

2006

**Annual
Report**



M O D A R A B A

Managed by:

B.R.R. Investments (Private) Limited



MODARABA
CRESCENT STANDARD MODARABA

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MODARABA
CRESCENT STANDARD MODARABA

Corporate Information

Modaraba Company	B.R.R. Investments (Private) Limited
Chairman	Mr. Rafique Dawood
Chief Executive	Mr. Ayaz Dawood
Directors	Mrs. Farida Rokadia Mr. Majid Dawood Mr. Tauqir Shamshad
Audit Committee	Mrs. Farida Rokadia - Chairperson Mr. Majid Dawood - Member Mr. Tauqir Shamshad - Member
Group Finance Director	Mr. Muhammad Shoab
Chief Financial Officer	Mr. Ghazanfar-ul- Islam
Company Secretary	Mr J.D. Pohwala
Auditors	M. Yousuf Adil Saleem & Company Chartered Accountants
Legal Advisor	Malik & Maliks
Bankers	Saudi Pak Commercial Bank Limited PICIC Commercial Bank Limited MCB Bank Limited
Registered Office	1500-A, Saima Trade Towers, I. I. Chundrigar Road, Karachi-74000 UAN : 111-DAWOOD (111-329-663) Fax : 92-21-227-1913
Registrars	F.D. Registrar Services (SMC-Pvt.) Ltd 17th Floor, Saima Trade Tower-A I. I. Chundrigar Road, Karachi Phone # 2271875
Branch Offices	Suit No. 210, 5th Floor, Siddiq Trade Centre, Main Boulevard, Gulberg - III, Lahore Office No. 20 & 21, 1st Floor, Beverly Centre, 56-G7, Jinnah Avenue, Islamabad-44000



MISSION

To become a symbol for spreading a variety of Islamic modes of financing, thereby providing ample and profitable investment opportunities to the stake holders who demand Halal Profits according to Sharia Laws, optimizing returns to the certificate holders management and customers.

VISION

To innovate and promote Islamic Financial Products, based on Sharia Principles and to crub interest based financial systems, thereby facilitating establishment of an equitable economic system.



MODARABA
CRESCENT STANDARD MODARABA

Notice of Annual Review Meeting

Certificate holders of Crescent Standard Modaraba are hereby notified that ARM will be held at 1500-A, Saima Trade Tower I. I. Chundarigar Road Karachi on Wednesday July 18, 2007 at 11:00 A.M.

The Certificate Transfer Book will be closed from July 12, 2007 to July 18, 2007. Transfer received before the close of business on or before July 11, 2007 will be treated in time.

PLACEMENT OF QUARTERLY ACCOUNTS OF THE WEB

Crescent Standard Modaraba shall all its Quarterly Account after June 30, 2006 on its website, instead of sending the same by post to its certificate holders subject to approval of SECP. The Quarterly Accounts will be available on our website www.firstdawood.com The URL for Quarterly Accounts is www.firstdawood.com/csm Crescent Standard Modaraba shall, however, supply a copy of the accounts to a certificate holder, on demand, at his/her on demand, at his/her registered address, free of cost, within one week of such demand.

Dated June 25, 2007
Karachi

BY ORDER OF THE BOARD
COMPANY SECRETARY



Director's Report

IN THE NAME OF ALLAH, THE MOST COMPASSIONATE, THE MOST MERCIFUL

Dear Certificate holders,

The Board of Directors of B.R.R. Investments (Private) Limited ('BRR' or 'the company'), is pleased to present to certificate holders the Annual Report of Crescent Standard Modaraba ('CSM' or 'the Modaraba'), as of June 30, 2006.

Registrar Modaraba Companies and Modarabas, Securities and Exchange Commission of Pakistan, suspects serious irregularities and in order to have a detailed investigation into the affairs of the Modaraba and to have an independent assessment on the affairs of the Modaraba, Registrar Modaraba appointed Inspector to hold detailed enquiry under Section 21 of the Modaraba Ordinance.

Based on the report of enquiry team the Registrar Modaraba cancelled the registration of FLL and removed them on 19th January 2007 from the management of CSM in exercise of powers conferred under Section 19(1)(a) and 20(1)(iii) of the Modaraba Companies and Modaraba (Floatation & Control) Ordinance 1980. Simultaneously, Providence Modaraba Limited (PML) was instructed to take over the management of CSM. It was ordered by the Registrar Modarabas that PML shall henceforth be the management company of the CSM and the Chief Executive of PML will take immediate steps to protect the interest of the Modaraba and its certificate holders. Subsequently, Providence Modaraba Limited was merged with and into B.R.R. Investments (Private) Limited (BRR). Therefore, BRR is the currently management company of CSM.

While taking over the affairs of the Modaraba in pursuance of the Registrar Modaraba directive new management found that the Modaraba had ceased its main operations quiet some times back and only one employee was available who was unable to hand over all the records of the Modaraba to new management. The books and records recovered by the new management company found to be extremely deficient and irregular.

Profit Distribution

Keeping in view the huge carried forward losses and loss for the year, your Modaraba is not in the position to distribute any dividend this year. Also BRR has not charged any management fee to the Modaraba.

