2008</b>				
Cost	-	-	-	-
Accumulated depreciation / amortisation	-	-	-	-
<b>Net book value</b>	-	-	-	-
<b>Additions</b>	30,867,719	31,420,192	28,000	62,315,911
<b>Transfer from leased to owned assets</b>				
Cost	-	-	-	-
Depreciation	-	-	-	-
<b>Disposals</b>				
Cost	-	(1,709,000)	-	(1,709,000)
Depreciation	-	384,525	-	384,525
	-	(1,324,475)	-	(1,324,475)
Depreciation / amortisation charge for the year	(2,294,910)	(3,344,187)	(15,400)	(5,654,497)
<b>Closing net book value</b>	<u>28,572,809</u>	<u>26,751,530</u>	<u>12,600</u>	<u>55,336,939</u>
<b>At June 30, 2009</b>				
Cost	30,867,719	29,711,192	28,000	60,606,911
Accumulated depreciation / amortisation	(2,294,910)	(2,959,662)	(15,400)	(5,269,972)
<b>Net book value</b>	<u>28,572,809</u>	<u>26,751,530</u>	<u>12,600</u>	<u>55,336,939</u>

**15.2 Disposal of Ijarah Assets**

The following assets were disposed of during the year having carrying value of more than Rs 50,000:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyer
------(Rupees)-----						
Motor Vehicle	1,709,000	384,525	1,324,475	1,237,608	Negotiation	Sigma Leasing Corporation
<b>2009 Rupees</b>	<u>1,709,000</u>	<u>384,525</u>	<u>1,324,475</u>	<u>1,237,608</u>		
<b>2008 Rupees</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		

**16 FIXED ASSETS**

	Note	2009	2008
------(Rupees)-----			
Owned assets	16.1	7,643,188	1,803,427
Leased assets	16.1	-	-
Intangible assets	16.1	-	-
		<u>7,643,188</u>	<u>1,803,427</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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16.1 The following is a statement of fixed assets:

	Year ended June 30, 2009						Total	Intangible assets Computer software
	Owned assets					Leased assets		
	Furniture, fixtures and equipment	Office equipment	Electrical equipment	Motor vehicles	Computers and accessories	Vehicles		
Rupees								
At July 01, 2008								
Cost	115,250	18,050	50,597	1,134,450	807,543	-	2,125,890	145,000
Accumulated depreciation / amortisation	(103,649)	(18,049)	(2,606)	(42,890)	(155,269)	-	(322,463)	(145,000)
Net book value	11,601	1	47,991	1,091,560	652,274	-	1,803,427	-
Additions	3,542,858	6,150	1,665,647	1,473,390	213,250	-	6,901,295	-
Transfer from lease to owned assets								
Cost	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-
Disposals								
Cost	-	-	-	(448,500)	-	-	(448,500)	-
Depreciation	-	-	-	76,756	-	-	76,756	-
Depreciation / amortisation charge for the year	(62,088)	(205)	(92,419)	(285,722)	(249,356)	-	(689,790)	-
Closing net book value	3,492,371	5,946	1,621,219	1,907,484	616,168	-	7,643,188	-
At June 30, 2009								
Cost	3,658,108	24,200	1,716,244	2,159,340	1,020,793	-	8,578,685	145,000
Accumulated depreciation / amortisation	(165,737)	(18,254)	(95,025)	(251,856)	(404,625)	-	(935,497)	(145,000)
Net book value	3,492,371	5,946	1,621,219	1,907,484	616,168	-	7,643,188	-
Depreciation rate % per annum	10	10	20	20	30	20		30
Year ended June 30, 2008								
	Furniture, fixtures and equipment	Office equipment	Electrical equipment	Motor vehicles	Computers and accessories	Vehicles	Total	Intangible assets Computer software
Rupees								
At July 01, 2007								
Cost	103,250	77,150	-	-	144,150	900,000	1,224,550	145,000
Accumulated depreciation / amortisation	(103,249)	(77,149)	-	-	(82,943)	(405,000)	(668,341)	(95,499)
Net book value	1	1	-	-	61,207	495,000	556,209	49,501
Additions	12,000	-	50,597	1,134,450	663,393	-	1,860,440	-
Transfer from lease to owned assets								
Cost	-	-	-	495,000	-	(900,000)	(405,000)	-
Depreciation	-	-	-	-	-	405,000	405,000	-
Disposals								
Cost	-	(59,100)	-	(495,000)	-	-	(554,100)	-
Depreciation	-	59,100	-	165,000	-	-	224,100	-
Depreciation / amortisation charge for the year	(400)	-	(2,606)	(207,890)	(72,326)	-	(283,222)	(49,501)
Closing net book value	11,601	1	47,991	1,091,560	652,274	-	1,803,427	-
At June 30, 2008								
Cost	115,250	18,050	50,597	1,134,450	807,543	-	2,125,890	145,000
Accumulated depreciation / amortisation	(103,649)	(18,049)	(2,606)	(42,890)	(155,269)	-	(322,463)	(145,000)
Net book value	11,601	1	47,991	1,091,560	652,274	-	1,803,427	-
Depreciation rate % per annum	10	10	20	20	30	20		30

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**16.2 Disposal of fixed assets**