Compliance with the Best Practices of the Code of Corporate Governance

The Board of Directors of the new management company is not in a position to issue statement to compliance with the Code of Corporate Governance (COCG) for the year June 30, 2006. However, new management has applied the requirements of COCG to the Modaraba after takeover.

Trading/Dealing in Certificates of the Modaraba

During the year, no trade in the certificates of the Modaraba was carried out by the Directors, CEO, CFO, Company Secretary, and their spouses or minor children of the new management company.

Auditors Observations

In view of lack of information and documents available, the auditors could not satisfy themselves on the opening balances, transactions carried out during the year and closing balances and considering the matters raised in the enquiry report of Inspectors appointed by Registrar Modaraba as mentioned in para (a) to (n) of their report they could not express any opinion on these financial statements.

We have nothing to give our counter reply on the reservations/observations raised by the auditors in their report. However, some of the points need further clarification.

On Paragraph (e) of the auditors report, we agree that these unsecured facilities were provided by the previous management. However, the agreement has been executed subsequent to the finalization of the audit and these are now good and recoverable, therefore, no provision has been made in this regard.



On Paragraph (h) of the auditors report, according to the Inspection report quoted in Paragraph 3(ii) of the Order No. SC/M/RS/Crescent/2006-30 of Registrar Modaraba, "a payment of Rs.1.21 million was booked under the head 'Service Charges Paid'. As per the record of the Modaraba, the said payment was made to Reza Investment Management Inc; Canada for mobilization of equity investment for the Modaraba amounting to USD 8 million." However, we have found nothing is available in record of the Modaraba to support this payment, except that it has been made.

On Paragraph (i) of the auditors report, we request to the bank to provide us the documentary evidence of the said liability but even after passing of considerable time we have not yet received any response from them. As such no liability has been accounted for in the books of accounts of the Modaraba.

Focal Point for the New Management

After taking over of the management, our main focus is the recovery from various debtors including previous associated and group companies of the Modaraba.

Changes in Directors

Since the last report, PML has taken over the management of the Modaraba through Order issued by Registrar Modaraba under section 19, 20 and 32 of the Modaraba companies and Modaraba (Flotation and Control) Ordinance, 1980. PML has been merged into B.R.R. Investments (Private) Limited. Now BRR1 is the management Company of the Modaraba.

Board Meetings

Secretarial record or minutes of the previous management company of the Modaraba was not handed over to the new management.

Transaction with Connected Persons/Related Parties

In view of lack of information/documents, we were not able to comment on the transactions between Modaraba and its connected persons/related parties that these were carried out on an arm's length basis.

Auditors

New management has appointed M. Yousuf Adil Saleem & Co; Chartered Accountants as external auditors of the Modaraba for the year ended June 30, 2006 and June 30, 2007 with the approval of Registrar Modaraba, Securities and Exchange Commission of Pakistan.

Future Outlook and Prospects

At present Modaraba has no liquidity, however in view of the rigorous efforts under process, management will be able generate funds through recovery from trade debts advance and try to save the Modaraba from total collapse.

For and on behalf of the Board

Karachi
June 18, 2007

Ayaz Dawood
Chief Executive



M O D A R A B A
CRESCENT STANDARD MODARABA

Key Financial and Operating Data

Particulars	2006	2005	2004	2003	2002	2001	2000
	(Rupees in thousand)						
Paid-up -Capital	200,000	100,000	100,000	100,000	100,000	100,000	100,000
Share Depsit Money	-	100,000	40,000	-	-	-	-
Equity	108,064	113,743	49,443	1,33	2,417	153	5,042
Current Liabilities	22,718	87,309	378,673	289	182	614	706
Fixed Assets	-	7	8	13	19	3	42
Current Assets	130,782	201,045	428,107	1,632	2,575	3,720	5,701
Operating Profit / (Loss)	(1.89)	21,900	20,734	(1,126)	83	(1,905)	(19,061)
Profit / (Loss) for the year	(5,678)	3,440	6,463	(1,054)	(736)	(1,888)	4,441
Earning per certificate	(0.28)	0.34	0.65	(0.11)	(0.07)	(0.19)	0.44



MODARABA
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AUDITORS REPORT TO THE CERTIFICATE HOLDERS

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

UAN: +92 (0) 21 111-55-2626
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We were engaged to audit the annexed balance sheet of **CRESCENT STANDARD MODARABA** as at June 30, 2006 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.

These financial statements are the Modaraba Company's [B.R.R. Investments (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981.

- a. In December 2005, the Registrar of Modaraba Companies and Modaraba (Registrar) conducted an inquiry relating to the affairs of the Modaraba. The inquiry report suspected misuse of assets of Modaraba in fraudulent manner, utilization of funds of Modaraba for unlawful purposes and major violations of its regulatory framework and applicable laws. The then Management of the Modaraba failed to give satisfactory response. On the basis of findings of the inquiry report and to protect the interest of the Modaraba and its certificate holders, after obtaining approval from the SECP, Registrar vide order No. SC/M/RS/Crescent/2006-30 dated January 19, 2007 has removed Financial Link Limited from the management of the Modaraba and appointed Providence Modaraba Limited to manage the affairs of the Modaraba. Subsequent to the year end, Providence Modaraba Limited merged in B.R.R. Investments (Private) Limited, and thereafter the Modaraba is under management of B.R.R. Investments (Private) Limited.
- b. As per the order of the Registrar Modaraba, based on the inquiry conducted, the Modaraba did not comply with the requirements of Modaraba Ordinance, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas while carrying out various transactions and extending facilities to various borrowers. Order also reflected that proper books of account and records were not maintained, authorization of transactions were not evident, funds of the Modaraba were misused and used for unlawful purposes and on the directions of the then Board of Directors, funds were invested in then group companies of the Modaraba. As per the order doubts were raised in the enquiry report against the recoverability of various amounts.
- c. On the receipt of order no. SC/M/RW/CSM2006-32 from the Joint Registrar dated January 19, 2007, the new management company initiated steps to take over the books and records of the Modaraba. However, the complete records could not be obtained by the new management, which included detail of opening balances, certain agreements, credit files and supporting documents in respect of various facilities extended to/by Modaraba, details and supporting documents of cases as disclosed in note 13 to the financial statements. The new management stated that records which were accessible to the enquiry team of the Registrar Modaraba were not handed over to the new management of the Modaraba.

A member firm of
Deloitte Touche Tohmatsu



- d. In view of the facts stated in para 'c' above, opening balances could not be verified.
- e. No credit files and supporting documents were made available to us to verify the Funds provided under Musharika and Morabaha arrangements last year (Refer note 6 and 7 to the financial statements). Out of Rs.16.169 million, Rs.12.454 million has been provided as doubtful of recovery, whereas the remaining balance of Rs.3.7 million has been shown as Funds provided under Morabaha arrangements. This amount of Rs.3.7 million is unsecured, which is the violation of Regulation 7(4) of Prudential Regulation for Modarabas, and against this amount no provision has been made.
- f. No supporting documents were made available to us to verify the advances, deposits and other receivables paid during the year and opening balances as at July 01, 2005 of Rs.64.686 million. All such amounts has been provided as doubtful of recovery except for Rs.15 million which has been verified (Refer note 4 to the financial statements).
- g. No supporting documents including credit files, authorization etc. were made available in respect of amount received during the year and opening balance as at July 01, 2005 as short term borrowing, Funds received under Musharika arrangements and other liabilities (Refer note 10, 11 and 12 to the financial statements). As per the above said order bank accounts and the books of the Modaraba has been used to carry out the transactions for or on behalf of then group companies of the Modaraba and its management company.
- h. Service charges and financial charges of Rs.1.21 million and Rs.8.54 million respectively incurred during the year remain unverifiable as to the name of payee, purpose and nature of services/facilities obtained (Refer note 18 and 19 to the financial statements).
- i. Modaraba had received a legal notice from Crescent Standard Investment Bank Limited which was addressed to previous Management Company (Financial Link Limited) of the Modaraba, whereby they asked Modaraba to settle an outstanding balance of Short Term Borrowing amounting to Rs.171.930 million along with the mark up thereon. As the claim is not supported by any documentary evidence and no such liability has been recognised in the books of account of the Modaraba, this liability has been shown under contingencies (Refer note 13.3 to the financial statements). We were not made available with the legal opinion on the above case by the legal adviser of the Modaraba.
- j. As per audited financial statements for the year ended June 30, 2005 tax losses available with the Modaraba is Rs.30.468 million where as carry forward tax losses as per income tax return for the tax year 2005 is Rs.0.136 million only. We were not provided with any reason for such difference and its reconciliation.
- k. We have not been provided with the bank statements and details of MCB Bank Limited Account no. 38-9 and MCB Dividend A/c as such we could not verify the opening balances, transactions made during the year, if any, and the closing balances in these accounts.
- l. During the year the certificate capital of the Modaraba has been increased by Rs.100 million, however, we have not been provided with any evidence as to the subscribers and the allotment of certificates.
- m. Under the regulatory framework applicable to the Modaraba including listing regulations issued by the Stock Exchanges, the management company was required to comply with the requirements of Code of Corporate Governance. However, no information and documentation in this regard have been made available to us for our review.
- n. In view of change of management and also lack of information and receipt of incomplete documentation, it was not possible to extract and verify the disclosures given in Note 25 (Risk Management) and 26 (Related Party transactions) to the financial statements.



Because of the significance of the matters discussed in the preceding paragraphs "a" to "n" above, we do not express an opinion on the attached financial statements of the Modaraba for the year ended June 30, 2006.

The comparative figures of the attached financial statements were audited by another firm of chartered accountants who vide their report dated 08 October 2005 issued an unqualified opinion thereon.