The following assets were disposed of during the year having carrying value of more than Rs 50,000:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyer
	------(Rupees)-----					
Motor Vehicle	448,500	76,756	371,744	650,000	Negotiation	Feteh Motors
<b>2009 Rupees</b>	<u>448,500</u>	<u>76,756</u>	<u>371,744</u>	<u>650,000</u>		
<b>2008 Rupees</b>	<u>495,000</u>	<u>165,000</u>	<u>330,000</u>	<u>495,000</u>		

**17 CERTIFICATE OF MUSHARAKA**

	2009	2008
	------(Rupees)-----	
Certificate of Musharaka	17.1 & 17.2 <u>150,625,000</u>	<u>-</u>
	<u>150,625,000</u>	<u>-</u>

17.1 The estimated share of profit payable on COM's ranges from 13.00% to 16% (2008: Nil) per annum.

17.2 Certificate of Musharaka includes an amount of Rs 3,500,000 due to KASB Technologies which is a related party. The certificate with related party carries profit at a rate of 14% (2008: Nil)

**18 SECURITY DEPOSITS**

	2009			2008		
	Finance lease	Ijarah	Total	Finance lease	Ijarah	Total
Security deposits	17,118,217	8,840,201	<b>25,958,418</b>	19,360,262	-	<b>19,360,262</b>
Less: Repayable / adjustable adjustable after one year	16,243,467	8,840,201	<b>25,083,668</b>	19,310,262	-	<b>19,310,262</b>
Current portion	<u>874,750</u>	<u>-</u>	<u><b>874,750</b></u>	<u>50,000</u>	<u>-</u>	<u><b>50,000</b></u>

18.1 Represents sums received under ijarah / finance lease repayable / adjustable at the expiry of the lease period.

**19 CREDITORS, ACCRUED AND OTHER LIABILITIES**

	2009	2008
	------(Rupees)-----	
Management fee payable	1,780,318	-
Sundry creditors	1,503,074	975,700
Accrued expenses	3,451,363	1,432,316
Advance received against Certificates of Musharaka	1,025,000	-
Unrealised income on musharaka	-	46,302
Advance ijarah rentals	97,492	65,936
Underwriting commission payable	-	2,244,800
Other liabilities	<u>72,345</u>	<u>16,835</u>
	<u><b>7,929,592</b></u>	<u><b>4,781,889</b></u>

19.1 Amounts due to associated undertakings as at June 30, 2009 aggregated Rs 1,880,679 (2008: Rs 2,057,983).

**20 STAFF RETIREMENT BENEFIT SCHEME**

**20.1 Staff Gratuity Scheme**

As disclosed in note 4.11, the Modaraba operates an unapproved, unfunded gratuity scheme for its permanent employees. During the current year, actuaries were appointed to value the scheme as at June 30, 2009 using the Projected Unit Credit Method. Last year, the scheme was valued by the management using the Projected Unit Credit Method. The information in notes 20.2 - 20.8 relating to the 2009 financial year has been obtained from the actuarial valuation report.

**20.2 Principal actuarial assumptions used:**

	2009	2008
The following significant assumptions have been used for the valuation of this scheme:		
- Valuation discount rate	14%	0%
- Expected rate of increase in salary level	14%	0%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**20.3 Amount recognised in the profit and loss account:**

The following amounts have been charged in the profit and loss account during the current year in respect of the scheme:

	2009	2008
	------(Rupees)-----	
Current service cost	64,925	-
Interest cost	14,661	-
Transitional (asset) / liability recognised	(91,828)	-
	<u>20.9</u>	<u>-</u>
	<u>(12,242)</u>	<u>-</u>

**20.4 Liability recognised in the balance sheet:**

Present value of obligation	195,968	214,000
Unrecognised actuarial gains / (losses)	5,790	-
	<u>201,758</u>	<u>214,000</u>

**20.5 Movement in liability:**

Opening Liability	214,000	-
Expense	20.9	214,000
Benefits paid	-	-
<b>Liability to be recognised in the balance sheet</b>	<u>201,758</u>	<u>214,000</u>

**20.6 Reconciliation of present value of defined benefit obligation**

Present value of defined benefit obligation as at July 1, 2008	122,172	-
Current service cost	64,925	214,000
Interest cost	14,661	-
Actuarial gain	(5,790)	-
<b>Present value of defined benefit obligation as at June 30, 2009</b>	<u>195,968</u>	<u>214,000</u>

**20.7 Actuarial (Gain)/ Loss in obligations**

Experience adjustments	5,790	-
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**20.8** Based on actuarial advice, the Modaraba estimates a gratuity expense of in Rs 113,058 in 2010.

**20.9** This amount represents the difference in the present value of the defined benefit obligation as at June 30, 2008 as estimated by management versus the estimate prepared by the actuaries. This has been written back to the profit and loss account.

**21 CERTIFICATE CAPITAL**

**Authorised certificate capital**

2009	2008		2009	2008
Number of certificates			------(Rupees)-----	
<u>50,000,000</u>	<u>50,000,000</u>	Modaraba Certificates of Rs 10 each	<u>500,000,000</u>	<u>500,000,000</u>
<b>Issued, subscribed and paid-up capital</b>				
24,958,400	5,000,000	Modaraba Certificates of Rs 10 each fully paid in cash	249,584,000	50,000,000
3,316,000	3,316,000	Modaraba Certificates of Rs 10 each issued as fully paid bonus certificates	33,160,000	33,160,000
<u>28,274,400</u>	<u>8,316,000</u>		<u>282,744,000</u>	<u>83,160,000</u>

**21.1** As at 30 June 2009, KASB Modaraba Management Company (Private) Limited (the Management Company) held 3,913,940 certificates (2008: 872,600 certificates).