Chartered Accountants

Karachi

Date: 18 JUNE 2007



CRESCENT STANDARD MODARABA

BALANCE SHEET AS AT JUNE 30, 2006

	Note	2006 Rupees	2005 Rupees
ASSETS			
Current Assets			
Bank balances	3	316,324	1,204,314
Advances, deposits and other receivable	4	15,025,000	64,685,569
Trade debts	5	111,383,034	118,883,034
Funds provided under musharaka arrangements	6	-	9,237,312
Funds provided under morabaha arrangements	7	3,714,144	6,692,757
Short term equity investment	8	343,726	342,349
		130,782,228	201,045,335
Non Current Assets			
Tangible fixed assets	9	-	6,560
TOTAL ASSETS		130,782,228	201,051,895
Current Liabilities			
Short term borrowings	10	-	46,520,779
Funds received under musharaka arrangements	11	22,454,094	22,454,094
Accrued expenses and other liabilities	12	195,000	18,265,255
Unclaimed dividend		69,016	69,016
		22,718,110	87,309,144
Contingencies and Commitments	13		
Net Assets		108,064,118	113,742,751
REPRESENTED BY:			
Certificate capital	14	200,000,000	100,000,000
Statutory reserve	15	4,287,970	4,287,970
Accumulated loss		(96,223,852)	(90,545,219)
		108,064,118	113,742,751
Deposit against issue of modaraba certificates		-	100,000,000
		108,064,118	113,742,751

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

Chief Executive Officer

Director

Director



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CRESCENT STANDARD MODARABA

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 Rupees	2005 Rupees
INCOME			
Trading income	16	-	10,606,949
Income from funds provided under musharaka and morabaha arrangements	17	113,750	12,243,120
Dividend income		9,630	8,244
		<u>123,380</u>	<u>22,858,313</u>
OPERATING EXPENSES			
Administrative and general expenses	18	2,014,044	958,187
OPERATING (LOSS) / PROFIT		<u>(1,890,664)</u>	<u>21,900,126</u>
Gain on remeasurement of investment		1,377	7,213
Other income		-	122,639
		<u>(1,889,287)</u>	<u>22,029,978</u>
Financial charges	19	8,540,555	11,991,197
		<u>(10,429,842)</u>	<u>10,038,781</u>
Provision for doubtful receivables - net	20	(27,433,203)	-
Liabilities no longer payable - written back	21	32,184,412	-
Modaraba company's management fee		-	1,003,878
PROFIT BEFORE TAXATION		<u>(5,678,633)</u>	<u>9,034,903</u>
Provision for taxation	22	-	4,735,294
PROFIT AFTER TAXATION		<u>(5,678,633)</u>	<u>4,299,609</u>
APPROPRIATION			
Transfer to Statutory reserve		-	859,922
PROFIT FOR THE YEAR		<u>(5,678,633)</u>	<u>3,439,687</u>
EARNING PER CERTIFICATE - BASIC AND DILUTED	23	<u>(0.28)</u>	<u>0.34</u>

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

Chief Executive Officer

Director

Director



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CRESCENT STANDARD MODARABA

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

	2006 Rupees	2005 Rupees
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	(5,678,633)	9,034,903
Adjustments for non-cash items:		
Gain on remeasurement of investment	(1,377)	(7,213)
Depreciation	6,560	1,760
Provision for doubtful receivables	116,113,203	-
Liabilities no longer payable - written back	(120,864,412)	-
	(10,424,659)	9,029,450
(Increase) / decrease in current assets		
Advances, deposits and other receivables	(53,998,242)	(20,159,959)
Trade debts	7,500,000	(13,880,230)
Placements	-	264,520,842
Fund placed under musharika arrangements	(945,027)	(4,391,287)
Fund placed under morabaha arrangements	706,560	(6,267,057)
	(46,736,709)	219,822,309
Increase/(Decrease) in current liabilities		
Short term borrowings	67,159,221	(36,780,276)
Profit payable on fund received under musharaka arrangements	4,031,067	(242,066,748)
Accrued expenses and other liabilities	(14,916,910)	(12,516,435)
	56,273,378	(291,363,459)
	9,536,669	(71,541,150)
Income tax paid	-	(4,735,294)
Net cash flow used in operating activities	(887,990)	(67,246,994)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of shares	-	(25,120)
Net cash flow used in investing activities	-	(25,120)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Deposit against issue of modaraba certificates	-	60,000,000
Net cash flow from financing activities	-	60,000,000
Net decrease in cash and cash equivalents (A + B + C)	(887,990)	(7,272,114)
Cash and cash equivalents at the beginning of the year	1,204,314	8,476,428
Cash and cash equivalents at the end of the year	316,324	1,204,314

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

Chief Executive Officer

Director

Director



CRESCENT STANDARD MODARABA

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

	Certificate capital	Statutory reserve	Accumulated loss	Deposit against issue of modaraba certificates	Total
	-----Rupees			-----	
Balance as at July 01, 2004	100,000,000	3,428,048	(93,984,906)	40,000,000	49,443,142
Profit for the year	-	-	4,299,609	-	4,299,609
Deposit against issue of modaraba certificates	-	-	-	60,000,000	60,000,000
Transferred to statutory reserve	-	859,922	(859,922)	-	-
Balance as at June 30, 2005	100,000,000	4,287,970	(90,545,219)	100,000,000	113,742,751
Profit for the year	-	-	(5,678,633)	-	(5,678,633)
Modaraba certificates issued during the year	100,000,000	-	-	(100,000,000)	-
Balance as at June 30, 2006	200,000,000	4,287,970	(96,223,852)	-	108,064,118

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

Chief Executive Officer

Director

Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

1. LEGAL STATUS AND NATURE OF THE BUSINESS

- 1.1 Crescent Standard Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Rules framed there under. Modaraba was managed by Financial Link Limited upto January 19, 2007 however vide order no. SC/M/RW/CSM2006-32 dated January 19, 2007 from Deputy Registrar, Modaraba Wing, SECP, management of Modaraba was transferred to Providence Modaraba Limited with immediate effect. Subsequent to the year end, Providence Modaraba Limited merged in B.R.R. Investments (Private) Limited, and thereafter the Modaraba is under management of B.R.R. Investments (Private) Limited.

The Modaraba is perpetual and multipurpose. It is engaged in venture capital, trading, equity investment, musharika/modaraba financing arrangements and financial advisory services. The certificates of the Modaraba are quoted on Karachi Stock Exchange.

- 1.2 The financial statements are presented in Pak Rupees, which is the Modaraba's functional and presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Statement of compliance

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

- 2.2 The following International Financial Reporting Standards have been published that are applicable to the Modaraba's financial statements covering annual periods, beginning on or after the following dates: -

	Effective from
IAS 1 - Presentation of Financial Statements - Capital Disclosures	January 01, 2007
IAS 39 - Financial Instruments : Recognition and Measurements - Fair Value Option	January 01, 2006

The management is of the view that the above IASs will have no financial impact.

2.3 Accounting convention

These financial statements have been prepared under the historical cost convention, except for certain investments held for trading which are stated at fair value.

2.4 Tangible fixed assets

Assets in own use

Fixed assets are stated at cost less accumulated depreciation and impairment loss (if any). Depreciation is charged to profit and loss account applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions while no depreciation is charged on assets disposed during the year.

Major renewals and improvements are capitalised were as normal repairs and maintenance is charged to income as and when incurred.

Gain and losses, if any, on disposal of fixed assets are taken to the profit and loss account.

2.5 Investments

i) Held for trading

Investments held for trading are acquired principally for the purpose of generating profit from short term fluctuations in prices. These are initially recognised at fair value and subsequently, these are remeasured at fair value, which is the quoted bid price at stock exchange at the balance sheet date. The resultant gain or loss on remeasurement of value of investments is recognised in the profit and loss account.

ii) Held for maturity

These are investments with fixed or determinable payments and fixed maturity, and which, the Modaraba has positive intent and ability to hold till maturity. Held to maturity investments are initially recognised at fair value plus transaction cost and are subsequently measured at amortized cost using effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.

iii) Available for sale

Investment securities held by the Modaraba which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognised at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognised directly in the equity under fair value reserve until sold, collected, or otherwise disposed off, at which time the cumulative gain or loss previously recognised in equity is included in profit and loss account.

iv) Derecognition

All investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Modaraba has transferred substantially all risks and rewards of ownership.



2.6 Rentals receivables under morabahas and musharikas

Receivables considered doubtful are provided for in accordance with the requirement of Prudential Regulations for Modarabas. Specific provision has also been made for receivables considered doubtful.

2.7 Provisions

Provisions are recognised when the Modaraba has a present, legal or constructive obligation as a result of past event, 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. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.8 Impairment

The Modaraba assesses at each balance sheet date whether there is any indication that assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognised as income.

2.9 Revenue recognition

(i) Morabaha and musharika transactions

Income from morabaha and musharika transactions is recognised on the basis of pro rata accrual of the profit estimated for the transaction over the period.

(ii) Dividend income

Dividend income is recognised as income when the right of receipt is established.

2.10 Taxation

Current

Provision for taxation is made on taxable income if any, at the prevailing rates of tax after taking into account any tax credit available.

Deferred

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.



2.11 Foreign currencies translation

Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange approximating to those prevalent on the balance sheet date. Foreign currency transactions are converted into Rupees at the rate of exchange prevailing on the date of transactions. Exchange gains and losses on translation are taken to income currently.

2.12 Financial assets

Financial assets comprise of investments, musharika and morabaha finances, trade debts, deposits, other receivables, excluding taxation and bank balances. Musharika, morabaha, trade debts and other receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.

2.13 Financial liabilities

Financial liabilities are classified according to the substance of contractual arrangements entered into. Significant financial liabilities are short term borrowings, musharika arrangements, finance under mark up arrangements and accrued and other liabilities.

2.14 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Modaraba has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.15 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash with banks on current, savings and deposit accounts.

2.16 Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The management on the basis of books and records and information available has used its judgments in providing for and writing back of certain assets and liabilities (Refer note 20 and 21 to the financial statements).

3. BANK BALANCES

With banks on:

Current accounts

Deposit accounts (Note 3.1)

Provision against doubtful recovery (Note 20)

2006
Rupees

2005
Rupees

316,324

114,081

1,090,233

1,090,233

(1,090,233)

-

-

1,090,324

316,324

1,204,314



3.1 This represents the balance with a commercial bank being frozen at the request of United Bank Limited against the dispute referred to in Note 13.2.