**21.2** During the current year, the management of the Modaraba has increased the paid-up certificate capital from 8,316,000 to 28,274,400 certificates through a rights issue. The rights issue was approved in the Board meeting held on February 23, 2008.



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**22 STATUTORY RESERVE**

Statutory reserve represents profits set aside to comply with the Prudential Regulations for modarabas issued by the SECP. These regulations require a modaraba to transfer not less than 20% and not more than 50% of its after tax profit till such time that reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

During the current year the Modaraba has transferred an amount of Rs 3,204,573 which represents 20% of the profit after tax.

**23 CONTINGENCIES AND COMMITMENTS**

There were no contingencies outstanding as at June 30, 2009. However, commitments amounting to Rs 5,889,100 (2008: Nil) in respect of diminishing musharaka facility have been entered into by the Modaraba.

**24 INCOME FROM LEASING OPERATIONS**

**Finance lease**

Mark-up earned

Plant & machinery

Motor vehicles

Other

Gain on termination

**Less:**

Direct cost associated with finance lease

Suspended income

**Ijarah**

Rentals

Plant & machinery

Motor vehicle

Other

Gain / (loss) on disposal of ijarah assets

Less: depreciation on ijarah assets

2009 2008

(Rupees)

	2009	2008
Mark-up earned		
Plant & machinery	9,611,280	2,264,650
Motor vehicles	5,412,886	1,815,908
Other	5,164,147	1,757,084
Gain on termination	247,969	-
	<u>20,436,282</u>	<u>5,837,642</u>
Less:		
Direct cost associated with finance lease	43,410	65,040
Suspended income	388,311	43,903
	<u>(431,721)</u>	<u>(108,943)</u>
	<u>20,004,561</u>	<u>5,728,699</u>
Ijarah		
Rentals		
Plant & machinery	2,303,788	-
Motor vehicle	3,930,087	-
Other	17,780	-
Gain / (loss) on disposal of ijarah assets	(86,867)	-
	<u>6,164,788</u>	<u>-</u>
Less: depreciation on ijarah assets	(5,654,497)	-
	<u>510,291</u>	<u>-</u>
	<u>20,514,852</u>	<u>5,728,699</u>

**25 (LOSS) / GAIN ON SALE OF MARKETABLE SECURITIES - NET**

Securities classified as 'financial assets at fair value through profit or loss' - net

Letter of rights

	(750,855)	900,900
	-	275,519
	<u>(750,855)</u>	<u>1,176,419</u>

**26 FINANCIAL CHARGES**

Profit on short term musharaka finance

Profit on long term musharaka finance

Profit on certificate of musharaka

Lease finance charges

Bank charges

	1,453,427	3,049,998
	1,329,177	580,341
	4,221,733	-
	-	23,044
	<u>22,644</u>	<u>2,740</u>
	<u>7,026,981</u>	<u>3,656,123</u>

**27 OTHER INCOME**

Profit / (loss) on disposal of assets in own use

Dividend income (net of zakat)

Miscellaneous income

Documentation charges

Front end fee

Deferred income

Commission on bank guarantee

Insurance income (leased out)

	278,256	180,000
	94,000	5,811
	12,149	1,768
	325,300	371,000
	59,350	301,998
	-	26,873
	4,000	2,500
	<u>185,323</u>	<u>99,231</u>
	<u>958,378</u>	<u>989,181</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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28 ADMINISTRATIVE AND OPERATING EXPENSES	Note	2009	2008
		------(Rupees)-----	
Salaries and benefits	31	9,082,837	2,955,131
Utilities		821,052	91,150
Insurance		124,189	29,981
Vehicle running and maintenance		482,595	194,034
Postage		56,983	54,551
Repairs and maintenance		209,947	71,634
Entertainment		79,034	57,482
Printing and stationery		1,059,929	355,669
Travelling & conveyance		204,402	94,560
Fee and subscriptions		1,484,498	3,467,254
Auditors' remuneration	28.1	311,618	252,382
Legal and professional charges		1,415,609	411,000
Depreciation		689,790	283,222
Premium amortization		69,082	35,999
Intangible written-off		-	13,502
Advertisements		844,942	1,259,704
Rent, rate & taxes		356,393	-
Generator Expenses		177,037	-
Newspapers and periodicals		10,073	19,901
CIB charges		15,071	11,150
Donations		12,000	-
Others		610,998	4,858,135
		<u>18,118,079</u>	<u>14,516,441</u>
<b>28.1 Auditors' Remuneration</b>			
Annual audit fee		212,500	150,000
Review of interim financial statements		50,000	75,000
Tax services		-	-
Out of pocket expenses		49,118	27,382
		<u>311,618</u>	<u>252,382</u>
<b>29 MODARABA MANAGEMENT COMPANY FEE</b>			
In accordance with the Modaraba Companies and Modaraba Rules, 1981 management fee at the rate of 10% of annual profits is payable to the Management Company amounting to Rs 1,780,318.(2008: nil).			
<b>30 EARNINGS PER CERTIFICATE</b>		2009	2008 (Restated)
		------(Rupees)-----	
Profit / (loss) for the year		<u>16,022,863</u>	<u>(8,078,270)</u>
		Number	Number
Average number of certificates		<u>24,783,066</u>	<u>7,326,396</u>
		------(Rupees)-----	
Earnings / (loss) per certificate		<u>0.65</u>	<u>(1.10)</u>
<b>31 REMUNERATION OF OFFICERS</b>			
Basic salary		5,841,076	1,830,264
Medical allowance		533,521	156,441
House rent allowance		1,600,531	575,689
Utility allowance		533,526	183,024
Employee benefits		284,823	174,476
EOBI Contribution		65,100	10,166
Bonus		224,260	25,071
		<u>9,082,837</u>	<u>2,955,131</u>
		Number	Number
Total Number of persons at end of the year		<u>27</u>	<u>19</u>
<b>31.1</b>	The CFO and the head of operations have been provided with Modaraba maintained cars and are also entitled for reimbursement of fuel expenses.		

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2009

- 31.2 On June 16, 2008, the Securities and Exchange Commission of Pakistan imposed a penalty of Rs 100,000 each on the Modaraba Management Company and its previous directors, due to non-compliance of provisions of Regulation 7(1) and 7(3) of Part-II (A), Regulation 2(1) of Part II (A) and Regulation 1 of Part-IV of the Prudential Regulations of Modarabas and Rule 16(1) of the Modaraba Rules, 1981. The penalty was paid on July 14, 2008.
- 31.3 During the current year, the Registrar Modaraba (Specialized Companies Division) imposed a fine of Rs 55,000 each on the directors of the Modaraba Management Company for non compliance of IAS-19 and violation of Regulation '7(3)' of the Prudential Regulations of the Modaraba. However, being dissatisfied with the penalty order, an appeal under section 32(2) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 was filed against the above-mentioned order. Hearing of the said appeal was held in July 2009 and the decision is still pending.

## 32 FINANCIAL INSTRUMENTS BY CATEGORY

	----- As at June 30, 2009 -----			
	Loans and receivables	Assets at fair value through profit & loss	Held to maturity	Total
<b>ASSETS</b>				
Cash and bank balances	128,714,414	-	-	128,714,414
Investments	-	2,296,334	18,980,000	21,276,334
Murabaha finance	63,892,966	-	-	63,892,966
Modaraba finance	20,774,248	-	-	20,774,248
Musharaka finance	39,594,329	-	-	39,594,329
Net investment in finance lease	97,717,550	-	-	97,717,550
Ijarah rental receivable	810,667	-	-	810,667
Advances, deposits, and other receivables	4,574,516	-	-	4,574,516
Accrued profit	1,240,907	-	-	1,240,907
Long-term deposits	128,000	-	-	128,000
	<b>357,447,597</b>	<b>2,296,334</b>	<b>18,980,000</b>	<b>378,723,931</b>

	----- As at June 30, 2009 -----			
	Liabilities at fair value through profit or loss	Other financial liabilities	Held to maturity	Total
<b>LIABILITIES</b>				
Short-term finance	-	-	-	-
Long-term finance	-	-	-	-
Certificate of musharaka	-	150,625,000	-	150,625,000
Security deposits	-	-	25,958,418	25,958,418
Creditors, accrued and other liabilities	-	7,929,592	-	7,929,592
Unclaimed profit distribution	-	476,790	-	476,790
Deferred liabilities - staff gratuity	-	201,758	-	201,758
	-	<b>159,233,140</b>	<b>25,958,418</b>	<b>185,191,558</b>

	----- As at June 30, 2008 -----			
	Loans and receivables	Assets at fair value through profit & loss	Held to maturity	Total
<b>ASSETS</b>				
Cash and bank balances	33,845,102	-	-	33,845,102
Investments	-	3,512,289	438,600	3,950,889
Murabaha finance	19,014,375	-	-	19,014,375
Musharaka finance	24,968,800	-	-	24,968,800
Net investment in lease finance	146,916,125	-	-	146,916,125
Advances, deposits and other receivables	656,512	-	-	656,512
Accrued profit	265,312	-	-	265,312
Long-term deposits	25,000	-	-	25,000
	<b>225,691,226</b>	<b>3,512,289</b>	<b>438,600</b>	<b>229,617,115</b>

	----- As at June 30, 2008 -----			
	Liabilities at fair value through profit or loss	Other financial liabilities	Held to maturity	Total
<b>LIABILITIES</b>				
Short-term finance	-	75,000,000	-	75,000,000
Long-term finance	-	70,000,000	-	70,000,000
Security deposits	-	-	19,360,262	19,360,262
Creditors, accrued and other liabilities	-	4,781,889	-	4,781,889
Unclaimed profit distribution	-	477,068	-	477,068
Deferred liabilities - staff gratuity	-	214,000	-	214,000
<b>Total non-current liabilities</b>	-	<b>150,472,957</b>	<b>19,360,262</b>	<b>169,833,219</b>

## 33 FINANCIAL RISK MANAGEMENT

The Modaraba finances its operations through equity & borrowings. The Modaraba utilises funds in ijarah financing, modaraba financing, musharaka financing and murabaha financing. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

## 33.1 Market Risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

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**33.1.1 Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

**33.1.2 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market interest rates.

**a) Sensitivity analysis for variable rate instruments**

The Modaraba has invested funds in various financing arrangements which are KIBOR based exposing the Modaraba to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2009, with all other variables held constant, the net assets of the Modaraba and net income for the year would have been higher / lower by as follows:-

S.No.	Financial Arrangement	Impact on profit or loss Rupees
1	Net investment in finance lease	601,894
2	Musharaka	395,943
3	Ijarah	483,971

The sensitivity analysis has been performed from the last repricing date.