	2006 Rupees	2005 Rupees
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4. ADVANCES, DEPOSIT AND OTHER RECEIVABLES

Advance for purchases (Note 5.1)	105,387,701	51,957,796
Advances to staff	-	8,946
Security deposit	25,000	50,000
Profit receivable on fund provided under musharaka/ morabaha arrangements	8,206,782	8,718,844
Advance income tax	161,820	161,820
Sales tax receivable	3,350,922	3,350,922
Other receivables	461,353	437,241
	117,593,578	64,685,569
Less: provision for doubtful receivables	(102,568,578)	-
Secured and considered good	15,025,000	64,685,569

5. TRADE DEBTS

Local sale - secured and considered good	111,383,034	118,883,034
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5.1 It is secured against pledge of jute stock which also covers the advance for purchases (Refer note 4).

6. FUNDS PROVIDED UNDER MUSHARAKA ARRANGEMENTS

The modaraba has entered into musharika investment agreements with different parties on profit and loss sharing basis.

Considered doubtful:		
Fund placed under musharaka arrangements	10,182,339	-
	10,182,339	-
Less: provision for doubtful receivables	(10,182,339)	-
	-	-

7. FUNDS PROVIDED UNDER MORABAHA ARRANGEMENTS

These are placed under morabaha investment agreements at provisional profit rates ranging from 15% to 18.70% (2005 : 15% to 18.70%) per annum.

Unsecured and considered good:		
Fund placed under morabaha arrangements	3,714,144	6,692,757
Considered doubtful:		
Fund placed under morabaha arrangements	2,272,053	-
	5,986,197	6,692,757
Less: provision for doubtful receivables	(2,272,053)	-
	3,714,144	6,692,757



		2006 Rupees	2005 Rupees
8. SHORT TERM INVESTMENTS			
- Held for trading			
Unless stated otherwise, the holdings are in the fully paid ordinary shares of Rs.10/- each.			
2006	2005		
No. of Shares			
Investment Company			
2,423	2,250	Pakistan Industrial Credit and Investment Corporation Limited	169,610
		95,625	
Commercial Banks			
2,347	2,134	Union Bank Limited	92,707
		157,916	
Textile Spinning			
140	140	Saif Textile Mills Limited	3,360
		2,772	
Textile composite			
416	462	Kohinoor Textile Mills Limited	15,808
27	27	Nishat Mills Limited	2,052
		2,830	
Cement			
322	300	Lucky Cement Limited	14,651
28	25	D.G. Khan Cement Limited	1,561
		31,065	
		2,250	
Miscellaneous			
6,000	6,000	United Distributors Pakistan Limited	42,600
		36,600	
		343,726	342,349

9. TANGIBLE FIXED ASSETS

	Cost		Depreciation				Book Value as at June 30 2006	Rate %
	As at July 1, 2005	Additions / (Disposals)	As at June 30, 2006	Accumulated as at July 1, 2005	For the year	Accumulated as at June 30 2006		
<----- Rupees ----->								
Owned								
Furniture & fixtures	17,600	-	17,600	11,040	6,560	17,600	-	10
Office equipment and appliances	43,870	-	43,870	43,870	-	43,870	-	30
Rupees 2006	61,470	-	61,470	54,910	6,560	61,470	-	
Rupees 2005	61,470	-	61,470	54,910	-	54,910	6,560	



10. SHORT TERM BORROWINGS

	2006 Rupees	2005 Rupees
Short term borrowings	<u>25,000,000</u>	<u>46,520,779</u>
	<u>25,000,000</u>	<u>46,520,779</u>
Liabilities no longer payable - written back	<u>(25,000,000)</u>	-
	<u>-</u>	<u>46,520,779</u>

11. FUNDS RECEIVED UNDER MUSHARAKA ARRANGEMENTS

These represent funds received under musharika arrangements on profit and loss sharing basis.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

Management fee payable	2,529,098	2,529,098
Profit payable on borrowings / musharaka arrangements	4,031,067	14,924,580
Auditors' remuneration	195,000	195,000
Accrued liabilities	624,247	616,577
Other liabilities	<u>88,680,000</u>	-
	<u>96,059,412</u>	<u>18,265,255</u>
Liabilities no longer payable written back:		
Management fee payable	(2,529,098)	-
Profit payable on borrowings / musharaka arrangements	(4,031,067)	-
Accrued liabilities	(624,247)	-
Other liabilities	<u>(88,680,000)</u>	-
	<u>(95,864,412)</u>	-
	<u>195,000</u>	<u>18,265,255</u>