**b) Sensitivity analysis for fixed rate instruments**

As at June 30, 2009, the Modaraba holds Term Deposit Receipts which are classified as loans and receivables. Further, there are some fixed rate net investment in finance lease, Ijarah and Musharaka. These are not exposed to interest rate risk.

The composition of the Modaraba's financing portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the impact on the Modaraba's net assets of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

Effective yield / profit rate %	-----2009-----					
	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk
------(Rupees)-----						
<b>Assets</b>						
Cash and bank balances	5.15% - 14.00%	128,714,414	128,233,644	-	-	480,770
Investments	14.71% - 15.44%	21,276,334	-	-	1,960,000	2,296,334
Murabaha finance	14.50% - 19.00%	63,892,966	8,000,000	10,000,000	37,200,000	8,000,000
Modaraba Finance		20,774,248	6,999,800	13,774,448	-	-
Musharaka finance	16.28% - 18.30%	39,594,329	3,300,000	29,586,589	6,707,740	-
Net investment in Ijarah finance	12.70% - 28.00%	97,717,550	672,310	24,750	1,093,342	95,927,148
Ijarah rentals receivable	8.00% - 21.00%	810,667	810,667	-	-	-
Advances, deposits and other receivables	10.00%	4,574,516	1,805,338	-	-	510,027
Accrued profit	-	1,240,907	-	-	-	1,240,907
Long-term Deposit	-	128,000	-	-	-	128,000
<b>Total Financial Assets as at June 30, 2009</b>		<b>378,723,931</b>	<b>149,821,759</b>	<b>53,385,787</b>	<b>46,961,082</b>	<b>121,457,175</b>
<b>Liabilities</b>						
Certificate of musharaka	13.00% - 16.00%	150,625,000	12,650,000	41,110,000	96,865,000	-
Short-term finance	-	-	-	-	-	-
Long-term finance	-	-	-	-	-	-
Security deposits	-	25,958,418	-	-	-	25,958,418
Creditors, accrued and other liabilities	-	7,929,592	-	-	-	7,929,592
Unclaimed profit distribution	-	476,790	-	-	-	476,790
Long-term finance	-	-	-	-	-	-
Deferred Liabilities - staff gratuity	-	201,758	-	-	-	201,758
<b>Total Financial Liabilities as at June 30, 2009</b>		<b>185,191,558</b>	<b>12,650,000</b>	<b>41,110,000</b>	<b>96,865,000</b>	<b>-</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>137,171,759</b>	<b>12,275,787</b>	<b>(49,903,918)</b>	<b>121,457,175</b>
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>137,171,759</b>	<b>149,447,546</b>	<b>99,543,628</b>	<b>221,000,803</b>

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-----2008-----						
Effective yield / profit rate %	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk
------(Rupees)-----						
<b>Assets</b>						
Cash and bank balances	11% - 12.5%	33,845,102	13,381,159	-	-	20,463,943
Investments	8%	3,950,889	438,600	-	-	3,512,289
Current portion of murabaha finance	14.56% - 18.18%	19,014,375	-	8,913,110	10,000,000	101,265
Musharaka finance	12.81% - 28.76%	24,968,800	-	14,968,800	10,000,000	-
Net investment in Ijarah finance	7.51% - 28.01%	146,916,125	151,431	45,340	-	146,719,354
Advances, deposits and other receivables	5%	1,046,800	-	-	-	161,904
Accrued profit	-	265,312	-	-	-	265,312
Long-term Deposit	-	25,000	-	-	-	25,000
<b>Total Financial Assets as at June 30, 2008</b>		<b>230,032,403</b>	<b>13,971,190</b>	<b>23,927,250</b>	<b>20,000,000</b>	<b>146,881,258</b>
<b>Liabilities</b>						
Liabilities against asset subject to finance lease	-	-	-	-	-	-
Short-term finance	11% - 12%	75,000,000	-	75,000,000	-	-
Long-term finance	11% - 11.5%	70,000,000	-	-	70,000,000	-
Security deposits	-	19,360,262	-	-	-	19,360,262
Creditors, accrued and other liabilities	-	4,781,889	-	-	-	4,781,889
Unclaimed profit distribution	-	477,068	-	-	-	477,068
Deferred Liabilities	-	214,000	-	-	-	214,000
<b>Total Financial Liabilities as at June 30, 2008</b>		<b>169,833,219</b>	<b>-</b>	<b>75,000,000</b>	<b>-</b>	<b>70,000,000</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>13,971,190</b>	<b>(51,072,750)</b>	<b>20,000,000</b>	<b>76,881,258</b>
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>13,971,190</b>	<b>(37,101,560)</b>	<b>(17,101,560)</b>	<b>59,779,698</b>

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

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

### 33.1.3 Price Risk

The Modaraba is exposed to equity securities price risk because of investments held by the Modaraba and classified as financial assets at fair value through 'profit or loss'. To manage its price risk arising from investments in equity securities, the Modaraba diversifies its portfolio.

In case of 5% increase / decrease in KSE 100 index on June 30, 2009, post-tax profit for the year would be affected by Rs 122,063 (2008: Rs 166,379) as a result of gains / losses on equity securities classified as 'at fair value through profit or loss'.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Modaraba's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 Index, having regard to the historical volatility of the index. The composition of the Modaraba's investment portfolio and the correlation thereof to the KSE 100 index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the effect on the Modaraba's net assets of future movements in the level of the KSE 100 Index.

### 33.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Modaraba is exposed to credit risk in respect of net investment in finance lease, musharaka, murabaha, modaraba and term deposit receipts.

Concentrations 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 an entity's performance to developments affecting a particular industry.

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The Modaraba attempts to control credit risk by diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or businesses, monitoring credit exposures, limiting transactions to specific counterparties and continually assessing the credit worthiness of counterparties. It also obtains securities when appropriate.

The Modaraba follows two sets of guidelines. It has its own operating policy and the management of the Modaraba also adheres to the regulations issued by the SECP. The operating policy defines the extent of fund and non-fund based exposures with reference to a particular sector or group.

Out of the total financial assets of Rs 378,724 million (2008: Rs 230,704 million) the financial assets which are subject to credit risk amounted to Rs 243,392 million (2008: Rs 191,074 million). The management believes that the Modaraba is not exposed to major concentration of credit risk.

Details of the sector wise composition of the net investment in finance lease, musharaka, murabaha and modaraba are disclosed in note 35.1 to 35.3

The analysis below summarizes the credit quality of the Modaraba's investment in Sukuk bonds as at June 30, 2009 and June 30, 2008:

Sukuk bonds by rating category	June 30, 2009	June 30, 2008
BBB+	52.7%	-
not rated	47.3%	-

As at June 30, 2009 Rs 1,720,628 is overdue in respect of Net Investment in Finance Lease and provision of Rs 304,538 has been made. However, no amount is overdue in respect of murabaha and musharaka and no amount has been provided for.

### 33.3 Liquidity Risk

Liquidity risk reflects an enterprise's inability in raising funds to meet its commitments. The Modaraba's management closely monitors the Modaraba's liquidity and cash flow position.

The Modaraba is mainly exposed to liquidity risk in respect of Certificate of Musharaka. For this purpose, a statutory redemption reserve has been created. The maturity profile of liabilities of the Modaraba is as follows:

	As at June 30, 2009			
	Total	Upto three months	More than three months and upto one year	More than one year
----- Rupees -----				
<b>Current liabilities</b>				
Certificate of musharaka	150,625,000	53,760,000	96,865,000	-
Short-term finance	-	-	-	-
Current maturity of security deposits	874,750	24,750	850,000	-
Creditors, accrued and other liabilities	7,929,592	7,929,592	-	-
Unclaimed profit distribution	476,790	-	-	476,790
<b>Total current liabilities</b>	<b>159,906,132</b>	<b>61,714,342</b>	<b>97,715,000</b>	<b>476,790</b>
<b>Non-current liabilities</b>				
Long-term finance	-	-	-	-
Security deposits	25,083,668	-	-	25,083,668
Deferred liabilities - staff gratuity	201,758	-	-	201,758
<b>Total non-current liabilities</b>	<b>25,285,426</b>	<b>-</b>	<b>-</b>	<b>25,285,426</b>
	<b>185,191,558</b>	<b>61,714,342</b>	<b>97,715,000</b>	<b>25,762,216</b>
----- Rupees -----				
As at June 30, 2008				
	Total	Upto three months	More than three months and upto one year	More than one year
----- Rupees -----				
<b>Current liabilities</b>				
Certificate of musharaka	-	-	-	-
Short-term finance	75,000,000	75,000,000	-	-
Current maturity of security deposits	50,000	50,000	-	-
Creditors, accrued and other liabilities	4,781,889	4,781,889	-	-
Unclaimed profit distribution	477,068	-	-	477,068
<b>Total current liabilities</b>	<b>80,308,957</b>	<b>79,831,889</b>	<b>-</b>	<b>477,068</b>
<b>Non-current liabilities</b>				
Long-term finance	70,000,000	-	-	70,000,000
Security deposits	19,310,262	-	-	19,310,262
Deferred liabilities - staff gratuity	214,000	-	-	214,000
<b>Total non-current liabilities</b>	<b>89,524,262</b>	<b>-</b>	<b>-</b>	<b>89,524,262</b>
	<b>169,833,219</b>	<b>79,831,889</b>	<b>-</b>	<b>90,001,330</b>



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2009



**34 CAPITAL RISK MANAGEMENT**

The Modaraba's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for certificate-holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of dividends paid to certificate-holders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total COM's and borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

	2009	2008
	----- (Rupees) -----	
Total borrowings	150,625,000	145,000,000
Less: cash and bank balances	<u>128,714,414</u>	<u>33,845,102</u>
Net debt	21,910,586	111,154,898
Total equity	<u>258,322,245</u>	<u>62,673,782</u>
Total capital	<u>280,232,831</u>	<u>173,828,680</u>
<b>Gearing ratio</b>	7.8%	63.9%

**35 SEGMENT BY CLASS OF BUSINESS**

35.1 Net Investment in Finance Lease	2009		2008	
	(Rupees)	%age	(Rupees)	%age
Fuel & energy	30,747,080	31.47	49,389,055	33.62
Pharmaceutical & chemicals	3,047,764	3.12	4,616,285	3.14
Food & beverage	19,054,989	19.50	12,711,377	8.65
Dairy & Poultry	1,075,426	1.10	2,498,395	1.70
Financial institutions	-	-	6,144,443	4.18
Travel & transport	8,617,580	8.82	11,355,557	7.73
Health and care	140,318	0.14	747,175	0.51
Textile	1,384,064	1.42	2,188,738	1.49
Electrical & engineering	1,557,339	1.59	485,672	0.33
Paper and board	4,029,718	4.12	3,475,587	2.37
Leather	-	-	-	-
Distribution	-	-	-	-
Cement	-	-	-	-
Construction	8,848,879	9.06	11,391,207	7.75
Others	<u>19,214,393</u>	<u>19.66</u>	<u>41,912,634</u>	<u>28.53</u>
	<u>97,717,550</u>	<u>100.00</u>	<u>146,916,125</u>	<u>100.00</u>