13. CONTINGENCIES AND COMMITMENTS

- 13.1 Modaraba has filed appeals before the Income Tax Appellate Tribunal and Commissioner of Income Tax (Appeals) in respect of assessments years 1994-95 to 1999-2000. The aggregate disputed tax liability of Rupees 4.24 million has not been accounted for in these financial statements in view of pending the outcome of the matters. The Modaraba is confident for favorable outcome in appeals
- 13.2 United Bank Limited has lodged a claim of Rupees 1,090,000. on account of excess markup paid to the Modaraba for previous year which is not accepted by the Modaraba. The Modaraba has also lodged a claim before the banking tribunal against United Bank Limited for short payment of mark up to the Modaraba to the extent of Rs.2,497,867. The proceeding under both cases are pending to-date.
- 13.3 Modaraba has received a legal notice from Crescent Standard Investment Bank Limited which was addressed to previous Management Company (Financial Link Limited) of the Modaraba, whereby they have asked Modaraba to settle an outstanding balance of Short Term Borrowing amounting to Rs.171,930,350/- along with the mark up thereon on or before February 10, 2007. After new management has took the charge, they asked plaintiff to send all the agreements and supporting documents but plaintiff did not respond. Therefore, in the absence of any substance in the claim, management of the Modaraba is confident that no liability will accrue.



14. CERTIFICATE CAPITAL

	2006 Rupees	2005 Rupees
Authorised 25,000,000 Certificates of Rs.10/- each	<u>250,000,000</u>	<u>250,000,000</u>
Issued, subscribed and paid-up		
Modaraba certificates of Rs.10/- each.		
	2006	2005
	Number of Certificates	
20,000,000 10,000,000 Certificates issued as fully paid in cash (14.1)	<u>200,000,000</u>	<u>100,000,000</u>
	<u>200,000,000</u>	<u>100,000,000</u>
14.1 As at July 01, 2005	<u>100,000,000</u>	100,000,000
Certificates issued during the year	<u>100,000,000</u>	-
As at June 30, 2006	<u>200,000,000</u>	<u>100,000,000</u>

15. STATUTORY RESERVE

This represents reserve maintained in accordance with prudential regulations for modaraba.

16. TRADING INCOME

Sale of jute - local	-	78,315,474
Cost of sales	-	68,305,872
	-	10,009,602
Sale of knitted garments- export	-	16,049,042
Cost of purchase	-	15,451,695
	-	597,347
	-	<u>10,606,949</u>

17. INCOME FROM PLACEMENTS UNDER MUSHARAKA AND MORABAHA ARRANGEMENTS

Return on placement under musharika and morabaha arrangements	113,750	40,680,933
Less: Profit on fund received under musharika arrangements	-	28,437,813
	<u>113,750</u>	<u>12,243,120</u>

18. OPERATING EXPENSES

Salaries, allowances and benefits	192,939	240,970
Traveling and conveyance	-	20,009
Postage	-	53,251
Printing and stationery	88,637	115,679
Subscriptions	130,000	201,970
Advertisement	10,150	93,500
Operating lease rentals	-	18,910
Auditors' remuneration (Note 18.1)	100,000	149,000
Legal and professional	61,500	-
Depreciation	6,560	1,760
Service charges	1,212,000	8,300
Others	212,258	54,838
	<u>2,014,044</u>	<u>958,187</u>



	2006	2005
	Rupees	Rupees
18.1 Auditors' remuneration		
Statutory audit	100,000	75,000
Half yearly review	-	25,000
Tax advisory fee	-	25,000
Certification fee	-	10,000
Out of pocket expenses	-	14,000
	100,000	149,000
19. FINANCIAL CHARGES		
Short term borrowings	8,488,700	11,313,394
Musharaka received	-	106,730
Bank charges	51,855	571,073
	8,540,555	11,991,197
20. PROVISION FOR DOUBTFUL RECEIVABLES - NET		
Provision against frozen bank account	1,090,233	-
Provision against advance for purchases - net (Refer note 20.1)		
Provision against advance for purchases	90,387,701	-
Liabilities no longer payable written back - other liabilities	(88,680,000)	-
	1,707,701	-
Provision against profit receivable on placements/musharika/morabaha	8,206,782	-
Provision against sales tax receivable	3,350,922	-
Provision against advance tax	161,820	-
Provision against others	461,353	-
Provision against funds provided under musharika arrangements	10,182,339	-
Provision against funds provided under morabaha arrangements	2,272,053	-
	27,433,203	-
20.1 As per the books and record, during the year Modaraba has received various amounts from difference stock brokers in one of the bank account of Modaraba, the funds are then transferred to Crescent Standard Investment Bank Limited (CSIBL), further Modaraba has received various amounts from CSIBL in another bank account which are then utilized to meet the expenses of one of the then group company. From these transactions it appears that books of Modaraba has been used as a vehicle to carry out these transactions on behalf of ex-group companies and in actual no amount is receivable/payable to any of the party, as such these transactions are netted off in the books of account and the remaining difference is fully provided.		
21. LIABILITIES NO LONGER PAYABLE		
- Written back		
Short term borrowings	25,000,000	-
Management fee payable	2,529,098	-
Markup payable on borrowings/funds received under musharika arrangements	4,031,067	-
Accrued Liabilities	624,247	-
	32,184,412	-



22. PROVISION FOR TAXATION

This represents the provision made under section 169 of the Income Tax Ordinance, 2001 being the final tax liability on trading income of the Modaraba whereas no provision is required on non trading income due to available tax losses of Rupees 895,031 (2005 : Rupees 30,468,401). These tax losses result in deferred tax assets of Rupees 223,758 (2005 : Rupees 7,617,100) but Modaraba has not accounted for deferred tax asset because the management is of the view that it is not likely to reverse in the foreseeable future.

	2006	2005
23. EARNINGS PER CERTIFICATE		
- Basic / Diluted		
Profit for the year	Rs. (5,678,633)	3,439,687
Weighted average number of certificates	20,000,000	10,000,000
Earning per certificate	Rs. (0.28)	0.34

24. REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

	2006			2005		
	Officers	Employees	Total	Officers	Employees	Total
	<----- Rupees ----->					
Remuneration	-	132,318	132,318	-	174,999	174,999
Allowances	-	44,549	44,549	-	43,818	43,818
Medical	-	8,249	8,249	-	8,940	8,940
Provident fund contribution	-	7,823	7,823	-	13,213	13,213
	-	192,939	192,939	-	240,970	240,970
Number of Persons	-	2	2	-	2	2

25. RISK MANAGEMENT

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Modaraba treasury aims at maintaining flexibility in funding by keeping committed credit lines available..

Credit Risk and Concentration of Credit

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 control credit risk by monitoring credit exposure, limiting transactions with specific counter party and continually assessing the credit worthiness of counter parties.

Concentrations of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, 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.

The Modaraba seeks to manage its credit exposure through diversification of its leasing and financing activities to avoid undue concentration of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.



Currency Risk

Currency risk is the risk that value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The modaraba is not exposed to any material currency risk.

25.1 Profit Risk

		2006						
		Profit / Mark up bearing					Non Profit /	Total
Effective markup rate %	Up to one month	Over one month to three months	Over there month to one year	One year to five year	Above five years	Sub total	Non Mark up bearing	
Rupees.....								
Financial Assets								
Bank balances	-	-	-	-	-	-	316,324	316,324
Advances, deposits and other receivable	-	-	-	-	-	-	8,693,135	8,693,135
Trade debts	-	-	-	-	-	-	111,383,034	111,383,034
Funds provided under musharika arrangements	P & L sharing	-	-	-	-	-	-	-
Funds provided under morabaha arrangements	15 - 18.7	-	-	3,714,144	-	3,714,144	-	3,714,144
Short term equity investment	-	-	-	-	-	-	343,726	343,726
				3,714,144		3,714,144	120,736,219	124,450,363

Financial Liabilities

Short term borrowings	-	-	-	-	-	-	-	-
Funds received under musharika arrangements	P & L sharing	-	-	-	-	-	22,454,094	22,454,094
Accrued expenses and other liabilities	-	-	-	-	-	-	195,000	195,000
Unclaimed dividend	-	-	-	-	-	-	69,016	69,016
				3,714,144		3,714,144	22,718,110	22,718,110
							98,018,109	101,732,253

		2005						
		Profit / Mark up bearing					Non Profit /	Total
Effective markup rate %	Up to one month	Over one month to three months	Over there month to one year	One year to five year	Above five years	Sub total	Non Mark up bearing	
Rupees.....								
Financial Assets								
Bank balances	-	-	1,090,233	-	-	1,090,233	114,081	1,204,314
Advances, deposits and other receivable	-	-	-	-	-	-	9,215,031	9,215,031
Trade debts	-	-	-	-	-	-	118,883,034	118,883,034
Funds provided under musharika arrangements	P & L sharing	-	9,237,312	-	-	9,237,312	-	9,237,312
Funds provided under morabaha arrangements	15 - 18.7	-	6,692,757	-	-	6,692,757	-	6,692,757
Short term equity investment	-	-	-	-	-	-	342,349	342,349
			17,020,302			17,020,302	128,554,495	145,574,797

Financial Liabilities

Short term borrowings	14 - 18	-	46,520,779	-	-	46,520,779	-	46,520,779
Funds received under musharika arrangements	P & L sharing	-	22,454,094	-	-	22,454,094	-	22,454,094
Accrued expenses and other liabilities	-	-	-	-	-	-	18,265,175	18,265,175
Unclaimed dividend	-	-	-	-	-	-	69,016	69,016
			68,974,873			68,974,873	18,334,191	87,309,064
			(51,954,571)			(51,954,571)	110,220,304	58,265,733



25.2 Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The risk is minimised through investing in an appropriate mix of high and low risk securities and other portfolio diversification techniques.

25.3 Fair Value Risk

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

26. RELATED PARTY TRANSACTIONS

Relation with the Modaraba	Nature of Transactions	2006 Rupees	2005 Rupees
Associated Company	Short term borrowings	-	46,520,774
	Mark-up on short term borrowings	-	9,206,788
	Investment made	-	25,120
	Dividend income	-	2,244

27. DATE OF ISSUE

These financial statements were authorised for issue on 18 June 2007 by the Board of Directors of the B.R.R. Investments (Private) Limited.

28. GENERAL

Figures have been rounded off nearest to Rupee.

Chief Executive Officer

Director

Director