35.2 Ijarah Assets	2009		2008	
	(Rupees)	%age	(Rupees)	%age
Fuel & energy	29,381,958	53.10	-	-
Pharmaceutical & chemicals	-	-	-	-
Food & beverage	870,100	1.57	-	-
Dairy & Poultry	-	-	-	-
Financial institutions	1,519,625	2.75	-	-
Travel & transport	-	-	-	-
Health and care	-	-	-	-
Textile	598,110	1.08	-	-
Electrical & engineering	750,000	1.36	-	-
Paper and board	7,215,000	13.04	-	-
Leather	-	-	-	-
Distribution	5,083,333	9.18	-	-
Cement	-	-	-	-
Construction	-	-	-	-
Others	<u>9,918,813</u>	<u>17.92</u>	<u>-</u>	<u>-</u>
	<u>55,336,939</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009



	Note	2009	2008
----- (Rupees) -----			
<b>35.3 For Musharaka, Murabaha and Modaraba Finance</b>			
Textile and allied		26,656,037	10,000,000
Trading		58,800,314	-
Leather		5,000,000	-
Pharmaceutical & chemicals		3,154,334	2,500,000
Food & beverage		25,292,014	-
Electrical & engineering		3,260,705	-
Others		<u>2,098,139</u>	<u>31,483,175</u>
	35.4	<u>124,261,543</u>	<u>43,983,175</u>
<b>35.4 Murabaha Finance</b>		63,892,966	19,014,375
Musharaka finance		39,594,329	24,968,800
Modaraba Finance		<u>20,774,248</u>	-
		<u>124,261,543</u>	<u>43,983,175</u>

**36 RELATED PARTIES TRANSACTIONS**

The related parties of the Modaraba comprise of its Management Company, associated companies, directors of the Management Company and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel (which are employed by the Management Company) under the terms of their employment are as follows:

	2009	2008
----- (Rupees) -----		
<b>36.1 Transactions during the year</b>		
<b>Management Company</b>		
Modaraba management fee	1,780,318	-
<b>Associated companies</b>		
Income on bank deposits	8,497,323	2,917,085
Financial charges	2,795,487	3,630,339
Ijarah rentals received	-	2,984,753
Rent expense	198,000	-
Short-term Musharaka	75,000,000	-
Long-term Musharaka	70,000,000	-
Lease rentals received	4,608,346	-
<b>Other Related Parties</b>		
Lease Rentals received	2,665,455	-
<b>36.2 Transaction outstanding at the year end</b>		
<b>Management Company</b>		
Modaraba management fee payable	1,780,318	-
<b>Associated companies</b>		
Cash and bank balances	49,593,140	29,669,011
Certificate of Musharaka	3,500,000	-
Accrued profit on deposits	352,119	13,077
Short-term finance	-	75,000,000
Underwriting commission payable	-	1,010,383
Accrued mark-up payable	1,361	1,047,600
Rent payable	99,000	-
Long-term finance	-	70,000,000
Ijarah rentals outstanding	-	19,759,036
<b>Other Related Parties</b>		
Ijarah Rentals Outstanding	5,846,354	-

The Modaraba enters into transactions with related parties for lease of assets, borrowings under musharaka finances and other general banking services.

**36.3** The terms and conditions of the transactions are stated in the respective notes.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2009



**37 ACCOUNTING ESTIMATES AND JUDGMENTS**

The Modaraba reviews its loan portfolio of Ijarah, Musharaka and Murabaha financing to assess amount of non-performing contracts and provision required there against on a regular basis. The provision is made in accordance with the prudential regulations issued by the SECP. The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Net investment in finance lease (notes 3.4, 4.12 and 10)
- ii) Musharaka finance (notes 4.12 and 9)
- iii) Murabaha finance (notes 4.12 and 7)

**38 CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, whenever necessary, for the purposes of appropriate presentation. There have been no significant reclassifications in these financial statements.

**39 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company in their meeting held on August 29, 2009 have approved distribution at the rate of Nil percent (2008: Nil). The financial statements of the Modaraba for the year ended June 30, 2009 do not include the effect of the final distribution which will be accounted for in the financial statements of the Modaraba for the year ending June 30, 2010.

**40 DATE OF AUTHORISATION**

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on August 29, 2009.

**For KASB Modaraba Management (Private) Limited  
(Management Company)**

**Chief Executive**

**Director**

**Director**





**PATTERN OF CERTIFICATE HOLDING - (FORM 34)**  
 SHAREHOLDERS STATISTICS AS AT JUNE 30, 2009



NO. OF CERTIFICATEHOLDERS	CERTIFICATE HOLDING		TOTAL CERTIFICATE HOLDERS
	FROM	TO	
310	1	100	17,828
322	101	500	83,361
179	501	1,000	149,243
195	1,001	5,000	436,137
52	5,001	10,000	394,684
13	10,001	15,000	159,635
11	15,001	20,000	191,551
11	20,001	25,000	250,032
1	25,001	30,000	28,274
3	30,001	35,000	98,100
7	35,001	40,000	256,300
1	40,001	45,000	41,000
0	45,001	55,000	-
1	55,001	60,000	55,500
0	60,001	75,000	-
1	75,001	80,000	79,500
0	80,001	100,000	-
1	100,001	105,000	101,000
1	105,001	110,000	109,000
1	110,001	115,000	113,100
0	115,001	120,000	-
2	120,001	125,000	249,674
0	125,001	165,000	-
1	165,001	170,000	166,320
0	170,001	175,000	-
1	175,001	180,000	177,200
0	180,001	200,000	-
1	200,001	205,000	205,000
0	205,001	210,000	-
1	210,001	215,000	215,000
0	215,001	500,000	-
1	500,001	505,000	505,000
0	505,001	580,000	-
1	580,001	585,000	581,500
0	585,001	685,000	-
1	685,001	690,000	687,745
0	690,001	705,000	-
1	705,001	710,000	708,436
0	710,001	795,000	-
1	795,001	800,000	795,980
0	800,001	1,430,000	-
1	1,430,001	1,435,000	1,433,493
0	1,435,001	2,825,000	-
1	2,825,001	2,830,000	2,827,440
0	2,830,001	6,710,000	-
1	6,710,001	6,715,000	6,710,600
0	6,715,001	10,445,000	-
1	10,445,001	10,450,000	10,446,767
<b>1125</b>	<b>Total</b>		<b>28,274,400</b>



**PATTERN OF CERTIFICATE HOLDING - (FORM 34)**  
 SHAREHOLDERS STATISTICS AS AT JUNE 30, 2009



**CATEGORIES OF CERTIFICATE HOLDERS**

CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
INDIVIDUALS	1068	4,200,629	14.86
FINANCIAL INSTITUTIONS*	15	11,995,175	42.42
INVESTMENT COMPANIES	2	1,200	0
INSURANCE COMPANIES	3	796,380	2.82
MODARABA COMPANIES	4	10,036	0.04
MODARABA MANAGEMENT COMPANIES**	3	3,913,940	13.84
LEASING COMPANIES	1	1,246	0
CHARITABLE TRUSTS	1	33,000	0.12
JOINT STOCK COMPANIES	24	7,221,195	25.54
OTHERS			
- M/S SHAIKHANI ENTERPRISES	1	101,000	0.36
- TECHNOLOGY LINKS (PVT) LTD.	1	300	0
- THE KARACHI STOCK EXCHANGE	1	199	0
- ISLAMABAD STOCK EXCHANGE	1	100	0
<b>TOTAL</b>	<b>1,125</b>	<b>28,274,400</b>	<b>100.00</b>

\* Includes KASB Bank Limited (10,446,767 certificates)

\*\* Includes KASB Modaraba Management (Private) Limited (3,913,940 certificates)

**ADDITIONAL INFORMATION**

CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
<b>Associated Companies</b>			
KASB Bank Limited		10,446,767	36.95
KASB Modaraba Management (Private) Limited		3,913,940	13.84
	<b>2</b>	<b>14,360,707</b>	<b>50.79</b>
<b>NIT and CIP</b>			
National Bank of Pakistan, Trustee Deptt.		1,396,181	4.94
Investment Corporation of Pakistan		8,002	0.03
	<b>2</b>	<b>1404183</b>	<b>4.97</b>
<b>Directors,CEO &amp; their Spouse and Minor Children</b>	-	-	-
<b>Executives</b>	-	-	-
<b>Public Sector Companies and Corporations</b>	-	-	-
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds</b>	<b>21</b>	<b>953,087</b>	<b>3.36</b>
<b>Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above)</b>	<b>1</b>	<b>6,710,600</b>	<b>23.73</b>

## NOTICE OF ANNUAL REVIEW MEETING



Notice is hereby given that the 18th Annual Review Meeting of the Modaraba's Certificate Holders of KASB Modaraba will be held on Wednesday, September 30, 2009 at 4:00 p.m at Haji Abdullah Haroon Muslim Gymkhana, Auditorium Awan-e-Saddar Road, Karachi to review the performance of Modaraba for the year ended June 30, 2009.

By Order of the Board

Faiqa Naz  
Company Secretary

Karachi  
August 29, 2009

### **Notes**

1. The Modaraba Certificates transfer book shall remain closed from September 24, 2009 to September 30, 2009 (both days inclusive) to determine the names of Certificate Holders eligible to attend the Annual Review Meeting. Transfer received in order at the Registrar Office of the Modaraba (whose address is given below) up to the close of business hours on September 23, 2009 will be treated in time.
2. The Certificate Holders are advised to notify to the Registrar of KASB Modaraba of any change in their addresses to ensure prompt delivery of mails. Further, any Certificates for transfer etc. should be lodged with the Registrar, C & K Management Associates (Private) Limited, 404, Trade Tower , Abdullah Haroon Road, Near Metropol Hotel, Karachi. ( Phone:5687835-5685930)
3. Account holders holding book entry securities of the Modaraba in Central Depository Company of Pakistan Limited, who wish to attend the Annual Review Meeting, are requested to bring original Computerized National Identity Card for identification purpose and will in addition, have to follow the guidelines as laid down in Circular No.1 of 2000 dated January 26, 2000 of the Securities and Exchange Commission of Pakistan (SECP) for attending the meeting.



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